The Daily Star
BUSINESS

DHAKA, SUNDAY, FEBRUARY 7, 1999

Kibria for quick implementation of SAPTA

SAARC Secretary General Nihal Rodrigo called on Finance Minister Shah A M S Kibria at his Economic Relations Division office here yesterday, reports UNB.

They discussed matters relating to mutual interests.

Kibria stressed expeditious implementation of South Asian Preferential Trade Agreement (SAPTA) for the region's mutual interest and the need for creating joint ventures, especially between Bangladesh and India, which will benefit both the countries.

SAARC countries must continue cooperation in sustainable agenda, he hoped adding that more attention must be given to economic issues in the region.

The Minister said complete free trade is possible if all countries are equally capable of trade. Less capable countries must be somewhat compensated by some protection measures, he said.

Kibria suggested a meeting of SAARC Economic Ministers to discuss matters of foreign direct investment in the region as well as recent financial crisis in the context of global economy, said an official handout.

FONS BD AGM today

Star Business Report

The Annual General Meeting of Fiber Optic Network Solutions Bangladesh Ltd (FONS BD) will be held at its head office in the city today.

The Director of Finance, FONS DSA, Richard Dodakian, and the Managing Director of FONS, Ireland, arrived in the capital yesterday to participate in the meeting, says a press release.

The two men will also meet their counterpart engr Emdad Ul Haq to discuss matters relating promotion of marketing in Asia-Pacific region.

FONS BD, a BOI registered 100 per cent export-oriented joint venture with USA and Ireland, has been exporting high tech fiber optic various components to the USA, Europe and Australia for the last two years. It maintains ISO 9001 standard.

As part of FONS world business promotion, another meeting will be held with the senior management of Wonderland Toys Ltd (WTL) at Gazipur near Dhaka on the same day to consider manufacturing of plastic products.

It might open up another virgin avenue to promote exports of sophisticated plastic items from Bangladesh to the developed countries.

Indian PM for nat'l consensus on subsidies

NEW DELHI, Feb 6 : Prime Minister Atal Behari Vajpayee, mauled by his coalition allies for ordering cuts in subsidies, on Friday called for a "broad national consensus" on lavish government handouts, reports AFP.

Vajpayee, speaking at a meeting of the National Economic Council, warned that fiscal prudence was needed to handle a looming financial crisis threatening the country.

"I cannot conceal my concerns on the state of finances of the Union and the states as well.

"Fiscal discipline is at the centre of any strategy for maintaining macro-economic stability," Vajpayee appealed in his address to the national economic planners.

Defending this month's subsidy cuts, which he was forced to roll back under duress from his ruling coalition partners, Vajpayee said curbs on government handouts were crucial for "sound fiscal management."

"At the same time, we need to ensure that poorer segments of our society are not adversely affected and, while working out transitional arrangements, suitable social safety nets are put in place," he said.

"We need to achieve a broader national consensus on our approach to subsidies, both implicit and explicit," he said in an oblique appeal to partners in his acrimonious multi-party administration.

Vajpayee's government raised cooking gas prices by 11 percent and slashed subsidies on fertilisers and foodgrains sold through subsidised distribution centres in a bid to rein in a galloping fiscal deficit.

But he rolled back some of the subsidy cuts in the face of threats of legislative pullouts by three major coalition partners from his fragile coalition government.

The main opposition Congress party also led an all-out assault with threats of nationwide protests against Vajpayee's government, which came to power in March last year.

The embattled government has also hinted at a tough budget next month, after admitting it would not achieve its target of keeping the fiscal deficit down to 5.6 percent of gross domestic product in the current fiscal year.

MCCI President tells The Daily Star

Political intolerance threatens business

By Monjur Mahmud

Mahbub Jamil

A monetary policy that squeezes funds for private investment, stale aggregate demand in the economy and shaky business confidence because of hooliganism and political intolerance are now posing a great challenge to the country's industrial sector, says Mahbub Jamil, President of the Metropolitan Chamber of Commerce and Industry (MCCI).

On top of that, increased government borrowing, which saw a jump by Tk 740 crore in the first five months of this year, are showing signs of strains in the economy that need to be addressed soon.

"The manufacturing sector is today handicapped by fund crisis and poor investors' response. We also have to make concerted efforts to see an improvement in FDI inflows, or we shall once again miss the 'FDI bus'," says the newly-elected MCCI chief in an interview with the Daily Star.

"Unless these are done, the low investment-GDP ratio will pose a serious blow to the country's future in the wake of globalisation," Jamil cautions.

Details of the interview are as follows:

DS : Are you satisfied with the industrial credit availability?

MJ : MCCI is quite naturally concerned about the present industrial credit scarcity. In fact, since 1996-97, the Chamber has been availing of every opportunity in stressing the need for specialised DFIs for making industrial credit available in requisite quantity in view of the inadequate intermediation activities by the financial institutions. The term-lending slowed down in 1996 and decelerated considerably in 1998. Domestic credit to the private sector increased by 21 per cent in 1996, but its growth declined to 12.1 per cent in 1997 and 8.1 per cent in 1998. Such depressed levels of lending to private sector obviously do not help manufacturing investment.

The foregoing leads to the conclusion that manufacturing activities are seriously handicapped by both limited availability of funds and weak investors' response. In the early nineties, the macro-economic situation showed signs of deficiency in aggregate demand. The situation has further worsened with liquidity problems becoming a major deterrent to the growth of private investment.

There seems to be some doubt that mobilisation of funds for increased private investment may be is in conflict with the on-going stabilisation programme for inflation control. But it should be mentioned that productive investment, which is complementary to private investment, can indeed contain inflationary pressure and sustained demand. If investment can promote an all-round growth and bring about a broad-based reduction of poverty, that is surely preferable to a doctrinaire adherence to fiscal conservatism. Trade-off between a mild inflation and high growth should be the safe bet for the public policy.

DS : How is the industrial sector performing right now?

MJ : We feel that the industrial sector performance in recent times has been less than satisfactory in terms of its contribution to GDP growth. After growing by 3.5 per cent in 1997 and 6.5 per cent in 1997-98, the manufacturing sector production fell by five per cent during July-December, 1998. Such a significantly weak performance was predominantly the result of the dislocation caused by the devastating floods. The rehabilitation process has been slow due to liquidity problems and stale aggregate demand in the economy, which is having a significant impact on the economic performance. We feel that given a proper rehabilitation programme, as decided in the Inter-Ministerial meeting following the floods, and adequate credit support keeping in abeyance, for the time being, the punitive measures under CIB system etc., the performance will improve. It should be emphasised here that a pure monetary approach will not help the industries improve their performance. In fact, it will aggravate the difficulties further.

DS : What are the real concerns for industries now?

MJ: The main concern is the deteriorating business environment. The confidence of the business community has been shaken by one event after another, ranging from domestic hooliganism to national-level political manoeuvrings like hartals etc. and a society where tolerance is lost.

On the other hand, various reforms which have been underway for the last one and a half decade, have not succeeded in stimulating investment, but under the reform programme, trade has been liberalised through lowering of tariffs and quantitative restrictions on imports, relaxation of exchange controls etc. On the other hand, reforms which were needed to enhance the competitive capacity of the industries through financial and labour sector deregulation, reduction of direct taxes, are yet to be carried out. Foreign investment hasn't also picked up notwithstanding the incentives offered. The low investment-GDP ratio will be a serious blow to the country's future in the wake of globalisation.

DS : Now different industrial lobbies are seeking interest waiver in the name of their survival. Do you support this?

MJ : The demand for interest waiver by different industrial sectors may be considered on a case-by-case basis. Our Chamber does not support a general waiver for all industries.

DS : Are you concerned about the government's borrowing which could crowd out industrial credit?

MJ : Government borrowings to finance increasing unproductive expenditures have indeed crowded out private investment. It is well-known that the government's tax revenue has been significantly lower, while its current expenditures have increased substantially owing to sharp increases in government's establishment costs, wage bills of the public sector enterprises, high interest payment and a rise in subsidies. We find that in July-November 1998 alone, the government's net borrowings from the banking system increased by Tk 740 crore.

Net borrowings from the banking sector during July-November, 1997 was Tk 121 crore and Tk 523 crore in July-November, 1996. These figures indicate how borrowings have been increasing. Quite naturally, it has an impact on funds available for private investment. Accordingly, we are strongly against the government's borrowing from the banking sector to finance unproductive sectors. However, we support the government's borrowings from the banking sector, if normal budgeted resources are not adequate to finance essential public investment projects, which often have significant 'crowding in' effects on private investment. Investments in physical infrastructure, rural development, irrigation, agricultural research and extension are some of the areas in which public investments from borrowed funds are welcome.

DS : What is your view about FDI inflows in Bangladesh?

MJ : It is a pity that inflow of FDIs has remained well below the target despite generous incentives provided by the government. Inadequate FDI response can be attributed to the absence of good physical infrastructure facilities, unconvincing legal system, unsatisfactory law and order conditions, corruption at all levels, inconsistencies between policy means and policy objectives and lack of basic norms in national policies.

It should be mentioned that Bangladesh cannot be an exception and if we do not make concerted efforts to better the situation, we shall once again miss the "FDI bus".

DS : You talked about policy inconsistencies. How are these hurting industries at different levels?

MJ : Policy means often do not comply with policy objectives. Import liberalisation to facilitate export-led growth has done much harm to the growth of domestic industries. The government has put excessive emphasis on obtaining a neutral trade regime by liberalising import, but neglected the all-important supply-side factors such as human resources and technology development, institutional reforms in the administration, financial system and labour markets.

DS : Do you think the present macro-economic management is business-friendly?

MJ : Fiscal monetary policies are not very conducive to business. High interest rates raise borrowing cost from banks and deter investment. Government borrowings from the general public and the banking system through issuing of high interest-bearing bonds divert private savings away from productive investment. High corporate taxes also discourage private investment. Inadequate attention is given to raising tax and non-tax revenues and reducing non-development expenditure, including the elimination of hidden subsidies to loss-making SOEs.

DS : The crisis in Southeast Asia is on the wane and the timid tigers may wake up again by next year. How do you see its impact on us?

MJ : Revival of Southeast Asian economies will probably raise FDI flows from these countries to Bangladesh. Bangladesh's exports to these countries are very few. But this can be expanded only if the country comes up with a diversified export base to cater to the demand of these countries. However, East Asia's recovery will have a favourable impact on industrial countries, which are major importers of Bangladeshi products, the spillover effects of which on Bangladesh's exports may be substantial.

DS : Most listed companies with the bourses are MCCI members. It is found that many of them are often not performing their duties to shareholders. Why are things like is taking place? Does MCCI have any role to play in gearing up the listed companies?

MJ : Yes, most of the listed companies are members of our Chamber. I do not agree to the allegations that many of them are not performing their duties to shareholders. It is only a few who have neglected their duties, which we disapprove of. Each of such cases has some reasons which need to be looked into. This is essentially a role of the SEC, with whom our chamber is prepared to co-operate, to check repetition of any delinquencies. I think it is essential to delve a little deeper into such cases. If we do this, we will find that undue pressure from a section of the shareholders also push these companies into problems.

DS : Why did the Chambers keep mum when the 18-hour hartal was called? Why did they respond when the hartal was extended?

MJ : The comment is not based on facts. MCCI works most of the time, quietly, along with like-minded respected trade bodies, to convince political parties against the negative impacts of hartals. It is needless to mention that in the prevailing mood, such efforts are ignored for several reasons.

Visiting Pak commerce minister tells UNB

Islamabad keen to expand trade ties with Dhaka

Pakistanis love Bangladesh's products and Islamabad is keen to expand bilateral trade with Dhaka, alongside boosting business transactions within the SAARC region from the present low levels.

Pakistan's Minister for Commerce, Finance and Economic Affairs Mohammad Ishaq Dar expressed his government's intent, saying that political acrimony in the region was no bar to economic integration now-a-days.

Rather a lack of knowledge and proper dissemination of mutual products is the main reason for the poor regional trade, especially between Bangladesh and Pakistan, said the minister in and exclusive interview with the United News of Bangladesh (UNB).

Ishaq Dar, who had been in Dhaka to attend the February 2-3 Third SAARC Commerce Ministers' meeting, said that political disputes in the region, mainly between India and Pakistan, was not a problem in way for boosting business, since "both the governments are committed to improving the situation."

"You see, they are in a process of dialogue to ease the situation."

The minister saw "tremendous potential" for multiplying bilateral trade between Bangladesh and Pakistan in particular.

Official figures show Pakistan enjoying a trade surplus with Bangladesh, with exporting roughly 100 million US dollar and importing 40 million dollar in the 1997-98 fiscal year.

Pakistan is the major source of raw cotton, yarn and fabric for Bangladesh's readymade garment industry, the country's largest export earner. Rice, food items and small machinery are, among other items, imported from Pakistan.

Pakistan imports mainly raw jute and jute-goods, tea, betel leaf, betel nut, and an insignificant amount of cloths and sarees from Bangladesh.

"You've much higher trade gap with India. But trade gap is not our major concern now. We're interested in increasing the trade volume," the Pakistani Minister told the agency.

Pakistani people love Bangladeshi goods, but they know very little about Bangladesh's good products for "lack of proper information," he pointed out.

Dar said Pakistan had achieved macroeconomic stability and could successfully come out of the "debt trap."

A M Anisuzzaman, Chairman of the Board of Directors of Uttara Bank Limited, inaugurates the new premises of the bank's Nasirabad Branch. The Managing Director of the bank M Aminuzzaman is also seen.

— Uttara Bank photo

Commodity : Weekly Roundup

Sugar slips on Brazilian supply surge predictions

LONDON, Feb 6: Sugar prices continued to fall as dealers expected a surge in supply from Brazil after devaluation of the country's real currency and liberalisation of Brazilian production of sugarcane alcohol fuel.

May contracts on the London market fell to 219.80 dollars a tonne from 222.50 dollars.

Nationalised distilleries had previously reserved a slice of Brazil's national crop. Liberalisation has also brought an end to government subsidies for cane growers.

And dealers predicted that Russian consumers would find it hard to find foreign currency to buy up overseas sugar.

The World Bank predicted in a report that sugar prices would remain under pressure this year amid low demand.

VEGETABLE OILS: Slide. US soya prices continued to fall after unexpected rains fell on producing regions in Brazil and Argentina that had been threatened with drought.

Soya prices on the Chicago Board of Trade (CBOT) fell by two cents to 5.08 dollars a bushel (of 27.2 kg for January delivery).

On the Rotterdam market, palm oil for June fell by 42.50 dollars to 557.50 dollars a tonne. Sunflower prices were being trade at 555 dollars a tonne and groundnut oil prices fell by five dollars to 825 dollars a tonne.

Rapeseed fell by 7.50 guilders to 96 guilders per 100 kg.

OIL: Slip. Oil prices fell sharply as dealers waited for spring in the northern hemisphere and predicted an imminent fall in consumption, says AFP.

Unseasonally warm weather in some regions of the United States heightened expectations.

The market was unmoved by the continued military onslaught against Iraq. Dealers said that so long as Iraqi crude supplies continued to flow in to export market, bombing by British and US jet would have little impact on trades.

Dealers were unwilling to take up fresh buy positions ahead of a meeting of Organisation of Petroleum Exporting Countries (OPEC) on March 23, at which the cartel might overcome internal difference to secure reductions in output.

Brent North Sea crude prices on the International Petroleum Exchange (IPE) fell to 10.57 dollars a barrel from 11 dollars for February delivery.

Light sweet crude prices on the New York Mercantile Exchange (NYMEX) fell to 12.02 dollars a barrel from 12.45 dollars.

COTTON: Hot. Cotton prices rose on speculative buying as producers predicted a fall in next year's harvest.

Analysts predicted that imminent US figures would reveal a fall in the area of land planted with cotton in the United States.

The cotton outlook index for cash prices rose by 1.5 cents to 56.90 cents a pound.

WOOL: Cool. Australian wool prices fell in the absence of Chinese buying ahead of Chinese new year.

The eastern index fell by 11 cents to 4.91 Australian dollars a kilo and the western index fell by 23 cents to 4.48 dollars a kilo.

In Britain, the wooltops index remained unchanged at 299 pence a kilo as the auction houses remained closed.

The British wool marketing board began off-leading some of its stocks.

GRAINS: Stable. US wheat prices remained unchanged, having been pulled in opposite directions by fears that food aid to Russia would be cancelled on the one hand and by plentiful export figures on the other.

The market was closely watching disagreement between Europe, Russia and the United States on food aid to Moscow.

The US Agriculture Department said that weekly US wheat exports reached 588,300 tonnes, far above expectations.

Maize prices rose slightly after US data confirmed a healthy demand for the grains. US exports totalled 1.2 million tonnes this week.

On the Chicago Board of Trade, wheat prices remained unchanged at 2.68 dollars a bushel (of 27.2 kg, for March delivery). Maize prices rose by one cent to 2.17 dollars a bushel (of 25.4 kg, for March).

The European market was relatively subdued as authorities thrashed out the terms of a food aid package to Russia.

On the London market, wheat prices fell by 1.85 pounds to 74.25 pounds a tonne.

RUBBER: Flat. Market intervention by the International Natural Rubber Organisation failed to inspire much activity on the rubber market.

INRO bought up contracts on the Singapore, London and New York markets.

News of a mega merger in the tyre business between goodyear of the United States and Sumimoto of Japan had little impact on prices.

On the Kuala Lumpur market the RSSI index fell to 2.62 ringgits a kilo from 2.70 ringgits.

On the London market prices fell to 487.50 pounds per tonne (for February delivery) and 490 pounds (for March) from 512.50 pounds and 517.50 pounds respectively.

COCOA: Thin. Cocoa prices were stable this week, with no market moving news on the London futures market Liffee.

May cocoa contracts closed at 912 pounds a tonne, down one pounds, traders largely ignored the arrival of cocoa deliveries at Cote D'Ivoire ports, amounting to about 835,000 tonnes since the start of the season, compared to 840,000 tonnes last year.

Cote D'Ivoire, the world's number one producer, has began liberalising its commodities market this year, prompting some concern among producers, analysts said.

Ed and F man international brokerage said that world cocoa production for 1998-99 will exceed demand by 150,000 tonnes.

COFFEE: Ground. Arabica coffee for March delivery rose to 105.75 cents a pound of the New York futures market, up 50 cents on the week.

Coffee prices were hit all week by the depreciation of the Brazilian real, which prompted an increase in exports from Brazil, already more than two million tonnes of coffee have been registered for February contracts, the Brazilian Coffee Federation said.

Prices were unaffected by the destruction of 40 per cent of the coffee treatment centres in Colombia in the previous week's huge earthquake.

May robusta contracts in London fell to 1.647 dollars a tonne from the earlier rate 1.715 dollars a tonne.

Prices were expected to pick up in the near future in response to a slowdown in robusta deliveries from Cote D'Ivoire, analysts said.

Indian exporters said that the robusta crop would rise to 400,000 tonnes in 1998-99 from 360,000 tonnes the previous year.

TEA: Hot. The Mombasa, Kenya tea auctions saw good demand, but prices generally fell, the London Tea Brokers Association said.

Good quality BPI teas rose four to six cents a kilo.

Kenya was expected to see a 2.5 per cent fall in production output in 1999, the Africa tea brokers said.

China suspends oil export to Japan

TOKYO, Feb 6: China has suspended long-standing exports of Daqing crude oil to Japan, signalling a shift in Beijing's priorities towards domestic interests amid a deteriorating trade balance, a report said today, reports AFP.

Beijing has told Japanese oil importers and trading houses to completely suspend shipments of crude oil produced in Daqing in northeast China, the Nihon Keizai Shimbun said.

The unilateral suspension of Daqing oil exports, which began in 1978 under a long-term trade accord, was aimed at increasing domestic oil supplies and curbing import, the newspaper said.

China apparently concluded that it can better improve the trade balance by using locally-produced oil at home rather than exporting it to Japan for hard currency, it said.

The price of China's crude oil for domestic consumption is currently 30 per cent higher than that for exports, the daily said.

Also behind Beijing's decision was the country's tough economic environment and reforms of state-run companies, the report said.

But China's emphasis on the domestic economy could alienate foreign capital which had helped support the country's economic growth, it said.

Since last October China banned spot imports of crude oil and restricted imports of basic products such as flat glass and steel to protect domestic industries, it said.

Japan now faces rising prices of crude oil from Indonesia and a possible slowdown in power generation at some of its thermal power plants.

APEC business heads in Brunei for talks

BANDAR SERI BEGAWAN (Brunei), Feb 6: About 100 Pacific-Rim business leaders arrived here on Saturday for a meeting aimed at hammering out new ways to grapple with the Asian economic crisis, says AP.

The businessmen, representing the 21 members of the Asia-Pacific Economic Cooperation group, will meet over the next three days to prepare for the APEC Forum and Leaders Summit, which will be held in New Zealand in September.

In addition to devising ways to help tackle the current economic crisis, they'll help plan this year's APEC agenda and forge stronger diplomatic ties.

The group will later dine with the Brunei's Sultan Hassanal Bolkiah at the Jerudong Polo Club.

Influential business leaders, such as Hong Kong's Gordon Wo of Hopewell Holdings, Indonesia's Aburizal Bakrie of Bakrie Group and Japan's Toru Kusukawa of Fuji Research Institute Corporation were among those scheduled to meet the Sultan of Brunei.

Brunei will host the APEC summit meeting in the year 2000.

Business leaders in Brunei welcomed the meeting as a chance to show off their country to potential foreign investors.

"It is an opportunity for us to introduce the leaders of the private sectors in the region to Brunei," said Timothy Ong, of Brunei National Insurance, who was to chair the opening day of the APEC Business Advisory Council forum.

UK car sales best in a decade

Sales of cars and commercial vehicles in Britain last year (1998) were the best in 10 years. In the case of cars, more than 2.2 million were sold to record the second-highest total, reports UNB.

A London press service report quoted the United Kingdom Society of Motor Manufacturers and Traders (SMMT) as saying that last year's car sales were an increase of 3.5 per cent over 1997 and close to the record 2.3 million cars sold in 1989.

294,510 commercial vehicle sales last year represented a 7.4 per cent rise over 1997 and again were the best since 1989.

SMMT's acting chief executive Roger King said: "The year ended with a flurry of activities in part driven by the arrival of new models establishing themselves, the cumulative effect of reducing interest rates bolstering retail consumer confidence, and the quality of the actual deal available to the customer."

Nearly a third of the sales were of British-built cars and once again Ford of Britain dominated the UK market with its Fiesta, Escort and Mondeo cars winning the first three places of 10 top model popularity table.

The Fiesta small car recorded 116,000 sales with the 'big brother' Escort close behind with more than 113,000 orders. The larger medium-sector Mondeo followed with nearly 100,000, pushing its rival Vauxhall Vectra down to fourth spot with nearly 93,000 sales.