WTO faces tough talking in Hong Kong

AFP, *Hong Kong*

The World Trade Organisation (WTO) meets here next week to salvage a deal to liberalise global trade blocked by an EU and US impasse on cutting massive farm subsides that critics say hurt the poor most.

Preparatory talks have produced only a series of 'you first' trade offers and no basis for an overall deal whereby the developed world would open its agriculture markets in return for free access in the developing world for its industrial goods and services.

The main protagonists -- the European Union and the United States along with India, Brazil and Japan -- have accordingly downgraded expectations, saying the Hong Kong meeting should keep the Doha Round on course while leaving a final accord for next year.

At the same time, nearly all parties agree on the need to agree on at least something, most likely measures to achieve development goals such as poverty reduction which would be relatively uncontroversial.

That would avoid a repeat of the Cancun, Mexico debacle in 2003, when the Doha Round negotiations nearly ran into the sands, and ensure some momentum for the further talks in 2006, when an accord must be reached.

Meeting at the weekend, the Group of Seven industrialised countries called for significant progress on "reducing trade-distorting domestic support (and) ... eliminating all forms of export subsidies in agriculture."

Additionally, and perhaps more realistically, the "opportunity must be seized to make progress through agreeing a comprehensive development package that addresses the concerns of developing countries," a G7 statement said.

The stakes are high by any count, with the World Bank estimating that a Doha accord could boost the global economy by some 300 billion dollars annually through an expansion in trade which it is argued will benefit all.

That is the theory, but the devil is in the details as broad statements of support for the process soon get bogged down in the more mundane but difficult question of who gets what and when?

Washington is the main exponent of the unqualified free trade agenda, in keeping with its own experience and ideology.

"The United States will continue to push for substantial improvements in market access in agriculture, manufacturing and services because this will generate the most benefits for development, including poverty reduction," US Trade Representative Rob Portman said after the G7 meeting.

The Doha Round "can generate global growth and reduce poverty but only if we achieve a high level of ambition in all areas of the negotiation," he added.

PHOTO: **DUTCH-BANGLA BANK**

Zaheed Hossain Khan, chairman of Dutch-Bangla Bank Ltd, inaugurates the 26th branch of the bank at Prince Tower on Elephant Road in Dhaka on Wednesday. Md Yeasin Ali, managing director, and other senior officials of the bank were present at the inauguration.

PHOTO: **SHAHJALAL ISLAMI BANK**

Mohiuddin Ahmed, director of Shahjalal Islami Bank Ltd, inaugurates the 14th branch of the bank on Bangshal Road in Dhaka on Wednesday. Sajjatuz Jumma, chairman of the bank, and other senior officials are also seen.

Lanka raises taxes, spending in 2006 budget

AFP, *Colombo*

Sri Lanka raised taxes for companies and salary earners and pledged to spend more to help farmers in its revised federal budget for 2006 unveiled by the president and finance minister Thursday.

The populist budget comes after Mahinda Rajapakse won the November 17 presidential election with the support of Marxist and Buddhist nationalist parties who support his call for a review of the peace process with separatist Tamil rebels.

"I wanted to present a new budget which could allocate money for the welfare measures promised in my (campaign) manifesto," he told parliament while also raising taxes on cigarettes, liquor and gambling.

He said the thrust of new government spending next year would be to boost the rural economy, health, education, information technology and infrastructure in the island nation of 19.6 million people.

ANALYSIS

Taka is overpriced and needs adjustment

MAMUN RASHID

In last few weeks, the country's foreign exchange market is again observing quite a bit of tightness. Though official USD rate against Bangladesh Taka (BDT) for customers is around 66.25 from the state owned banks, private banks are quoting upto 67.85 for a unit of greenback. State owned banks(NCBs) are supplying USD to the interbank market at BDT 66 level, however transactions at that level is extremely insignificant and mostly done as a gesture from one NCB to another NCB or on few occasions to few ailing private banks. Rather USD rate against other cross currency route to BDT is hovering around 68.00 levels. Some desperate buyers reportedly have done few deals above BDT 68.00 levels. BDT was quite stable in last two months- from mid September to mid November. As a matter of fact, just before Eid ul Fitr, BDT was gaining against USD with increased flows from Non- resident Bangladeshis(NRBs) and seasonal decline of demand from lower imports. Since then the situation has changed quite dramatically. Market participants are informing that the surge in the price of USD against BDT is coming from the additional demand to pay the import liability for petroleum payments. Not only that, they also feel that lot of payments which were deferred earlier to ease the liquidity situation came together at the same time to aggravate the demand for the greenback. That is why, after trying to appreciate little bit, BDT is still under fire despite the regulators' successive attempts to control the credit growth.

All these observations raise the broader question, whether Taka is overvalued and further downward adjustment is required. Various indicators very strongly imply that BDT needs to go down further to bring an alignment in the market factors of production. We are observing that in last few months, the country's foreign exchange reserve is declining gradually. Six months back, the reserve was about USD 3.2 billion. Currently it is just above USD 2.4 billion. This decline can be explained by two ways. One can be that the supply of foreign exchange from export earnings and remittances has not increased sufficiently. Or the other can be that, we are still importing goods and services that are not creating sufficient return in matching foreign exchange receipts. The statistics on export figure shows a modest growth of about 4%-5% in the first quarter of FY2006 over the same period of FY 2005. Also newspapers report shows that the remittances from Non-resident Bangladeshis have grown by 26%. Independent surveys show that the annual size of the remittance market to be above USD 7 billion whereas, officially we get USD only 3.8 billion to may be, 4 billion. This means that of the total remittances, only about half of that goes through the official channel and the rest goes through ' Hundi' and other unofficial channel. In view of that, one suspects that the growth rate has the potential to go much above the prevailing rate. About the demand side, the central bank has taken quite a few measures to reduce credit growth and import volume. Statistics also show that our credit growth and import volume has reduced a bit or remained stable in last few months. However, the relative softness of BDT may have given wrong and undesirable signal to the market to the extent that we have not been able to control the volume and composition of our credit growth and import sufficiently. Another important phenomenon that we can observe is that the growing difference in exchange rate between the' Official' and 'Unofficial' market. In recent times, we can see that the unofficial rate has been much higher than the official rate. This has implication that, there are enough incentives in taking the foreign exchanges through unofficial channel that can hurt the flows through official channel.

All of the above situations strongly argue for the necessity of the depreciation of BDT. We really need to give boost to our export to maintain their competitiveness. Also, we have to push really hard to attract the huge NRB remittances still going through unofficial channel. For both these causes we need to adjust Bangladesh Taka rate against USD. Not only that, we also need to use foreign exchange rate as an effective monetary tool to control the volume and composition of our credit growth and import. The current situation requires BDT to be depreciated further to give a clear signal to the market about where to grow and to what extent. Otherwise, we may have to find out that undesirable credit growth and import has eaten away our precious foreign exchange reserves and we have nothing left for ultimate priority sectors.

One strong argument often made against depreciation is that, it would create inflation. Regulators have already taken quite a few measures and will have to continue to do that. We must make a clear demarcation between the objective of depreciation and inflation targeting. We have to set clear policy for inflation targeting which would keep price level stable. Downward adjustment of taka may create some inflation, which anyway we would have to face as spill over effect. That may not be so undesirable as it would give proper alignment between price level and the factors of production. Allowing taka to take its own position against USD in current situation can be the most effective monetary tool to maintain macroeconomic stability.

One may argue, after successful launching of floating exchange rate regime, what is refraining taka to take its own position in the market on the basis of demand supply gap? Yes, that is right. Bangladesh Bank or reform partners have brought in deregulation, however, our age-old `mind set' is yet to accept the deregulation. Therefore our legacy of `control era' as well as the `monsters' created by control drivers still try to create barrier towards market developments with a `feudal sword' at frequent intervals. They are subsidizing imports, at the cost of our struggling wage earners abroad and of course exporters. Soon we stop this, good for all of us, especially for taka to take its own position in the market.

The writer is a banker.

US, Peru clinch free-trade deal

AFP, *Washington*

Peru Wednesday became the 13th country to forge a free-trade agreement with the United States, eliminating all barriers to their six-billion-dollar commerce, officials said.

The successful conclusion to the FTA negotiations was announced here by US Trade Representative Rob Portman and Alfredo Ferrero Diez Canseco, Peru's minister of foreign trade and tourism.

Portman said many Peruvian products already enter the United States duty-free under the Andean Trade Preference Act, so the FTA will level the playing field for US goods.

"Consistent with the ATPA's intent, this FTA will strengthen Peru's development prospects and its ability to effectively counter narco-terrorism," Portman said.

"An agreement with Peru is a key building block in our strategy to advance free trade within our hemisphere, which we hope to later bring in the other Andean countries including Colombia and Ecuador," he added.

Bank of Japan fends off govt pressure, sees end to deflation

AFP, *Tokyo*

Japan's central bank chief hit back Thursday at government pressure to keep flooding the financial system with cash, saying that the world's second largest economy looked set to finally emerge from deflation next year.

"The possibility of departing from the present monetary policy framework is likely to increase over the course of fiscal 2006," Bank of Japan Governor Toshihiko Fukui said.

Prime Minister Junichiro Koizumi, in a rare warning to the autonomous central bank, has voiced caution about ending the stimulative monetary policy and warned Japan may not have whipped its decade-old scourge of deflation.

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