Star
BUSINESS

DHAKA SUNDAY JANUARY 15, 2006 E-mail: business@thedailystar.net

FDI in China falls for first time in 6 years

AFP, *Beijing*

Actual foreign direct investment (FDI) in China last year slid 0.5 percent to 60.33 billion dollars from the year earlier, the first time in six years such capital flows have fallen, the government said Friday.

The Ministry of Commerce statement gave no contracted investment figures, which signal future commitments rather than actual money spent.

Investment figures for December were also not provided.

Hong Kong was the biggest source of foreign investment last year, with capital flows totalling 17.49 billion dollars, up 29.75 percent, the ministry said.

It also said that investment from the US dropped 22.32 percent, while investment from the European Union rose 22.52 percent.

But actual investment in 2005 fell for the first time since 1999, when at the height of the Asian financial crisis FDI dropped 11.2 percent.

FDI in 2004 rose 13.3 percent to 60.63 billion dollars on an annual basis.

China approved a total of 44,001 foreign funded enterprises throughout 2005, the report said.

Lanka ratifies Safta deal

DIPLOMATIC CORRESPONDENT

The Sri Lankan government has ratified the South Asian Free Trade Area (Safta) agreement to pave the way for free trade of goods among the seven members of the South Asian Association for Regional Co-operation (Saarc).

Sri Lankan Minister of Information and Media Anura Yapa made this announcement in Colombo Thursday, according to press reports. Yapa added that some of the provisions may require ratification in the Lankan parliament but "other things can be just gazetted."

All Saarc members apart from Pakistan have ratified the agreement that legally came into effect on January 1, 2006.

Under the agreement, developing countries -- India, Pakistan and Sri Lanka -- will bring down their customs duties to 0 to 5 percent by the year 2013 while least developed countries (LDCs) -- Bangladesh, the Maldives, Nepal and Bhutan -- are expected to do so by 2018.

Pakistan cabinet is expected to ratify the Safta agreement this month.

Asian Tribune, quoting an official of the Ministry of Commerce in Pakistan, said a summary to this effect has already been submitted to the cabinet secretariat, and it is likely to be taken up at the special cabinet meeting for approval.

Pakistan Prime Minister Shaukat Aziz will chair the special meeting to be held soon.

The Saarc member states shall reduce their tariffs through a trade liberalisation programme that will be implemented in two phases.

In the first phase, Pakistan and India will reduce tariffs to 0-5 percent by 2013, Sri Lanka by 2016 and the four LDCs of Saarc by 2018. Pakistan, India and Sri Lanka will, however, complete their trade liberalisation programme for the four LDCs within 2009.

PHOTO: GREY WORLDWIDE

State Minister for Home Affairs Lutfuzzaman Babar speaks at the inauguration of Summer Palace Hotel & Apartments in Dhaka recently.

Summer Palace Hotel starts operation in Dhaka

STAR BUSINESS REPORT

A new international standard hotel -- Summer Palace Hotel and Apartments -- started its operation in Dhaka recently.

"The management of Summer Palace has taken a bold initiative to attract international travellers to Bangladesh and is set to provide quality services as per the need," hoped Lutfuzzaman Babar, state minister for home affairs, at the inauguration of the hotel.

Considering the needs of the businesses, the hotel also offers other value added services that include mobile phone and laptop rental, 24-hour room service and security service, common meeting room and emergency doctor on call, says a press release.

The hotel has standard, deluxe, super deluxe and Summer Palace suits and separate executive club floor.

Its service apartments have three bedrooms, lobby and drawing room with self-contained kitchen.

The hotel is only 10 minutes drive from Zia International Airport and very close to diplomatic missions and commercial areas in Dhaka.

Asian business under threat from new UK migrant bill

BDNEWS, *London*

Asian business in the UK with an annual turnover of £60 billion might experience a drastic fall because of the new immigration law, Asylum and Nationality Bill, which will be debated in the House of Lords soon, said industry sources.

The proposed new immigration policy that will impose a two-year jail term and fine on employers hiring illegal foreigners would throw Indian and Chinese restaurant owners into trouble. It also insists them to hire East European people to run their restaurants.

Indian and Chinese restaurant owners are campaigning to persuade the government to let the thousands of Asians work in the kitchens in Britain and help make curries and chows.

But ministers have refused saying that caterers must speak English in their kitchens so that vacancies for low-skilled workers can be filled from Eastern Europe.

Most of the new asylum-seekers and unskilled labour migrating to Britain these days are from the new European countries and EU members.

Indian and Chinese foods have become a staple of the British palate and most of the 25,000 restaurants and takeaways specialising in the fare rely on asylum-seekers, students and illegal immigrants.

Initially these restaurants were family-run businesses, but as the restaurant owners made money, and their children achieved academic and commercial success, they no longer wanted to work in the catering business. The restaurants therefore now rely on hiring both skilled and unskilled hands from outside, business sources said.

The new policy will encourage highly priced and expensive non-European professionals, but not low-skilled hands, which make up a large number of staff in the restaurants.

Ashraf Uddin, the secretary general of the Bangladesh Caterer' Association, told the news agency that at least 20,000 workers a year are needed to work in Britain's 10,000 Indian restaurants, and the government had told them to hire East Europeans to fill the gap.

"Unless they know our culture, our language, our way of working, it would be a complete mess," he added.

Thomas Chan, who chairs the Chinese Takeaway Association, echoed Ashraf Uddin's fears. "The head chef will find it difficult to communicate. If there is no mutually understood language, how are they going to give instructions?"

However, Taflan Dikec, president of the National Association of Kebab Shops, manned mostly by Europeans and Turks, said the East European labour force was capable of making more than just kebabs. "There is a myth that Chinese food can only be cooked by a Chinese person or Indian by an Indian. If they would give the Europeans a chance, the myth would be proved false," said Dikec.

The Home Office defended their position arguing that allowing the sector to rely on low-skilled labour from outside the UK or EU would be self-perpetuating if it means the sector continues to be reliant on workers with particular language skills.

Office bearers of cold storage association

Chairman

Md Jasim Uddin, managing director of Meghna Multi-purpose Himagar Ltd, has been elected chairman of Bangladesh Cold Storage Association for 2006-07.

Shah Rashidul Hasan Farhad, managing director of Bogra Multi-purpose Industries Ltd, and SA Khan, chairman of Southpole Cold Storage Ltd, have been elected vice chairmen of the association, says a press release.

Other members of the executive committee are Abdur Rob Chowdhury, Md Nurul Islam, AHM Karam Ali, Sheikh Nurul Alam, Md Nasiruddin, Mohiuddin Ahmed, Istiak Ahmed, Md Kalim Ullah, Md Mosharaf Hossain Pusti, Mir Shariful Alam, Kamrul Alam Chowdhury, Md Abdul Khalek, Md Nurul Moyeen Minu and M Iqbal Hussain.

Delhi 'fully committed' to Iran-Pak-India pipeline

PTI, *Beijing*

Petroleum and Natural Gas Minister Mani Shankar Aiyar on Friday refuted a report that India may opt out of the Iran-Pakistan-India gas pipeline, stressing that New Delhi was "fully committed" to the project.

"It is completely wrong to suggest that either I or any one in authority in India has advocated withdrawing from the Iran-Pakistan-India pipeline," Aiyar said.

"The story to this effect is completely misplaced. I deny this report," Aiyar told PTI here before returning to India after a three-day official visit to China.

"We stand fully committed to the Iran-Pakistan-India pipeline," he said.

"It will be recalled that on February 9, 2005, the cabinet had authorised me to embark on bilateral discussions with Iran and Pakistan authorities to purchase at the India border natural gas that would be piped from Iran through Pakistan to the Pak-India border.

"In consequence of that decision, there have been several meetings between me and my counterparts and also a series of meeting of the India-Pakistan Working Group, the India-Iran Working Group and the Iran-Pakistan Working Group," he said.

The stage has now been set for "shifting from the trilateral mode to bilateral mode, which can't be made without cabinet sanction," Aiyar said.

"While advocating a series of other options, my ministry is obliged to recall the already authorised option which is to purchase the gas at the border without being involved in the project itself," Aiyar said.

"But it is obvious, there can be no Iranian gas made available at the Pak-India border unless there is a pipeline project, which would bring gas from Iran to Pakistan and to India," he said.

To this end, the minister pointed out that an Indian delegation is already in Tehran, primarily to discuss the supplementary components of the Iran-India LNG deal and also to discuss on the sideline matters relating to the pipeline.

"It is possible that the Iranian oil minister, who has only recently been confirmed in his post by the Iranian Majlis, will be visiting India later this month," Aiyar said.

He also said that the Pakistan High Commission has confirmed it to him that the Pakistani oil minister will be "paying his return visit to me in February."

"Perhaps by then, we would have a decision on shifting from the trilateral mode to the bilateral mode," he said.

"Everything is well on track and there is no cause for any undue concern," the minister stressed.

S'pore claims world's busiest port title in terms of tonnage

AFP, *Singapore*

Singapore said Friday it had retained its position in 2005 as the world's busiest port in terms of shipping tonnage, which measures the volume of merchant ships arriving in a country.

Shipping tonnage totalled 1.15 billion gross tonnes last year, a record outstripping the 1.04 billion gross tonnes recorded in 2004, the Maritime and Port Authority of Singapore (MPA) said in a statement.

Container traffic also rose 8.7 percent to 23.2 million twenty-foot equivalent units (TEUs), another record.

Total cargo throughput climbed 7.6 percent to 423 million tonnes.

However, this was lower than Shanghai's claimed haul of 443 million tonnes reported Wednesday by the Shanghai Port Administration Bureau. The official figures sparked claims that, as a result of China's fast-expanding trade in goods, the country's commercial capital has surpassed Singapore as the world's top cargo port in terms of throughput.

Tata Motors to sell Fiat cars

OUR CORRESPONDENT, *New Delhi*

India's third largest automobile manufacturer Tata Motors Limited has agreed to sell Fiat cars as part of an alliance aimed at allowing the Indian and Italian automakers to share technology and design.

The two companies entered into an agreement on Friday under which Tata Motors will distribute Fiat cars beginning March this year, a move the Italian carmaker says will help reverse its sagging sales in the booming Indian automobile market, one of the biggest in the world.

As part of the deal, Tata Motors dealers will sell Fiat and Tata cars and provide after-sales services and spare parts. Poor service and a shortage of spares have hit Fiat's sales in India where car sales have grown at the rate of 20 percent annually in the last half a decade.

The distribution network is expected to be a first in a range of other possibilities of cooperation between the two automakers. Sergio Marchionne, chief executive officer of Fiat SPA, told reporters here that alliance with Tata Motors would further expand in areas of product development, manufacturing and sourcing.

"It is an evolving relationship with no hold bar and no boundaries," said Tata Group Chairman Ratan Tata adding that the tie-up with Fiat would help Tata Motors expand overseas via Fiat's vast dealership network in Europe.

Fiat manufactures the Palio hatchback and mid-sized Petra cars at a factory near Mumbai, India's commercial hub, but its sales are far behind those of competitors General Motors, Ford and South Korea's Hyundai.

Marchionne said Fiat may use Tata Motors to procure spare parts from India, which is becoming a manufacturing hub for automobile components because of low cost and quality products.

Tata Motors, set up in 1954, mostly made trucks and buses until 1998 when it made its foray into car market with Indica model, which accounts for one fifth of total small car segment in the country.

US autopart maker to invest $130m in India

AFP, *New Delhi*

US automobile component maker Delphi said Saturday it would invest five billion rupees (130 million dollars) to manufacture fuel injection systems in India.

The company, which has a partnership with India's TVS, will also set up a technical centre for product development in the southern city of Chennai, the Press Trust of India reported.

"The investment would be made over a span of four to five years," Delphi-TVS managing director T.K. Balaji was quoted as saying by the news agency.

He said most of the investment would be used for making injection pumps for the railway system.

Delphi-TVS currently makes 1,000 diesel pumps a day, the official said. The company has a turnover of 3.3 billion rupees (74 million dollars), which it plans to increase almost four-fold by 2010.

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

This is the concluding section of the review "State of the Bangladesh Economy in FY06: Early Signals and Immediate Outlook (First Reading)", which was recently released by the Centre for Policy Dialogue (CPD), Bangladesh. The full report may be accessed at www.cpd-bangladesh.org.

DEBAPRIYA BHATTACHARYA

(CONTINUED FROM JANUARY 14)

PART TWO

Indeed, reality check suggests that the government will be more inclined to opt, with some modifications, for a high spending-high growth option during the rest of FY2005-06. With the closing in of the electoral frontier, a "historic" GDP high growth figure and a back-loaded public spending schedule may become a compulsion. An elaboration of the four major components of this most expected scenario is provided below.

(i) The government will accelerate its spending in the coming months under both revenue and development accounts. On revenue account, we may observe not only release of the discretionary funds (e.g. hitherto unspent Block Grants, Transfer and Subsidies), but also higher domestic debt servicing liability (DSL). Indeed, the government may have to spend more than the programmed amount on account of enhanced security measures (e.g. raising new battalions for RAB and BDR and import of security related modern machineries and equipments); however, the government may also receive additional foreign funds for this.

In case of ADP, while the aggregate level of implementation may be about 20 per cent or so less of the original, some ministries endowed with projects which are subject to low level of performance accountability (e.g. rural roads repair and maintenance) may experience high level of off-take. It is, however, highly desirable that the integrity of the ADP is maintained by pruning non-aided low quality projects.

It may be emphasised that the current macroeconomic pressures have to be absorbed partly by the fiscal policy as monetary policy will not be able to carry the full burden.

(ii) Regarding private sector investment, there will be a slow-down for a number of reasons. The recent spate of bomb attacks are going to affect both domestic and foreign investors' confidence in the short to medium term. The robust demand for private investment will be also reined in by an increasing interest rate (lending and, partly, deposit rate). This, in its own turn, will reduce the import pressure on the balance of payment (BOP).

On earlier occasions, prior to the national elections, one has observed high level of loan disbursement to private sector through the nationalised commercial banks (NCBs). This opportunity has limited value in the current context of the financial sector reform. Alternatively, some privileged private companies may get facilitated access to the enhanced public expenditure portfolio. However, agriculture credit disbursement by the NCBs, Bangladesh Krishi Bank (BKB) and government supported micro-finance programmes may experience increase.

(iii) The government has to make a strong effort to bring down the price level, particularly of food products. This may be helped by improved production of cereals (e.g. better boro harvest) and through more liberal foodgrain imports. Contractionary monetary policy underpinned by higher interest rate (coupled with higher Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR) may also have favourable impact on the inflation rate.

Most importantly, the government will be seriously disinclined to further (and faster) depreciation of the national currency as it may further enhance price level. It will also try (may be unsuccessfully in the face of donor resistance) not to pass on the incremental fuel price to the consumers. Attempts will be made to resist donor pressure to increase utility prices.

(iv) *At the end of the day, holding back further deterioration of the BOP will be the prime challenge.* Notwithstanding various import growth controlling measures, the government will still need a sizeable package of foreign financing to implement its ADP and sustain the normal activities of the economy still the end of FY06. To this end, the government may pursue a *six pronged approach.*

(a) Faster disbursement of the project aid which are tied up in the pipeline to accelerate implementation of the ADP.

(b) Organising faster disbursement of a number of reform-related budgetary support commitments from the international financial institutions (IFIs). The target value is likely to be in the range of $350 500 million.

(c) Putting together special foreign aid packages for targeted use, e.g. for expansion of the energy sector or modernisation of Chittagong Port.

(d) Improving the foreign exchange reserve by inducing the friendly Middle Eastern countries to keep a couple of billion dollars with the Bangladesh Bank at a reasonable interest rate.

However, in extreme situation the government may opt for the following two methods towards foreign exchange mobilisation.

(e) The government may resort to borrowing foreign currency from foreign commercial banks. One will need to justify this type of borrowing on the grounds of high value productive investment in the public sector or to support necessary imports (e.g. fuel purchase). *This avenue entails high level of DSL in foreign currency.*

(f) In a bid to attract foreign remittances, the government may liberalise its foreign exchange regulations and allow receipt in and holding of foreign currency accounts by resident Bangladeshis. However, *one wonders how much this step will be considered justified in view of the current emphasis on Anti-Money Laundering Act.*

Whatsoever, the key to the emerging problematic macroeconomic situation is held by the level and nature of the net foreign financing which Bangladesh would receive in the next 3 - 4 months. One will have to see to what extent the recent setting-up of the Joint Task of the government of Bangladesh and the international development partners for monitoring the PRS implementation is going to facilitate the process of accessing immediate of foreign aid.

As the current fiscal year crosses the mid-year mark, the government definitely needs to revisit its budgetary and PRS targets at the earliest to design a pragmatic package. Admittedly, the policy autonomy enjoyed by the government remains heavily constrained as the economy is pre-designed to function under adjustment loans of the IFIs.

While attempting to macromanage the economy over the remaining few months of the current fiscal, the government will have to bear in mind that this time around the end result of all its policies and initiatives will invariably face a *Poverty* Audit.

Finally, it remains the responsibility of the incumbent government to provide a stable and secured economic benchmark foundation for the transitional government which is expected to take charge in the early part of FY07.

CONCLUDED

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