US-Japan trade gap helps dollar fall in Asia

HONG KONG, Mar 8: The US dollar, hindered by a burgeoning American trade deficit with Japan and negative sentiment elsewhere in Asia, fell on the region's key markets this past week, reports AFP.

Dealers saw little scope for a near-term recovery of the dollar, which remained pressured by US Treasury Secretary Lloyd Bentsen's earlier comment that Washington supported a higher yen and the belief that Tokyo would take little action to trim its huge trade surplus with the United States.

Japanese yen: The dollar ended at a record low finish of 116.47 yen Friday, down 1.38 yen from a week earlier. Dealers said the dollar's poor showing stemmed from market expectations of Japanese inaction to para its swollen trade surplus.

Dealers said yen sentiment remained strong although there were several dollar-buying factors, including rumors that the Bank of Japan would intervene to support the US currency.

Australian dollar: The Australian dollar, boosted by much improved trade figures early in the week, continued its winning run, gaining almost one US cent on Friday to close at 71.22 US cent for a rise of 1.72 US cent on the week.

The gains came despite uncertainty over the March 13 election, expected interest rate cuts, and next week's release of key jobs data.

Hong Kong dollar: The Hong Kong dollar softened marginally to 7.7304-7.7341 to the Greenback on Friday from 7.733-7.734 a week earlier. The Hong Kong unit has been pegged at 7.8 to the US dollar since 1983.

The effective exchange rate index for the Hong Kong dollar stood at 113.7 on Friday, down 0.4 on the week.

Taiwan dollar: The Taiwan dollar slid to 25.857 to a US dollar on Friday, down 10.45 Taiwan cent from 25.752 a week earlier.

The Taiwan dollar also lost ground to major European currencies, closing at 37.65 to the British pound against 36.83 the previous week, 4.65 to the French franc from 4.64, and at 15.75 to the German mark against 15.76.

Singapore dollar: The Singapore dollar softened to 1.6505 to the US unit on Friday against 1.6435 a week earlier.

Dealers said the Greenback found improved demand. The local unit ended lower against the British pound at 2.4100 against 2.3737 a week earlier, and at 1.4030 against the yen against 1.3855 the previous week.

Thai baht: The Bank of Thailand fixed an official mid-rate of 25.40 baht to the dollar on Friday, compared with a rate of 25.43 a week earlier.

Philippine peso: The Philippine peso remained largely steady, closing at 25.283 peso to the dollar Friday from 25.28 peso a week earlier.

The government defended its efforts to reduce the peso's value, despite heavy criticism that it had failed to do so.

Malaysian ringgit: The ringgit ended the week higher against the dollar at 2.6125 from 2.6310 a week earlier.

Dealers attributed the higher ringgit to strong buying support from foreign institutions. The ringgit also closed higher against the German mark at 1.5872 from 1.6023 previously.

Indonesian rupiah: The Indonesian currency stood at 2,067 to a US dollar on Friday. Unchanged from its closing level a week earlier, but slightly stronger than its 2,068 opening on Monday.

BRIEFS

Russian Limo maker turning private

MOSCOW, Mar 8: The company that makes the huge black limousines that chauffeured several generations of powerful Communists is going private this month, the business weekly Vek reported Saturday. It said a million shares in the Likhachev Auto Works, known by its Russian acronym ZIL, will be offered for sale between March 15 and April 20 in Moscow and 10 other major Russian cities, reports AP.

Major attacks "doom mongers"

LONDON, Mar 8: Prime Minister John Major sought to counter recession-hit Britains depressed mood on Wednesday by accusing "doom-mongers" of talking the country down. "I am amazed at how many pessimists attempt to paint a picture of a nation in decline," he told a meeting of a new businessmen's committee set up to promote British products, says Reuter.

Indian rupee gains against US dollar

BOMBAY, Mar 8: The Indian gained against the dollar in the interbank foreign exchange market in moderate trading dealers said. The rupee, trading on the fourth day of its full float, rose to 3 1650/60 US dollar per 100 rupees after opening firm at 3 1450/80 US dollar and stayed steady above the 3.16 US dollar level in afternoon trade, says a Reuter report.

US '92 election cost surged by 52 pc

WASHINGTON, Mar 8: House and Senate candidates spend a record 678 million dollar on their 1992 election campaigns, 52 per cent more than they spent for the 1990 elections, the Federal Election Commission said Thursday. That means candidates spent nearly 6.49 dollar for each of the 104.5 million votes cast in November. The agency attributed the jump to an unusually high number of retiring House members, redistricting, two high-profile and expensive Senate races in California, reports AP.

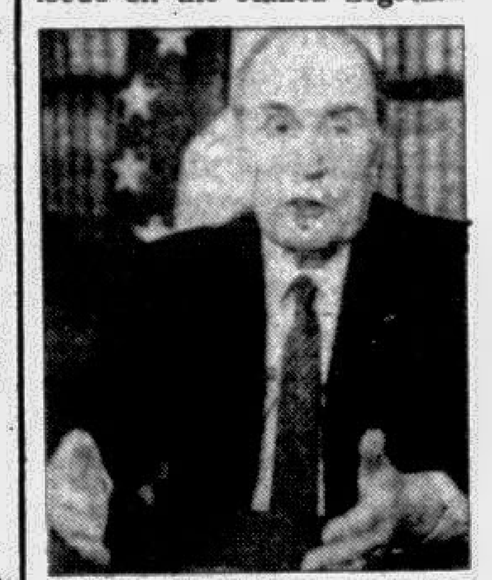
Japan's 93-94 budget crosses hurdle

TOKYO, Mar 8: Japan's 1993-94 budget cleared its biggest parliamentary hurdle Friday, paving the way for the government to draft a new package to stimulate the economy. The lower house budget committee approved the 72.35 trillion yen (618 billion US dollar) budget for the fiscal year starting April 1, official said, reports Reuter.

Mitterrand hopes to establish personal rapport with Clinton

PARIS, Mar 8: President Francois Mitterrand hopes to establish a "personal rapport" with US President Bill Clinton when the two leaders meet for the first time Tuesday in Washington, presidential sources said here, reports AFP.

The talks are expected to focus on the stalled negotiations for a new General Agreement on Tariffs and Trade (GATT) and the North Atlantic Treaty Organisation (NATO), said Elysee Palace spokesman Jean Musitelli.



"In numerous areas we are waiting to see what the American position will be," Musitelli said.

Giving the GATT talks as an example, the spokesman said that France was "rather at sea" as to what the United States was aiming at because of the "slightly contradictory" statements of American officials.

Paris and Washington are known to have widely-different views on the agricultural section of the GATT negotiations.

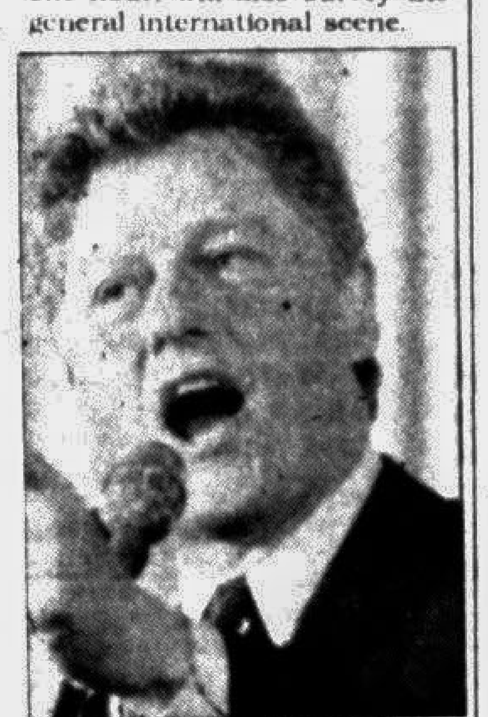
"On the question of where NATO is heading, we again have the impression that the Americans have not yet come to grips with it," Musitelli continued.

"Perhaps that is because the Americans do not consider it a priority, so the matter is wide open."

Mitterrand's overall wish, said Musitelli, is to develop a "personal raport" with Clinton similar to that which he had with former presidents Ronald Reagan and George Bush.

The President wants their relations to be "based on mutual friendship, confidence and esteem", the spokesman added.

The two presidents, whose talks will last 90 minutes followed by a working lunch of one hour, will also survey the general international scene.



"We share the same concern to prevent, so far as we can, the return to power of a government that would be opposed to the West and to democratic values."

India prepares new export strategies

NEW DELHI, Mar 8: A new export strategy, which takes into account the liberalised policies of the government and the imperatives for export growth, is being prepared by the Federation of Indian Export Organisations (FIEO) and is expected to be ready by March 1993, reports Xinhua.

According to the Economic Times, today, the strategy would look into the external and internal factors and the impediments to export growth.

The daily quoted Kishor K. Shah, President of the FIEO as saying that the strategy would take into account the new economic laws of the land and would be aimed at enabling exporters to reach set targets and maximise export growth.

He said the strategy would get the required support of a recently-set up nodal agency under the external affairs ministry for exchange of information between exporters and buyers abroad.

Donors pledge to set up industrial estates in Sri Lankan dists

COLOMBO, Mar 8: Several foreign donor agencies have pledged their support to open industrial estates in certain districts of Sri Lanka, reports Xinhua.

Under the Integrated Rural Development Programme (IRDP), funds have been ready in some districts for establishing industrial estates, according to Planning and Implementation Ministry sources here.

A new industrial estate will be set up in the southern province shortly with the assistance of the Asian Development Bank.

An industrial estate had been set up in Kalutara district in the western province with the assistance of the government of Finland.

Five other industrial centers will be set up shortly in the Kalutara district funded by Finland under the IRDP, they said.

The United Nations' Development Programme is planning to conduct several development projects in the Badulla district in UVA province.

Japan International Cooperation Association will set up an industrial development project in Gampaha district in the western province.

Also negotiations underway with donor countries are to work out several development projects for the north-east of the island country, the sources added.

Call to include workers' right issue in GATT negotiations

PARIS, Mar 8: International trade unionists are to press Monday during talks with President Francois Mitterrand for a clause safeguarding workers' rights to be included in the GATT negotiations, reports AFP.

The call for a social clause in the international trade talks on the General Agreement on Tariffs and Trade will come from a delegation from the International Confederation of Free Trade Unions (ICFTU).

The ICFTU, represents 113 million workers. According to Marc Blondel, head of ICFTU-affiliated French union Force Ouvriere (FO), the parent body believes there is a need to "put a stop to the process of worldwide social dumping."

Strong backing for a GATT social clause came last Thursday from European Commission President Jacques Delors.

Ramos visits Tokyo to drum up investment for Manila

MANILA, Mar 8: President Fidel Ramos flies to Japan on Tuesday to drum up investments for the Philippines' struggling economy despite lingering problems over the emotional issue of Filipino "comfort women" forced into prostitution during World War Two, reports Reuter.

Ramos, who will be visiting Tokyo from March 9 to 13, hopes to lure Japanese companies into investing in the country as part of his ambitious plan to turn the Philippines into a newly industrialised economy by the end of his term in 1998.

"It's more than your ordinary state visit," Philippine Foreign Secretary Roberto Romulo told reporters.

Peace accord helps Afghan currency up

PESHAWAR (Pakistan), Mar 8: The Afghan currency soared on the open market in Pakistan on news that the warring Afghan leaders had signed a peace accord to halt their 11-month battle for power in Kabul, reports Reuter.

After the leaders signed the agreement in Islamabad on Sunday, the Afghani was being traded at 100 for 2.78 rupees (about 1,050 Afghanis to the dollar) up from 2.48 in the morning in the northwestern Pakistani city of Peshawar.

It rose 0.20 rupees in just two hours in the morning.

Currency traders in the city that sits at the gateway to the Khyber Pass into Afghanistan said the currency could strengthen further as details of Sunday's accord emerged.

Canada likely to delay NAFTA ratification

OTTAWA, Mar 8: Canadian Prime Minister Brian Mulroney may decided not to seek ratification of the North American Free Trade Agreement before he leaves office on July 1, the Toronto Star reported on Sunday, reports Reuter.

The newspaper, citing one of Mulroney's closest advisers, said NAFTA ratification may be left to his successor or even postponed until after a general election due by year-end.

The report was the first indication that Canada may put the trade pact with Mexico and the United States on hold.

The Toronto Star said the new US administration was sending Ottawa "mixed signals" about how quickly it planned to ratify NAFTA, and Mulroney's government is now worried about the political cost of going ahead alone.

Since taking office, President Clinton has said he wants parallel accords to raise NAFTA's labour and environmental standards. US trade representative Mickey Kantor indicated that the side deals must be negotiated before the White House seeks congressional ratification of the three-way trade pact.

The NAFTA was signed in December by Mexico, Canada and the United States, but needs legislative approval in each country before it can go into effect on Jan. 1, 1994, creating a free trade zone with greater output that the European Community.

Mulroney resigned Feb. 24 due in part to his unpopular economic policies, including the 1989 US-Canada free trade agreement which many Canadian blame for loss of jobs.

The next day, Trade Minister Michael Wilson introduced legislation to ratify NAFTA and said the government would push it through by June using its slim parliamentary majority.

The main opposition liberal party wants Canada to hold off ratification until after the elections expected in the autumn.

Japanese trade confidence further deteriorates

TOKYO, Mar 8: Japanese business confidence deteriorated further in the latest quarter, the Bank of Japan said today, reports AFP.

The central bank's short-term survey of economic enterprises in Japan, known as the Tankan, found the diffusion index for big manufacturers had dropped to minus 49 in February, down from minus 44 in November.

Big manufacturers had forecast an improvement to minus 33 when the last survey was carried out in November.

The index measures the number of companies with a negative outlook against those with favourable projections.

Gulf Arab nations record worst budget deficit

ABU DHABI, Mar 8: Gulf Arab states have recorded their worst budget deficit since the shortfalls which followed the end of the oil boom 10 years ago, spending far more than they earned in 1992, reports AFP.

The biggest deficit was in Kuwait, which pumped billions of dollar into post-war reconstruction while its oil sector was still recovering from the Iraqi invasion, according to the Doha-based Gulf Organisation for Industrial Consultancy (GOIC).

Expenditure by the six-nation Gulf Cooperation Council (GCC) stopped at 88.5 billion dollar against revenues of 60.9 billion dollar, leaving a deficit of 27.6 billion dollar, the GOIC said.

Oil provides more than 90 per cent of the GCC's income and a sharp decline in prices and output over the past decade has slashed earnings to nearly one third from more than 180 billion dollar in 1981.

This has turned their large surpluses into deficits and forced them to introduce austerity measures.

The six GCC members — Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates (UAE) — have projected a budget deficit of around 13 billion dollar for 1993.

Most of them have again resorted to borrowing from the local market to shore up the shortfall.

GOIC said Kuwait had to boost spending to 18.6 billion dollar in 1992 to finance rebuilding although its earnings fell to 2.6 billion dollar compared with more that 10 billion dollar annually in previous years.

INVITATION TO A DIALOGUE

Policy of import liberalisation : the other side of the story

By Dr Mustafizur Rahman

It was perhaps philosopher Hegel who said that contrary to popular belief solution to a problem lies between two extremes. The truth of the matter in fact is that, between two extremes lies not the solution, but the problem. Going through the series of articles by Professor Rehman Sobhan and the subsequent comments under the caption "Invitation to A Dialogue" published in The Daily Star" during the last several weeks one cannot fail to notice the grain of truth in the above philosophical dictum. Indeed, within the somewhat narrowed parameters of current debate which lies in the broad spectrum with import substitution, industrialization as the engine of growth, portectionism, state control of commanding heights of the economy etc at one end and free market, free trade etc at the other end, a great deal of room remains for conflicting views, and in consequence conflicting policy suggestions.

There is no denying the fact that only through an intense debate based on a careful evaluation of the various dimensions of the issues involved could we possibly clarify our positions, narrow down our differences and hope to formulate workable solutions to the critical problems facing our economy, as suggested by Prof Rehman Sobhan in his introductory remarks.

Professor Sobhan initiated discussions on four critical issues which are central to the ongoing public debate and controversy: (i) The role of public and private sector, (ii) import liberalisation and export promotion, (iii) Desubsidisation, (iv) Problems of labour market. A number of thought provoking responses have already been published in these issues which have contributed much to our understanding of the subtleties of the issues involved. I would like to specially thank Mr Abdur Rab for his excellent piece on "Industrialisation and the Policy of Import Liberalisation" in which the author puts up a case for the policy of import liberalisation currently being pursued by the Bangladesh government and goes on to argue that such a policy best suits the development needs in general, and industrialisation in particular, at this stage of our growth process. I cannot, however, agree with all his points and would like to draw attention to some other dimensions of the issues he discusses.

I would like to start by observing hat while countries like Bangladesh are urged to 'decontrol, deregulate, liberalise (to use a popular Warld Bank jargon) trade barriers put up by industrialised countries have been actually on the increase during the past decade. As "Human Development Report-1992" points out, actually twenty of the twenty four highly industrialised countries are more protectionist now than they were a decade ago and that non-tariff barriers affect almost 28 per cent of all OECD imports form developing countries.

According to a Bank study the loss to the developing countries' GNP due to trade restrictions is about $75 billion (or equivalent to three per cent of their (GNP). Yet another estimate suggests that for textiles and clothing alone, export earnings of developing countries could increase by about $24 billion every year if Multifibre agreement was phased out.

The above would suggest that we operate in an adverse global environment and that we are recommended to open up our economies and pursue a policy of import liberalisation at a time when we have to face an increasing tariff and non-tariff barriers like setting up of quotas, import license requirement, voluntary export restraints and special countervailing and antidumping measures, prise restraints, health and safety regulations, environmental considerations, etc when we make our entry as potential exporters.

One could argue that Bangladesh faces such barriers only in case of RMG exports. However, another way of looking at it is that such barriers affect about half of our exports (RMG's contribution to total exports). Besides as we strive to increase the share of processed goods in exports we may expect to face stiffer barriers as tariff levels for a wide range of goods increase with the level of process (for example jute). Under the circumstances it is not surprising that although GATT members account for more than four-fifths of world trade, only seven per cent of world trade is in conformity with GATT principles. The above needs to be emphasised because we are often told that if we want to expand our exports we should be ready to liberalise our imports as well.

Numerous theorems of neoclassical economics show liberalisation as raising economy's efficiency and production by removing distortions. However theoretical assertions are not always matched by practical evidences. In fact widely acclaimed success stories like South Korea, Taiwan, Brazil, Turkey are hardly historical paragons of liberal trade policy even if a degree of flexibility in defining the term is allowed. In an article by Vinod Thomas and John Nash in the 'World Bank Research Observer' it is shown that Korea and Taiwan have been successful exporters despite protective import policies (in the sixties and seventies) by avoiding an overvalued exchange rate and by using export subsidies and other measures to offset import restrictions. (Although for truth's sake it should be added that the authors go on to say that it will be difficult to replicate this approach now since it included vigorous suppression of rent-seeking activities that were considered incompatible with export growth, implemented by methods that many governments would be unwilling or unable to use). But the possibility of a differential approach, rather than all out liberalisation cannot be missed from the Korean experience.

I cannot refrain form the temptation of quoting from a book titled "Conditionality: Facts, Theory and Policy" by Dragostar Avramovic "Korea has moved from protected import substitution to expansion supported and guided by the government. Lime in the case of Japan, it is not the absence of government support and the free trade, but intelligent use of incentives, protection and other industrial policies which have contributed to the establishment of a powerful and most modern industry".

Few would argue with the aspiration (and necessity) to remove or reduce import control wherever it is justified. It tends to introduce inefficiency, is a burden on consumers, encourages corrupt practices when it is long maintained. The main aim being to reduce and streamline the level of protection afforded to import substituting industries. But the speed, phasing and sequencing of such policies need to be decided only after a careful study of domestic and global context. The rationale for protective tariffs is provided partly by the argument that they are required to make certain import substituting sectors of the economy ultimately competitive at world price.

The new infant industry argument better describe as the argument for 'import protection as export promotion' also points out to the need for certain degree of protection. Besides, it also points out to other alternative strategies of industrialisation such as regional economic cooperation among developing countries in order to build an internationally competitive industry. And it can also be added that industrial development in Bangladesh is yet to pass the stage of what is generally termed 'easy import substitution'.

It is interesting to recall here that the recommendation of the Country Studies under the WIDER project which have closely scrutinised the policy of import liberalisation followed by a number of developing countries, concludes that there is a strong rationale behind the argument that for these countries liberalisation is best undertaken in the context of GATT bargaining, till which time they should not fail to explore the potential gains from directed intervention through a differentiated policy regime all around.

The assertion about first round industrialisation having already occurred in Bangladesh (this being cited as one of the rationales behind the policy of import liberalisation) does not seems to be substantiated by hard facts. The reason (at least partially) given for such a conclusion is that there is already market saturation with many domestic market based industries not being able to expand or having turned sick because of market saturation.

In fact, in many instances industries have turned sick precisely because of import liberalisation policy when market protection was eroded through tariff reduction and free imports. Besides, Sahota and others have argued that although high protection allows high cost and survival of sick industries, protection itself may not be the cause of industrial sickness, as is often suggested. Moreover, in the absence of stability and predictability of the incentive structure over a long enough time horizon the credibility of governments policy initiatives becomes suspect.

Stagnancy of industry's contribution to GDP at 10 per cent for the last two decades could hardly be a sign of completion of first round of industrialisation. A research finding shows that the respective shares of internal demand expansion rather than reference to a limited local market should be central to policy prescriptions for industrialisation.

I would like to draw attention to yet another issue which is an important feature of liberalisation policy — the issue of exchange rate depreciation. The rationale behind devaluation is to make our internationally traded goods cheaper compared to those of our competitors. Till now it is not however clear how much we stand to gain from this policy. The real exchange rate has failed to show any significant change in spite of a compound nominal depreciation rate of over 15 per cent per annum during the 1980s. Research shows that despite the policy of devaluation there is no sign of any significant upward trend in the price ratio of tradables to non-tradables output, which could then trigger the expected resource shift towards the tradables sector. The consequent output response from this sector would in turn reflect efficient import substitution and export growth.

While exchange rate depreciation contributed to raising of tradables price index, those of non-tradables also demonstrated matched increase, keeping the ratio constant over the decade. On the other hand, contrary to expectation output growth in the non-traded sector during the 1980s was significantly higher compared to traded sectors. The share of non-tradable sector's output in total output also registered some decline over the decade. Besides high import content of our main exports defeats the purpose of maintaining competitive price by lowering the rent effective exchange rate as higher import costs force export prices to rise. In such cases direct subsidies to exporters may prove to be a more effective policy to protect the gains of exporters in the face of adverse international price movements.

Research shows that to reduce import demand by 26 per cent Taka needs to be devalued by .00 per cent. Besides, during recent past there has been some shifts in the structure of imports — the share of development imports declined somewhat over the years, and that of non-developmental demand showed some increase. Inelasticity of the non-developmental import demands (Without any significant shift in domestic investment structure in favour of these sectors) can have an adverse long-term impact on the economy, because if imports cannot support production more adequately, the burden of external payments would obviously increase.

The policy of devaluation has also been detrimental to the interest of farmers. At a time when desubsidisation is the catchword, the farmers find that the already high cost of adopting seed based technology have gone still higher considerably diminishing their capacity to produce HYV. The experience of the government with this year's rice procurement programme (the procurement price in many instances being below input costs) has not been very pleasant. Under the circumstances the policy of a differential exchange rate policy coupled with selective incentive measures might prove to be a better policy option compared to a policy of across the board currency depreciation.

Bangladesh has already been hailed by the World Bank as a champion performer in the field of privatisation. Given the pace of liberalisation (the number of items in the negative list has further been reduced by another 100 to 94 items, according to the revised 1991-93 import policy of Feb 9, 1993) we may soon get yet another good conduct certificate. But the question that will still go on haunting us is — what is the value of such certificates in terms of economic growth, self reliance and poverty alleviation in Bangladesh?

(The author is Associate Professor, Department of Accounting, University of Dhaka).