

G20 Summit and currency war

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MAHMOOD HASAN

CURRENCY now seems to have become a new "weapon" in the arsenals of developed and emerging economies. Earlier it was "tariff," which was used by different nations to regulate the direction of trade. So now we are witnessing "currency war" instead of "tariff war."

It would be pertinent here to recall that the Western economies were ravaged by the recession much more than the countries of the South. The European Union member countries, United States, Japan have all done pretty badly economically during the past couple of years. Their budgets have had enormous deficits and many have become alarmingly indebted.

Their exports have been shrinking and their balance of trade shows yawning gaps. Factories have been shut down and millions are jobless. Several Western governments have been compelled to tighten their budgetary belts and have announced huge spending cuts. Taxes have also been raised. All these measure

have been taken to reduce indebtedness and budget deficits. Yet, these economies have not turned around, and do not show signs of positive growth.

It is in this backdrop that the developed and emerging nations -- known as G20 -- met in Seoul on November 11-12. South Korea is the first non-G8 country to host this high-level summit. The last G20 summit was held in June in Toronto. As in the last summit, Seoul agenda focused on strategies to rejuvenate the economies of the world. The call is loud and clear -- create jobs.

Trade imbalance has been a major bone of contention. China, a cash-rich nation with a surplus of over \$426 billion (2008), is at odds with the US, which is a debt-burdened nation with a deficit of \$420 billion (2008). One of the main reasons for the phenomenal increase of Chinese export has been its undervalued currency -- the Yuan (Renminbi).

US has been saying for some time now that China needs to revalue its currency. It blames the artificially devalued Yuan as

the main cause for its enormous trade surplus and consequent economic growth. US also wanted a concrete timetable to remove trade imbalances and asked trade surplus nations to take steps to reduce their surplus.

President Obama said: "Exchange rates must reflect economic realities. Emerging economies need to allow for currencies that are market-driven." China, as a matter of fact, has never allowed the value of its currency to be determined by market forces. It normally would have appreciated, given its vast trade surplus.

One of the most important reasons why Chinese President Hu Jintao opposed US President Barack Obama's demands is that China has made massive investments in US. China is currently the single largest creditor of US. It holds US treasury bonds worth more than \$800 billion. It is deeply worried that a devalued dollar will reduce the value of its investment. Upon maturity it will go back with much less than what it had invested.

Economic theory says that when a nation devalues its currency, all other variables remaining constant, its exportable becomes cheaper, which boosts export earning. Alternatively, instead of devaluing, a country can prevent the currency from rising in value.

The US Federal Reserve is accused of trying to devalue the dollar to boost exports. China, Brazil, South Africa and Germany stiffly opposed the move and

pointed out that the attempt by the US Federal Reserve to inject \$600 billion in the US economy will effectively devalue the US dollar. That, they say, will have terrible implications for the world economy. Other countries will also be tempted to devalue their money to protect their industries and exports. In fact it will start a "currency war," from which no one will gain. The Federal Reserve says it is "quantitative easing" (QE) to spur growth.

Moreover, there is a strong view that if the currencies of emerging economies appreciate vis-à-vis the dollar it would wreak havoc. It will increase the price of raw material imported by an emerging nation from a developing country, leading to closure of factories and thus unemployment -- which will quickly depress demands in those economies for goods from developed nations. In short, it will be the developed nations that will suffer more.

Thus, the G20 summit was locked in an acrimonious debate over this new "weapon." The 20-paragraph Declaration issued after the Summit adopted the "Seoul Action Plan." Most importantly the leaders pledged to "undertake macro-economic policies, including fiscal consolidation ..., in particular, moving towards market determined exchange rate system, enhancing exchange rate flexibility to reflect economic fundamentals and refraining from competitive devaluation of currencies." In other words, they pledged (?) not to engage in "currency war."



Currency is a weapon?

As is usual in such a multilateral forum, the summit failed to take any concrete step to revive the sluggish world economy. It is difficult to take everyone on board. The recommendations are non-binding in nature. Media reports on the summit naturally focused on the disagreements among the leaders rather than on the agreements.

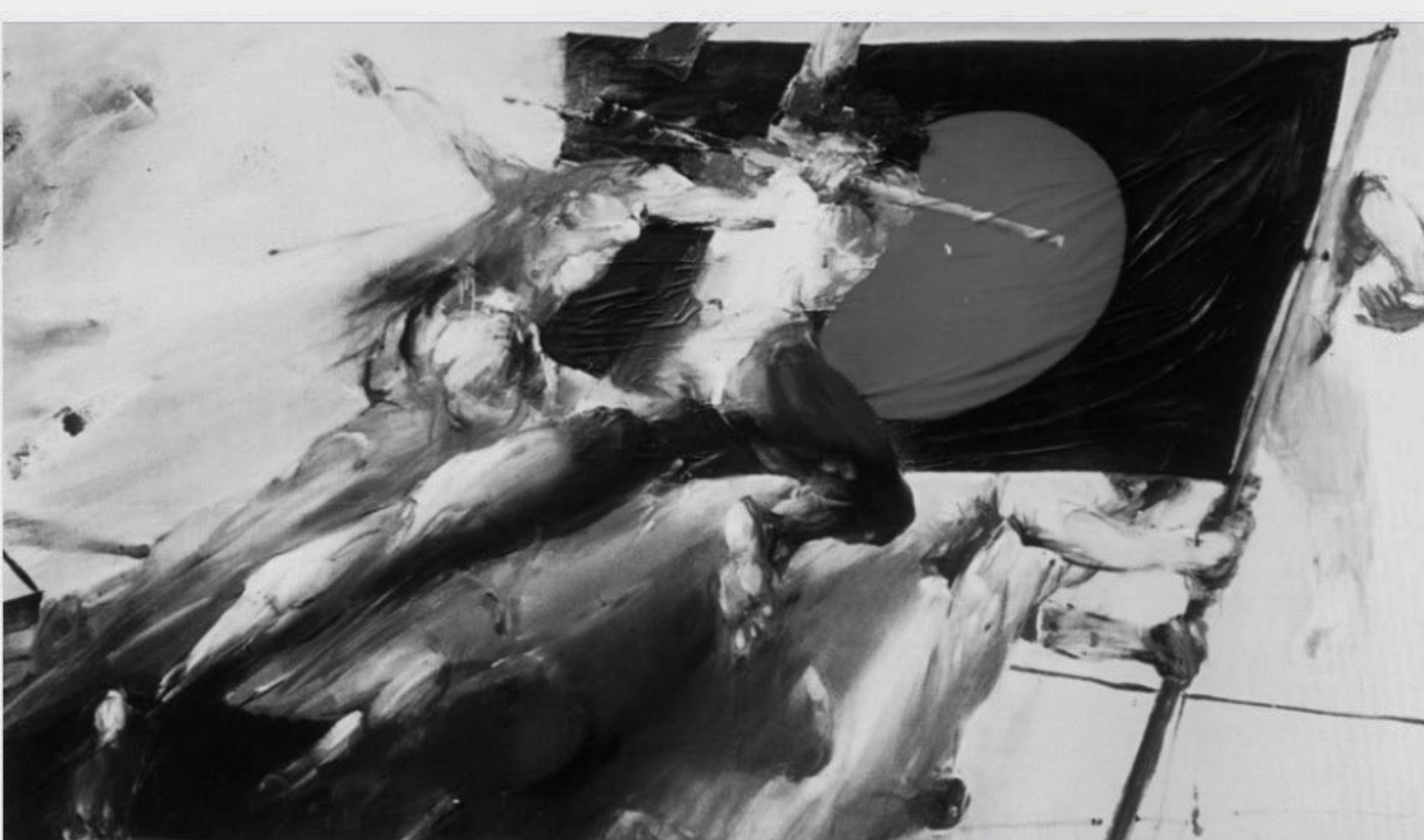
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America is no doubt the largest economy (GDP \$14.5 trillion, 2009) and is the economic driving force in the world. It stands to gain by allowing the countries of the South to have robust economies. These countries will always look for high-end technological products from the US. Devaluing the dollar is not the panacea to stimulate its own economy.

How the Seoul Declaration will play out between now and the next summit in France in 2011 will be something we need to see.

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Bangladesh: Independence till now



The country will always look like it is struggling against the odds. It is a long haul, but I have no doubt about the Bangladeshis covering it, as they have waded through blood and sufferings to become free.

KULDIP NAYAR

I visited Bangladesh for the first time at the end of April 1972. Living at Sialkot city in West Pakistan, Dhaka was too far and did not entice me to take a long journey. After partition, Delhi, where I settled, engrossed me so much in journalism that Dhaka did not mean anything except that it was East Pakistan's capital. However, even at that time I heard that music in that part of Bengal was better than our Bengal's.

However, the liberation of Bangladesh inspired me because, as the Statesman editor at Delhi, I followed the happenings and the war in Bangladesh closely and wondered how a shackled nation had won freedom against mighty Pakistani forces. Indeed, it was pilgrimage which I undertook to Dhaka.

When I landed I was a bit disappointed to see the airport, which was like one in a mofussil town. I saw a frustratingly long queue inching past the immigration authorities, and confusion at the luggage counter. Still, I heard passengers shouting, *Joi Bangla* (Long Live Bengal). They looked like people returning to the Promised Land.

In Dhaka, there was only one road and an array of small houses which did not distinguish the city as a country's capital. I was struck by poverty and economic backwardness. Yet, pride was written on every face. Each Bangladeshi seemed to say: "We have done it." There was feeling that Bangabandhu Sheikh Mujibur Rahman, father of the nation, would solve all problems. Never was so much expected from a single person who had very limited resources at his command.

I wondered whether the country with so many people and with such dire poverty would ever make it. On the other hand, when I saw the determined people at the airport and in the city I was confident that they would make it.

I could see that nine months of operations by the Pakistan army, when all tiers of government were used to crush defiance, had almost wrecked the administrative machinery. So, official response to the people's dire needs was slow. But what could the government do when Pakistan, Sheikh Mujibur Rahman told me, had tried to "kill every Bengali and destroy Bangladesh?"

Destruction and disruption on such a wide scale made restoration of normal life impossible. But however rational this explanation was for delays, it made little impression on a people who had become too expectant. They had seen one miracle happen, freedom, they insisted on seeing another, development.

To the disenchantment of those who had fought the war, the ones who came to power were the "Mujibnagar elite," as they called them, who had seen gunsmoke only from afar. The more radical among them did not believe that

the leaders were capable of improving the lot of the people. The second miracle they imagined would also come through the gun.

However, it must be said to the credit of the army that after burning its finger it has confined itself to the barracks. The experience which they gained during the support to the caretaker government in the recent past has convinced them that the Bangladeshis were "too independent" to be disciplined. Their influence would stay because in a third world country the army goes back to barracks, but not without making the rulers realise that they continue to be a potential force.

During my first visit, India was made a scapegoat for all troubles. Wherever I went I heard criticism of India. Most critical were journalists who, at Dhaka Club seemed to have no vocation except to run-down New Delhi. Stories without any truth were circulated to defame India which, they said, was no less exploitive than Pakistan.

Disappointed by the criticism I complained about it to Mujib during my conversation with him. He said that "some vested interests" were trying to create bad blood between India and Bangladesh. He said: "A Bengali doesn't forget the person who gives him even a glass of water. Your men have sacrificed their life during our liberation struggle. How can we forget India?"

Looking back I find that relations between New Delhi and Dhaka influenced many policies and programmes of Bangladesh. Both Mujib and his daughter Sheikh Hasina have done their best to bring the two countries together. Even the most intractable issue of sharing Ganga waters was settled during Mujib's regime.

Hasina, particularly in the current tenure, has given transit facilities to India to reach its north-east quickly and has seen to it that the anti-India terrorists do not take refuge in her country. Therefore, the climate in Bangladesh is friendly.

The relationship takes a downward dip when the Bangladesh Nationalist party (BNP) is at the helm of affairs. From the day the military coup killed Mujib and his family and when General Zia-ur-Rahman took over in 1975, relations between Dhaka and New Delhi begin to deteriorate. His wife Khaleida Zia has been partic-

ularly critical of India. The worst thing she has done is to encourage fundamentalism through the Jamaat-e-Islami, which was banned during Bangabandhu's time.

General Ershad's government was neither here or there, but he plugged the same anti-India line to hoodwink the Bangladeshi people. Fundamentalists came in handy. But he did no serious damage to the structure of India-Bangladesh relations, which was maturing slowly but relentlessly in its own way.

The real damage was done by Khaleida Zia and her ally Jamaat-e-Islami. They have tried to feed the simple Bangladeshi on the propaganda that their difficulties were of New Delhi's making. Her anti-India bias and religious fundamentalism fitted into the old pre-partition thesis: Hindus and Muslims are two separate entities, which cannot live as equal citizens. In an Islamic state the Muslim had to have preeminence, the line which rulers in East Pakistan had been plugging before the creation of Bangladesh.

I think the challenge before Bangladesh is to implement secularism as its policy, which the Bangabandhu enunciated and enshrined in the constitution. Prime Minister Sheikh Hasina is trying to retrieve the ground which the fundamentalists had occupied during her absence. People are appreciating her efforts. But they want quick solutions to their problems of rising prices and ever-increasing unemployment.

India had a plan to dovetail its economy to that of Bangladesh soon after its liberation from Pakistan. But the military coup at Dhaka on the one hand and prejudiced bureaucrats on other hand nipped in the bud what could have been a grand economic union.

This proposal has not been revived. But New Delhi has offered large economic aid to Bangladesh. The results will affect relations with India. Failure will not be seen as Hasina's failure alone but also that of Prime Minister Manmohan Singh, who has been promising more and delivering less.

Yet, one development which worries me is the lessening of democracy and dissent in Bangladesh. Her 2/3rd majority in parliament has no doubt given her confidence to try to remove the cobwebs of red tape and corruption. But the over-

whelming strength has also made her contemptuous of consensus. At times, she looks like going Ms. Indira Gandhi's authoritarian way.

The manner in which she shackled one daily newspaper recently shows that freedom of press is not sacrosanct for her. Protests by editors and intellectuals may stop her from doing whimsical things. But, ultimately, she has to feel that a critic's voice, however unpalatable, is as important in democracy as a voice in her support.

Tomorrow's Bangladesh will no doubt face the crunch of resources and the situation where the rich would become richer and the poor become poorer. India, her best supporter, too, is not a radical society. Therefore, the cleavage between the rich and poor will grow as much in Bangladesh as in India.

Fundamentalists will exploit the situation and try their best to loosen the ties between Dhaka and Delhi. People are accepting the transit facilities which Hasina is giving to India. But all this may boomerang if the Bangladeshis cannot improve their lot. India may become a whipping boy. Now that China has entered the scene the criticism of India may grow.

One other irritation which I see is the illegal migration of Bangladeshis to India. The influx has reportedly crossed 25 million. If ever a rightist government returns to New Delhi it could try to push "Bangladeshis" across the border. This can create a new situation, much to the helplessness of Dhaka and Delhi.

The manner in which the Bangladeshis have become self-sufficient in food and the success which they have achieved through 'Grameen like' projects generates optimism. I pin my hopes on the people, some of whom I saw, resolute and determined, when I landed at Dhaka for the first time in 1972. The country will always look like it is struggling against the odds. It is a long haul, but I have no doubt about the Bangladeshis covering it, as they have waded through blood and sufferings to become free.

Courtesy - Pratham.Alo.

Kuldip Nayar is an eminent Indian journalist.

How to go down in history



My least favourite teacher used to say that I would never amount to anything because I procrastinated so much.

I told him: "Oh yeah? Just you wait and see!"

I never got back to him to tell him what I had achieved, because I never actually achieved anything.

Also, I didn't see him around town much, especially not after he died.

Still, I never forgot that conversation. And if I ever do achieve something, the first thing I will go round to his grave and say to his stone: "See? See? Told you."

My mother told me there was nothing wrong with being a late developer. It's no use rushing things.

Why this sudden outbreak of deep thinking? Because I read an article which said that business people are becoming more philosophical.

for big nasty banks, but have thoughtful, touchy-feely jobs like

"Social Responsibility Officer" or "Designated Nice Person."

Even hardened tycoons are coming out with philosophical maxims. One of the most ruthless business people I know uttered an uncharacteristically warm phrase the other day. "You should always love your enemies," he said. I stared in astonishment. This is a guy who sacks people for giving to charity.

Then he added: "Because the chances are that some of your business partners will turn out to be great thieves." It's not exactly Descartes, but it is relatively deep

compared to what he normally comes out with.

The previous week, he told me that his favourite saying was: "Forgive your enemies: it totally screws up their heads." (Except he didn't say "screws.")

He claimed it was from the Bible, but I thought it didn't have the right tone. If Moses had written it, it would have been more like this: "And it came to pass that he messeth up their heads mightily."

On a whim, I decided to investigate the source of this quote. Google told me it was a modernised version of a saying by Oscar Wilde: "Always forgive your enemies. Nothing annoys them more."

But a discussion with "People Who Read Books" was more rewarding. Oscar nicked it from St. Paul, who in turn was quoting King Solomon, who advised you to be nice to your enemy "for thou shalt heap coals of fire upon his head."

So the ruthless business guy was right: It was from the Bible.

That proves that if a saying is wise enough, it becomes eternal, passed around for thousands of years.

So we should all try to generate new epigrams, and thus win immortality. (Many commentators on this site are already rather good at this, and are well on their way to immortality. I can pretty much guarantee that some lines from

site will end up in a book of quotations somewhere.)

Here's a piece of philosophy designed specifically for members of the white-collar professions: "If life gives you lemons, throw them at people. They totally won't expect it from someone in a suit."

Hopefully that will also end up in some book of quotations somewhere.

And then I can head off to the cemetery to show my teacher that I did achieve something in my life.

I'll wave the book and say: "See? See? TOLDYOU."

For more philosophical drama, visit our columnist at: www.vittachi.com