Star BUSINESS

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IMF asks Lanka to cut spending

AFP, *Colombo*

Sri Lanka needs to slash state spending and contain the budget deficit, the International Monetary Fund said Sunday, warning that the island's debt exceeds gross national production.

It also rapped the Colombo government for not collecting enough revenue to meet day-to-day expenses and noted that investments were too low to sustain growth.

"Sri Lanka's gross capital formation is the lowest in the region and current government spending is high," the global financial lender said in a report.

"...increasing public sector investment spending while reducing the size of fiscal deficits -- thereby reducing fiscal dominance in economic activity -- can positively contribute to economic growth in Sri Lanka."

It said that Sri Lanka had recorded high and sustained deficits of around 8.0 to 9.5 percent of GDP (gross domestic product) for more than 10 years, while government spending accounted for 35 percent of GDP in the past decade.

"High growth economies tend to have a much higher ratio of gross public sector investment to GDP," IMF's Nombulelo Duma said.

"Sri Lanka's gross capital formation is the lowest in the region and current government spending is high," the report said.

Government debt averaging 101 percent of GDP over the past five years far exceeded that of other economies in the region, it said. In Nepal it was 63 percent, in Bangladesh 49 percent and 85 percent in India.

Sri Lanka, however, has reported economic growth of 7.4 percent in 2006 boosted by an influx of aid to rebuild areas affected by the 2004 tsunami. Growth has since slowed to 6.2 percent for the first half of 2007.

Central bank governor Nivard Cabraal last week lowered full-year 2007 economic growth figures from 7.5 percent to "slightly lower than seven percent" due to "constraints," but said the economy "remained resilient."

Scotia Branch of Bank Asia relocated

Bank Asia Limited yesterday relocated its Scotia Branch from its old location at Rangs Bhaban on Bijoy Sarani to 32 Kazi Nazrul Islam Avenue in Dhaka, according to a press release.

The branch has been shifted to the new place eight years after its successful operation from the Rangs Bhaban.

Syed Anisul Huq, president and managing director of Bank Asia, inaugurated the relocated branch.

Deputy Managing Directors Erfanuddin Ahmed and Aminul Islam were also present.

Dhaka wants to shorten 'sensitive list' for Bimstec free trade deal

7-member bloc meets today

STAR BUSINESS REPORT

Bangladesh will offer to cut the number of items it wants to protect from tariff reductions at trade negotiations with Bimstec countries to be held in Dhaka today.

Bimstec, the Bay of Bengal Initiative for Multi-Sectorial and Economic Cooperation includes Bangladesh, India, Myanmar, Sri Lanka, Bhutan, Nepal and Thailand. One of its major aims is to improve trade between the countries.

To this end the organisation has attempted to create a free trade area. However negotiations have proved difficult due to the size of many countries, "sensitive lists", lists which include items that will be exempted from the tariff cuts.

At the three day Trade Negotiating Committee meeting to begin today, Dhaka will offer to cut the number of items on its sensitive list to a maximum of 20 per cent of all export products. This compares to previous offer of just over 23 per cent.

However other issues surrounding the sensitive list are expected to be the centre of hard fought negotiations. For example, Thailand has proposed that a country should not be allowed to export items that it includes in its own sensitive list tariff free to other members of Bimstec. This idea is opposed by Bangladesh and India.

At the meeting the issue of rules of origin criteria will also be brought up.

This is the 15th meeting of the Trade Negotiating Committee and officials are hoping that it will be one of the last in the present series.

Following the completion of the series a Commerce Secretary level meeting and Commerce Ministry level meeting will be organised with Bangladesh proposing that both be held in Dhaka.

Bimstec provides a unique link between South Asia and Southeast Asia bringing together 1.3 billion people, 21 percent of the world population, a combined GDP of US$750 billion. A study (2004) shows the potential of US$ 43 to 59 billion in trade can be created under a Bimstec free trade agreement.

Govt slashes borrowing from commercial banks

STAR BUSINESS REPORT

The government's net borrowing from banking sector reduced to Tk 326 crore from July to the first week of September this fiscal.

During the period, the government repaid Tk 3071crore to the central bank and borrowed Tk 2744 crore from commercial banks.

The government repaid its loan to the central bank in a bid to rein in inflationary pressure, sources said.

The sources said the government borrowing reduced against the backdrop of slow pace of Annual Development Programmes (ADP) implementation mainly due to the recent flood.

The sources also attributed reduced borrowing to good performance by the National Board of Revenue. The NBR's revenue collection grew 14 percent in the first two months of the current fiscal year.

The central bank recently deposited its profit money of around Tk 2200 crore to the national exchequer, which also helped the government not to go for increased borrowing.

But borrowing may rise in the coming months, when ADP implementation will start in full swing, the sources cautioned.

PHOTO: BANK ASIA

Syed Anisul Huq, president and managing director of Bank Asia, inaugurates relocated Scotia Branch on 32 Kazi Nazrul Islam Avenue in Dhaka yesterday.

South Korean motor makers fined for price fixing

ANN/ THE KOREAN HERALD

After having earned an estimated 90 billion won from an illegal price colluding scheme, South Korea's industrial motor makers Hyosung Power & Industrial Systems PG and Hyundai Heavy Industries Co were fined a combined 4.9 billion won ($5.3 million) the Fair Trade Commission has said.

The nation's antitrust regulator said the two companies, together with Otis Elevator Korea, were found to have conducted five sales meetings to artificially increase prices of their industrial motor products by 15 to 25 percent during the 1998-2006 period.

Hyosung was fined 3.39 billion won, and Hyundai Heavy, 1.61 billion won. Otis Elevator Korea was exempt from the penalties because it voluntarily reported the price fixing scheme to the regulator and was being cooperative during the investigation, the FTC said.

The three companies' sales from the price fixing scheme reached 460 billion won and illegitimately earned sales are estimated to be over 90 billion won, the antitrust watchdog said.

Popular Pharma to market German brand medicines

Popular Pharmaceuticals Limited (PPL) has recently signed a contract for exclusive marketing and distribution of world renowned brands of Merck KGaA, Germany in the field of advanced cardiology and anticancer therapy, says a press release.

The company intends to focus its skills and resources on all major therapeutic areas that represent majority of the burden of disease profiles of Bangladesh.

The company has already introduced human insulin, dialysis fluid and many other unique formulations like pre-filled syringe for the first time in Bangladesh.

Iftar box at Tk195 in KFC Gulshan

KFC Gulshan has announced a meal in a box for Iftar during the Ramadan at Tk195 (inclusive of VAT), says a press release.

The meal includes 2 pieces Hot & Crispy Chicken, 1 regular mashed potato, 1 regular coleslaw and 1 piece bun.

KFC Gulshan is all set to entertain their customers with this new menu for Iftar. Regarding the offer Akku Chowdhury, executive director of Transcom Foods Ltd, the franchisee of KFC, said, "We announce a new offer, which will provide 100 percent satisfaction. We have ensured service, quality, hygiene and safety standard of this offer."

This offer will continue from 21 September 2007 to the last day of the Ramadan.

Floods cut handloom output in run-up to Eid sales

Govt support for weavers' rehabilitation urged

KAWSAR KHAN

Handloom weavers are facing huge losses in the crucial Eid-ul-Fitr sales period as production has been shutdown for over a month due to the devastating floods.

Industry sources said the weavers are among the worst affected by the recent deluge that submerged totally or partially 25 districts of the country.

"The Eid-ul-Fitr is the peak selling season for handloom products. So, generally we begin stockpiling handloom clothes much earlier to meet the market demand. But this year we have failed to store enough clothes because many weavers could not continue their production for the natural calamity," Shahin Hossain of Tangail Tant Sharee Kutir told The Daily Star from his display shop at Jamdani Export Fair 2007 on the Bangladesh Silpakala Academy premises.

Hossain anticipated that they might not be able to supply enough handloom clothes for customers before the festival.

The Bangladesh Handloom Board (BHB) says floods had caused the closure of 1,69,776 handloom units and hit 28,226 families hard. Around 1.83 lakh families are directly or indirectly dependent on handloom industries.

The weavers of Sirajganj, Tangail, Manikganj, Kurigram, Rangpur, Jamalpur, Narsingdi, Pabna and Narayanganj have seriously been affected by the floods, according to the board.

"To help recoup the weavers' loss, the BHB initially sought a government allocation of Tk 28.23 crore, but only Tk 2crore has so far been sanctioned for rehabilitation of the weavers," BHB Chairman Abdul Hakim Mandol said.

When contacted, Anisur Rahman, president of the Sirajganj Chamber of Commerce and Industry, said, "The sufferings of the weavers has not yet finished, as even yesterday I found many handloom units under water, and it will take time for them to resume production."

Handloom manufacturers and sellers feared a further rise in prices of handloom products.

"A Tangail saree that was sold at Tk 200 last year is selling at Tk 290 this year," said Emdadul of Narsingdi Textile.

"In the previous years I have had a stock of Tangail sarees before Eid. But this year I have already sold my stocks," Yeakub Ali, who joined a handloom fair at Agargaon in Dhaka from Tangail, said.

Sector people said a weaver could earn between Tk 100- 200 a day. But the floods had made them jobless, causing enormous hardship.

"Bolla of Kalihati upazila in Tangail, a well-known Tangail saree producing area, suffered heavily due to flood and it will be too tough for the weavers to meet the loss without government support," Abul Kashem Ahmed, president of Tangail Chamber of Commerce and Industry.

India eyes Gulf food market

PTI, *Dubai*

India has launched a major drive to step up exports of agricultural and processed food products to the Gulf countries and attract investment in the sector.

The six Gulf Cooperation Council (GCC) countries offer huge potential for Indian food since the region has historically been reliant on imported food, officials said.

Driven by the buoyant economy and growing population, the market in recent years has reached an all-time high in terms of volume of imports, they said.

India's exports to the Gulf had been steadily increasing over the years, but there was still considerably potential to expand shipments of processed agricultural and food products, KS Money, Chairman of the Agricultural and Processed Food Products Export Development Authority (APEDA), who recently led a high-level delegation to the visit to Gulf region, said.

The Gulf region offered tremendous opportunity for Indian food exports, he said, adding the value of trade in agriculture and processed food between India and the Gulf had "grown from USD5.5 billion in 2001 to USD48.6 billion at the end of 2006."

Food exports to the GCC region is worth an estimated USD3 billion a year with agricultural and processed food exports from India to the UAE alone accounting for more than USD273 million in 2004-2005. Total annual trade between India and the GCC currently exceeds USD15 billion, 15 percent of India's total foreign trade.

Dubai plays a key role in the distribution of food in the region, with over 70 percent of the total UAE food imports re-exported to more than 160 countries including the Gulf, North and East Africa, and, increasingly, the Central Asian Republics.

Thai exports firmly back on track

ANN/THE NATION

Thailand's both exports and imports hit historic highs last month, with exports growing 17.9 percent year on year to US$13.91 billion (Bt464 billion) and imports up 14 per cent to $13.14 billion. The official figures were provided on Friday by the commerce ministry.

Despite the slowdown of export growth in July, the robust performance in August has prompted the ministry to reaffirm the country's annual export target of $145.9 billion - 12.5 percent above last year's good showing - based on significant export growth in the first half and expected growth in the remaining months.

The surprising dip in export growth to below 6 per cent in July had shaken confidence that the annual target was within reach.

"I am confident that the export target of 12.5 percent will be achievable. The country will enjoy a big trade surplus for this year," Commerce Minister Krirk-krai Jirapaet said.

Bangladesh jute industry: Time to rise to the occasion

XIAN ZHU

When synthetics crowded out the demand for jute in international markets in the 70s, Bangladesh's 'golden fibre' jute was believed to have been extinct. It was for a while until recently when demand for jute resurfaced in the global market, particularly in light of the environment-friendly and renewable nature of the product. A surge in global demand resuscitated exports of jute, both raw and products, from Bangladesh. Export of these two items increased by 120 percent and 40 percent respectively over the last six years. Availability of superior grades of jute makes Bangladesh well placed to enter and compete in export markets for high value-added and price-competitive jute products.

What government actions, if any, could facilitate the resurgence of jute industry in Bangladesh, has been an issue of debate recently in the local media as well as in seminars. This article is intended to contribute to that debate by providing a few key facts and possible options for moving forward.

Jute sector reforms: A brief history

After Bangladesh's independence in 1971, the government pursued a programme of nationalisation of large manufacturing enterprises. As part of this programme, it took over all the abandoned jute mills and nationalised those owned by Bangladeshi citizens. The operations of these nationalised mills were put under the Bangladesh Jute Mills Corporation (BJMC). In the early 80s, some rethinking led to a partial reversal of this policy and over 50 percent of the mills (35 out of 66) under BJMC were privatised. Notwithstanding this change, market forces were still not allowed to guide the operation of the mills and both public and private sector mills remained mired in large financial losses.

In the 90s, the government focused again on the jute sector problems through a restructuring programme in order to create a commercially viable jute industry. Supported by the World Bank's Jute Sector Adjustment Credit (JSAC), the government put together a Jute Sector Restructuring Programme (JSRP) in 1993 to rationalise the cost structure in the jute industry and to introduce mechanisms through which financial discipline and accountability could be established. The measures under the programme included closing the worst performing mills (9 out of 29) and downsizing two large public mills, privatisation of at least 18 of the remaining 20 public mills, retrenching 45 percent of labour force, and debt restructuring of about Tk 35 billion (roughly US$900 million). For the retrenched workers the JSRP had a safety net programme, which included separation benefits varying between $2,600 and $13,000 depending on the years of service, and retraining. All the 20,000 retrenched workers got the separation benefits, but the retraining programme failed to attract their participation.

It was anticipated that at the completion of the reform programme, most of the jute mills would be in private hands. However, political instability in the following years stalled the reforms. Debt restructuring, loss financing and labour retrenchment were implemented, but closure and privatisation of jute mills were put in abeyance. There was an unintended and adverse shift in production from the relatively more efficient private mills to less efficient public mills largely because of the creation of an uneven playing field for private mills. BJMC's access to budgetary funds as well as a guarantee of loss financing for several years allowed it to under-price its products, making it harder for private mills to compete.

The poor financial performance of jute mills continues to be a major concern. Today BJMC is the second largest loss maker among public sector manufacturing enterprises, with annual losses of Tk.2.3 billion, accounting for over 50 percent of total manufacturing SoE losses in FY2006.

Recent reforms

In 2002, jute sector reforms got a new lease of life with the closure of Adamjee Jute Mills (AJM). This alone led to a decrease in BJMC's losses from Tk3.9 billion in FY2002 to Tk2.1 billion in FY2003. It also led to an increase in BJMC's productivity, which jumped from roughly Tk25,000 per employee in FY2001 to Tk39,000 per employee in FY2003. The conversion of Adamjee into an Export Processing Zone (AEPZ) in 2006 is a landmark in the country's economic management and industrial development history. All developed plots have been allocated to both local and foreign companies and as of January 2007, industries in operation have created direct employment for 34,000 people. Once fully operational, the AEPZ is estimated to employ 70,000 people. The closure of AJM resulted in loss of 25,000 permanent jobs and 5,000 temporary jobs.

Closure of public mills has resulted in growth of private mills, particularly in northern Bangladesh, a jute growing area, where industrialisation is much needed. Five small mills have been set up in the Greater Rangpur area, mostly with old machinery of closed public mills. Investment in these five mills has been around Tk1 billion (US$14 million) and they provide employment for around 3,000 workers, producing about 40 tonnes of jute bags and fibre daily. Three more mills are also expected to be set up in the northern districts shortly, which will provide employment for an additional 5,000 people.

More recently, the government has closed four jute mills. Given their dire financial position, these public jute mills have been unable to pay their workers. Having accrued arrears of six to nine months' wages, workers had resorted to all kinds of distress coping mechanisms, including borrowing and selling personal belongings for subsistence. ActionAid quotes workers at the Khulna mills, "Due to non-payment of arrear wages of 21 weeks, I have no money to pay for school fees of my children and buy food stuff. Now I am in debt trap…" Under the recently-initiated retrenchment programme, arrears are now being paid. In the case of Adamjee Jute Mills closure, workers were given a 'golden handshake' and gratuity payments, calculated by a formula based on service length. Furthermore, as part of a safety net programme for the retrenched workers, BRAC is involved in a 'Social Protection Package for Retrenched SoE Workers' (the Kallyan project), providing training to workers to adopt new skills which will allow them to gain employment elsewhere or set up their own businesses. Among other components, including microcredit, the project also provides education stipends for the children of retrenched workers so that they may continue with their schooling.

Success of the private sector: The rarely heard story

Contrary to the performance of the public mills, there has been a private resurgence in the jute sector represented in the Bangladesh Jute Spinners Association. Their members are engaged in the production of profitable yarn and twine. With the growth of the wholly private spinning sub-sector, there are now 118 privately-owned mills in the jute sector.

The deteriorating performance of BJMC mills did not have an unfavourable effect on the total production of jute, which has remained relatively stable between 500,000 to 600,000 tonnes. Instead, there has been major product reorientation: from traditional products such as hessian, sacking and CBC, to yarn and twine. The share of traditional products in total production has fallen from 80 percent in the early 90s to 45 percent in FY2006, with yarn/twine now making up more than half of total production. Since FY2000, export earnings of the spinning sector have grown at an average 12 percent annually and account for 60 percent of export earnings (US$180 million) from jute goods.

Jute Sector in India

A lot has been written about the resurgence of the Indian jute sector and comparisons have been made with the Bangladesh's jute industry. It is important to note a few structural differences that exist between the two. The Indian jute industry is mainly private-sector led90 percent of capacity is in the private sectorwith support from the government, including a highly protected domestic market. For example, sacking in India enjoys a guaranteed market due to a government policy that requires grains and sugar to be packed in jute made material. In Bangladesh, on the other hand, domestic consumption of jute goods is about half the amount on a per capita basis compared to that of India. This means that the Bangladesh's jute industry is far more exposed to world market conditions and faces more competitive prices.

Nonetheless, India's jute industry is beset by similar constraints, including competition from the synthetics sector, high labour costs, obsolete machinery, all of which have led to endemic sickness in the sector. India's National Jute Policy 2005 is directed towards reviving the jute economy through supportive measures for private operators, including research and development (R&D), upgrading of technology and market development activities.

Moving forward

One possible direction the jute sector in Bangladesh could take is to consolidate production capacity in the more efficient mills and to create a market-responsive and cost-competitive industry. The government's new jute policy is expected to focus on enhancement of the country's production capacity, diversification of the product base and growth of export earnings. It would be good if it is complemented with good corporate governance practices within the remaining BJMC mills to ensure that both public and private mills can compete on equal footing. BJMC's financial losses continue to be a significant fiscal burden. This has arisen not only from BJMC's nearly automatic access to loans from the nationalised commercial banks (NCBs) for many years, but also BJMC's greater control over the purchase price of raw jute and export price for jute goods. These conditions do not create a level playing field for the private mills. Addressing these issues would enhance efficiency and competitiveness of the sector and may help Bangladesh regain its past glory in the jute market.

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