International Business News

Saudi minister says no need for OPEC output hike

AFP, *Dubai*

Saudi Oil Minister Ali al-Nuaimi said in remarks published on Wednesday that there was no need for Opec to increase oil output at its meeting in Vienna, despite US pleas to raise production.

"Why should we introduce a new measure while the market is sound," Nuaimi said in an interview with the pan-Arab daily Al-Hayat.

"The current oil price has nothing to do with market fundamentals, and is linked to the futures market, which is witnessing bewildering speculation," he said.

"This speculation is not related to the balanced fundamentals of the market," added Nuaimi, whose country sits on a quarter of the world's proven oil reserves.

"The situation is stable. The most important (factor) that Opec and Saudi Arabia look at is the stability of market fundamentals."

Saudi Arabia is the leading member of the Organisation of Petroleum Exporting Countries, which collectively produces about 40 percent of world oil.

Despite being a key US ally, Nuaimi's comments implied that Saudi Arabia -- like other members of Opec -- will ignore US President George W. Bush's demand that the cartel increase output at its meeting on Wednesday.

Bush, whose nation is the world's biggest energy consumer, said on Tuesday it would be a "mistake" by opec not to hike production to help bring down record-high oil prices.

Opec's official daily output quota is currently set at 29.67 million barrels.

Oil prices, which soared last week to a new record near 104 dollars a barrel, were hovering just below 100 dollars in Asian trade with New York's main contract, light sweet crude for April delivery, at 99.76 US dollars.

Crisis threatens Venezuela-Colombia trade

AFP, *Caracas*

The crisis between Colombia and Venezuela threatens six-billion dollars in bilateral trade that supplies Venezuela with much of its food and other vital products.

According to Colombia's state statistics agency, exports to Venezuela in the first 11 months of last year amounted to 4.6 billion dollars, nearly double that of the same period in 2006.

Trade in the other direction totaled 1.4 billion dollars.

Venezuela, although bolstered economically because of deep oil reserves, suffers a shortage of many food items such as chicken and dairy products because of socialist policies and price caps.

Luis Vicente Leon, the head of the Datanalisis firm in Venezuela, told AFP that "Colombia is a provider of many foodstuffs, such as milk and sugar, items that at the moment have become 50 percent less available in Venezuela."

Colombia, which shares a 2,000-kilometer (1,300-mile) border with Venezuela, is the best positioned to quickly supply the market, he explained.

However a cut-off in trade would badly effect employment along the border zones in both countries, and Colombia would feel the absence of its fast-growing neighbor.

From January to November last year, Colombia sent 517 million dollars' worth of animals and animal products to Venezuela, as well as 99 million dollars' worth of sugar and food, and 275 million dollars' worth of drink and cigarettes. It also supplied 874 million dollars' worth of vehicles and 690 million dollars' worth of clothes.

Demand in Venezuela has outstripped supply, forcing up prices. The Venezuelan central bank said that between January 2007 and January 2008, food prices jumped 31.9 percent, against a general inflation rate on 24.1 percent.

AFP

Colombian trucks loaded with food supplies are stranded in the border region of Paraguachon, in the Colombian-Venezuelan Guajira, state of Maracaibo, some 650 km west of Caracas on March 4, 2008. Colombia on Monday tried to tamp down tensions over its incursion into Ecuador, which has sparked diplomatic rebukes from around Latin America and led to a military standoff with its neighbors.

Thailand to introduce tax exemption package

ANN/ *The Nation*

The Thai government yesterday (March 4) took a major step to boost the economy by approving a 42 billion baht (US$1.32 billion) tax-exemption package that will leave more money in corporate and individual pockets.

Within a month, the government will follow it up with a longer-term economic-stimulus package aimed at benefiting people living in rural areas.

The two packages together will help the economy grow at 6 per cent this year, up from 4.8 per cent last year.

Deputy Prime Minister and Finance Minister Surapong Suebwonglee expressed confidence the government would be on target, while Olarn Chaipravat, an adviser to the Fiscal Policy Research Institute, estimates that 30 billion baht ($949.36 million) of the first 42-billion baht tax package will be spent this year.

The bulk of the 42-billion baht tax savings, approved by the Cabinet yesterday, will go to firms listed with the Stock Exchange of Thailand (SET) and the Market for Alternative Investment (MAI), the property market, salaried workers and small and medium-sized enterprises (SMEs).

PRODUCTIVITY

Workers' teams beat the production line

Before and after. Left, workers on a traditional production line at a Fatullah knitwear factory. Left, how they are organized today, working as a team. The factory claims to have increased t-shirt productivity by 40 percent with the new system.

REFAYET ULLAH MIRDHA

At Fatullah Apparels the production lines are disappearing. Instead, teams of workers sit in small groups passing unfinished t-shirts to each other.

Where workers had previously been confined to managing a single machine or operation week in week out, now they switch between workstations wherever something needs to be done.

"Previously I needed 75 workers to run 25 machines, now I need just 40," said Shamim Ehsan, chief executive officer of Fatullah Apparels.

According to many experts, this will be the future shape of Bangladesh's largest export earner. In an industry notorious for just focusing on turnover and quantity, productivity can no longer be ignored.

Production costs in the local markets have increased more than 35 percent over the last few years following the implementation of the minimum wage for workers, and the sharp price increases in cotton and other raw materials used in knitwear, according to the Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA).

Moreover, producers are under constant pressure from foreign buyers to reduce prices, at the same time they are being challenged by hungry new producers in countries such as Vietnam and Cambodia.

In order to raise competitiveness, BKMEA and GTZ, the implementation wing of German overseas aid, launched a project to try out new production methods.

In the pilot project started in November, four local knit factories have been involved with experts from the Productivity Improvement Cell (PIC) of the BKMEA. So far the results have been encouraging.

Sajib Sen, an engineer from PIC, said that the introduction of the team system had transformed the way production was managed.

"On a production line you have many people, but the system is not in balance. If one operation goes slow, there is a bottleneck. In the team system it is much easier to find a balance and eliminate bottlenecks," Sajib said.

This is because workers can easily switch between operations.

"Take the production of t-shirts, where say there are ten different operations before you have a finished product. In a team all the workers can manage all the operations and move between different tasks. Previously, on a production line you had 10 operators and 10 helpers, but now you have teams of 4-5 people helping each other," he said.

In the production line, a worker can be idle waiting to be supplied, but under the team system that worker will change jobs to work where they are needed. This technique is known as multi-skilling.

"Quality is also improved as this becomes the responsibility of the team itself, rather than the responsibility of an outside group of quality controllers," he added.

In the case of the Fatullah pilot, productivity in t-shirts had increased by 40 percent.

Sajib admitted that initially there were problems in convincing workers to try the new systems. "Sometimes the workers were not happy, but once they understood, they were willing," he said.

Training staff to be able to complete all the different operations also takes time and resources.

Fatullah Apparels CEO Shamim Ehsan said; "Of course the newly launched system will reduce production costs, but it will take significant amounts of money and time for the full-fledged implementation of the system in the factory."

At present four factories are involved in the pilot project. Apart from Fatullah, the 12 PIC engineers are also working at Southern Knitwear Limited, Knit Zone Mode Factory and Niagara Knitwear Limited in Gazipur.

Al-Bokor, project coordinator of PIC, said the first phase of the pilot will be completed this month and very soon the system will be launched in another six knit factories.

BKMEA officials said they have a target to launch the new production system in some 40 knit factories this year.

Bokor said PIC would not only work to enhance efficiency and production, but also to improve the work environment and train mid-level managers to be more professional. In recent months many of the incidents of workers unrest have been blamed on the failure of middle level managers to defuse simple problems.

The factories are selected from among the BKMEA members through a circular in which the factory owners compete to receive PIC services.

The move was welcomed by Mustafizur Rahman, executive director of the Centre for Policy Dialogue.

"This system has been working very well in developed countries. We should introduce it here to improve productivity because under the line system the slowest worker dictates the pace of production," he said.

Responding to fears that increased productivity would result in job losses, Mustafizur Rahman said it would make the industry more competitive and would therefore allow it to grow and employ more people.

But pushing productivity and profitability to center stage could take a while in a country where labour has been cheap and where until recently the incentive to invest in technology and new production methods has been low.

"It is a South Asian problem. If you ask a businessman how his business is doing he will tell you how many people he employs and how large his turnover is, how many factories he has. He will never think of telling you about his margins or profit," said one Bangladeshi industrialist.

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COLUMN

ZAIDI SATTAR

Why export diversification is not happening?

With over two million jobs and 76 percent of export earnings from the RMG sector, there is little doubt that too much of the nation's fortune is riding on this one sector. Export concentration in readymade garments makes the economy, jobs and income, extremely vulnerable. Therefore, the government's focus on export diversification as a cornerstone of its export policy for several years running is appropriate. The problem lies in the lack of its fulfillment. Why is it not happening?

For starters, it is not because Bangladesh has no other products in which it has a competitive advantage. There are numerous exportable products lurking in the background. For instance, the world market for agro-processing industry is significantly larger than that of apparel. Bangladesh has already made inroads into this market.

Moreover it is a myth that to export, a country must have substantial locally available raw materials and other inputs to be fabricated into the final product. This is the age of globalized supply chains. Taking advantage of this system, it should be possible to source any industrial input from any part of the world, though transportation costs will vary according to the distance of the sourcing location.

To take advantage of globalized supply chains the country's trading system must be smooth both for imports and exports. Countries with high tariffs, high protection, and inept customs administration cannot take advantage of globalized supply chains.

South Korean entrepreneurs brought this lesson to Bangladesh in the 1970s. They not only demonstrated to our garment producers that there was a huge market for Bangladeshi garments under MFA quotas, but they also showed how to ensure the supply of world-priced inputs within the country's high-tariff regime. Thus came a policy innovation for Bangladesh the duty free import of inputs through the bonded warehouse system.

Those who argue that Bangladesh RMG sector thrived only because of quotas fail to recognize the other part of story, the creation of a free trade channel for RMG inputs and outputs within a highly protected trade regime. Without this policy in place and its credit supplement, back-to-back LC --, the RMG sector could not have reached the heights it has achieved today.

After long resistance, the government finally yielded to demands for similar facilities to be given to the export-oriented footwear manufacturers. Footwear exports have boomed, and the prospects remain bright.

What about other exports and potential exports? Tough luck, I would have to say. To obtain world-priced inputs, they remain at the mercy of the corruption-ridden and largely ineffective Duty Drawback office. When you add up all duties and levies, average import taxes on raw materials and intermediates are upward of 25 percent. These need to be paid by manufacturers upfront only to be reimbursed after much hassle once production and export are completed.

Failure to ensure world-priced (duty-free) inputs undermines export competitiveness. New exporters and potential exporters must not only pay duties on inputs but also face cumbersome import procedures. When I asked Kihuk Sung, the Korean entrepreneur who employs 30,000 Bangladeshi RMG workers and has factories in countries like China, Vietnam and Cambodia, how he rates Bangladesh's import regime compared to that of these countries, "terrible" was his reply. Most industrial and business houses hire personnel who function as intermediaries to get the import job done at a cost of course. We seem to be years away from the modern day practice of DTI (direct trader input) and post-audit customs processing.

To promote exports in general, and export diversification in particular, the cornerstone of our export strategy should be to make export production costs competitive. So how do we create the free trade channel for other exports in a manner that has been done for garment exports?

AVERAGE MFN TARIFFS IN SOUTH ASIA

	Average tariff (%)	Year
Bangladesh	21.9	2007
India	15.0	2007
Nepal	14.7	2005
Pakistan	14.6	2007
Sri Lanka	11.3	2005

Source: World Development Indicators, World Bank

EXPORT PERFORMANCE BY MAJOR PRODUCTS OF BANGLADESH DURING JULY-DECEMBER IN 2007-08

PRODUCTS	US$
Knitwear	2550.20 million
Woven garments	2318.91 million
Frozen food	280.20 million
Leather	153.80million
Home Textile	136.85million
Raw jute	81.83 million
Footwear	76.34 million
Cut flower/foliage	28.49 million
Agro processing food	17.63 million
Vegetables	36.37 million
Jute goods	166.58 million
Pharmaceuticals	23.63 million

Since government revenues will remain tariff dependent in the foreseeable future (implying that import tariffs are not expected to come down any time soon), imported inputs specifically for export production must be allowed a duty-free regime through special bonded warehouses or a duty suspension scheme.

The National Board of Revenue already runs a large office for the management of the bonded system. This facility needs to be extended to exporters of non-RMG products, no matter how many extra personnel that might entail. This opportunity cannot be lost on the pretext of revenue leakage.

The idea of preparing a list of 'thrust' sectors described as a policy of picking winners and offering generous export subsidies is hardly the way to promote export diversification, though that is what the recipient of export subsidies would have us believe. For export diversification to succeed we need to create a replica of the free trade channel rightfully given to the RMG industries. I hope someone is listening.

Zaidi Sattar, a trade economist and vice chancellor of The Millennium University, is a former civil servant and World Bank economist.