Bangladesh and fuel pricing

MUHAMMAD ZAMIR

Our finance minister should have had the courage to introduce a special fuel tax for all income tax payers and industrialists. This could have been graded whereby anyone falling into a designated bracket would have to pay another 5 percent of his estimated income tax as fuel tax. Similar steps could have also initiated in levying tax on interest earned from fixed deposits. Fuel tax could also be levied as an extra surcharge on registration of land property or during purchase of transport vehicles -- trucks, buses, cars and even auto rickshaws.

THE last few days have witnessed comprehensive exchange of views in the media not only over the implications of the new budget proposal but also about the decision to raise fuel prices. Welcomed by some as a positive step, in the right direction, it has also been severely criticised as being anti-poor. Some have gone to the extent of suggesting that the government is determined to push Bangladesh literally into the dark ages -- first through massive load shedding and then with increase in the price of different kinds of fuel. Some economists and analysts have also mentioned that this latest rise will most certainly lead to higher prices of commodities and subsequent hyper inflation.

It has also been suggested that the government had to finally succumb to the pressure of the donor community after the latest enhancement of fuel prices in India.

Pricing of fuel has become very sensitive not only in Bangladesh but all over the world. Energy itself has become the most important geostrategic and geoeconomic challenge of our time.

One thing is clear. The age of cheap oil is over. Global demand is soaring and oil producers are struggling to keep up. In fact, according to analysts, world demand for oil is likely to grow by 50 percent by 2025. Some experts also believe in this context that global oil production may reach a peak in the near future (anytime after 2018). Subsequently, it is expected to decline, due to depletion.

Consequently, a debate is raging on whether the development of new oil resources will be able to keep pace with world energy requirements. It may be mentioned here that China's oil demand per day has grown from 4.4 million barrels in 2002 to just under 7 million barrels in 2006 necessitating massive regular imports. This is in stark contrast with the situation where, as recently as the early 1990s, China was a net oil exporter. Similarly, India currently consumes 2.5 million barrels of oil a day, having to import close to 70 percent of this figure.

This complex scenario has been further compounded by the fact that while there may still be plenty of oil, much of the remaining reserves are in hard-to-reach reservoirs, or are difficult to refine. The US Geological Survey has underlined this point recently in a report where they have pointed out that, in the last five years, we have consumed 27 billion barrels of oil a year, but the oil industry has discovered only three billion barrels a year. So, in effect, one barrel was replaced for every nine we have used.

Like many other countries, fuel continues to be a source of anxiety also for Bangladesh. Our thirst for oil has increased with the growth in our economy. However, our problem has been the availability of sufficient funding to meet increased expenditure in this regard.

It would be useful at this point to compare the pricing of petroleum products in this region. Till the submission of the budget proposal on 8 June, a litre of octane was almost Taka 100 equivalent in India, about Taka 74 equivalent in Pakistan and Taka 69 equivalent in Sri Lanka. In Bangladesh, it had remained at Taka 45. This story of comparative prices was the same with regard to petrol and diesel. Pricing, was a victim to politics and the need to maintain domestic popularity at any cost, literally and figuratively.

Bangladesh today, imports annually about US dollar 700 million worth of crude oil and US dollar 1.4 billion worth of different kinds of refined petroleum products. This has been exerting negative pressure on our foreign exchange reserves and also gradually depreciating the value of the Taka against the US dollar.

We all know that financing of oil import for this year was facilitated through arrangements agreed to with the Islamic Development Bank and the other financial institutions. This raised about US dollar 1.2 billion, leaving a deficit of about US dollar 900 million. The government then tried to meet this gap through further borrowing from local and foreign banks. Unfortunately, this really has not worked.

Instead of trying to resolve the dilemma in a sustainable manner, the government exacerbated the situation by continuing to play the politics of subsidy, much to the unhappiness of its agent -- the Bangladesh Petroleum Corporation (BPC). Responsible for the import and distribution of this scarce commodity, BPC has now, most unfortunately, become the focal point for criticism and a scapegoat of sorts.

In the meantime, analysts have brought out some interesting elements within the whole equation. Apparently ninety percent of the imported fuel is used by the airlines, transport and industry sector. Only ten percent is used by the agricultural sector and that too, is limited to irrigation of crops during the December to end-March period when sufficient rainfall is absent. It would appear that some economists and politicians have been exploiting this ten percent need, as the pretext for supporting the government decision to subsidise all petroleum products.

Fuel price: How much can we raise, how much can we afford?

It was quite evident by the end of May that Bangladeshi decision makers and policy formulators were caught between a rock and a hard place. The prime minister went to Kuwait and to the UAE. The Emir of Kuwait was received in Dhaka. Towards the beginning of this month, the chairman of the BPC also visited Kuwait. The BPC usually imports products worth about US dollar 100 million through cash and deferred payment from the Kuwait Petroleum Corporation every month. All these efforts were obviously directed towards finding solutions with regard to payment on deferred credit.

One can only surmise that the pressure must have become quite difficult for the government to have forced it to capitulate. The last straw must have been the World Bank and its insistence in tagging the fifth disbursement of the Development Support Credit to FY 2007-08, to a fuel price hike. It may be mentioned here that Poverty Reduction Growth Facility and Development Support Credit loans are still major sources of foreign finance. To this was added the World Bank Representative's recent comment in Dhaka that the BPC was incurring US dollar 100 million in losses every month and that other prolonged 'unadjusted' expenditures on petroleum products (as pointed out by the Asian Development Bank) were taking a heavy toll directly and indirectly on the Bangladesh micro-economy.

It was also suggested by the World Bank that if the government disagreed to make energy price adjustments, then it should at least make necessary allocation of additional funds for the BPC and the Bangladesh Power Development Board in a transparent manner in the national budget for 2006-07. This, they felt, would help fund losses from the low price of fuel oil and electricity and avert the risks of further draining of funds from the nationalised domestic banks.

As I see it, all these factors coalesced and forced the government to raise fuel prices. Due to this cosmetic step, octane has now moved up to Taka 58 from Taka 45, petrol to Taka 56 from Taka 42 and diesel and kerosene to Taka 33 from Taka 30. This has been the ninth time the four-party alliance government has raised fuel prices since taking office in October 2001. The exercise however appears to be futile as far as the BPC is concerned.

It has been claimed by the Energy Adviser and the Finance Ministry that this latest step will generate an extra Taka 100 crore for the exchequer every year. This figure will nevertheless be just a drop in the ocean, considering that the BPC is losing almost four times that figure every month. Making kerosene more expensive for the poor will not, most unfortunately, remove the serious situation in which the BPC continues to find itself. It is like treating the patient with one aspirin at a time when he is lapsing into coma from a stroke.

The scenario becomes more complex when one takes into consideration the other factor that will raise the stakes in the coming months -- the arrival of the caretaker administration. I feel this government has not been bold enough to resolve this problem. It has most unfairly left an issue that will cause serious difficulty for the coming caretaker regime which does not have the constitutional mandate to take policy decisions.

Our finance minister should have had the courage to introduce a special fuel tax for all income tax payers and industrialists. This could have been graded whereby anyone falling into a designated bracket would have to pay another 5 percent of his estimated income tax as fuel tax. Similar steps could have also initiated in levying tax on interest earned from fixed deposits. Fuel tax could also be levied as an extra surcharge on registration of land property or during purchase of transport vehicles -- trucks, buses, cars and even auto rickshaws. These steps would have made the BNP less popular but it would definitely have provided the exchequer with more than just Taka 100 crore. It would also have not affected the poor.

The government could have also convened a meeting of the LDC Group in Vienna for discussion with the OPEC members and sought concessionary pricing for a percentage of their annual import.

What is required is a bi-partisan approach. For a change, the government should act responsibly and immediately set up a Special Parliamentary Group for this purpose. It could be constituted with representatives from all parties. Let this committee analyse the existing situation and come to an agreed decision about the future road-map pertaining to this issue. They could also take steps like issue of oil bonds. Rationing of fuel products could also be decided upon.

We must understand that this is as serious as it gets. We have to act, and do so quickly.

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Perception is reality

There are many companies in RMG sector that have the interests of their workers in mind, who already provide fair wages and good governance, but until this becomes the norm in the entire industry, perception will remain that, they are all the same; and perception is reality.

Agitating garment workers

SHABNAM HUQ

THE hope for discourse among the workers and the owners of the garments factories seems to be waning fast. The workers continue to agitate hoping to pressure the industry owners to meet their 11-point demand. Foreign investors threaten to pull out and the private owners struggle to manage a volatile mob and keep businesses running. While most people agree that the condition of the workers needs to be improved, it is disturbing that violence was chosen again as the means to be heard. Difficult days lie ahead for the industry and the thousands of workers engaged in this sector as the closing of the EPZs do not serve the interests of either group. But what else was expected?

It is naïve to think that those engaged in the lawlessness, that went on for two weeks, are unperturbed by the possibility of losing their livelihood or are oblivious to the impact that this violence will have on the industry. Then why such extreme hostility? Why such comprehensive disenchantment? The answer may lie in the cliché "perception is reality." The perceived mountain of wealth accumulated by the owners on the backs of the garment workers has translated into the swing of their brick bats and the zeal with which they shout their demands.

Over the last decade, the RMG sector has put Bangladesh on the map. It has also created a new breed of Bangladeshis whom we often call "garment-wallas." It is also true that a generation of new elite has risen, throwing the already existing income disparity in Bangladesh completely out of whack. How many of these elites have come from the booming garments industry and how many are politicians and government servants is not a question that can be answered definitively. However, to the common man it makes little difference.

Every evening, as the chains of garments workers cross the roads on their way home, they traverse through the choc a block traffic packed with the latest BMWs and SUVs. Just the waxing and polishing of any of these vehicles cost more than a year's salary for most of these hard working men and women.

The ostentatious lifestyle of Dhaka's elite continues unabated and is thrown in the faces of the blue collar workers every day. As the number of luxury cars, apartments in the flashiest of neighbourhoods, private schools where monthly fees are no less than fifty thousand Taka, diamond sets and shopping sprees in Dubai increase, all eyes focus on the owners of these garment factories and their families.

However, little is done to change the working conditions of the garment workers. There is no improvement in health and safety (as we've witnessed with the collapse of and burning down of several factories) and no change in wages and benefits. But the BMW parked outside the factory parking changes series numbers every year. Is it really then a wonder that the garment worker demands an improvement in her wage and working conditions?

As the rich and famous move away from humility and social responsibility and the income disparity is shoved in the faces of the common man, such reactions from the have-nots are only to be expected.

There are many companies in this sector that have the interests of their workers in mind, who already provide fair wages and good governance, but until this becomes the norm in the entire industry, perception will remain that, they are all the same; and perception is reality.

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Liberalisation of monetary policy creates environment for investment

If we examine the experience of Singapore and Hong Kong, it may be hypothesised that a liberalised monetary policy will reduce illegal trafficking of funds to and from developing countries, attract more FDI, and ultimately bring macro-economic stability and healthy environment for investment. Liberalised monetary policy stops illegal trafficking of money, and creates friendly environment for investment. What we need is to be courageous and take some precautionary measures. More and more foreign investor will come to our country if we open our door.

MUHAMMAD ASHRAF ALI FARUK

AS the globalisation process is advancing rapidly, most of the developing nations are intending to adopt a flexible monetary policy to ensure the least disequilibrium in macroeconomic variables. Now, we need to examine whether a liberalised monetary policy can play a vital role in achieving optimality in balance of payment and economic growth of developing nations. Though, recently, as a result of continuous pressure from the donor agencies like IMF, World Bank, most of the developing countries are liberalising their monetary policy and control procedures; nevertheless, the currency management is mainly controlled by the central bank or government of the respective developing countries. But what is the end of this piecemeal system of taking breathe?

Economists, governments and donor agencies like IMF and World Bank are giving necessary attention to flexible monetary and fiscal policy for developing nations to cope with the changing economic world ever since the process started from the Bretton Woods conference in early fifties. Even before the conference, Adam Smith said, "least governance is the good government". The IMF, World Bank, WTO and donor countries suggest that the developing nations establish socio-political stability to attract more Foreign Direct Investment (FDI). Donor countries are advising the developing countries that without the tariff and non-tariff barrier free trade system, open competition, and free convertibility of local currencies, they will not be able to attract foreign direct investment. On the other hand, developing countries are scared and cautious about opening their market, or liberalising currency management to protect domestic investment, and the balance of payment. How can these problems be solved? How can the developing countries liberalise their currency management to keep pace with the changing global scenario?

A popular belief in the developing nations is that currency management liberalisation can impose a huge burden on balance of payment and can generate serious devaluation of local currency. Most of the developing countries are characterised by larger imports than exports, and as a result a huge trade deficit exists in most of the developing countries. Naturally, the belief is that if such countries further soften their currency management by allowing free flow of currency, complete floating rates for currency conversion, and complete convertibility, it may ruin domestic investment, and increase import; subsequently, balance of payment may collapse. The query is whether this is true or not, how can currency management be liberalised by minimising risk of devaluation and pressures on balance of payment?

In most of the developing countries, foreign currency handlings are highly controlled. People can not move their funds freely to and from those countries. Conversion rates are determined by the government. As a result, a huge illegal trafficking of currency to and from the country exists in most of the developing countries, which actually happens to meet the finance for smuggling. One tends to think that if government authority can be diminished, those illegal movements of goods and funds may come under the formal banking channel; subsequently, it may cause explicit macro economic stability. The fear of increasing import, and thus of imbalance, can be overruled by an idea that the total import of a country will never cross the total demands for imports.

Two macro-economic variables are important in this discussion: i) Liberalised monetary policy and ii) economic stability. How can effective balance be maintained between these two factors, and how developing countries benefit from the flexible monetary policy.

Study reports show that the economies that are free would attract more investment and utilise their resources more efficiently. As a result they will grow more rapidly and achieve higher levels of income. The difference in terms of foreign direct investment are dramatic. For the top quintile (countries with top economic freedom), the annual foreign direct investment per worker averaged $2657 compared to $52 for the bottom quintile. The productivity of investment in economies with an economic freedom rating of 7.0 or higher was 13.6 percent higher than for economies with economic freedom ratings of between 5.0 and 7.0, and 30 percent more than for those with mean economic freedom ratings of less than 5.0 (Gwartney & Lawson, 2003).

On the contrary, without proper precautionary measures, monetary liberalisation in developing countries may bring economic instability. For example, Indonesia floated Rupiah on July 18, 1997 which fluctuated wildly and lost 75 percent of its value against the greenback. In consequence, chaos broke out, with people hoarding toilet paper, rice, and cooking oil (Hanke, 1998).

Bangladesh is facing the same problem after introduction of floating rate and limited convertibility of Taka recently. However, it has been proved in our case that floating rate is not the cause behind the devaluation of Taka.

If we examine the experience of Singapore and Hong Kong, it may be hypothesised that a liberalised monetary policy will reduce illegal trafficking of funds to and from developing countries, attract more FDI, and ultimately bring macro-economic stability and healthy environment for investment.

Liberalised monetary policy stops illegal trafficking of money, and creates friendly environment for investment. What we need is to be courageous and take some precautionary measures. More and more foreign investor will come to our country if we open our door.

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Bangladesh Bank: The central regulating authority.