Star
BUSINESS
DHAKA SATURDAY JANUARY 14, 2006 E-mail: business@thedailystar.net

SAFTA AGREEMENT

Delhi to allow 8m RMG a year from Dhaka

JASIM UDDIN KHAN

Local exporters are eyeing to export eight million pieces of readymade garments a year to India as Safta came into force.

The Indian government earlier agreed to allow the eight million pieces of readymade garments (RMG) annually from Bangladesh under three categories. Bangladesh can export the garments from the first month of the next fiscal year, exporters said.

The Indian government recently agreed to allow three million pieces of Bangladeshi readymade garments that are made of Indian fabrics.

India will allow another three million RMG products made of either Indian or Bangladeshi fabrics and the rest two millions made by any member country of South Asian Association for Regional Cooperation (Saarc) including Bangladesh.

The South Asian Free Trade Area (Safta) agreement came into operation on January 1, 2006 but the actual trade will start on July 1 as Sri Lanka and Pakistan are yet to ratify the Safta deal.

India put a number of RMG products on its Safta sensitive lists to limit Bangladeshi RMG export surge but agreed to allow eight million pieces of RMG products a year from Bangladesh.

A commerce ministry official said the RMG export under Safta accord will open up new opportunities in Indian market for Bangladeshi garment makers.

Under the existing system, Bangladeshi exporters have to pay 15 percent import duty and 20 percent other tariffs to enter India.

Bangladesh exported RMG products worth US$ 3 million to India in fiscal year 2004-05.

Bangladeshi low-priced RMG goods have huge demand among Indian lower middle class people due to competitive price of the products, sources said.

Exporters hope Bangladesh will be able to reap full benefit of the Indian offer to export Bangladeshi RMG under 0 to 5 percent duty.

"Our products are very competitive in prices and good in quality. The offer will fully be realised by the Bangladeshi RMG makers," an exporter said.

As per the Safta agreement, developing countries in Saarc bloc -- India, Pakistan and Sri Lanka -- will bring down their customs duties to 0-5 percent by 2013, while the least-developed countries (LDCs) like Bangladesh, the Maldives, Nepal and Bhutan will implement it by 2018.

AKTEL launches Bengali SMS

Mobile phone operator AKTEL formally launched 'AKTEL Mayer Bhasha', the first full Bengali short message service (SMS) in Bangladesh, for all its customers.

The service will enable AKTEL customers to write, send and receive SMS in Bengali language, says a press release.

Subscribers can send SMS in Bengali by selecting 'AKTEL Mayer Bhasha' application. Once the application is installed, each of the keys/digits on the keypad of the handset will correspond to a range of Bengali characters, which can also be seen on the screen of the cellphone.

The process involves installing the special 'AKTEL Mayer Bhasha' software to specified handsets to enable the Bengali script, through means such as GPRS, AKTEL website and from other hand sets. Charges for Bengali SMS will be at the regular SMS rates.

Raj Selvaduray, chief financial officer and acting managing director of the company, and Asif Iqbal, head of Marketing, among other senior officials, were present at the launching ceremony held on Monday in Dhaka.

Indian budget eyes jobs, investment hike

PALLAB BHATTACHARYA, *New Delhi*

The Indian budget for 2006-07, to be presented before Parliament next month, would primarily aim at job creation and fresh investment by focusing on agriculture, rural infrastructure, irrigation and food processing.

The finance minister identified five key areas where the budget is expected to pay attention to textile, pharmaceuticals, information technology, chemicals and metals.

He also stressed the Congress-led coalition government's commitment to fulfil its National Common Minimum Programme objectives by giving priority to education, health and other social sector schemes, which would require massive investments.

The contour of the budget emerged as Finance Minister Palaniappan Chidambaram is moving ahead with the customary pre-budget consultations with top industrialists, agriculturalists and other segments of the society.

"We will give emphasis on those areas, which are job creators as well as value creators," Chidambaram told a gathering of top industrialists and chiefs of apex chambers of commerce and industries.

At a meeting with agriculturists, he said the budget would give utmost importance to the farm sector, especially food processing and irrigation and better infrastructure.

The Indian corporate sector pleaded with the finance minister to either cut or simplify the Fringe Benefit Tax (FBT) he had introduced in the previous budget triggering protests from the sector for perquisites to the employees of companies. Under FBT, allowances like travel and telephones are taxed.

But with Chidambaram showing little sign of giving in to the demand for scrapping the FBT, which has already brought Rs 1,700 crore revenue to the government and is expected to mobilize up to Rs 4,000 crore, the Indian Inc is now reconciled to simplification of FBT. The finance minister has indicated he would simplify that.

So peeved was the corporate sector that a section even agreed to one to two percent hike in corporate tax in return for abolition of FBT.

Companies have been complaining that FBT has increased their tax compliance and some of the items brought under the ambit of FBT are genuine business expenditure and not a perquisite for any kind to the employees.

The corporate sector also demanded restoration of depreciation rates to 25 percent from existing 15 percent saying the reduction had affected investment and replacement of machinery.

Among other demands of the corporate sector were scrapping of federal sales tax, harmonisation of stamp duty for real estate at four percent, cut in aggregate indirect taxes for manufacturing sector and inclusion of infrastructure in priority sector lending of financial institutions.

Chidambaram was confident of containing fiscal deficit in 2005-06 financial year to the targeted level of 4.3 percent of GDP on the back of strong economic growth and hinted at bringing it down to four percent.

Air India to buy 68 Boeing aircraft

AFP, *Mumbai*

State-run Air India signed a formal agreement Wednesday to buy 68 Boeing airliners with a list price of 11 billion dollars in one of the biggest deals in Indian aviation history.

"The aircraft, valued at more than 11 billion dollars at list price, are scheduled for delivery beginning November this year," Air India chief V. Thulasidas told reporters after the signing.

The delivery will be completed over the next 10 years, he said.

"Air India's order consists of 23 777s, 27 787-8 Dreamliners and 18 next-generation 737-800s," Thulasidas said.

The deal, which was given final approval by the government in December, was signed by Thulasidas and Boeing Commercial Airplanes president Alan Mulally.

Civil Aviation Minister Praful Patel, who witnessed the signing in the western financial hub of Mumbai, told reporters the US aircraft maker had agreed to spend nearly two billion dollars on reciprocal deals.

"Boeing has a counter-trade...amounting to 85 billion rupees (1.9 billion dollars) over the next 10 years, which would mean that Boeing will buy from India a range of goods and services," Patel said.

The aircraft maker will also spend 75 million dollars on training pilots and another 100 million dollars in maintenance and repairs to the aircraft, he said.

PHOTO: STAR

Raj Selvaduray (left), chief financial officer and acting managing director of mobile phone operator AKTEL, speaks at the launching ceremony of 'AKTEL Mayer Bhasha', the first full Bengali short message service (SMS) in the country, in Dhaka on Monday. Asif Iqbal, head of Marketing of the company, is also seen.

China, India agree to cooperate in oil hunt

AP, *Beijing*

China and India have agreed to share information on what they're paying for foreign oil and gas for their energy-hungry economies in an effort to tone down a multibillion-dollar rivalry that was driving up asset prices abroad, the Chinese government announced.

The agreement was among five energy cooperation deals signed Thursday during a visit to Beijing by Indian Petroleum and Natural Gas Minister Mani Shankar Aiyar, the government said.

Beijing and New Delhi promised to exchange information when bidding for oil resources abroad.

"Unbridled rivalry between Indian and Chinese companies is only to the advantage of the seller," China's official Xinhua News Agency quoted Aiyar as saying.

Chinese companies have been bidding aggressively for foreign oil and gas in areas as far-flung as Africa and South America as Beijing tries to secure energy supplies.

India's effort is on a smaller scale, but its energy demands are expected to soar in coming years as its economy grows.

LG Philips 2005 sales, net profit soar

AFP, *Seoul*

LG Philips LCD, one of the world's largest flat-panel screen makers, said Thursday its fourth-quarter net profit rose sharply on strong demand for high-end LCD televisions and laptop computers.

For the three months to December, net profit reached 328 billion won (337 million dollars), up 837 percent from 35 billion won a year ago as sales jumped 53.3 percent to 2.97 trillion won.

For 2005, the liquid crystal display (LCD) company posted record sales of 10.76 trillion won, up from 8.324 trillion won in 2004.

President Ron Wirahadiraksa said the company's balance sheet remained one of the strongest in the industry.

"Our financial performance in the fourth quarter reflects the consistent approach we have taken to managing our business," Wirahadiraksa said.

"We continue to enjoy unit and area demand growth, especially in the LCD TV and notebook panel segments, and are leveraging our extensive portfolio of production facilities to meet the dynamic needs of our customers," he said.

Indo-Pak trade to double by March

To reach $1b mark

AP, *New Delhi*

A top Indian business group predicted yesterday that trade between India and Pakistan would double to US$1 billion (euro825 million) in the fiscal year through March as the rivals press ahead with a sweeping peace process.

After six decades of hostility that witnessed three wars and a near shutdown in direct trade, "there has been an upsurge in bilateral trade," the Confederation of Indian Industry said in a statement.

The peace process began in January 2004 and trade has begun to flourish as road, rail and air links between the countries have reopened. The two nuclear powers agreed earlier this week to reopen a second rail link.

India-Pakistan trade grew by 76 percent in the March-September period from the same six months in 2004, the group said.

Trade between the two neighbors is now "expected to double by the end of the current fiscal," the organization said.

"Promotion of bilateral trade between India and Pakistan holds immense significance for economic growth and stability in South Asia," the group said.

Trade and travel restrictions imposed in previous decades spawned a multimillion dollar smuggling industry through third countries, and the so-called unofficial trade is already valued at more than US$2 billion, the organization said.

India and Pakistan were split during the bloody partition of the subcontinent at independence from Britain in 1947.

Samsung Electronics posts lacklustre Q4 results

AFP, *Seoul*

South Korea's Samsung Electronics reported mixed results for the fourth quarter Friday, with operating profit below market expectations but sales chalking up an all-time record.

The world's largest memory-chip maker said its operational profit for the fourth quarter stood at 2.1 trillion won (2.2 billion dollars), almost unchanged from the previous quarter and well shy of market expectations of 2.4 trillion won.

But sales reached a record 15.52 trillion won, up from 14.54 trillion won the previous quarter.

Shares of Samsung Electronics fell to as low as 668,000 won before the announcement in anticipation of disappointing results, but quickly recovered to 679,000 won in the mid-morning trade on the record sales report.

State of Bangladesh economy 2005-06: Perspectives on immediate outlook

DEBAPRIYA BHATTACHARYA

PART ONE

Our analyses reveal that factors contributing to the fragility of the Bangladesh economy at the end of the fiscal year 2004-05 (FY05) have either accentuated or acquired new forms during the early months of FY06. This has happened in spite of the fact that the government undertook, in line with suggestions made by the CPD earlier reviews, measures such as streamlining nominal interest rate and orderly adjustment of exchange rate. To be true, the government has also made an effort to harness the recurrent expenditure as well as to accelerate the Annual Development Programme (ADP). One also notices some dynamism in revenue collection. Indeed, to a large extent, a business-as-usual situation prevails in the economy with perceptible positive trends in private sector investment, good prospect of food grains production, moderate growth of exports, and buoyant flow of remittances.

However, a reality check would indicate that both the fiscal balance and balance of payment (BOP) have become more vulnerable during the first half of FY06. The common thread of concern that that characterises both these balances is the less than programmed inflow of foreign aid. Among the outcome variables, relatively high inflation rate (particularly for food price) is the other major concern for the remainder part of the current fiscal year.

Signs of a problematic macroeconomic situation are becoming increasingly evident. Indeed, it has created an apprehension that the Medium Term Macroeconomic Framework (MTMF) of the Poverty Reduction Strategy (PRS) may get scuttled in the very first year of its implementation. We take a closer look below at some of the issues to understand the dynamics of the emerging situation.

First, during the first half of FY06, the fiscal balance has weakened notwithstanding robust revenue growth, harnessed recurrent expenditure and an all time low level of ADP implementation. This has happened largely due to negative flow of net foreign financing. Thus, in October 2006 while fiscal deficit remained as low as 1.1 per cent of Gross Domestic Product (GDP), net domestic financing rose to 1.4 per cent with bank borrowing playing a dominant role. Such method of financing of fiscal deficit, on the one hand, is gradually creating a heavy public debt with a concomitant high domestic debt servicing liability (DSL). On the other hand, heavy borrowing by the government and by other public sectors agencies is pushing the domestic credit expansion rate to an inordinate high level coupled with crowding out of the private sector.

In the absence of a significant rise in the net flow of foreign aid and sustained high collection of revenue, there is an apprehension that the quality of fiscal balance may deteriorate further. This apprehension remains potent as it is expected that pressure on public expenditures will be backloaded as the country gradually approaches the electoral frontier.

Second, strains on the balance of payment and drawdown on foreign exchange reserve have increased significantly in the recent past due to slowdown of export, high growth of import, high outflow on account of foreign debt servicing as well as transfer of profits by foreign investors. In fact, energetic flow of remittances remains the only saving grace for arresting the backsliding of the BOP situation. It is widely held that the current high growth of remittance inflow may gradually taper off. On the other hand, by making both import and borrowing costlier, the government is trying to slowdown import growth as well as private demand for credit. But without augmentation of foreign aid flow, high export growth and sustained remittance flow the external balance may experience severe pressure in the immediate future. Disbursement of $200 million under the Development Support Credit (DSC) III by the World Bank at the end of December 2005 will provide only a temporary respite.

In this connection, one may fundamentally question the rationale of pursuing a contractionary monetary and credit policy to contain the emerging situation. As is known, the current creeping inflation is not primarily a monetary phenomenon, and credit expansion in the private sector is essentially demand driven. Accordingly, control of money supply (other than control of credit to government and the parastatals) will only affect growth prospect of the economy.

Indeed, in order to confront the situation, it is adviseable to sustain a high level of economic growth. Only in case of low response from all external sources, i.e. foreign aid, exports, remittances and foreign direct investment (FDI), one may have to revisit the growth-stability trade-off.

Third, one needs to recall that the target growth for FY06 is 6.5 per cent. The Finance Minister has raised the bar (and confusion) by stating that the economy may clock 7 per cent growth in this fiscal year. According to the national PRS, to achieve the target growth rate of 6.5 per cent, gross domestic investment rate has to increase from 24.6 per cent in FY05 to 25 per cent of GDP in FY06 (assuming a very favourable incremental capital output ratio (ICOR) of 3.7). *Although CPD's estimate shows that for attaining 6.5 per cent growth one would need an investment rate which is 29 per cent of GDP (assuming the historical ICOR of 4.4), barring that a radical productivity growth has taken place over the very recent past.*

To achieve the targeted GDP growth of 6.5 per cent in FY06, Bangladesh has to achieve public and private investment rates of 5.9 per cent (5.0 per cent in FY05) and 19.1 per cent (19.4 per cent in FY05) of GDP respectively during FY06. As may be observed, according to the PRS guidelines, the government is to incrementally draw more on the public investment for sustaining growth in FY06. To this end, the government will have to augment its effort to implement ADP by not jeopardizing debt and equity flow to the private sector.

In this connection it is worthwhile to recall that, PRS of Bangladesh decries growth maximisation and argues for "pro-poor growth. Thus, given the service sector dominate composition of the GDP, what is relevant is the growth of the real economic sectors and its implications for employment and income of the poor.

In fine, it seems that the government will have to weigh between the following two options in terms of the fiscal and monetary stances with each of the options having it own virtues and risks.

Under the first option the government may have to consider a moderated growth rate (say 5 per cent plus) predicated by lower monetary expansion and managed public investment. This slowdown will ease the pressure on both the fiscal balance and the BOP. This may also have, at the margin, a sobering effect on the inflation rate. This will also entail higher interest rate, cutback on credit to the private sector and decline in imports (particularly capital and intermediate goods). *This option may not be a politically viable one as there will be increasing pressure favouring pre-election public spending.*

Alternatively, the government may opt to ride over the situation with a high spending-high growth approach. If this be the case, the government will need to expedite the ADP implementation process and may release more money to the private sector. For this option to materialise, the government will have to improve its immediate access to foreign financing (budgetary support) from concessional and non-concessional sources; in the absence of these the government will have to resort to high domestic borrowing. *This approach runs the risk of precipitating fiscal instability and increase in inflation rate (over short to medium term).*

TO BE CONTINUED

The author is executive director of Centre for Policy Dialogue (CPD).