Global crisis cost Bangladesh $2b in 2009: CPD

STAR BUSINESS REPORT

THE global financial crisis cost Bangladesh about $2 billion or 0.60 percent of the country's real GDP per capita growth in 2009, a new study finds.

Without the crisis, which brought the western financial system as well as economy to its knees, the real GDP per capita of Bangladesh could have provided a stronger base for 2010.

The loss of real GDP (gross domestic product) per capita in the country was around $14 in 2009 or Tk 1,200 per person, according to the research.

"Although the value may seem small, for a population of about 144 million in 2009, the aggregate loss in real GDP in Bangladesh was to the tune of $2 billion," said the study -- Impact of the Global Economic and Financial Crisis on Bangladesh: an Intervention Analysis.

Debapriya Bhattacharya, a distinguished fellow of the Centre for Policy Dialogue (CPD), Shouro Dasgupta, a junior consultant of the think tank, and Dwitiya Jawher Neethi, its programme associate, jointly made the analysis.

The researchers said the low integration with the global financial and capital markets could not prevent the negative consequence of the global financial crisis for Bangladesh.

The impact had been noticeable; especially with declines in export growth, overseas aid and imports.

The researchers said the global financial and economic crisis had a lagged impact on the economy, resulting in declines in exports, imports, foreign direct investment (FDI) and foreign aid inflows.

All these had concomitant negative effects on the country's different socio-economic indicators, including the GDP growth rate and per capita income.

While the crisis originated in mid-2007, the economy of Bangladesh started to experience the adverse effects from the middle of 2009, said the analysts.

They said Bangladesh was not impacted by the crisis immediately, perhaps, largely because the country lacks financial integration with the global economy, its resilience of exports in the beginning of the crisis and robust remittance inflow.

The analysis said growth in GDP, exports, imports, overseas development assistance (ODA), remittances and FDI had been much smaller in 2010 compared to 2007.

While GDP growth remained robust compared with many other countries during the crisis, it did suffer a 0.7 percentage point fall between fiscal 2006-07 and 2008-09 before rising to 6.1 percent in 2009-10.

However, the rise was still lower than the pre-crisis level (6.4 percent in 2007).

Influenced by the decline in external demand in the developed countries, growth of exports declined.

Exports from Bangladesh increased by 15.7 percent and 15.9 percent respectively in 2006-07 and 2007-08.

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However, in the backdrop of the crisis, export growth decreased to 4.1 percent in 2009-10, a drop of 11.8 percentage points over two years.

Compared to garment exports' growth of 3.8 percent during April-June in 2009, exports of non-readymade garment products declined by 14.8 percent.

Bangladesh exports mostly consumer goods dominated by garment, whose global demand did not decline as much as primary products.

At the same time, aided by low labour costs, price competitiveness of the garment exporters improved during 2009 and 2010.

"These factors along with the Wal-Mart Effect ensured that the export sector of Bangladesh did not collapse due to the crisis," said the researchers.

Import payments declined by 4.4 percent and 16.6 percent respectively in the last two quarters of 2008. At the end of 2008-09, growth of aggregate import payments came down to 4.8 percent, compared to 25.8 percent in 2007.

Notwithstanding the crisis, remittance flow remained buoyant as the flow of expatriate workers was sustained.

For example, 1.6 million Bangladeshi workers left to work abroad in 2007-08 and 2008-09.

Remittance receipt in 2008-09 was 24.5 percent higher compared to that of 2007-08.

But the post-crisis trend in growth of remittance inflow, declined from the pre-crisis average of 23.2 percent (July 2008-August 2009) to 13.6 percent since September 2009 (September 2009-June 2010).

Although the role of foreign aid has declined in Bangladesh over time, yet it finances about one-third of the total fiscal deficit of the country.

In 2008-09, ODA declined by 15 percent compared to the previous fiscal year.

FDI inflows were largely unaffected by the global financial crisis mostly due to Bangladesh's lack of integration with global markets. FDI fell from $1,086 million in 2008 to $713 million in 2009. However, it increased to $916 million in 2010.

The researchers said the situation underscores the need to strengthen the export diversification strategy for both product and services markets.

The analysis also said the efficiency of government expenditures also needs to be improved, especially in terms of delivery of well-designed physical infrastructural facilities.

This is also likely to stimulate aggregate demand in the country, it said.

Despite the anticipation of a 'double-dip' recession, the government of Bangladesh needs to avoid cutting expenditures in social sectors, such as health and education, as well as social safety net programmes.

The safety net schemes support the disadvantaged groups most affected by the loss in real income during global economic and financial crisis, the analysis said.

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From left, Rob Ways of International Labour Organisation in Bangladesh; AKM Nasim, senior legal counselor at the American Center for International Labor Solidarity (ACILS); and Alonzo Suson, country programme director of ACILS, attend a roundtable on trade union in the garment industry, in Dhaka yesterday.

GSP hinges on govt's detailed work plan

The country director of American Center for International Labor Solidarity says at a roundtable

STAR BUSINESS REPORT

The continuation of duty-free export under US's GSP scheme depends on the Bangladeshi government and industry owners, an official of American Center for International Labor Solidarity (ACILS) said yesterday.

"It is really up to the government of Bangladesh and employers to decide if they want to continue to get GSP facility. It's really not the US government, not AFL-CIO," said Alonzo Suson, country director of American Center for International Labor Solidarity (ACILS).

ACILS is affiliated with American Federation of Labour and Congress of Industrial Organisations (AFL-CIO), the largest US trade union organisation.

"All they have to do is come up with a binding and comprehensive work plan that has evidence of immediate and substantial implementation," Suson said.

Suson's remark comes amid mounting concerns over the extension of the generalised system of preferences by the US, after the US Trade Representative sought a report from the government about the progress in labour standards and compliance in factories.

The USTR sent the letter following the Tazreen fire on November 24 last year that claimed at least 112 lives.

"The USTR wants the update by January 31 as there is now a call that the GSP must be suspended," said Suson at an ACILS organised-discussion on trade union in garment factories at Rigs Inn.

For a fact finding mission, a team from the US will visit Dhaka prior the hearing on Bangladesh's GSP eligibility in March.

In 2007, AFL-CIO asked the US government for removal of GSP facility, citing unwillingness of the Bangladesh government and industry owners to enforce labour laws, including the formation of trade unions at firms.

Suson said Bangladesh needs to fix the issues such as legalising trade unions at factories, ensuring fire safety at factories, revision of labour laws and insurance hike for workers.

Some 8 applications for trade union registration at factories remain pending, he said.

Only 3 trade unions got registration from Department of Labour in the last five years, according to ACILS.

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DSE starts soul-searching as stocks dip

STAR BUSINESS REPORT

THE Dhaka Stock Exchange has identified some causes behind the ongoing liquidity crisis and a low volume of share transaction in the stockmarket.

A lack of participation by investors and a large amount of stuck-up margin loans are among the major problems spotted by the DSE, Rakibur Rahman, president of the bourse, said yesterday.

Participation by the institutional and large investors should be increased to inject adequate liquidity into the market, Rahman said at a press conference on the DSE premises.

Turnover on the premier bourse dipped to a five-year low to Tk 106 crore on January 20 due to a liquidity dearth.

The DSE lost 22 percent in index, 66 percent in daily trade volume, and 10 percent in market capitalisation last year, according to the bourse's statistics.

The DSE president said 25 percent of the total margin loans of Tk 15,000 crore provided by stock-brokers and merchant banks to the investors in the last few years are not recoverable in the current market situation.

He said the stockbrokers and merchant banks should be given a discretionary power to rearrange and restructure the portfolio of investors, whose deposit is already negative.

The discretionary power could be withdrawn when the portfolios recover 135 percent of margin loans or debit balance, Rahman said. "We requested the Bangladesh Securities and Exchange Commission last week to give the discretionary power to the stockbrokers and merchant banks," he said.

Rakibur Rahman

The Dhaka bourse also formed a committee after a series of meeting with various stakeholders to solve the problems identified by the DSE.

The eight-member committee will be headed by the Federation of Bangladesh Chambers of Commerce and Industry President Kazi Akram Uddin Ahmed. The DSE president will coordinate among the committee members.

Bangladesh Bank now allows commercial banks to give loans up to Tk 1 crore to a stock dealer, Rahman said.

The central bank should allow the stock dealers to take up to Tk 20 crore as loans from the banks, he said, adding that the DSE wrote a letter to the BB governor last week about the issue.

"If the parent companies allow their subsidiary brokerage firms or merchant banks to convert the loans of the parent companies into equities, the subsidiaries could get further loans from their parent companies," he said.

Most of the loans provided to the subsidiaries are stuck up now, he said, adding that these loans could be recovered when the market will rebound.

The DSE also urged the central bank to allow provisioning of negative equity of banks, non-banks, stockbrokers and merchant banks this year as their negative equity is larger than their total equity, he said.

However, he said better corporate results can boost confidence of the invertors.

He also urged the government to allow investment of undisclosed money in the Bangladesh Fund to increase cash flow in the market.

The government may raise funds from the capital market to develop the industrial sector, he added.

Immigration reform could boost US economic growth

REUTERS, *New York*

THE sluggish US economy could get a lift if President Barack Obama and a bipartisan group of senators succeed in what could be the biggest overhaul of the nation's immigration system since the 1980s.

Relaxed immigration rules could encourage entrepreneurship, increase demand for housing, raise tax revenues and help reduce the budget deficit, economists said.

By helping more immigrants enter the country legally and allowing many illegal immigrants to remain, the United States could help offset a slowing birth rate and put itself in a stronger demographic position than aging Europe, Japan and China.

"Numerous industries in the United States can't find the workers they need, right now even in a bad economy, to fill their orders and expand their production as the market demands," said Alex Nowrasteh, an immigration specialist at the libertarian Cato Institute.

The emerging consensus among economists is that immigration provides a net benefit. It increases demand and productivity, helps drive innovation and lowers prices, although there is little agreement on the size of the impact on economic growth.

President Barack Obama plans to launch his second-term push for a US immigration overhaul during a visit to Nevada on Tuesday and will make it a high priority to win congressional approval of a reform package this year, the White House said.

The chances of major reforms gained momentum on Monday when a bipartisan group of senators agreed on a framework that could eventually give 11 million illegal immigrants a chance to become American citizens.

Their proposals would also include means to keep and attract workers with backgrounds in science, technology, engineering and mathematics. This would be aimed both at foreign students attending American universities where they are earning advanced degrees and high-tech workers abroad.

An estimated 40 percent of scientists in the United States are immigrants and studies show immigrants are twice as likely to start businesses, said Nowrasteh.

Boosting legal migration and legalizing existing workers could add $1.5 trillion to the U.S. economy over the next 10 years, estimates Raul Hinojosa-Ojeda, a specialist in immigration policy at the University of California, Los Angeles. That's an annual increase of 0.8 percentage points to the economic growth rate, currently stuck at about 2 percent.

Other economists say the potential benefit to growth is much lower. Richard Freeman, an economist at Harvard, believes most of the benefits to the economy from illegal immigrants already in the United States has already been recorded and legalising their status would produce only incremental benefits.

While opposition to reform lingers on both sides of the political spectrum and any controversial legislation can easily meet a quick end in a divided Washington, the chances of substantial change seem to be rising. Top Republicans such as Governor Bobby Jindal of Louisiana are not mincing words about the party's need to appeal to the Hispanic community and foreign-born voters who were turned off by Republican candidate Mitt Romney's tough talk in last year's presidential campaign.

REUTERS

From right, US Senator Richard Durbin, Senator Charles Schumer and Senator John McCain listen to a question at a news conference on comprehensive immigration reform at the US Capitol in Washington on Monday.