

Demonetisation: A Noteworthy Modification

Expatriate Bangladeshis without passport

Fix the system

THE irregularities and corruption that allegedly vex the passport sector have reached a new level with about 50,000 expat Bangladeshis in Saudi Arabia, the UAE and Malaysia unable to get machine readable passports (MRP) although they paid the requisite fees more than a year ago. The offender this time is IRIS Corporation Berhad, a Malaysian company which did not care to provide the Department of Immigration and Passports (DIP) with the information of the applicants or most of the 50 crore Taka collected from them as application fees. And the Ministry of Home Affairs which oversees the DIP and had a contract with IRIS, allowed it to terminate the contract without finishing the job. The consequences have been disastrous for the expatriate workers who are facing difficulties at work and during travels as most countries refuse to accept manual passports after the International Civil Aviation Organisation asked all member states to replace their manual/ hand written passports with MRPs before 24 November 2015. To make matters worse, the applicants will have to pay for their passports again, according to officials of the Bangladesh embassies in the said countries.

This is unacceptable. The ministry should take responsibility for the imbroglio and see to it that workers do not have to pay for passports they did not receive. Migrant workers contribute significantly to the economy and they deserve to be treated better. However, it's not just expatriate workers. A majority of households, reportedly fall victim to all kinds of hassles while accessing services from the passport offices in the country. It is high time the authorities fixed the problems crippling the passport sector for good.

Justice for a murdered freedom fighter

Bring the felons to justice

ABDUS Salam Khan, a freedom fighter, who not only fought to give this country freedom, but had also continued to fight for social justice and simply provide people with a ray of hope, was brutally murdered recently. According to reports, he was allegedly beaten and tortured (which eventually led to his death) in front of locals by a Jubo League leader in Rajapur upazila of Jhalakathi and a local UP member and his men. Again, as is so often the case, bystanders did not come to the aid of a victim in fear of what might happen if they did, as the alleged perpetrators are ruling party men. Khan was an extraordinarily kind man. After liberation of the country he continued to contribute to the society in his small ways. The last endeavour, in his long philanthropic life, was to establish a kindergarten where students had lessons, got books, uniforms, toys and meals, all for free. Now the young children, who so enthusiastically waited daily for their head teacher to open the gates of his school and care for them, are wondering who would take his place. They too have been robbed by a handful of goons, who in their twisted arrogance never thought twice before murdering the man. Is this how we repay our freedom fighters? We call on the government to thoroughly investigate and punish the man's murderers. Past failures to do so have resulted in such acts being repeated by party apparatchiks. The authorities must also come up with a satisfactory solution for these young children who now have no school to call their own.

THE MIDDLE PATH



ADNAN R AMIN

MY wife and I spent the past week in India, hawking Rs.500 and 1000 notes for whatever discounted price was on offer. If not for the luxury of credit cards, we would have been in trouble. Only a day before our arrival, Narendra Modi's government had suddenly declared the two banknotes void. No banks, shops or restaurants would take them. Banks would not change them for tourists. The only option was to chat up taxi drivers or *desi* shopkeepers and convince them to buy at a discount our defunct banknotes.

But for tourists, these are mere anecdotes. Indian citizens seemed at a complete loss. Suddenly, neither the poor nor the rich had any paper currency for basic necessities. And this in a predominantly cash economy! Malls were desolate and restaurants quiet. It seemed everyone had gone to queue up in front of banks.

"I have enough money, but none at hand to buy milk for my children," a middle-aged man told us. It wasn't possible for him to take time off work every day and withdraw newly-issued currency every day. Besides, his chances of actually getting (the yet unseen) new notes were slim. There simply wasn't enough to go around.

It became a common sight to see altercations and scuffles break out in front of banks. Sometimes, security guards endured a few blows. Offenders were sent to the back of snaking queues. In time, we would read that nearly fifty people allegedly died from standing in queues and from being refused emergency services in exchange for the old notes.

But these are mere inconveniences, the Modi Government insists. These are essential sacrifices to help India better tackle corruption and black money. It will also hit terror networks and other subversive elements, leaders say. It was a necessary, overdue crusade.

This framing is important: it is not an economic or financial campaign, but a moral one. A fight between Good and Evil. The manifest villain is 'black money' and its hoarders; the protagonist, a fearless and impartial ruling party. That the term 'black money' drowned out any mention of 'untaxed incomes' may also have been a deliberate choice. 'Black money' has an inherent illicit ring to it. Attempts to portray demonetisation as a moral battle was also underscored by the fact that it came into effect through a

rousing speech by PM Modi, and not through any central bank gazettes. In the speech, the PM invoked electoral pledges and painted the decision as a natural progression in the fight against corruption and in nation building.

More drama ensued as mere hours were allowed before the banknotes would cease to be legal tender. It quickened the pace; heightened the drama. No gradual reform could have jolted a country like this (Philippines allowed one year for swapping defunct currency in 2015). Reminiscent of Modi's campaigning days, the move was decisive; the tone, authoritative. As a result, the demonetisation drive has come to be seen as a Modi-masterstroke, rather than a monetary policy from the administration. But as journalist P. Sainath notes, "If there's been any stroke, it's the one the heart of the rural economy has suffered."

The central government tacitly acknowledges that (sudden) demonetisation can be unpopular with and difficult for the masses. Even after the country's Supreme Court likened its

administration squarely in the PM's corner. But as Bangladeshis know all too well, governments' marketing slogans for unpopular interventions and facts from the ground are often very different. Despite speeches about punishing illegal and/or corrupt businesses, it is the poor who have suffered.

You see, money has two important functions: it is (a) a store of value and (b) a medium of exchange. With demonetisation, stored value is removed from voided banknotes (to bank balances, credit, new currency); with time, this value may be recovered, more so by those who have access to banking services. But demonetisation also means that mediums of exchange and trade are cancelled. The latest drive in India has rendered nearly 90 percent of all cash useless. Naturally, the same level of production, commerce and consumption is impossible with only 10 percent of cash in circulation.

So why would a government do this? The logic behind demonetisation is oversimplified: if all citizens and

India, cash is used by millions of farmers, fishermen, factory-workers, small traders and labourers. For them, dealing in cash is not a means of tax-evasion, but a way of life in the absence of formal banking services and alternative modes of payment. Their intention is not to hoard, but circulate cash for sustenance. Yet, these people – who constitute and sustain the massive informal economy – stand to lose the most.

An interesting case in this regard is that of the *battawalas*, informal lenders who accept future receivables (e.g. post-dated cheques) and pay 80 or 85 percent of the amount in instant cash. With little access to banks and no credit-ratings, small traders and vendors regularly finance their working capital through *battawalas*. Now, with some 86 percent of the cash currency scrapped, *battawalas* have no way to lend and small traders-vendors are rendered incapable of stocking up. Add to this diminishing consumption and you will see how sudden demonetisation is hurting small traders.

Yes, the sudden inflow of cash will swell bank deposits and lower interest rates in the short term. Yes, tax revenues will rise, and inflation may be curbed too. But with that production and consumption could decrease as well. The massive Howrah fish market is about to shut down because suppliers' payments have become impossible. This means fish supply to nearby cities and even Bangladesh will be significantly disrupted. Elsewhere, *kharif* farmers are failing to finance harvest or transportation, winter farmers are unable to purchase seeds and inputs. Manipur stopped publishing its dozen or so newspapers since distributors just did not have enough legal tenders.

Baidurya Chakrabarti argues that the intention behind Modi's demonetisation was to "de-liquidate cash flow and then assume control over re-liquidation of it." In short, it attempted to hold the vast cash-based economy hostage. But to do so without any regard for farmers, labourers or small businesses is to ignore their vulnerabilities. In certain parts of India, defunct notes are still in defiant circulation, going for slightly discounted prices. In Hyderabad, some bank officials have decided to reintroduce into the local economy old, torn notes meant for destruction. In Orissa, bartering has seen a rebirth: rice has become the staple currency. In face of unprecedented adversity, India's informal sector is responding with patience and creativity. Yet one fears that during this prolonged assault, their resilience will be tested to the limit.

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'surgical strikes' against black money hoarders to 'carpet bombing' on common people, the administration insisted that the changeup was temporary, necessary and effective.

Many media outlets, commentators and celebrities have acted as though supporting the demonetisation drive is the same as supporting the Modi government, and vice versa. Yoga guru Baba Ramdev has been insisting that people queuing up in front of banks and ATMs were sent by opposition parties, to undermine the ruling BJP. Others in the government have claimed that the move actually aimed at the subversive Pakistan, which was printing more INR than it prints Pakistani currency. Celebrity cricketers have thrown their weight behind the PM, arguing that it was a massive googly bowled by Modi. The PR machinery is clearly working faster than the printing presses of Nashik.

India's sudden-death demonetisation resembles a gamble: it will either be a big win or a catastrophic fail. Perhaps it is this realisation that keeps the

businesses can be made to trade old notes for new ones, every rupee in the country will have to pass through the formal economy. Thus, this money will enter into the income-tax radar, and thus be whitened. The process will eliminate black money and earn massive tax revenues for the state.

It's literally a cry of "show me the money!"

However, this line of reasoning ignores a number of key facts. First, there is no real evidence to suggest that overnight demonetisation substantially roots out black money hoards. From the Soviet Union to Ghana to Myanmar – attempts have resulted in hardship for the poor and contempt for governments.

Second, as Kavita Rao of India's National Institute of Public Finance and Policy (NIPFP) points out, Modi's intended targets frequently hoard their wealth in bullion, shares, property (by proxy) and foreign currency. Not rupee notes. As such, scrapping banknotes, for them, is but a minor disruption.

Third, in cash-based economies like

PROJECT ■ SYNDICATE

Globalisation's last gasp

BARRY EICHENGREEN
 DOES Donald Trump's election as United States president mean that globalisation is dead, or are reports of the process' demise greatly exaggerated? If globalisation is only partly incapacitated, not terminally ill, should we worry? How much will slower trade growth, now in the offing, matter for the global economy?

World trade growth would be slowing down, even without Trump in office. Its growth was already flat in the first quarter of 2016, and it fell by nearly 1 percent in the second quarter. This continues a prior trend: since 2010, global trade has grown at an annual rate of barely 2 percent. Together with the fact that worldwide production of goods and services has been rising by more than 3 percent, this means that the trade-to-GDP ratio has been falling, in contrast to its steady upward march in earlier years.

This disturbing trajectory, argue the mavens of globalisation, reflects the resurgent protectionism manifest in popular opposition to the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP), and now in Trump's electoral victory. It means that the benefits of openness and specialisation are being squandered.

Causality in economics may be elusive, but in this case it is clear. So far, slower trade growth has been the result of slower GDP growth, not the other way around.

This is particularly evident in the case of investment spending, which has fallen sharply since the global financial crisis. Investment spending is trade-intensive, because countries rely disproportionately on a relatively small handful of producers, like Germany, for technologically sophisticated capital goods.

In addition, slower trade growth reflects China's economic deceleration. Until 2011, China was growing at double-digit rates, and Chinese exports and imports were growing even faster. China's growth has now slowed by a third, leading to slower growth of Chinese trade,

China's growth miracle, benefiting a fifth of the earth's population, is the most important economic event of the last quarter-century. But it can happen only once. And now that the phase of catch-up growth is over for China, this engine of global trade will slow.

The other engine of world trade has been global supply chains. Trade in parts and components has benefited from

unpacking that production process still further will reach the point of diminishing returns.

So should we worry that trade is growing more slowly? Yes, but only in the sense that a doctor worries when a patient runs a fever. Fever is rarely life-threatening; rather, it is a symptom of an underlying condition. In this case, the condition is slow economic growth, also

whether the Trump administration and the new US Congress can design and implement a programme of productive infrastructure spending remains to be seen.

More generally, a political consensus is needed on growth-promoting policies, so that investment is not held hostage to political infighting. Whether this will be possible under Trump's administration is another open question.

The story for cross-border flows of financial capital is even more dramatic. Cross capital flows – the sum of inflows and outflows – are not just growing more slowly; they are down significantly in absolute terms from 2009 levels.

But dramatic is not the same as alarming. In fact, it is mainly cross-border bank lending and borrowing that have fallen. Foreign direct investment – financial flows to build foreign factories and acquire foreign companies – remains at pre-crisis levels. So do cross-border borrowing and lending through stock and bond markets.

This difference reflects regulation. Having concluded, rightly, that cross-border bank lending is especially risky, regulators clamped down on banks' international operations. In response, many banks curtailed their cross-border business. But, rather than alarming anyone, this should be seen as reassuring, because the riskiest forms of international finance have been curtailed without disrupting more stable and productive forms of foreign investment.

We now face the prospect of the US government revoking the Dodd-Frank Act and rolling back the financial reforms of recent years. Less stringent financial regulation may make for the recovery of international capital flows. But we should be careful what we wish for.



falling transport costs, reflecting containerisation and related advances in logistics. But efficiency in shipping is unlikely to continue to improve faster than efficiency in the production of what is being shipped. Already, motor-vehicle manufacturers ship an automotive transmission back and forth across the US-Mexican border several times in the course of production. At some point,

known as secular stagnation, caused by depressed investment, which in turn reflects financial problems and policy uncertainty.

This, then, is the underlying condition. Trade agreements like the TPP and TTIP address it only obliquely. Increased spending on infrastructure by governments, to boost investment and growth directly, is more to the point. But

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LETTERS TO THE EDITOR

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Universal Children's Day

The theme of this year's Universal Children's Day is "Stop Violence Against Children." Children from every country, culture and social status face different forms of the abuse, neglect, exploitation and violence. They are abused at home, in schools, at work, in armed conflict and natural disasters. Much violence against children including corporal punishment and sexual abuse remains legal and socially approved in several countries. This affects children's health, development and psychological integrity.

It is time governments and societies addressed these issues more seriously. We should all work unanimously for the protection of children.

Sana Samad
 Teacher in Pakistan

Ethnic cleansing in Myanmar

Recently the Myanmar army carried out a planned ethnic cleansing in its Arakan province against ethnic minority, Rohingyas following a riot. The media has reported 160 deaths and 16,000 displaced and stranded Rohingyas. Many were pushed back to Myanmar by the Bangladeshi Border Force within the past few days.

As a democratic leader, Aung Sun Suu Kyi should have taken a bold step to tackle the matter. We hope the UNO and other world leaders will urge the Myanmar government to restore peace in the region and give recognition to the Rohingyas as citizens of the country.

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