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Common currency needed for balanced development in S Asia

Roundtable told

STAR BUSINESS REPORT

Speakers at a roundtable in Dhaka yesterday advocated for a common currency in South Asian countries to keep socio-economic development at par.

They see cross-border conflict and lack of political will as a barrier to balanced development in the region, despite a huge economic potentiality.

They also called for a common passport and removal of the sense of distrust among the nations.

The roundtable on Towards a New South Asia: Working out Strategies was jointly organised by Bangladesh Unnayan Parishad (BUP), Indian Social Institute (ISI), Sustainable Development Policy Institute (SDPI) of Pakistan, NGO Federation of Nepal and Action Aid International.

President of the Bangladesh Economic Association (BEA) Dr Qazi Kholiquzzaman Ahmad, also the BUP chairman, said, "Country-wise economic growth is not enough, its benefit should be equally distributed among all the countries of the region."

"We want to achieve socio-economic equality among the countries of the region so that their people may enjoy the fruit without any discrimination," he added.

The delegations from India, Nepal, Pakistan and Bangladesh who represented the Imagine a New South Asia (INSA), a broad-based citizens' initiative consisting of all the member countries of the South Asian Association of Regional Cooperation (Saarc), took part in the roundtable.

The INSA seeks to promote the vision of a peaceful, prosperous, just and democratic South Asia.

PHOTO: STAR

Qazi Kholiquzzaman Ahmad (C), chairman of Bangladesh Unnayan Parishad, a non-government research organisation, speaks at a roundtable on 'Towards a New South Asia: Working out Strategies' in Dhaka yesterday.

This initiative is planned as a broad-based process that would work with the existing networks, regional alliances and initiatives and campaigns.

Terming South Asia a region of conflict, Jimmy Dhabi, focal person of the INSA, India, said peace cannot not be established without justice.

"INSA is not comparable to European Union or something like that. But it will work for humanism in the region," he said, adding that they would work together to minimise the socio-economic discrimination and fundamentalism in the region.

Evolving the idea of a common parliament in the region, Naveed Quamar, former finance minister of Pakistan, said, "The South Asian region can form a parliament that would represent equally. Any legislation or policy could be made by this parliament."

Abid Suleri, focal person of INSA, Pakistan, said poverty in the region can be removed through utilising the amount of money India and Pakistan now spend to purchase weapons of war for so-called security concern.

Suleri pointed to the fact that the expenditure of billions of dollars by the two arch rival countries for collecting tanks is ultimately meant for human destruction, not for saving the people in the region.

About 80 percent people in the South Asian region, an abode of 40 percent of the global population, live on an income of below $2, Qazi Kholiquzzaman Ahmad, who is also the chair of INSA, informed the roundtable.

The INSA would move forward with its campaign to free the South Asia from poverty and all other socio-economic discriminations, he said, adding that the INSA plans awareness programme through organising freedom festival in all the countries in the region, which would have representation from social levels.

Netra Timsina, focal person of INSA, Nepal, Asgar Ali Sabri, acting country director, Action Aid, Bangladesh, and Rashed Al Mahmud Titumir, policy coordinator, Action Aid, South Asia, were present at the meeting.

Boards for FBCCI polls formed

The election board and the election appeal board to elect the president, first vice president, vice president and directors of the Board of Directors of the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI) for the term of 2007-2008 and 2008-2009 have been formed.

The boards have been constituted as per the decision taken at a regular meeting of the FBCCI Board of Directors on Monday, according to a press release issued by the country's apex trade body.

The election board has been comprised of Md Ali Ashraf as chairman, and ASM Kamal Uddin and Prabir Kumar Saha as members.

On the other hand, Mohammad Ayub has been made chairman of the election appeal board, while Mohd Safwan Choudhury and Abdul Mazed Raju members.

Besides, Faiz Ahmed, additional secretary to FBCCI, will act as the secretary to the election board and Mizanur Rahman Mukul, joint secretary to the trade body, will act as the secretary to the election appeal board.

HSBC launches home loan product for NRBs

The Hongkong and Shanghai Banking Corporation (HSBC) Ltd in Bangladesh has recently launched a home loan product for the non-resident Bangladeshis (NRBs).

The bank will provide loans up to Tk75 lakh for individual expatriate Bangladeshis, who will fulfil the required criteria of the bank, for purchasing ready apartments in their home country, says a press release.

Repayments procedure has also been made easy with a payment period of 10 years in the form of equal monthly instalments at a competitive floating interest rate.

Interested persons can email at nrb@hsbc.com.bd for further information.

India's Essar wins Nigerian oil block

ANN/ THE STATESMAN

Ruias-led corporate house, Essar group has won an offshore oil block in Nigeria with reserves of up to 80 million barrels.

Essar Energy Holdings Ltd, a unit of Essar Global, has bagged a shallow water offshore exploration Block 226 in the African country, industry sources said.

Nigeria had offered 45 exploration blocks in its latest licensing round, to which no other company except Essar had responded.

WTO key players hope for Doha deal by year-end

AFP, *Brussels*

The EU, US, Brazil and India -- major players in the efforts to agree on the Doha round of WTO trade talks, -- said on Friday they stood by their commitment to reach a deal by the end of the year.

"We remain committed and hopeful that our efforts, coupled with the work being done at the multilateral level in Geneva, will lead to a successful conclusion of this Round by the end of this year," they said.

The remarks came in a joint statement from representatives of the G4 following two days of intense talks in Brussels.

"Our meetings were productive and included discussions in all the core negotiating areas with a particular focus on agriculture, NAMA (non-agricultural market access) and services," the statement said.

It was made by European Trade Commissioner Peter Mandelson, US Trade Representative Susan Schwab, Brazilian Foreign Minister Celso Amorim and Indian Trade Minister Kamal Nath, who met behind closed doors here.

At the top of the agenda remain questions on trade in agricultural products that have blocked progress in the WTO's Doha Development Round, launched with great fanfare in the Qatari capital in 2001.

Negotiators are under growing pressure ahead of a June 30 deadline when US President George W. Bush's "fast track" trade authority expires.

Under current legislation, the US Congress is entitled to approve or reject trade deals signed by the administration but is unable to amend them.

Without the "fast track" provision, a Doha Round trade liberalisation accord approved by the US administration could be picked apart -- and neutralised -- by members of Congress defending constituents' interests.

Rich traders, the United States and the European Union in particular, are under pressure to slash trade-distorting farm subsidies and to lower customs duties on agricultural goods from the developing world.

Emerging market powers such as India, China and Brazil, have for their part been pressed to make their markets more accessible to industrial goods and services from developed nations.

G8 calls for rapid deal on Doha trade talks

AFP, *Potsdam, Germany*

G8 Finance Ministers on Saturday called for agreement on the Doha round of WTO trade talks "as soon as possible".

"We firmly believe that all participants have the responsibility to ensure a successful outcome of the Doha Development Round," the finance ministers of Britain, Canada, France, Germany, Italy, Japan, Russia and the United States said in a statement issued at the end of a two-day meeting here.

World Trade Organisations negotiations aimed at reducing barriers to global commerce have gone nowhere for the past six years, with differences, notably on trade in agricultural products, blocking progress in the Doha Development Round, launched with great fanfare in the Qatari capital in 2001.

"It is necessary to achieve an ambitious balanced and comprehensive deal that delivers economic benefits for all members, enhances global growth and contributes to poverty reduction," the communique said.

The G8 "remains committed to resisting protectionist sentiment," the statement continued.

"We should strive to reach an agreement on the core modalities as soon as possible, which will require political will and additional efforts by all parties."

US congress okays $3t budget

AFP, *Washington*

The Democratic-controlled US Congress on Wednesday announced it had agreed on a 2.9 trillion dollar budget for fiscal year 2008, designed to produce a 41 billion dollar surplus by 2012.

The move contains financing and projects higher than President George W. Bush's spending calculations, so could lead to another clash with the White House, as the two branches of government are already at odds over Iraq.

"Our budget rejects the President's plan to cut domestic priorities and invests in working Americans, education and health care for our children, and our troops, active and retired." said Senate Majority leader Harry Reid.

"After running up trillions in additional debt, last year's Republican led-Congress left town without even trying to pass a budget. Democrats said we could do better, and this budget proves it."

Under the budget resolution, expected to be put to the vote in both the House of Representatives and Senate on Thursday, spending as a share of the economy falls each year after 2008 and gross debt as a share of the economy will drop annually after 2010, Democrats said.

The deal has already drawn the ire of Republicans however. Former Massachusetts governor Mitt Romney, vying for his party's 2008 presidential nomination, warned Democrats were actually raising taxes.

"Democrats in Congress have agreed on a plan that balances the budget on the backs of hard-working American taxpayers," he said in a statement.

PHOTO: EMIRATES CEMENT

The Annual Distributors' Conference-2006 of Emirates Cement Bangladesh Ltd, a Dubai-based multinational company, was held on Wednesday in Dhaka. Chief Executive Officer of the company MP Sahabdeen and Country Manager Mohammad Sathak, among others, were present.

Switzerland, Japan hold FTA talks

AFP, *Tokyo*

Japan and Switzerland on Friday wound up an initial round of talks on a free trade agreement which would be Tokyo's first with a European country, the foreign ministry said.

In the talks from Monday to Friday, the two sides discussed "major areas of negotiations, such as trade in goods, trade in services, investment and intellectual property rights," a foreign ministry statement said.

It said the second round of talks will be held in Switzerland in the first half of July.

Japanese Prime Minister Shinzo Abe and Swiss President Micheline Calmy-Rey agreed on the start of free trade talks during a telephone conversation in mid-January.

G8 urged to help cut debt burden of low, middle income states

AFP, *Shuneh, Jordan*

Jordan's King Abdullah II on Saturday opened a summit of G11 developing countries calling for a partnership with G8 industrialised nations and help to reduce the debt of low- and middle-income states.

"Our two organisations have a vital shared goal, to strengthen prosperity and peace in the 21st century," he told heads of state and officials meeting on the shores of the Dead Sea on the sidelines of a Middle East World Economic Forum.

The G11, launched last September by King Abdullah, groups Croatia, Ecuador, El Salvador, Georgia, Honduras, Indonesia, Jordan, Morocco, Pakistan, Paraguay and Sri Lanka.

Progress by these countries to forge ahead with reforms, build their economies and alleviate poverty rests on "having the budgetary space to continue to invest in development and economic growth," the king said.

"For all of us, that space has been squeezed by fiscal and other constraints -- high debt burdens, rising oil prices and other external shocks, rising employment demand and more.

"It is vital that the international community support our continued progress," he said.

He said the G11 identified four priorities -- debt alleviation, investment promotion, trade development and targeted grant assistance -- and submitted them to the G8 for consideration at their next summit in June.

The two groups agreed "to discuss the establishment of a formal, institutional relationship" at the G8 gathering in Germany, the king said.

The G11 "will tell the world that the friends of development will not be satisfied until the house of prosperity is really open to all, that our countries are not simply welcomed up the path, not simply left at the door, but invited, gladly, over the threshold and into the house," he added.

Oil price volatility and the challenges

ZAHEDUL AREFIN

Bangladesh, being largely dependent on import for food and fuel, could not walk away scot-free from upbeat prices in the international market. Total import for Bangladesh in FY 2005-2006 was around USD 14 billion, of which a major portion is comprised of various classes of commodities. Our CPI inflation in December (point to point) stands at 6.1 percent, a visible contributor to which is commodity due to rise in international prices. A report by Consumer Association of Bangladesh states that the cost of living in 2006 went up by 13.52 percent, while the prices of essentials marked a 15.22 percent rise over the previous year (The Daily Star, Dec 30, 2006).

Crude and petroleum oil constitute the largest share of 14 percent of our import waller. Though the direct weight of oil is not as high in inflation basket, the indirect impact is much more as the trickle down impact of oil inflation virtually reaches, directly or indirectly, almost all avenues of modern life registering a multiplier effect. Moreover, since the "automatic price adjustment mechanism" for fuel is yet to be implemented in our country, Bangladesh Petroleum Corporation is exposed to losses every year. The Ministry of Finance has set aside an initial sum of Tk. 6 billion in the current budget (FY07) that can be used to cover losses of state-owned enterprises resulting from selling petroleum products, including oil, below formula prices. (The Daily Star, Nov 18, 2006). However, the actual losses may reach above the provisioned amount as global events may shake up the International Oil prices beyond forecast making the national fiscal planning difficult.

Though the world has moved a long way toward the "efficiency frontier" in consumption of oil and today it needs about two-thirds as much oil as it did in the 1970s for per unit output, LDCs like Bangladesh however are far behind in this regard. Such low oil efficiency combined with high dependence on oil import makes the economy vulnerable in a soaring oil price environment.

SURGING OIL PRICES ATTRACTED FOCUS IN RECENT PAST

Though different groups of commodities managed to draw attention in last few years, the major point of focus was undoubtedly the oil market. The oil market has always been very responsive to almost all streams of world events, starting from politics and violence to whims of nature.

2006 was a roller coaster experience for the crude oil market, creating a number of peaks and troughs along the way. From $60 level, the market set out with a sharp rise in the prices at the beginning of 2006 despite inventory build-up in the US, as fears of UN sanctions against Iran over uranium issues poured uncertainty over supply prospect. Geopolitical uncertainty and possible supply disruption arising from political conflicts, security threats, infrastructural problems in distribution etc overwhelmed the oil market for a major part of the year and pushed the oil price to reach record highs of close to $80 in August. But crude prices slid down sharply way below $60 as geopolitical tensions eased away, supply fears failed to materialise and US hurricane season elapsed without much incident. However, during the end 06, stronger seasonal demand, deterioration in US inventories, OPEC output restraint and a weaker USD had pushed the price back to above USD 60 per barrel.

SOFTER OUTLOOK, BUT VULNERABLE TO GLOBAL EVENTS

At the beginning of the year, oil prices were expected to exhibit greater stability in 2007, although it drifted lower by over 15 percent in early January driven by accumulation of stocks followed by unexpected mild weather in the US and an easing anxiety of supply. Geopolitical risks, while remained quiet for a while, always have the potential to shock and shake. OPEC's actions are once again a point to ponder in portraying the oil price outlook. The cartel's price aspirations are not clear; while some analysts viewed them to appear to be galvanised to cut production if WTI slips below USD 55 per barrel, reluctance of OPEC in recent past in reacting when prices came below $50 sprinkled uncertainty on their trigger level. The key upside risk to prices is, as always, a disruption to supply. Speculative non-commercial position in NYME for WTI contracts has turned long, indicating a strong view in the market. The recent rejuvenation of oil price to the level of near $70 per barrel driven by uncertainty surrounding Iran issue has indeed shaken those who were sitting too relaxed thinking that the drama might be over.

HEDGING IS A RESPONSIBLE BEHAVIOR

Since commodity prices have historically been notoriously volatile, concerns about the effects have led to efforts to stabilise commodity prices. There could be two broad approaches aiming to insulate the economy from price shocks either by stabilising international commodity prices or by transferring risks to the third parties. However, realistically it is not possible for developing countries to influence international prices. Hence, it leaves them with the alternative choice of transferring risk; or doing nothing. The most common way out for commodity importers to pass risk is the use of financial derivative instruments to offset their exposure of price risk via players having the appetite and expertise to house the risks, who are often the financial institutions.

Besides direct hedging, different commodity linked investment alternatives are also receiving popularity as they provide indirect hedging by offsetting the direct impact of price changes through altering the return on investments.

The reliance on various commodity hedging instruments available in the international markets is increasing due to growing participation by speculative investors who can influence and aggravate volatility. There are numerous variations of on-the shelf and off-the-shelf commodity derivative structures offered in the markets to match the exact need of the customers depending on the exposure, risk appetite, individual views and price aspirations. Two broad categories are swaps and options. While commodity swaps are used as a price fixing mechanism, commodity options insures only against the worst case leaving the scope open to gain from favorable market movement.

For example, if oil price is fixed through a SWAP at $65 a barrel and the price goes up to $70, the hedger would be compensated by the difference amount of $5 a barrel which is a net saving for him. But if the price goes down to $60 at maturity, then also the hedger is obligated to pay $65 a barrel -- $5 higher than the market. A point to note that the hedger may effectively end up paying higher price in this situation, but has a certainty that his maximum cost would never cross $65 and hence can plan everything ahead. It may be pertinent to mention that, had a buyer of oil entered into a SWAP during the beginning of 2006 at around $60 level, he/she could have saved as much as $ 18 a barrel when oil price surged to $78. While there is some skepticism about SWAP because of rigidity, a bias is often observed toward options as a hedging tool for their flexibility. For instance, if an oil importer buys a vanilla "Cap" at $65 a barrel in exchange of a premium, it provides him the right to buy oil at $65 if the price goes above this level. But unlike SWAP, if the rate goes below $65 say at $60, the buyer is free to buy at $60. Thus it offers protection against up-side risk and simultaneously avoids any mark-to-market loss apart from the premium. Besides direct hedging, commodity linked investments are also earning popularity as a hedging mechanism. If a buyer of oil invests his fund in a deposit structure positively linked with oil price, instead of conventional index like LIBOR, it would generate a higher return if the oil price goes up. Hence, the impact of higher purchasing price of oil is offset to some extent by the higher return; and vice versa.

The beauty of derivatives is that they can be tailored to conform to any idea that the buyer adopts. It is extremely important to understand the difference between the ultimate objectives of speculators and hedgers. While speculators tend to play with the price curves, the commodity hedgers are not keen to use commodity options and swaps as a tool to make money from price volatility. They are using such products based on the logical reasoning that making speculative profit from volatility is not their core business. Rather the main objective is to make the future little more predictable, reign the risks within a conceivable band, avoid surprises that may pose threat to their core business and have a more sound and accurate financial planning thus ensuring a good night's sleep. It is encouraging that the government is concentrating to find ways to minimise the impact of price shocks by shifting to substitutes, for example from oil to natural gas to reduce net national cost. But such shifts may not deliver a complete solution. It is, therefore, important to manage the financial risk through alternative financial hedging options.

REGIONAL MARKETS GATHERING PACE

Though subsidy is used to counter the problem, the market regards subsidy as unsustainable. After Indonesia received a major hit from oil price surge with its heavy-subsidising policy, many Asian economies have scaled down their fuel subsidies. While this measure may stimulate the pace of inflation, the use of financial derivatives had helped these economies to mitigate the impact by limiting the actual increase in oil import cost to only about half the rise in international markets. Even the South Asian markets are also gradually embracing different ideas of commodity hedging. Indian market is already on the roll, while other neighboring countries are putting sincere effort to catch up. Sri Lankan Petroleum Corporation has recently closed first commodity derivative deal to hedge oil exposure with Standard Chartered Bank. These examples could be encouraging for Bangladesh to devise its mechanism. Few of the key enablers for these high-end solutions to be rolled out in our country should be onshore expertise in this specialised area and accessibility in the international markets. Only very few financial institutions like Standard Chartered Bank are equipped with the right local skill set, have strong regional presence to understand the local markets, a global platform to constantly migrate new developments around the world and a network accessing the important international hubs -- to accommodate financial derivatives. As the markets are becoming complex, it is probably worthy to know about and consider the alternative choices of commodity hedging that global markets are offering for our benefit to keep pace with the fast moving world.

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