



BANGLADESH OPINION

The Brief

'Refugee bonds' could help Bangladesh cope with Rohingya emergency



By GARY KLEIMAN | SEPTEMBER 18, 2017 3:49 PM (UTC+8)



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Pledges to spend on education and child care, stay tough on North Korea and revise the pacifist constitution are likely to be pillars of Japanese Prime Minister Shinzo Abe's campaign in a snap election next month, government sources said on Tuesday. (Yoshifumi Takemoto and Takashi Umekawa)

19-09-2017 15:58

As Islamic State targets Southeast Asia as its next theater of destruction, regional authorities are grappling with how to stem its underground cash flows. (Alan Boyd)

With almost half of Myanmar's million-strong Rohingya population having poured into next-door Bangladesh by land and sea to flee military and civilian attacks by the Buddhist majority, Prime Minister Sheikh Hasina and her ruling Awami League party have appealed to the international community for help in defraying the annual costs of the mass influx, estimated by a local economist at between US\$800 million and \$1 billion.

For a long time, the Muslim Rohingya have fled their homes in Rakhine state, where they are denied Myanmar citizenship, for South Asian refuges including India and Pakistan, as well as to Indonesia, Malaysia and Thailand. Some of the refugees have been integrated into urban and rural cities, while others have been isolated in camps or other centers. Domestic budgets have largely absorbed the costs, and wealthier East Asia's fiscal positions have left them in better shape to receive waves of "boat people" not experienced since the aftermath of war in Indochina four decades ago, when global relief and resettlement agencies took joint, publicly funded action.

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In the current crisis, regional officials have no such mechanism for a quick collective response, but they could call on financial markets that have developed since that time, particularly conventional and Islamic-style sukuk bonds promoted under the aegis of the Asian Development Bank (ADB), to raise the billions of dollars needed in Bangladesh and elsewhere as specialized refugee instruments.



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according to the International Monetary Fund's June Article IV report, and its external sovereign bond and stock markets have skidded a displaced-person arrival accelerated, from a 5% frontier index gain through August.

No facilities or supplies were in place to accommodate hundreds of thousands of Rohingya amid Bangladesh's already poor physical and social infrastructure even though the country has graduated to lower-middle-income status with per capita income, at more than \$1,500, now surpassing Pakistan's, as touted in an Economist magazine article.

Despite recent monsoon rains that again claimed hundreds of lives and vast areas of cropland, gross domestic product is projected to grow again this fiscal year at 7% as textile exports and remittances from Bangladeshi workers in the Persian Gulf region regain double-digit increases. In July and August they each were up 15% to almost \$7 billion and \$13 billion respectively, although garment prices dropped overall and the remittance figures were skewed by the Eid holiday celebration.

Private investment remains weak at under 25% of GDP, and a bill has been submitted to Parliament to create a "one-stop shop" to lift Bangladesh from near the bottom of the World Bank's "Doing Business" ranking.

Inflation approaches the economic growth pace with higher food prices, but the central bank has kept the benchmark interest rate on hold. The budget-deficit forecast is 5%, but a new value-added tax has been introduced and public debt is stable at 40% of GDP.

The current account is roughly in balance and international reserves over \$30 billion cover nine months of imports, but a proposed sovereign wealth fund would initially take \$2 billion from the pool.

The exchange rate has softened slightly in nominal terms to above 80 taka per US dollar with selective official intervention, and the IMF urged more flexibility as a priority Article IV recommendation.

Banking-sector problems, with a 25% bad-loan ratio at state-owned units with one-quarter of system assets, are a major chokehold on broader financial market development. Capital adequacy is low at 6%, and it is still tied up in stock-market investment after a crash five years ago prompted regulators to order reduced exposure.

Government influence harms bank performance, and the Capital Market Master Plan adopted in the wake of the 2011 crash has a large



Bangladesh may be limited in its ability to design and support the issuance of refugee bonds on its own, but it could turn to the ADB for credit enhancement and technical assistance and also team with neighbors, particularly Malaysia. That country hosts a sizable Rohingya contingent and is the biggest sukuk center, accounting for more than half of the \$60 billion total worldwide through the first half, and Prime Minister Najib Razak raised the issue as a financial and security challenge during his White House visit last week.

The Middle East with its displaced Syrian population has shown interest in such capital-market innovation, but East Asia with its decades of experience with bond promotion and greater depth could commission immediate pilot projects corresponding to the urgency of the Rohingya crisis.

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Threats against China could result in another Great Depression



By **KEN MOAK** | SEPTEMBER 18, 2017 3:18 PM (UTC+8)



US Treasury Secretary Steve Mnuchin's threats of a trade war against China if it does not uphold sanctions against North Korea not only will not accomplish anything, they could trigger a global economic tsunami and further heighten tension in the Korean Peninsula if he follows through with the threat.

North Korea responded by firing an intermediate-range ballistic missile that traveled 3,700 kilometers over Japan and landed in the Pacific Ocean a few days after the United Nations Security Council unanimously passed harsh sanctions against the Democratic People's Republic of Korea (DPRK). The "hermit" country promised more tests were on the way, prompting the US, South Korea and Japan to scramble for an emergency Security Council meeting to deal with the issue.

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More threats from the US and its allies and sanctions are unlikely to deter the DPRK from holding more missile and nuclear-weapons tests. It considers a nuclear arsenal with the means to deliver the weapons necessary for its survival or to deter a regime change. That conclusion is probably based on what has happened in Iraq and Libya. The DPRK might also have taken a lesson from China and other nuclear powers.

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