

Terrorism in Jaipur

No knee-jerk reaction needed, only dealing with hard facts will defeat extremism

KNEE-JERK reactions to incidents are almost always counter-productive. And yet a knee-jerk reaction to the recent blasts in Jaipur has come from the authorities in Rajasthan. The off-handed way in which the police administration in the Indian state has pointed the finger at extremist elements in Bangladesh raises a good number of questions about the manner in which such a conclusion has been drawn. A senior police officer has told the media that the way the bombs were manufactured and concealed in bags is similar to the way Huji operate. Now, that is as queer a conclusion as any. Are we now to suppose that terrorists can be identified through the bags they use? And is it fair, even before thorough investigations have been undertaken, to draw inferences the objective of which is clearly targeting a country, in this case Bangladesh?

The statement of the Rajasthan authorities, implying that the thousands of illegal Bangladeshis they say are now in the state may be fertile ground for terrorism, is patently untenable and makes light of terrorism as a threat to nations. It is a cavalier attitude. It is a condition that can never be tackled through a resort to speculation or posturing, which is precisely what is being done at this point, thanks to the police and even the media. We would like to make a couple of points here. The first is that there seems to be total belief among the Indian authorities that those accused in earlier times of perpetrating terrorist acts, namely, Jaish-e-Mohammad and Lashkar-e-Tayyeba, have now receded into the background. How is it that these organisations have suddenly gone off the radar? Our second point is that the Rajasthan police authorities have made a sweeping statement about Bangladeshi involvement in the blasts, one that is certainly not acceptable. Bangladesh has always endeavoured to maintain friendly, mutually constructive ties with India. To suggest, before any inquiries are conducted, that Bangladeshis are involved is to show scant regard for Bangladesh's image in the global community. Indeed, it all amounts to posturing of a bad sort when what is required is a detailed, serious investigation into the blast incidents. Such posturing and counter-posturing can only open the floodgates to mistrust, with telling effect.

The authorities in India must come up with hard evidence about exactly which elements were involved rather than going for speculation. Terrorism is a grave malady that will surely not be handled by an unsubstantiated pinning of blame on others.

We, in Bangladesh, however, cannot take the usual view that we have no terrorists amidst us. After our own experience with Bangla Bhai, Huji, and terrorism, we must take the issue of terrorism more seriously, which, thankfully, we are doing. What is needed right now is a very close cooperation between Bangladesh and India in defeating terrorism of all types and forms.

News like this gives a leap of the mind

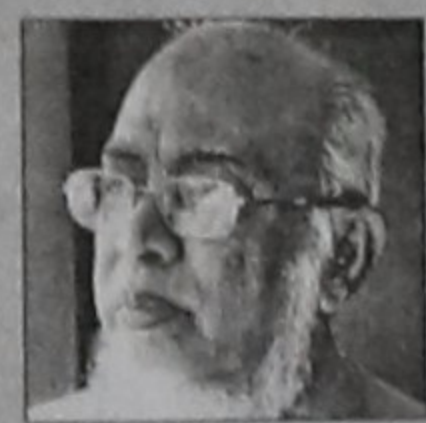
Russia hiring our textile workers

JUST take a pause and think of the impregnable stature our garment sector has reached in recent times defying daunting odds. Pitted against the storms of post-MFA challenge, internal political turbulence, closure of factories, labour unrest over minimum wages and poor working conditions, the sector has evolved into a reputable state worthy of attention in newer areas of the world. The credit goes to 2.5 million skilled, semi-skilled and unskilled workers in woven, knit wear and textile sectors, of whom remarkably 80 percent are women.

What stands out is the upward curve of Russia's interest in our garment sector illustrated currently by the country's express intent to import Bangladeshi textile workers. The Russian company Visostoy has hired the first batch of 60 skilled employees from Bangladesh flying to the country in a couple of months. So far the country has been looked upon as a potential importer of our RMG products, and importantly, Russian buyers every year outsourced a significant number of garment products to Bangladesh.

While we are heartened by this opening for employment of Bangladeshi garment workers in Russia, perhaps as a precursor of more to come, we must also be aware of the fuller implications of the break our garment employees are getting. A balance will have to be struck between projected demands for skilled workers of our garment industry and their potential demands overseas. We would like to make two concrete suggestions: first, let the government finance growth of apparel, design and fashion training institutes in the country's private sector. Such training should be linked to use of latest machinery and equipment. Secondly, the salary, working conditions, service security structures in the country will have to be more or less comparable to the decent standards offered abroad. Otherwise our garment industries might see exodus of skilled personnel abroad.

The IPI gas pipeline: No more a pipedream



M. ABDUL HAFIZ

EVER though much more remains to be done, Pakistan and India seem to have made a major breakthrough on the issue of the much-hyped gas pipeline from Iran to Pakistan and India late last month. Given the history of the project, tied as it is to the mercurial bilateral relations between Islamabad and New Delhi, as well as domestic politics in both the countries, optimism without reservation would, however, be unwarranted. This approximately 2775 km pipeline project has already bumped into uncertainty, with India somewhat sidelining it since the US nuclear deal was under consideration in the Lok Sabha. Several other factors also stood in the way of materialisation of the IPI although the idea was broached originally as far back as in 1993, when it was expected to cost \$3.3 billion. With the prospect of the US nuclear deal having been shelved for now,

PERSPECTIVES
The failure of the Singh government to obtain the Lok Sabha's approval for the US civilian nuclear deal, and the inklings of China's favourable response to Pakistan's suggestion that it join the project, brought the Indian oil minister rushing to Pakistan, and that, perhaps, clinched the issue for New Delhi. The oil ministers from both India and Pakistan told a press conference in Islamabad on April 25 that a final agreement could be signed in weeks, if not in days.

India has renewed its interest in the project, although its cost has now escalated to \$7.6 billion.

America's hostility towards Iran, and New Delhi's sensitivity to Washington's concerns, being a major damper for the project, it was practically put in limbo for all these years. As a result, India stayed away from three meetings between Pakistani and Iranian officials during the last nine months when Dr Singh's UPA government remained beholden to the US neo-con wizardry. However, hard economic realities, coupled with a domestic backlash launched by anti-imperialist Nehruvians within the increasingly rightist Congress, have combined to force a rethinking in New Delhi. Many Indian politicians especially those on the left and sections of the media have scathingly criticised what, to them, appeared to be their government's lack of spine in standing

up to US pressure.

That resulted in India's "re-entry" into the IPI Projecta very welcome development in regional cooperation now underway among Iran, Pakistan and India. Iran may be under several layers of sanctions. But that is no reason that the three countries should abandon a project that serves the economic and energy interests of all of them. The project will, however, require a renewed push to make up for the time lost.

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final agreement could be signed in weeks, if not in days. President Mahmoud Ahmedinejad's visit to the two capitals -- Islamabad and New Delhi -- will, no doubt, help expedite the project which, besides meeting the two countries' fast expanding energy needs, is not without profound geo-political importance.

In tandem with the IPI gas pipeline, another major project of similar nature, the Turkmenistan-Afghanistan-Pakistan-India (TAPI) also appears to have received a fresh boost. In fact, during the last fortnight, Pakistan and India demonstrated refreshing interest and also a good deal of alacrity in this project. First, it was the Islamabad meeting on April 24 of the petroleum ministers from Turkmenistan, Afghanistan, Pakistan and India which resulted in the Gas Pipeline Framework Agreement (GSFA), an important indicator of their

seriousness.

Interestingly, the Bush administration has been strongly supportive of this 1680 km long project, confident that it would reduce interest in the IPI project and thereby prevent Iran from extending its influence to a critical part of the world. Consequently, the Asian Development Bank expressed its willingness to assist in the preparation of comprehensive feasibility study and in the formation of a consortium of the investors to undertake the project.

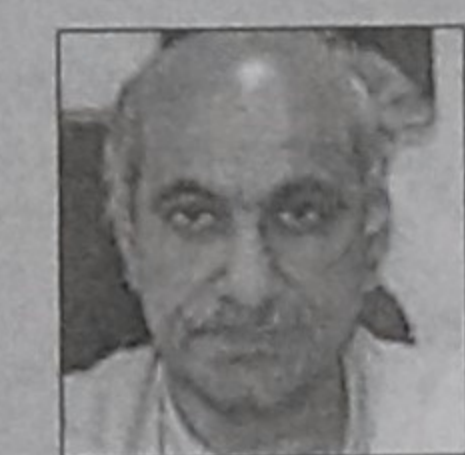
However, some reservations still surround the project, and doubts persist with regard to Turkmenistan's actual gas reserve. There are also doubts as to whether those reserves are under Turkmenistan's control or have been pledged to Russia, as claimed by Gazprom. The Turkmen minister tried to address those concerns, claiming that huge new gas fields were discovered recently. There is no such hitch in the case of Iran with regard to the IPI project, for both Pakistan and India have been assured of abundant gas supply from Iran's South Pars gas field. The concerned authority claimed that the IPI pipeline, to be completed in 2012, would carry 2.4 billion cubic feet of gas a day, to be shared equally by Pakistan and India.

Informed sources said that the two sides, Pakistan and India, had narrowed their differences by agreeing on a "template" for finalising the transportation tariff which was linked to the cost of constructing the pipeline. The fee would be worked out when Pakistan finalised the contract for building its section of the pipeline. As regards the transit fee, there were indications that it could somewhere around 40 cents per million British Thermal Unit of gas. It would mean an earning of \$148m per annum in transit fee for Pakistan.

It is by now clear that both Pakistan and India do recognise that unless they moved boldly to ensure guaranteed energy sources their development would be stalled. But some observers remain unsure whether it would be finally possible for New Delhi to involve itself fully in the IPI. After all, New Delhi, for all of its moral claims, had no hesitation in casting its vote against Iran at the IAEA ostensibly under US pressure. There are, however, some silver linings. Last week, India's Foreign Minister Pranab Mukherjee expressed annoyance at the US comment that India should ask the Iranian president to suspend Iran's enrichment activity.

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The dance of ghosts



M.J. AKBAR

OLD rules get old because they have legs to walk through generations. Time, then, to recall one of the oldest: When you are dead, lie down. So many politicians simply don't get this, whether they are provincial wannabes like the erstwhile Congress satrap from Uttar Pradesh Akhilesh Das, or the woman who wanted the White House, Hillary Clinton.

I am familiar with the face of defeat not least my own in 1991, when I failed to get re-elected in the general election, during my brief departure into politics. But never have I seen a visage as utterly depressed, seething with the last twitches of a withered dream, as that of Bill Clinton standing behind Hillary on the night of May 7.

For the record, she was delivering a "victory" speech after the Indiana primaries, but her words turned instantly into ash the moment they left her mouth. Poor Bill got the blowback. He

knew that this was the last dance of a dead campaign. Four more years of adulation and power had disappeared into a blank. I've seen long faces too, but that evening Bill's jaw was nearer his nipple than his lip.

There are no exact parallels, least of all between democracy in the United States and India, but common questions can open fresh lines of thought.

Does Barack Obama represent the arrival of a new role model? Will this drama of startling shifts energise hope elsewhere?

Barack is young, but he is not about youth. George Bush and Tony Blair were startlingly young when they won office; they have aged decades in less than ten years. Power seems to be an aphrodisiac for the old (P.V. Narasimha Rao yesterday, John McCain today), and decomposes the young.

The Barack phenomenon is about identity, not youth, the vital first act as America

attempts to exorcise the demons that have kept the enslaved and dispossessed on the margins, not totally excluded in these "liberal" times, but not fully included either.

His personal history is the antidote of convention. He is a child of an absentee black, talented Muslim father and a white, bright, single mother who survived for a while on food stamps. His personality, his success and his dramatic invasion of the white political club, with -- to the shock of traditional America -- a coalition of white college kids and his black community, provokes reservations, suspicion and downright, barely-disguised hatred.

The Clintons, who are brilliant at surreptitious politics and viral-marketing, positioned him as the ultimate Manchurian candidate at a time of Bush's war against "Islamofascism." They converted him into a "closet Muslim" without, of course,

letting the phrase escape through their noble, if clenched, teeth.

Worse, he was an uppity snob who had the temerity to wear Gucci, drink latte, and, worst of all, dress and dance better than the Clintons. The Clintons have every right to a bank balance of \$109 million between them, earned in the last eight years. An upstart should remain a degree below latte.

Obama prevailed among the Democrats not because he had changed but because enough of America has changed.

One suspects that Congress whiz-kids and a few whiz-uncles will rush to sell Rahul Gandhi as India's Obama. The similarity is superficial, if there is one at all. Rahul Gandhi is an image of youth but not of change; he is yet another rung of an ageing idea called dynasty.

The real parallel to Obama in India is the spectacular trajectory of Mayawati. She never

studied in Harvard, and the only law she knows is that of the jungle through which her elephant has had to fight for survival. But she rose from the margins and is imploding upon the Centre by extraordinary political skills.

Her coalition of Brahmin, Dalit and Muslim is, if anything, more impressive than Obama's. She does not wear Gucci (she thinks Rahul Gandhi does). But she does wear diamonds; the contempt/anger/hatred and pseudo-morality that her wealth induces is evident enough.

She does not belong to the class that has a hereditary right to be dishonest. But the most important similarity is that she has energised her own community to an unprecedented degree.

The Dalits are the blacks of India; Babasaheb Ambedkar is their Martin Luther King; Kanshi Ram is their Jesse Jackson; and Mayawati is their Obama. Being less suave than Obama, she is both the acceptable and unacceptable face of Change; she can apply the rhetoric of Obama and the Reverend Jeremiah Wright Jr., the pastor who has made incendiary remarks against white racism and America, depending on the audience she is addressing, or dismissing.

Obama is leading a sophisticated upheaval. Maya is heaving against prejudice that has con-

gealed over many thousands of years. In neither case has the Establishment surrendered, yet.

The Republicans believe they can slice Obama up and feed him to middle America. The Congress is convinced it can undermine Maya after she has sabotaged herself. All options are possible, for the turbulence and direction of change can never be certain.

Hillary Clinton refuses to lie down even when declared dead because she still hopes that the unpredictable will somehow emerge from the inconceivable. If the correctly-pigmented John Edwards had pounded her as Obama has done, she would have shaken his hand and accepted the vice-president's nomination some time ago.

But with chocolate-flavoured Obama, you never know when some circumscribed skeleton will fall out from the cupboard...

The candidate may be dead. The ghosts dance on.

There is a second old rule in politics. Stick with friends, but stick closer to enemies. An Obama or a Mayawati has learnt that sentiment is a trap. Once you have fought a foe to death, you can always dance with the ghost on the way to power.

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Lending and deposit rates spread

ABDULLAH DEWAN and SAYEDA HAQ

ON May 6, bdnews24.com quoted Bangladesh Bank's (BB) Deputy Governor Nazrul Huda as saying that BB would hold back issuing licenses to private commercial banks (PCB) for opening new branches if they didn't slash interest rate spread (IRS) between deposit and lending. He also warned about taking measures against PCBs with regard to opening of foreign exchange branches and other issues.

Nazrul said that the PCBs promised to bring the spread down to 5% by slicing the lending rate within three months and, at the same time, revising the service charges downward. He argued that the decision to press banks to cushion lending rates was in line with the recommendations of the Bangladesh Business Forum (BBF) headed by the chief adviser.

BB governor Salehuddin Ahmed said earlier that they could not just ask the banks to lower the lending rates. On the contrary, that is exactly what the BB did on February 19, asking PCBs to submit proposals within two weeks on how to reduce IRS

and fees for various banking services, and on May 6 set conditions for issuing licenses for opening new branches.

The BB also proposed that the banks withdraw all charges relating to accounts operation and stop charging handling costs from the clients.

According to a BB report, the average IRS of commercial banks is 6.16%, whereas the average international spread ranges between 4% and 5%. A few examples of the IRS may be examined from the table (constructed from the February 19 Daily Star report).

As of April 20, the country's banking sector witnessed an upward trend on deposit rates while the lending rates exhibited a declining trend.

There is copious empirical evidence that suggests that bank-lending rates adjust differently to deposit rates, giving rise to an asymmetric adjustment in the spread.

Studies have shown that banks may adjust their lending rates asymmetrically, that is, raise their lending rates faster when market interest rates (on govt. bonds, savings certificates etc.) are rising, and lower lending rates when market

rates are falling.

There are studies, which examined the relationship between prime lending rates (PLR: Interest rates charged to most trustworthy borrowers) and deposit rates. In fact, banks may set their PLRs as some "mark-up" relative to deposit rates (in the US this mark-up is approximately 3% above 10 year T-bonds). If this "mark-up" becomes too high or low, the market forces will put pressure on the banking industry to adjust back to some "normal" or equilibrium spread.

Banks' Association Chairman Nazrul Islam Majumder, however, defended the current rates, saying that running PCBs incur higher costs as they employ skilled staff demanding higher pay and benefits. He argued that reduction of lending rates is unsustainable unless the interest on savings certificates and treasury bonds are slashed.

Make no mistake, the business of banking, anywhere in the world, isn't set to operate and maximise profit like perfectly competitive firms following the golden rule of "price equal to marginal cost" (MC=cost of producing an additional unit of service).

Banks operate more like monopolistic competition and maximise profit until MC equals MR, where marginal revenue (MR) is the additional revenue earned from a given service equal to the cost of that same given service (MC).

Don Patinkin, in Money, Interest, and Price (1965), argues that if banks were to operate under perfect competition and no government interference, then they would produce and sell their products like any other industry and would earn normal economic profit. But that is not so and, hence, banks make more than normal profits.

Because of monopoly power, banks can produce differentiated products and quality services, which reflect cost and price differences. If depositors and borrowers are willing to pay for those products and services, so be it. If PCBs operate inefficiently like the NCBs, then we won't have any PCBs existing on the horizon.

The wedge between the lending and deposit rates reflect information asymmetries between banks and their clients. Once banks and their customers establish some business con-

tracts, it becomes costly for clients to switch to a different lender. As a result, banks may be slow to adjust their rates to declining market rates, causing the spread to widen relative to some equilibrium spread.

- Cost of intermediation -- one that facilitates mobilisation of savings, diversification and pooling of risks, and allocation of resources efficiently. Since savings deposits and loans aren't always synchronised, intermediaries like banks incur certain costs due to uncertainty. To recoup those costs, they adjust the interest rates for deposits and loans.

- Efficiency of the intermediation process. For example, under perfect competition the wedge is narrower, composed only of the transaction cost, while in an imperfect market, the wedge is wider, reflecting inefficiency in market operation.

- Inefficiency in the intermediation process of a repressed financial system (as in Bangladesh). This is because in a control policy regime (e.g. BB intervention) credit policies involve substantial

Lending and deposit rates spread

Commercial Banks	Spread (%)	Lending rate (%)	Deposit rate (%)
Nationalised banks	5.88	NA	NA
Private comm. banks	6.17	NA	NA
Private foreign banks	8.98	NA	NA
Brac Bank	13.47	6.51	19.98
Standard Chartered Bank	11.60	3.31	14.91
Islami Bank	7.29	6.80	14.15

administrative costs, and interest rates with set ceilings fail to reflect the true cost of capital. Such a policy regime encourages non-price competition (e.g. see the Table for divergences of rates).

- The government sector's reliance on the domestic market to finance its fiscal deficit; tightening of monetary policy to reverse inflationary expectations.

- Quality of collateral and, therefore, the cost of borrowed funds to the investors.

Political uncertainty, economic slowdown, and inflationary environment also signifi-

cantly distort the coordination of deposits and lending, leading to a spectre of declining profitability, non-performing loans, and distress borrowing. As a result, the premium charged on credit is high, keeping lending rates high while widening the interest rate spread.

We are not saying whether banks should cushion the IRS or not. In the present inflationary environment in Bangladesh, lowering lending rates seem to be fuelling further inflation -- certainly a counter-intuitive inflation -- combating stance.

Besides, BB must assess the prevailing macroeconomic

environment vis-à-vis the performance of the banking sector before pressuring banks to lower their lending rates.

Macroeconomic environment influences the ability to repay loans, and the demand for loans. Contractionary monetary policy by BB to reverse inflationary spiral, and pressuring banks to lower the lending rates at the same time, may be deemed as a flawed and unsustainable policy.

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