

Business syndicates: Real or imaginary?

Is it conceivable that thousands of traders could have acted as some kind of a syndicate? If they had, why would the volume of imports surge to record levels within a very short time?

AHSAN MANSUR

WHENEVER prices go up, we hear complaints about business syndicates manipulating the market and getting away with unreasonable profits.

Business syndicates are possible if trade is controlled by a few large business houses, which generally have connections with the ruling regime.

In the past, when imports and exports were controlled through licenses and permits and allocation of foreign exchange to the authorised traders, selected business houses could have enjoyed some degree of control over the market.

The worst example of such business syndication was during the British time, with exclusive rights for

trade on important products given only to a limited number of British companies. During Pakistan time, and the early years of Bangladesh, some degree of market power was enjoyed by some companies (public and private) through access to a limited number of licenses for imports and to foreign currency through foreign exchange control.

The current, more liberal, trade and exchange regimes in Bangladesh certainly do not allow continuation of such preferential or discriminatory practices. During the 1990s, Bangladesh abandoned multiple currency practice in favour of the unified exchange rate regime and removed restrictions on all current account transactions.

A few years back, Bangladesh also adopted a floating exchange rate regime with rates determined in the inter-bank market, with unrestricted access for all engaged in external current account transactions (including commodity trade).

With the liberalisation of trade regimes, except for a few products prohibited for health, religious, and security reasons, all other products can be imported by the private

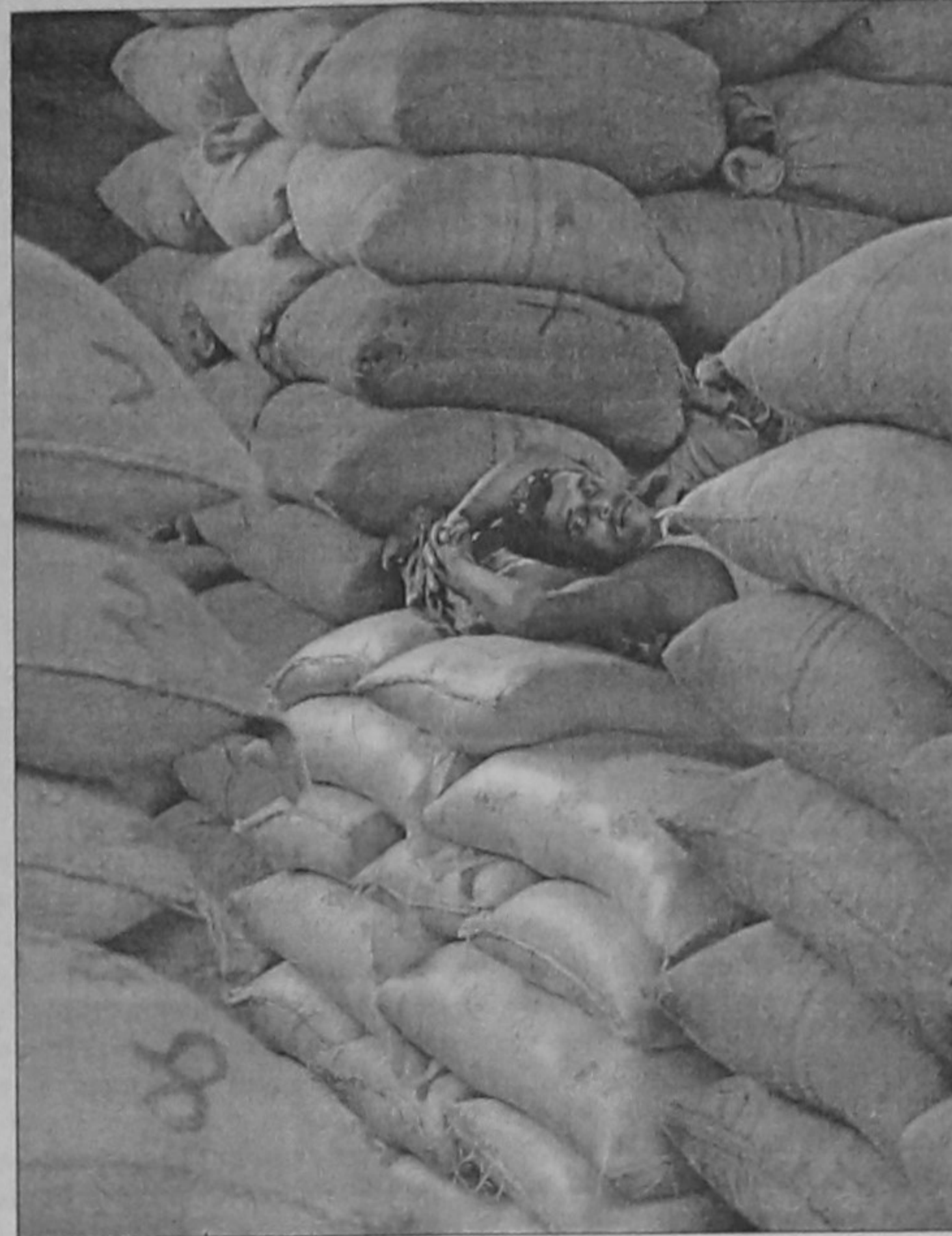
sector, subject to payment of applicable duties and taxes.

As a result, along with the volume of imports, the number of importers in Bangladesh has increased to tens of thousands. In addition to normal growth in imports, whenever prices go up or down in the international market, we see these importers asking for additional import letters of credit.

What was our experience when we were hit by price shocks last year? Let's take the case of rice. Which group imported most rice into Bangladesh in the aftermath of the floods and Sidr? Certainly, until the world prices were lower than the prices in Bangladesh, it was the private sector.

Land ports with India suddenly became active, with thousands of trucks with sacks full of rice lined up across the border. Ships loaded with rice docked at Chittagong port in large numbers. Even the border crossings with Myanmar became busy trading points. Hundreds of traders placed orders for rice from West Bengal, and the volume of rice imports reached record levels.

Is it conceivable that thousands



Stock-piling: The work of syndicates?

of traders could have acted as some kind of a syndicate? If they had, why would the volume of imports surge to record levels within a very short time? Conventional collusive behaviour would imply that, since

rice demand is very inelastic, traders would try to limit imports to a minimum level collectively in order to maximise profit through higher prices.

The sharp increase in letters of

credit opened for importing rice and wheat (1312.5% in dollar terms in 2007/08), and edible oil and oil seeds (539.7% over the same period) certainly goes against the syndication hypothesis.

Could thousands of traders and rice millers ever act like a syndicate? Garment exporters are a good example in this regard. Almost all garment exporters are members of the Bangladesh Garment Manufacturers and Exporters Association (BGMEA), and it is considered to be the most powerful and best organised trade body in Bangladesh.

But, could it limit competition among numerous manufacturers who out-bid fellow exporters and sign contracts accepting very low unit prices, which the BGMEA considers harmful for overall health of the sector? In spite of numerous decisions taken by the BGMEA, unit values of Bangladeshi exports continued to decline, even for products for which Bangladesh is considered to be the most important sourcing country.

When there are thousands of players, the decisions taken at the apex body are not going to be followed in a competitive environment without financial and other sanctions for the violators.

The factories will undercut each other if there is scope for doing so without suffering losses. If BGMEA could not enforce a relatively minor decision, why would anybody

believe that somehow thousands of importers could have become organised in an invisible manner to follow the orders of the so called "rice syndicate."

The hypothesis that syndicates rule the markets in Bangladesh is also negated by the recent declining price trend in most primary essential products. If the syndicates had such market manipulation capacity why would they allow the price of palm oil to fall from Tk. 105 per kg a few months ago to less than Tk. 70 per kg now? Why would the so-called syndicate members incur losses of hundreds of crores of taka due to the collapse of palm oil prices in the international market if they had such control over the market in Bangladesh?

The same applies to soybean, wheat and onion, albeit to a lesser degree. Now that the prices of most commodities are coming down we do not hear about syndicates, as if they have disappeared in a magical way.

The perception of syndication originates from two factors, and the tendency to blame some groups for the miseries caused by price hikes. If world prices go up, domestic prices go up almost instantaneously, since traders use replacement costs of products in setting their current prices.

On the other hand, if international prices decline, the traders do not have any incentive to cut the prices on existing stock and take a

loss. The traders who have unsold inventories will minimise losses by charging at least their cost price by slowing down imports.

At the same time, those importers who do not have large inventories would like to order in large volumes at lower world prices, and have them delivered within the shortest possible time in order to take advantage of the price gaps between the domestic and the world markets.

The gap will certainly disappear as soon as new shipments arrive in the country. In Bangladesh, given the proximity of Singapore and India, the price differential may last only a few weeks.

The windfall profits that the traders get at the time of price spike in the world market gives the impression that they manipulate prices. The instantaneous price adjustment on products already in stock, and bought at lower prices, gives the impression of market manipulation.

The traders, however, see this as the means to replace the stock being sold with new ones at the prevailing market prices. This behaviour, although rational, leads to sharply higher profits, and may not be ethical. However, that is a completely different issue and has nothing to do with market manipulation through syndication.

Ahsan Mansur is a former Division Chief, IMF.

The American anti-intellectual threat

In the US, however, the attitudes of President Bush, leading Republicans, and now Sarah Palin, have been the opposite of scientific. The White House did all it could for eight years to hide the overwhelming scientific consensus that humans are contributing to climate change. It tried to prevent government scientists from speaking honestly to the public.

JEFFREY SACHS

IN recent years, the United States has been more a source of global instability than a source of global problem-solving. Examples include the war in Iraq, launched by the US on false premises, obstructionism on efforts to curb climate change, meager development assistance, and the violation of international treaties such as the Geneva Conventions. While many factors contributed to America's destabilising actions, a powerful one is anti-intellectualism, exemplified recently by Republican vice-presidential nominee Sarah Palin's surging popularity.

By anti-intellectualism, I mean especially an aggressively anti-scientific perspective, backed by disdain for those who adhere to science and evidence. The challenges faced by a major power like the US require rigorous analysis of

information according to the best scientific principles.

Climate change, for example, poses dire threats to the planet that must be assessed according to prevailing scientific norms and the evolving capacity of climate science. The Nobel Prize-winning global scientific process, called the Inter-Governmental Panel on Climate Change (IPCC), has set the gold standard for scientific rigour in analysing the threats of human-induced climate change. We need scientifically literate politicians adept at evidence-based critical thinking to translate these findings and recommendations into policy and international agreements.

In the US, however, the attitudes of President Bush, leading Republicans, and now Sarah Palin, have been the opposite of scientific. The White House did all it could for eight years to hide the overwhelming scientific consensus that humans are contributing to climate

change. It tried to prevent government scientists from speaking honestly to the public. The Wall Street Journal has similarly peddled anti-science and pseudo-science to oppose policies to fight human-induced climate change.

These anti-scientific approaches affected not only climate policy, but also foreign policy. The US went to war in Iraq on the basis of Bush's gut instincts and religious convictions, not rigorous evidence. Likewise, Palin has called the Iraq War "a task from God."

These are not isolated, albeit powerful, individuals out of touch with reality. They reflect the fact that a significant portion of American society, which currently votes mainly Republican, rejects or is simply unaware of basic scientific evidence regarding climate change, biological evolution, human health, and other fields.

These voters generally do not reject the benefits of technologies

that result from modern science, but they do reject the evidence and advice of scientists regarding public policies.

Recent survey data by the Pew Foundation found that while 58% of Democrats believe that human beings are causing global warming, only 28% of Republicans do. Similarly, a 2005 survey found that 59% of self-professed conservative Republicans rejected any theory of evolution, while 67% of liberal Democrats accepted some version of evolutionary theory.

To be sure, some of these deniers are simply scientifically ignorant, having been failed by the poor quality of science education in America. But others are biblical fundamentalists, who reject modern science because they take the word of the Bible as literally true. They reject geological evidence of climate change because they reject the science of geology itself.

The issue here is not religion versus science. All of the great religions have traditions of fruitful interchange with -- and, indeed, support for -- scientific inquiry. The Golden Age of Islam a millennium ago was also the age in which Islamic science led the world. Pope John Paul II declared his support for the basic science of evolution, and Roman Catholic bishops are

strongly in favour of limiting human-induced climate change, based on the scientific evidence.

Several leading scientists, including one of the world's greatest biologists, E.O. Wilson, have reached out to religious communities to support the fight against human-induced climate change and the fight for biological conservation, and those religious communities have reached back in harmony with science.

The problem is an aggressive fundamentalism that denies modern science, and an aggressive anti-intellectualism that views experts and scientists as the enemy. It is those views that could end up getting us all killed. After all, that kind of extremism can even lead to war, based on perverted views that a particular war is God's will rather than a failure of politics and cooperation.

In many statements, Palin seems intent on invoking God in her judgments about war, an ominous sign for the future if she is elected. She would certainly stoke many enemies who will look to their own brands of fundamentalism to strike back at the US. Extremists on both sides end up putting at risk the vast majority of humans who are neither extremists nor anti-science fundamentalists.

It is difficult to know for sure

what is giving rise to fundamentalism in so many parts of the world. What is happening in the US, for example, is not happening in Europe, but it is of course characteristic of some parts of the Middle East and Central Asia.

Fundamentalism seems to emerge in times of far-reaching change, when traditional social arrangements come under threat. The surge of modern American fundamentalism in politics dates to the civil rights era of the 1960's, and at least partly reflects a backlash among whites against the growing political and economic strength of non-white and immigrant minority groups in US society.

Humanity's only hope is that the vicious circle of extremism can be replaced by a shared global understanding of the massive challenges of climate change, food supplies, sustainable energy, water scarcity, and poverty. Global scientific processes like the IPCC are critical, because they offer our best hope of forging a consensus based on the scientific evidence.

The US must return to the global consensus based on shared science rather than anti-intellectualism. That is the urgent challenge at the heart of American society today.

Jeffrey Sachs is Professor of Economics and Director of the Earth Institute, Columbia University.

'A surge is good'

With the security situation in his country steadily deteriorating, and Taliban activity on the rise, Afghan President Hamid Karzai sat down in New York last week with Newsweek's Lally Weymouth to discuss the future of Afghanistan.

WEYMOUTH: How is the situation in your country? Reportedly the Taliban is gaining strength and the Nato position is deteriorating. Is that an accurate assessment?

KARZAI: The Taliban are not strengthening, (but) we are not doing things that we should be doing.

Such as?

Do you mean sanctuaries in Afghanistan or in Pakistan? Sanctuaries in the region. I am trying to be very careful now. Are you saying the international community should have paid more attention to the tribal areas? Absolutely.

What should they have done? They should have done all that was needed to be done -- political and diplomatic, the right concentration of both.

You mean they should have gone

in there militarily? Not militarily. They should have used and kept open all options in order to bring security to Afghanistan.

Didn't former Pakistani President Pervez Musharraf try quite a few options?

Maybe he did try, maybe the West did try it with him, but we did not see the results. And as we see now, unfortunately, the problem has gone deeper into Pakistan. The bombing recently in Islamabad (of the Marriott hotel) -- unbelievable, shocking. I've had so many lunches and dinners in that hotel. Unless you spray Afghanistan's poppy fields and kill the crops, some argue there is no way you can ever win against an insurgency fueled by so much heroin money.

Spraying is not a total solution. We have been able to bring a decline in poppy production in Afghanistan. We have freed 18 provinces in Afghanistan from poppy production. We have reduced poppy by 19% this year in Afghanistan. If we continue to work that way, Afghanistan will over time be free of poppies.

Do you have faith in the new chief of staff (Gen. Ashfaq Kiyani)? I have faith in Zardari, and I am sure he will deliver. I am hearing

good things about General Kiyani as well. Afghanistan will do everything to give them a sense of confidence.

Both US presidential candidates say they would send two to three more brigades to Afghanistan. Do you think that there is any point in additional American troops going to Afghanistan when American casualties are so high there unless there is a change in strategy?

The American casualties are not high, and the American casualties will not be high. They are higher than they are in Iraq.

In the past three months, yes. Because of the things that we did not do for the past six years. The Afghan people are not bringing casualties to the American forces. It is the terrorists who are also attacking us in Afghanistan.

That is why we have to have the right approach. A surge is good to concentrate at the right place. But at the same time we must fully back the training and equipping of the Afghan army and police, and we must prepare for a day where Afghanistan will be no longer a burden on the shoulders of the United States and the rest of the international community.

Are you asking President Bush for more forces? I will not be specifically asking for more forces. It is a (...) US plan to

send more forces to Afghanistan. What we would ask is that these forces be deployed in the right places (...) and there must also be a lot of concentration on training the Afghan army and the police.

Have you met the US presidential candidates? I met Governor Palin yesterday. And I will be talking on the telephone with Senator Biden, whom I have known for a long time.

What did you think of Sarah Palin? A very capable lady. She asked the right questions.

So you have met McCain and Obama in the past? I have met them both, yes.

Do you care who wins? Do you think one would be better for your country? Afghanistan has bipartisan support in America. And I am sure that whoever comes will be looking after Afghanistan equally well.

Are you going to run again, Mr. President? I was asked this question yesterday and my answer was the poem by Robert Frost: "The woods are lovely, dark and deep/But I have promises to keep and miles to go before I sleep..."

So can I say yes, you are going to run again? Yes.

© Newsweek International. All rights reserved. Reprinted by arrangement.

Advertisement for Vittachi featuring a cartoon mouse character and the text 'How the most important thing ever said wasn't'. Includes a quote from a cartoon character: 'I'm helping Science with Pride... Hey, I've never said that!'.



GETTY IMAGES