

BB's welcome steps

Realism shouldn't be read as a sign of weakness

BANGLADESH Bank governor Dr Fakhruddin Ahmed has announced measures to tidy up the loan portfolio mess besetting commercial banks. Three things are envisaged: writing off of bad debts; a provision for legally chasing defaulters even after the write-off; and a new loan rescheduling guideline. There is nothing novel about jettisoning bad loans; rather it's a standard practice in the banking world. Debts that eluded recovery for over five years are not only bad they are even pernicious. They get reflected over the balance sheets of the banks year after year giving a false clean chit of health, even an image of profitability to them. The decision, therefore, to ease off such debts has been a step in the right direction. Overall, a big chunk of the operational time of banks hitherto devoted to paper-work on such loans will be freed up.

However, the central bank need to send out a clear message to the commercial banks that it's basically a one-off waiver of that magnitude. We support the BB's write-off provision only as an exceptional step aimed to streamline the messy fund management.

'Hate the sin, not the sinner' -- may be a commendable counsel in human affairs but insofar as the massive bank default goes, such a charitable dispensation of pardon can be suicidal for the economy.

The loan defaulters need to be placed in two categories: the wilful shirkers and those who failed to repay under the weight of genuine circumstances. There is the high profile category who have clearly identifiable assets, who splurge at home and abroad and do everything in style except repaying their debts. Yet they proverbially rise with each 'crisis'.

Why the bad loans -- is a question that needs to be addressed in the first place. Political influence peddling has been one of the major causes for the default culture. The ruling party stalwarts often weighed with the NCB managements or the directors of private banks who either had a party label or complied with requests from party high-ups to ingratiate themselves to the latter.

Added to this was the intrusive trade unionism and bank officials being in league with dubious loan applicants which were reflective of a deliberate eschewal of professionalism in the banks. Once given, there is hardly any monitoring of loans either. All of that has to go before we pile up another bad debts portfolio.

The new guideline for loan rescheduling is a fairly reasonable one. The earlier proposal to reschedule loans time and again by paying only 10 per cent of the dues on cash has been rejected. A third timer would now have to pay 50 per cent of the defaulted amount up-front to be eligible for re-scheduling his loan. This sounds reasonable. But isn't a policy as good as its implementation?

Life on chill

The affected need emergency relief

THE cold wave, which has claimed lives of a few hundred people across the country over the last few days, has made us realise once again how poor the poor and the marginalised of our society really are. They do not have basic warm clothes to negotiate the chill. While the very thought of people, old and young, freezing to death sends a shudder down our spines, what hurts even more is a lack of the society's collective endeavour to see the poor and the marginalised through the wintry spell. The prime minister has touched off a relief operation which needs to be taken forward. Many a minister has already taken a cue from her and distributed warm clothes to the homeless people in the capital. More leaders of both the ruling and opposition parties might follow suit. Unfortunately, as we have seen on many such occasions before, photo opportunities get the better of philanthropic considerations while the neediest of the needy remain outside the relief coverage.

The cold spell has also cruelly exposed our inability to plan ahead for such an eventuality. The measures have always been ad hoc rather than part of a comprehensive disaster management plan. The government appears more in the habit of acting after a problem snowballs into a crisis. No, this is not to suggest that the cold wave poses a calamity; at least not yet. However, the authorities should have anticipated the toll a cold of more-than-a-mild intensity could take on the poor. Anyway, in the immediate term, the government, NGOs and voluntary organisations should undertake a countrywide programme to collect warm clothes, new and used, from those who can afford to donate them for the needy people. In the longer term, there should be a programme to raise funds to build multi-purpose centres that can also be used as shelter-homes for the chill-bitten poor.

North Korea gets

ABDUL ALIM

TO be or not to be', the soliloquy of Hamlet, the Prince of Denmark, must have found a real life manifestation in the present day 43rd President of the United States of America Mr. George W. Bush, Jr.'s dilemma of 'must it be Iraq or North Korea'. In his final prowl to stalk Saddam Hussein or the guy who tried to kill Bush Sr, his father (a striking resemblance with Hamlet) and anxiously awaiting slightest signal from Mr. Hans Blix (of the presence of any weapons of mass destruction in Iraq) for the leap, Mr. Bush has been caught, un-predicted, in the hind leg by the North Korean dictator Mr. Kim Jong Il. The man whom Mr. Bush called 'pygmy' adding 'I loathe Kim Jong Il -- I've got a visceral reaction to this guy' may have proved worthy of his wrath by challenging US administration by reviving nuclear programme and evicting UN inspectors from nuclear installations. May be his sudden entry in the drama will prove to be a deterrent to the war hysterics of Washington.

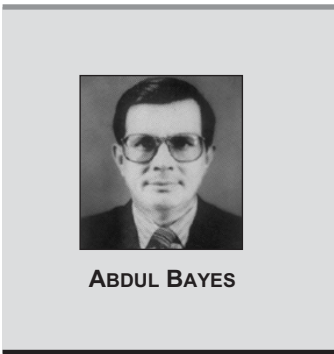
With the dawning of New Year, the world faces two immediate multi-armed crises, one in Iraq and the other in North Korea. Mr. Bush's decision to call up military reserves, the cancellation of his January trip to Africa, the dispatch of a large Navy

hospital ship to the Indian Ocean to stand by near Persian Gulf, not to mention the continuing buildup of combat forces in the region, all indicate that Washington does not at all believe in the diplomatic exercises being practiced by the UN Security Council. Nor the findings of the UN inspectors, tolling in Iraq to find out presence of any WMD (weapons of mass destruction), will have any relevance to the US intent. Empowered by the US Congress and under the doctrine of pre-emption, the US can attack countries it thinks might support terrorism, whether or not they have actually done so. And who decides whether to attack? Here is what Mr. Bush says: "You said we're headed to war on Iraq. I don't know why you say that. I'm the person who gets to decide, not you". That settles it!

Mr. Bush thinks Saddam Hussein is a bad guy -- and that amply makes a potential target to bomb Iraqis, no matter what he would do or has done. No need to prove whether Mr. Hussein has links with Bin Laden or not. It is irrelevant and so is UN or for that matter, world community!

North Korea's entry into the drama has unsettled the equation and is an uncalled for distraction in Mr. Bush's design on *Iraqi oil and geo-political attraction of the region*. The pre-occupation of Bush administration with Iraq has prompted a low-keyed response to arrogance of

The diesel-driven dilemma



ABDUL BAYES

THE price of diesel has been raised recently. It is the second time -- during its tenure of twelve months or so -- that the present government resorted to a rise in fuel price. Generally (and historically too) two arguments are placed to justify the action. First, a lower price of diesel in Bangladesh encourages smuggling of the product to India where the diesel price is reported to be relatively high. Second, a rise in international price of diesel, unless covered by a rise in the domestic price, could cost the exchequer in terms of subsidy.

We would like to argue that none of the above mentioned premises seem to hold water in the context of Bangladesh. First, if relatively lower price of diesel in Bangladesh results in smuggling, then why is not kerosene oil being smuggled into Bangladesh in the face of relatively higher price in Bangladesh compared to India? Again, large scale smuggling of this sensitive item would necessitate large number of lorries and trucks to carry the product on the other side of the border. Is it possible to do the job in the presence of customs and security forces? If for argument's sake we suppose it to be what is in fact happening, then the whole gamut is a question of governance where the government should raise efficiency of the border security personnel rather than the price of diesel.

recent rise in diesel price would reduce the competitiveness of Bangladesh agriculture (especially boro paddy) vis-a-vis India by raising the costs of production and reducing farmers' net profit.. Newspaper reports are already running galore on the adverse impacts of a hike in diesel price across the country specially on agriculture. Farmers have already been facing 30-40 per cent rise in irrigation costs on account of the recent rise in diesel price.

In this context, perhaps, the most pertinent is a paper by Dr Mahabub Hossain and Uttam Kumar Deb, presented in seminar organised by the Centre for Policy Dialogue (CPD) recently. The authors deliber-

ated on the impact of trade liberalisation on Bangladesh agriculture, especially on crop production. According to the authors, the variable cost of production per unit of output is the lowest for Punjab in India followed by Vietnam and Thailand. And as we already know, the cost of boro cultivation is higher than aman due to its heavy reliance on inputs especially diesel and fertilizer. Of course, the cost of production compares favourably with the nearest neighbour West

higher than that of Thailand and Vietnam and 15-20 per cent higher than the Indian State of Punjab and Andhra Pradesh. Now this higher margin at farm-gate should not lead one to raise the fuel price because of a non-negative net profit. In Thailand, for example, the average size of holding is 5 ha. compared to 0.68 ha in Bangladesh. Thus, Thai farmers could keep prices low but ,at the same time, keep family income up. On the other hand, a marginal fall in farmers' income in

these two taken together, go to determine the level of crop yield. For rice yield, Bangladesh is not lagging behind others and there is substantial scope for raising the yield rate and thereby reducing the cost of production.

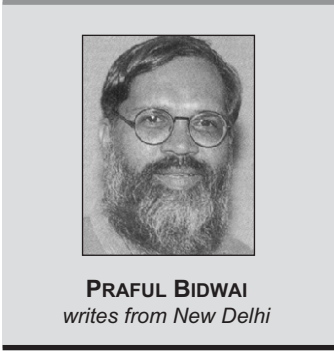
But the most important factor is the cost of the prices of inputs. The price of urea is about one-third lower in India. However, difference in prices in this respect would not make much a meaningful difference in cost of production since fertilizers

Thailand and six per cent in Vietnam. Irrigation cost is \$32/ha in India, \$51/ha in Bangladesh, \$18/ha in Thailand and \$26/ha in Vietnam. "The low cost of irrigation in other countries is mostly due to subsidised supply of electricity (India) and the subsidised public sector investment in the construction and the operation and maintenance of large scale irrigation projects. In Indian Punjab electricity is provided free for tube well irrigation and the farmer is also provided free water from irrigation canals. *In Bangladesh, the major source of irrigation is the privately owned shallow tube wells and power pumps mostly run by diesel . The diesel has now become a major agricultural input in the cultivation of boro rice and the cost of boro cultivation is very sensitive to the price of diesel*" (Italics are mine).

It is in view of the above mentioned realities that the price of diesel should not have been raised. If the international market price is up, the price should remain as it is and the government should take back the bucks during a slump in the international market. That would leave the exchequer unaffected in terms of subsidy. Secondly, if the neighbouring country India could subsidise agricultural inputs and hence attain competitive edge, then Bangladesh government should explore alternatives to be on a level playing field. Otherwise, in future, we suppose, cheaper diesel will be smuggled out to swell Indian market -- as argued by policy makers -- and cheaper rice will be smuggled in to swell Bangladesh. The dilemma seems to be purely diesel driven where a rise in the price of diesel would deteriorate the disease.

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Creating the nuclear command : India courts insecurity



PRAFUL BIDWAI
writes from New Delhi

WITHIN a week of Gen Pervez Musharraf's chilling disclosure that he would have unleashed "unconventional war" -- presumably with nuclear weapons -- had even one Indian soldier crossed the border during the recent 10-months-long standoff, India's Cabinet announced the formation of a Nuclear Command Authority (NCA) and the appointment of a head of the Strategic Forces Command.

This will sharpen India-Pakistan hostility and heighten the South Asian nuclear danger.

Three elements of the NCA and the official "nuclear doctrine" are significant. First, like the 1999 "Draft" of the National Security Advisory Board, it emphasises a "credible minimum deterrent", with which India will inflict "unacceptable damage" upon adversaries.

The "deterrent" is highly ambitious and open-ended. The US frowned on the original "Draft" (which is why it was never officially adopted). But post-9/11, it relented. This, besides Pakistan's nuclear sabre-rattling, explains the announcement's timing.

Second, the new decision dilutes India's no-first-use (NFU) commitment. New Delhi will retaliate with nuclear weapons against "a major attack against India or Indian forces anywhere" -- made even with "biological or chemical weapons".

India is emulating the US's December 2002 "National Strategy to Combat Weapons of Mass Destruction". Disproportionate nuclear retaliation will kill lakhs of non-combatant civilians, against the

Nagasaki.

Clearly, India -- which for 50 years regarded nuclear deterrence as a strategic folly and moral-political perversity -- is preparing for actual *nuclear war-fighting* by assembling all the components of a full-fledged arsenal.

This is the *operative* part of the new decision. The rest -- "strict controls" on nuclear-related exports and commitment to a "nuclear weapons-free world" -- is largely

India-Pakistan relations are today at a historic low -- worse than during the 1971 war. They have no direct surface or air links, nor normal diplomatic relations.

Both indulge in abusive exchanges. India condemned Gen Musharraf's December 30 "disclosure" as "highly dangerous" and "provocative" and used it to dismiss any "forward movement" in relations with Pakistan.

However, Defence Minister

The Vajpayee government couldn't get Pakistan to stop supporting militants in Kashmir -- despite lobbying with the US and the recent standoff. The Musharraf government feels frustrated that it cannot get India to discuss Kashmir...This combination of compulsion and frustration is potentially fatal. If India and Pakistan don't prevent their own descent into the Nuclear Abyss through bilateral talks, they will invite external mediation. ..However problematic, won't such intervention be preferable to Nuclear Armageddon?

few hundred soldiers which chemical or biological weapons usually kill.

Third, only the NCA's Political Council, chaired by the Prime Minister, can authorise a nuclear strike. The Executive Council (EC) will only provide decision-making "inputs".

However, the new structure will facilitate *greater* involvement of the military. The EC will probably include services personnel advising on security threats. They will be given technical information about nuclear weapons by the concerned atomic engineers.

Civilian control is doubtless preferable to military control. But it doesn't guarantee responsible decision-making. A democratic government ordered Hiroshima and

retorical.

As for Pakistan, its Nuclear Command was established almost three years ago. Pakistan is believed to be more advanced than India in marrying nuclear warheads to missiles. It has a nuclear first-strike doctrine. Pakistan was at a high level of readiness to strike during Kargil and in the latest border confrontation.

Islamabad announced in 2000 that its NCA would be chaired by the Head of Government (now Prime Minister Jamali). But its nuclear programme has always been under military control. Prime Minister Benazir Bhutto had to beg the US for information on it because her own generals refused it to her. The Pakistan NCA's January 6 meeting confirms the military's control.

Fernandes on January 7 said "there will be no Pakistan left" if India attacks it. India too had nuclear-strike plans. Its just-retired army chief S. Padmanabhan confirmed: "We were absolutely ready to go to war ... [and] to cope with" Pakistan's nuclear capability.

This "coping" could only have been a retaliatory *nuclear* strike. *India Today* confirms that in January and end-May/early-June, India almost launched major conventional attacks on Pakistan. It held back under US pressure.

Then, on January 9, the *Agni* was tested. Such war preparations and high-frequency abusive exchanges, amidst intense strategic rivalry, meant that the *threshold* for an India-Pakistan nuclear confrontation has *fallen* to a new low -- probably

lower than during the Cold War since the 1962 Cuban missile crisis.

India and Pakistan recklessly foster the illusion that they can face a "nuclear" challenge, that nuclear wars are winnable, that "protection" is possible against these mass-annihilation weapons.

This is dangerous macho mythology. There are no victors in nuclear war. There is no defence -- military, civil or medical -- against nuclear weapons.

whose history is full of strategic misperception/miscalculation. Thus, each now boasts it came out "the winner" in the recent border confrontation. In reality, neither did.

Deterrence leads to an arms race. That's the experience of the Cold War.

What explains India's and Pakistan's irrational obsession with deterrence? Each government is acting under domestic compulsions, and out of frustration at its inability to get the better of the other. Both woo the US. Both have witnessed Rightward domestic-political shifts.

Following the Gujarat elections, the Vajpayee government is under Hindu-fundamentalist pressure to ratchet up its hostility with Pakistan. In Pakistan, the civilian government faces pressure from a rejuvenated Islamic Right.

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This combination of compulsion and frustration is potentially fatal. If India and Pakistan don't prevent their own descent into the Nuclear Abyss through bilateral talks, they will invite external mediation.

However problematic, won't such intervention be preferable to Nuclear Armageddon?

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vival.

One political lesson for Mr. Bush from this episode is the danger that can come from *tough talk*. When using words as weapons, a leader must be prepared to back up his rhetoric with force. Mr. Bush's branding North Korea as a member of the *Axis of Evil* in his last State of the Union message now looks like a bluff that is being called to challenge. And the outcome of Washington's diplomacy is that the Uncle Sam, the guardian angel of the world, is preparing to fight a war with a country that *might* eventually acquire nuclear weapons, while another country is *closing in on the ability to go into mass production*.

Whether they like it or not, the US administration needs to test the theory that North Korea is trying to force the United States into negotiations. That would be humiliating for the US to swallow, but in view of the absence of alternatives it would be wise policy to reverse course and engage with North Korea. However, if such a process doesn't stop the North Korean nuclear enterprise, *and quickly*, then the administration must either accept a monumental blow to the security of the United States, or prepare for a second major military adventure in Korea -- one that would take place simultaneously, or nearly so, with war against Iraq. The case of Saddam

Hussein is dwarfed by the immittance and magnitude of North Korean case. More so, the role as guardian of Uncle Sam is at stake!

The US Secretary of Defense Mr. Donald H. Rumsfeld has confirmed to the world that USA is fully capable to fight two wars simultaneously! Let us wait with crossed fingers and see how Mr. Bush wriggles out the hind leg from North Korean grip!

Abdul Alim is a businessman

Erratum
The last few sentences of the article "Rotten at the core" published yesterday should be read as--"Their pettiness can be gauged from what a treasury bench law maker-- in one of the earlier sessions of the present parliament-- unabashedly demanded as the price of his being the representative of the people. He asked for an increased pay and allowances of the MPs, their offices and residences and, of course, a duty free car every five years, and what not. Remember the chilling wish list of the MP representing some of the world's poorest lot? Will they change our fate or bring about a social revolution to rid us from our recurrent miseries? Isn't it an absurdity?"