International Business News

India may overtake UK as favoured investment destination

PTI, *London*

India may soon overtake Britain as a favoured investment destination in the world unless Chancellor Alistair Darling cut taxes in Wednesday's budget, a leading consultant agency has said in its report.

Businessmen here have demanded a radical overhaul of corporate tax. Thousands of people of Indian origin are keenly awaiting the budget amidst reports that non-domicile residents in Britain are expected to be taxed 30,000 pounds.

In its report titled "Finding its way: a return to the competitive path for Britain?" Ernst & Young recalled that in its European Attractiveness survey for 2007, UK had been overtaken by India and Russia and equaled by Poland.

Chris Sanger, Head of Tax Policy at Ernst & young, said: "Other countries and regions in Europe have stolen a march on the UK by offering fiscal incentives and tax breaks that are proving to be a great success.

"Although Gordon Brown as Chancellor announced the reduction in the main rate of corporation tax from 30 percent to 28 percent from April, many would argue that is just not enough to make the UK a competitive place to do business."

In a report titled, 'UK business tax: a compelling case for change,' the Confederation of British Industry (CBI) said that the UK had "now reached a tipping point."

It said: "The ever rising business tax burden and the failure of the tax system to respond to increasingly global business activity is creating a corporate tax system which is unsustainable in the long-term."

Chinese foreign direct investment up sharply

AFP, *Beijing*

Foreign direct investment into China jumped 75.2 percent in January and February from a year ago, the government said Wednesday, as Asia's number two economy remained a top investment destination.

Foreign investment in the first two months of the year, calculated together due to the distorting effects of the Lunar New Year holiday, hit 18.1 billion dollars, the commerce ministry said in a statement.

In February, actual foreign direct investment stood at 6.9 billion dollars, up 38.3 percent over the same period last year, while in January it rose 109.8 percent to 11.2 billion dollars.

Capital from US-funded companies increased 43.7 percent, while fresh capital inflows from the European Union region surged 109.9 percent.

"People are still interested in China's overall economy," Wang Tao, Beijing based economist at Bank of America.

"The Chinese economy is projected to grow at least nine, 10 percent this year, and in an environment where internationally we're going to see a lot of slowdown this obviously is a more attractive place for investment," she said.

The sharp uptick in overall investment, however, sparked some concerns of a fresh surge in hot money inflows as higher interest rates and the pace of appreciation in the Chinese currency has picked up over the past four months.

"It's my feeling that there may be hot money flowing into the country in the form of direct foreign investment," said Wang Qian, a Hong Kong-based economist with JP Morgan.

AFP

Air travellers wait at the domestic terminal of Indira Gandhi International Airport yesterday after Airport Authority of India (AAI) employees went on strike in New Delhi protesting the government's decision to close the existing airports of Bangalore and Hyderabad.

Gulf states in race to build world's tallest tower

AFP, *Dubai*

Gulf Arab states, flush with proceeds from record high oil prices, are racing to build the world's tallest tower.

Saudi Arabia, which sits on a quarter of the planet's proven oil reserves, has just joined the fray with a plan to build a one-mile (1,600 metre, 5,249 foot) tower in the Red Sea city of Jeddah, according to the London-based Middle East Economic Digest (MEED).

The project, which would overtake super-tall skyscrapers in neighbouring Kuwait and Dubai, the city state associated with mega ventures, places the competition to build the world's tallest tower firmly in the Gulf region.

Of all the other high-profile buildings under construction around the globe, such as New York's Freedom Tower, none will exceed 700 metres (2,296 feet) in height.

Riyadh-based Kingdom Holding, which is controlled by Saudi billionaire Prince Al-Walid bin Talal, will invite bids before July for contracts to build the tower in Jeddah, Saudi Arabia's commercial capital.

MEED said that although there is still secrecy over which companies are involved with the project, it is believed that Britain's Hyder Consulting is working in a joint venture with Arup, also British, as engineer on the project, which is expected to cost up to 10 billion dollars.

US engineering giant Bechtel has been chosen as construction manager for the "Mile-High Tower," as it is known. Saudi firm Omrania is the project architect.

Kuwait has unveiled a plan to build a 1,001-metre (3,284 foot) tower. Its height is a reference to the classic work of Arabic literature, One Thousand and One Nights.

SMALL BUSINESS

No collateral... no loan

SAJJADUR RAHMAN

For the last seven years Nahida Sharmin has been running a fashion and design house in Dhaka embroidering cloth that she sells to order.

Sharmin, a fine arts graduate, left a good job in a government college determined to do something from herself. She started the venture with all her savings and the money she received as part of her voluntary retirement package.

But Sharmin knows if she is to gain more customers she must make her business more visible and that's where the problems start.

"I can't expand my business, such as getting outlets, because of the financial constraints," she said. "To rent a good looking outlet you need to make an advance payment of between Tk5-10 lakh."

In order to finance such a move she approached several banks looking for a small business loan, all to non-avail. Everywhere she heard the same story. Without collateral or security, no loan, a frustrated Sharmin told The Daily Star.

Her story is far from unique. Anwara Siddique who runs a small business making furniture made of bamboo and cane has had similar experiences.

"Now I'm operating my business from my rented house at Sabujbagh in Dhaka. I can't take a space for a showroom because of financial limitations," she said. "I've to depend on personal connections and different exhibitions to sell my goods."

"I went to several banks including a government bank, and they all asked for collateral and an interest of 17 percent. If I took a loan of just TK10 lakh lfrom the bank I would have to pay back Tk27,000 per month. This is simply not affordable, " she added.

The examples of Anwara and Sharmin are typical of the setbacks faced by the country's small entrepreneurs. Yet they come at a time when the government is pushing the banking sector hard to provide more financing to small and medium sized businesses.

SYED ZAKIR HOSSAIN

Nahida Sharmin, owner of a fashion and design house in Dhaka, is busy giving final touches to her products at the recently held SME Fair held in the capital. Like Nahida, many women entrepreneurs struggle to start or grow their businesses as the banks are unwilling to provide collateral- free loans.

In order to provide collateral free loans to the sector Bangladesh Bank even set up a Tk200 crore fund to refinance commercial bank lending to SMEs.

SMEs comprise over 90 percent of all industrial units, 85 percent of industrial employment and 23 percent of total employment, according to estimates by the Bangladesh Small and Cottage Industries Corporation.

But business leaders and senior bankers say the lack of collateral is only part of the problem. In many cases SMEs can't prepare the required documents for a bank loan.

"Small enterprises can't submit financial documents needed for a bank loan," Hossain Khaled, president of Dhaka Chamber of Commerce and Industry.

Abedur Rahman Sikder, head of marketing and corporate affairs of BRAC Bank Limited, which is a leading bank for financing SME, shared the DCCI president's views.

One way around this problem, and the lack of collateral, is the use of credit rating agencies that provide independent assessments of the credit worthiness of a company. Although such agencies already operate in Bangladesh, they focus almost exclusively on large corporations.

BRAC Bank, which is the leading bank in SME financing, has taken the initiative to introduce credit rating for SMEs for the first time in the country. It has done this by signing an agreement with the US-based Dun & Bradstreet to do ratings of SMEs in Bangladesh.

"We won't seek collateral or security from the loan seekers if they are rated by a reputed credit rating agency like Dun & Bradstreet," Sikder said.

Saikat Podder, regional director of Dun & Bradstreet told The Daily Star over phone from India. "We've received huge feedback from SMEs in Singapore and India after what we've planned a similar job for Bangladesh."

The procedure will be simple. A SME loan applicant will have to pay for the credit rating agency to assess their business and its credit worthiness. Based on the assessment of the credit agency the bank will decide on whether to give the loan and at what interest rate. The amount the Dun & Bradstreet will charge each customers has yet to be decided.

"It's not only BRAC Bank, some other local banks have also been linked up with us," said Podder.

He said: "We'll be able to start our business by 2008 after completion of official procedures, including approval of the Dun & Bradstreet board of directors".

The proposal is now lying with the board for approval, he said adding that a chartered accounting firm has already been appointed to get the business registered in Bangladesh.

Podder however said there is no guarantee that a bank will always provide collateral-free loans on our rating of SMEs. "It depends on banks," he added.

For the banks the benefits are obvious. Sikder of BRAC Bank said the introduction of credit rating for SMEs would help the bank avoid lending to the defaulters of another bank and reduce non-performing loans.

"This is a very good move. We welcome BRAC Bank for involving such a reputed credit rating agency with the SMEs in Bangladesh," Hossain Khaled, president of Dhaka Chamber of Commerce and Industry.

But not everyone is so enthusiastic. "How will a credit rating agency help me," said Sharmin as she busied herself selling her colourful cloths in Bashudhara City shopping complex last week. It may take some time to convince the hard working owners of the country's small businesses that credit rating is the way forward.

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COLUMN

IFTY ISLAM

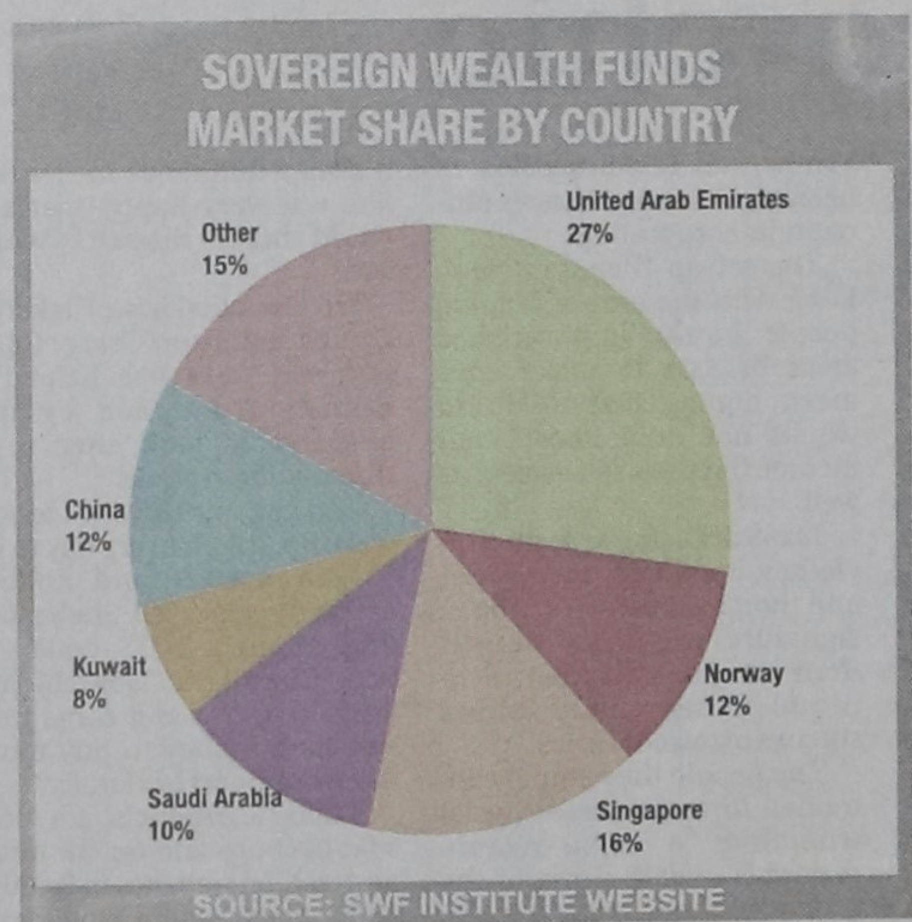
Finding opportunities in record oil prices

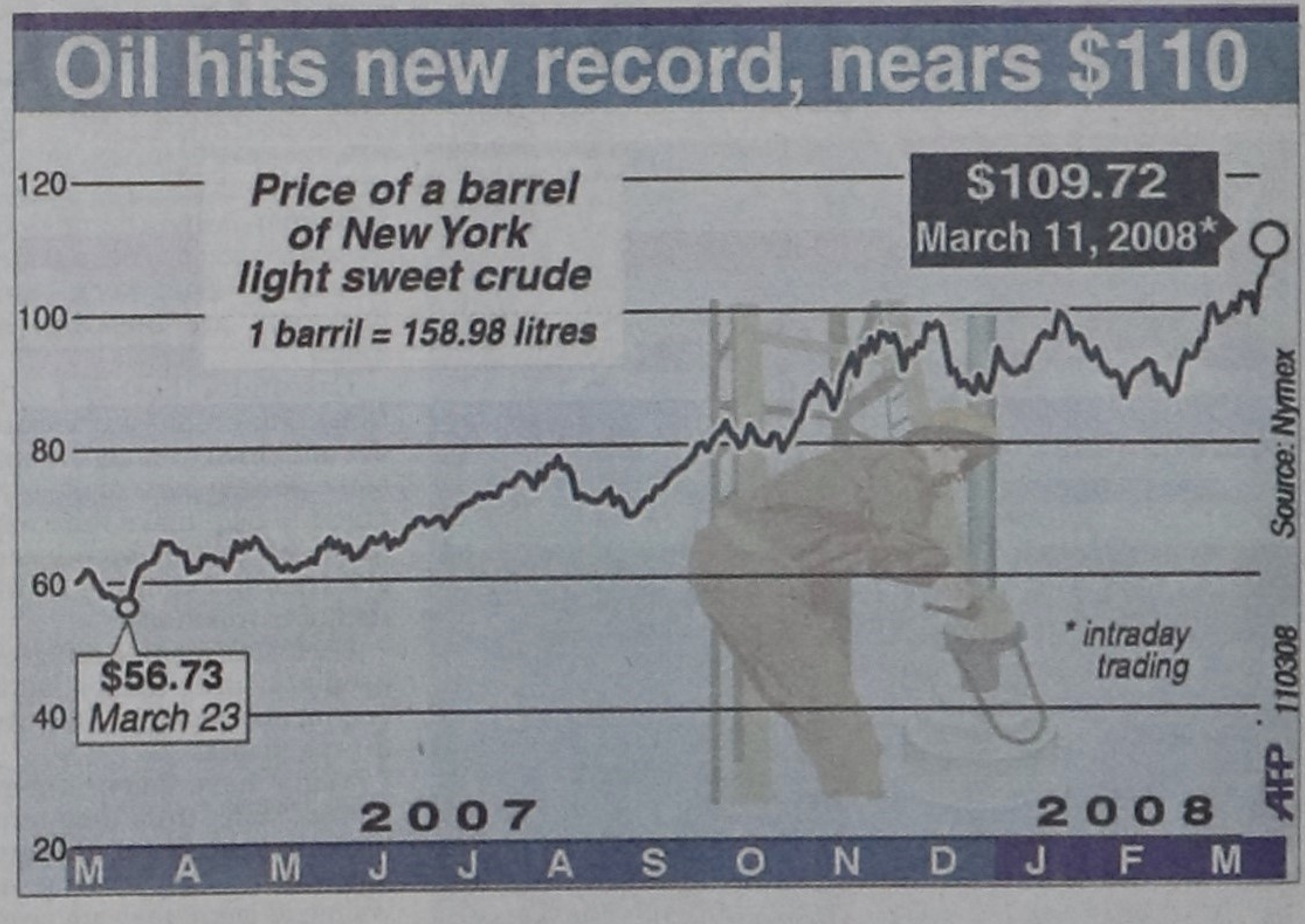
Global crude oil prices touched $ 109 per barrel this week with few signs that the financial market meltdown in developed economies, or indeed growing evidence that the US economy was moving into recession, is having much impact. Yet while the higher cost of fuel may hurt, the need of oil producers to re-invest their petrodollars could be a real opportunity for Bangladesh.

Basic economics tells us the price of anything is a function of supply and demand. So let us assess the factors driving oil price fundamentals. On the demand side, a strong structural boost to oil demand has come from the rapid growth in the past decade of emerging markets in general, and China and India in particular. From now to 2020, world oil consumption will rise by about 60 percent. Transportation will be the fastest growing oil-consuming sector. By 2025, the number of cars will increase to well over 1.25 billion from approximately 700 million today. Global consumption of gasoline could double.

On the supply side, some investment bank researchers have emphasized the declining production of oil from countries such as Nigeria and Venezuela as a result of a lack of investment in state run production facilities. There has also been a lack of sufficient global refinery capacity so even when there is sufficient crude, gasoline and other refined oil prices remain high.

But the most surprising aspect of the most recent phase of the oil price rally has been the dramatic breakdown in the traditional relationships between US and even global growth versus oil. Every piece of negative economic news such as the 63,000 decline in US February non-farm payrolls, signaling America is moving into recession, has seen a consistent response of weaker US equities, a further collapse in the US dollar and an accompanying surge in oil prices. The ability of oil to benefit from weak growth reflects its new role as an alternative financial asset class to equities and bonds. So oil prices may well stay high even as the US housing meltdown drags stocks and the economy further into a downwards spiral.





For the US Federal Reserve, it is a very uncomfortable time. Higher oil depresses the economy and necessitates further rate cuts. But by pushing up inflation, it also makes it harder for them to ease monetary policy. Stagflation makes the central bankers' jobs much harder.

What about Bangladesh? As a small country, we can have no influence on the price of oil. The growing losses of Petrobangla (forecast March 8 at $ 1bn this fiscal year) underline the difficulties of a policy of substantial domestic energy price subsidization. Normalization of domestic prices to global levels will become a greater priority.

But the other side of record oil prices is the dramatic growth in sovereign wealth funds (SWFs) among the large oil exporters, most notably in the Middle East. All told, the combined funds of the UAE, Saudi Arabia, Kuwait, and Qatar account for more than half the $2.5 trillion total assets of global SWFs. The global total of sovereign funds could reach $12 trillion by 2015 as a result of further oil revenues and capital appreciation, and Deutsche Bank estimates that the value of net Gulf Co-operation Council owned foreign assets has nearly tripled over the last four years from $472.5 billion in 2004 to just over a trillion dollars. As Morgan Stanley comments, approximately twenty-five largely opaque SWFs manage $2.3 trillion, an amount larger than the entire hedge fund industry.

Will SWF's be interested in Bangladesh? Well some already have large stakes and investments in Asian companies. Temasek, of Singapore, for example, has a $160 billion portfolio that includes substantial chunks of India's ICICI Bank, Tata Sky, Tata Teleservices and Mahindra and Mahindra auto manufacturers. KIA (Kuwait Investment Authority) is already cutting the proportion of its portfolio invested in Europe and in the United States to under 70 per cent from about 90 per cent. Emerging markets in Asia and elsewhere are attracting more and more attention: As Javier Santiso, Director and Chief Development Economist at the OECD has noted in a recent paper: "why bother to invest in low OECD growth economies when you can access nearly double digit growth rates in emerging countries?"

Bangladesh needs to adopt a clearer national strategy to target and attract a greater proportion of SWF surpluses. Some initial suggestions would be to fund and establish a more substantial Bangladesh Investment Promotion Agency with offices in the main Gulf Co-operation Council centres. Road shows by leading Bangladeshi companies in a coordinated manner and the effective marketing of "Brand Bangladesh" can play an important role in helping Bangladesh become a beneficiary and not just a casualty of high oil prices.

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