

CROSS TALK

Dole-outs cannot rev up market

Get the fundamentals right

THE recent recommendation of a government committee to waive up to 50 percent interest on margin loans taken by investors who suffered loss in the stock market came as a surprise for many reasons. It raises the questions of enforceability and rationality.

Most of the loans came from private banks. So how a decision like this could be imposed on the banks? Are the banks willing to share the loss? The amount is not small also it should be around Tk 250 crore. Moreover, it would distort the market mechanism and would remain as bad precedence.

Offsetting the loss of the investors could be supported if the government had undertaken a thorough investigation of the share scam and identified the people who manipulated the market to gain. These manipulators then could be fined to mobilize funds to pay the investors. This would have ensured redistributive justice. The rough estimate of the government says about Tk 22,000 crore has been lost on the market. Somebody must have gained this amount. Who are they and how did they make the money?

But the more pertinent question is whether such a measure will restore confidence in the market? In our view, it will not. There are some basic things that remain undone. The demutualization of the bourses is yet to be done. The Securities and Exchange Commission was supposed to get its surveillance software by April this year. But that is not happening. Transparency of the BO accounts was expected to be established to prevent further manipulation of the market. That has not been done. And ensuring quality audit of the companies still remains a far cry. The Financial Reporting Act is nowhere in sight.

The Centre for Policy Dialogue had shown in its last Independent Review of Bangladesh's Development report that only about 20 percent companies get their audits done by auditors of international standards. This leaves a huge scope for diversion of funds.

So unless scopes of manipulation are plugged, dole-outs would rather create bad examples.

Mamata Banerjee's sensitivity expected

She should see the broader picture

DURING her recent talks with prime minister Manmohan Singh of India in Delhi, chief minister of the country's Pashchimbanga State, Mamata Banerjee, is learnt to have expressed her concern about what she termed excess water flowing to Bangladesh due to leakages in the Farakka Barrage.

Though it is an internal problem of India, we cannot help discern her diversionary emphasis away from the Teesta water sharing issue, which is a matter of prime concern for us. For lack of agreement on Teesta water sharing, Bangladesh continues to suffer from the sharp decline in water flow due to diversion of water by India.

She couldn't have been oblivious of the Indian press reports that due to her last minute stance on the Teesta water sharing formula, which Indian prime minister had given shape to, that it fell through. The incident caused avoidable embarrassment to both the governments of India and Bangladesh.

We wonder by deflecting from an issue of fundamental importance to Bangladesh's ecology and economy, what gain she is supposed to be deriving from impeding resolution of an important water sharing issue?

By throwing a spanner in the works of the efforts to clinch the Teesta water deal, she is actually denying Paschimanga, the Indian state closest to Bangladesh, the benefits she could draw from a higher level of Indo-Bangladesh relationship. We urge her to look at the broader picture of a greater and enduring cooperation between the two countries.

The sooner Pashchimbanga chief minister Mamata Banerjee is able to see reason, the better for Indo-Bangla relations and also for the ties between Pashchimbanga



MOHAMMAD
BADRUL AHSAN

decided to loosen its grip. The low-down showdown of March 12 has lost its impact as the battle cry of a decisive confrontation tapered into a far cry of understanding. It's a welcome change that what could have been a deadly day has already fizzled out.

A battle cry is a form of threat display, which is aimed at overstating one's own aggressive potential to a point where the enemy is afraid of confrontation and turns on his heel. It has to be as loud as possible, often amplified in battlefields by acoustic devices such as horns, drums, and bugles. Lucky for our politicians, they don't need any of those things because they are sufficiently loud. They want to win a battle with words before anything happens on the ground.

But what could happen on March 12, if it had to happen in full force? BNP had promised to mount a major showdown to "cripple" the government. Awami League had vowed to resist by all means so that its opposition wouldn't find its feet on the ground. Amidst the bone-crushing and blood-curdling battle cries from both sides, the much publicised day sounded like an approaching Armageddon.

The upper band of that confrontation could repeat the horror of October 28, 2006 or worse, the country descending into utmost chaos. The lower band could see the experience of last month when both parties held rallies on the same day without

PAUL DONOVAN

THE euro should not exist. In a perfect world (run by economists) the euro would never have been created. Sadly, however, the world is not perfect -- and it is run by politicians. The result is an entirely dysfunctional monetary union.

The Spanish economy has youth unemployment approaching 50%. The Greek economy is in its fourth consecutive year of negative GDP growth and is likely to embark on a fifth year of negative growth later in 2012. Euro area countries have to share a common interest rate and a common exchange rate with Germany -- where unemployment is at a 20-year low and growth is positive if unspectacular around 2.5%. This is an unworkable situation -- what Greece needs is very different from what Germany needs.

Will the euro break up? We must hope not. The consequences would be devastating (a weak country could see its economy halve in size on exit). The social unrest we have today is minor compared to what could take place if the euro were to fragment. As the euro was essentially a political creation, it must be political will that keeps it together -- and it would be wrong to underestimate that political will.

So what will happen? Because so much rests on political decision making, the path for the euro area is hard to determine. But it seems highly likely that there will be a

laying a scratch on each other. In its permutation of

Our politics is an irreducible battlefield. This is where leaders fight and this is where people die. People are mere patsies, when democracy is proxy for dynastic rule.

deaths and combination of violence, March 12 could have been another tragic day in our history. Thanks God, it has been stopped like a bomb defused before explosion.

Not to say, it cannot happen in future. It is still possible that this fortuitous goodwill between two sides may not last very long. There can be renewed eruptions since political stability in this country has been as short-lived as camphor in air. This paranoid nation must live under the constant fear of next disruption.

Greek historian Plutarch recorded this conversation between Leonidas, the king of Sparta, and one of his subjects. "Except for being king, you are not at all superior to us," said the subject. "But were I not better than you, I should not be king," replied Leonidas.

In fact, when rulers are not better

What the euro means for Asia

recession this year. How bad that recession is depends on what happens to the banking sector.

Euro area banks are increasingly reluctant to lend money -- and with all the risks that they have been through over the last six months, this is hardly a surprise. Slower bank lending growth will hit some economies particularly hard.

Fiscal austerity is being urged by Germany. In the wake of France's downgrade (and with the UK outside the euro and unlikely to ever join) it

Global trade, in particular Asian trade, has been financed by euro area banks. As euro banks retrench and the importance of the home market is emphasised, Asia will have to look elsewhere for funding.

is Germany's voice that is loudest in setting the euro policy agenda. When the slowing credit creation is combined with further fiscal austerity, the consequence is likely to be negative GDP growth. Not all countries will be negative, of course, but Italy, France and Spain all seem likely to see a drop in economic activity.

So why do the convulsions of the euro area matter to Asia? There are three reasons why Asian companies and investors need to follow the Euro drama.

1) **The euro area is big:** The euro bloc is the second-largest economy

than their subjects, power operates at a dismal level. It is like the poor performance of a few students holding down the class average. But then many scholars argue that it is similar to the age-old contention of which came first between chicken and egg. Is it the people who raise the quality of their leaders? Or, is it the leaders who pull up the standard of their people?

Legendary Chinese philosopher Lao-Tze dealt with these questions in the 6th century BC: "The best rulers are scarcely known by their subjects," he said. "The next best are loved and praised. The next are feared. The next despised. They have no faith in their people, and their people become unfaithful to them," the wise man professed.

So where does one find the equilibrium between leaders and their people? Lao-Tze gave his cryptic

in the world. Over a third of APEC's exports go to the euro bloc, making it the second-most important market for Asia after the United States. If the euro area is to have a recession -- falling demand -- followed by poor growth -- slow demand -- then Asia needs to adjust its growth model accordingly. Of course, Asian dependence on export led growth has faded in the wake of the global financial crisis, but there can be no complacency about exports to the euro area.

Global trade, in particular Asian trade, has been financed by euro area banks. As euro banks retrench and the importance of the home market is emphasised, Asia will have to look elsewhere for funding.

2) **The euro area is globally integrated:** Euro financial institutions have been involved in the global economy for decades. Global trade, in particular Asian trade, has been financed by euro area banks. As euro banks retrench and the importance of the home market is emphasised, Asia will have to look elsewhere for funding. That is not to say that alternative sources are impossible to find -- clearly they are not. But it means that Asia must change.

Similarly, the euro area as a globally integrated market will have an impact on other economies in the



BRETT LAMB

reply that when the best rulers achieve their purpose their subjects claim that achievement as their own. What that means is that people and their leaders must be equally good. If that is not possible, then leaders should be better than people. The opposite is disastrous. Just like a downward spiral feeding itself, it drags down an entire nation.

That explains why our politics has so much confrontation. That also explains why our transition from monarchy to democracy has the characteristics of an unruly mob. It is impulsive, acrimonious, boisterous and mischievous. The government of the people, by the people and for the people is rooted in people's basic instincts instead of their enlightened considerations.

In this country, leaders lie about their academic qualifications before and after election. They make false promises and capitalise on the raw sentiments of people. They evade taxes, engage in corruption and look for the shortcut to attain their goals. It has become a perpetual system of corrosion corroding into corrosion to its core.

The wavering decisions of March 12 certainly came from the top. The leaders wanted tough programmes and now they want the slack. That takes us back to Leonidas, who is credited for the best battle cry in history. "This is where we fight! This is where they die!" was the catchy jingle that rallied his troops against the Persians.

It's so true for us because our politics is an irreducible battlefield. This is where leaders fight and this is where people die. People are mere patsies, when democracy is proxy for dynastic rule.

The writer is Editor, First News and an opinion writer for The Daily Star.
Email: badrul151@yahoo.com

world. The euro bloc is over 20% of US exports outside of the NAFTA trade bloc. The US may not be an export led economy, but there is potentially an impact from a euro area slowdown on US growth, which in turn has implications for Asia. In a globalised world economy with a complex web of trade and financial links, what happens in Athens can clearly have global ramifications.

3) **The euro area is rich:** The wealth of the euro area can be discovered in surprising places (Italy, for instance, is a wealthier country than Germany). Overall, the Euro area is wealthy. Thus the euro area has a role as an investor in the rest of the world. The political pressure on euro area banks and financial institutions to concentrate their investment efforts in their home markets is increasing. Popular hostility to overseas investment by multinational companies has also increased. Investment from the euro area into Asian stock markets, bonds and companies may well slow in the years ahead.

The euro area is an economic mess -- but it is a mess that the rest of the world must pay attention to. The slow growth that will accompany euro area reform and the changing relationship between the euro area and the rest of the world will be critical to global economics. Now might be a good time to start taking an interest in euro politics.

The writer is managing director and deputy head for global economics at the UBS Investment Bank. The opinions expressed are his own.

THIS DAY IN HISTORY

February 24

- 1881**
China and Russia sign the Sino-Russian Ili Treaty.
- 1920**
The Nazi Party is founded.
- 1971**
The All India Forward Bloc holds an emergency central committee meeting after its chairman, Hemantha Kumar Bose, is killed 3 days earlier. P.K. Mookiah Thevar is appointed as the new chairman.
- 1976**
Cuba: national Constitution is proclaimed.
- 1989**
Ayatollah Ruhollah Khomeini offers a US\$3 million bounty for the death of The Satanic Verses author Salman Rushdie.
- 2006**
Philippine President Gloria Macapagal-Arroyo declares Proclamation 1017 placing the country in a state of emergency in attempt to subdue a possible military coup.
- 2008**
Fidel Castro retires as the President of Cuba after nearly fifty years