How does global financial crisis affect Bangladesh?
By Barrister Harun ur Rashid
Former Bangladesh Ambassador to the UN, Geneva.

There is a saying that when America sneezes, the countries around the world get flu. This has been evident when American financial crisis has spread throughout the world.

America with its $13 trillion economy, the world's biggest economy, can absorb and come out of this crisis after a certain period of time but other countries with much less economies of strength will suffer heavily (Bangladesh's GDP is around $70 billion dollars).

Bangladesh is captive to what transpires in international markets and economies of leading countries. Most of them are experiencing slowing growth or already contracting. Bangladesh cannot be immune from the global economic slowdown and is most likely to be adversely affected sooner or later.

October 10 was the day when stocks and shares dropped to the lowest level in US, Japan, Britain and Australia and pretty much across the world. No country was spared from the financial crisis because of globalisation and inter-locking of financial interests.

Some economists have compared October 10 to September 11 2001 when terrorists attacked the World Tower in New York. Financially 10/10 is the new 9/11 because the financial system and the money markets will never the same.

10/10 has dramatically changed forever, according to economists, the global financial system. Governments have intervened with funds to avoid collapse of reputable banks and some say nationalisation of banks was unthinkable during 21st century. But it has happened in a free market economic system.

Indian author Shashi Kapoor writes in the International Herald Tribune (14 October) that " Fidel Castro and Mohammed Ahmadinejad should pronounce themselves vindicated by the crisis in global capitalism", since free market economy and capitalism has over the years been strongly identified with America.

The crisis is compounded by the fact that the Bush administration has been saddled with a deficit budgets for several years. It is reported the current budget deficit of the US in this financial year that ended on October 1st hit a record high to $ 455 billion. It is noted President Bush inherited a surplus budget of $79 billion from the Clinton administration.

Furthermore the US regulators have not supervised adequately the way the banks were providing loans to all kinds of people during the housing- boom period.
The regulatory bodies in the US ignored the warning signs of financial storm since August 2007 and believed that free-market system would take care of it.

When economic catastrophe began and was out of control, the US Treasury Secretary came up with the $700 billion rescue package. Some economists argue that it is too late and an inadequate or flawed response.

The rescue-package met strong opposition in the Congress by the Republican legislators, despite the request of the Republican President to pass the law quickly. The Republican lawmakers do not ideologically believe that administration should use taxpayers' money to bailout the financial institutions of the Wall Street. After more than week, the bill was passed with many conditions. Some say that the US should now be called "Socialist Republic of America."

Britain's Prime Minister adopted measures to restore confidence in the Banks and money market by buying shares in the banks and providing billions of dollars to the money markets including guaranteeing all the deposits in the Banks including inter-banking debt as well.

The US has reportedly entered a recession according to an official of Federal Reserve Bank and leading European countries, such as Britain, France, Germany and Italy are on the brink of recession, although unprecedented financial stimulus- package by, Britain, France, Germany and Japan has avoided financial global meltdown.

Why meltdown?

To put it simply, it has been argued the whole meltdown of the financial system was "Made In America" for having relaxed rules of providing loans to jobless people with no income for buying houses, called "sub-prime housing loans" or now known as "toxic loans or assets" amounting to about $2.1 trillion dollars.

The paper securities on property were packaged and sold to banks and financial institutions worldwide and when borrowers failed to make payment for the loan, the banks and financial institutions could not recoup the loan-money because either the price was too low or the fact that there was no buyer of the property. The towns in which houses of the borrowers are located in the US are reportedly called "ghost-towns" because the owners had left and the banks could not sell the property.

Banks and financial institutions that bought security-paper have lost money. In its latest calculations, the IMF reckons that worldwide losses on "toxic assets" originated in America will reach $1.4 trillion and so far $760 billion has been written down by banks and financial institutions.

Normally the banks and financial institutions lend and borrow money and the money market works well. During the crisis, money markets ceased to function as investors and banks who ordinarily arrange foreign exchange swaps among themselves for a set time period are nervous about the risk that their counter-party will go bust because of liability of "toxic assets" while the swap is being put into place and so have shied away from such deals.

Thus the global money market was closed and a severe credit-crunch was felt across the world. If it were allowed to continue further it would have led to depression.

How does it affect Bangladesh?

In the industrialised countries, it is reported that manufacturers are not making money, the retailer is not making money and the consumer is complaining because they are paying more. An unprecedented gloom in the confidence of consumers is being experienced in these countries.

The global slowdown in the leading economies such as US, Europe, and Japan is likely to adversely affect principally, in three sectors, namely exports, aid-flow and foreign direct investment and remittance from workers.

About 75 % of the exports of garments and knitwear go to the US and Europe.
The exports of knitwear and ready made garments to the US and Europe are likely to fall because there will be no demand in those countries as people would keep money with themselves for meeting their basic needs during rainy days. Everyone will be tight with spending money for non-essentials.

Bangladesh needs foreign direct investment (FDI) up to 28% per cent of GDP (almost 415 billion) every year to reduce poverty in the country. Whatever FDI was coming to Bangladesh was encouraging but it may slow down considerably. Likewise foreign aid will be less from the G-7 countries to Bangladesh.

It is reported that remittances during the last financial year stood to almost $7 billion dollars, 25% per cent were from the industrialised countries in the West and 75% per cent come from the Middle East. The Middle East has not been immune from the crisis and stocks fell over in the oil-rich countries, even in Dubai. Furthermore labour laws in some Middle East countries have changed to the detriment of foreign workers. Given the background, it is likely that remittances will be less because there will be jobs-cut in the countries of economic slowdown.

There is one flip side of the financial crisis in that price of oil has plummeted to a level, unimaginable this summer. At the time of writing it was less than $75 dollars, from the highest $147 dollars per barrel. That would enormously help Bangladesh which imports oil.

Suggested steps:

Against the background, private sectors are likely to shed employees in the country and as a result, unemployment is likely to increase in the country. The government's principal aim is to keep unemployment in check.

Many economists suggest that one of the ways to keep unemployment at bay is to spend money on infrastructure with the benefit of enhancing employment and ultimately increasing productivity. Second, purchasing power must be increased to vulnerable groups by directly giving money or food for works so that their basic needs are met.

Furthermore new business friendly policies may be adopted to attract foreign investment and a cut in interest rate by Bangladesh Bank is a difficult option to be considered to boost investment in private sectors, because inflation hovers over 10% per cent in the country.

Real estate developers and garment manufacturers may be given more incentives in cutting taxes and customs duties in importing raw materials so that engine of growth is maintained.

Bangladesh seems to be in unchartered territory because such global economic crisis has never occurred before. It is qualitatively different from earlier economic break down in 1987 and in 1997 in South East Asia.

Bangladesh's economic security is threatened. No one can be sure what lies ahead for at least two years. Our think-tanks and private sectors may advise the government appropriately how to address slowing economic growth in the country.

The volatile situation is both a challenge and an opportunity for Bangladesh to show innovation and creativity to come out from the likely adverse effects of global economic slowdown.