

## SAARC and security

Translate resolves into results

**T**HAT there should be more action than words is a common feeling of the people of the SAARC countries, as they continue to face natural as well as man-made catastrophes of severe kinds. After twenty-three years of its existence, it is justifiable for the people to look up to the leaders to implement policies that would remove wide-scale poverty and ensure social, economic and food security of the present generation and that of the future ones. Better disaster management by the respective governments in collaboration with member countries is another vital issue for the people of the SAARC countries, who often lose lives and property in flash floods, cyclones, landslides and earthquakes.

We hope Dhaka's call for making the body more effective in the context of regional and global realities should be taken up with due concern by other members. The burning realities common to all the countries are ever-increasing poverty, trade and tariff adjustment, energy crunch, climate change, terrorism and food security. While many of the issues have direct link to international productivity and price adjustment, we believe a common SAARC strategy to handle the problems would help us find better solutions. There is no denying that the most important of all the issues to be discussed at length is making SAARC Food Bank operational to ensure food security of the people. It is a matter of shame that people in this modern era of scientific advancement should go hungry and remain shelterless. We hope the charter of Saarc Development Fund and Saarc Regional Standardisation Organisation agreement will become effective soon enough to help member countries enjoy the fruits at the earliest.

One cannot but agree that the removal of existing barriers to trade and commerce would contribute to faster growth of the economies that are yet to take off outstandingly. In this context, Dhaka's call for the removal of existing non-tariff barriers to open more windows of opportunities in the least developed member countries should be deliberated upon with due seriousness.

We hope the cross-border incidences that tend to create misgivings among the member countries should be discussed thoroughly and consensus reached to create an environment of trust and goodwill among the security forces that man the borders as well as among the common people. The SAARC meetings no doubt provide opportunities for the policy makers to develop a better insight into their common problems and thereby seize it as an opportunity to find solutions. The common goal should be improving the economic condition and standard of life of the common people.

## The furore at JU

Authorities must act fast

**T**HE students of Jahangirnagar University (JU) must have been moved to a high point of desperation to have fallen back on an action that does not conform to the laid down standards of discipline in an educational institution -- but one must understand their frustration and the reasons for it. They were protesting the university authority's failure to protect them against harassment of the most abominable kind. It pains one to see a premier seat of learning in the country acquire a dubious distinction in terms of sexual harassment.

The recent allegation is not a one off case. Similar incidents had occurred in the past too and the offenders were taken to task. But such occurrences keep on being repeated at the JU. The matter becomes even more painful when one finds that it is again a teacher that the charge of harassment has been levelled against. It speaks so eloquently about the depraved mentality and the low level of morality, that those entrusted with the noble task of enhancing both the mental faculties and moral values of the students, have themselves sunk to.

The matter had come to such a pass that, reportedly, at one time some female students were compelled to give up their studies at the university. It speaks so poorly of the university authority's lack of sensitivity that nothing worthwhile had been done to see that such incidents did not recur.

When parents get their wards admitted at a university they expect that not only would they be offered the best facility to acquire a high standard of knowledge, they would also be safe and secure under the wings of their teachers. When something to the contrary happens it not only defiles the reputation of the institutions, it also taints the image of the teachers' community as a whole.

In this particular instance one finds it ridiculous that the authorities had formed a 'fact finding committee' followed by a 'higher fact finding committee' and eventually a 'high powered committee'. This move may well be construed as a way to procrastinate initiating action against the alleged offender.

Surely the allegation cannot brook any delay, and the authorities must also act fast to formulate a policy against sexual harassment - a longstanding demand of the female students - which for some inexplicable reasons have not been put in place even ten years after the demand was first made. The excuse this time, that certain provisos in the proposed policy conflict with the law of the land, is untenable.

Everything must be done to ensure the safety of the female students.

# Dichotomy of inflation and credit expansion



Abdullai A. DEWAN

**C**OMBATING inflationary spirals while pursuing credit expansion in tandem for achieving poverty reduction through growth is often a mutually exclusive stance -- a dichotomy most macroeconomists would consider at odds, especially when an economy, such as Bangladesh, is projected to grow at 6.5% with a 9% inflation target.

When Bangladesh Bank (BB) Governor Salehuddin Ahmed announced that BB would follow an expansionary monetary policy, rebuffing IMF's prescription for a tighter policy, I heard about outpouring of praise from our economists and business circles. I wasn't sure if the favourable reaction was for real or for BB's courage in defying the IMF.

Prior to defying directives from foreign aid agencies, the policy makers must examine both short and long-term perspectives, weighing the potential risks and gains.

What's the risk involved in BB's expansionary policy stance? That is proficiently argued by The Daily Star's July 25 editorial, which says (rephrased): What is the guarantee

that BB would succeed in directing the flow of credit to the productive sectors of the economy to replenish the supply side (investing in factors of production)? Since the current domestic inflation is mostly driven by external factors such as surging oil and food prices worldwide -- the episode of international transmission of inflation -- failure to make up for any shortfall in business expansion through investment in machinery and equipment, including those in the

the spread between deposit rate and lending rate. My May 19 piece, "Lending rate and deposit rate," has already argued why such a demand is ineffectual. Many of the same arguments also explain why banks may not accommodate any sermons for scaling back loans on high profit earning ventures and shifting to risky and uncertain investment loans.

Don't forget that banks, like any other businesses, operate to maximise profit while minimising risks

accompanied by sustained increase in money supply.

Aside from soaring costs of oil, food, and industrial raw materials, inflation in many Asian countries is partly fuelled by the falling US dollar, particularly in countries that have let their currencies rise -- even if minimally -- against the dollar in an effort to hold on to export markets.

Justin Mott of the New York Times (April 8) reports that, in March, Vietnam's central bank had

and may often get postponed -- hindering growth.

In the presence of unpredictable inflation, relative prices become uncertain -- both lenders and borrowers become reluctant to enter into long-term contracts, a prerequisite for capital investment. Inflation, thus, inhibits growth through scaling down investment in productive activities.

What is the solution then? The government -- not commercial banks -- must create a favourable credit expansion environment, which will stimulate the business of banking across the country. That environment is facilitated by low inflation growth objective.

China and India are reported to have blunted the full impact of inflation so far through a combination of price controls and subsidies, and more countries are joining them. Vietnam has imposed price controls on transportation and gasoline, for instance.

It should be underscored that high inflation is often associated with financial repression as governments take actions to protect certain sectors of the economy. For example, interest rate ceilings are common in high inflation environments. Such controls lead to inefficient allocations of capital that inhibit economic growth.

The BB policy has not resorted to any financial repression -- at least not yet -- and there are no signs of that happening, although we see some moral suasion and indirect pressure on lending institutions to narrow the gap between deposit rates and lending rates.

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## NO NONSENSE

**I**nflation affects capital investment both directly and indirectly. It increases transactions and information costs, which directly hinders economic development. For example, when inflation makes real return uncertain, investment and planning become difficult -- and may often get postponed -- hindering growth. In the presence of unpredictable inflation, relative prices become uncertain -- both lenders and borrowers become reluctant to enter into long-term contracts, a prerequisite for capital investment.

agricultural sector, would only add fuel to the inflationary fire.

The editorial's concern over the decline in the growth of the industrial sector from a hefty 10% (2006-07) to 6.87% in recent months is compelling, but this nose-dive may not have simply been driven by credit crunch -- if there is one at all.

What BB is essentially asking for is investment targeted credit expansion, and for private banks to play an unstinting role to that end. A similar call is also echoed in the editorial, asking "the banks to channel funds from high profit earning trading and other activities to the real productive sectors."

Another expectation of BB from the banking sector is narrowing of

losses. This is in line with a fundamental tenet in economics, which states that resources are always attracted to activities that promise the highest returns.

"Inflation is the major threat to Asian countries," said Jong-Wha Lee, head of the Asian Development Bank's regional economic integration office. For example, India, China and Vietnam have recently been experiencing inflation rates of 7%, 9%, and 19.4% respectively.

The causes of inflation could be traced to the private sector and government deficit spending, or to shortfalls in output. Whatever triggered the initial inflation dynamics, it couldn't persist unless

ordered the country's commercial banks to resume mopping up dollars within the narrow range of exchange rates set by the government.

Inflation in Taiwan has started to sneak up partly because the government waited until this year to let its currency -- the New Taiwan dollar -- appreciate. Taiwan's slim currency strengthening has started to hold down gasoline prices at the pump.

Persistent high inflation accompanies high costs. Its menacing effects not only disrupt the operation of a nation's financial institutions and markets, they also frustrate their integration with the global markets.

portfolio of financial assets depend on the type of stocks and bonds one holds. In general, inflation can discourage investors by reducing their confidence in long-maturity financial papers. The main problem is that a company's returns can be overstated -- one that portrays its earnings growth as overly impressive -- when, in fact, inflation is the reason behind the growth.

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## Consolidating democracy in Pakistan



MUHAMMAD ZAMIR

**F**OR more than sixty years 'democracy' has not always been the assured aspect in a Pakistani's life. It has been like a zebra crossing -- now you see it and now you don't. It is also this aspect that continues to interest some of us who have had experience of Pakistani governance in the past. We tend to follow any transition or evolution in the Pakistani political landscape with care. Consequently, the first few months after the recent elections in Pakistan, the continuing terrorist acts within that country and the inability of the government to usher in a "new dawn" in Pakistani politics have been a source of disappointment.

I have watched the hesitant steps that the new government of the PPP-PML-N governing coalition have taken to strengthen the legal system (so necessary for state building), develop a new economic model, strengthen state institutions and improve basic services. In this context, it would be pertinent to point out that even today, after nearly six months of the February elections, fragmented disagreements exist about reinstating suspended members of the judiciary. This is impeding movement forward within the body politic of that nation.

It would be important to recall here the three important events that took place during a "trau-

matic" 2007 in Pakistan -- the country's declaration of a state of emergency; the suspension of the 60 judges; and the assassination of Benazir Bhutto, which has been described by some emotional Pakistani analysts as being similar to the assassination of President Kennedy and 9/11 rolled into one. These events exposed the fault lines in Pakistan, and the fact that it has failed to develop into a moderate Islamic state, and was still dominated by a 'predatory' elite

(b) that its territory will not be used against any other country, and that (c) foreign terrorists will not be allowed to hide out in Pakistan.

Unfortunately, the bombing of the Indian diplomatic mission in Kabul and allegations by the Afghan government has not added to Pakistan's credibility. Recent US air strikes on the

Pakistan/Afghanistan border in the Federally administered Tribal Areas -- FATA -- where Pakistani soldiers were killed have also not

nize that the stakes are high in Pakistan and the rest of the region, and should offer it the support it needs. Pakistan stands at a strategic global crossroads and could easily deteriorate to become a seedbed for terrorism and extremism with more and more military intervention.

I feel that the EU will gain from increasing its engagement in Pakistan. I agree with such an assumption. This could be in the sector of institution building. The US has to engage with Pakistan on its important issues, and accept that the US is there for the long haul. While doing so, they need to take a regional approach on security issues and cross-border infiltration between Pakistan and Afghanistan. This will need opening the windows towards Iran. There has been in recent times a bit of thaw regarding Iran among US policy planners. This could be widened.

Pakistan has many challenges. The foremost among these is the high expectations Pakistanis and others from South Asia have of their new civilian government. There is a need in this regard to build confidence in the parliamentary system, build respect for the Prime Minister and help the Pakistani political parties to turn from fiefdoms into democratic parties.

As it stands now, the West's interest in Pakistan appears to mainly centre round sorting out Afghanistan, a concern that Pakistan probably shares. There is however a slight catch in this equation.

The Army in Pakistan possibly wants a peaceful and stable neighbour, but it also wants an Afghanistan that has not tilted towards India.

It is a very difficult situation. However, it is this complexity that should encourage the EU as well as the USA to make a more intensive constructive engagement. This is not the time for recriminations but for a positive approach. The EU can help Pakistan to make the structural reforms it needs, and member states such as Spain, Portugal, Greece and Poland could share their experience of moving from military/authoritarian rule to a democracy. The EU needs to recognize

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## POST BREAKFAST

**P**akistan has many challenges. The foremost among these is the high expectations Pakistanis and others from South Asia have of their new civilian government. There is a need in this regard to build confidence in the parliamentary system, build respect for the Prime Minister and help the Pakistani political parties to turn from fiefdoms into democratic parties.

riding problem has been its policies. That is geared towards the fulfilling of short-term US interests.

Recent events have clarified that such a path is resisted by a large section of the local Pakistani population. This has created in turn, deep structural governance problems.

Pakistan's importance as an ally of USA and its expected role in fighting the Taliban has now emerged as an integral part of US presidential politics. Various statements by the US political and Afghan leaderships have brought into question the continued military assistance being provided to Pakistan by external actors.

Querries are now being made as to how the USA and Europe should engage with the newly elected government as to questions of strategy and security.

On the security question, the new government has said that -- (a) it will not hold talks with anyone who refuses to lay down their arms,

helped matters. These strikes have in fact created more political instability.

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