How vulnerable is Bangladesh?

The vulnerability test should not only look at the aggregate exposure to the world economy but also consider the exposure of specific sectors in terms of export concentration, and include the quality of labour market policies and social safety-nets as mitigating institutions.

ANIS CHOWDHURY *and* IYANATUL ISLAM

There is a consensus among all leading economists and major international organisations that the world economy is in serious turmoil. However, there seems to be some degree of uncertainty about the effects on developing countries. Bangladesh's leading economists and business leaders are holding different views -- but no one is expecting huge fallout.

On February 13 Mr. Anoop Singh, IMF Director of Asia and Pacific Department opined: "Bangladesh's economy has been able to resist, thus far, some of the effects of the global financial crisi. The domestic economy has retained momentum from a favourable agricultural performance and Bangladesh has benefited from the fall in food, fuel and other commodity prices. Moreover, limited capital account dependence has largely protected the country's banks and stock market from the first round impact of the global crisis."

Assistant Secretary General Ajay Chhibber of the United Nations said that that Bangladesh would be less affected by the global economic downturn than other nations as it was not much integrated with the world financial system. "We hope the impact of recession will be much less for Bangladesh," said Mr. Chhibber.

Dr. Sultan Hafeez Rahman, Director General, Pacific Department of ADB, told *The Daily Star* that Bangladesh was not so exposed to the global economy and its portfolio investment was also limited. Hence, there is hardly any chance for Bangladesh to be affected through financial linkages.

However, they did acknowledge that the situation might change if the global recession was prolonged. Their optimism for Bangladesh arises from its limited exposure to the world economy as evident from low trade to GDP ratio and low inflow of foreign capital, stable macroeconomic situation, and favourable international commodity prices.

Two recent World Bank policy notes (2008 and 2009) have suggested a framework for assessing the vulnerability of developing economies to the global economic crisis. The first focuses on fiscal and current account balances and financial sector stress. The second creates an ordinal index with which to classify more than 100 developing economies into "high exposure," "medium exposure" and "low exposure" cases.

A "high exposure" country has high initial levels of poverty and decelerating growth. Using the 2008 benchmarks, 25 % of the countries in the sample have both high fiscal and current account deficits. Using the 2009 criteria, 39% of the countries have "high exposure." In addition, about 75% of the "high exposure" countries have either low institutional or low fiscal capacity.

GETTY IMAGES

Are we prepared?

Bangladesh is classified as a "high exposure" country. It also has, according to this classification scheme, "medium" institutional capacity and some fiscal space. This assessment by the World Bank regards Bangladesh as one of the countries with a high initial level of poverty that is likely to increase significantly as a result of deceleration of growth. Bangladesh is expected to have some institutional and fiscal capacity in responding to the global economic crisis.

The World Bank "vulnerability analysis" does not clarify the reasons for this growth deceleration. This is where we need to examine the nature and composition of external linkages. The vulnerability test should not only look at the aggregate exposure to the world economy but also consider the exposure of specific sectors in terms of export concentration, and include the quality of labour market policies and social safety-nets as mitigating institutions.

The aggregate magnitude of external dependence is less important than the composition of this dependence. Particular countries could, for example, have a relatively low trade-to-GDP ratio, but this could mask a high degree of dependence on particular export markets and particular products and services. Furthermore, some external linkages in particular countries could be more important than others.

Let us now apply the above framework to Bangladesh. According to the Bangladesh Bank's latest figures, knitwear and woven garments constituted over 77% of countries total export earnings in 2008. About 75 % of the exports of garments and knitwear go to the US and Europe, two of the regions most affected by the global recession.

There is a view that Bangladesh's exports are less likely to be affected as they serve the low end of the market. Hence, Bangladeshi products will benefit as people in the US and Europe cut back their spending on expensive items. Anisur Rahman Sinha, the owner of the country's biggest garment manufacturing group, Opex, sees no reason to panic, saying cheap prices will help Bangladesh ride out the turmoil. "It's true some of the top retailers are downsizing their inventories due to the crisis. But we don't think we have much to worry about."

Professor Taslim of Dhaka University has exposed the flaw in this argument. It means Bangladesh is supplying "inferior" goods whose demand rises as income falls. If that is the case, then Bangladesh should lose out when the US and European economies recover. You cannot have it both ways -- benefiting from the downturn as well from the recovery.

Therefore, even if the macro economy of Bangladesh may appear resilient, the garment sector, the largest employer, is likely to be severely affected by a prolonged and deep global recession. One can only surmise the impact on the labour market and poverty from the downsizing of this industry in the absence of labour market programs to provide income maintenance, and to retrain and redeploy workers in alternative jobs.

One should note that export earnings went down by 10.07% in December 2008 compared to the same month in the last fiscal year; the second time in a row that this had happened. This indicates that the global financial trauma has begun to weigh on the country's export sector.

Bangladesh is heavily dependent on remittances, about 25% of which comes from the West and 75% from the Middle East. Dubai, a major destination of Bangladeshi workers, has been hit hard by the crisis. In the US and the UK, a large segment of the Bangladeshis work in the hospitality industry. This industry is particularly vulnerable to recessions. Therefore, remittance flows could soon fall.

The World Bank now believes that, due to the global economic downturn, the country's GDP growth will decline from 6.5% to 5.4 % in the current the fiscal year. Bangladesh needs to grow at 7-8% for a sustained period for any appreciable impact on poverty reduction.

The jury is still out on how Bangladesh will fare during the course of the global economic crisis. A lot depends on whether the global economy will experience a "V" shaped recovery or whether we will see the emergence of a lost decade. Historical evidence, compiled by Reinhart and Rogoff, suggests that recessions engendered by financial crises can be long and deep, with labour markets taking about five years to recover. In light of this, and the vulnerability of the Bangladesh's key export sectors, policy makers should prepare for the worst-case scenario.

Anis Chowdhury is currently working at the United Nations, Department of Economic and Social Affairs (UN-DESA), New York and Iyanatul Islam at the International Labour Organisation (ILO), Geneva. The views expressed here are personal and should not be associated with any UN agency.

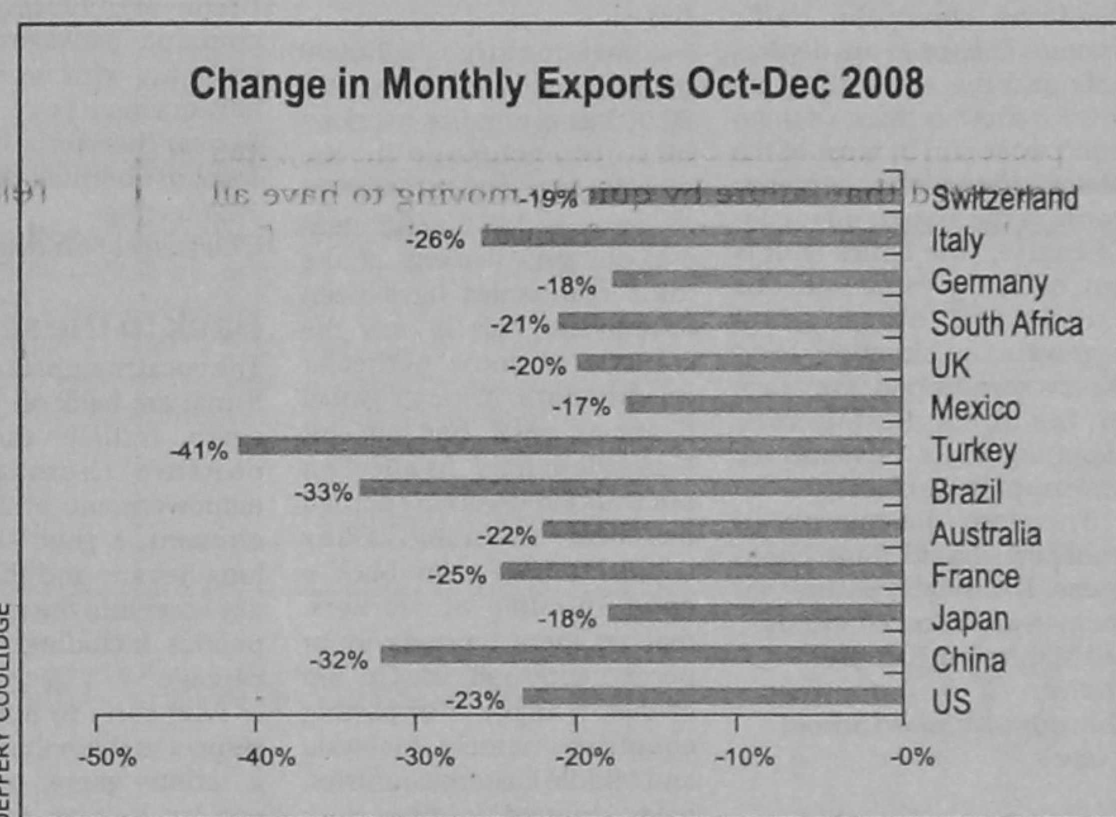
Murky protectionism threatens global economic recovery

This is "murky protectionism" -- measures that abuse legitimate discretion allowed by various international trade agreements. Examples include abuses of health and safety regulations and clauses in stimulus packages that confine spending to domestic producers.

RICHARD BALDWIN *and* SIMON EVENETT

JEFFERY COOLIDGE

Protectionism is not good for any country.



When G20 leaders met last November in Washington, trade was a side issue; urgent efforts focused on stabilising financial systems and kick-starting economies. When they meet at the 2009 London Summit, trade must move to center stage. Trade is experiencing a sudden, severe and globally synchronised collapse (see Figure 1).

Protectionist forces have already emerged, and will strengthen as the recession gets worse. But this is not 1930s-style protection that relies on transparent tariff barriers. Governments' crisis-fighting measures have spawned new, murkier forms of protection which discriminate against foreign firms, workers and investors -- often in subtle ways.

A World Bank database finds 47 trade-restricting measures enacted by G20 members despite their pledge to eschew such measures. The use of WTO legal protection, such as antidumping measures, is also up sharply.

Figure 1. Sudden, severe and synchronised change in monthly exports Oct-Dec 2008, or latest data. Enlarge image

The book we published on VoxEU.org concludes that protection is not yet a cause of trade's plunge. It would, however, be irresponsible not to recognise that the mercantilist specter is knocking at everybody's door and that the recession emboldens protectionist forces inside every G20 member.

A protection-recession spiral is one of the few things that have not yet gone wrong in this crisis. The G20 should try to take concrete steps to ensure the spiral never begins.

In our book, trade experts from around the world provide a list of such steps. The boldest proposal, by Zedillo, is to keep the peace by preparing for war. He suggests that countries pledge to use whatever legal means they have at their disposal to retaliate against others for protectionist actions that harm their exports. "All you need," he writes, "is one major trade partner to commit to retaliation for others to follow suit. We need tough love, not sweet words in our present circumstances."

Other proposals in the book are more traditional and include a commitment to a more specific and broader standstill on new protection backed up by a real-time surveillance mechanism, a pre-commitment to negotiating the removal of all crisis-linked measures in three years time and a leaders-level negotiation that would get the Doha talks back on track.

Two leading explanations of the sharp contraction in trade are the widespread use of international supply chains and the drying up of short-term trade credit. The supply chain could be key.

Lower US spending on, say, laptops assembled in China, not only lowers Chinese exports: As the laptop parts and components are sourced globally, exports across the entire supply chain fall. The decline in trade is a multiple of the recession-linked decline in US final-good import demand.

The point is that trade is measured as the total value of the goods, so the same value-added product crosses borders many times as parts become components, components become intermediate goods and intermediate goods become final goods. This is how international supply chains amplify the trade effects of national downturns in demand.

Supply chains also explain the unusually sudden and synchronised collapse. The supply-chain nodes continuously communicate to keep the parts-and-components flow in line with final goods demand. When the message comes that one less laptop will be assembled in China, the whole chain scales back immediately.

Most international trade involves one company ordering products from another. The exporter faces payments uncertainty, and the buyer faces counterparty risk until the exported good is actually delivered to the foreign port and payment is made. To bridge this uncertainty, the buyer's and seller's banks typically issue paired credits, with a letter of credit being a prime example.

The crisis has affected trade finance in two ways: The first is that traders who have always used such trade financing are finding it harder to obtain. Banks no longer trust each other, and so the issuing of paired credit is breaking down, even though trade credit is viewed as a particularly safe credit risk. Trade credits are affected by the generalised credit crunch.

The second is that widespread fear of the unknown has led many traders to insist on letters of credit from partners with whom they previously traded on the basis of trust.

It is an iron law of politics that major increases in government intervention in the economy are always accompanied by measures that favour domestic goods, companies, workers and investors. Today's massive bailouts and fiscal stimulus packages are no exception. Yet this is not Economics 101 protection.

This is "murky protectionism" -- measures that abuse legitimate discretion allowed by various international trade agreements. Examples include abuses of health and safety regulations and clauses in stimulus packages that confine spending to domestic producers.

Developed nations tend to rely on subsidies and regulation, while developing nations deploy all forms of protection, but especially tariffs and other border measures. Russia raised tariffs on used automobiles, and Ecuador raised tariffs on more than 900 items. India banned Chinese toys as supposedly unsafe, and a clause in the recent US stimulus legislation subsidises the manufacturing of advanced batteries and components, but only for manufacturers located in the US.

Retaliation against foreign measures has not yet been an important motivation, except in the banking and auto sectors. The automotive sector bailouts announced or discussed prove a deliberate pattern of retaliation/reaction. After the US started talks on a massive bailout of US automakers, Britain, Canada, France, Germany, Italy, Russia, Sweden and China are all considering or have implemented auto-industry bailout measures. The real fear is that this sort of retaliation spiral could get going in other sectors, if the G20 fails to act forcefully at their April meeting.

A protectionist spiral in the next nine months would be a tragedy -- aborting any hope that the stimulus packages will work and killing any hopes that cooperation on the economic crisis will set the stage for tackling other global commons problems. This simple truth seems to have escaped the attention it deserves -- perhaps because the G20 process is guided by finance ministries and central banks.

Richard Baldwin is professor of international economics at the Graduate Institute, Geneva. Simon Evenett is a professor of international trade at the University of St. Gallen. They are co-editors of The Collapse of Global Trade, Murky Protectionism, and the Crisis: Recommendations for the G-20.

Helper Maribet takes funny revenge on employers

MY domestic helper is a genius. She can out-Sudoku me with one hand tied behind her back and the other cooking dinner. (She actually does this, just to show off.)

In fact, let's face it, many domestic helpers are smarter than their employers. I have one friend who is an actual rocket scientist (the official term is astrophysics lecturer).

He could design a spaceship to fly to the Omega Nebula in ten minutes, but could he iron a pleated skirt? Not in a million years.

His helper, on the other hand, can look after him, his family, herself, and her family of 16 in the Philippines -- and could probably design a spaceship with a *pleated* engine housing, how cool is that?

The hidden brilliance of domestic helpers has long been celebrated in the guise of supermaid stories, such as the tales of Inday from last year.

Some of these stories are too good to stay secret, so say hello to Inday and Maribet and Teresita, the cheekiest supermaids on the circuit. Inday is very bose, Maribet is smart, Teresita is wild, and their stories range from pure humour to a bittersweet recognition of how hard a helper's life can be. Here are some of my favourites.

Maribet comes back from holiday and finds that her employer has bandages on both ears.

"Sir, what happened?" she asks.

"I was doing my own ironing when the phone rang," he replies. "I accidentally answered the iron."

"Too bad," says Maribet. "And what about the other ear?"

"I had to phone an ambulance."

The employer's wife comes home early from work one day and catches Teresita with her handsome nephew.

"Is this what I pay you for?" the boss's wife shouts.

"No," replies Teresita. "This is free of charge."

On their day off, domestic helpers Maribet and Teresita are eating their lunch at a table outdoors in a public area.

A waiter from the restaurant nearby comes to the table and points to a sign posted nearby: "You cannot eat your own food here."

"No problem," says Maribet.

They swap lunchboxes and keep eating.

Maribet walks into the dining room to find that her employer's child has a banana in his ear and rice up his nose.

Employer: "What do you think is the matter with him?"

Maribet: "He's not eating properly."

Teresita is talking to her employer, who is an old man.

Teresita: "The doctor phoned."

Old man: "What did he say?"

Teresita: "It's bad news. You've got cancer and Alzheimer's disease."

Old man: "Oh dear. Well, at least I don't have cancer."

Employer: "Maribet, make me a cup of coffee, with no cream."

Maribet: "Your wife forgot to buy cream, sir. I'll get you a cup of coffee with no milk."

Maribet: "What's the difference between a domestic helper and a nun?"

Teresita: "I don't know."

Maribet: "A nun only serves one God."

Maribet to Teresita: "Did you hear about the domestic helper in Saudi Arabia who died and went straight to hell? It took her two weeks to realize that she wasn't at work any more."

Got stories about silly employers, cheeky helpers or tragicomic boss-helper situations? I've collected some and written some and put them up on a website. Click here to go to the Maribet website where you can post more tales, or just read them and weep.

Visit our columnist at: www.vittachi.com.