DHAKA WEDNESDAY FEBRUARY 25, 2009

A THROW-FORWARD ON GLOBAL ECONOMIC MELTDOWN

Baboon's blood, ana other

remedies



SYED NASIM MANZUR

N 26th January, 2009 at the 39th World Economic Forum at Davos whose theme this year was "Shaping the Post Crisis World", WEF delegate Richard Olivier hosted a seminar titled "Leadership lessons from Macbeth" for Davos delegates that included Russian PM Putin, NewsCorp CEO Rupert Murdoch and Chinese Premier Wen Jiabao.

"Cool it with a baboon's blood", he advised, quoting from the witches immortal incantation to the troubled Thane of Cawdor. Other discussions included comparison of sorcery and banking and Madoff and Houdini. Incredible as all this may sound, if one year ago one had suggested that the US government would have to bail out Citi Bank and Bank of America, Americans would shop less and less ,and tens of millions of unemployed Chinese workers would return from closed factories to the countryside, it would have sounded equally unbelievable. But today this is the reality worlds' economy is convinced that Indian Rupees for Infrastructure prothan the year past.

global economic crisis is the spectre of money into the Small Industries Dev unemployment that is now looming Banktoincrease loan flows to SMEs. across the world. From 11 million unemployed Americans to 14.4% unemployment in Spain to 500,000 Indian textile workers laid off in a week in Bangalore, their government that included 20,000 casual jute workers in incentives for small firms to employ Bangladesh,20,000 layoffs at Nissan, apprentices as well as support for this loss of jobs is both an outcome and a driver of crisis. Unemployment especially in the developed world dampens demand for exports from the developing economies and to a lesser extent western economies.

Don't shoot the messenger. Policy makers must not discourage bad news in their attempts to show target attainment and look good. The preferred management style of the past the ostrich (bury your head in the sand and it will go away) is simply not going to work this time. The fallacy that exporters and industry can generate nonstop high growth must also be broken. Banks must be willing to take a long term realistic view and not panic at the first sign of a downturn.

trying?

November 10,2008: China announced a \$586 billion stimulus package with investments in infrastructure and public spending. Followed by major cuts in interest rates, real estate rates and taxes, and hiking up tax rebates to exporters. On November 17th Ministry of Human goods. Resources and Social Security urged states to postpone raising the minimum wage.

we are faced with and most of the Government readied 50,000 Crores the year(s) ahead will be much worse jects. The Indian central bank reduced ble 22.7 million Taiwanese citizens The most serious repercussion of the ment cut fuel prices and pumped more

November 24th 2008: Confederation of British Industries (CBI) recommended a 10 step plan to export firms.UK government cut VAT by 2.5% to 15% and the Bank of England has recently reduced the bank rate to 1%.

December 2008 : Japanese governdemand for capital goods from the ment announced US\$253 billion stimulus package and is already con-So other than baboon's blood reme-sidering an extra economic stimulus if dies what else have governments been the economy deteriorates further,

called the Green New Deal.

Representatives passed USD 819 billion economic stimulus package which includes a "Buy American" clause that mandates public projects task force to counter the fallout is financed by this package to buy US made iron, steel and manufactured

January 13th 2009: Thailand's stimulus package of US\$3.3bn includes cash handouts for low earners, tax and November 24, 2008: Indian interest rate cuts and subsidies for transport and utilities.

January 18th 2009: 91% of the eligithe face of this global crisis. repo and reverse reporates, and govern- had collected their NT\$3600 (USD107) worth of shopping vouchers, part of an NT\$ 85.7 economic stimulus package.

February 6th 2009: Italy announced 1500 Euros incentive to exchange their old cars to buy a new one and 500 Euros for a new motorcycle as part of a USD 2.56 billion stimulus package to encourage customers to buy cars and appliances and furniture.

February 9th, 2009: Malaysia announced cuts in electricity rates by 5-10% by end of February 2009 and job losses of 400,000 by end of the year.

So as nations scramble to salvage, revive and protect their economies, demand and also to try and provide through an array of actions such as stimulus packages, tax breaks, deval-

uation, handing out shopping vouch-January 2009: US House of ers, protectionist measures and interest rate cuts, what has Bangladesh been doing?

Bangladesh has announced that a being formed and will meet for the first time in end February or early March 2009.

In order to try and be part of the solution rather than the problem I would like to propose some actions maybe Bangladesh could take as well as some actions definitely to avoid, in

DO'S:

Do accept that we will be affected and move on from there. More than half of the GDP of Bangladesh is connected to the global economy. Developed economies buy 85% of our total exports and sell us about 60% of our total imports. If we add India and China to this equation the percentages are even higher. Today almost all the western economies are grappling with collapsing demand, rising uneployment a financial system in disarray, failing banks and tightening credit. China is spending hundreds of billions of dollars to stimulate local jobs for tens of millions of displaced workers returning to the countryside.

India is faced with shrinking demand for its goods and services and revising its growth targets downwards. Do we really believe we can escape unscathed?

Do use this opportunity to realize the importance and potential of the local market for goods and services. For too long our policies have prioritized only exports and our entrepreneurs have chosen trading over manufacturing. We need to foster and encourage industrialisation as a means to create jobs and new consumers. Prioritizing ADP projects with maximum multiplier effects and ensuring implementation will also help boost local demand.

Do identify areas and sectors that need help and provide targeted help to deliver the growth we need. Frozen foods and jute goods are two such export sectors that are already facing a downturn in demand. Increased pre and post shipment financing, setting up internationally accredited testing facilities and working with our development partners to promote eco friendly jute abroad could be such actions. There is no one size fits all solution so it is essential that there is continuous dialogue with the stakeholders to best understand their needs.

Do diversify export base and markets with a long term view. Pharmaceuticals and IT as new products, Japan for our garments and Taiwan as a new destination for our manpower are just a few examples.

Do reduce the effective Bank interest rates and charges which in Bangladesh still continue to be very high especially when compared with our competitors in the region. The high deposit rates that are being maintained in the interests of pensioners and few others can be replaced by "special savings bonds" to help bring down the cost of capital for banks. As interest rates come down all over the world we must find ways to allow our banks to do

CONTINUED ON PAGE 29