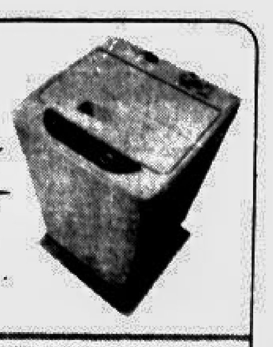

The Daily Star
BUSINESS
DHAKA TUESDAY, FEBRUARY 3, 1998

Sonali Bank recovers Tk 2761 cr loan

Sonali Bank has recovered its over-due loans of Tk 2761 crore during the 1997 calendar year.

Out of this recovery, Tk 2600.98 crore has been realised in cash and the remaining Tk 160 crore through rescheduling.

The rate of loan recovery stands at 40.75 per cent, says a bank's press release.

Annual IMB report

Countries urged to clamp down on ship piracy

More than 50 seafarers were killed in increasingly violent pirate attacks on ships around the world last year, the ICC International Maritime Bureau (IMB) said in its annual report for 1997, the ICC said in London yesterday.

The IMB urged countries to clamp down on piracy and said many attacks went unreported because authorities and shipowners were embarrassed. The report said there were 229 attacks on ships at sea or at anchor in 1997, a similar figure to that of the previous year.

Figures released by the IMB showed that pirates carried guns on 68 occasions and knives in a further 26 instances. Over 400 crew members were taken hostage during the year, compared with 194 the year before.

"Modern piracy is violent, bloody and ruthless. It is made all the more fearsome because its victims know they are alone and defenceless," said IMB Executive Director Eric Ellen.

"Seafarers have a basic human right to expect to sail on safe ships in safe waters and no one ashore can fully appreciate the trauma these types of attacks cause them, both physically and mentally."

Ellen pointed out that pirates often endanger navigation by leaving vessels, including fully laden tankers, underway and without command, dramatically increasing the risk of collision or running aground.

He expressed concern that the shipping industry was going to little to stamp out the attacks. Only a few vessels were fitted with recorders similar to the "black boxes" used in aircraft.

Taiwan's trade with China hits record high in '97

TAIPEI, Taiwan, Feb 2: Taiwan's indirect trade with China hit a record 22 billion US dollars in the first 11 months of 1997, up 10.7 per cent from the same period a year earlier, the Board of Foreign Trade reported Monday, says AP.

Taiwan's trade surplus with China increased 4.5 per cent in the January-November period to reach US 14.9 billion dollars, while imports from China grew 27 per cent to 35 billion US dollars the board said.

The increase in imports from China was due in part to the easing of import restrictions and simplification of import procedures, it said.

Stable growth in China's exports spurred increased demand for Taiwanese parts and semi-finished products, which accounted for 54 per cent of Taiwan's exports to China. Machinery and components accounted for 16 per cent, and steel exports 5.5 per cent, the board said.

Because Taiwan bans direct trade, transportation and communications with China, commerce between the two sides must be routed through intermediary ports, mostly Hong Kong.

Imports and exports from China accounted for 10.2 of Taiwan's total foreign trade for the January-November period in 1997, the board said.

'Financial crisis won't spread to China'

DAVOS, Switzerland, Feb 2: Asia's economic problems won't spread to China and the government has no intention of devaluating the currency, the Chinese vice premier said Sunday, reports AP.

Li Lanqing said China remains on target to achieve 8 per cent growth for the next three years.

Li spoke at the six-day World Economic forum, where much attention has been focused on the economic turmoil in Asia and what can be done to reduce the impact of crisis.

Lawrence Summers, the influential US deputy secretary of the Treasury, said the Asian problems could still have "very large consequences for the economies of major nations and ultimately for the global economy."

Newt Gingrich, the top Republican in the US House of Representatives, said the Asian crisis, coming as it did after Mexican economic problems, should be a source of concern for everyone because it showed the world's banks continued to lend "capriciously.

Stronger taka gives Bangladeshis the edge

KUALA LUMPUR, Feb 2: Ahmad Mohamed Qali is staring Asia's economic future in the face and does like what he sees, says Reuters.

"I came from far away to work," 35-year-old Iranian civil engineer says at a dusty construction site in the heart of Malaysia's capital." Then suddenly the ringgit (currency) crashed and everybody said there would be no jobs. So I'm worried."

Asia's economic crisis, so far played out largely in boardrooms and policymakers' offices, has a much larger human dimension that has only begun to take shape.

At least two million Asians will close their jobs, according to Jobstreet, a private employment agency in Kuala Lumpur.

Hundreds of thousands of the jobless will be foreigners — workers who migrated to Asia's booming capitals during the go-go years but who now, in many cases, face large-scale deportation.

"Inevitably there is going to be high unemployment, particularly in construction," said Irene Fernandez, a spokeswoman for Tenaganita, a non-governmental organisation in Malaysia devoted to women workers' issues.

Most of the layoffs are yet to come but the effects of the downturn are already being felt in Indonesia and Thailand.

At least one million workers in Indonesia are expected to lose their jobs this year, pushing the number of unemployed to three million, Jakarta's manpower ministry said last week.

About 70,000 foreign workers are registered in Indonesia, but experts believe many more are there illegally.

In Thailand, the government has announced that the 221,460 registered foreign workers will be sent home when their term expires in June. The number includes 198,200 from Myanmar (Burma), 18,112 from Cambodia and 7,905 from Laos.

These do not include about one million others who work illegally in Thailand, mainly in the fishery and agriculture sectors and as servants.

Large numbers of Thais are working elsewhere in Southeast Asia. The government estimates there are 100,916 in Taiwan, 17,770 in Singapore, 17,671 in Brunei, 10,099 in Japan, 8,860 in Malaysia, 3,960 in Hong Kong and 1,456 in South Korea.

Malaysian Deputy Home Minister Tajol Rosli Ghazali touched off a controversy last month when he said one million foreign workers would be sent home. Short of labour for a decade, Malaysia stopped recruiting foreign workers last August.

Only 1.2 million of the estimated two million foreign workers are registered with the immigration department, and their work permits expire in August. Most are Indonesian.

The Deputy Minister's statement raised eyebrows around the region, especially in Indonesia where hundreds of thousand of returning citizens would only exacerbate its own unemployment woes.

"Malaysia can cope with the problem," Indonesia Embassy spokesman Achmad Nawawi Hasbi said. "If they went home, it would add to the unemployment problem."

Kuala Lumpur has since backtracked and said it hopes to shift most of the foreign workers from hard-hit-sectors such as construction and hotels to oil palm plantations and factories.

"We are not going to expel them really," Prime Minister Mahathir Mohamad said after meeting Indonesian President Suharto last Monday, "we are doing our best to inform them of the situation and then transfer them to plantation areas."

"I'm not worried," said Benjie Cubol, a 38-year-old Filipino engineer in Kuala Lumpur. "One million can't be sent home."

But Tenaganita's Fernandez is not so optimistic. "I see a worsening situation in July when the work permits expire, when visible layoffs will be seen," she said.

Fernandez said the government was in a bind — whether to detain unemployed immigrants after their work permits expire, or send them home.

"The Indonesians are not going to back. The situation there is worsening and very tense. Here it's better. The question, is how are we going to contain them? We can't just put them out to sea."

More than 30,000 Filipinos working abroad could lose their jobs due to the crisis, said the Philippines presidential palace. The palace has said it will hold a high-level meeting to map strategy.

South Korea is expecting about one million jobless in March.

Singapore counts some 450,000 foreign work permit holders, about 20 per cent of the workforce, the migrant workers are largely from Malaysia, Thailand, Indonesia, India, Myanmar, the Philippines, Sri Lanka, Bangladesh and China.

Hong Kong only keeps track of foreign domestic helpers. Filipinas are the biggest expatriate working community, numbering 138,000. There are also 24,700 Indonesians and 5,100 Thais working as maids.

One group of foreign workers who are more willing than others to go home are from Bangladesh, according to Fernandez.

The Bangladeshi taka has gained ground against many of the Southeast Asian currencies, cutting into repatriated earnings.

Fernandez said there were 800,000 Bangladeshis in Malaysia. Her group is negotiating with contractors, urging them to offer three months pay to Bangladeshis and then send them home.

"The Bangladeshis are going home for holidays and not coming back," Qali said.

ADB to release $ 40 million soon

UNDP to aid capital market development

By M Shamsur Rahman

The United Nations Development Program (UNDP) will provide technical assistance to help efforts to develop Bangladesh's capital market in coordination with the Asian Development Bank (ADB) , sources said.

Officials of ADB and UNDP met with Securities and Exchange Commission (SEC) functionaries yesterday to discuss the projects aimed to set up a central depository, train manpower, develop an automated management information system (MIS) and improve legal expertise and surveillance.

The tripartite meeting also tried to sort out issues to avoid overlapping of programmes, SEC officials said. It was decided that the UNDP experts would begin work in two weeks and continue for five months. An ADB-appointed firm will then work for 18 months.

Meanwhile, Bangladesh is expected to receive the first tranche of the US$ 80 million Asian Development Bank (ADB) loan soon following completion of some formalities, senior finance ministry officials said.

The first instalment, worth US$ 40 million, is being disbursed after the government steps to meet the Bank conditions such as increase in number of stock brokers, "professionalisation" of the management of stock exchanges, and improvement in monitoring by regulators.

The ADB money will be used to provide large-scale training, and procure hardware and software.

First surplus promised in 30 years

Clinton proposes $ 1.73t budget

By Martin Crutsinger, AP Writer

WASHINGTON, Feb 2: President Bill Clinton, enjoying the fruits of a healthy economy, is proposing a 1.73 trillion dollar budget that promises the first surplus in 30 years while providing billions more for such popular programme as child care, education and medical research.

Release of Clinton's 1999 budget Monday marks the beginning of what likely will be a protracted fight with congressional Republicans, whose tax and spending priorities are significantly at odds with his.

Many Republicans want to use the higher revenues being generated by the robust economy to cut taxes. They accuse the president of proclaiming "the era of big government is over" while actually seeking to dramatically expand Washington's reach.

Clinton, who promised during last week's State of the Union policy address to produce budget surpluses for as "far as the eye can see," would start the process with a 9.5 billion dollars surplus in the fiscal year starting October 1. It would be the first time the government has not run in the red since 1969.

Clinton's budget would also give food stamps — dollar-denominated coupons that can be used to buy food — to about 800,000 legal immigrants who lost them under the 1996 welfare overhaul, at a cost of two billion dollars and enroll three million uninsured, eligible children in Medicaid, the health care programme for the poor.

The budget also proposes substantial increases in medical research on cancer, AIDS and other diseases and proposes a significant expansion in Medicare to allow people aged 55 to 64 to buy into the government programme that provides health care for the elderly.

Most Asian stock markets close sharply higher

HONG KONG, Feb 2: Most Asian markets closed sharply higher Monday, with the key indexes in Hong Kong, Singapore and Jakarta surging by 14 per cent on optimism that the region's financial crisis is easing, says AP.

Hong Kong's Hang Seng Index rose 1,326.24 points, or 14.3 per cent, closing at 10,578.60, on the first trading day of the New Chinese Year of the Tiger. It was the index's biggest gain since October 29, 1997, when it rose 1,705.41 points or 18.8 per cent.

"It's obviously a nice way to start" the new year, said Steven Thompson, head of research at Nikko Research Centre (Hong Kong) Ltd. "Very auspicious.

"The market was pushed up by buyings from the UK, Switzerland and the US," said Emerald Yuen, dealing director of Mees Pierson Securities (Asia) Ltd."

The market was boosted by gains last week on Wall Street and in regional markets, brokers said.

Singapore shares were boosted by foreign fund buying on the back of what investors perceive as an improving economic situation in the region, dealers said.

They added that the extent of the day's gains reflected pent-up demand because the Singapore bourse was closed Wednesday through Friday for the Chinese New Year and Muslim Eid-ul-Fitr holidays, when other markets in the region rallied.

The key Straits Times Industrials Index rose 173.07 points, or 14 per cent, to 1,432.99.

The Jakarta Stock Exchange recorded a record single day increase Monday, surging on heavy buying by European funds amid a recovery trend across much of Asia. The key Composite index rose 14 per cent, or 68,169 points, to break the 550-level at 554.107.

In Tokyo, the key index rose on optimism that Japanese government will act to boost Japan's faltering economy.

The Nikkei Stock Average of 225 selected issues rose 148.35 points, or 0.89 per cent, to 16,776.82 by the close of trading Monday. On Friday, the index lost 386.12 points, or 2.27 per cent.

Elsewhere:

SEOUL: Share prices slumped in what brokers described as technical correction following recent rallies. The Korea Composite Stock Price Index fell 23.70 points, or 4.1 per cent, to 543.68.

TAIPEI: Share prices closed sharply higher, with the key index rising to a seven-week high in reaction to the rise in most regional markets. The market's Weighted Stock Price Index rose 319.64 points, or 3.90 per cent, to 8,405.11.

Pricing the taka

An analyst delves deep into different aspects of devaluation — its rationale, mechanism and impact in Bangladesh's context

Devaluation has always been a contentious issue in Bangladesh as much as it is in other small open economies. Nevertheless, it is an extremely vital macro economic policy issue. The issue of devaluation — reduction in the price of domestic currency in terms of foreign currency and that of maintenance of an appropriate level of exchange rate for a country like Bangladesh, keeping in view the latter issues' export and development linkages, are inseparably linked.

Why is it important?

The exchange rate is one of the two (the other being the interest rate) most critical macro economic prices for an economy. The exchange rate determines the domestic price of tradable goods in the home currency relative to that of like goods abroad. It also determines the price of tradables relative to non tradables in the same country. As the exchange rate is a price, or a conversion factor for that matter, that directly translates foreign prices into domestic prices and vice versa, it has direct implications for both the cost and profitability of exports, imports and import substitutes — the so-called tradables referred to above. In addition, the exchange rate, often in combination with the domestic interest rate (itself not free from the influence of the former), largely determines both the inflow and outflow of foreign capital. Thus, the entire balance of payments of a country — current account, capital account and the change in reserves — is intimately affected by the level and changes in the exchange rates. Finally, the exchange rate also has deep implications for fiscal deficit, output and inflation.

Why is overvaluation undesirable?

Practically, a country's currency could either be overvalued or undervalued. In an extreme case, it could be in equilibrium as well. Overvaluation of a domestic currency arises when for given levels of nominal exchange rates, domestic inflation rate outpaces that of the trading partners. Undervaluation is obviously just the opposite. Needless to say, overvaluation artificially raises the purchasing power of the domestic currency and thus is favourable to imports but unfavourable to exports. By the same reasoning, undervaluation is favourable to exports as well as the import substitutes but is unfavourable to imports. Logically, overvaluation exerts pressure on the balance of payments while undervaluation alleviates it.

In a situation of overvaluation, prices of domestic goods and services become cheaper to the domestic buyers and dearer to the foreign buyers. But the cheaper prices, while increasing demand, may not cover costs to make continued production worthwhile. Thus, on the one hand, it may not be possible to produce domestic goods cost-effectively to be able to compete with the cheaper imports. On the other hand, foreign buyers will not also be interested to buy these exports, which are costlier. Resources will then move out of the traded sector into the non-traded sector of the economy resulting in the shrinkage of the former and the overexpansion of the latter.

As demonstrated by the recent experiences of the southeast Asian 'tiger' economies, prolonged overvaluation also has potentially ruinous effects on the economy, as this breeds speculation and encourages capital flight with the attendant instability in the stock market. As overvaluation cannot be sustained for ever, speculators often borrow in domestic currency to accumulate foreign exchange or build up stocks of imports and exportables, while awaiting an inevitable devaluation. In the meantime, the domestic interest rate increases sharply to support the overvalued currency, hurting domestic production as well as both the share and the property markets. This also usually overstrains the banking system and precipitates a financial crisis.

An overvalued currency is also said to —

(i) reduce the incentive to substitute local inputs for imported inputs, discouraging backward linkages;
(ii) reduce protection of domestic industries;
(iii) encourage smuggling; and
(iv) reduce foreign exchange reserves.

How do countries avoid overvaluation?

Countries that seek to expand exports (maintain or enhance external competitiveness), keep imports under control and ensure healthy reserve positions tend to keep their respective domestic currencies cheap. Left to itself, a country's currency which is nominally pegged against say, the US dollar, would tend to get overvalued (or undervalued) when inflation rates in its important trading partner countries exceed (or below) its own. A country aiming to keep its currency cheap would watch the movements of inflation rates (sometimes, wage rate, interest rate etc. are also observed) as well as the nominal exchange rates of its important trading partners and periodically adjust its own nominal exchange rate in the desired direction.

In an attempt to maintain their exchange rates at appropriate levels, countries sometimes try to keep their real effective exchange rate (REER) stable. This is precisely what seems to be done in Bangladesh. Thus the nominal exchange rate of the taka would be continually adjusted against the dollar as and when inflation in Bangladesh exceeds that in the other important trading partners or when the nominal exchange rates of the currencies of any of these countries change in relation to the dollar. Thus a kind of "crawling peg" for managing the external value of the taka would appear to be followed in Bangladesh. Apart from the relative inflation and nominal exchange rates, the country's reserve position is also expected to be reviewed and the maintainability of the existing nominal exchange rate assessed in the light of the prevailing reserves. The advantage with a crawling peg is that it is less destabilizing, less inflationary and also more predictable.

Usual arguments for devaluation in Bangladesh

The protagonists of devaluation often argue that in Bangladesh large single shot devaluations, rather than the current periodic small doses, are needed to bring a real turnaround in export growth, which again could trigger a rapid growth of manufacturing in general. It is also argued that devaluation can protect domestic industries from unfair foreign competition. The idea of uniform effective protection is believed to be better served through devaluation compared with a protective tariff structure having differential rates, as the extent of protection is often diluted by the 'water in the tariff' caused by massive smuggling. It is further argued that following a devaluation, producers may try to substitute cheaper domestic inputs for costlier foreign inputs.

Theoretically, devaluation is expected to provide better price incentives specifically to the producers of exported goods, as their taka incomes per unit of dollar increase following a devaluation. This is also supposed to shift resources from the non-traded to the export sector, expanding production therein. More elbow rooms are provided to the domestic producers, their profit levels increased, and they are enabled to supply more to the world market at the prevailing price. This seems to hold for the small economies. It is also expected that devaluation could allow exporters to lower the dollar prices of the exported goods for which Bangladesh might have some market power, and thus expand sales abroad.

Is devaluation an unfailing policy option?

Devaluation alone is not expected to create opportunities for rapid expansion of exports. It would also require strong complementary actions to restructure the production system in the export sector, reforms in trade and financial policies and development of infrastructure. It has also been pointed out that devaluation would not automatically bring any of the stated benefits for a country like Bangladesh in the face of its narrow and undiversified export base, rigidities in the production structure implying low supply elasticities and stiff competition in the world market. A recent econometric study has indicated that devaluation has not in fact significantly encouraged export growth in Bangladesh.

Is devaluation desirable?

It is instructive to consider the implications of devaluation for output, inflation, fiscal and current account balances in Bangladesh.

Effects on output: If domestic production is dependent on imported inputs, then cost of production will rise following a devaluation, leading to the increase in price of goods. This will put downward pressure on demand for domestic goods resulting in decrease in production. Increase in the price level reduces real expenditure and thus has a negative effect on real output. A recent study on Bangladesh has however shown that devaluation in fact has a marginally adverse effect on domestic output.

Effect on price level: Devaluation almost invariably increases the domestic taka prices of both import substitutes and exportables. As price correction to provide better price incentives to producers and exporters is itself an important underlying purpose of devaluation, some inflation would obviously be unavoidable following a devaluation. The stock of foreign reserves at the central bank is also expected to register a capital gain in terms of taka currency following a devaluation. This has an expansionary effect on the money supply which also effects price level.

Effects on trade balance: The study has shown that devaluation has a limited role in reducing trade gap in Bangladesh because imports are mostly of essential nature having low price elasticity of demand while the export response is weak at best.

Effects on fiscal balance: Devaluation increases the nominal revenue of the government to some extent. At the same time, government expenditures increase following a devaluation. Thus the net effect of devaluation on fiscal balance could be of either sign.

Is the taka rightly valued now?

The observed difference between the official exchange rate and the curb market exchange rate in Bangladesh has been small indicating that there is hardly any misalignment of the taka at present. As the abstract equilibrium exchange rate lies somewhere in between the official rate and the curb rate, and since the difference between the official rate and the curb rate is itself small, the official rate appears to be quite closely aligned to the equilibrium exchange rate.

Is there any strong case for devaluation then?

Since the taka is not significantly misaligned at present and since any strong positive effects of devaluation on exports are not well established, there does not seem to be an urgent case for large-scale devaluation in Bangladesh at present, in view of its potentially adverse effects. However, granted that it is to the advantage of a small open economy to keep its currency a little cheaper, the current policy of adjusting the nominal exchange rate by small doses seems to be in order. Whether upto date data required for the underlying calculations are available or not, and how frequently the adjustments should ideally be resorted to — are however very important questions.

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BGMEA welcomes taka devaluation

Bangladesh Garment Manufacturers and Exporters Association (BGMEA) has welcomed the devaluation of taka against US dollar, but demanded further devaluation to increase exports, reports UNB.

In a statement yesterday, BGMEA President Mostafa Golam Kuddus said BGMEA and other exporters have been demanding devaluation of taka for long.

Thanking the government for the devaluation of taka by 85 paisa, he, however, said Bangladesh exporters will lose the international market if the taka is not devalued further against the dollar.

The BGMEA president said the devaluation of taka is only 1.9 per cent whereas currencies of India, Pakistan, Thailand, Korea, Indonesia and the Philippines have been devalued by 25 to 50 per cent.

Bangladesh, for that reason, is facing serious competition in exporting its goods in the world market, he pointed out.

He hoped that the government would fix the value of taka against US dollar at Tk 50 for the greater interest of the exporters.

Indian rupee weak in forex market

BOMBAY, Feb 2: The Indian rupee weakened in the foreign exchange market here today as banks bought dollars, dealers said, reports AFP.

The rupee opened at 38.65 to the dollar, up from the previous week's close of 38.75, but weakened in less than an hour to 38.72 as the state-owned State Bank of India, prompted by demand for the greenback from Indian importers, bought the US currency.

Mridul Gokhale, at foreign exchange and travel house Thomas Cook, said: "There seems to be some dollar buying interest today".

She said the rupee was "fundamentally still weak, but the market has turned cautious ahead of the February-March elections. No fresh positions are being taken and so business volumes are very low."

The rupee, after two weeks of cautious recovery on RBI intervention following the turmoil in Asian markets and the fall of India's government in November, began weakening again last week.

It hit an all-time low of 40.34 last month. The rupee slid almost 13 per cent to the dollar between September, when it stood steady at 35.70, and the start of 1998.

ROK records trade surplus in January

SEOUL, Feb 2: A weakened currency caused South Korea to post its third straight monthly trade surplus in January, the Trade Ministry said Monday in a preliminary report, says AP.

Ministry officials attributed the 1.6 billion dollars surplus to the sharp depreciation of the Korean won which boosted exports and discouraged imports. The won lost more than half its value last year.

In January, South Korea's customs-cleared exports rose 1.4 per cent to 9.16 billion dollars while imports fell 39.6 per cent to 7.56 billion dollars from the same month last year, they said.

A nationwide gold collection campaign that began in early January to pay back foreign debts also contributed to the trade surplus because much of gold was exported, the officials said.

More than 1.6 million Koreans sold or donated 110 tons or 1.1 billion dollars worth of gold in the campaign launched to help pay back 57 billion dollars in bailout funds from the International Monetary Fund.

In January, about half of the gold collected, or 500 million dollars, was melted into bars for exporting.

Japan's auto sales drop

TOKYO, Feb 2: Weighed down by Japan's sagging economy, domestic sales of new cars, trucks and buses plunged 23.5 per cent in January from the same month a year earlier to 257,568 units, auto dealers said Monday, reports AP.

It was the tenth straight month of declines and marked the sharpest drop in domestic auto sales since November last year when sales dropped by the same amount, the Japan Automobile Dealers' Association said.

The November drop was the biggest drop in new car sales since August 1974, when sales dropped 27.1 per cent as auto demand shrank amid the first oil crisis.

Sales in January were sharply lower compared with a year ago because of unusually active buying at the time ahead of the April 1 hike in the national sales tax, a spokesman said.

Persistent worries about the health of the Japanese economy also weighed on sales in January, he said on condition of anonymity.