Star BUSINESS

E-mail: business@thedailystar.net

DUTY-FREE RMG EXPORT TO INDIA

Exporters say Delhi's proposed deal won't benefit Bangladesh

JASIM UDDIN KHAN

Bangladeshi exporters and trade experts find the Indian proposal for agreement on duty-free export of 6 million pieces of Bangladeshi readymade garment (RMG) annually to India a meaningless step, as chances of yielding any benefit from it are slim.

New Delhi urged Dhaka in a letter to the commerce ministry on November 8, 2006 to introduce a quota monitoring system through a written draft deal in order to avail of an export facility that is free of duty.

Since signing of the pact on South Asian Free Trade Area (Safta) on July 1, 2006, Dhaka is entitled to a duty-free access of these specific pieces of apparels to the Indian market.

As per the draft agreement on such a duty-free access, Bangladesh also needs to get prior permission from Indian Textile Committee and provide advance information about export much before the consignment is ready.

But local RMG makers said Bangladesh's RMG export opportunity to India would be restrained once the proposed quota monitoring system is made effective.

Local exporters apprehend that the duty-free opportunity might not yield any positive results under such conditions since a similar agreement between India and Sri Lanka failed to benefit the island state.

The leaders of the RMG sector proposed an alternative proposal instead of accepting the draft proposal from India with regard to the duty-free export facility.

The business leaders criticised the condition for transportation of the said RMG products only through six selected land ports and inclusion of a 'conversion factor'.

India earlier agreed to import six million pieces of apparels from Bangladesh free of duty through some selected ports.

A meeting was held at the Tariff Commission recently with its chairman Abdul Wahab in the chair.

BGMEA Second Vice President Lutfar Rahman said India set too many conditions, which is like an imposition of non-tariff barriers.

BKMEA Representative MA Baset said the 'conversion factor' India has sought will ultimately limit Bangladesh's export opportunity as it is usually used to measure textile in weight.

The draft agreement did not mention anything about the duty-free exports although New Delhi earlier promised Dhaka that such facilities would be provided under the coverage of the Safta agreement.

According to the draft, Bangladesh will be able to export six million pieces of readymade garments if fabrics of three million pieces are imported from India while the rest will be either Indian or local.

Only a manufacturer-cum-exporter is entitled to exporting under the proposed quota system.

The Tariff Commission would submit its recommendations in this regard next month to the commerce ministry, official sources said.

Oil remains at 2005 levels in Asian trade

AFP, *Singapore*

Oil prices remained at levels unseen since mid-2005 in Asian trade Wednesday as the market continued to focus on mild winter weather in the Northern hemisphere, dealers said.

At 1:22 pm (0522 GMT) New York's main contract, light sweet crude for delivery in February, was at 55.54 dollars a barrel, down 10 cents from 55.64 dollars in late US trade Tuesday.

Brent North Sea crude for February was at 55.22, up four cents from 55.18.

"I think the factor driving the market at the moment remains the lower demand for heating fuel as a result of the warmer winter weather," CFC Seymour analyst Steve Rowles said from Hong Kong.

Crude futures prices have slumped by almost 12 percent since the start of 2007 on falling demand for heating fuel, particularly in the United States but also in Europe.

"When you can wear a T-shirt in New York in January and across the east, the demand for heating fuel isn't going to be there," Bart Melek, an analyst at BMO Capital Markets, said during US trading hours.

"At the same time, the US economy seems to be bottoming (out), functioning below potential," Melek said. Weather forecasters are predicting warmer-than-normal temperatures across the Northeastern United States over the next 10 days.

The Opec cartel may react to the drop by accelerating their planned February 1 production cut of 500,000 barrels per day, said Rowles.

Purchase body okays collection of 20cr pieces of 2-taka coin

STAR BUSINESS REPORT

The advisory committee on purchase yesterday approved five procurement proposals including collection of 20 crore pieces of two-taka denominated coin.

Law, Justice and Parliament Affairs Adviser Justice Fazlul Haque chaired the meeting.

The coin procurement will cost Tk 29.24 crore. The job has been awarded to a Malaysian company Royal Mint of Malaysia.

The committee approved renewal of the fuel procurement agreement with the Kuwait Petroleum Corporation (KPC) and adjusted the premium.

According to the decision, the premium for per barrel diesel was readjusted at US$5.40 from previous $5.45, which will save Tk 2.54 crore from the government exchequer. The premium rate per barrel kerosene and octane remained unchanged at $5.70 and $7.50 respectively.

The committee also approved the Tk 33.22 crore proposal for construction of the National Academy for Health Management building.

It also approved the Tk25.82 crore land survey project under Estuary Development Programme. Of the total fund for the project, Tk 3.26 crore would come from internal resources, while the remaining amount would be provided by the Netherlands government.

Besides, a project to procure 1lakh tonnes of fertiliser was also approved.

Dollar gets a lift

AFP, *London*

The dollar was buoyed on Tuesday by a continuing slump in commodity prices, although gains over the euro remained limited.

The euro eased back to 1.2992 dollars in late European trading from 1.3023 dollars late in New York on Monday.

The dollar climbed to 119.47 yen from 118.69 yen on Monday, when Japanese markets were closed for a national holiday.

Meanwhile, oil prices fell to their lowest levels since mid-2005 -- below 54 dollars a barrel -- indirectly helping the dollar as lower oil prices mean a smaller trade deficit.

"Soft oil prices are the latest catalyst for dollar strength as they help cut the US imports significantly," said Jamie Coleman at Thomson IFR Markets.

However, the euro refused to give up more ground to the dollar after falling significantly last week to the current levels around 1.30.

The dollar had then rallied on strong jobs data, which suggested the Federal Reserve would not cut rates any time soon. That view was underlined last night by Fed vice chairman Donald Kohn, who warned of continued upside risks to inflation.

Citigroup announces Japan retreat

AFP, *Tokyo*

US banking giant Citigroup is taking the axe to its consumer finance business in Japan, which it expects to make a fourth quarter loss of 370 million dollars.

The move follows a decision by the Japanese government in December to cap interest rates on consumer loans by 2010, the company said in a statement from New York late on Tuesday.

Citigroup will take a hit of about 40 million dollars after tax in the fourth quarter of 2006 to cover the cost of closing 270 branches operated under the brand name of DIC and to shut 100 automated loan machines.

Citigroup also operates 22 Citibank branches and eight smaller outlets in Japan.

The banking group said it expected the Japanese consumer finance business to break even in 2007 and then remain in profit.

The US banking giant expanded in Japanese consumer finance with a series of acquisitions of companies charging high interest rates despite the country's near zero official interest rates.

The Japanese parliament passed a bill in December 2006 to lower the ceiling on consumer loan interest rates to 20 percent in late 2009 from 29.2 percent in an effort to cut the high number of highly indebted borrowers.

"These events have significantly affected the operating environment for the entire consumer finance industry in Japan," Citigroup said.

Thailand seeks to reassure investors on new rules

AFP, *Bangkok*

Thailand on Wednesday tried to reassure foreign investors about the government's new investment rules amid warnings the changes could push international firms to take their business elsewhere.

Finance Minister Pridiyathorn Devakula met business leaders and diplomats to clarify revisions approved Tuesday to the Foreign Business Act and told them that the military-installed government was ready to listen to their concerns.

"We asked them to think about it and get back to us. The government is ready to make adjustments," Pridiyathorn told reporters after the meeting.

He insisted that foreign companies in manufacturing and exports, as well as those with existing agreed privileges, would be exempt from the new rules.

"There are altogether 2,428 foreign businesses (in Thailand). Of these, only 1,337 businesses will be affected," he said.

Under the new rules, investors will be forced to divest if they hold more than 50 percent of the shares or the voting rights in a local firm. Companies have up to two years to comply.

The sectors most affected by the new rules are telecoms and media, Pridiyathorn said.

Among those that will be forced to restructure are Thailand's leading mobile operator, Advance Info Services (AIS), a part of telecom giant Shin Corp, which was bought by Singapore's state-linked investment firm Temasek Holdings last year, he said.

A Temasek-led group of investors bought 96 percent of Shin Corp for 3.8 billion dollars, sparking public outrage that snowballed into street protests against former prime minister Thaksin Shinawatra, who founded the company.

Global FDI up in 2006

Says Unctad

AFP, *Geneva*

Global foreign direct investment continued to surge in 2006, rising by 34.3 percent over the previous year to 1.23 trillion dollars, according to projections by the UN trade and development agency released on Tuesday.

The buoyant private investment and takeover market reflected strong economic growth in many parts of the world and increased corporate profits, the UN Conference on Trade and Development said in a statement.

The growth in FDI inflows was especially strong in European nations and the United States, as developed economies attracted the lion's share of investment with 800.7 billion dollars, an increase of 47.7 percent over 2005.

UNCTAD predicted that a combination of forecast slower economic growth in 2007, as well as sharp exchange rate fluctuations and rising interest rates could lead to a slowdown in the fast growth in FDI experienced in recent years, especially in the traditional economic powers.

The preliminary data indicated that United States retook its position of the largest host for FDI in the world last year with a 78.2 percent increase to 177.3 billion dollars.

Britain was second in UNCTAD's FDI table with 169.8 billion dollars, while other traditional European Union industrial powerhouses experienced stronger growth in foreign investment than the new eastern European member states.

FDI inflows into France grew by 39 percent over the year to 88.4 billion dollars, and in Italy by 50.2 percent to 30 billion dollars.

Other regions of the world continued to draw Foreign Direct Investment, according to the Unctad data, although there were sharp tail-offs in some major emerging economies.

Inflows to mainland China eased in 2006 with a decline of 3.3 percent to 70 billion dollars. FDI into South Korea plummeted by 92.6 percent to 500 million dollars, and by 62.9 percent in Indonesia to 2.0 billion dollars.

South Africa also failed to maintain its status with foreign investors, attracting inflows of 3.7 billion dollars, a drop of 42.7 percent, despite a continued trend for growth in Africa as a whole.

However, India, with an annual increase of 44.4 percent in inflows to 9.5 billion dollars mainly in manufacturing, Thailand (7.9 billion dollars/114.7 percent) and Hong Kong (41.4 billion dollars/15.4 percent) continued to register steady growth.

Turkey also maintained its three year run of success with foreign investors by attracting 76.3 percent more FDI (17.1 billion dollars) in 2006.

Unctad underlined the growing role of China and India as new sources of investment worldwide, challenging the recent dominance of Asia's newly industrialising economies.

The Unctad figures on 76 economies were based on projections from data available at the beginning of November 2006.

PHOTO: NCC BANK

Mahbubur Rashid, managing director of Bay Leasing, and Sheikh Abu Ahmed, senior vice-president of National Credit and Commerce Bank Ltd, exchange documents on behalf of their organisations after signing an agreement in Dhaka recently. Under the deal, the bank will give Tk 5 crore to Bay Leasing for lease financing. Md Nurul Amin, managing director of the bank, was also present.

$4b forex reserve: A milestone, but is that enough?

MAMUN RASHID

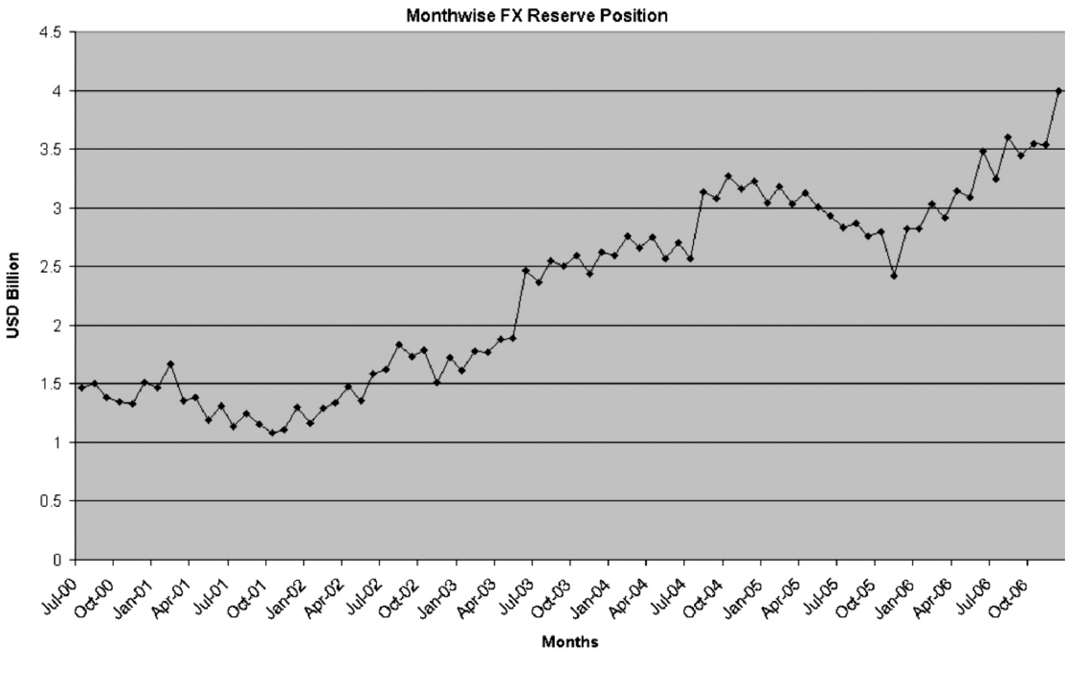
For nearly the past two and a half months, Bangladeshis have been curiously following all the political developments that have been unfolding on a daily basis. Thanks go to the electronic media and the internet versions of the dailies for keeping the non resident Bangladeshis (NRBs) updated too. While our politics has been topping the list on the daily news agenda, a wonderful milestone concerning the economy has been reached. Our foreign exchange reserve has crossed the US dollar 4 billion mark for the first time; a wonderful way to start the year 2007. Due to the inherent nature of our negative trade balance, the forex reserve has traditionally been ailing; it fell to an alarming level of nearly USD 1 billion in October 2001. Credit goes to the RMG sector and NRBs' remittance for reaching this milestone. Despite continuous hurdles, RMG has proven to be a resilient sector while the continuous reforms in the banking sector moved NRBs (non-resident Bangladeshis) away from the informal channel of money transfer. The country's exports and remittance have shown a robust growth of nearly 30 percent during the July-December period of the FY 07.

We do not see any reasons to rejoice while assessing ours in comparison to other countries of our likes, however, some corners deserve a pat on the back for maintaining the strong upward trend amidst soaring commodity prices in the international markets while at the same time the dare measure of floating the BDT exchange rate has been taken. The table indicates our weak position compared to some similar countries.

While the world's highest forex reserve is held by the mighty China surpassing the trillion-dollar mark last year, our 4 billion may seem tiny. However, a country's forex reserve if sufficient to cover for 3 months of its foreign obligations, is accepted as safe. This gives comfort to the foreign investors of the repatriation capacity of a particular country. Historically our reserve has been barely at that safe level or marginally lower. At present with the reserve at a level over USD 4 billion covers for over 3 months of imports (based on USD 5.2 billion of import from the July-October period of FY 06-07). We must bear in mind that the 3 months import coverage of our reserves is a dynamic number with the imports growing almost 20 percent on a year-on-year basis for the past few years. With growing exports and remittances at 30 percent plus rate, we can even reach higher levels of coverage.

(USD Bilion)

Country	GDP	Import	Foreign Trade	Foreign Exchange Reserve	Import Cover (Months)
Bangladesh	63.56	15.80	29.60	4.02	3.05
Sri Lanka	20.10	8.51	14.07	2.37	3.34
UAE	71.00	60.20	163.20	23.50	4.69
Philippine	86.40	42.70	83.90	18.10	5.09
Chile	94.10	30.10	68.10	16.00	6.39
Pakistan	96.10	26.53	42.99	12.90	5.83
Romania	73.20	38.20	65.80	22.80	7.16
Columbia	97.40	20.40	43.40	14.20	8.33
Egypt	75.20	24.10	38.40	20.30	10.11
Morocco	50.10	18.20	27.60	16.20	10.71
Nigeria	72.10	26.00	78.10	30.20	13.95
Peru	68.40	12.20	28.10	15.30	15.15
Algeria	84.70	22.50	72.10	61.00	32.50



High level of reserve helps attract new foreign investments. While good level of reserve attracts FDIs, new FDIs provide further boost to the reserves resulting in a movement in a cyclic direction. We can take the example of continuously growing forex reserve of India where the reserve at the end of 2006 was USD 170 billion (excluding gold) compared to USD 131 billion at the end of the previous year and the FDIs are constantly growing. In our case too in the recent years, we have seen encouraging progress in similar direction with both new FDIs as well as reinvestments.

Bangladesh Bank has been maintaining a strictly steady course since it started its voyage of reforms. The central bank governors have been like on a relay race continuously passing the baton to the successor who has been strong in navigating at the same course even during turbulence. Policies have remained consistent with drive for completion of missions of the predecessors. Forex and monetary policies have been managed dispassionately with specific consideration of a developing nation like ours. One result of that is Bangladesh being one of the few countries to have managed to weather the Asian crisis of the late 90's. A special recognition is due to Allah Malik Kazemi of the central bank for his courageous and professional pursuance of the forex and monetary policies for nearly the past two decades helping overcome crisis periods despite continuous reforms and deregulations. The domestic interest rates have also remained very steady during the first half of FY 06-07. Credit also goes to our development partners, who tied up banking sector reforms with the release of the development support credit.

I can only wonder where we would be when we have most of our government institutions run like Bangladesh Bank with strong leaders like some of our central bankers (despite they also having a long laundry list and required to run faster than before); we would be an unbeatable nation then. We need a robust improvement in the infrastructure sector, reliable power supply, consistent and forward looking foreign policies that can favour us economically with consistency in their policies and rapid decisions. I am a strong believer of that future when economic activities would be free from the political ones and would move on its own course; I see light ahead for us.

The writer is a banker

China flexes muscle in global steel industry

AFP, *Shanghai*

Successful negotiations of iron ore prices this year by China's leading steelmaker Baosteel show how the nation is exerting more influence on the global industry, a ratings agency said Wednesday.

Brazil's Companhia Vale do Rio Doce, the world's largest iron ore producer, announced last month that it had secured a 9.5-percent price hike from China's biggest steelmaker and lead negotiator Shanghai Baosteel Group Corp.

"This benchmark will turn out to be the de-facto global standard, which indicates Baosteel's growing importance in the negotiation process and reflects its delegated authority from the Chinese government," Fitch Ratings said in a statement.

"This will help to support China's credibility as a leading player in the global steel sector."

"China's steelmakers have shown strong resolve in their bid to lead the steel industry in their recent negotiations for the contract price of iron ore," it said.

GM to join bidders for Malaysia's Proton

AFP, *Kuala Lumpur*

General Motors Corp. is planning to make a bid for Malaysia's struggling automaker Proton, joining Volkswagen AG and PSA Peugeot Citroen which are also reputed suitors, a report said Wednesday.

The New Straits Times cited unnamed sources as saying that GM officials had met several times with Proton management and shareholders since November, in its third approach to the Malaysian carmaker in almost a decade.

The daily said that in 1998 the US auto giant offered to take a stake in Proton but that its offer was not taken up, and three years ago it initiated talks on a technical tie-up with its South Korean unit.

The fresh bid involves a plan to take a small stake in Proton at the holding level, as well as a stake in its manufacturing arm, it said.

The Malaysian government is currently negotiating a partnership deal aimed at providing Proton with the expertise it needs to arrest a sharp decline in market share in a newly competitive market.

It owns 59 percent of Proton, including a 43 percent stake held by its investment arm Khazanah Nasional, and is believed to be aiming to conclude the negotiations by March.

Three Malaysian automotive companies -- DRB-HICOM, the Naza group and the Mofaz group -- have expressed interest in acquiring all or part of the government's stake.

Singapore, India to expand air services

AFP, *Singapore*

Singapore and India have signed a memorandum of understanding to expand air services between the two countries, the city-state said Wednesday.

The agreement will pave the way for carriers of both nations to increase services between Singapore and the Indian cities of Chennai, Bangalore and Delhi, a Ministry of Transport statement said.

A new air link between Coimbatore in India's Tamil Nadu state and Singapore is now also possible, it said.

"There has been strong growth in demand for air travel between India and Singapore due to the increase in trade, investments, tourism and other economic relations between our two countries," Choi Shing Kwok, the ministry's permanent secretary, said.

There are currently 142 weekly passenger services between Singapore and India.