

## Business

# Taka convertibility: A commendable step forward in right direction

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Guest Columnist

The govt has decided to allow the price of taka in terms of foreign currencies to be determined through market forces. This is a breakaway act from the past tradition of fixing up the taka rate against foreign currencies as per instruction of the central bank. The step was overdue, as our neighbours India, Pakistan and Nepal have already put their currencies on convertible basis.

The theory of economics supports the convertibility of any currency against the fixing up of the value through dictation. The price of any currency is just like the price of a commodity. When the consumer of a commodity can be fixed at the market place, there is no reason why the same cannot be determined for a currency in the market place too. How much a currency values? It depends upon the purchasing power of currency. When a currency commands more commodity compared to that by another currency, the former currency is to be valued more in a competitive system. The previous rule was to fix up a rate by the central bank, and then stick to that for a while — no matter whether the purchasing power of the concerned currency meanwhile eroded or not. When exports become more expensive due to overvaluation of a currency as per old system, then suddenly the central bank used to come in the scene, and announce a low value for its currency which meant a devaluation. That practice was branded as unscientific by many economists, and they urged for a floating exchange rate on inter-temporal basis. The developed countries already switched on to the floating exchange rate system from the middle of the seventies, but most of the LDCs continued on the old system.

The period from the middle of the last decade and upto now saw wide ranging macroeconomic reforms in the LDCs toward competitive market economies. This warranted reforms in foreign exchange control and rate fixation also in the LDCs. Bangladesh's recent step in the foreign exchange control and rate fixation is a response toward need for reforms in the economy. One step in an isolated manner can not bring the desired result, and hence a package reform programmes were thought to be best for putting economy on road to competitiveness in the shortest possible time. In addition, when other countries, specially countries with whom Bangladesh has major trade relations, are opting for convertible currencies Bangladesh can not lag behind if it wants to protect its trade interest. This author about four months back in this column strongly argued for full convertibility of taka in Bangladesh economy, and is now happy to see that the same is emerging. There is no option open to Bangladesh but to tie its economy to the global one. How much of its exported growth will be successful depends on how successfully it can tie its economy to the outside world.

The convertibility step will help Bangladesh in this respect. For decades our exporters complained about the low rate of Bangladeshi taka against foreign currencies. Now they will not have any such complain. Already, we lost a portion of our market, specially in jute, to Indian exporters over the last one year due to over valuation of taka. Now, the exporters will find an incentive to sell them by taking off the restriction on their

foreign exchange sale. Market will pay them what price the exporters can get by selling their foreign exchanges from export sales. Then they will not any more surrender, rather sell their earning to the dealers. One contention can be that the convertibility step will make the imports dearer. It may not be true unless exchange rate swings too much against taka. There is no reason why the same will swing against taka, as the present rate was fixed up by the Bangladesh Bank. But I think that the swing can be at best between Taka one to Taka three around present rate unless there will be an abrupt change in our domestic monetary policy. Can Bangladesh afford to have a convertible taka? The answer is, why not? Over the last one year Taka was not kept that much overvalued, and as such, there is no apprehension that Taka convertibility will lose value in quick succession against the foreign currency. Besides, the Bangladesh Bank is with its present reserve of more than two billion dollar to handle any crisis in foreign exchange market. Bangladesh Bank took a good step in this respect to authorise dealers to sell upto 80 per cent of their purchase of foreign currencies. This will prevent the scope of artificial crisis in the foreign exchange market.

We laud the recent steps of the Bangladesh Bank toward Taka convertibility, however we also want that the bank will do more in this case. As stated by Bangladesh Bank, our Taka is not fully convertible on all accounts. Taka is to be convertible only on current accounts that means exporters are free to sell and importers are free to buy at the competitive rates from the authorised dealers, but the account holders at home are not free to convert their taka holding in foreign currencies. In other words, taka is to be convertible on trade related current accounts only, not on the capital account. When a currency is convertible on all accounts it can be said it is hundred per cent convertible. Once taka is allowed to be convertible on the capital account, the income earners at home will be able to hold any currency they like. Then it make no difference whether a portfolio manager has taka or dollar in his holding, i.e. he will change the combination of holdings anticipating profit rate only. Why our people should not be given the opportunity of holding foreign currencies in place of taka? No argument supports the present prohibition. Are we afraid of capital transfer to abroad once such permission is given? The apprehension is not tenable, because capital transfer or flight can take place in many other ways over which we do not have any control.

If the economy be freed to receive capital from outside, also to dispense with it when it can not use it. The restriction on capital transfer is one of the reasons why LDCs do not get much of the investment from abroad. Full convertibility will instill more confidence among investors and portfolio managers. Today anyone holds dollar or any other foreign currency other than taka is thought to be doing an illegal act. What is the difference between holding dollars or takas in the age of reforms when our currency is competing against another currency for international value? We must be forward looking. Let the risk and reward be taken by the parties at will.



High officials of Lever Brothers Bangladesh Limited addressing a function organised to mark the launching of its new products at a local hotel in Chittagong recently.

## Lever Brothers launches new products

Lever Brothers Bangladesh Limited announced the launching of a laundry detergent system—Surf Ultra detergent, says a press release.

A special function was organised at a local hotel in Chittagong recently to grace the occasion.

LBBL's marketing team advocated that Surf Ultra was a concentrated powder with high active detergency.

The Marketing Director of Lever Brothers, J A Lee said at the function that the mission of Lever Brothers was to bring to its Bangladeshi consumers modern products of high quality and international standard. Surf Ultra was the latest addition to its vast range of international products.

The company also announced the launching of International Lux oily skin variant and relaunching of fair and lovely fairness cream at the same function.

## Coalminers of Sakhalin go on strike

MOSCOW, Sept 6: Coalminers on the island of Sakhalin in far eastern Russia went on strike Monday in the first wave of what promised to be a nationwide walkout, the ITAR-TASS news agency said, reports AP.

The agency said 10,000 miners failed to show up for the morning shift at all 11 staffs and three pits on Sakhalin, which is eight time zones and 6,500 kilometers (4,000 miles) from Moscow in the Sea of Okhotsk north of Japan.

Miners across Russia were expected to observe the one-day "warning" strike dramatizing their demand that the government make good on promised wages and industry subsidies.

## Beijing orders freeze on prices

BEIJING, Sept 6: China has ordered wide-ranging price freezes until the end of the year to help bring down inflation, the official China Daily reported yesterday, says AP.

The Cabinet ordered price caps on items from vegetables to real estate, the newspaper said. It called for price controls on all remaining subsidized goods and services, excluding electricity and railway cargo transport.

Just this spring, Chinese cities removed the last price controls on staples. But the government since has launched an austerity program to cool down the runaway economy and control inflation. In July, the cost of living in major cities was nearly one-fourth higher than a year earlier.

## China announces new steps to fight economic instability

BEIJING, Sept 6: China announced on Monday new measures aimed at curbing soaring investment in fixed assets, the main cause of inflation and instability in the economy, reports Reuter.

National newspapers published an order from the state council (cabinet) listing seven measures to regulate better investment in fixed assets and try to ensure money is spent where the government wants it.

Such investment soared by 700 per cent in the first seven months of 1993, driving up prices of raw materials and helping to keep the urban inflation rate in July at 23.3 per cent.

The state council ordered all localities and departments to reassess all their projects and only go ahead with those that were efficient or that eased bot-

lenecks in the system.

Projects without the necessary capital, that do not match national policy or have no clear market, especially high-class hotels, offices and villas, must be rigorously reassessed.

It said that funds, including foreign loans and those saved from suspended projects, must be concentrated on priority state projects such as agriculture, transport, telecommunications, power and production of raw materials.

In principle no new projects should be approved in the second half, and banks would not lend to property projects that did not have official approval, it said.

Inflation and fixed asset investment remained too high and budgetary revenue in July fell 8.9 per cent from the same month last year if money from state treasury bonds, which people were forced to buy, were excluded.

## Jakarta to raise price of unhusked rice next month

JAKARTA, Sept 6: The government will be APEC itself, a loose consultative network focused on trade, and regional security following the collapse of the Soviet empire and at a time when China is re-emerging on the world stage, delegates said.

At the Pacific Rim Forum's opening, forum chairman Alan Carroll said a critical medium-term issue facing APEC was avoiding an acrimonious split among various regional groups.

Noordin Sopie, head of the Institute of Strategic and International Studies in Malaysia, spoke of a "peace revolution" in what had been seen as a violent region, hurt by conflict in China, Malaysia, the Korean peninsula and elsewhere.

"If we get this wrong, then peace can be broken and war can break out," he told some 600 delegates at the conference.

A concern for some delegates was the role the United States planned to play, especially in Southeast Asia, following the end of the Cold War and given its domestic economic commitments.

## APEC eyes expansion

Canada, Brunei, Indonesia, Malaysia, The Philippines, Singapore and Thailand.

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## Gulf banks' profits may reach record high in '93

ABU DHABI, Sept 6: The return of overseas funds and a Gulf business boom triggered by high government spending is set to boost profits of banks in the region to a record level in 1993 despite a persistent deficit in their budgets.

Most banks in the six-nation Gulf Cooperation Council (GCC) made record net profits in 1992 due to a fall in interest rates on deposits and a surge in credits and earnings are expected to be higher this year, the bankers said.

There is no doubt most banks will benefit from the economic upswing in the region due to higher government expenditure and boom in the construction sector in all GCC states", a Saudi bank manager told AFP.

"Results so far show most Saudi banks performed better than the corresponding period of 1992, mainly because they extended more credits and large funds have returned to the banks from abroad".

Except for Kuwait, the other

In Kuwait, banks are expected to perform better as the benefit from reconstruction financing while in Saudi Arabia, bankers reported an unprecedented boom in building and industrial projects.

## Shipping Intelligence

### CHITTAGONG PORT

Berth position and performance of vessels as on 06.09.93

Berth No	Name of Vessels	Cargo	L Port Call	Local Agent	Date of Arrival	Leaving
J/1	Armas	Salt	Kand	BML	01/9	07/9
J/2	Bangler Sampad	Repair	—	BSC	R/A	17/9
J/3	Yannie-II	GI/GL	Butt Sunbeam	01/9	08/9	
J/4	Samudra Samrat	Salt	Kand	SSL	25/8	08/9
J/5	Yong Ning	GI/R Seed	Sting	Prog	03/9	14/9
J/6	Sea Nymph	Cement	Sting	USTC	02/8	09/9
J/7	Brintha Harapan	Gi	Viza	Prog	31/8	06/9
J/8	Chrysanthi	Urea	Belt	19/8	08/9	
J/9	Tanary Star	Cement	Sting	PSAL	R/A	07/9
J/10	Jin Lin	Gi	Sting	Prog	03/9	14/9
J/11	Bangler Doot	Repair	Mong	BSC	28/8	12/9
J/13	Optima	Cont	Sting	RSL	03/9	07/9
MPB/1	Fond Shin	Cont	Sting	BDShip	02/9	06/9
MPB/2	Bangler Mori	Cont	Sting	BSC	04/9	08/9
CGJ	Bangler Baani	Repair	Vish	BSC	08/8	09/9
GSJ	Dolores (Attach:29/7/93)	—	Seacom	R/A	10/9	
TSP	Annoula	R Phos	Anaba	TSL	29/8	08/9
RM/3	Ashkhabad	CDSO	Dara	Seacom	03/9	06/9
RM/6	Hang Cheong	Cement	Hong	Acka	02/9	09/9
DOJ	Bangler Shourabh	Repair	—	BSC	R/A	08/9
DD	Marine Three	Repair	—	BML	R/A	07/9
DDJ/1	Bangler Robi	Repair	—	BSC	R/A	18/9
DDJ/2	Bangler Aaha (Ebb)	Repair	—	BSC	R/A	15/9

Name of Vessels	Date of Arrival	Last Port Call	Local Agent	Cargo	Loading	Pert
Hartford Fishers	6.9.93	Phuk	SRL	—	—	
Kumrovec	6.9.93	Mong	Cross	—	—	
NGS Express	6.9.93	Mong	BDSHIP	Cont	Sting	
Virgo	6.9.93	Sting	OTBL	—	—	
Carbridge	6.9.93	Durb	OTBL	—	—	
Continent-1	7.9.93	Kara	CLA	GI	—	
Banaera	7.9.93	—	UMAL	—	—	
Mowlavi	7.9.93	Tutu	UMAL	Salt	—	
Meng Kiat (Cont)	8.9.93	Cal	AML	Cont	Sting	
Anton Makrenko	15.9.93	—	USTC	Cement	—	
Knut Jespersen	8.9.93	—	CT	Cont	Sting	
Eastern Mars	8.9.93	—	Prog	GI	—	
Fong Yun	9.9.93	Sting	BDShip	Cont	Sting	
Green Island	9.9.93	Karna	GI (Lash)	—	—	
Al Swamruz	10.9.93	Rang	ASLL	GI/GI	Sting Bang	
Rafah	20.9.93	Niko	Dynamic	M Seeds	—	
State of Nagaland	10.9.94	Mad	SSL	GI	UK Cont	
Sea Rhapsody	10.9.93	—	USTC	Cement</td		