Indo-Bangladesh relations: View of a new horizon

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THAT small is beautiful does not hold good in this world, not at least in the domain of international relations. In the new world order, it is quite natural that the nations of the world, particularly the economically weaker and smaller ones, will re-evaluate their development needs and revise their politico-economic requisites. Therefore, it is more pragmatic to think regionally than nationally for the obvious reason that meaningful inter-state economic cooperation would invariably ensure sustainable growth and development.

Establishing sustainable development cooperation in the impoverished South Asia, particularly with India, has been all the more imperative. Obviously, such a partnership may not only lead to a strong Bangladesh but also usher in a new horizon of economic development, regional peace and security.

The Indian subcontinent (India, Bangladesh, Pakistan) was once the richest region of the globe, not only in terms of resources but also in learning and culture. When the Romans were unable to solve simple arithmetic for want of a "zero" and the Europeans in general were in the dark and accustomed to a sort of cave-life, the Hindu sages of India were well-versed not only in higher mathematics but also in such disciplines like astronomy, chemistry, biological science and so on.

Thousands of years of pillaging and plundering, from Alexander of Macedonia, some despotic Muslim rulers of West and Central Asia to Robert Clive of East India Company and his imperial descendants, made this subcontinent a poor third world,. There is no doubt that after the Industrial Revolution, the British could have attained their imperial status only at the cost of this part of the world.

After World War-II, the British were no more able to hold on and Lord Mountbatten left the subcontinent in a precarious situation, sowing the seeds of discord instead of concord among the conflicting interest groups. However, much water has flowed down the Ganges, Padma and Jamuna since then, and India is now one of the giant economies with enough clout to sway international relations.

There is no denying the fact that, given perceptive leadership in India and Bangladesh, there are almost infinite opportunities for mutual development, mostly in the areas of education, culture, communications and trade. With assistance of India, we can develop our power-generation, ports and railway system, which may lead to FDI in our key industrial sectors.

It may be mentioned that the rail system in India is the second largest in the world, with about 62,000 km of tracks. Indian Railways has over 1.6 million employees and is the world's biggest employer. On the other hand, we may also avail such a vast network and sell our products in the huge Indian market. With sincere attitude on either side, the two countries can confidently look forward to gainful trade and development. There is no doubt that India-Bangladesh economic cooperation has tremendous possibility.

India, being the biggest country in South Asia, has a great responsibility towards its small neighbours like Bangladesh or Nepal, and should be reasonably considerate in dealing with them. If there is a sense of purpose, issues like border disputes, migration, trade imbalances, and so on, could easily be solved through normal dialogues. In short, India has to take the small neighbours into confidence and ensure their security and territorial integrity without interfering in their internal affairs. The smaller countries of the region like Bangladesh have, of course, to take on reciprocal responsibilities and must not allow any subversive activities against India.

Inter-religious and inter-cultural cooperation is another important aspect of Indo-Bangla relations. Senseless hatred has to be rooted out once for all and both India and Bangladesh have to play a positive and decisive role in this respect. The Hindus and the Muslims lived peacefully in this subcontinent for over a thousand years and they will have to live in harmony for thousands of years more.

Politicising of religion has vitiated the communal concord of the subcontinent. Therefore, no peace is possible unless religious hatred and discriminations are totally stopped. The state mechanisms must be secular in outlook, and ensure peaceful co-existence of all faiths in all aspects of the lives of their respective peoples.

It is widely believed that Prime Minister Hasina's visit to India has been upbeat and useful. The problems between the two countries cannot be solved overnight, or through a visit by Sheikh Hasina. However, things have started to change in favour of Bangladesh. We would like India to be our friend as it was during our liberation war. On the question of national interest, we should settle our minor internal political differences and display united and enlightened disposition, internally as well as externally.

Obviously, a $1 billion dollar credit from India for our infrastructure development, 250 megawatts of electricity, removal of 47 items from the negative list of imports from Bangladesh, combating international terrorism, organised crime and illicit drug trafficking, inter alia, are but good gestures on the part of India and could serve as a stepping stone for a lasting, meaningful and mutually beneficial relationship with India, the largest democracy in the world. May we not forget that positive attitude is said to be the sine qua non of a successful relationship and unfounded suspicion and hatred are thousands of miles away from it.

AFP

Taking the relationship to a new level.

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Sluggish investment a matter of concern

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THE Bangladesh economy is facing sluggish investment this year. The pace of investment slowed down during the CTG regime as they clamped down on politicians and businessmen for various types of corruption. Recession in the developed countries was another factor for lower investment. The government presented an ambitious budget -- both revenue and development -- to make up the shortfall of the last two years.

They put over Tk.3.5 billion in the ADP under a new item called public-private partnership. However, not much happened under the program during the last six months, as many issues relating to the program remained unclear and undecided. Meanwhile, it was reported that foreign investment, both direct and portfolio, also declined in the same period (4 months) of the previous year.

Reports also state that liquidity piled up in banks in excess of Tk.35,000 crore, and the FX reserve exceeded $10 billion, the highest in the country's history. They further state that the GoB also repaid huge amounts of public debt as public expenditure was slack, especially in the ADP during the first half of the fiscal. All these slowdowns will have an adverse impact on GDP growth rate in this and the following years, and poverty reduction targets under the MDG will be missed.

It seems the prospect of higher growth, above 7% pa, required to reduce poverty as under MDG is not going to be achieved. On the other hand, the growth of population is recognised to be eating up growth in GDP per capita in the ratio of 2.3%/5%. (5% growth in GDP translates to 2.3% growth in per capita). As shown below, even if we attain 7+% growth in GDP, the headcount of poverty remains relatively the same till the end of 2015 (if family size continues growing at the same pace).

How this intractable problem can be solved must engage our attention, as it is vital to reduce poverty level. It does not require much imagination to see why it happens. Usually, the GoB puts emphasis on physical asset development, such as bridges, roads and highways, ports and power projects etc. Investment of this type will contribute to growth in GDP but will not have the desired effect on poverty reduction through the trickle-down process as followed in the past.

A recent conference of South Asian ministers at Dhaka pledged to invest 6% of their GDP into education (Unesco-8%). The Bangladesh government currently spends 2% of its GDP on education, one of the lowest in the region. The private sector spends roughly another 2% in schools, colleges, coaching centers, private universities and medical colleges.

Agreeing to invest 6% of GDP on education is one thing but making it real is another. Given our poor governance system, it is almost impossible to dramatically increase investment in education and health in the public sector. It is, however, quite possible to do that if we adopt a strategy of unlocking the potential of the private sector to invest in the education and health sectors.

Poverty reduction will slow down if average household size does not change from 2005 to 2015. "Even if GDP grows at 7.5% pa, the projected poverty headcount rate would be 32% in 2015 compared to 22% if household size were to decline at the current rate." (The World Bank, Bangladesh Development Series Paper No 26.) Further, the main reason for the lower projections was a much lower impact of GDP growth on the growth of per capita expenditure.

The same WB Report states that growth in per capita GDP was also much lower in the northern regions of the country and among women all over the country. Even if the GoB spends funds from ADP in target infrastructure projects, it will have little impact on reducing the poverty level if population growth rate is not held back, because those expenditures will have little impact on the poor, especially the women and those in already deprived regions of the country.

Therefore, a two-pronged attack on the poverty level, by directing investment under a public-private (PP) project fund, is needed. One, to increase spending more of the PP fund in health and education sectors, and two, to focus more on the northern region, and women in particular, through the PP funds.

What can stabilise population growth? It is widely known that countries that experienced demographic transition achieved it by raising the education level, and bringing women out of traditional roles and into employment in off-farm off-household jobs. In this country, family size is also smaller among educated people.

One must recognise that the private sector in Bangladesh has come forward to invest in education and health sectors (private universities and medical colleges, hospitals and schools). This needs to be strengthened to establish more schools, medical colleges and universities, especially in the northwestern region.

There are 51 private universities in Bangladesh, but none in the northwestern region. Also, among 30 private medical colleges, only two are on the other side of the Jamuna River, one at Bogra and the other at Pabna. Four or five new public universities have been recently set up in that region, with a limited number of seats. So is the case with teacher-training institutes. The training of school-teachers -- at both primary and secondary level -- is moving very slowly, which is why there is an acute shortage of teachers in all stages of education.

Teacher-training colleges, medical and engineering colleges and universities should be set up in all UZ towns under a public-private project fund in ADP. Lots of questions will arise when public funds are placed with the private sector. The GoB has already placed EEF with Bangladesh Bank for ICB for some special projects in the agriculture and IT sector. The same approach may also be followed for this case.

A GoB fund should be made available for equipment procurement (computer hardware and software, medical and engineering equipment) and for subsidising student fees and teacher salaries to attract private investment. The private sector should invest in physical facilities, rented premises, books and furniture and other assets. These universities and colleges should have special departments to offer business development services, in association with SMEF and other NGOs like Brac, to help start cottage and other non-farm projects for women in particular after providing training for required skills.

Such linkages between universities and industry should be fostered in the country's existing universities. We have to get out of the stereotype that graduates will be provided with jobs by the businesses and government agencies in due course. Opportunities for new job creation must be explored in rural areas, especially for women with certain skills.

Green projects in solar energy, biogas, milk production and processing, vegetable and fruit processing, agri-implements for harvesting and post-harvesting operations, handloom and power loom, etc. may be established. The overall aim will be to decentralise economic growth by investing most of the PP fund in human resource development, especially in the northwestern regions, to attain a faster growth in GDP, hold the pace of declining family size, and increase per capita GDP.

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Gold still going strong

Ever since the financial tsunami hit the United States and then the whole world, the price of gold had been close to reaching the $1,000 per ounce ceiling. In December 2009, it not only broke through that barrier but also reached a record of $1,216.75 an ounce -- a rise of more than 30% in one year.

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EVER since the financial tsunami hit the United States and then the whole world, the price of gold had been close to reaching the $1,000 per ounce ceiling. In December 2009, it not only broke through that barrier but also reached a record of $1,216.75 an ounce -- a rise of more than 30% in one year. Now some analysts are predicting that this trend will continue in 2010 and that gold price may soon reach $2,000 an ounce.

Gold has always been considered a precious metal. Since the dawn of civilisation, it has attracted human attention. People in Mesopotamia and Egypt used gold for decorative and ornamental purposes as far back as the fifth millennium B.C. Although some gold coins from this period have been discovered, it is widely believed that the large-scale use of gold for monetary purposes did not start until the sixth century B.C. in Lydia, modern-day Turkey.

As far as we know, under King Croesus (560-546B.C.), coins made of pure gold with his royal emblem were used for the first time as the standard of exchange for worldwide trade and commerce. Although gold coins are no longer the standard of exchange for international trade, gold is probably the only material which continues, even today, to be universally accepted in exchange for goods and services because of its unique characteristics.

In 1821, the United Kingdom started using gold as the standard, or the single reference metal, to back its paper currency system. Under the gold standard, a single unit of currency was freely convertible at home or abroad into a fixed amount of gold. In the 1870s, this system was adopted by other trading nations like Germany, France and the United States. This system called for fixed exchange rates among the participating currencies. It was designed to bring automatic adjustment to balance of payment imbalances.

The gold standard had two main advantages. First, it gave a stable monetary framework for international trade and investment, and second, it minimised the risk of internal inflation. But the system also had great disadvantages. Besides the risk and cost involved in shipping gold from one country to another, the system required the participating countries to give absolute priority to external adjustments.

Domestic objectives focused on the resolution of problems like recession, unemployment and inflation, and were secondary. Because of the limited supply of freshly mined gold, the system was also not sufficiently flexible to supply enough money to meet the growing needs of the world economy.

The outbreak of World War I brought an end to the full gold standard. Severe restrictions on gold export were placed by most trading nations. After the end of the war, the system was replaced by a gold-exchange standard under which the participating countries could maintain their currencies convertible into gold at a stable rate of exchange, without having to keep as large a gold reserve as was required under the full gold standard. They could supplement their central bank gold reserves with reserve currencies, like the United States dollar, which were convertible into gold at a stable rate of exchange. The Great Depression of the 1930s brought this system to an end.

The United States came out of World War II as the most powerful nation on earth and the United States dollar, in effect, became the principal reserve currency of the world. In 1958, most major European countries accepted free convertibility of their currencies into dollars or gold at fixed exchange rates. But the Vietnam War and the consequent runaway deficit in the US balance of payments forced the United States in 1971 to abandon this system of free convertibility of dollars into gold at fixed exchange rates. Thus gold's central role in the world currency system came to an end.

If gold has lost its central role in the international monetary system, why do financial analysts still keep monitoring the price of gold so closely? Because, in the current worldwide recession, the relative strength or weakness of the world's number one reserve currency, the trillions of dollars worth of stimulus packages pumped into fragile economies, the expanding deficits in the US and Europe, the low interest rates, the fear of runaway inflation and the price of gold have, in more than one way, become interconnected.

It is difficult, if not impossible, to assess exactly how these factors influence each other. But past experience has shown that in times of economic recession in the United States (by far the largest economy of the world), there is a tendency for gold prices to rise and as soon as the recession is over, gold prices tend to fall. In other words, in times of crisis, gold is used as a hedge against uncertainties.

In this context, the other factor to be considered is that though gold has lost its central role in the monetary system, central banks across the world still hold significant quantities of gold as part of their reserves. For example, it is estimated that the value of gold held by the United States Federal Reserve at current price equals approximately 15% of the US monetary base. In 2009, India, Russia, Sri Lanka purchased substantial quantities of gold, which, no doubt, had an impact on current gold prices.

So what is the conclusion? Will the gold price keep rising in the future or will it fall when the dollar becomes stable and the economic recession is over? Most probably, it will fall. After all, in January 1980, when political and economic uncertainties caused by the Soviet invasion of Afghanistan and the Islamic Revolution in Iran forced the gold price to hit a record of $850 an ounce (equal to inflation-adjusted $2,200 of today), many people thought that it would never come down. Twenty years after that record price, the price of gold today, even after the recent rises, barely reaches the $1,100 mark.

ANTHONY BRADSHAW/GETTY IMAGES

The symbol of wealth.

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