The Daily Star
FOUNDER EDITOR
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DHAKA WEDNESDAY MAY 17, 2017, JAISHTHA 3, 1424 BS

BNP's Vision 2030

The test will be in implementation

THE BNP has come out with a document that it calls Vision 2030. It is perhaps the first time that a major political party has revealed a long term plan for the country's governance and economic development. And that should be welcomed for the reason that a political party has gone to the people, and the people have come to know the stand of the party on various issues, well ahead of the general election. And one can predict with some degree of certainty that the next general election is not likely to be boycotted by the BNP.

Having said that, the 256-point vision paper has engendered several questions in our mind. While the document contains some good suggestions that would resonate with the people, these are the very issues that the political parties had at one time or the other, since 1991, articulated in their election manifesto only to give them a short shrift after the election. These issues were extant even during the two tenures of the BNP, like police reform, extrajudicial killing, making administration free of political interference, freedom of the press etc., but nothing palpable was done to address those.

A notable matter that is not mentioned in the vision is internal democracy in the party itself. Given that a good part of the 256 points deals with democracy and empowerment of people and free speech, absence of these very underlying features of democracy within the party is incongruous.

While the proof of the Vision will be in the implementation, the vision lacks specificity of how these will be made effective. However, this is a good step by the BNP but the Vision will need more calibration and perfection. And its implementation would eventually demand good intention and rising above party and personal interest.

Doubling aid utilisation next fiscal

Do we have the administrative capacity?

FINANCE Minister AMA Muhith last week disclosed that the government intends to utilise about USD 7.55 billion of foreign aid in fiscal 2017-18. It makes sense for the government to speed up aid utilisation, particularly in light of the fact that a general election is round the corner, but the bigger question here is: do we have the capacity to do so? If we look at our performance over the last few years, the farthest the government has gone is to utilise USD 4 billion in any fiscal. So precisely what has happened of late that gives the finance ministry the confidence to make such a bold statement?

Yes, things are certainly different in the coming fiscal with talk of mega projects to be launched with foreign development partners like India, China, Japan and Russia. And from what we understand, it is in the government's interest to get some of the mega projects fast-tracked to help both the economy and impress voters. But then (and here we must take such statements with a pinch of salt), our experience of pre-budget slogans usually translate into speedy utilisation of allocated funds for various sectors in the latter half of the fiscal year.

That is where our greatest fears lie. If the government actually intends to expend double the foreign aid money in the coming fiscal, then work on projects must match the expenditure. We are not talking merely about grants here because the bulk of the financing comes as loans – whether it is from India, China or elsewhere. Authorities will have to put in serious checks-and-balances on fund utilisation so as to prevent attempted graft because these monies will have to be paid back with interest. Hence, we hope the focus remains on effective utilisation of funds and not merely spending for the sake of spending.

LETTERS TO THE EDITOR

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Perplexing mismatch between WB and government information

The contradictory claims of GDP growth stated by the government as opposed to international financial institutions are confusing – which reports should we believe in? The government has claimed a record 7.24 percent GDP growth rate. However, as per the logical explanation of the World Bank, the GDP growth of Bangladesh depends on export growth, inflow of remittances and import of industrial raw materials among others. We have every reason to believe that the outgoing year is not going well in the aforementioned areas due to decreasing oil prices in the international market, falling value of the pound because of Brexit, chaos in the Middle East and the increasing protectionist policies by the US as well as some European countries. WB data shows that our export growth has come down to 3.9 percent from 9.2 percent, remittances went down 16 percent and import growth of industrial raw material is down to 2 percent. Almost all economies rely on information provided by the WB, ADB and IMF because of their transparent and evidence-based data collection. But if we are to believe in the World Bank figures, then that would mean that we shouldn't believe in our own government.

It is the responsibility of the government to look into these discrepancies if they are to stand by their claim of a 7.24 percent growth in GDP in the outgoing year.

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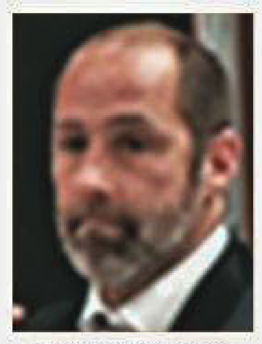
Asia: Preparing for choppy seas



BRIAN AITKEN

THE outlook for Asia and the Pacific is the strongest in the world, but it is shrouded by challenges at home and abroad, according to the latest IMF report for the region. The April 2017 *Regional Economic Outlook for Asia and Pacific: Preparing for Choppy Seas* finds that policy stimulus continues to support healthy domestic demand in China and Japan in the near term, which is good for other economies in Asia as well. Broader global conditions are also favourable. Growth is accelerating in many major advanced and emerging market economies, notably the United States, and commodity exporters, and financial markets are still resilient for the most part. Nonetheless, there are challenges ahead. Particularly, over the medium term, there are fundamental headwinds to sustained strong growth, including from aging populations in some countries and a slower catch-up in productivity.

After a slowdown in 2016, regional growth is forecasted to speed up in 2017. Growth in the region decelerated to 5.3 percent in 2016 from 5.6 percent in 2015 despite broad improvement in economic activity in the second half of 2016. Net exports continued to pull down growth; domestic demand remained strong, supported by robust private consumption. GDP growth is forecast to reach 5.5 percent in 2017, revised up by 0.1 percentage point compared to the estimate in the IMF's October 2016 *World Economic Outlook*, and 5.4 percent in 2018. Accommodative policies will underpin domestic demand, offsetting tighter global financial conditions. The acceleration in 2017 reflects expected recovery in Asian trade, resilient domestic demand, and continued policy support.

The aggregate outlook for the region, however, masks differences across countries. Among the larger economies, projected growth in China and Japan for 2017 was revised up because of continued policy support and strong data toward the end of 2016. China's GDP growth is expected to stay strong but continued to slow gradually to 6.6 percent in 2017 as recent tightening measures take effect — and to 6.2 percent in 2018. Japan's growth is projected at 1.2 percent, with momentum set to continue into 2017, but will probably then weaken along with fiscal policy consolidation and the planned consumption tax increase. Some of the upward revision in Japan reflects the comprehensive revision of the national accounts in 2016. In India, temporary disruptions (primarily to private consumption) caused by cash shortages accompanying the currency exchange initiative are expected to gradually dissipate in 2017. Thus, growth is projected to rebound to 7.2 percent in FY2017-18 and to 7.7 percent in FY2018-19.

Near-term growth is encouraging, but downside risks continue to dominate the economic landscape. Global growth could get a boost from economic stimulus in some large economies, particularly the United States. However, continued tightening in global financial conditions could trigger further capital flow volatility. Private debt has risen in many economies in the region over the past decade, and higher borrowing costs could tip some companies and households over the edge and constrain growth. More inward-looking policies in major global economies would significantly impact Asia, given that the region has benefited substantially from cross-border economic integration. A bumpier-than-expected transition in China would also have serious repercussions.

Medium-term regional growth faces challenges from population ageing and slowing productivity. Asia is a diverse region, and some areas risk growing old before becoming rich. This is because the pace of ageing is faster in Asia compared with the experience in Europe and the United States. For many countries in the region, on current trends, per capita income (benchmarked against the United States) will be much lower than that reached by advanced economies at a similar peak in their ageing cycle. Slowing productivity growth since the global financial crisis, which kept the region from catching up with the United States and other countries at the technological frontier, has made matters worse. The slowdown has been most severe in the advanced economies of the region. Without reforms, productivity growth will likely remain low for some time, with headwinds from rapid aging becoming increasingly important.

In Bangladesh, macroeconomic stability has strengthened, supported by steady monetary policy management and fiscal discipline. This has allowed the economy to benefit from favourable external demand, high remittances, and low commodity prices. The external position remains strong, with foreign exchange reserves steadily increasing. Output growth rose to over 7 percent in FY-16 from 6.5 percent in the preceding fiscal year, supported by robust domestic demand, particularly from government consumption, private investment, and external demand.

> *Bangladesh ranks near the bottom globally in commercial access to electricity, roads, and rail, all requiring a significant increase in public investment. To create fiscal space for higher public investment while maintaining fiscal sustainability requires improving domestic revenue collection.*

In the near term, this solid macroeconomic performance is set to continue, with growth projected to remain close to current levels and inflation broadly in line with Bangladesh Bank's target. Reflecting mainly lower remittances, the current account balance is projected to record small deficits. Risks to the growth outlook include a sustained real exchange rate appreciation which could undermine export competitiveness, and the continued weaknesses in the banking sector that could have fiscal and financial stability implications over the medium term and undermine growth.

In the medium term, the outlook for growth is conditional on continued prudent policy implementation and on the country's ability to upgrade policy practices and frameworks. Maintaining the current level of growth will require increased investment, both public and private, as well as reforms to support investment efficiency and capital market development. Presently, higher private investment rate is constrained by numerous impediments to the business environment, including the poor quality of infrastructure and the lack of access to long term financing. Bangladesh ranks near the bottom globally in commercial access to electricity, roads, and rail, all requiring a significant increase in public investment. To create fiscal space for higher public investment while maintaining fiscal sustainability requires improving domestic revenue collection.

Removing these constraints and related market failures will not only boost private sector investment, which is an important engine for growth, but should also encourage diversification in the economy. This, in turn, will bring additional productivity gains needed to support sustained high growth. In sum, despite Bangladesh's strong record of growth in the past, the underlying fundamentals for sustained growth on many fronts need to be significantly strengthened. Implementing reforms to improve infrastructure, improving the business environment, strengthening financial sector supervision and governance, and increasing the tax to GDP ratio, remain a priority.

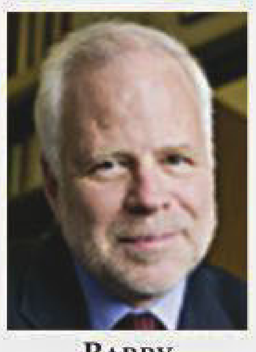
The IMF, as a partner to Bangladesh, stands ready to continue working closely with the government in support of these policy priorities.

SOURCE: WORLDBANK

The writer is IMF Mission Chief for Bangladesh.

PROJECT SYNDICATE

Is Germany unbalanced or unhinged?



BARRY EICHENGREEN

FOR US President Donald Trump, the measure of a country's economic strength is its current-account balance — its exports of goods and services minus its imports. This idea is of course the worst kind of economic nonsense. It underpins the doctrine known as mercantilism, which comprises a hoary set of beliefs discredited more than two centuries ago. Mercantilism suggests, among other things, that Germany is the world's strongest economy, because it has the largest current-account surplus.

In 2016, Germany ran a current-account surplus of roughly 270 billion Euro (USD 297 billion), or 8.6 percent of GDP, making it an obvious target of Trump's ire. And its bilateral trade surplus of USD 65 billion with the United States presumably makes it an even more irresistible target. Never mind that, as a member of the eurozone, Germany has no exchange rate to manipulate. Forget that Germany is relatively open to US exports, or that its policymakers are subject to the European Union's anti-subsidy regulations. Ignore the fact that bilateral balances are irrelevant for welfare when countries run surpluses with some trade partners and deficits with others. All that matters for Trump is that he has his scapegoat.

Back in the real world, the explanation for Germany's external surplus is not that it manipulates its currency or discriminates against imports, but that it saves more than it invests. The correspondence of savings minus investment with exports minus imports is not an economic theory; it's an accounting identity. Germans collectively spend less than they produce, and the difference necessarily shows up as net exports.

Germany has a high savings rate for good reason. Its population is aging more rapidly than most. Its sensible people are sensibly saving for retirement. They are accumulating assets now so they can de-accumulate them later, when old-age dependency ratios are higher.

This is why the advice German leaders receive from White House advisers and even from some German economists — that Germany would be better off abandoning the euro and letting its currency appreciate — makes little sense. Changing the exchange rate would not diminish the incentive for Germans to save.

Moreover, allowing the exchange rate to appreciate would discourage investment in capital-intensive traded-goods sectors. To be sure, a stronger currency might increase investment in services by raising the relative price of non-traded goods. But the incentive to invest in services would have to be boosted massively, given that the sector is not capital intensive, to offset lower investment in export industries.

Better than fiddling with the currency would be to address saving and investment directly. Here is where the two principal parties vying in Germany's upcoming election differ. Chancellor Angela Merkel's Christian Democrats suggest cutting taxes. This makes sense insofar as the German government is a massive net saver; the 2016 budget surplus was 23.7 billion Euro, a record high.

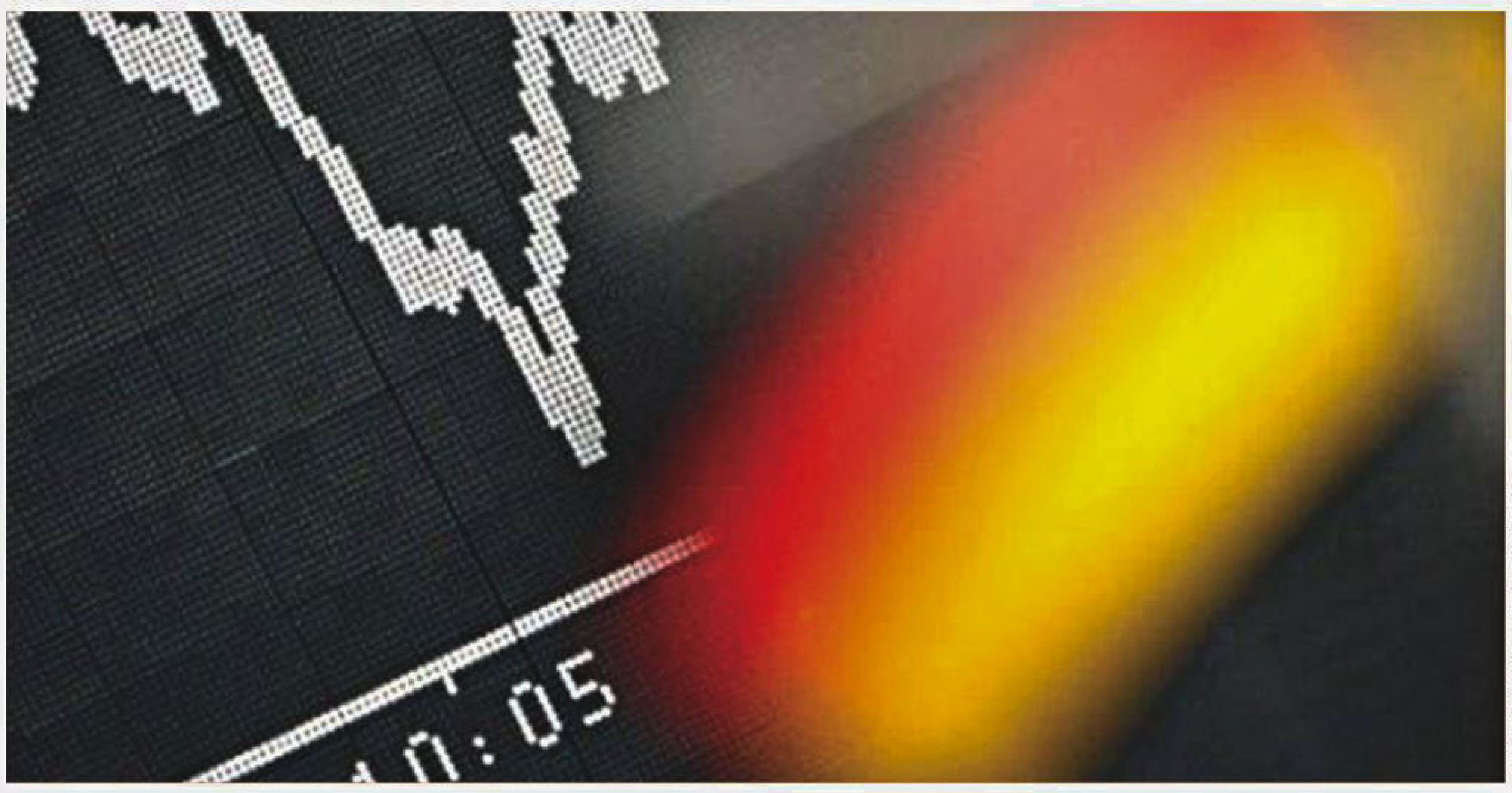
The problem is that there is no guarantee that German households, being voracious savers themselves, will spend the additional income. Extending investment tax credits to German firms might be more effective in boosting spending, but doing so would be politically problematic in a country where labour's share of national income is already declining.

Martin Schulz's Social Democrats, on the other hand, favour raising public spending, by investing in infrastructure in particular. In the current European environment of near-zero interest rates, there's little risk that additional public investment will crowd out private investment. And Germany has massive unmet needs in health care, education, and communication and transportation infrastructure.

Some will object that infrastructure and public services are non-traded goods, so more spending on them won't boost imports or narrow the current-account balance. But if the government, in a fully employed economy, redirects resources toward the production of non-traded goods, households and firms will have to find other ways of satisfying their demand for tradables. The only sure way of doing that is by purchasing additional imports, spending on which will inevitably increase.

The question, ultimately, is why Germany should seek to reduce its current-account surplus. One answer is to get out of Trump's sights. A better answer, offered by the International Monetary Fund, is that doing so would be good for a world economy in which investment is in short supply, as evidenced by record-low interest rates. It would be good for Southern Europe, which needs to export more, but can only do so if someone else, like the largest Northern European economy, imports more.

Most of all, more investment in infrastructure, health, and education would be good for Germany itself. Well-targeted public investment can raise productivity and boost living standards, ameliorate concerns about inequality, and address Germany's economic weaknesses. For example, there are exactly zero German universities in the top 50 globally. More public funds would make a difference. "The world's strongest economy" can do better.



GERMANY SOURCE: KOOLNEWS.GR.

The writer is a professor at the University of California, Berkeley, and the University of Cambridge. His latest book is *Hall of Mirrors: The Great Depression, the Great Recession, and the Uses and Misuses – of History*.