Imperative for restoring peace in Nepal Currency manipulation and taka



DILARA CHOUDHURY

EPAL'S political situation has taken a serious and dangerous turn. The mainstream political parties, more so, the people have rejected an US-India brokered compromise formula in order to end last two and half weeks bloody confrontation between the King and the opposition that has now become a mass upsurge against the King.

The formula, which envisages the return of a constitutional monarchy, is no longer acceptable to the people. They want to end the monarchy, whose notorious role in subverting the country's nascent democratic order is still fresh in people's mind, and establish a People's Republic

The struggle, as such, goes on in Nepal, despite pressure on the prodemocracy forces from international community, curfew, and shoots on sight orders. Such open and resolute defiance by the people against the ruling elites is, indeed, a new phenomenon in Nepal's history.

It seems that the people of Nepal simply have had enough. They are determined to bring a positive change in their centuries old system of deprivation and suppression. They now are willing to make whatever sacrifices are needed -- emotional, economic, or physical. There is no evidence in history that such uprising of the people can be suppressed through force and brutality. The latest development in Nepal, as such, has raised serious concerns

Nepal's political woes are a grim reminder to the political leadership of the developing countries that no matter how laudably they talk about the development of their respective countries, its premise remains elusive if the state is not committed in establishing inclusive political system encompassing every segment of its population. In another word, thanks to the influence of globalization, global democratization and human rights, there is now a need to restructure the state.

The task, however, becomes insurmountable if the nature of the state blocks the channels that are required to achieve the goal. Unfortunately, in case of Nepal, the leadership of the country, until very recently, failed to visualize the need for such restructuring despite the fact that theirs is a country of great diversity of cultures, languages races, ethnic groups, religions and socio-cultural values.

PANORAMA

The international community, especially US, must realize that their support for the King, even after his assumption of absolute ruler in 2005 on the pretext of containing the Maoists, was not wise. And now their insistence that people accept a constitutional monarch would be equally unwise. The international community must respect the wishes of the Nepalese people and support their endeavor to assert their will. Two things should be done: first, the King must go; second, have an agreed formula through dialogue, compromise and negotiation among the various contenders of the powers, including the

Nepal, historically, has been a highly centralized and authoritarian state with state power concentrated in the hands of its high-caste ruling elites. It was only during the third wave of democracy in 1990 that Nepal got baptized in a democratic order. Prior to 1990, the state practically encouraged exploitation, suppression, oppression and subjugation through censorship and large scale human rights violations. The minorities, marginalized and women were the special targets.

But even in the post-1990 period, the political, economic, ecological, linguistic, religious disparities and problems of Dalits, Adhibasis/Janajatis, Terai people Madhesi/Tarai Basi, Madhesi Dalits, Madhesi Janajatis, Madhesi Muslims and Madhesi Muslim Women were not or could not be addressed due to the unitary nature of the state and the existing maioratarian system

The state's failure to address the grievances of the minorities and marginalized and vast majority of rural poor, who have remained excluded from the system, generated language and ethno-political movements demanding reasonable share in all layers of decisionmaking. These groups challenged the existing nature of the state and its incapability in promoting and protecting their interest. The need for restructuring the

state, thus, became imperative and three fundamental issues -- Unitary vs Federalism, Hindu State vs Secularism, and Proportional Representation vs First-Past-The-Post System -- needed to do the task, began to be hotly debated. Idea of an alternative structure including inclusive democracy, federalization, secularization, proportional representation (PR), equal treatment to all religions, ethnic groups and sex gained currency and more or less a consensus developed among the main stream political parties, Communist Party of Nepal (CPN-Maoist, the Civil Society Organizations (CSOs), linguistic, ethnic and minority movements with regards to the agenda of restructuring the state. The King, who is a crucial factor in Nepalese politics, remained opposed to such emergent pro-people agenda

Needless to say, such endeavors are indeed difficult, especially in a state which has not gone through the historical process of modernization and where centuries of suppressed people including the minorities, women and marginalized have been mobilized to voice their hopes and aspirations without having proper democratic institutions. It should be mentioned here that such difficulties are being experienced by most developing countries for

In case of Nepal, the task became all the more difficult when in 1994 the country's nascent democracy faltered. The folly (considered to the biggest folly in Nepal's constitutional history) was to keep one faction of Communist Party of Nepal (CPN) led by guerilla chief Prachanda out of the electioneering process. In 1996, Prachanda resorted to an armed confrontation with the state and since then has won some stunning and strategic victories. Since then Nepali state has been caught in a conflictual situation: conflict between the King and seven political parties (who are struggling in the street for the restoration of democracy); armed conflict between the state and the Maoists (who are using arms against the state in the name of people's war); and ethnic conflicts of various types.

King Gyanendra's response to the resolution of all these conflicts has been to do away with Nepal's fledging democracy in 2002 in the pretext of politicians' inability to contain the Maoist insurgency and to usurp all state power in his hands in 2005, again using the same pretext. When dialogue, negotiation and compromise were needed, without which no conflicts can be resolved and open and free polity, cannot be established King Gvanendra's high-handedness and policy of brutality and suppression has back-fired and made the people all the more united and resolute.

Even the Maoists have thrown their support behind the current movement. King Gyanendra's repression has taken its own course and given rise to an unprecedented defiance and violence. People of all seaments now want the end of monarchy in Nepal. The fear is that state may annihilate whatever existing institutions there are in the country if the present state of seizure continues. In another word. Nepal is running the risk of being a

failed state, posing a threat to its own and South Asian security.

As such, the need of the hour is to restore immediate peace in Nepal. What it required is a negotiated settlement acceptable to all, including the Maoists, and the present formula falls far short of such expectation. It would be naive to expect that people would settle with a constitutional monarch, who, in the past did everything possible to undermine people's rule.

The international community, especially US, must realize that their support for the King, even after his assumption of absolute ruler in 2005 on the pretext of containing the Maoists, was not wise. And now their insistence that people accept a constitutional monarch would be equally unwise. The international community must respect the wishes of the Nepalese people and support their endeavor to assert their will.

Two things should be done: first the King must go; second, have an agreed formula through dialogue, compromise and negotiation among the various contenders of the powers, including the Maoists. All efforts must be done to bring the Maoists, who now control a large chunk of territory and are popular in those areas for their pro-people policies.

Nepal is today at a critical juncture of its history. Any wrong step would spell disaster for the country and South Asia. It is critical for the world and South Asia that Nepal does not turn into a failed state. If should be discerned that the last thing the world needs is another failed state, especially one with powerful Maoist militia and a terrain that would ideally suit warlords and

The international community must also realize that Nepal is situated in between two Asian giants and it would be naive to rule out the possibility of friction between the two over what happen in the country. Violence and conflict must be stopped immediately according to the wishes of the people so that Nepal may begin its arduous journey for a stable, prosperous and peaceful polity. The sooner peace is restored in the country the better.

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HE first part of this article, published on April 10, dealt with China's currency manipulation for mercantilist advantage to make its exports cheaper worldwide and imports relatively expensive at home. This resulted in building an enviable \$826 billion foreign currency reserves at the expense of the US, the EU and many struggling developing economies, including Bangladesh.

According to a report by the Congressional Research Service (CRS) Chinese exports to the United States as a share of total Chinese exports grew from 15.3 percent in 1986 to 32.0 percent in

This stunning export growth was manipulated by pursuing a policy of fixed exchange rate of its currency, the vuan (also called renminbi) with the US dollar and keeping the yuan undervalued at 20% to 40%. Other Asian governments (for example, North Korea, Taiwan, Malaysia, and Thailand) also maintain their currencies in conformity with Chinese currency, lest they lose competitiveness in US and European markets. This currency manipulation translated effectively into an equivalent amount of subsidy to Chinese and other Asian countries exporters -- a nearly peerless price advantage over US and many European pro-

Since Chinese and US exporters compete in many of the same markets worldwide, US products do not benefit from export price advantage when dollar slides downward because the yuan also slides down by the same percentage. The US Commerce Department reported on March 14, 2006 that the 2005 current account deficit (CAD) reached \$804.9 billion (which hit \$854 billion in February).

A recently decline of the dollar against non-Asian currencies slowed growth of US imports, but export growth remained guiescent because depreciation of the dollar was not large enough. The dollar has only fallen 11.6% since 2002. The desired export growth relative to imports is achievable if the dollar falls by at least an additional 30% to 40%. The policies of Asian governments to keep the dollar overvalued to promote their export-driven growth strategies are the strongest barrier to desired dollar deprecia-

Basic trade theory tells us that each dollar spent on imports that is not matched by a dollar of exports reduces domestic demand and employment. In a recent published report Professor Peter Morici of the

During my visit to Bangladesh in January, some of my friends in the business community wanted to know why the Bangladesh taka has been steadily declining against the dollar. My answer was that when everything else (such as corruption, governance, rule of law, political instability and everything else that could go wrong went wrong including the country's image) could worsen under Khaleda

No nonsensE

Zia's leadership, why the country's currency would move in the opposite 2005. The EZ Ministers are endors-University of Maryland (March 09, 2006) estimated that reducing the trade deficit in half would salvage employment and productivity enough to raise GDP by \$300 billion or about \$2000 for every working American. The upshot of job losses

products, and skilled labour. As we often say, there is no free lunch in economics and so is China's manipulative foreign currency reserve buildup is not without its risks either. A fixed exchange rate regime hamstrings China to conduct an independent monetary policy because the regime requires China to print vuan to purchase foreignexchange inflows from trade and FDI. As a consequence, China's money supply has been growing at 15% - 18% annually, a rate that is overheating the economy and incubating the peril of inflation and ultimately another financial crisis

in trade competing industries due to

persistent trade deficits are a reduc-

tion in investments in new methods,

may be lurking. According to European Central Bank (ECB) estimates, world foreign exchange reserves grew to \$4.0 trillion in Sept 2005 from 1.2 trillion in Jan 1995. Japan and China alone accounted for half of the buildup in reserves in the 2002-2004 periods and they now hold around 40% of world reserves. An ECB prediction on March 8, 2006 stated that further build-up of foreign exchange reserves in Asia could lead to problems such as inflation pressures, over investment, asset price bubbles, and complications in the conduct of monetary policy.

Foreign currency build up in emerging Asian economies is a threat if the monetary authorities become impotent in its ability to sterilize their intervention in foreign exchange markets fully. A sterilized intervention is a purchase or sale of foreign exchange reserves (that leaves the central bank's liabilities wipe up the extra liquidity generated by the intervention. An unsterilized intervention affects exchange rate by changing domestic interest rate. The ECB report argues that China successfully sterilized the monetary expansion resulting from intervention in 2002 but was not as successful in doing so in 2003-2004 partly because of a surging inflation from 0.8% in 2002 to 3.9% in 2004.

The broad consensus of the Finance Ministers who met in Vienna (April 7 - 9) was that global growth is expected to remain at more than 4% in 2006 and that the growth in the Euro Zone (EZ) will tiptoe to 2% from a slothful 1.3% in

ing a strategy of gradual appreciation in China's yuan, slighting US calls for faster steps to boost the yuan. They contended that a faster appreciation of the yuan could trigger sudden U-turn of Asian capital flows into the US causing a sliding of the dollar against the euro (to the detriment of the EU econo-

The EZ ministers, however, did not discount the risks to global economic growth stemming from higher oil prices, alarming US trade deficits (\$854 billion) and budget deficits (over \$9 trillion) and corresponding trade surpluses in Asia. If the FU and the US economy slow down, the demand for subsidized cheap imports from China and other Asian countries will also slow down potentially setting the inertia of a alobal recession in motion.

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Since 2001. Indian rupee has

been gaining against the dollar (example: Indian rupee per US dollar: 44.101 (2005), 45.317 (2004), 46.583 (2003), 48.61 (2002), 47.186 (2001), whereas Bangladesh taka has been weakening (taka per US dollar: 64.328 (2005), 59.513 (2004), 58.15 (2003), 57.888 (2002), 55.807 (2001). In addition to the country's leadership image, other factors contributing to the weakening of taka include persistent current account deficits, budget deficits, and worsening law and order situations, and, of course, the rise of fundamentalist-led terrorism.

--By far the most important factors are unbridled corruption and unrelenting political confrontations, and rise of religious fanaticism, which discouraged inflows of FDI and posed uncertainties in both export driven productions and unhindered supplies.

-- With dollar steadily hiking in value since 2001, Bangladesh with its limited exports (Example: finished garments, jute and finished jute products, frozen shrimp, leather products, pharmaceuticals, ceramic products which account for nearly

90% of exports) have had little or no scope for earning foreign exchange to match country's imports of capital goods, energy products, and luxury goods including automobiles for

-- Some of our limited exports (finished garments) are competing against other Asian countries whose currencies are artificially undervalued to nearly 40%

-- The country's current account deficits with India, China and other trading partners coupled with low foreign currency reserves (which is primarily dependent on remittances from expatriates) may also be contributing to a continued weakening of confidence in the value of the

-- Some insiders tell me that because of uncertain political milieu some dodgy importers and exporters may be over-invoicing imports and under-invoicing exports, thus transferring foreign exchange out of the country (alleged \$230 million money laundering scam by the PM's son is one such example).

 Bangladeshi politicians, specially the Jamaat-alliance government have the lowest image both at home and abroad compared to any democratic country in the world. Because of this image, quality of exports does not offer much confidence in the eyes of the western consumers. Unless that image is changed the country will have a rough ride ahead.

International trade facilitates firms to reap the benefits of economies of scale by operating in larger markets like the EU and the US with nearly 750 million combined consumers with hefty purchasing power. Currency manipulated export subsidy combined with low cost labour helped Chinese export manufacturers attain the economies of scale, record export growth and hence an unprecedented foreign exchange reserves. The world expects China open its markets to foreign competitors with the same market access that Chinese exporters harvest abroad, and adopt a market determined exchange rate regime by abandoning the current exploitative currency manipulation to gain mercantilist export advan-

[I would like to thank my colleagues Professors Michael Vogt and David Crary and my friend Ghulam Rahman for their comments. The usual caveat applies for errors and

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Nuclear showdown with Iran: Ominous signs on the horizon

Tehran should not think that Washington is too bogged down in Iraq to start a new military offensive against them now. Critics of the administration point out that, in reality, the current difficulties in Iraq might be one of the factors impelling them towards attacking Iran. They believe such an offensive would successfully divert public attention from the Iraq war and the current economic woes at home, and restore President Bush's image as a wartime leader, especially before the crucial midterm Congressional elections next November.

SYED MUAZZEM ALI

HE clock is ticking fast; Iran has less than a week to comply with the Security Council directive to end its nuclear enrichment program. Unlike a Security Council resolution, a Council Presidential statement is not binding. However, it seems that all five Permanent Council Members are united in their demand asking Iran to stop its enrichment program by April 28. Nonetheless, they differ on the next course of action to be taken in case of Iranian non-compliance. As of now, China and Russia are opposed to Washington and other western countries' desire to impose comprehensive sanctions against Iran or to use force to make Iran comply with the Council directive. They favour continuation of dialogue with Tehran, but for how long they can hold out against pressure from Washington remains to be seen.

The Iranian leadership has always maintained that their nuclear program is strictly for "peaceful purposes;" but President Ahmadinejad's recent claim that Iran had joined the select group of countries with "nuclear technology," and Vice President Aghazadeh's

confirmation that they have produced 110 tonnes of uranium hexafluoride gas to feed the enrichment program has further heightened international concern. Experts believe that at the current pace of development, Iran would need anywhere between 3 to 10 years to develop nuclear weapon capability. The question is, why are they then bragging about something that they do not possess as yet. Furthermore, the Iranian tough statements to "wipe off" Israel from the face of the earth and calling the holocaust "a myth," and the testing of new missiles have created expected condemnation and concern in US and Western capitals. Iran needs support and understanding of the international community, not its suspicion or hostility. Whatever may be their intention; the uncertainties in the region have surely jacked up international oil price beyond \$70 a barrel. On the other hand, a new White

House National Security Strategy released last week, has identified Iran as the "single country" that may pose the biggest danger to the US. and has thereby reaffirmed the Bush doctrine of pre-emptive military action as a central tenet to American security policy. President Bush, while forwarding the report to

Congress, has reportedly asserted that "America is at war" and described the latest report as a "wartime national security strategy" to face continuing grave challenges posed by "terrorism fueled by an aggressive ideology of hatred and murder." The 49-page report has used the harshest language to denounce Iran as an "ally of terror" and "enemy of freedom". The tone and tenor of the report signaled that the Bush administration might ultimately resort to force to stop Iran from acquiring nuclear weapon.

Consequently, a series of articles on possible US military action in Iran appeared in the American and international press. However, the most articulate and informative piece on the subject has now come from Seymour Hersh, an American Pulitzer-prize winning investigative journalist. In his article in the April 17 issue of The New Yorker magazine, Hersh has alleged that "the US administration, while publicly advocating diplomacy in order to stop Iran from pursuing nuclear weapon, has increased clandestine activities inside Iran and has intensified planning for a possible major air According to Hersh, American

military and Air force officials are currently drawing up list of targets, and teams of combat American troops are being sent to Iran under cover to collect targeting data and to establish contacts with antigovernment minority groups. He has also quoted various high ranking serving and retired military personnel to underscore that Washington's ultimate goal is regime change in Tehran as the Bush administration is "absolutely convinced" that Iran is going to produce the bomb Hersh further claims that the

attack plan includes use of bunkerbuster tactical nuclear weapon, such as B61-11, against underground Iranian nuclear sites, including the centrifuge plant at Natanz, some 200 miles south of Tehran. which is no longer under IAEA safeguards. The Natanz plant reportedly has the capacity to hold fifty thousand centrifuges buried under seventy-five feet beneath the surface. In his exhaustive report Hersh has given vivid pictures of this doomsday scenario of "mushroom clouds, radiation, mass causalities and contamination over years." He has further indicated that since Washington lacks reliable intelligence on location of atomic energy centers scattered all over Iran, the US Air Force would leave no gap and undertake "decisive" action to

completely eliminate Iranian nuclear capability.

Some experts believe that Washington initially may not use those deadly nuclear weapons as it would mean unilaterally breaking away sixty years of nuclear taboo and thus facing global outrage. They believe it would come at the second stage when Tehran would retaliate after initial conventional bombings either by intensifying attacks and killing of large number of American troops in Iraq or by sinking some American warships and oil tankers in the Persian Gulf. The second course would slow down or block the narrow gulf passage -- the so called jugular vein -through which the Middle Eastern oil passes to the world at large. Such retaliations, they believe, would create necessary national and international support for Washington to undertake a massive offensive, including use of bunkerbuster tactical nuclear weapons.

The human cost of such operations would be enormous. The Washington based anti-nuclear group, Physicians for Social Responsibility, examined the risks of such operations. They apprehend that "three million people would be killed in Iran by radiation within two weeks of explosion, and "35 million people in Afghanistan, Pakistan and India would be exposed to increased levels of cancer causing radiation." The scenario projected by these experts is too scary to think about, and everything possible should be done

President Bush recently told the press that "what you are reading is

to avoid such catastrophe.

wild speculation" but even in his most recent statement, he has not ruled out nuclear strikes against Iran if diplomacy fails to curb the Islamic Republic's atomic ambitions. When asked if options included planning for a nuclear strike, he replied: "all options are on the table. We want to solve the issue diplomatically and are working hard to do so." Bush has also discussed Tehran's nuclear programs with the visiting Chinese President Hu Jintao in White House, and both sides have only agreed to maintain the existing unity of the sixparty Consultations Committee, comprising of all five permanent members of the Security Council

Incidentally, the Committee met at the Deputy Foreign Ministers' level in Moscow last Tuesday and agreed to take further action in the matter only after examining the report of the Secretary General of the International Atomic Energy Agency (IAEA), which is scheduled to be presented at the end of month. Furthermore, host Russia has also indicated that they expect that this report would be first considered at a Board of Governors meeting of the IAEA before being referred to the Security Council.

There is a clear need for flexibility and understanding on all sides and a constructive dialogue has to be undertaken with Iran. during its earlier negotiations with the three-member EU team, comprising of France. Germany and Britain, had signed an interim agreement in Paris in November 2004, and all parties were working on a long term agreement when the negotiations fell through. It is nec-

essary to resume dialogue with Iran and persuade them to give up their enrichment program and accept closer surveillance by the IAEA. Iran may not agree to give up its nuclear program in its entirety but they had indicated their willingness to accept a compromise solution in return for some economic concessions from the west. Perhaps a carrot-andstick policy would work better in this On the other hand, the Iranian

leadership should not make the same miscalculation as Iraqi President Saddam Hussein did in March 2003 when he had believed that in face of growing international opposition and large scale anti-war demonstrations in US and in major capitals, Washington would not be able to launch a full scale military offensive against him. Given the prevailing super antagonistic relations between Washington and Tehran since the overthrow of the Pahlavi dynasty in 1979, the Islamic regime has few friends in America. Recent polls suggest that more than half of American people would support military actions against Iran if dialogue fails to curb the latter's nuclear ambitions

Secondly, Tehran should not think that Washington is too bogged down in Iraq to start a new military offensive against them now. Critics of the administration point out that, in reality, the current difficulties in Iraq might be one of the factors impelling them towards attacking Iran. They believe such an offensive would successfully divert public attention from the Iraq war and the current economic woes at home, and restore President Bush's image

as a wartime leader, especially before the crucial midterm Congressional elections next November. Otherwise, they say, the Republican Party might lose their majority in the Congress at the November elections which in turn, might pave the way for the Democrats to take up the Presidency in 2008 elections.

The Muslim countries and their collective body, the Organization of Islamic Conference (OIC), should come forward at this critical hour to diffuse tensions. A special session of the OIC Summit should be convened immediately to persuade Iran to return to the path of dialogue and thus save the entire region from another armed intervention which would bring catastrophic consequences for the entire Middle East and the world at large The underlying concern and

predicament of the countries in the region have been well articulated by the Saudi Foreign Minister Saud Al Faisal during his meeting with the British Foreign Secretary Jack Straw in Riyadh this week. While he defended Iran's right to develop nuclear technology for peaceful purposes, he also hoped that he would not have to choose one day between "a nuclear empowered Iran and the US-instigated war" against Iran: "I hate that choice, I would choose neither. We are hoping, and not without reason, that this issue can be solved with discussion. Iran is a great and old civilization with huge responsibilities to the stability of the region.'

The writer, a former Foreign Secretary, served as Bangladesh Ambassador to Iran from 1995-1998