

PLEASURE IS ALL MINE

Progressing with the two giants



SHAH HUSAIN IMAM

BUSH'S stance: "Either you are with us or you are with them," is a disused currency in the contemporary world. Even coin collectors would trash it.

From long-standing bipolarity through short-lived unipolarity to energetic multipolarity, there is a dramatically changed world we have been living in since end-1991, the year detente replaced the Cold War era. Downstream, the lone superpower status of the USA would be self-abused by its unilateralism with a facade of coalescing under the banner of Nato that made a mockery of multilateralism under UNO.

Fundamentally, with the two-camp centered real-politik era ending, the days of hesitation over falling into one orbit to the annoyance of another should have been effectively over. But it quite isn't, in the straightjacket thinking of the power that be -- should Bangladesh have structured and closer partnership with China, it might upset New Delhi, so goes an implicit apprehension. Although Indian and Chinese leaders for their part have not given out such an impression -- in

fact, China welcomed our cooperation with India -- we seem to be tightrope walking in our dealings with New Delhi and Beijing. This is borne out by the list of projects pending with China in contrast to rapid progress on projects with India in particular from the Bangladesh's side.

Former Chinese ambassador Zhang Xianyi in his parting remarks had said in Dhaka that China was ready to participate in deep seaport project with its "advanced technology, equipments and ample funds."

Beijing was keen to set up connectivity among China, Bangladesh and Myanmar through road and railway links. Construction of 7th and 8th China-Bangla Friendship Bridges is set to get underway.

Prof. Muhammad Yunus with his characteristic clarity of thought and vision postulated that Bangladesh should be ready with a world-class seaport and technology-proficient young generation by 2030 when China and India will have emerged as the largest and the second largest economies of the world.

Bangladesh's future lies in working with

India and China. The time is now to act for Bangladesh, lest other countries seize advantages from the opportunities those two countries would offer in a rapid order.

In this context, Bangladesh needs to widen its external horizon and put on its radar the developments in the Brics countries with a focus on China and India.

Brics, comprising Brazil, Russia, India, China and South Africa, constitutes one-fifth of the world's economy with a com-

about three times faster than its overall economic growth (government-published Shanghai Daily). Whilst in the USA, growth in tax has been 11.7% over the last 10 years, tax revenue between January to September alone in China totaled \$1.1 trillion, an increase of 27.4% from a year earlier, according to Chinese finance ministry. The rich-poor gaps both in India and China are huge; yet China's high taxation on the rich can help reduce the gap with the poor.

The Brics' fourth summit held in the Indian capital has produced Delhi Declaration, "a declaration of independence, a blueprint for the emerging new world order," as it were, "that will have a profound impact on global affairs over the rest of the century."

The grouping is for de-dollarizing trade among them, transacting business in their own currencies, and having development banks of their own wishing to see reformed World Bank, IMF and UN system. They see advanced economies as part of the problem and hence cannot lay claim to being "part of the solution." They should get their own houses in

order. But Brics recognised that its recovery from global crisis has got dampened by market stability in the euro zone.

The political part of the declaration took a stand on Iran's right to exploit nuclear energy for peaceful purposes and "no regime change in Syria," the latter reflecting the views of China and Russia.

That primacy of economy is the driving force in regional and international relations is illustrated by the "Bilateral Initiatives" segment of the summitry. "India-China Friendship and Cooperation" year has been launched. Significantly (a) both Hu Jintao and Manmohan Singh reached a conclusion on border issues to "maintain the status quo, peace and stability;" (b) both sides agreed to initiate dialogue over issues in West Asia, Central Asia and Africa as confidence building measures towards enhancement of political interaction.

Geopolitical and strategic interests of India and China may vary but as close neighbours with huge potential they can grow together economically. Bangladesh has everything to gain from a balanced relationship with India and China being respectful of their sensitivities just as Bangladesh expects them to be deferential to its sensibilities.

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combined forex reserve of \$4 trillion. It represents 43% of the world's population and "possesses the mind power, manpower, markets and money to create a new kind of change the world can believe in. The leaders are now preparing to translate this newfound power into political clout," to quote from Bangkok Post.

By comparison with the USA, China's tax revenue this year is increasing at a rate

Are the new banks economically justifiable?

MAHFUZ KABIR

Few days back Bangladesh Bank approved the application for license of nine commercial banks: six from local entrepreneurs and the others from Non-Resident Bangladeshis. It gave rise to widespread debate, and the news media covered the issue significantly by giving both the positive and the critical statements. The main question was whether the new banks were necessary at all. There might be many opposing justifications but I will try to explain this issue on purely economic grounds.

The fundamental theorem of welfare economics states that any competitive or Walrasian equilibrium leads to a Pareto efficient allocation of resources, while the second implies that any efficient allocation can be sustainable by a competitive equilibrium. That means, theoretically it is possible to deduce that the new banks are going to create a more competitive regime in the banking business, which would ultimately be a Pareto improvement or welfare enhancing. The question is whether new banks are likely to augment anti-competitive behaviour like current "syndication" as a renowned financial sector expert has apprehended. Bangladesh Bank, as a facilitator, has to look into this matter carefully. The head can never be removed to cure a headache.

On the other hand, why do entrepreneurs have an "appetite" for new banks? They must have calculated the profitability with pragmatic cost-benefit analyses. If the market is already over-saturated with banks, the entrepreneurs must be cautious in their approach while Bangladesh Bank could hardly find any new application for license. The market perhaps signals huge untapped profit!

The macro indicators portray significant improvement of the economy since 2000-01, when license application of the last private commercial bank was approved. The overall size of the domestic economy increased more than threefold. Per capita GNI has also gone up, while foreign exchange reserve increased by 8.39 times. The volume of foreign trade has increased significantly -- export receipt by 3.54 times and import payment by 3.61 times. Wage earners' remittances increased by 4.7 times. These indicators are convincing enough to promote further competition in banking business to accommodate the new realities.

Bangladesh Bank is aiming at strengthening the ongoing financial inclusion programmes through banking the unbanked. However, the overwhelming majority of the total population is under-banked according to the latest access to financial services study by Institute of Microfinance. The outreach of formal financial services in Bangladesh is lower than those of India and Pakistan, even though the economy is currently growing at more than 6% rate. Indeed, financial inclusion refers to not only avail-

ability of banks but also to accessibility and affordability at reasonable cost through competition. It also implies diverse products so that the recipients can make a rational choice amongst products. Finally, customers should receive financial services continuously, which indicate sustainability of the banks. Thus, policymakers must ensure that the new banks have a variety of products with wider reach. A former governor of Bangladesh Bank has emphasised on this critical aspect. At the same time, these banks must not turn out to be "problem banks" due to insufficient supervision and monitoring by the central bank.

Economists often talk about the role of market in determining interest rate, particularly the lending rate. Business chambers have repeatedly been saying that the lending rate is so high that the economy remains underinvested. The new banks will help reduce lending rate, thereby increasing investment that would in turn expand the economy. It would again create a multiplier effect on new investment

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demand. The greater scale of credit disbursement at a lower interest rate would increase profit of the new banks through quantity into price *ceteris paribus*, not reduce it. However, the supreme authority should consider the reverse effect as well. These banks may also create an unhealthy competition of maximising deposits, which would further increase the lending rate.

The overwhelming majority of the population still lives in rural areas, which need different financial services than the urban counterparts. The role for new banks has been set at 1:1 in opening rural and urban branches, which is expected to deepen financial inclusion through increasing rural branches. Indeed, our banks are overly urban and peri-urban centric, which leaves out rural people from formal financial service. This not only violates their fundamental human right, but also triggers rural-urban economic inequality. Branches should also be opened in vulnerable places like *chars* and *haors* among others to increase availability and accessibility in response to their non-traditional needs and economic potential.

New banks will open up new opportunities for the economy to cope with the challenges in becoming a middle income country. Since there are already about four dozen commercial banks, they have to be sufficiently innovative in products through quality of banking services and reach the unreached in true Schumpeterian sense so as to survive if the market is already saturated, as as-

sumed by many. This will have double-dividend -- the customers will get new and quality products at reasonable price because of increased competition, while innovations will have positive spillover effect within the industry, through which the standard of banking business will be significantly upgraded. If product quality and diversity do not increase but the new banks still sustain, it means the banking sector really lacked competition.

Adverse selection is the most common outcome of any public policy that stems from information asymmetry. In the present case, the main concern is whether the selection of candidate entrepreneurs was adverse. The answer is not straightforward, but there are instances where so-called "political banks" performed well in the past even in difficult circumstances. Since the decision has already been made we have to wait for the "identity of fruits" of these new trees, not the cause. Nevertheless, recent newspaper reports reveal that many short term loans turned out to be medium term, have not been repaid, and have been invested in the capital market. Therefore, it must be ensured that availability or oversupply of credit in the market from new banks is not the last word. Credit management and maintaining order in the financial sector would ultimately bring about good result by facilitating economic growth.

Profit maximisation and cost minimisation are the two objective functions of a business firm. Encouraging adoption of ICT and new technologies would make banking services cost effective and available in the remotest parts of the country. Securing maximum profit through healthy competition does no harm, but the firms must also care about the society. Spending on the society, especially on the poor and marginalised segments, can bring them back in the market, as Luigi Pasinetti explained in his prominent growth model, and they can be even bankable.

The biggest predicament in the banking sector will not be the number of banks because the new ones will find ways to survive. The central bank will have to bring dynamism and efficiency in financial sector management as the catalyst, referee and guardian. It must understand the emerging difficulties to monitor and oversee their multifaceted functions and inhibit them from unlawful activities.

Bangladesh Bank has set a milestone in deepening financial inclusion through mandatory social responsibility, creating fund for sharecroppers, ensuring interest subsidy for spice production, low cost account service for the farmers, etc. In order to build on many such achievements, it should let the financial market work through strengthening capacity, enforcing bank laws, and ensuring proper monitoring and oversight.

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12 funniest signs this week



Humour is all around, sometimes intentional.

At the mall to do some shopping, I stepped into a lift with one of my kids. She was the right height to read the little sign on the panel: "Children must be accompanied in this elevator." She gazed up at me and whispered with guilty excitement:

"This lift is PG-13!"

Whenever the topic of silly signs comes up, everyone has a tale to tell. Indeed, I firmly believe that most people go travelling around Asia not to take a break, but to snap pictures of signs which say: "Please do not take weapons into this toilet."

A favourite was one seen in a hotel in Vietnam which told guests: "No sex or fighting."

What about married couples? You're talking about our two main activities.

Hong Kong has many useless signs. One used to hang at an expressway building site in the New Territories, saying: "Drivers who collide with this pylon should beware." Bit late?

Going back to our oft-repeated point that Asian English is more memorable than traditional English, reader Nonie Eu, a mother of two, sent me a photograph of a sign from China, which said: "Offer Seats to the Old, Weak, Sick, Crippled and Gravid." Who's Gravid? No, not some decrepit fellow with weak knees. It's a Jurassic-era English word for "pregnant."

Nonie, a Chinese TV presenter, also sent in a photo of a rather poignant sign on a wall in China. It said: "Dying right here is strictly prohibited."

When discussing wacky signs, readers regularly make the point that some signs which look like spelling mistakes are deliberate. They are "tongue-in-cheek, making use of and subverting the idea that we're poor at English," said a reader named Sharanya, referring to one in Thailand. "The 'Broken English spoken perfectly here' is quite a give-away."

Reader Steve Dore was also suspicious of that particular sign. He said: "Surely it should have said, 'Broken English spoke good here?'"

In my files is a letter from reader Fred Gray who noticed that Hong Kong trams have signs saying: "Do not lean out of window." He would prefer signs in this part of the world to have a more East Asian lilt to them: "Man who lean out of tram window need head examined."

A favourite item in my signpost files is one that reader Mei Hardwick saw stuck into the ground at a park in Beijing. It says: "No dabbling." It's not clear what you may be tempted to dabble in, nor why you shouldn't. Perhaps it's just a general piece of philosophical advice.

Of course, there are lots of funny signs outside Asia too. An American friend told me about a serendipitous pairing of road signs in her home country: "Slow children" and "No hunting." They were probably meant to be read separately, but they were in Texas, so you never know.

Meanwhile, I have several times been sent photographs of a sign at the check-in desk of China Eastern Airlines: "Please check in animals and alcoholics."

So not only does my dog have to go in a cage in the luggage compartment, but so does my Uncle Joseph. Actually, that's not a bad idea. At least my kids and I will be able to enjoy the flight.

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