

Heiligendamm G8 Summit -- nothing spectacular

The outcome of the Summit has not been spectacular. If we discount the media-hype, its achievement can at best be called moderate. Summits of this kind are actually not meant to solve world problems -- but to take note of the issues and start a process. On climate change, at least, the UN shall now start a process with the involvement of the US. The leaders also promised not to go back on the promises made to Africa.

MAHMUD HASAN

THE annual summit of the eight richest countries, G8, has just ended (6-8 June) in the German Baltic resort of Heiligendamm. The economic recession of the 1970s spurred the six most industrialized countries (US, UK, Germany, Japan, Italy, France) to close ranks to find a solution to the crisis.

The collapse of the fixed exchange rate (Bretton Woods) and the first oil crisis pushed the leaders of these six nations to meet informally in 1975 at Rambouillet, France, for the first time. The primary objective was to find measures to sustain the global financial system. Canada joined the Group in 1976 -- G7, and then in 1998 Russia joined to make it -- G8.

What began as a club of the richest countries to address the world's economic and financial problems has now turned into a

kind of an extended Security Council, without any definite terms of reference. It now discusses any issue that it feels is important.

The G8 produces two-thirds of the world's social products, accounts for nearly half of world trade, provides three-fourths of global development aid, and contributes 73% subscription to international organizations.

Therefore, the decisions taken by G8 have tremendous influence on world-trade, global financial markets, environment and development.

The 33rd Summit President Angela Merkel, Chancellor of Germany, invited non-G8 participants for the "outreach sessions." Leaders of emerging economies -- China, India, Brazil, Mexico and South Africa -- and from Nigeria, Egypt, Algeria, Senegal and Ghana (Chair of African Union) were all

there as observers.

The UN Secretary General and the EU President were also in attendance. Angela Merkel chose "Growth and Responsibility" as the theme for this year's Summit. The agenda broadly covered three main areas --

- Global economy.
- Climate protection.
- African development.

The issue of "security," though not mentioned openly, has been a major preoccupation for all the leaders.

The Summit was held under the shadow of rising tension in relations between Washington and Moscow. The US plan to extend its missile defense system over Poland and the Czech Republic invited a sharp reaction from Russian President Vladimir Putin.

George Bush clarified that the plan to deploy missiles was

aimed at containing "rogue states like Iran and N. Korea." Putin reacted quickly; saying that if US went ahead with the plan Russia would point missiles at European targets. At the Summit, however, Putin mellowed down and offered to build a joint defense system in Azerbaijan.

Tension was also there when the US rejected the German proposal on climate change. Germany, supported by EU, proposed a 50% cut in greenhouse gas emissions by 2050, to limit the rise in global temperature to two degrees Celsius this century, and a 20% improvement in energy efficiency by 2020. USA, which did not sign the Kyoto Protocol, was opposed to such mandatory targets.

The much-hyped about "agreement" on global warming, that was reached on the second day of the Summit, is dismaying. It only recognizes the need to cut down on the emissions of these evil gases. It does not set down any timetable, or any target, for the reduction of the gases. It was essentially a declaration of intent.

Social activists also created a great distraction during the

Summit. More than 100,000 anti-globalization protesters from all over Europe went on round-the-clock vigil around Heiligendamm. Many of these demonstrators were peaceful but many more were violent, giving the police security nightmares.

These social groups wanted their voices to be heard by the G8 leaders. They were critical of the hypocrisy of these leaders, who made promises only to break them. At the Gleneagles Summit in 2005 they promised \$50 billion as development assistance -- of which only about \$20 billion was disbursed.

There has been no progress on writing-off \$40 billion of Africa's debt. The Heiligendamm decision to spend \$60 billion for controlling disease in Africa is also vague. When this fund will be made available, or within what time frame it will be spent, is not clear at all.

The G8 addressed security issues from their own perspective. Since the disagreement on Kosovo could not be bridged, the leaders agreed to remain in contact until a solution for Kosovo's independence was found. On Iran -- all the leaders

expressed "profound concern" over its nuclear program.

As for the M-E conflict, the G8, as usual, sided with Israel, calling upon the Palestinians to stop firing Qassam rockets, and to release the abducted Israeli soldier. There was no mention of the targeted missile strikes on the Palestinians by Israel. The Summit condemned all terrorist acts, and the sectarian violence in Iraq. It called upon North Korea to return to the NPT, from which it had walked away.

Trade and development issues are vitally important for the developing world. The G8 stressed the need for achieving an ambitious, balanced, and comprehensive agreement on the Doha Development Agenda (DDA).

As for "Growth and Responsibility of World Economy," the Summit agreed on the active promotion of social standards of corporate social responsibility, and on the need to strengthen social security systems in emerging economies and developing countries. In other words, the richest countries shall continue to dominate the flow of capital investment and development assistance to



the countries of the South.

its leaders to understand each other better, and also to be flexible. If stakeholders of global issues are increasingly involved in these processes the results will undoubtedly be more productive. The G8 leaders could also have helped the developing world if they had given support to the Millennium Development Goals (MDGs) set by the United Nations.

Mahmud Hasan is a former Ambassador and Secretary.

Some political pundits and commentators have already begun their been-there-done-that kind of rhetoric -- their cynisms may perhaps have some foundation but sooner we see some verdicts on the bigger grafts (likes of Modud Ahmed et al) the better it is for the CG. Time and time again, the overwhelming majority of the people of this country have seen promises of better days broken, hopes shattered and livelihood plummet -- let these be things of the past -- let us usher in an era of politics which is pro-poor, pro-development, pro-nation and above all, more work and less political rhetoric!

Insatiable power knows no shame

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S. I. ZAMAN

BANGLADESH is going through the most trying time -- the present transition period may perhaps be defined as the most significant watershed since its liberation in 1971 from the Pakistani shackles.

No doubt, the present period has all its trials and tribulations, and thanks to the present Care-taker Government (CG), the post 1/11 has witnessed some of the most remarkable achievements hitherto not seen in Bangladesh. This CG is perhaps the best thing ever happened since our liberation in 1971. Other third world countries rife with corruptions (Nigeria, India, Mexico etc) might perhaps take cue from the example as typified by this CG.

If she is so determined to keep a hold on her party she should at least support the CG's anti-corruption mission -- have

relentless and consistent about numerous graft arrests, yet an uncanny distance is maintained with regard to the leaders of the AL and BNP. Despite the leniency and latitude shown to them by the CG, both leaders have yet to show their commitment to fundamental reform in their parties -- we are yet to see any headway in that line -- so far none have been forthcoming!

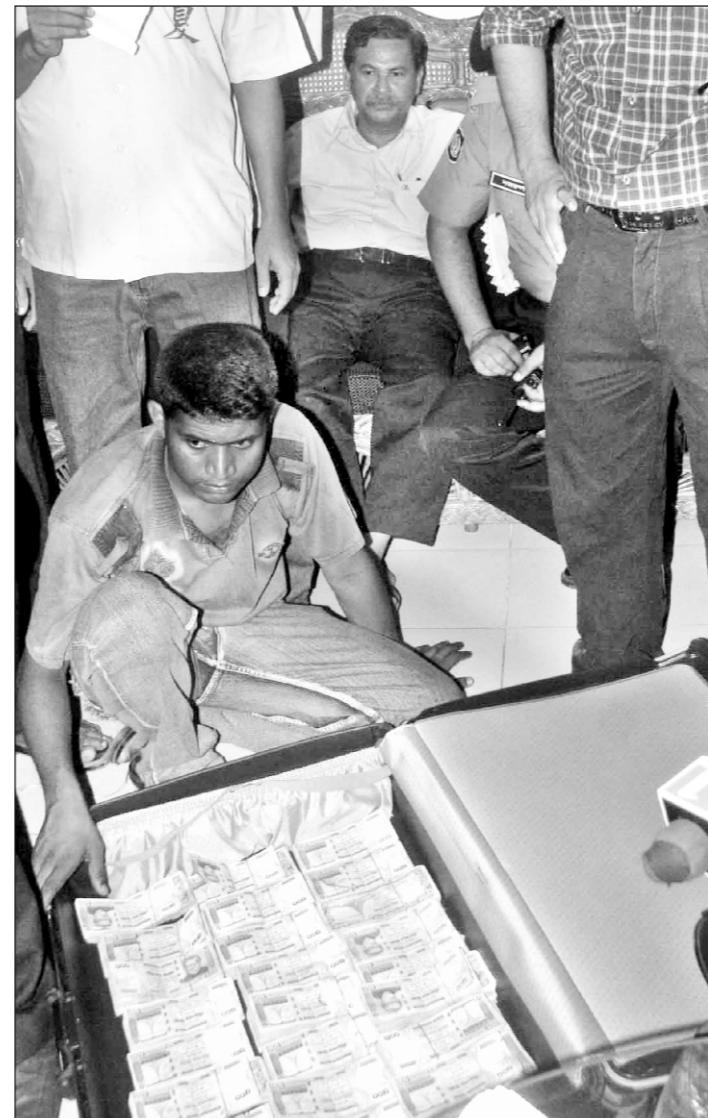
On the contrary, ever since Shaikh Hasina was allowed into Bangladesh she has been overtly critical of the CG -- especially in the wake of recent arrests of some of her party big wigs. Even to the most apathetic she appears the most undemocratic, un-political, undiplomatic and downright silly.

While the CG has been

we heard a single word from her condemning these colossal corruptions? Isn't it high time she came out openly with a strong word of derision for these grafts who are right now languishing in police custody pending trial?

Isn't it high time she came out strongly with statements that these grafts will never be absorbed back in the party? As for Mrs. Zia, it is difficult to judge whether she is fooling us or the CG. She has been the least forthcoming as far as reform is concerned.

She denies any existence of "Familio-cracy" in her party, and yet her own brother gets appointed to a top party position -- this very action of her not only borders on insult to our intelligence but helps to epitomize the "flagrant unilateralism" of our party leaders that plague



our politics and society.

Mrs. Zia's immediate family have been implicated, charged and indicted for corruption of a colossal proportion. And despite the immense latitude the CG have shown her, the least she could do is to come out with a statement condemning these corrupt party big wigs within her party and her immediate family. None have been forthcoming thus far! Nevertheless, the two ladies have been sufficiently outspoken when it comes to criticizing the CG.

Their very own party bigwigs (who only recently "walked tall" with an air of touch-me-if-you-can) are spilling out (like squeezed out toothpaste) all they have, and gruesome and shocking allegations are emerging -- all of it pointing comprehensively towards their own leaders (both AL and BNP) who they constantly "tried to please" even at the expense of a greater good of this nation.

The leaders have of course denied all these allegations -- dreadful and ghastly they may be, but the magnitude of their utter shamelessness surpasses all civil norms! And they deny these charges as though these

are "Monika Lewinsky" or "Watergate-tapping" kind of charges -- dismissing them as mere political aberrations.

Of course, pathetic leaders do tend to behave pathetically at times of catastrophe or perhaps, these leaders are afflicted with a deeper psychosis. Their feeble "last minute" attempt at trying to curry favor with their "fictitious" supporters is even more pathetic.

There are several AL and BNP leaning blogs on the net who are trying their best to discredit and vilify all sincere attempts and achievements thus far by the present Care-taker government.

They accuse CG of being politically motivated. At the same time, both AL and BNP leaders are ceaselessly venting their ill-motivated rhetoric against the CG.

The word "shame" and "self-esteem" are not to be found in their lexicon.

Now the CG should make up their mind what to do with the litany of gross allegation against these incompetent leaders -- if the CG means business and indeed, if the CG really wants to uphold the constitutional principle that no one is above the law, why the delay?

Why this reluctance to arrest these leaders? Why this suffo-

cating dilly-dally? Time is running out, and the credibility of the CG might run out in the process. Given the seemingly "cushy" situation, these seemingly untouchable leaders, having already acquired an insatiable taste for "unashamed" power, would stop at nothing to vilify, to undermine and to eventually perhaps unseat this CG. And that would be the grandest fiasco!

However, some political pundits and commentators have already begun their been-there-done-that kind of rhetoric -- their cynisms may perhaps have some foundation but sooner we see some verdicts on the bigger grafts (likes of Modud Ahmed et al) the better it is for the CG.

Time and time again, the overwhelming majority of the people of this country have seen promises of better days broken, hopes shattered and livelihood plummet -- let these be things of the past -- let us usher in an era of politics which is pro-poor, pro-development, pro-nation and above all, more work and less political rhetoric!

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Apolitical budget of non-political government: What does it mean for inflation?

SYEED AHAMED and JYOTI RAHMAN

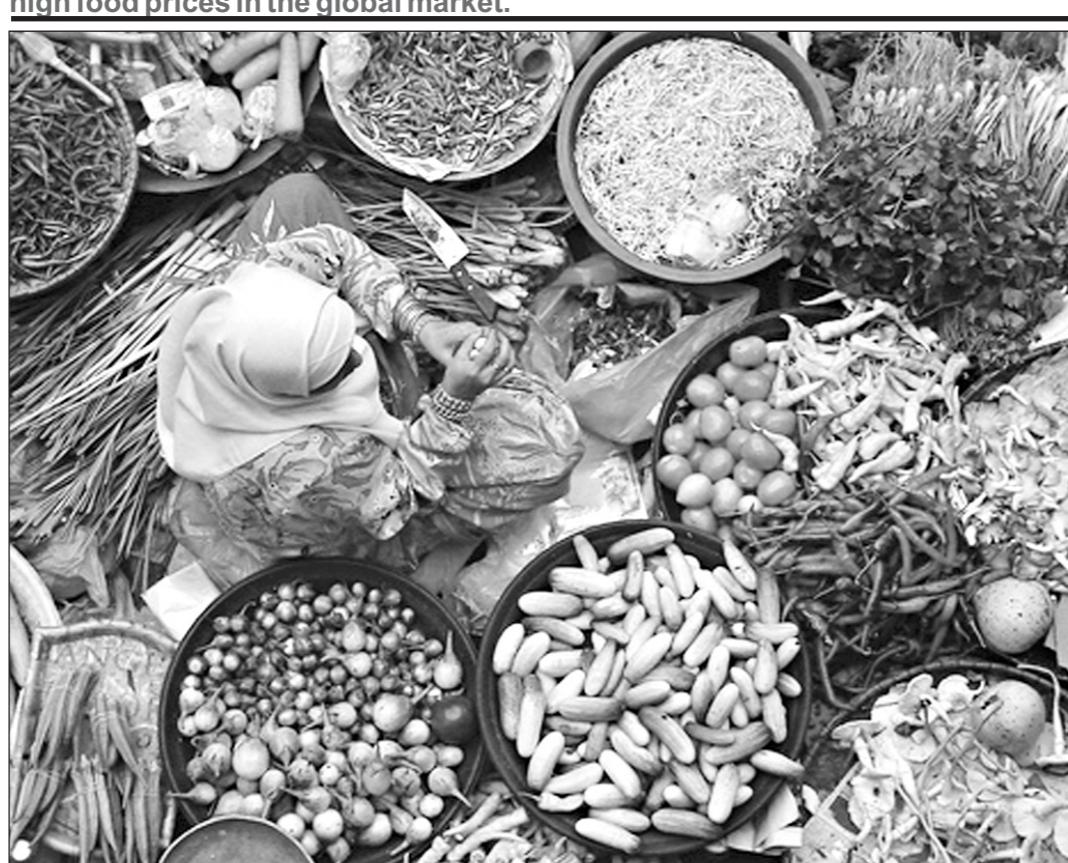
JOSEPH Levine, a Hollywood movie director, once said that: "You can fool all the people all the time if the advertising is right and the budget is big enough!" He could not possibly have known how literally successive political governments of Bangladesh followed this approach.

While a non-political government is in office, no budget is apolitical. Like all previous budgets, this, too, sits in its own political context. The government's political reform agenda is inexorably linked with macroeconomic conditions in general, and rising inflation in particular.

Pundits point to three reasons for the recent rise in inflation: lack of competition, an overheating economy and price rises globally. The current rise in inflation is largely food-price driven -- food items comprise nearly three-fifths of the consumer price basket, and food prices have recently outpaced non-food prices by well over 2.5 percentage points.

Conventional wisdom holds that wholesalers and distributors, taking advantage of a lack of effective laws and institutions against anti-competitive behaviour, have engaged in price

Higher inflation is a regional development and has origins beyond our border -- higher fuel prices and rising food prices in the global market have fuelled our inflation. As discussed above, the proposed budget does remove tariffs on food items and increases food import, but the effectiveness of these policies will crucially depend on the microeconomics of food distribution. In addition to the budgetary measures, exchange rate policies could help protect against high food prices in the global market.



gouging. What does this budget mean for each of these causes? And what more, if anything, could the government do?

To stabilise food prices, the budget recommends removal of import duty on some essential food items, as well doubling of imports of rice and wheat. While these measures will help, an effective food distribution system would be more effective in stabilising food prices in a non-competitive market dominated by a few big suppliers.

In the longer term, however, there is no substitute for an independent competition watchdog to fight market collusion. This is something that the government should consider as part of its broader institutional reform agenda.

Higher inflation usually points to an overheated economy. In recent periods, increased remittances, revenue from increased exports, and rapid credit growth, have all boosted aggregate demand. Aggregate supply may not have kept pace with demand.

Among other things, energy shortage has hampered the economy's supply potential. The result has been fueling inflation. Against the backdrop of inflation, and without the politi-

cal pressure faced by a government seeking re-election, the expectation was for a small budget.

This budget is perhaps not as ambitious as some immediate reactions suggest -- excluding the liability of Bangladesh Petroleum Corporation, it is only half a percent of GDP higher than the last revised budget.

Nonetheless, there is still a risk that financing the budget would fuel inflation if the government ends up borrowing from the central bank, as this will increase money supply. On the other hand, if borrowing from the commercial banks finances the budget, this would drive up domestic interest rate and discourage private investment.

The economy is already supply-constrained, and a lack of private investment is a major challenge to growth. Crowding out private investment is hardly going to help combat inflation in this environment.

So what could the government do in this area? The revenue budget can only be tackled through reducing the size of the government. This takes time and strong political mandate, and it's not clear how much the current government can do in

this budget except to set in train motions that can be carried through by future political governments.

The government could, however, seek greater foreign financing of the development budget. As it has already embarked on much of the structural reforms -- fast tracked privatisation, rationalising energy prices, anti-corruption drive -- the government should negotiate more foreign financing, preferably through grants.

Further, a larger annual development program (ADP), with ambitious rural development plans, broadening of social safety net, and reassigned old programs of previous half-finished ADP, also poses the risk of increasing money supply. To mitigate this, generation of self-employment at the rural level should be prioritised. Plus, technical assistance projects should be given priority during implementation.

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In addition to the budgetary measures, exchange rate policies could help protect against high food prices in the global market. An appreciating taka will make imports cheaper. However, this will also make exports dearer.

The government faces a trade-off -- should consumers be relieved at the expense of the exports sector? It is a difficult trade-off, and, in any case, without microeconomic policies to ensure competition in the long term and assist food distribution in the short term, exchange rate adjustments by themselves probably won't stabilise prices.

So what does the proposed budget mean for inflation? The budget proposes some concrete measures to stabilise food prices. Now these need to be reinforced by complementary microeconomic policies. Otherwise, further financing of the budget through borrowing could itself be inflationary.

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