

Should Taka be Made Fully Convertible?

In recent months, there has been some discussion among the policy makers regarding the desirability of full currency convertibility in Bangladesh. The Taka is now convertible in current accounts only. The government has yet to make the currency convertible on the capital account. One of the ultimate objectives of exchange rate liberalisation is to make the domestic currency fully convertible so that the economy can attract cheap foreign capital. The question that needs to be asked at this point is how desirable is it to make the Taka convertible on the capital account. I would argue that, given the current economic condition in Bangladesh, full currency convertibility is not a viable option, at least not in the foreseeable future. Such convertibility requires, among others, a reasonably developed financial sector, a mature capital market, and an efficient banking sector. None of these conditions are currently present in our economy.

It would take a significant amount of time for the economy to develop the necessary safeguards against the negative shocks associated with full currency convertibility. In the absence of such safeguards,

By aligning the currency with the underlying economic fundamentals in the country, which are transparent to both policy makers and investors, the Bangladesh Bank would be able to negate any upward or downward pressure on the value of Taka. Such policy would also reflect the flexibility of the exchange rate policy. This, among others, would help to discourage foreign investments that are purely aimed at arbitrage opportunities.

Bangladesh can face the same unpleasant economic problems experienced in several other developing countries that embarked on a similar path of full currency convertibility.

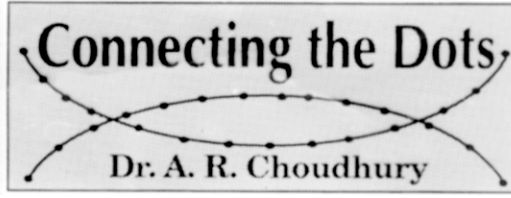
The immediate task of the government would be two-fold. First, to initiate a process by which the necessary conditions for introducing full currency convertibility could be established. This would understandably be a long-term process. Second, to manage the exchange rate in the interim period. The remaining section of the article deals with the policy issues relating to the management of the exchange rate in the years to come. Such an exchange rate policy should facilitate the inflow of foreign capital as well as raise the level of domestic economic activity. In other words, the policy should be pragmatic as well as transparent. This would not only establish the credibility of the government

in maintaining the real value of Taka, but also help in its initiative in eventually making the Taka fully convertible. Currently, a downward pressure on the value of Taka clearly exists. This can be attributed, among others, to the rising cost of production due to the inflationary pressure in

several years. Given this background, a possible scenario would be the adoption of the 'managed floating' system by the government. This would be done while the government is preparing for full currency convertibility. The 'managed floating' system is currently practised in several developing

2001-2002 fiscal year. Major economic indicators, such as, trade balance, domestic inflation rate, growth rate of economic activity, etc., can be used to set the target rate.

By aligning the currency with the underlying economic fundamentals in the country, which are transparent to both policy makers and investors, the Bangladesh Bank would be able to negate any upward or downward pressure on the value of Taka. Such policy would also reflect the flexibility of the exchange rate policy. This, among others, would help to discourage foreign investments that are purely aimed at arbitrage opportunities. Moreover, the regular review of the external value of Taka would help to minimise the shocks to the country's economy when and if the Bangladesh Bank decides to adjust the target rate. During the fiscal year, the Bangladesh Bank would maintain a stable



the economy, the large amount of bad loans in the banking sector, and the subsidies provided to the state-owned banks and enterprises. However, a devaluation would not only be politically undesirable but would also undermine the foreign exchange reform that has been initiated during the last

countries including Singapore. Under this system, the Bangladesh Bank could announce a target rate of change of Taka over a given period, say, one fiscal year. For instance, given the current economic condition in Bangladesh, the Bank could announce a certain percent depreciation during the

Taka by letting the currency fluctuate within a narrow band. During periods when the change in the value of Taka rises above the target range, the Bangladesh Bank would respond by selling Taka and buying foreign currency in the foreign exchange market. On the other hand, the Bank would buy Taka and sell foreign currency anytime the change in the value of Taka falls below the target range. Policy authorities in a number of countries in the Asia Pacific Region, such as, Malaysia, the Philippines, Singapore, Thailand and China, have either adopted the 'managed floating' system or are seriously considering its adoption. Given the political, social, and economic linkages being established by the Awami League government with various countries in this region, it would only be prudent that the government follow policies which are consistent with those undertaken by our economic partners.

The Ministry of Finance and the Bangladesh Bank can explore the possibility of initiating such an exchange rate policy as a prelude to the full convertibility of Taka, which for all practical purposes is not likely to happen within the next few years.

Bush Administration and the Korean Peninsula

NORTH Korea, in its first official reaction to a comment attributed to new American Secretary of State Colin Powell about its leader Kim Jong Il, described the remarks of new man at the State Department as "reckless". North Korea also expressed its doubts whether the new US administration will encourage the peace process in the Korean peninsula like the Clinton administration did. This is the first sign of a rupture between Washington and Pyongyang after two hostile nations were showing signs of improvement in their ties. The new US secretary of state said the other day that 'the North Korean leader is a "dictator" and America cannot relish such a situation'. True, Washington will not admire a one-party system but the differences are well known and of late the ties are being marked by improvement despite their differences. North Korea as unwarranted and a signal of departure see the comment from the policy of Bill Clinton and his secretary of state Madeleine Albright.

The sea-change that is taking

The approach of the new US administration may cloud the prospects, and the reaction of the North to the comment of the Colin Powell is an indication towards that direction. President George W. Bush has also spoken to South Korean president over phone on the situation in the Korean peninsula. While it is likely that the Bush administration will not make any sudden departure from the policy of the previous administration, it is also possible that it will not totally toe the line of the Democrat government.

place in the political climate in the Korean peninsula, since the first ever summit between two rival Koreas in June last year, continues in different form much to the hope that this may eventually remove one of the most dangerous international flash points still afflicting global peace and stability. Former US secretary of state Madeleine Albright's visit to North Korea three months ago and her talks with the reclusive leader of the country Kim Jong Il was the first ever an American high official met the chief of the Stalinist nation. Such a meeting appeared remote even when Korean reconciliation process began but the developments in the region in the form of contacts between the two rival Koreas made rather inconceivable things possible. Albright had discussed with the North Korean



leader the sensitive issues that have kept two sides at poles apart over the last 50 years.

The United States was a party in the Korean war from 1950-53 and the North was in the opposite side along with China and other socialist countries. The war has not ended officially except a peace formula was reached and as a sequel to the situation. Tensions and war-like conditions prevailed between the two Koreas till mid last year. American troops are also stationed in South Korea to help

Seoul in the event of any war. Now they are discussing reconciliatory issues to relax tensions and possible re-unification of the peninsula. This began from the summit of their leaders in Pyongyang and the trend continues despite occasional hiccups.

Koreas have moved further towards their reconciliation since the historic summit heralding a new era of relationship reversing the process of hostility and animosity. Defence ministers of South and North Korea have agreed to ease military tensions, for the first time since the peninsula was divided in 1945. No specific military measures were announced to ease the tensions. But what is significant is that South's defence minister Cho Sung-Tae and the North's armed forces minister Vice Marshall Kim Il Chol held "sincere talks" in their important meeting in resort island of Cheju in South Korea a few months ago. Both sides acknowledged that the meeting went off very well and the spirit was to lessen tensions as far as possible and work towards the eventual reconciliation and reunification of the two Koreas. Indeed, this has been a remarkable development.

There has been a series of positive developments since the landmark first ever summit of the two Koreas on the issue of relaxation of tensions and as a fall out to the positive development, the United

States has formally eased sanctions against Pyongyang. There has been marked softening of the attitude in both Seoul and Pyongyang. People in the divided Korean peninsula are being swept by a fever of reconciliation which many of them believe will eventually lead to reunification of two Koreas.

Two Koreas, also known as the Democratic Peoples Republic of Korea (DPRK) and the Republic of Korea (ROK), have remained as a source of tension and intense enmity since the second world war and little progress could be made towards a thaw in their ties until the glimmer of hope led to the summit. South Korean President Kim Dae-Jung and his north Korean counterpart Kim Jong-Il held the summit in north's capital Pyongyang belying all scepticism. This has been most remarkable attitudinal development in the international relations in contemporary times. None should be under any illusion that one summit will wash away all the bitterness and rivalry between the two Koreas overnight or only peace and goodwill will be the order of the day now in the Korean peninsula. Reality is that it will still be a long way to reach a real peaceful environment in the region. After all, it took East and West Germany 20 years to reunite after the first summit between their leaders in 1970. The mistrust and hatred in the Korean peninsula are deeper than that of Germany in many ways and no one should expect that they will disappear quickly.

But a qualitative change has taken place and the trend of goodwill continues. No one should expect that the 37,000 American

troops stationed in South Korea to face the larger military strength of the North will leave shortly or the belligerent postures would also totally be unhealed. Nonetheless, the first summit between the DPRK and the ROK was a great occasion and progress being made towards peace in the post-summit days is also not disappointing. Now, the Koreans are going for the second summit and this time the North Korean leader in coming to the South. This is expected any time within the first half of the current year. Seoul and Pyongyang are in touch over the arrangement of next summit.

However, the approach of the new US administration may cloud the prospects and the reaction of the North to the comment of the Colin Powell is an indication towards that direction. President George W. Bush has also spoken to South Korean president over phone on the situation in the Korean peninsula. While it is likely that the Bush administration will not make any sudden departure from the policy of the previous administration, it is also possible that it will not totally toe the line of the Democrat government. During the election campaign Bush had given indications that his policy towards Korean peninsula and China vis-a-vis Taiwan could be different. Now that he is the president and getting down to business, new administration is expected to demonstrate its own policy albeit slowly. The comment of new secretary of state can be seen in that line.

However, the United States is also unlikely to rush a change in the policy since the Korean reconciliation is being unappreciated in both the Koreas as well as by most Americans. Hopefully, the process will not be scuttled badly because the fresh wind of peace and friendship in one of the major international flash points needs to keep blowing.



Guarding the fence: Past animosity needs to be removed

Grabbing a Piece of the American Dream

by Anees Jillani

It has been years since I have written a personal letter to someone. We sometimes do not realize that how computers have revolutionized our lives in just a decade. I now cannot imagine living without emails and it is for this very reason that I keep pleading with my parents to start using a computer. Despite having a modern outlook, they refuse to comply which is not surprising since they, just like my wife and children, usually do the opposite of what I suggest to them. I have a friend whom I lovingly call Shahjee. No one has been able to figure it out as to why I call him that including myself. Anyway, Shahjee liked me so much that he

built a house next to mine but eventually got so frustrated with what he calls the Land of the Moustache (why do 98 per cent percent of the Pakistani males have moustache?) that he left for what you guessed right: Saudi Arabia. He is working for the Americans but keeps crossing days on his calendars to go out for vacations. The rest of the time he is sending emails to his circle of friends in Pakistan. And I must acknowledge that he has an excellent taste and his emails are always classy and tasteful.

Mercifully, he does not indulge in the political stuff but he sent me an email the other day that I found extremely intriguing and must

share with you all. According to Shahjee, there are presently 3.22 million Indians in the United States; they constitute 38 percent of the total number of medical practitioners in America; 12 percent of the scientists; 36 percent of the NASA employees; 34 of Microsoft employees; 25 percent of the IBM employees; 17 percent of INTEL employees; and 13 percent of Xerox employees.

According to the latest report in the Fortune Magazine, Aziz Premji, Chief Executive of Wipro is the third richest person in the world; the Sultan of Brunei is at the sixth position. Saabeer Bhatia is the founder and creator of the Hotmail, which is the world's num-

ber one web based email programme. Vinod Dahm is the creator of Pentium Chip on which 90 percent of the world's computers run. Vinod Khosla is the co-founder of the Sun Microsystems which has swept the internet with its brainchild, Java. The Chief Executives of Citibank, Mckensey and StanChart are Victor Menezes, Rajat Gupta and Rana Talwar respectively. Shahjee also sent me a list of about 30 American Corporations that have Indians as the Chief Executive Officers. These companies include names such as AppNet America Online, General Dynamics Corporation, Discovery Communications, Bell Atlantic, Cable and Wireless, Motorola, MindBank, US Airways, Atlas Air, HSBC, United Airlines.

If you still wonder after digesting all of the above information as to why President Clinton spent six days in India and six hours in Pakistan, then we have a communication problem. Hillary Clinton is contesting elections for the Senate from New York and relying on the Indian support; she had the nerve to return money to a Muslim organization. It is no secret that President Clinton had told Vajpayee that India has an Ambassador in the White House itself in the shape of Hillary. She fell in love with India after visiting it in 1995 with her daughter. She recently took her husband to the home of Sant Singh Chatwal, a hotelier, in New York at an exclusive dinner which was only attended by 25 high fliers

from the Indian American community.

With wielding so much economic power, it should not be surprising that ten Indians made it to the Republican Convention and eight attended the Democratic one in Los Angeles; one Ramesh Kapur is a trustee of the Democratic National Convention. Recently, Indians raised \$ 600,000 for Al Gore's campaign; the \$ 50,000 per couple dinner fund raiser was hosted by Saabeer Bhatia in his home. There is of course no doubt that there are success stories relating to the Pakistani Americans also but unfortunately they until now cannot match the clout of the Indians in the world's most powerful nation. Jhumpa Lahiri won this year's Pulitzer Prize for her book, the Interpreter of Maladies. The movie, the Sixth Sense, was produced by M. Night Shyamalan; another movie, presently quite successful, the Cell, is also directed by an Indian.

I have more of this kind of material but I hope that I have made my point. I am happy for the fact that fellow South Asians have been so successful in the Land of the Toughest Competition but I would have been happier and proud if Pakistanis had been so successful. In fact, if people know of such success stories relating to Pakistanis, then they should share it with their compatriots.

Not everything associated with India, however, is so successful. Just recently, a paper of the Indian

always quick to blame a motorized vehicle and sympathize with the victim. We demand driving permits from drivers of cars and buses, but we allow persons with no road sense to pull rickshaws through busy roads. Most rickshaw pullers are from the villages, who have never seen Dhaka, let alone use its roads. They cannot read the road signs, have a vague idea about traffic rules and are completely bewildered in a busy city. They take suicidal turns in front of speeding vehicles, make the most audacious moves and carry any number of passengers. Since rickshaw pullers gain momentum after

driving it for some distance, they are reluctant to put on the brakes. They often go the wrong way, and maneuver recklessly at intersections. They are excused on the plea that they have to pull the rickshaws manually.

The road in front of New Market was made one-way, but then someone decided to allocate a separate lane for rickshaws. Now the rickshaws occupy their designated lane as well as the main road!

We must decide whether we will allow this inhuman means of transport from the Dark Ages, putting people, especially women and children at risk. Many coun-

tries around us like India, Sri Lanka and Myanmar have abolished rickshaws and we can do so too. Let's have more buses, circular trains or underground trains. Let us walk more. The government and the NGOs can help rickshaw-pullers find alternative means of income. The possibilities are endless, all that is required is vision and the will to change.

If this is not possible, let us remove fast vehicles from the roads and let the rickshaws rule the roads.

Anisur Rahman
Dhaka.

To the Editor ...

Cause for shame

Sir, I feel ashamed when an impolite male behaves disgustingly with a girl or when a man in religious garb forces a an unjust marriage upon an innocent rural girl. I feel ashamed when a man who calls himself a husband tortures his wife mentally and physically to exact a dowry. I feel ashamed, when an insolent man attacks a solitary woman like a beast. I feel ashamed, when a cowardly man burns the beautiful face of a girl by throwing acid on her because she has refused to marry him. As a man, I feel a great sense of shame, when another

man commits misdeeds like these because as a man, I am no different, physically, from an ordinary man.

Shamim Ansary Sumon
Savar, Dhaka

Rickshaws Rule the Roads

Sir, A young mother and a young rickshaw-puller were killed in a road accident recently. I had the misfortune to witness a similar tragedy in which a teenager boy was killed when his rickshaw was hit from behind by a bus, about a month ago. We are