

Taka policy in a changing world



IT is still widely believed that depreciation of taka vis-à-vis foreign currencies—especially US dollar—will boost Bangladesh's export earnings. This is true only if our exports are priced or invoiced in Bangladeshi taka.

For example, if a shirt made in Bangladesh is invoiced at Tk 1,000, at an exchange rate of USD 1 = Tk 85, the shirt will cost USD 11.76 in the international market.

Now, suppose taka depreciates in value, with USD 1 equalling Tk 88—a 3.5 percent weakening of taka. At this exchange rate, the Bangladeshi-made shirt will cost USD 11.36, or 3.4 percent cheaper. As can be seen, when exports are priced in the local currency, a depreciation of taka will reflect an almost equal reduction in the price of a locally made shirt. If exchange rates of our competing countries such as India and Vietnam do not change, it is hoped that comparatively cheaper Bangladeshi shirts will lead to higher international demand for shirts followed by higher export earnings.

But our exports are invoiced in US dollar, not in taka. So, a depreciation of taka does not lead to an automatic reduction in the prices of goods that Bangladesh exports. To see this, consider again the example used above. A Bangladeshi-made shirt is priced at USD 11.76 in the international market and the current exchange rate is USD 1 =



Is taka depreciation good for economy or bad?

FILE PHOTO: REUTERS

Tk 85. Now, even if taka depreciates relative to the US dollar, with USD 1 equalling Tk 88, the international price of Bangladeshi shirt remains unchanged at USD 11.76. Other things held constant, the demand for Bangladeshi shirts also remains unchanged as well as its export earnings.

Thus, when exports are invoiced in foreign currencies, as is the case with Bangladesh and many developing countries, changes in the value of taka do not have a direct

impact on its export revenues. Instead, when taka depreciates, rather than boosting export revenue, Bangladesh's import prices rise. Higher import prices, in turn, push up the inflation rate at home. Given the large import content of raw materials and other intermediaries in RMG manufacturing, a weak or depreciating taka will thus make the cost of RMG production higher.

The point is simple. If a country's trade (exports and imports alike) is invoiced in

foreign currencies, its trade becomes more sensitive to fluctuations in foreign currencies than changes to its own currency. The theory and evidence behind this argument are demonstrated by Harvard economist Gita Gopinath, who is currently serving as chief economist of the International Monetary Fund (IMF).

If a depreciation of the local currency does not boost export, why do Bangladeshi exporters lobby for a weaker taka? To some extent, our exporters suffer from money illusion. When an exporter receives USD 1,000 as a payment for his exports, the equivalent amount in taka is higher if we have a weaker currency (USD 1 = Tk 88 instead of USD 1 = Tk 85). But the higher nominal export earning of Tk 88,000 instead of Tk 85,000 is illusory because due to price inflation, the real purchasing power of Tk 88,000 is less than its nominal value. The only way exporters gain from a weaker taka is when the rate of taka depreciation exceeds that of the increase in price inflation.

Is taka over- or undervalued? Some market observers have pointed out that taka is overvalued. Bangladesh Bank intervenes heavily in the foreign exchange market to keep the value of taka against US dollar stable. If Bangladesh Bank had not intervened, taka per US dollar would have been higher than the current 83-85 range.

A rigorous way to determine whether taka is over- or undervalued is by estimating equilibrium exchange rate models for the taka-dollar exchange rate. In the absence of such models, any conclusion on the value of taka is premature. Moreover, the difference

between the official taka-dollar exchange rate and the parallel market rate is less than Tk 2, suggesting that the extent of currency misalignment may not be very severe.

Does Bangladesh Bank follow a "weak taka" or a "strong taka" policy? Up until a few years ago, Bangladesh Bank's exchange rate policy was clearly favouring exporters (i.e. stable but sustained weakening of taka). But sustained economic growth over the past decade has created an affluent consumer group with annual income exceeding USD 5,000. These consumers have a voracious demand for imported goods and services that the country is unable to satisfy.

Consequently, a group of import lobbyists has emerged who prefers a stronger taka to keep import prices under check. The surprising low volatility of the taka-dollar exchange rate trading within a narrow range likely suggests that Bangladesh Bank's exchange rate policy is addressing the concerns of both exporters and importers.

A strong taka not only makes our imports cheaper, our exporters also benefit from cheap imports of raw materials they need. While it may sound counterintuitive, a strong taka may be good news for exporting industries as this may trigger industry restructuring and spur productivity growth. If the Bangladesh Bank is to blame for the loss of export competitiveness due to an overvalued taka, it should also receive credit for its contribution to the country's economic development through cheap imports and lower imported inflation.

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Assam NRC: Should Bangladesh be concerned?



IN July last year, the draft NRC (National Register of Citizens) in Assam had primarily delisted more than four million people from Indian citizenship—a process that is now pending for its final publication on August 31 of this year. NRC

was meant to identify and delist those who are considered "illegal migrants", who entered Assam after March 24, 1971. The draft NRC, which raised concern for many in Bangladesh, was published when Bangladesh was going through its own struggle of having to shelter more than a million refugees fleeing from Myanmar. The concern was rather valid as the possibility of "deportation" of the alleged illegal migrants to Bangladesh was being emphasised time and again in political discourses and media debates in India. Since India has always refrained from bringing up the illegal migration issue in any official meeting with Bangladesh, Bangladesh did not officially express any concern over the NRC process.

However, in unofficial media exchanges, high-level government officials did clarify Bangladesh's position stating that there had been no unauthorised migration from Bangladesh to Assam after the country's independence in 1971. Reportedly, however, through personal communications between the highest-level state officials of both countries, Bangladesh had been reassured that this was simply an "internal issue" pertaining to India and that India had no plans to deport those people excluded from the NRC to Bangladesh.

However, all these informal exchanges, interviews and media analyses took place in the pre-election context of India. Although this had never been spelt out, for many Bangladeshis, this process of delisting citizens prior to the Lok Sabha election was initially thought to be just a political rhetoric or a stance of BJP to influence the electoral landscape in Assam. However, the way the illegal migration issue had been emphasised in the pre-election campaigns and the pace with which the NRC process was being conducted after the election, did raise an alarm that the promise to delist the alleged "illegal migrants" was perhaps never only a



People wait in queue to check their names on the draft list at a National Register of Citizens (NRC) centre in Nagaon district, Assam, India.

PHOTO: REUTERS/ STRINGER

political rhetoric. The last election manifesto of BJP had even promised to repeat the NRC process in future, in other parts of India.

As such, the essential post-election question for Bangladesh was if it should rest assured, based on only some informal communications, that the entire process of NRC is simply an "internal issue" of India with zero effect on Bangladesh. The so-called illegal Bangladeshis have always been at the centre of all debates and discussions surrounding the NRC in Assam. Even though there may have been debates over whether or

not they should be returned to Bangladesh, there had hardly been any disagreement in the public discourse regarding the status of the illegal migrants as Bangladeshis. Even the very decision of the Supreme Court of India, which had sanctioned the NRC process, clearly expressed that the illegal migrants detected through the process should eventually be deported to Bangladesh. As such, there is hardly any scope to regard the NRC process as a mere "internal issue" of India that has no connotations for Bangladesh.

However, keeping in mind the friendly diplomatic relations that the two countries share, this much can be hoped that India would never send back such large numbers of denationalised people to the borders of Bangladesh. It had been indicated several times on behalf of the ruling BJP leaders and NRC officials that those who are finally delisted will have the chance to appeal to the Foreigner's Tribunals in Assam and the process can go as far up as the Supreme Court. Thus, although there is no specific policy explaining what would be the fate

of the people whose names will not appear in the final NRC, the Indian government has from time to time assured that the entire process will take up a significantly long period of time before any person's citizenship claim can be finally settled by the Supreme Court. This implies that no one will probably be deported to Bangladesh in the near future.

However, even if not deported immediately, throughout this potentially long process, millions of people will, in effect, lose all their political rights for an indefinite period of time and will probably end up in some detention camps. The crucial question then is—for how long will these people, arbitrarily deprived of their nationality and political freedom, feel safe in Assam? The entire process of denationalisation will create an unprecedented number of stateless persons in this region and it cannot be assumed with certainty that they will not be subjected to persecution based on their communal or linguistic identity within Assam. This fear of being persecuted and the indefinite state of rights deprivation will inescapably drive these stateless people to seek refuge at the borders of neighbouring countries. Thus, the way this denationalisation process is drawing a dangerous polarisation in the region, the possibility that Bangladesh may have to face refugees crossing borders from India at some point cannot be negated.

Other than the potential refugee crisis, it is also to be seen as to how far this divisive political process, which may result in a state of communal instability in Assam, will eventually affect the existing communal harmony in Bangladesh. In fact, it doesn't require much political foresight to infer that this politically motivated division and the resulting communal discontent will not be limited within the borders of India alone. Depriving such large numbers of people of citizenship will certainly have an adverse effect on the overall regional peace and security, and the country that will be affected most, for understandable reasons, is Bangladesh. In the context of the upcoming final NRC publication on August 31, how far the diplomatic effort from Bangladesh is prepared to effectively address the ensuing crisis remains to be seen.

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QUOTABLE Quote

ANNE FRANK
(1929–1945)
German-born Dutch-Jewish diarist and one of the most discussed Jewish victims of the Holocaust

Human greatness does not lie in wealth or power, but in character and goodness. People are just people, and all people have faults and shortcomings, but all of us are born with a basic goodness.

CROSSWORD BY THOMAS JOSEPH

ACROSS

- 1 Be bold
- 5 Served perfectly
- 9 "Separate Tables" actor
- 10 Styling site
- 12 Studio sign
- 13 Sculpting medium
- 14 "Snookums," e.g.
- 16 Spot's foot
- 17 Stretch of years
- 18 Sentiment for an ailing friend
- 20 Chestnut horse
- 22 Water whirl
- 23 Washington's successor
- 25 Golf bunker
- 28 "Impressive!"

DOWN

- 1 Moolah
- 2 Online icon
- 3 Rider's strap
- 4 Furious
- 5 Good quality
- 6 Lynx or lion
- 7 Wed in secret
- 8 Daisy's love
- 9 Slangy denials
- 11 Afresh
- 15 Scarlett's friend
- 19 Sunset site
- 21 Hip-hop songs
- 24 Blotchy
- 25 Chinos fabric
- 26 Fix
- 27 Without delay
- 29 "Help me out here"
- 30 Take wing
- 31 "Divine Comedy" author
- 33 Pecks and pounds
- 37 Apple variety
- 39 Lend a hand

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TUESDAY'S ANSWERS

P	E	S	O	A	R	K	S
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BEETLEBAILEY by Mort Walker

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