

# Does the trade deficit hurt or help the US economy?

AFP, Washington

US President Donald Trump fervently denounces America's global trade deficit and accuses China's trade policies of killing US jobs and businesses.

He launched aggressive tariff policies and demanded renegotiation of trade deals to correct the imbalance between exports and imports.

But does a trade deficit hurt or help the world's largest economy? Disagreement on this point extends all the way to the corridors of the White House. A country that imports more foreign goods and services than it sells to other countries has a trade deficit.

The United States has run a chronic trade deficit for nearly 50 years. In 2017, the gap hit \$552.3 billion. The deficit with China alone was a record \$335.7 billion.

But spending more money on imports does not necessarily hurt the country doing the buying.

Companies benefit from cheaper and better inputs, while focusing on producing products and services that they are better equipped to provide. And consumers benefit from lower prices.

Most economists dispute the claim that a trade gap increases unemployment or damages the economy as simplistic if not erroneous.

This view generally focuses on manufactured goods, or the billions in annual

imports of consumer items in high demand: clothing, telephones, computers and household appliances. But the US economy increasingly is dominated by services including travel, finance and media, and in that category posted a surplus of \$255.2 billion last year.

Furthermore, statistics show the trade deficit grows when the economy is healthy, and shrinks as the economy slows, as Americans consume less, driving down imports.

In 2009, the US trade deficit plunged 45.8 percent as the American economy screeched to a halt in the wake of the global financial crisis.

With above-trend growth in the first 10 months of this year, the deficit rose 11.4 percent compared to the same period of 2017.

Trump's former economic advisor Gary Cohn made repeated efforts to show the president that a trade gap is not a threat, and that America's prosperity no longer depended so heavily on manufacturing, according to the investigative reporter Bob Woodward.

In Woodward's recent book, Fear, Cohn said he told Trump that "trade deficits were irrelevant and could be a good thing, allowing Americans to buy cheaper goods," while "80 plus percent of our GDP is in the service sector."

And he said people are happier working in air-conditioned offices rather than toiling at blast furnaces.

Importing cheaper goods from countries like China, boosts the purchasing power of American consumers who can see their income go further, and can even use those savings to purchase locally-made products as well.

Companies also save, with lower costs for imported components, boosting their profits.

But imports can hurt sales of local products, in which case growth can slow and jobs losses can occur.

To balance the trade gap, the United States must either borrow or attract foreign investment.

Exporters, rather than buying an equal amount of imported goods, can invest in assets like stocks, US Treasury debt, corporate bonds or real estate, which can in some instances create jobs.

But Peter Navarro, a hardline Trump trade advisor, believes the trade deficit threatens US national security since it makes Washington dependent on foreign investment.

Finally, the exchange rate is key factor. With a strong economy -- and the US has outpaced most of its trading partners -- the dollar strengthens, making foreign products cheaper and more attractive to US consumers.

But a strong dollar makes US exports more expensive to consumers in other countries, hampering American companies from selling in foreign markets.



STANCHART

**Lutful Habib, head of client acquisition, relationships and retail banking at Standard Chartered Bangladesh, and Toufiq M Seraj, managing director of Sheltech, exchange documents after signing a deal recently. The duo's clients can avail loans at 9 percent interest alongside discounts of Tk 2 lakh and Tk 4 lakh on flats priced either below or at Tk 3 crore and above respectively.**

## Major scams cost banks Tk 22,502cr: CPD

FROM PAGE B1

Banks' declining return on asset, equity and expenditure to income ratio and volatility in the liquidity situation during the past decade was also discussed in the report.

As of June, return on asset and equity of the banking industry stood 0.3 percent and 5.3 percent respectively.

"Banks' inefficiency in liquidity management was also evident as the banking industry faced more than two unusual incidences of both liquidity surpluses and shortages."

ICB Islamic Bank (formerly known as Oriental Bank), Farmers Bank and state-owned BASIC Bank, which are making losses for the last three years, are seriously under-capitalised, posing a potential threat to their existence.

"Losses made by BASIC Bank alone were greater than the losses of all other banks combined."

Between 2016 and 2018, BASIC's NPL ratio stood at 50 percent and ICB Islamic Bank's 60 percent.

Farmers Bank, which was set up in 2013, had to be bailed out by five state-owned lenders with Tk 765 crore.

Monopolisation of banking—which was not only limited to corporations but also spread to families—has deteriorated the governance in the sector, the think-tank said.

A single business group gained control of seven private banks in the country.

Two detrimental amendments in the banking laws -- the increase in the tenure of directors to 9 years from 6 years and the number of family members who can be directors to 4 from 2 -- have undermined the cause of good governance.

## Thyssenkrupp, Tata Steel near decision on steel JV board

REUTERS, Duesseldorf/London

Germany's Thyssenkrupp and India's Tata Steel are close to deciding who will lead their planned European steel joint venture, four people familiar with the matter said on Friday.

Settling on the venture's leadership has been delayed by a strategy crisis and change of CEO at the German industrial conglomerate, which has said it would split into two companies.

The holdup has riled the Thyssenkrupp workforce. A labour leader on Wednesday said there would be "trouble" if the matter was not resolved soon.

Andreas Goss, head of Thyssenkrupp's steel unit, is the front runner to become chief executive of the combined entity, which will be Europe's second-largest steelmaker after ArcelorMittal, the people said.

### RECOMMENDATIONS TO BAIL OUT BANKS

- Recognising the sector's problems
- An audit should be conducted to understand the real health of the banks
- A new exit policy for troubled banks should be formulated
- An administrator should immediately be appointed to oversee troubled banks
- Immediate actions must be taken against banks that are ill-prepared for Basel III
- Recapitalisation of state banks has to be stopped

Under this situation, the CPD believes there is no need for new banks in Bangladesh.

"Mexico had only 47 commercial banks in 2016 though its GDP was 7.4 times higher than Bangladesh."

Though the central bank has the sole authority to grant licences to new banks, this principle is not being followed in Bangladesh, the report said.

The CPD also shed light on the reforms carried out in the banking sector since 2009.

- Banks with less than 5pc NPL should get funds from 50pc govt deposits

- Reforming the judicial process for speedy recovery of default loans

- Recruiting board of directors on political grounds has to be discontinued

- Independence of the central bank should be upheld

- No new banks should be allowed

- Setting up an independent commission for banks

Of the reforms, anti-terrorism law, guidelines on risk-based capital adequacy for banks, whistleblowers' protection law, customers' interest protection centre at all banks, corporate governance, money laundering prevention law and some changes in electronic payments and settlements were mention worthy.

Fahmida Khatun, executive director of CPD, presented the report at the programme, which was chaired by noted economist Wahiduddin Mahmud.



RAJUK

**National Professor Jamilur Reza Choudhury addresses the opening of a two-day "Project Implementation Concept Workshop for Stakeholders" jointly organised by Rajdhani Unnayan Kartripakkha (Rajuk) and World Bank at the Radisson hotel in Dhaka on Saturday.**

## ৪২তম বার্ষিক সাধারণ সভা 42<sup>nd</sup> Annual General Meeting

For Health, Vigour and Happiness



**The ACME Laboratories Ltd.**

ISO 9001:2015 CERTIFIED COMPANY



**Date:**  
6 December 2018  
at 10.30 AM  
**Venue:**  
PSC Convention Hall (1<sup>st</sup> Floor)  
Police Staff College  
Mirpur-14, Dhaka-1206



ACME

**Nagina Afzal Sinha, chairman of Acme Laboratories Ltd, presides over its 42nd annual general meeting at PSC Convention Hall in Dhaka on Thursday.**

## Ideas, not finance, vital for SMEs

FROM PAGE B1

"If you come up with a good idea, banks and financial institutions are eagerly waiting to finance your projects," he told "IPDC Uddokta Summit 2018" at the University of Asia Pacific in Dhaka.

"When you start a business you have to identify what you want to do, prospects of your product and its market," he told the event which aimed at encouraging entrepreneurship.

IPDC Finance Ltd along with Bangladesh Open Source Network's (BdOSN) entrepreneur development initiative "Chakri khujbo na, chakri debo" and the university jointly organised the two-day event. The Daily Star is an associate organisation of the event.

The summit was inaugurated on Friday, hosting over 500 entrepreneurs from around Bangladesh and 45 stalls to display and showcase associated products and services alongside 10 sessions and four workshops.

"Lack of preparedness of the entrepreneurs in our country is another thing for finance not being available. At least, you have to get your business registration or trade licences to avail the loans," said Shams.

He advised beginners to refrain from investing all of their capital in a single project.

"Some people make a mistake by investing all their resources in a single business. If you have Tk 10 lakh, spend three or four lakh at first. If it is a success story, then invest the rest. If it fails, you can have a fresh start with the remaining," he said.

"I feel overwhelmed to see the bloom of entrepreneurs and the number of people

getting involved to have new ideas and converting those into business," added Shams.

The success of a business largely depends on the quality of services and communication skills, said Md Monir Hosen, CEO of Creative IT Institute.

"To become an entrepreneur you have to either innovate products or services that are not available in the market or you have to provide better services of the existing products," he said.

"An entrepreneur should not only run for loans to the bank and financial institutions as there are many other ways of collecting capital," said Hamidul H Khan, executive director of the Innovation in Development Pursuit.

"Concentrate on the customer and fully comprehend the market with a small start," he said, suggesting entrepreneurs develop a product for which there is a market and has the ability to generate revenue.

Md Humayun Kabir, CEO of online payment gateway Walletmix, said, "Entrepreneurs of SMEs have to build up strategy, inclusive plan and patience to thrive."

"Many people come to business but they do not know what they have to do. Without vision, you cannot be an entrepreneur," he said.

The summit was inaugurated by National Professor Jamilur Reza Choudhury, vice chancellor of University of Asia Pacific.

Kazi M Aminul Islam, executive chairman of Bangladesh Investment Development Authority, and Mominul Islam, CEO of IPDC Finance, were present as special guests.

## S Africa minimum wage begins Jan 1: president

AFP, Johannesburg

South Africa's President Cyril Ramaphosa said Friday that a landmark minimum wage bill to bridge the country's notorious inequality will become law from January 1 as he eyes elections due in 2019.

The bill legislates that the lowest paid workers receive a minimum of 20 rand (\$1.42) per hour. "This is a great achievement for the working people of South Africa, who have had to endure generations of exploitation," Ramaphosa said at a signing ceremony in Johannesburg.

The unprecedented piece of legislation is expected to improve the wages and livelihoods of an estimated six million South Africans. The ruling African National Congress party will hope that the move along with recent decisions to lower taxes on key food staples.

## Green Delta, IFC bring insurance for farmers

FROM PAGE B1

"This is an important initiative for the protection of farmers," said Finance Minister AMA Muhith.

Agriculture depends on nature in most cases and farmers plunge into huge losses when natural calamity strikes.

"If agri-insurance works successfully it would be a great thing for our agricultural economy and the insurance sector also," he added.

Bangladesh is one of the most climate vulnerable countries, said Md Ashadul Islam, secretary to the bank and financial institutions division.

The climate-related funds from global donors should go straight to agri-insurance instead of the government as natural calamities are borne from climate change mostly.

"Agri-insurance will protect our farmers and certainly improve our food security in the long run as well," he added.

Md Shafiqur Rahman Patwari, chairman of the Insurance Development & Regulatory Authority, also emphasised on the need for government support to promote agri-insurance.

Wendy Werner, country manager of IFC for Bangladesh, Bhutan and Nepal; Nasir A Chowdhury, founding managing director of Green Delta Insurance; and Farzana Chowdhury, managing director of the company, were also present.

## Foreign funds in DSE keep falling

FROM PAGE B1

The reason behind the preoccupation with the political scenario is the instability seen during the run-up to the last couple of national elections, he said, adding that foreign investment will pick up if the political environment remains calm after the polls.

Another reason behind the sell-off is the depreciation of the taka, according to market insiders.

Foreign investors are now getting Tk 3 less than what they used to get a year ago against every dollar.

The exchange rate for dollar is Tk 83.90, in contrast to Tk 80.90 a year ago, according to data from the Bangladesh Bank.

**TO-LET**

**READY FURNISHED OFFICE**

**WITH CENTRAL AC & FURNITURE**

**Available From 1<sup>st</sup> January-2019**

**Address- Assurance Tower, 65/B, Kemal Ataturk Avenue, Banani, Dhaka-1230.**

**Size: 5900sqft. (5th Floor)**

**For more Information: Mr. Afshinur Rahman**

**☎ 01713366103 / 09-606-222-750**