

International Business News

Robust growth drives more South Asia FDI despite problems: ADB

Robust near-term economic growth should drive strong foreign direct investment flows into South Asia despite corruption, poor infrastructure, rigid labour laws and civil unrest, the Asian Development Bank said Friday.

FDI flows into the Indian sub-continent had risen rapidly since 2004, growing by 132.9 percent in 2006 to 24.3 billion dollars as economies moved away from the failed closed socialist model, the Philippines-based lender said in a study.

However, its share of FDI stock remained low at just 6.5 percent of South Asia's gross domestic product (GDP), compared to Southeast Asia's 39.5 percent of GDP and East Asia's 29.1 percent of GDP.

Nevertheless, projected GDP growth of 8.1 percent for 2007 and 2008, along with double-digit export growth over the same period should "enable the region to attract more FDI, especially if intra-firm and intra-regional trade increases," the report said.

It said United Nations and World Bank surveys showed South Asia was the world's "least attractive FDI destination" and the "second-least business-friendly region" after Sub-Saharan Africa.

This was due to "poor business climate, poor infrastructure, restrictive labour policy and labour unrest, political uncertainties and civil conflicts, weak regulatory systems, and rampant corruption."

Transparency International ranked Bangladesh last year as "the most corrupt country of the region," with the judiciary perceived as "one of the most corrupt branches of government in South Asia."

South Asia received just 25 percent of total private sector investment in infrastructure in developing Asia, with Southeast Asia receiving 50 percent, it said.

'High risk of failure' for Doha trade talks: Mandelson

The Doha round of world trade talks faces "a high risk of failure," EU Trade Commissioner Peter Mandelson warned on Friday.

Speaking in Lesotho, Mandelson said the talks were set to fail unless "negotiators can restore balance to the different strands of the negotiation and close a deal before a change of US president," makes negotiating a deal "difficult".

Addressing trade ministers from least-developed countries, in comments released in Brussels, the EU commissioner said that the poorest had the most to lose if the concessions already on table in the Doha Round -- including a "paradigm shift" in global farm subsidies -- were lost.

"It is time to get this deal done," Mandelson told his audience in the southern African state.

"There is no external force that can end this negotiation for us. We're like a boat with oars. Unless we row, we go nowhere. Unless we all row together, we go in circles. Unless we row now, the tide will push us past the last remaining harbour."

"I now fear that Doha is facing a high risk of failure, the first failure ever for a multilateral trade round. That would not be a good signal for the global economy which needs the confidence boost and the insurance against protectionism," he said.

"It would signal that the international community is simply not capable of pulling together when it comes to global economic governance."

He warned against backtracking on past commitments "to real new trade opportunities in both industrial goods and services as well as agriculture."

However he added that in the political horse-trading to reach a deal there was a risk of introducing too much flexibility that would "effectively neuter new market access, whether in developed or emerging economies."



A fruit vendor sells mangos on a street in downtown Vientiane on February 29, 2008. Known as a sleepy city, the Laos capital is among the favourite destinations for Western tourists in Southeast Asia.

India issues 22 more telecom licenses

The India government on Thursday issued 22 more licenses to new players, including Idea Cellular and reaty major Unitech, a move that would bring in competition and lower mobile tariffs.

Unitech Developers has been given licenses for 12 circles including in Andhra Pradesh, Gujarat, Haryana, Punjab, Rajasthan and Bihar.

Birlas-owned Idea Cellular got licenses for eight circles. This would make Idea a pan-India operator. Idea was given license in Punjab on a day when the government issued a total of 22 permits.

Datacom Solutions, in which Videocon has a majority stake, has been awarded licenses for two more circles in addition to 19 given yesterday, a senior official in the Department of Telecom (DoT) said.

On spectrum (radio frequency), officials said that no final decision has been taken as yet as to when the process of allocation would begin. The DoT is assessing the availability in each circle, besides continuing negotiations with the Defence ministry to get spectrum vacated at the earliest.

Meanwhile, on a petition filed by Idea and Spice communications, the telecom tribunal TDSAT Thursday passed an interim order that the date of application of new players be considered for issuance of licenses and spectrum.

DEBATE

To list or not to list?

SARWAR A CHOWDHURY

The recent proposal by the Securities and Exchange Commission's (SEC) on the compulsory listing of private companies in Bangladesh has sparked a lively debate between regulators and private business.

On February 12 the SEC decided that public limited companies with a paid up

capital of Tk50 crore or more, and in commercial operations for three years, will have to go for initial public offering (IPO) in one year after entering into operation.

The SEC also decided that if the private companies' paid up capital reaches or exceeds Tk 40 crore in case of raising their paid up capital, they will have to become a public limited company in a span of

six months.

The private limited companies whose paid up capital is already Tk 40 crore or more will have to become public limited companies within a year.

The SEC hopes the move will increase the number of quality companies that list on the stock exchange breathing fresh life in to the country's capital markets. It will also

force greater transparency and encourage good corporate governance.

Private business leaders however say it is an unprecedented interference, which would be unique to Bangladesh and that some of the world's largest companies remain unlisted. Such decisions should be left to the owners themselves.

Instead the SEC should

concentrate on improving the present IPO procedures in order to encourage more companies to come to the market.

In fact if turned into law the new rules will only extend existing provisions attached to the financial sector, where banks, non-banking financial institutions and insurance companies already have to list after a certain period.

Even the telecom sector has

been forced to come to the market, this time however under the rules of their licencing agreement signed with Bangladesh Telecommunications Regulatory Commission. The first fruits of this will be seen later this year when Grameenphone, the country's largest mobile operator, will conduct the biggest ever IPO in Bangladesh's history.

Compulsory listing nothing new

The mandatory listing of a company on the stock exchanges is nothing new. The practice is already here, said Securities and Exchange Commission (SEC) Chairman Faruq Ahmad Siddiqi.

"If we look at the last two to three years of IPOs, it can be said that most of the IPOs were from banking, non-banking financial institutions and insurance sector. This was possible because there was compulsion," he said.

He also said there were obvious benefits to listing, such as the reduction in corporate tax by 10 percentage points, yet very few companies seemed interested.

"There may be some reasons for not coming into the stock market. Maybe the private companies' owners, especially the first generation entrepreneurs, do not want to go beyond their family ownership," he said.

"If that is a reason, we need to create awareness among the entrepreneurs that the stock market is a good alternative for raising funds for the further expansion of their company," he said.

Moreover, a family can still maintain control through holding a majority of the stock.

He said the stock market was a good place to raise capital as this could be done without liability, interest and capital repayments. "If a company goes for IPO to raise capital from the stock market, they just need to share a portion of the profit and follow the corporate culture," he said.

"Without a good corporate



Faruq Ahmad Siddiqi, SEC chairman

culture and corporate governance, a company cannot exist in the long run," he said.

The SEC chief argued that the compulsory measures are not introduced this year. "In fact, such obligatory listing rules are there from 2006. This year we just made some amendments in the rules to encourage the private sector entrepreneurs to list their companies," he said.

As per the previous rules, a company must go for IPO within 30 percent amount of the paid up capital after a certain period. Under the new rules,

the owner will have much more power to decide how much of the company they wish to sell.

As to criticism of the present listing process, Siddiqi said the SEC is working hard on introducing a better pricing method such as book building so that entrepreneurs get the market value of their shares.

He also said the commission's initiative will not help the market to get more securities, but also accelerate the country's stock market as well as the economic growth.

Decision should be up to owners

International Chamber of Commerce-Bangladesh (ICC-B) President Mahabubur Rahman said the decision to list should be left to the owner and not be forced upon a business.

Rather, he thought that if the SEC wanted to increase the number of companies coming to the stock market it should introduce proper incentives.

In fact, Rahman feared that compulsory listing could harm the stock markets credibility, as so far the experiences of many companies who had listed had not been good.

For example, of the around 300 listed securities on the market, around 200 companies are now performing badly and many are not paying dividends or holding annual general meetings, he said.

If private companies are forced to go for IPOs and if the companies failed to perform successfully, this will have a negative impact on the overall market, the ICC-B chief pointed out.

"Moreover, if I do not want to go for IPO, then why I will be forced?" he questioned.

He said an entrepreneur establishes a company through a 10-15-year of effort. Why should he or she be forced to share his or her profits with the public?

Added to this an entrepreneur is very unlikely to be able to get the real market value of his or her share under the existing pricing methods. Shares that the owner is forced to sell at a say Tk100 routinely change hands on the first day of trading for several Tk100 with no benefit to the com-



Mahabubur Rahman, ICC-B president

pany. The initiative of introducing book-building method is welcome and the system should be introduced immediately, Rahman said.

"I cannot support the mandatory listing. In my knowledge there is no such obligatory measures in any other country," he said.

He also said if it is allowed to list a company primarily on other regional stock exchanges such as Mumbai or Karachi and later in other world stock market, the private companies will be interested in coming onto the local

stock market.

"My final word is the owner will decide whether he or she will list his or her company on the stock market," he added.

Rahman also said the government should encourage the foreign or multinational companies to list on the country's stock market.

He said in order to rejuvenate the bad performing companies, the regulator should take punitive measures such as penalty, share buy-back by the issuer company and delisting of the company.

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COLUMN

Of software and softtears

February was a month marked by spring, the historic language movement, and for us in the ICT industries, SoftExpo, the largest ICT expo in Bangladesh organized by BASIS the country's software and ITES industry organization.

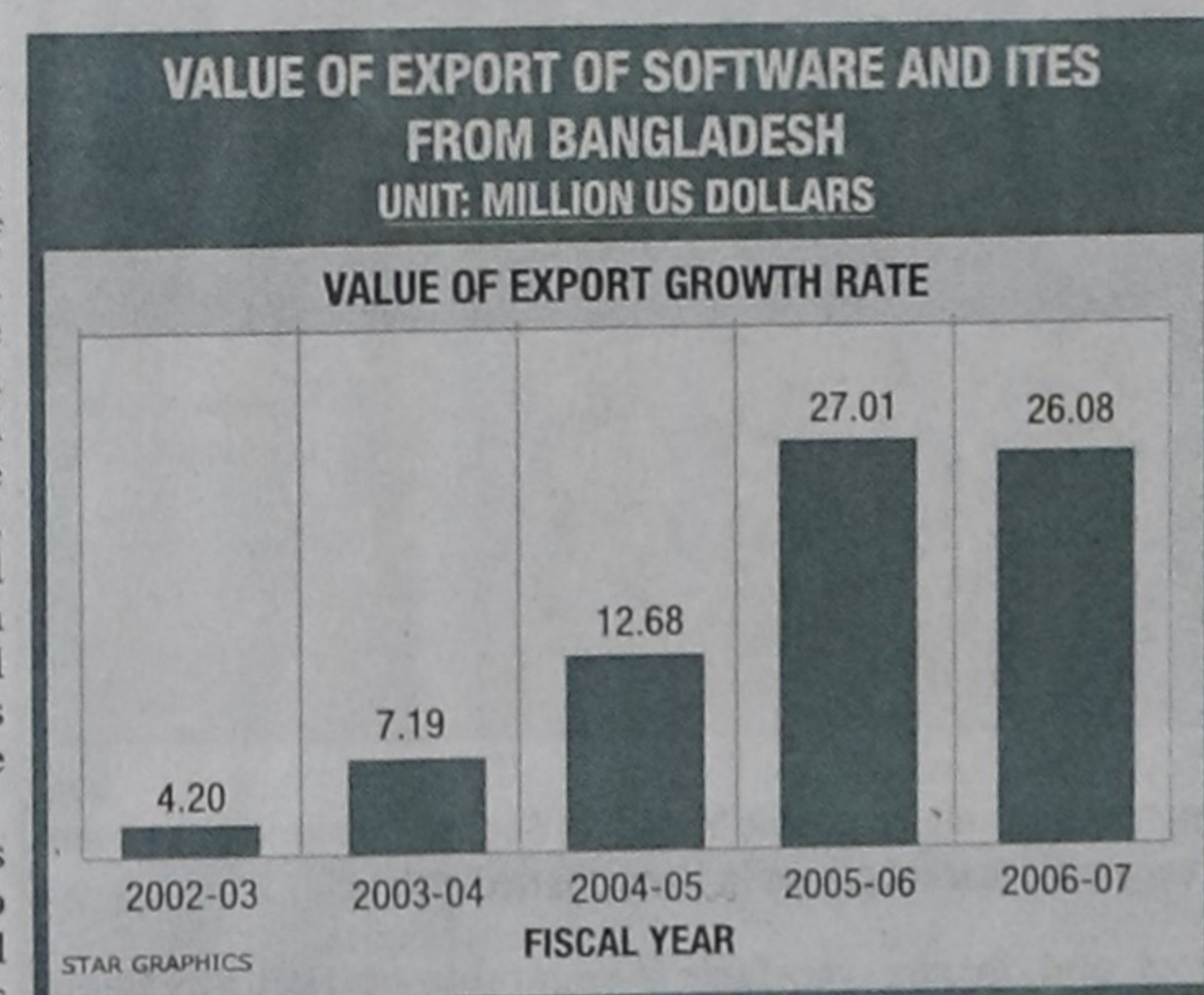
And while spring has been colder than expected, SoftExpo, certainly took the chill off the sector at a time when both the local market as well as exports of software and IT services are softening a bit.

For those who don't know about it, SoftExpo is an annual event which showcases the country's software products and services and also provides a forum for international buyers of software and services from Bangladesh. This year SoftExpo took on a heightened importance due to several factors firstly this was the first time it was inaugurated by the head of the government, and secondly this was the first time that four countries sent business delegations to the event and were cosponsors.

So what did people get out of the mega event? For a starter it

showed that our software entrepreneurs are a gritty bunch more than 150 exhibitors filled up the cavernous exhibition spaces of the Bangladesh China Friendship Conference Center. As one strolled down the trail of well-decorated booths and pavilions, one could see business executives, students, housewives and even some feisty children jostling for space and attention in the booths displaying all kinds of software and ICT applications.

One of the striking features of the exhibitors that comes to fore is their youth and vibrancy. In fact most owners of these companies are themselves quite young, some even in their twenties. That's an encouraging sign. The software and IT services industry attracts the most talented young men and women of the country both as entrepreneurs and professionals. From Bangla blog sites to locally devised smart access control systems to the short appearance of the first smart robot built in the country the expo was abuzz



with cutting edge technology. At the same time business delegates from Denmark, France, Japan and U.K. were seen busy negotiating business.

The chief adviser, Dr. Fakhruddin Ahmed, in his inaugural speech expressed hope that the government would be able to remove the regulatory and infrastructural obstacles in the way of building an information

society soon. Such optimism is healthy when supported by the requisite actions. However, what we have seen in the last ten years is that promises have not been matched by deeds. Let's take the example of the public procurement policy that states that a '15 percent price preference be given to local firms in all government and state-funded procurements of software and IT services'. This was in an

official circular of the finance ministry circa January 1999, but has never been complied with. In fact local software companies are tacitly deprived of their due by citing a lack of super-specific experiences. In this way most public tenders of large software applications exclude local bidders. It is like not using the local neighbourhood tailor to make you a red cotton shirt because the tailor has never done it before; of course the tailor has made numerous shirts in the past but no red shirt! Another example is the policy enshrined in the official IT Policy approved in 2002 to provide internet facilities to every citizen at a reasonable cost. To this day the internet tariff here is one of the highest in the world despite a recent reduction in rates initiated by the Bangladesh Telecom Regulatory Commission. When it comes to governmental policy and action, we can only hope things will be different this time.

For there can be no doubt of the potential. Just look at the progress already made or the

comments of the Danish Ambassador to Bangladesh Einar Jensen who said that for IT outsourcing the overwhelming choice for Danes is Bangladesh. A count of the expanding number of Danish joint ventures here shows these are not empty words.

The need for action rather than just good intentions can also be seen in our own language movement. In February we may find a lot of people shedding tears for our martyrs, although the same lot will not do anything to make our mother tongue more utilitarian by making larger chunks of the global knowledge repository available in Bangla. Still today no university student can learn their subject (except maybe Bangla literature) by studying Bangla books, journals and monographs. Let us be brave and hope that all the promises and good intentions for our software & ITES industry will reach beyond the tears.

Habibullah N Karim, a software entrepreneur

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