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# The Daily Star

## BUSINESS

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DHAKA, TUESDAY, AUGUST 4, 1998

Bangladesh should have an effective policy for 'informal economy' to check smuggling of goods across the border, say two researchers who have recently done a study on 'Informal Border Trade Between Bangladesh and India'.

Dr Atiur Rahman of Bangladesh Institute of Development Studies (BIDS) and Abdur Razzaque of Dhaka University say the policy for the informal economy, which is quite large in nature, should be applied to monitor prices of the commonly-smuggled goods in India and the changes in the Indian policy that could foretell what cautions Bangladesh should take to stop smuggling. But, in an interview with The Daily Star, they said that the ultimate weapon for Bangladesh in checking smuggling was to become more efficient and productive.

Following are the views of the two interviewees on 'informal economy': In the globalised context, there is no scope for maintaining a controlled economy. We do not have any policy for the informal sector, which is probably bigger than the formal sector. This is a big problem for the economy.

If we had a policy for the informal economy, we could effectively check smuggling by taking various policy measures. We could fight smuggling through a price policy. There is no monitoring system to know prices of the commonly-smuggled goods in India. If we had one, we could regulate our prices to check such smuggling.

The next step in the policy action should be to analyse why prices of the same items are lower in India and higher in Bangladesh.

Abdur Razzaque: We still don't have a clear picture about the extent of informal economy but it is for certain that the size of this economy is quite large. Thus, whenever we talk about the formal sector it only gives us a partial picture of the economy.

In recent times, there has been some attempt to capture the informal activities, but informal or illegal trade are not to be counted in national income accounting. This is because imputation is made for the value of goods and services sold in the underground economy. The underground economy is that part of the economy which people hide from the government either because they want to evade taxation or because the activity is illegal.

The informal border trade is also a part of the underground economy and hence, whatever may be the size and extent of this trade it should not be counted in the national income accounting. But of course, there are other informal sectors that can be included in the national income.

Rahman: Had the informal economy been accounted for, a new measure would have been applied in measuring the growth rate.

Razzaque: Even though informal trade is not to be counted in national income, we need to know the value and volume of this trade. This information is needed to ascertain an appropriate real effective exchange rate (RER) mechanism.

Rahman: We should have a response mechanism to the huge informal imports. Advance information regarding price surges of essential items in India could help us monitor our markets and open LCs in

ers said. The Kuala Lumpur Stock Exchange's Composite Index fell 16.38 points, or 4.1 per cent, closing at 386.27.

In Tokyo, share prices fell on profit-taking. The Nikkei Stock average lost 213.89 points, or 1.31 per cent, closing at 16,165.08.

In the previous four trading days, the Nikkei index had gained a total of 434.61 points, or 2.8 per cent, including Friday's gain of 177.37 points, or 1.09 per cent.

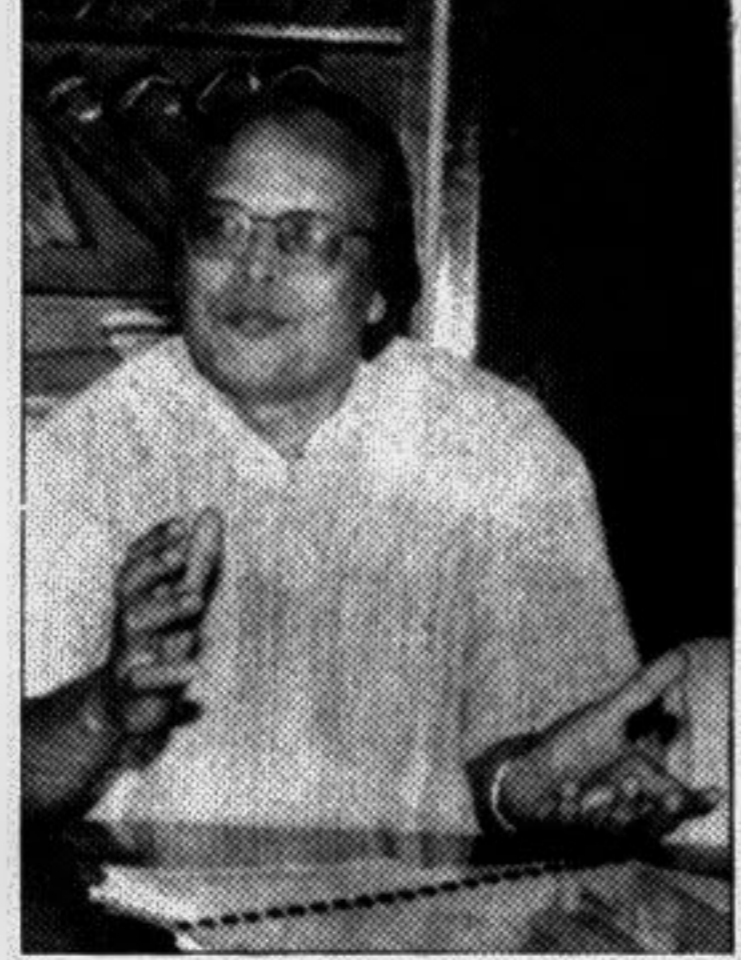
**BANGKOK:** Thai stock prices closed lower amid concerns over the future of the country's banking and finance sector. The Stock Exchange of Thailand Index fell 5.83 points, or 2.2 per cent, to 260.89.

**SEATTLE:** Share prices closed lower in reaction to the falling Japanese currency. The Korea Composite Stock Price Index fell 6.02 points, or 2.4 per cent, to 329.47.

### Researchers on unofficial India-Bangladesh border trade

## Potent policy for 'informal economy' to check smuggling suggested

By Inam Ahmed



Dr Atiur Rahman

of such trade is no less significant than the official bilateral trade with India.

Razzaque: There are two options. One is to stop smuggling by strengthening the law and order situation in the border areas. We have also to invest in the border areas to generate employment opportunities there. If people get employment, they will not take to smuggling.

The other option is, of course, to reduce tariffs and thus discourage smuggling.



Abdur Razzaque

Rahman: We should have decentralised local-level planning for increased investment in the border areas. The cost of smuggling is very low in the border areas. Had there been enough employment opportunities, the cost would have gone up. On the other hand, we have to reduce tariff rates on imports to narrow down the cost differential.

But the ultimate solution would be to become more productive. Otherwise, we won't be

able to compete in the global market.

Razzaque: The emerging trend of smuggling is that informal exports from Bangladesh have declined. This is because the main items that used to go from this side of the border were electronics goods. But India has reduced duties on such items which diminished the demand for electronics items through Bangladesh. This is a good sign for us, because these items were usually bought with our hard-earned foreign currency.

Rahman: There are policy implications for such trends where informal import to Bangladesh is increasing and our informal export is decreasing. We should raise the issue with India and demand tariff rationalisation. We should tell India that unless they lift the tariff and non-tariff barriers, our products cannot enter Indian market.

Razzaque: Informal trade is also affecting our foreign exchange reserves, because a huge chunk of the informal trade payment is done through 'hundi'.

Rahman: In our study it was found that Bangladesh Taka, Indian rupee, gold and hundi

### Illegal Traders' 'Syndicate'

At the thana level the illegal traders are well-organized. This group of traders buy the products from the local markets and distribute those all over the country. This activity requires huge amount of capital to ensure high profit. A number of people float a 'firm' where they invest money according to their capacity and profit is distributed according to the share of the initial investment.

In each thana there are a number of firms and according to the size of their capital they 'specialize' in the 'business' of different products. The big firms involve in cattle and sugar trading while the relatively small firms are found to operate business of items such as agricultural products and other processed food items like salt. Small firms distribute the illegally imported items mainly within the border thana and other short distant districts.

The firms of a particular thana have their own association which is known as 'syndicate'. All the firms are the members of the syndicate. In a few cases due to rivalry among the firms there may exist more than one syndicate. The syndicate protects the interest of the smugglers and manages the law-enforcing agencies. Besides, it also determines the amount of 'subscription' for the firms which is needed to fulfill the demand of law-enforcing agencies and the 'mastans' as well. "There is nothing political about forming the syndicate, we all, irrespective of our political affiliations, are united under this syndicate," said a member of syndicate of Bheramara thana, under Kushtia district.

Source: Field Report by the Field Officers, February, 1998

### 'This is no more Smuggling; What we do now is Business!'

As the price differential between the border villages of Bangladesh and India is declining the profit margin of the traders is also going down. This has become a problem for the small scale individual illegal trade operators who buy the goods from Indian villages and sell them in the local market. Most of the petty traders informed that their profit is now much lower than what they used to make in the early 1990s.

The traders also mentioned that when there is a 'crisis' for a particular commodity in Bangladesh they can make good profit. But these opportunities are very limited. Besides with the beginning of any crisis huge quantum of importable starts flowing in which reduces the profitability of 'business' within a very short span of time.

A popular notion among the local traders is that smuggling used to yield a large amount of profit which is not realized right now. Thus a 45-year old Rahmat Ali of Khansutharpur union of Daulatpur thana says, "This is no more smuggling; what we do now is business".

Source: Field Report by the Field Officers, February, 1998

### Yearly Inflow of Illegal Imports by Broad Product Group By Surveyed Thana

Broad Product Group	Shibganj	Sharsha	Daulatpur	Comilla	Kamalganj	Total
Livestock, Fisheries and Poultry	1176.18 (69.72)	860.68 (22.3)	1166.13 (69.60)	146.98 (18.68)	62.77 (6.81)	3412.74 (41.01)
Agricultural Products	267.72 (15.87)	324.96 (8.41)	68.33 (4.10)	19.51 (2.48)	166.80 (33.77)	847.32 (10.18)
Processed Food	136.07 (8.10)	421.76 (10.92)	82.89 (4.94)	48.87 (6.21)	21.14 (8.81)	710.73 (8.54)
Textiles	44.3 (2.63)	1510.61 (39.10)	198.1 (11.81)	287.93 (36.60)	10.11 (3.26)	2051.05 (24.64)
Cosmetics and Toiletries	1.66 (0.09)	68.44 (1.77)	6.85 (0.4)	116.87 (14.85)	1.01 (0.3)	194.83 (2.34)
Cookeries and Utensils	(-)	(-)	(-)	20.59 (2.62)	6.56 (2.11)	27.15 (0.3)
Electrical Goods	12.44 (0.7)	(-)	27.87 (1.67)	48.34 (6.13)	10.16 (3.27)	98.81 (1.09)
Transport Items	40.56 (2.40)	86.28 (2.23)	83.91 (5.01)	16.81 (2.14)	5.58 (1.77)	233.14 (2.80)
Other Consumers Goods	2.52 (0.1)	2.52 (0.06)	3.11 (0.21)	0.69 (0.08)	0.81 (0.2)	9.65 (0.1)
Miscellaneous Items	5.47 (0.3)	5.47 (0.1)	35.6 (2.12)	88.32 (11.22)	25.22 (8.13)	160.08 (1.92)
Total	1686.92 (100.0)	3862.92 (100.0)	1675.54 (100.0)	786.90 (100.0)	310.20 (100.0)	8322.48 (100.0)

Note: Figures in parenthesis gives the percentage of the column total.

Source: Field Survey (1998)

### Illegal Import and Export through the Surveyed Centres

Centres	Value of Illegal Import (Million Tk.)	Value of Illegal Export (Million Tk.)	Illegal Export as % of Illegal Import
Shibganj	1686.92	424.82	25.18
Sharsha	3862.92	1028.98	26.64
Daulatpur	1675.54	345.71	20.63
Comilla Sadar	786.90	43.12	5.48
Kamalganj	310.20	39.51	12.74
Total	8322.48	1864.07	22.40

Source: Field Survey 1998

were being used for the settlement purpose. In fact, it was perceived that a significant proportion of remittance earned by the Bangladeshi workers abroad are being used to settle the imbalance in informal trade. This is a great cause of concern for the country and there exists sufficient scopes for intervention in this arena.

We need a more efficient banking system to control the hundi business. The hundi traders are now so efficient that they remit the money to Bangladesh on the same day. But on the other hand, banks make delays which also encourages the workers to go to the hundi traders.

On the other hand, Taka is now much appreciated compared to its real value. This has to be addressed too. We also have to be watchful about the Indian tariff situation, because it may raise tariff on luxury goods following imposition of the sanction. This will again encourage smuggling of luxury items from Bangladesh.

Razzaque: Dependence on the Indian economy has been increasing and since 1993-94, it has become the major formal exporter to Bangladesh. Besides the health of our own, noting a 30 per cent fall in agricultural exports to the region that has hurt our farm communities.

One of the reasons that growth moderated in the second quarter is because we are feeling the direct, discernible effects of the Asian economic downturn. Clinton said before calling on Congress to approve an additional 18 billion dollars for the International Monetary Fund.

Having committed some 35 billion dollars in financial assistance for Thailand, South Korea and Indonesia, the IMF has said its resources are now dangerously low.

Rahman: To reduce the trade deficit, Bangladesh has to find out ways to enhance her exports to India. Withdrawal of all quantitative restrictions and non-tariff barriers on Bangladeshi exports may help a lot in this regard. In fact, bilateral trade negotiations and various policy measures, both at the domestic and regional levels, may be launched in order to solve this problems of trade deficit.

Razzaque: Often it is argued that an appreciated Taka vis-a-vis Indian rupee is the main reason for the huge bilateral trade deficit between Bangladesh and India. But this may not be such an important factor at all.

Rahman: I don't think devaluation can help reduce Bangladesh's trade deficit with India substantially. Although Taka is appreciated compared to Indian rupee there are studies that have found that an appreciated Taka was not the main factor behind trade imbalance. The IRBD Report 1997 conducted by the Centre for Policy Dialogue has also correctly identified the size, diversity and technological maturity of Indian economy as the most important contributing factors behind Bangladesh's enormous trade deficit with India.

In some cases, the policies of the Indian government have also acted as the boost for their industry and exports. Devaluation will not help much unless we can expand and diversify our export base. If the domestic supply curve is inelastic in nature, devaluation may not help increase export earnings.

The All Ordinaries Index fell 30.8 points, or 1.13 per cent, to 2,673.8.

**TAIPEI:** Share prices closed lower amid lingering concerns over regional economies. The market's key Weighted Stock Price Index fell 23.64 points, or 0.3 per cent, to 7,599.04.

**WELLINGTON:** New Zealand share prices closed lower, with brokers saying the market suffered from falls on overseas markets and a rise in local short-term interest rates. The NZSE-40 Capital Index fell 18.26 points, or 0.8 per cent, to 2,104.05

**SINGAPORE:** Shares closed mixed, but the key index rose on last-minute institutional buying in index-linked stocks. The Straits Times Industrial Index rose 10.56 points, or 1.0 per cent, to 1,074.76.

**JAKARTA:** Share prices closed lower in line with regional markets. The Composite Index fell 6.459 points, or 1.3 per cent, to 475.258.

### Clinton for okaying IMF fund

## US suffering effects of Asian financial crisis

WASHINGTON, Aug 3: President Bill Clinton yesterday warned that the United States was now suffering the "direct, discernible effects" of the Asian crisis and pressed Congress to approve additional money for the IMF, reports AFP.

Clinton nonetheless told reporters the US economy "continues to enjoy steady growth" despite a sharp slowdown to 1.4 per cent in the second quarter from 5.5 per cent in the first.

"Wages are rising, investment and consumer confidence remain high, unemployment and inflation remain low, he told reporters gathered at the White House.

"Prosperity and opportunity abound for the American people." But the president also cautioned that "the health of the Asian economy affects the health of our own," noting a 30 per cent fall in agricultural exports to the region that has hurt our farm communities.

"One of the reasons that growth moderated in the second quarter is because we are feeling the direct, discernible effects of the Asian economic downturn. Clinton said before calling on Congress to approve an additional 18 billion dollars for the International Monetary Fund.

Having committed some 35 billion dollars in financial assistance for Thailand, South Korea and Indonesia, the IMF has said its resources are now dangerously low.

"We have to grow this economy by selling things to other people," Clinton argued. They need the money to buy our products. That is why Congress should step up its responsibility, put progress ahead of partnership and renew our commitment and pay our fare share to the IMF.

Washington, Aug 3: The Pabna Sugar Mill authorities have brought 13,800 acres of land under sugarcane cultivation during the current season, reports UNB.

### Pabna Sugar Mills brings 13,800 acres under cultivation

The authorities expect a production of 12,480 metric tons of sugar this year from 1.56 lakh metric tons of sugarcane.

The mill incurred a loss of Tk 11 crore last year, the sources added.

The authorities have disbursed a loan of over Tk three crore so far among 12,500 contact sugarcane growers in all the eight zones of the mill.

Of the total, some 1,079 acres of land have been brought under sugarcane cultivation in Atakula zone, 1,750 acres in Shanthia zone, 1,000 acres in Sadar thana sub-zone, 3,193 acres in mill gate 'A' sub-zone, 2,186 acres in mill gate 'B' sub-zone, 2,200 acres in mill gate 'C' sub-zone and 1,000 acres in Sujanager zone.

### Iran vows fundamental economic revamp

TEHRAN, Aug 3: President Mohammad Khatami pledged to aim for a fundamental revamp of Iran's economy on Sunday as unveiled his policies to attract foreign investment and fight unemployment and inflation, reports AFP.

Khatami, quoted by state-run radio, warned that the Iranian economy was "chronically ill."

This will continue to be so unless there's fundamental restructuring," said the President, who was speaking on the eve of his inauguration.

He pledged to try to attract foreign investment, introduce bureaucratic reform and fight unemployment and inflation.

"We will try to create jobs by boosting production and productivity as well as removing regulations which inhibit investment," Hatami said. "We will also fight inflation to increase our people's purchasing power."

The President also vowed to "create security" for investment, and to try to attract foreign capital, notably those owned by Iranian expatriates, up to a million of whom live in the United States, most from well-to-do families.

He said his government would ease red tape, introduce

tax reform to try to raise productivity. He would also give a stronger role to the private sector and ease the state monopoly in the economy.

Iran has been facing an economic crisis because of a sharp drop in oil prices to around 10 dollars a barrel. This year, it is expected to face a revenue shortfall of six billion dollars, or around a third of the budget.

But Khatami promised to try to boost non-oil exports to ease reliance on crude exports, which make up nearly 85 per cent of the country's revenues in hard currency.

He also promised to continue subsidising basic goods, such as medicine, saying "social equity has precedence over production growth."

The inflation rate is officially put at 20 per cent, but independent sources estimate it at around 40 per cent. The official unemployment rate is 11 per cent, but it is as high as 20 per cent in poorer regions of Iran.

The country also faces a foreign debt of around 13 billion dollars, a large chunk of which the country has to pay with interest each year.

The president called for the public to be patient with his government while it tried to address economic problems.

# Most Asian stock markets close sharply lower

HONG KONG, Aug 3: Most Asian stock markets closed sharply lower Monday, with the key index tumbling 4.8 per cent in Hong Kong because of bad news both from abroad and at home, reports AP.

The Hang Seng Index, the Hong Kong market's key indicator, of blue chips, fell 383.43 points, closing at 7,552.77. The loss followed drops of 3.89 per cent last week and more than four per cent the previous week.

Traders blamed a sharp fall on Wall Street, the weakness of the Japanese yen resulting from uncertainties about the new government of Prime Minister Keizo Obuchi, and concerns about the domestic economy.

The US dollar hit a seven-week high of 145 yen Monday in Asia. The Dow fell 143.66 points on Friday.

After the market closed, the Hong Kong government reported that the economy shrank by 2.8 per cent in the first quarter, revising an earlier estimate of a 2.0 per cent contraction.

Giant HSBC Holdings, Hong Kong's leading bank, also announced that its net profit fell 16 per cent to US 2.40 billion dollars in the first half of this year. HSBC accounts for a third of the weight of Hong Kong's benchmark stock index.

The Kuala Lumpur Stock Exchange's Composite Index fell 16.38 points, or 4.1 per cent, closing at 386.27.

In Tokyo, share prices fell on profit-taking. The Nikkei Stock average lost 213.89 points, or 1.31 per cent, closing at 16,165.08.

In the previous four trading days, the Nikkei index had gained a total of 434.61 points, or 2.8 per cent, including Friday's gain of 177.37 points, or 1.09 per cent.

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**SYDNEY:** Australian share prices closed lower, although the fall in the index wasn't severe as some had feared after Friday's losses on Wall Street.

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A money dealer sends a hand signal as the US dollar against Japanese yen rises at the Tokyo Foreign Exchange on Monday.

### Indian share prices up

BOMBAY, Aug 3: Indian shares are expected to be lacklustre this week as domestic trader sentiment continues to be depressed, an analyst said yesterday, reports AFP.

The 30-share Bombay Stock Exchange Sensitive Index was up 40.01 points or 1.26 per cent, to 3,211.31 points, at close of trade Friday over the previous week's close.

The national index, tracking 100 shares were up 19.82 points, or 1.41 per cent to 1,416.67 points.

Analysts Devesh Kumar at foreign brokerage ABN Amro Equities, said: "The market is expected to be lacklustre next week. Most of the quarterly results of the key companies are in so nothing major is expected on that front.

"Foreign portfolio investors will be active only marginally," he said.

Kumar said the market was expecting the Hindu nationalist-led coalition government to take some major economic decisions to shore up the economy, hit by a slowdown, next week but added that it would not have an effect on the market sentiment.

The only positive thing next week is that the parliament session gets over. This will enable the government to announce some of the economic measures that the market has been waiting for.

Domestic trader sentiment is not upbeat, so the index is expected to fall about 50 points over the week," he said.

### Exchange Rates

**American Express Bank Ltd** (foreign exchange rates (indicative) against the Taka to clients)

Currency	Selling TT & OD	Buying TT Clean	Selling EC	Buying OD Sight	Buying TT & OD
USD	47.3050	46.9100	47.3450	46.7570	46.6850
GBP	77.5565	76.3929	77.6221	76.1438	76.0265
DEM	26.6958	26.3199	26.7184	26.2341	26.1937
JPY	0.3280	0.3228	0.3283	0.3218	0.3213
FRF	8.0205	7.7937	8.0273	7.7682	7.7563
SAR	12.6467	12.4731	12.6574	12.4324	12.4133
MYR	11.4054	11.2289	11.4150	11.1923	11.1751
AED	12.9164	12.7366	12.9273	12.6950	12.6755
KWD	159.3297	147.9811	159.4645	147.4984	147.2713
QAR	13.0328	12.8496	13.0438		