Star BUSINESS

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Dhaka can initiate to resume global trade talks: MCCI

STAR BUSINESS REPORT

As Bangladesh has been selected the coordinator of the least developed countries (LDCs), it has an opportunity to take an important role for resuming the global trade talks, said Metropolitan Chamber of Commerce and Industry (MCCI).

"We urge the commerce ministry to take concerted initiatives in this regard without any further delay," said the MCCI in an editorial comment in the latest issue of its monthly publication, Chamber News.

The chamber said the promise of the World Trade Organisation (WTO) members to make the Doha Round development-oriented can be transformed into a reality, only if the developing and the least developed countries pursue the development objectives in the WTO and thus maximise the benefits of trade liberalisation in their favour.

"It should also be borne in mind that the expiry of US presidential 'fast track authority' on trade issues in June 2007 will linger the negotiation process in future and only early resumption of trade talks can put pressure on the US Congress to take a decision to support trade talks. From this perspective, it is important for Bangladesh that negotiations under the Doha Round are resumed as soon as possible," the editorial commented.

The MCCI recalled that ever since the WTO has been established, Bangladesh has consistently called for duty-free and quota-free access of all products from the LDCs to the markets of developed and developing countries. Bangladesh has also at the same time pursued for the measures to address the supply-side constraints of the LDCs to enable them to reap the benefits from the opportunities provided by the multilateral trading system, the MCCI added.

"Doha Round initiated by the Doha Ministerial Conference in 2001 is considered a milestone in achieving the targets. Just a few months prior to the Doha Ministerial Conference, European Union announced the Everything But Arms (EBA) Programme for LDCs, which has provided duty-free and quota-free access of all products of LDCs (except arms). There are quotas on banana, rice and sugar, which are due to be eliminated by 2009. Later, in the course of negotiations under the Doha Round, duty-free and quota-free access for almost all products of export interest to Bangladesh has been granted by Canada, Australia, Norway and some other developed countries," it said.

In a recent development, the chamber said, commitment has been made in the Hong Kong Ministerial Conference held in December 2005 to offer duty-free and quota-free access of all products from LDCs by 2008 or no later than the start of the implementation period, although members facing difficulties are to provide duty-free and quota-free access for at least 97 percent of the products originated in the LDCs.

The Hong Kong ministerial also pledged to introduce Aid for Trade Programme to address, among others, the supply-side constraints of developing countries, more particularly of the LDCs, the MCCI said.

"In addition, it was also agreed that rules of origin should facilitate the expansion of trade under the duty- free and quota-free access. Unlike the generalised system of preference (GSP), which is autonomous in nature and does not pose any obligation to any developed countries to provide preferential market access to the LDCs, the decision of Hong Kong Ministerial Declaration obliges the developed countries to provide duty-free and quota- free market access of all products originating in the LDCs unless any developed country member faces difficulties."

Moreover, it continued, it obliges the developed countries to formulate rules of origin for duty-free and quota-free access in such a way that these can facilitate trade. "Hence, commitment for duty-free and quota-free access with simplified rules of origin is likely to increase the investors' confidence in investing in the LDCs to take advantage of this opportunity with the flexibility to source the inputs from most efficient sources."

Moreover, if the Aid for Trade programme is properly implemented, the trade-related infrastructures in the LDCs are likely to improve, which are the most important determinants for increasing competitiveness of any product, the chamber said.

"In addition, the decision of Hong Kong Ministerial Conference also urges the developing countries to provide duty-free and quota-free access to LDCs, which has also influenced the policy makers of the some advanced developing countries to take initiatives in this direction. As per available information, China, Taiwan, Brazil and even India are in the process of taking these measures in favour of the LDCs. Thus, the Doha Round is expected to provide enormous opportunity for external sector of Bangladesh."The MCCI said it is evident from the agreements so far reached in course of the negotiations that there are achievements, but more are yet to be achieved. However, at the moment when the LDCs are due to gain more, Doha Round was suspended for an indefinite period. Director General of WTO Pascal Lamy formally announced the suspension on July 24, 2006 due to impasse over the commitment to be undertaken by the developed and developing countries in agriculture and no-agriculture market access.

"Till now there is no sign of resumption of the trade negotiations. However, implementation of many decisions so far taken in favour of LDCs is linked with the successful conclusion of the Doha round. Moreover, many issues of specific interest to Bangladesh are at the initial stage of discussions."

It is widely believed that Bangladesh could retain its share in clothing trade even after phasing out of MFA quotas in 2005 because of quota imposed by the developed countries, especially by the United States against the export of China. The rights to impose quota restrictions against the export of China will expire by the end of 2008, the chamber said.

"There is a fear that clothing sector of Bangladesh may face stiff competition after 2008. There is a strong opinion that Bangladesh will be able to retain the market share withstanding such a competition from China, if it gets duty-free and quota-free access to the US market by 2007," it concluded.

BB dy governor Rumi Ali resigns

STAR BUSINESS REPORT

Bangladesh Bank (BB) Deputy Governor Mohammad A (Rumi) Ali has submitted resignation letter to the government recently.

Finance and Planning adviser Akbar Ali khan disclosed this yesterday while responding to queries of journalists about the deputy governor.

The adviser said," Rumi Ali already submitted his resignation letter and it will come into effect in appropriate time".

Sources said the contract of the deputy governor expired on November 4, 2006. But the immediate past government extended the contract of his service up to June 2007.

An official of the Office of the immediate past Prime Minister, according to the sources, has influenced to cancel the extension order for the deputy governor on the last working day of the four-party alliance government.

But the government had failed to issue the order of cancellation of the extension of the deputy governor. As a result, the interim government is faced with indecision over what they would do about the deputy governor.

A group of persons having connections with the immediate past alliance government is learnt to have become disappointed with Rumi Ali's contribution in detecting the forgeries in the Oriental Bank. Besides, his formulation of a separate guideline on Islamic banking in Bangladesh has also annoyed this influential quarter. The sources added that such annoyance has led to the cancellation of Rumi's extension of contractual service.

After assuming the office, the caretaker government offered a scope to Rumi to resign from the post and he preferred quitting the BB.

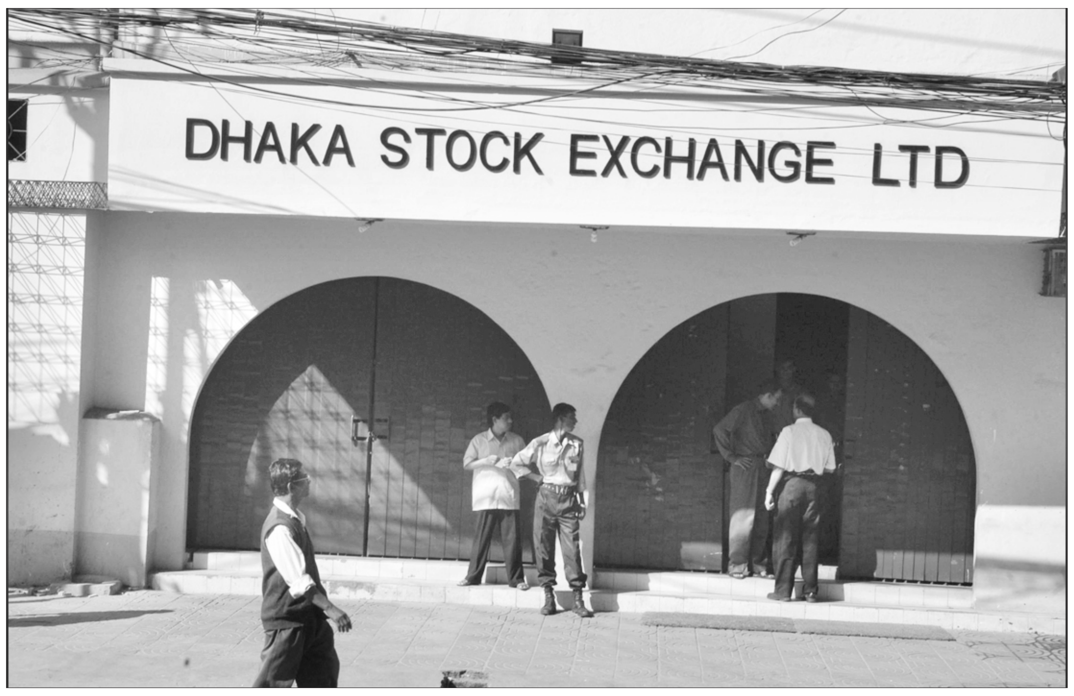

PHOTO: STAR

The country's premier bourse Dhaka Stock Exchange remains closed yesterday due to the countrywide blockade programme enforced by the Awami League-led 14-party alliance.

Asean untapped by int'l investment community

AFP, *Manila*

Despite a potential market of some 600 million people, the Asean region is still largely untapped by the international business community, business leaders say.

In the four years from 2001 to 2005 some 50 billion flowed into the Association of Southeast Asian Nations (Asean) region compared to 274 billion to China, according to the Manila-based Asian Development Bank (ADB).

Total net foreign direct investment into the region last year amounted to 23.9 billion dollars of which 60 percent went to the island state of Singapore.

"Compare this to the 60 billion dollars invested in China last year and you get some idea what the region is up against," says economist and president of the Philippine Business Leaders Forum, Michael Clancy.

"Business has failed to focus on the opportunities that a common Asean market will create," Clancy said. Asean groups Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam.

Clancy's group, which is a country associate of the Economist Intelligence Unit, will manage this year's Asean Business and Investment Summit (Asean-BIS) in the central city of Cebu next month.

Established four years ago by the Asean leaders it now forms an integral part of the annual summit.

Donald Dee, head of the Philippine Chamber of Commerce and Industry (PCCI) and national host of the AseanN-BIS said: "Asean is on the way to becoming a common market of almost 600 million consumers."

He said structural changes put in place in recent years coupled with the quickening pace of Asean economic and political integration is making the region an attractive investment destination with its young and growing population.

This year, for the first time, the Asean business leaders summit will open its doors to the wider global business community.

"Our intention is to be inclusive rather than exclusive," Dee said.

"Multinationals and other foreign businesses operating within Asean are legitimate stakeholders in developments within the region and we want them to contribute to the dialogue process," Dee added.

According to Clancy, the achievements and opportunities of Southeast Asia, dominated by Asean, tend to be neglected in the boardrooms of London, New York and Dubai.

Despite China's overcapacity it is still attractive to investors, but China has failed to deliver on its early promises and the expected consumer market continues to elude major corporations, he says.

The rapid rise of local firms has meant that for many global companies seeking a slice of the Chinese market an investment in China has meant falling prices, falling margins and in some cases total loss of competitiveness.

"Many companies are finding that there is a hidden cost of doing business in China," Clancy said.

"One survey recently suggested that many companies were worried about their inability to conduct due diligence on local partners or suppliers.

GP, Warid sign interconnectivity agreement

Warid Telecom International Ltd recently signed an interconnectivity agreement with GrameenPhone (GP) Ltd, the leading cellphone operator in Bangladesh, says a press release.

Muneer Farooqui, chief executive officer of Warid Telecom International, and Erik Aas, managing director of GP, signed the deal on behalf of their companies.

The agreement will help the subscribers of both the operators to have access to each other's network when Warid Telecom will come into operation. Warid Telecom has already signed interconnectivity deals with all the mobile phone and PSTN (Public Switched Telephone Network) operators to offer services nationally and internationally, the release added.

Economic programme: CPD's recommendations for caretaker government

DEBAPRIYA BHATTACHARYA

(CONTINUED FROM NOV 12)
Part-II

SECTORAL DEVELOPMENT

AGRICULTURE

Crop Sector

Low rainfall during the early months of Aman season had negatively affected sowing of the Aman rice. Good rainfall in September and October has largely offset the negative effects of low rainfall in July-August and therefore, production prospect of Aman rice is good. However, substantial reduction in rice price after harvest of Aman rice is unlikely. Considering high price of agricultural commodities, particularly that of rice in the international market, Bangladesh has to ensure its food security through increased domestic production in the coming Rabi season.

During the last week of October 2006, wholesale price of per metric tonne of coarse rice was Tk. 17,500 in Dhaka, Rs 13,000 (equivalent to Tk 20,088) in New Delhi and US$ 307 (equivalent to Tk 21,490) in Bangkok. Therefore, the government has to ensure quality, supply and price of agricultural inputs such as fertiliser, diesel and HYV seeds so that production of Boro rice, potato and other winter crops is not hampered.

Monga

For employment creation in Monga stricken areas of northern districts, CTG must spend money allocated in the current budget of FY07 (Tk. 55 crore). If needed, the government may take assistance of organisations such as the Grameen Bank, BRAC, RDRS, PKSF working in those areas with the help of special programmes. It is pertinent to mention here that the government also allocated Tk. 50 crore in last year's (FY06) budget for seasonal employment creation, but failed to spend any money from this fund.

INDUSTRY

After a long debate, the seven-tiered minimum wage structure for garment workers had been approved by the tripartite body. This accord should now be properly implemented at the factory level. In this context, CTG should closely monitor implementation of the approved wage-structure in all factories and should take necessary measures against the garment owners who would refuse to follow it. The CTG should also be vigilant against any resumption of workers' discontent and industrial violence. In case the RMG sector in Bangladesh faces any outward movement of international buyers, all concerned parties including government, entrepreneurs and workers will have to jointly and urgently tackle the situation.

Financing Industrial Sector

Industrial sector requires adequate funding in order to enhance the existing level of growth (QIP grew at a rate of 12.8 per cent during July- June of FY06). According to the available figure for July-August, 2006, public sector took almost half of the total domestic credit (Tk 1250 crore); the amount was 2.7 per cent higher than that of the comparable period of the previous year. Conversely, credit flow to the private sector is only 0.96 per cent higher than that of the previous year.

CTG should take necessary measures to control alarmingly high government borrowing and encourage Bangladesh Bank to ensure sufficient fund for the productive sector. It may be recalled here that the existing rate of interest for commercial borrowing is very high in Bangladesh; this should come down with the decline in the inflation rate.

POWER SECTOR

One should not expect that the CTG will approve new projects (both short and long term projects) to ease the current power crisis. However, it is expected that CTG will give special attention on issues such as load management and system loss, etc. in order to ensure maximum possible electricity supply to ease the sufferings of the people.

At the same time, power development projects that have been approved recently by the immediate past government (e.g. 20-megawatt skid-mount power plant in Barabkundu, 20 MW skid-mount plant in Feni, 50 MW barge-mount plant in Baghabari, and 20 MW plant at Kumargaon) have come under public scrutiny. A number of issues and concerns have been raised in the public domain (i.e. award of patronage contract; projects are costlier than standard power projects). CTG should carefully scrutinise all these hastily-approved projects, and whether there are gross flaws or violation of rules and regulations before giving any positive nod in support of the approved companies. It may be recalled here that the CTG of 2001 did undertake similar measures by withholding a number of suppliers' credit-financed dubious projects.

While the government has taken a 'stop and watch' policy regarding the Asia Energy Project, it has awarded a coal project to another company without any tender. This project also needs to be reviewed in the interest of the country's economy.

CAPITAL MARKET

The DSE general price index was 1562.5 in September 2006, which was 1.6 per cent lower than the previous month. All Share Price Index cannot be substantially reverted unless more fund flow can be ensured to the capital market. In the backdrop of high level of oversubscription of IPOs, the CTG may continue, through the SEC, the effort to pursue blue chip companies, particularly the mobile telephone companies to offload shares in the stock market.

The Securities and Exchange Commission (SEC) should also expedite scrutiny of the pending applications so that new IPOs can come into the market shortly. These issues have particularly become important in order to shift the investment demand from debt to equity market with a view to make space for government borrowing, if need be.

STRUCTURAL ISSUES

a. Privatisation of Rupali Bank

The process of privatisation of Ruapli Bank has progressed satisfactorily in the recent past with receipt of the Letter of Interest (LOI) and initiating of the Sale and Purchase Agreement (SPA). Necessary vetting of the Law Ministry regarding the SPA has already been obtained. The major outstanding work relates to determination of the amount of bad debt and future of the pension scheme of the bank. The CTG should not allow the process to slacken and should complete the discussion on bad debt and pension scheme, and consequently sign the final sale deed at the earliest and receive the sale proceeds. In the absence of an adequate head of the Privatisation Commission during the interim period, this task will demand special attention on the part of the Finance Advisor (although formally the PC is under the Chief Advisor).

b. Investigation of Oriental Bank

The CTG needs to put in its full support towards implementation of the recommendations put forward by the Bangladesh Bank's Special Inspection Team regarding the frauds committed by Oriental Bank. Bangladesh Bank should seriously consider initiating criminal proceedings against the persons who have committed the frauds.

The issue should not get politicised and should be pursued in the best interest of the depositors (e.g. by restructuring equity by adjusting the incurred losses against the shares held by the owners). It should be a test case for demonstrating the resolve of the central bank in strengthening discipline in the banking sector.

c. Corporatisation of NCBs

The process of corporatisation of the two Nationalised Commercial Banks (NCBs), viz. Agrani and Janata needs to proceed as per schedule. To this end, the draft Corporatisation Act sent for vetting (via Finance Ministry) needs to be cleared by the Law Ministry at the earliest. On the other hand, towards implementation of the Long Term Management Plan, the bank managements need to be given clearance regarding necessary recruitments. It may be recalled that Sonali Bank is currently not slated for corporatisation as it performs an important role in the financial market, including treasury functions for the government.

d. Energy Pricing

Due to the simultaneous effect of recent upward adjustment of domestic prices and increase in global price of oil, effective subsidy given by the government to the Bangladesh Petroleum Corporation (BPC) has declined, although there is a large debt overhang in the NCBs on account of non-payment of dues by the BPC. The CTG would need to regularly monitor the fuel price scenario, particularly with a view to ensure steady supply of fuel to the domestic market and to stop cross-border smuggling of petroleum products.

With a view to depoliticising the energy pricing policy, the CTG will be well advised to explore the pros and cons of institutionalizing a formula approach in determining fuel price for domestic market. The CTG should also continue to explore the prospect of introduction of a voucher system for extending financial support to the farmers for purchase of diesel.

e. Strengthening Tax Collection

As the major challenge to macro-economic management is coming from the fiscal front, particularly from moderate level of revenue generation, the CTG may seriously consider to review the current tax policy and administration to enhance collection. This is possibly the most opportune moment to generate countervailing force to revamp the tax administration, strengthen LTU, expand collection from non-VAT domestic sources, revisit tax code etc. Given the upcoming (in December 2006) performance indicator in revenue sector under the PRGF, the CTG should feel inclined to do all these.

f. Issuance of Licence to NBFI

It goes to the great credit of the past government that it did not issue any licences for setting up of new commercial banks notwithstanding strong demand from powerful quarters. The past government also needs to be complimented for not giving new licences for insurance companies. However, it has been reported that Bangladesh Bank is contemplating giving green signal to two new NBFIs. Without going into the merit of the selection process of these two companies out of the 50 applications, one may suggest that the central bank should seriously consider the granting of permission to these applicants and leave the decision for consideration to the new incumbent government.

(TO BE CONTINUED)

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

PHOTO: FIRST SECURITY BANK

First Security Bank Ltd opened a branch on Begum Rokeya Sarani in Mirpur, Dhaka on Thursday. Chairman of the bank Md Saiful Alam inaugurated the branch while directors, managing director and senior officials were present.