G20 calls for freeing up world trade

AFP, *Xianghe, China*

The Group of 20 most industrialized and largest developing countries on Sunday called for greater efforts by the international community to free up trade in order to reduce poverty and ensure global economic growth.

G20 finance ministers and central bankers urged developed and developing countries to compromise in resolving their trade disputes, which are holding up progress in World Trade Organization talks.

"We agreed that a successful WTO Doha Development Round is critical for ensuring that globalization truly benefits all countries and would make a key contribution to achieving the (UN poverty reduction) Millennium Development Goals," they said in a joint statement.

Their weekend meeting in Xianghe, outside of Beijing, comes ahead of WTO trade liberalization talks in Hong Kong in December.

"We urge all parties concerned to provide the necessary political impetus to promote trade liberalization, fight protectionism, and make real progress at the WTO ministerial conference to be held in Hong Kong, China late this year with the view to concluding the negotiations by the end of 2006," they said.

The statement also said they were "committed to significantly increasing market access for goods and services, reducing trade-distorting domestic support, eliminating all forms of export subsidies in agriculture and providing effective special and differential treatment for developing countries".

The four-year-old round of WTO talks that started in Qatar has been held up by disputes on how far rich nations are willing to drop trade-distorting subsidies and tariffs, especially in the farm sector.

The G20 brings together the seven leading industrialized nations -- Britain, Canada, France, Germany, Italy, Japan and the United States -- with population giants and key developing nations such as China, India and Brazil.

Many of the G20 members are also members of the WTO.

PHOTO: AB BANK

Kaiser A Chowdhury, president and managing director of Arab Bangladesh Bank Ltd, poses for photographs with the credit officers and other senior executives of the bank at the inaugural session of a five-day 'Credit Management Training Programme' recently in Dhaka.

The economics of oil price adjustment in Bangladesh

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(Continued from Oct 16)

The main point to note here is that the substantial terms of trade shock from the oil price increase means Bangladesh has to transfer an additional $700 million for the same amount of oil import to the oil producing countries. Where will this resource come from? With limited reserves and foreign capital inflows, the resources will mostly need to come from the domestic economy and converted into dollar terms. One option is to allow the exchange rate to depreciate, which will reduce demand for imports by making dollars more expensive and increase exports by making them more profitable. The other option is to cut domestic demand, which will reduce imports and thereby maintain balance of payments stability. In reality, the policy response will be a combination of both these instruments to avoid the adverse consequences of relying only on any one. In particular, excessive reliance on demand management will hurt growth. So, the exchange rate depreciation that has happened over the past few months is an essential element of a policy response to higher oil prices. However, the exchange rate need not bear the full brunt of this adjustment. A part of the adjustment can come from lower domestic demand brought about by increasing interest rates through monetary tightening, by raising petroleum prices, and by lowering public spending.

Internal adjustment: If the balance of payments is adjusted through a combination of exchange rate depreciation, increase in domestic interest rates, and a cut in public spending, then is there any need for an increase in domestic oil prices? The technical answer is that in principle it is possible to avoid raising domestic petroleum prices, but the implications of this option can be pretty bad. Let us look at this point in some detail. The cost to Bangladesh Petroleum Corporation (BPC) has gone up by $700 million between July 2003 and August 2005. In FY03 BPC was almost loss free. So, with unchanged domestic prices, the deficit of BPC will go up by the full amount of the cost increase, which under the current exchange rate roughly amounts to Taka 46 billion or $700 million (the increase in import cost). This is equivalent to 1.3 percent of GDP and close to 50 percent of total public spending on education. Who is going to pay for this?

Several options are possible. First, the government can cut spending somewhere else. Since most current spending such as wages, pensions, interest payments and subsidies are fixed in the short term, this will require cuts in development spending (e.g. health, education, roads, water supply etc.). Second, the government can raise taxes. Given the history of weak tax collection effort, this is not a practical option in the near term. This also rules out the option of significantly reducing taxes on oil consumption. Third, the government can run higher deficits by borrowing from the private sector or requiring public banks to finance the gap in the BPC. Fourth, the government can allow BPC to pass on the cost of higher oil imports to consumers. Finally, a combination of these various instruments is also possible.

The option of not raising oil prices is a bad choice in the sense that other hard choices would have to be made with serious adverse implications for growth, inflation and poverty reduction. To appreciate this point, let us consider the use of other available options: deficit financing and expenditure cut-backs. If the government runs higher deficit to finance the losses of BPC, this will either raise interest rate and crowd out private investment by reducing the availability of credit to the private sector (with fixed money supply) or increase inflation (through bank borrowing leading to an increase in money supply). If the government finances the losses through cutbacks in development spending, this will have adverse effects on growth and poverty depending upon what programs are cut.

Based on the standard theory of public finance, the most efficient solution is to pass on the increase in the oil price to consumers. Since oil is a private good, it is most efficient that consumers pay the market price for the product. With higher relative price of oil, consumers will find ways to conserve its use. This will also help in the longer term adjustment to the reality of higher prices. Any other solution is likely to be inefficient (consumers will tend to consume too much oil at these artificially low prices), inequitable (violates the consumer pays principle for a private good), and the adverse consequences of other ways of adjustment (increase in interest rate, money creation leading to inflation, cutbacks in development spending) could outweigh any political gains from not adjusting domestic oil price.

How has the government actually reacted to the rising oil price? Between July 2003 and September 2005, the government raised domestic fuel prices in a number of incremental steps. The prices of diesel and kerosene, which are the most subsidized items, were increased thrice. First, in December 2004 the prices of diesel and kerosene were raised by three taka per liter (from taka 20 to taka 23 for both). Second, in May 2005, there was another increase of taka 2 for kerosene and taka 3 for diesel. And third, in September the price of diesel was raised by taka 4 and kerosene by taka 5, bringing both prices to taka 30 per liter. Regarding petrol and octane, the price of petrol was increased by taka 2 per liter in May 05 (from taka 33 to taka 35); by taka one for petrol and taka three for octane in July 2005; and by taka 6 and 7 for petrol and octane respectively in September 2005, bringing these prices to taka 42 per liter for petrol and taka 45 per liter for Octane. From this description it may appear that prices have been raised too many times. But what is the reality?

TO BE CONTINUED

The author is the Sector Director for Poverty Reduction and Economic Management in the South Asia Region of the World Bank. The views expressed herein are those of the author and not necessarily those of the World Bank Group.

SHIPPING

Chittagong Port

Berthing position and performance of vessels as on 16/10/2005

Berth no.	Name of vessels	Cargo	L. port call	Local agent	Dt of arrival	Leaving	Import disch
J/2	Murat Kiran	Wheat (P)	Vanc	Angelic	24/9	20/10	1789
J/3	Feng Peng	B Urea	Jubail	PSL	5/10	18/10	445
J/4	Iran Kolahdooz	Urea	Ruwa	Litmond	28/9	--	243
J/5	Piran	Urea (Bag)	Sing	Seacom	29/9	18/10	303
J/7	Oel Excellence	Cont	Col	PSSL	12/10	--	90
J/8	Eastern Star	Cont	Sing	PML	11/10	18/10	224
J/9	Independence Spirit	Cont	Sing	Nol	10/1	--	88
J/10	Kota Ratu	Cont	Sing	Pil (Bd)	11/10	18/10	208
J/11	Dawei	Cont	Sing	PML	13/10	--	03
J/12	Banga Borat	Cont	Sing	Bdship	10/10	17/10	237
J/13	Xpress Manaslu	Cont	P Kel	RSL	10/10	18/10	306

Vessels due at outer anchorage

Name of vessels	Date of arrival	L port call	Local agent	Type of cargo	Loading ports
Qc Dignity	16/10	P Kel	QCSL	Cont	Sing
Kota Cahaya	17/10	Sing	Pil (Bd)	Cont	Sing
Maritime Chiangmai	16/10	T Priok	BSL	C Clink	--
Banga Borti	18/10	Sin	Bdship	Cont	Pkl/Sing
Banga Bonik	18/10	CBO	Baridhi	Cont	Col
Oel Freedom	16/10	Sin	PSSL	Cont	Sing
Mellum	17/10	Ptp	QCSL	Cont	Sing

Tanker due

Afroditi	16/10	Ifbel	OWSL	Clude Oil	--

Vessels at Kutubdia

Name of vessels	Cargo	Last port call	Local agent	Date of arrival
Outside port limit				
Leopard Tide	--	--	Ibsa	R/A (15/10)
Vessels at outer anchorage				
Vessels ready				
Mandalay	Cont	P Kel	PML	13/10
Banga Bijoy	Cont	Col	Bdship	13/10
Kota Berjaya	Cont	Sing	Pil (Bd)	14/10
Banga Bodor	Cont	P Kel	Bdship	15/10
Emily.C	Cont	Col	Everbest	15/10
Bahagia	CPOL/CPO	Pala	Seacom	15/10
Jin Cheng	GI	Thai	Cosco	15/10
Long An	GI (S. Biliti)	Vizag	Kaptai	15/10
Vessels not ready				
Meugang	Sugar	Col	Jnship	6/10
Clen Helen	--	Chenn	RSA	15/10
Baisha Ling	Tsp Fert	Fang	Unique	15/10
Yaade-E-Mostafa	Salt/Soda	Indi	CLA	15/10
Firstec	Slag	Japan	Litmond	16/10
Ks Harmony	C. Clink	Indo	ASLL	16/10
Vessels awaiting employment / instruction				
Bumi Jaya	--	Visa	Unicorn	10/11/2004
F Jahan	Repair	Krabi	BRSL	11/8
Mmm Houston	--	Dumai	Pol	R/A (12/10)
Banglar Shourabh	--	--	BSC	R/A (15/10)
Holy Light	--	--	Pana	R/A (14/10)
Tian Ling	--	--	Pana	OWSL
Vessels not entering				
Lady East	C Clink	Maka	Uniship	27/9
Bogasari Dua	GTSP (Fert)	Sfax	SSST	28/9
Prestigious	Sugar	Santos	Mutual	R/A (29/9)
Asian Prime	C Clink	Indo	ASLL	1/10

The above are the shipping position and performance of vessels at Chittagong Port as per berthing sheet of CPA supplied by **Family,** Dhaka.

STOCK