

Devaluation: An Easy Way Out

by Dr A R Chowdhury

Repeated devaluation is a risky strategy and Bangladesh should not pursue it as a response to the currency crisis in Southeast Asia. We cannot engage in competitive devaluation as it would prove counterproductive.

TAKA has been devalued one more time. The latest devaluation is the 12th since the present government took office in July, 1996. Since mid-1990 the value of Taka has been adjusted downwards a staggering forty-one times that brought down the exchange rate from Tk. 34.85 to Tk 46.15 per dollar on buyer's account.

The latest adjustment in the value of Taka is quite surprising given the fact that Taka has been stable against the US dollar. In a recent article in this page, I have written about the perils of repeated devaluation. By frequently lowering the value of Taka, the government is embarking on a risky path. The negative effect of such a measure would greatly outweigh any positive effect that it might have. In order to see this, let's examine the rationale given for the recent round of devaluation.

Three reasons have been given by the Bangladesh Bank. First, devaluation would increase our export earnings, especially in the garments sector. Second, it would improve our foreign exchange reserve which has dwindled from its peak of US dollar 3.4 billion in April, 1995 to the recent low of US dollar 1.66 billion. Third, devaluation would encourage more remittances from Bangladeshi workers working abroad. Let's look at these stated reasons individually.

It is argued that the series of dramatic devaluations in South and Southeast Asia will automatically erode the price competitiveness of our exports. In order to maintain the growth rate of exports, the argument goes, Bangladesh has no option but to devalue as well.

The facts, however, suggest a rather complex picture. Exchange rate is only one of the determinants of export growth. Devaluations would make exports more competitive only if exportable products of competing nations are homogeneous, and they contain the same proportion of various factors of production. But that is not the case for exports from Bangladesh and its competitors in the region. These economies are diverse in nature. Industries in Bangladesh are more labour-

intensive than its competitors. Moreover, its labour costs are below the average of the region. Regional currency devaluations should reduce, but not eliminate, the labour-cost differential enjoyed by Bangladesh.

In the garments industry where the competition is more fierce, competing countries with devalued currencies would be unable to capture Bangladesh's share in the world market as such trade is determined by non-tariff barriers imposed by the leading importers such as Europe and the United States. Garment exports are less price-sensitive since they are subject to import quotas. A substantial change in market share is thus unlikely.

Now look at the flip side of this argument. A lower value of Taka would raise the cost of production of those industries who expect to gain the most from devaluation. They will have to pay more for imported raw materials and machineries on which they are heavily dependent. The higher cost of these inputs will be felt quicker than any subsequent rise in exports. Exporters will also face a cash flow problem due to the increasing cost of servicing their US dollar-denominated debts. On balance, devaluation by itself would hardly have any positive impact on their balance sheet.

Recent trade figures support my contention. Despite repeated devaluations since 1990, Bangladesh's trade balance has deteriorated. Supporters of devaluation have mentioned the possibility of a J-curve effect. The J-curve phenomenon refers to the short-run decline in net exports following an exchange rate depreciation, followed by an improvement in net exports. A close look at Bangladesh's net exports in recent years, interestingly, show the presence of an inverted J-curve. Following repeated devaluations after 1990, our trade balance improved temporarily during 1991-93 and has deteriorated since then.

Over the same period, import as a percentage of GDP varied from a low of about 14 per cent in 1991 to a high of about 21 per cent in 1995. Given our heavy dependence on import, devalu-

ation would raise the import bill significantly. It would increase the domestic price of imports ranging from essential food items and fuel to raw materials and intermediate goods. This price increase would eventually be passed over to the consumers through higher prices of final consumption goods.

The higher import bill would cancel any expected increase in export earnings. Consequently, the possibility that devaluation would improve our foreign exchange reserve is at best, remote. This casts serious doubt on the second rationale given for the latest round of devaluation. Since 1995, Bangladesh's foreign exchange reserve has dwindled from about US dollar 3.4 billion to only US dollar 1.66 billion, enough to buy imports for three months. This has happened despite at least fifteen downward adjustments in the value of Taka over the same period. It serves to prove my point that devaluation, by itself, will not improve our foreign exchange reserve.

The third argument given for devaluation is that it would spur remittances from Bangladesh workers abroad. This is the weakest argument of all. Majority of the remittances come from Bangladeshi workers working in the Middle-East and various Southeast Asian countries. These workers, who are mostly unskilled or semi-skilled, traditionally remit a significant portion of their earnings. But they would remit that money irrespective of the exchange rate because, for legal reasons, they do not have any alternative investment opportunities in countries where they are employed. Among the factors that determine the volume of remittances, exchange rate appears to be one of the least important.

Now consider the other negative effects of downward adjustments in the value of Taka. It would hurt prospective foreign direct investment as the dollar returns on foreign investment in Bangladesh would be reduced. Given repeated adjustments in the past, fears about the prospect of similar adjustments in the future would discourage foreign investors

who are already jittery about emerging markets in general.

One of the most devastating effect of devaluation is the rapid increase of inflationary pressure in the economy. For instance, after the 1994 peso devaluation in Mexico, for every two per cent increase in the cost of a dollar, there has been a one percentage-point increase in the inflation rate within a three-month period. Indonesia is already showing signs of rapid price increases after recent devaluation. IMF's rescue programme in Indonesia calls for subsidies on a variety of foods and other items to be phased out gradually.

The use of devaluation as an instrument for accommodating weaknesses in an economy has been a standard IMF prescription for many years now. Recent evidences from Southeast Asia show the failure of such a policy, although the idea that countries should 'adapt the exchange rate to the economic situation' remain ingrained in the IMF's view of the world.

Policy makers in Bangladesh obviously feel the pressure from the IMF and other donor countries. But IMF has repeatedly left countries in limbo on the important issue of how they handle their currencies. Again and again as Asian countries fell into crisis, the IMF gave its approval to what turned into a spiral of competitive devaluation. These have by now left many Koreans unable to afford fuel even for heat and Indonesians strapped to pay for food. Policy makers in Bangladesh must resist the temptation of finding an easy way out from any crisis by simply adjusting the value of Taka downwards.

Repeated devaluation is a risky strategy and Bangladesh should not pursue it as a response to the currency crisis in Southeast Asia. We cannot engage in competitive devaluation as it would prove counterproductive. The potential benefit to Bangladesh's export earnings is at best uncertain, but the negative impact of such a policy could be severe.

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US-Iraq: Critical Stand-off

by A S M Nurunnabi

Any attempt by the US to bypass the Security Council and all its permanent members will only lead dissident countries like France, Russia and China moving away from the existing structure of a unipolar world order.

As some international observers see it, some questions do not have good answers. One such is the question of what to do with Saddam Hussein. It comes round so frequently because the answers given on previous occasions have always proved unsatisfactory.

At the end of the Gulf War in 1991, Iraq agreed to let the United Nations sniff around until it was satisfied that it had found and destroyed all the Iraqi chemical and biological weapons and the wherewithal for making more, and nuclear weapons too. Then Iraq would be allowed to sell all the oil it wanted. Seven years later, the UN's inspectors are saying they have not found all that exist in Iraq's possession of the destructive weapons.

After the expulsion of the UN's arms inspectors following US's insistence that Saddam allow unhindered access to all suspected weapons sites in Iraq, the US has taken the stand that if the only way to get Saddam from flouting the UN's resolutions on complete destruction of the 'terrible' weapons is to bomb his weapons factories, his stock piles and his presidential palaces, the suspected storehouses of his dangerous weapons, so be it. If the UN Security Council cannot bring itself to authorise such bombing, then better that should be done by the United States with as wide support as possible than by nobody. One disadvantage of the bombing option, according to observers, is the risk of large-scale civilian casualties. Then there is the prospect of a rift in the Security Council, where China, France and Russia, unopposed, would almost certainly withhold their support.

More serious, perhaps, would be the wider alienation of America in the Middle East. The Gulf War alliance no longer exists. Arabs are dismayed by the near collapse of the peace process and, not surprisingly, blame America for doing too little to get Israel to honour the obligations. But even the Americans were now to put pressure on Benjamin Netanyahu, the Israeli Prime Minister, any consequent goodwill would be swiftly dissipated by a bombing raid on Iraq. Saddam Hussein is reportedly not much liked in the region, but he is said to be feared as a potential martyr than as a hobbled dictator.

The real trouble with bombing, according to some observers, is that it is likely to leave Saddam in power, possibly strengthened, while doing little permanently to reduce his ability to make and use weapons of mass destruction. None of this should come as a surprise; bombing has been tried in the past to little effect. Five weeks of continuous bombing during the Gulf War destroyed fewer weapons than the inspectors have since. These raids loosened Saddam's grip not at all.

Against this backdrop, the current US-Iraq stand-off scenario may be viewed. The UN Secretary-General, Kofi Annan, said that the UN charter requires states to exhaust all peaceful means before taking military action. Asked whether the United States had enough authority to attack, Annan said it would be preferable to get a Council authorisation before one engages in military action. That would require the consent of all the permanent members: the US, Britain, France, Russia and China. The Russians and the Chinese said they oppose the use of force. Each of the permanent members can veto any resolution authorising military action.

On the other hand, the United States has maintained it has all necessary authorisation to use military force to compel Iraq to comply with the Council resolutions to grant UN inspectors full access to all suspected weapons sites. According to one report, Iraq has agreed, in principle, to inspection of all its suspect sites, including those it terms 'presidential' on condition the UN embargo is lifted one month after the inspections. These conditions are unacceptable to the United States, which demands unconditionally and unhindered access for UN disarmament experts to all Iraqi sites.

In the opinion of one diplomat, the number of sites called 'presidential' is of little importance because no suspect site will be exempted from inspection. France says the inspection of presidential sites must take Iraq's dignity into consideration. According to the French proposal, the palace inspection teams would include more diplomats than UNSCOM experts, while the inspections of the surrounding buildings would include more UNSCOM experts than diplomats. According to the US, however, the

Iraqis should agree to UNSCOM inspection accompanied by independent experts or diplomats who are jointly selected, to visit the presidential sites which surround the residences or palaces.

While the United States is beefing up its preparations for air strikes against Iraq with newly developed and more effective precision bombing means from US aircraft carriers based in the Gulf and also with more deployment of US combatants and British submarines, a senior Saudi official said Saudi Arabia will not allow its territory to be used to attack Iraq. According to him, even UN Security Council approval of an attack would not change the Saudi position. Saudi Arabia will not allow any circumstances from its soil or bases in Saudi Arabia, due to the sensitivity of the issue in the Arab and Muslim world.

Reticence on the part of Saudi Arabia — America's closest ally in the Persian Gulf — indicates just how hard it was for the US Secretary of State to muster support for a military strike. The United States has plenty of fighter jets and troops aloft on the Persian Gulf which are being steadily allowed to gain additional strength, but it may be recalled that the US relied heavily on Saudi and Turkish bases during the 1991 Gulf War.

These days Turkey too has been reluctant to allow itself to be used as a launching pad. Lately it sent its Foreign Minister to Baghdad to help negotiate a diplomatic end to the stand-off between the US and Iraq.

To many in the Arab world, a military strike on Iraq seemed pointless, given that Iraqi citizens already were struggling from seven years of economic sanctions. There is also distrust of Washington for its unwavering support for Israel. The feeling has been widespread in the Arab world that if Saddam abused international law once, Israel has done it 100 times.

There were several calls lately for a non-military solution to the latest stand-off. Iranian President urged the 55-nation Organisation of the Islamic Conference to try to resolve Iraq's dispute with the United Nations peacefully. Egypt's Foreign Minister, Qatari's media, joined with the already pre-negotiation role of Russia and France, along with

the PLO President, Yasser Arafat, Russian President Yeltsin, in his unusually critical remarks against US President Bill Clinton claimed that bombing raids in Iraq could spark a much broader conflict. China warned the US that an attack on Iraq could fail and make the situation even worse. India also followed the same line in pressing for a peaceful solution.

According to international observers, diplomatic efforts being made by some of the states for a peaceful solution of the crisis, importantly Russia, France and Turkey, have so far proved very difficult and no breakthrough has yet been reached in Iraq's showdown with the United Nations over weapons inspections.

The stand-off in the Gulf comes at a bad time for the stalled Middle East peace process. US leaders are distracted by the crisis and reluctant to pressure Israeli Prime Minister over a West Bank troop pull-back at a time when they want him to stay out of any conflict with Iraqi leader Saddam Hussein.

The Palestinians, in turn, don't want to be seen as making concessions to Israel or the US at a time when Iraq is engaged in a confrontation with Washington. All this spells deadlock in the negotiations.

An astute observer of international relations has currently observed in this context that it has become evident for the Iraqis by now that the UNSCOM mission in their country and its never-ending inspection programme is only a ploy to perpetuate a sanction regime in Iraq on one pretext or another till its primary objective of the overthrow of Saddam is achieved. There is also a growing realisation that through continued sanctions and creation of a permanent military presence in the Gulf region, the US seeks to advance its policy to establish unchallengeable control, of oil so as to gain a stranglehold over a defiant Arab world. Moreover, even if Washington was quite bent on launching a unilateral punitive action against Iraq, any attempt by the US to bypass the Security Council and all its permanent members will only lead dissident countries like France, Russia and China moving away from the existing structure of a unipolar world order.

Thank God we were able to pass the test in flying colours. Language was a big barrier for us as only a few could speak English but that too only broken English.

Since they had abundance of everything they were very wasteful. I remember seeing piles of giant-size breads dumped in the dustbins of many house-holds. Wheat was very cheap - state controlled price, like most other essentials were. But God does not like wastage and so now they crave for a decent meal. In spite of having so much of wealth under-ground, which they are unable to tap now.

Visits to the holy shrines of Hazrat Ali, Hazrat Abbas, Hazrat Hassan, Hossain and Boro Pir-Abdul Quader Gilani (R) are memories to be cherished for life time. The experience of visiting the ruins of Babylon and the museum are singular in itself. I sometimes wonder and worry if they are all still intact after the havoc of the wars that Iraq got itself into. It will be a pity if national heritage such as these are lost at the altar of the war. Pity, not only for the Iraqis but for the entire world and especially for the Muslim world.

The population is small, the country is oil-rich, the government is stable (most of them seem to love Saddam Hussein!) — prosperity and development was therefore within their easy reach, if only they had not spent most of their time, money and energy in advancing their military might and engaging themselves into the devastating Gulf War and then the invasion of Kuwait. It could have become one of the most or the most powerful Muslim state.

But what saddened us the most was, being Muslims and belonging to an ancient holy land of Islam, they consume alcohol freely, without any qualms! Also it is liberally available everywhere, like tea-stalls in our country. Though we all know that it is not only forbidden but 'haram' for Muslims. Therefore that was the most difficult part of our stay there, because according to their custom if you refuse to accept anything that is offered to you by your host, it means you are showing disrespect to him! What a dilemma we were in, but

the whole country is mainly desert except for the northern part which is really beautiful, mountainous, green and with breath taking scenes. The roads are all so common in our country. It is a pleasure. But it becomes boring when you are traveling in the rest of the country, except the north, as all you see out of your window is miles upon miles of vast, barren desert.

The people of this land are very simple, honest and hospitable. They treat foreigners as their guests and are very polite and courteous with them. When they visit a doctor they thank him almost half a dozen times — sounds strange, but it is true (in contrast in our country

patients never even think of thanking a doctor). They are very generous too, when we as foreign doctors, used to go to the shops, many shop owners gave presents for our still unborn child when they saw me pregnant! In business dealings they are meticulously honest. Smuggling, bribery and cheating are absolutely unheard of (which are all so common in our country). Crimes, such as theft, robbery and murder are nearly absent. You could sleep at night with your doors wide open, but not after the foreign workers had started arriving!

On Eid days most Iraqis just take a long nap — what are holidays for, anyway? Eid namaz is said after Fajr prayers, in the local mosques — so very few attend them. No Eid congregation. Other Islamic days like Shab-e-Miraj, Shab-e-Barat etc., also go by un-noticed. No holidays even for them. Rozas are mostly for the elderly! That too without sebh — late dinner is the custom.

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Professor Khan has taught as a Visiting Professor at Benin University in Nigeria, 1981-82 and Yarmouk University in Jordan, 1990-91. He was a Senior Fulbright Fellow at Cornell University and University of Texas at the Austin during 1989-90 and Visiting Ford Foundation Research Fellow at the Institute of Southeast Asian Studies in Singapore, October-December, 1997.

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SILK

Comparative Advantage of Sericulture

by Prof Sajjad Hussain

There are not many opportunities for a country to turn its poverty-ridden rural society into one thriving with economic activity. Now that Bangladesh has this opportunity through the promotion of its silk industry she should grab it without any further delay.

IN the economic backdrop of Bangladesh silk production can make a significant contribution in utilising the unutilised farm labour by involving them in an economic activity of national significance. As a matter of fact there is no alternative to Sericulture in generating alternative employment for the landless and the marginal farmers of Bangladesh because of the following reasons:

1. As has already been mentioned earlier, the cultivation of mulberry plants and the rearing of silk-worms are highly labour-intensive activities in the rural economic context of Bangladesh.

2. Most conveniently, compared to other agricultural or industrial activities, silk production requires relatively small space and small investment while giving a much higher return irrespective of the stage of production.

3. The landless and the marginal farmers of Bangladesh can be involved in every stage of production of silk because, all that is needed for silk production is accurate knowledge about the different stages of production which is easily acquired, and sincere and hard work.

4. A great advantage for the landless and the marginal farmers, who have little or no savings to fall back upon is that, the 'Gestation Gap' between investment and return is very small.

5. In the Bangladeshi climate silk-worm rearing can be done all year round and hence can keep the underemployed landless and marginal farmers busy throughout the year.

6. Sericulture can be taken up as an occupation both on part-time and full-time basis.

An analysis of the economic benefits of sericulture in Bangladesh in the different stages of production of silk is given below:

The Production of Mulberry Leaves: Since Mulberry leaves are the only food the silk-worms take, the health of the silk-worms and the quality and quantity of silk cocoons they produce, are directly related to the quality and quantity of mulberry leaves produced. Therefore if better quality mulberry plants are sown, and if they are cultivated following modern methods of cultivation, then it would be possible to increase the production of silk cocoons by producing larger quantities of mulberry leaves in a relatively smaller area.

Mulberry tree is a plant that produces leaves for 20-25 years. The production of mulberry leaves can be increased through the balanced use of fertilisers, irrigation, and weeding, and by preventing attack by disease and insects, and through minimum care. It is enough to weed, prune, and irrigate it 3/4 times a year. Hence its cost of cultivation is less than that of any other crop.

Another useful fact about Mulberry tree is that it can be

pruned and kept to any desired height. Except for shaded and water-logged areas it can be planted anywhere — in the courtyard, in any nook and corner, along roads and highways, literally anywhere.

In Bangladesh per hectare yield of mulberry leaves is 15 tons only. The Bangladesh Silk Research and training Institute has recently developed HYV mulberry plants whose yield is 30 tons per hectare. Assuming that the Bangladeshi farmers can achieve this target, the landless and the marginal farmers could easily earn a net income of Tk. 2,842 by planting 200-250 mulberry plants on fallow land along road side, in every nook and corner of their homestead, and on the banks of 'khas' ponds. In addition 250 mulberry plants would provide 1000-1200 kgs. of fire wood whose market value would be another 700-800 Taka.

If, on the other hand, Indian and Chinese variety of HYV mulberry plants, whose per hectare yield is 50-55 and 60-65 tons respectively, are cultivated by the farmers of Bangladesh then per hectare yield of mulberry leaves could be increased even further and the economic benefits to the farmers doubled.

The Production and Distribution of Silk-worm Eggs: In the next stage if a landless or marginal farmer could establish a disease-free silk-worm egg production unit producing 50,000 disease-free eggs per batch at a cost of Tk. 1.10 lac

and invest another Tk. 31,200 as working capital then the farmer would easily earn Tk. 50,000 annually by producing eight batches of eggs a year. The initial investment could again be reduced significantly if, instead of spending Tk. 80,000 for building the unit, it was housed in rented accommodation. Besides, the government could also reduce the burden of the farmer further by lending him the money to be invested.

The Hatching of Silk-worm Eggs and the Nursing of Silk-worms: The advantage of this stage of production is that, every member of the household can provide labour for this activity and it needs to be done indoors. Depending on the size of the nursery, and the availability of mulberry leaves a landless or a marginal farmer can easily nurse silk-worms hatched from between 100 and 500 disease-free silk-worm eggs by using family labour to produce between 30 and 150 kgs. of silk-cocoons and earn between 10,500 and 52,500 Taka annually.

The Production of Silk Twine and Silk Cloth: If a landless or marginal farmer uses family labour, invests Tk. 26,000 and operates hand-operated but advanced 'Reeling Unit' and operates it for 200 days in a year, subject to the availability of sufficient quantity of silk cocoons, he can earn Tk. 27,297 a year. Similarly, if a farming family operates two small family handlooms by using family labour then he can earn Tk. 37,800 annually by producing silk cloth. Further value could be added to it by enhancing its beauty through attractive needle work. There is a great demand for such produce in the developed countries of the world.

If a landless, or a marginal farming family, could invest in more than one stage of production of silk then it would not only increase its annual income significantly, but at the same time generate enough work to be able to utilise hired labour, in addition to keeping the entire family busy.

Conclusion: There is no dearth of reason for the Bangladesh Government to embark on a crash programme for the development and growth of sericulture in Bangladesh. As a matter of fact not to do it would be foolish. There are not many opportunities for a country to turn its poverty-ridden rural society into one thriving with economic activity. Now that Bangladesh has this opportunity through the promotion of its silk industry she should grab it without any further delay.

Next: Reason behind Stagnation

by Jim Davis

6-5 GAINING WLD

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