

2005 ushers in challenges, opportunities: MCCI

STAR BUSINESS REPORT

Metropolitan Chamber of Commerce and Industry (MCCI) yesterday said the year 2005 ushered in both challenges and opportunities for the country.

"The challenges arising from the WTO's last ministerial meeting in Hong Kong and the opportunities created by South Asian Free Trade Area (Safra) provided the trade bodies with a different institutional focus and also dimension," said MCCI President Latifur Rahman at the trade body's 101st annual general meeting (AGM).

He also said the Hong Kong meeting will cause serious challenge to the country's export development efforts.

For Bangladesh, export growth holds the future key of its economic development, he said adding: "Backward linkage of our export-oriented industries has shown the potential of our investment scenario but the limited growth of the non-garment industries shows that the country's overall investment climate is still uncertain."

He urged the trade bodies like MCCI to readjust their focus to face the challenges emerging from the latest WTO meeting held from December 13-18 last year.



Latifur Rahman (3-L), president of the Metropolitan Chamber of Commerce and Industry (MCCI), speaks at the 101st annual general meeting (AGM) of the chamber in Dhaka yesterday.

He said the impact of the global recession in 2001 and Bangladesh's increasing dependence on other countries for exports and remittances clearly show that the country is vulnerable to the economic fortunes of other countries.

He underscored the need for a strong domestic economy and improved over-all investment

environment in order to provide people with a more stable source of livelihood.

He also put emphasis on government's policy support in fiscal, monetary and administrative spheres.

Rahman said, in spite of significant improvement in the human development index (HDI), as

released by the United Nations Development Programme (UNDP), poverty and pressure of population remain a threat to the future of the economy.

He urged the business community to work unitedly to alleviate poverty, strengthen domestic economy and boost the export growth.

Capital market witnesses negative trend last year

Shows signs of resilience, maturity

SARWAR A CHOWDHURY

Although the country's capital market witnessed a negative trend in 2005, it finished the year with some signs of resilience and maturity overcoming many ups and downs in indices.

The market experienced a bullish trend in March, fueling a fear of possible crisis. But eventually there was no crisis because of regulators' prompt actions and investors' sensible decision. In the later half of the year, the market witnessed a downtrend in indices mainly due to the government's monetary policies, which include rise in interest rates on savings certificates. The recent militant activities by Islamist groups have also cast a negative impact on the market.

But throughout the year the market performed well, analysts and observers said. They said both primary and secondary markets were vibrant. The investors also kept faith in new initial public offerings (IPOs).

Although a number of quality IPOs came to the market, some insurance companies with weak fundamentals entered the market last year, the analysts said.

The market absorbed 17 new issues, which raised a total of Tk 3,206.90 million from public through IPOs. Most of the IPOs were oversubscribed.

The over-subscription of IPOs proves that investors' have put faith in capital market, the analysts added.

Of the IPOs issued in 2005, 12

got listed on Dhaka Stock Exchange (DSE) while all the IPOs on Chittagong Stock Exchange (CSE).

The companies that issued IPOs in 2005 are Agrani Insurance Company Limited, Global Insurance Company Limited, Popular Life Insurance Company Ltd, Popular Life Insurance Company Ltd, Peoples Leasing and Financial Services Ltd, Meghna Life Insurance Company Ltd, Grameen Mutual Fund One, Nitol Insurance Company Ltd, Prime Finance & Investment Ltd, Premier Leasing International Ltd, Asia Pacific General Insurance Company Limited, Summit Power Limited, Sonar Bangla Insurance Ltd, Islamic Finance and Investment Ltd, Progressive Life Insurance Company Ltd, Berger Paints Bangladesh Limited and Pragati Life Insurance Limited.

Of the 277 companies listed on DSE, 218 held annual general meetings, 131 companies and mutual funds declared dividends, 54 issued bonus shares and nine declared rights shares. Sixty-six companies did not declare dividends and 18 companies even did not hold AGMs.

Of the companies that declared dividend, two companies declared above 100 percent dividend while seven companies 51 to 100 percent, 13 companies 31 to 50 percent, 18 companies 21 to 30 percent, 47 companies 11 to 20 percent and 45 companies below 10 percent dividends.

Evaluating the capital market in 2005, DSE Chief Executive Officer Salahuddin Ahmed Khan said,

"Scripts with strong fundamentals performed well, which showed maturity of the market."

However, he said changes in the monetary policy caused a downside in turnover at the later part of 2005 as the policy encouraged many investors to divert their investment to savings instruments.

Assessing the capital market in 2005, Mirza Azizul Islam, chairman of Securities and Exchange Commission, said the overall market situation was good and stable. "I am satisfied that the capital market as a whole behaved in a more matured manner without any abrupt fall or rise in share indices," he added.

Trading took place in 259 days on DSE and a total of 882,807,375 shares worth Tk 64,863,638,960 were transacted. The highest transaction in a single day was 10,858,566 shares worth Tk 585,854,926 while the lowest transaction was 1,029,222 shares worth Tk 86,868,334.

The prime indicator, DSE General Index, showed 16.12 percent fall at the end of year to close at 1677.35 points on Thursday, the last trading day of the year, starting with 1999.71 points on January 1, 2005. The index rose to the highest 1999.71 points on January 1 while the lowest was 1434.65 points on May 2.

DSE All Share Price Index also declined 15.03 percent to close at 1275.05 points on December 29 beginning with 1500.50 points on January 1, 2005. The index reached highest 1500.5 points on March 28

while the lowest was 1099.07 points on May 2.

The DSE 20 Index also declined by 26.12 points to close at 1608.63 points on the last trading day starting with 2177.4 points on the first trading day of 2005. The index rose to the highest 2214.17 points on March 13 while the lowest was 1536.68 points on May 2.

The CSE All Share Price Index also lost 259.07 points or 7.12 percent from the opening day of last year to close at 3378.68 points on the last trading day.

The much-talked about event during the year was Premier Bank IPO scam. The Securities and Exchange Commission (SEC) suspended Premier Bank's Tk 55 crore IPO on February 12. The capital market watchdog froze the IPO following the unearthing of 25,000 fake beneficiary owners' (BO) accounts in its preliminary investigation.

A probe committee of Bangladesh Bank also found that Premier Bank managing director had influenced opening of fake beneficiary owners (BO) accounts showing irregular bank accounts to grab major shares in the IPO offer. The central bank had earlier formed the probe team to investigate the scam after allegations that the Premier Bank management designed the attempt to grab the shares.

Another much-talked about issue was the secondary bond market, which was introduced on DSE on January 1 last year, it remained dysfunctional all the year round.



Models pose for photographs at the Levi's showroom on Kamal Ataturk Avenue at Gulshan in Dhaka yesterday. Giant Distribution Ltd in partnership with Levi Strauss and Co launched the exclusive showroom of Levi's brand in Bangladesh.

SAFTA ACCORD

India's trade with Saarc states may rise 300pc by 2015

Says chamber

OUR CORRESPONDENT, New Delhi

With Safra (South Asian Free Trade Area) set to go into force from this year, India's trade with the Saarc countries may touch Rs 100,000 crore by 2015 from Rs 25,000 crore now, marking a 300 percent increase, leading Indian industry body Assocham projected on Friday.

The estimate could be met if trade competitiveness among Saarc nations are turned into "trade complementarities" for which political will of all countries was essential, President of Associated Chambers of Commerce Anil K Agarwal said in a release.

He suggested trade complementarities could be created by setting up joint ventures in Saarc (South Asian Association for Regional Co-operation) in which the interest of each partner should be equally protected.

In addition, he said, the rules of origin be framed, which are neither stringent nor cumbersome to ensure smoother movements of goods from one country to another.

The chamber said intra-regional trade among Saarc nations as percentage of their total trade with world increased only to 2.46 percent in 2002 from 2.36 percent in 1990.

India's share with Saarc countries of its total trade with the world rose to 3.32 percent in 2003-04 from 1.50 percent in 1990-91. Exports and imports grew by 16.46 and 11.12 percent respectively from 1990-91 to 2003-04, the chamber said.

India's trade with Saarc countries was concentrated around a few items, Assocham said, adding that the share of top five items in exports to Saarc nations is around 48.5 percent.

The share of five main items in India's exports includes cotton yarn fabrics (21 percent), transport equipment (10 percent), rice (9 percent), machinery and instruments (6 percent), drugs and fine chemicals (5 percent).

The share of top five items in India's imports from Saarc countries is around 53 percent, while the same for Bangladesh is 73.8 percent and Pakistan is 71.2 percent.

Malaysian Maxis to buy 65pc stake in Indian Aircel

Indian Aircel

PALLAB BHATTACHARYA, New Delhi

Malaysia's largest mobile phone operator Maxis Communications on Friday entered into partnership with the Reddy family to buy out Indian cellphone service provider Aircel for \$1.08 billion in the second largest dose of FDI in Indian telecom sector.

Maxis will take a direct stake of 65 percent in Aircel by spending \$702 million and the remaining through a joint venture with the Reddys, the promoters of Apollo Hospitals.

The Maxis-Reddy joint venture will be an Indian company jointly owned by the Malaysian company and its Indian partner in a ratio that will give Maxis an overall equity interest in Aircel of 74 percent, the maximum foreign ownership allowed in domestic telecom sector under Indian laws.

This is the second biggest infusion of foreign direct investment (FDI) in Indian telecom sector since it was thrown open to private foreign investment after Vodafone of Britain paid \$1.5 billion for a ten percent stake in leading Indian mobile telephone company Bharti Tele-ventures.

Of the \$1.8 billion, \$280 million will be injected into the company as cash for funding expansion of operations in new mobile telephone circles. This implies an enterprise valuation of \$800 million for Aircel, which has a subscriber base of more than 2.2 million.

Jute Spinner okays 17.5pc dividend

BSS, Dhaka

The 100 percent export-oriented jute yard manufacturing industry, Jute Spinners Ltd has declared 17 and half percent dividend for its shareholders for the year 2004-05.

The dividend was declared at the 26th Annual General Meeting of the company held on Thursday at the CIRDP auditorium, Muhammad Shams-ul Haque, Chairman and Managing Director of the company presided over the meeting, a press release said.

Directors Muhammad Shams-ul Huda and Muhammad Shams-uz Zoha, Executive Director Faizur Rahman Chaudhury and a number of shareholders were present at the AGM.

The AGM approved the annual audited report for the year 2004-05 and appointed new auditor for the next financial year.

OUTCOMES OF HK WTO MINISTERIAL

CPD's reflections from Bangladesh perspective

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Waiver on TRIPS

According to the Marrakesh Agreement that established the WTO, LDCs were given 10 years to implement the TRIPS Agreement. This extension was to expire on January 1, 2006. This period has now been further extended by another seven and half years (up to July, 2013) with a possibility for further extension. LDCs have been asked to provide plans, within next two years, for implementation of the IP regime by their respective countries. Development partners are to provide the necessary support for implementation of this plan.

TRIMS

One of the potential areas of S&DT agreed in Hong Kong relates Trade-Related Investment Measures (TRIMS). The transition period has been extended by seven years, i.e. till 2013. The LDC proposal was to extend it up to 2021. More importantly, LDCs cannot only continue with old TRIMS (subject to notification) but also introduce new ones. One needs to explore to what extent Bangladesh can use this provision to support its strategic trade policy funding by withstanding the pressures from the World Bank and the IMF.

3.2 An Explanation of the Outcome Bangladesh's ambition for market access was justified; but a number of factors contributed to the non-realisation of this ambition. Indeed, from Bangladesh point of view, the adopted Declaration was

of lower value in comparison to the Geneva text.

Option 2 of the Annex F of the Geneva text was adopted with modification which effectively deprived Bangladesh.

Regrettably, there was a self deceptive attitude on the part of Bangladesh which impressed on others that DF-QF for all countries would pass through at the Conference. Bangladesh also failed to understand about the depth of the resistance on the part of the USA. The campaign for US TRADE Bill also generated a sense of false optimism.

We also did not adequately appreciate that Bangladesh is situated at a 'peculiar' level of development. Bangladesh neither generates sympathy as sub-Saharan African LDCs, nor does it command reverence as emerging developing economies such as India and Brazil. Too much emphasis on LDC cap did not deliver, particularly in case of apparel. When it was much needed, Bangladesh could not draw on the sympathy of the AGOA beneficiary African LDCs.

Role of Developing Countries

! Bangladesh did not anticipate adequately that certain textile importing developing countries would play such an open and active role against Bangladesh. The role of Pakistan and, partly, Sri Lanka was to the detriment of Bangladesh's interests. Our South Asian solidarity was of no help to Bangladesh.

Countervailing Political Clout

Bangladesh failed to activate its political connections and mobilise political clout to withstand these pressures.

Formation of G14+1

The initiative Bangladesh to set up a separate G14+1 was done on a very ad hoc basis and at a late stage of the negotiations (on the fourth day). There was no analytical and conceptual background paper explaining the rationale, articulating the objective and setting the concrete goals. The initiative diverted scarce negotiating capacity at critical juncture of negotiations.

4. AGENDA FOR THE FUTURE

! Raising National Capacities: At the end of the day Bangladesh has to competently fight for its national trade interests. What is necessary in such cases, apart from technical preparation, is political steadfastness, familiarity with the WTO process, effective political outreach and the nerve to withstand pressure. Regrettably, Bangladesh was not sufficiently endowed with all those.

! Export Diversification: Export diversification should have always been a top priority for Bangladesh. Given the overwhelming dependence of Bangladesh on one product, apparel and clothing, the real possibility of textiles being excluded from preferential market access opportunities reinforces the need for identifying new products which are to be promoted through appropriate trade and investment strategies.

! Revisiting Export Strategies: Bangladesh also needs to revisit its export promotion strategies from another perspective. Bangladesh has quite often tried to promote its exports through tariff concessions. In the light of the Hong Kong Declaration, as well as MFN liberalisation in general under the NAMA and Agriculture negotiations, this possibility is getting increasingly thin. Bangladesh now needs to put more emphasis on acquiring competitive advantage through efficiency gains in the area of trade supportive infrastructure (port, electricity, tele-communications) as well as over-all economic governance.

! Work on Modalities for Market Access in USA: The Chairman in his concluding speech has mentioned that the modalities for designing the 3 percent exclusion list will be thrashed out in Geneva in 2006 through negotiations on a framework. Whilst this may give the LDCs an opportunity to voice their concerns and interests in terms of items to be included in the inclusion list, it is difficult to imagine that developed countries such as the USA which opposed the idea of 100 percent duty free access for LDCs in Hong Kong would be ready to demonstrate a high degree of flexibility in negotiations pertaining to modalities on 'Exclusion List'.

(TO BE CONTINUED)
The authors are the researchers of the Centre for Policy Dialogue (CPD), Bangladesh.