International Business News

Oil prices rally after Jeddah meet, Nigeria attack

AFP, *London*

Oil prices rose towards 137 dollars on Monday after major energy producers ruled out further output despite consumers' fears that the world faces a tight supply situation, traders said.

Saudi Arabia's King Abdullah announced on Sunday that his country had increased output to 9.7 million barrels a day as he opened a summit on the soaring international price of crude in the Saudi city of Jeddah involving producers and consumers.

However the market had already expected the formal announcement after the kingdom's London embassy had released a statement last Thursday which outlined a plan to increase output by 200,000 barrels a day.

Prices also shot higher on Monday after militants blew up a pipeline in Nigeria over the weekend, traders said.

At about 1000 GMT, New York's main oil futures contract, light sweet crude for August delivery, was up by 1.42 dollars to 136.78 dollars per barrel.

Brent North Sea crude for August jumped 1.49 dollars to 136.35 dollars.

"The debate regarding 'high' oil prices is no less transparent today than it was on Friday," said Stephen Schork, editor of the Schork Report energy newsletter.

China vows new action to stabilise markets

AFP, *Shanghai*

China's securities regulator has said it will do whatever is necessary to ensure the country's stock market stability and healthy development after recent jitters.

China Securities Regulatory Commission chairman Shang Fulin said officials will clamp down on anyone who spreads rumours that disrupt and destabilise the markets, according to a statement on the commission's website.

He made the comments after government attempts to tighten the money supply triggered two roller-coaster weeks on Chinese stock markets that left the key index hovering near a 16-month low.

"The market volatility increased and investors' confidence was battered by a complicated combination of internal and external factors," Shang said in the statement dated Sunday.

The benchmark Shanghai Composite Index has shed more than half its value since peaking in October -- and more than a fifth this month alone.

AFP

Japan Airlines (JAL) president Haruka Nishimatsu (L) holds a scale model of the company's jetliner while Boeing Japan president Nicole Piasecki (R) holds a sample of biofuel at a press conference at the JAL headquarters in Tokyo yesterday. JAL will join a biofuel project by US aircraft maker Boeing and operate a demonstration flight by March next year.

Vietnam trade gap widens, investment pledges rise

AFP, *Hanoi*

Vietnam's trade deficit has more than tripled year-on-year to an estimated 16.9 billion dollars for the first half of 2008, state media reported Monday, quoting data from the communist government.

The yawning trade gap, driven by surging imports, along with double-digit inflation, threaten balance of payment troubles and have put downward pressure on Vietnam's dong currency, financial experts have warned.

However, despite the economic woes, foreign investors pledged more money in the first half of the year than all of 2007, reports said.

Vietnam's January to June imports totalled 45.5 billion dollars, a 64 percent rise against the first half of last year, the Lao Dong (Labour) daily reported, quoting Ministry of Planning and Investment (MPI) figures.

Malaysia Airlines announces new round of cost-cutting

AFP, *Kuala Lumpur*

Malaysia Airlines said Monday it would reduce flight frequencies and impose a hiring freeze as it resorts to a new round of cost-cuts and a fuel surcharge hike to battle soaring energy prices.

"The oil price is rising at levels never seen by mankind," the national carrier's managing director Idris Jala told reporters, adding that he may also cancel an option to purchase new aircraft.

Jala said the airline would impose a "freeze on recruitment, defer spending, adjust fares and review routes and flights which are losing money," in a bid to maintain its profit forecast.

"We are reducing about six percent of our capacity," he said, adding that the airline would announce the new fuel surcharge on Friday.

"The focus is predominantly on cutting costs. I would not discount cutting routes if oil goes to 200 dollars a barrel," he said.

INFORMATION TECHNOLOGY

Advertisers find outsourcing success in Bangladesh

MD HASAN

Each month Dell, the world's largest computer seller, pushes around 4.5 million catalogues promoting its products through the letterboxes of homes, businesses and institutions across Europe.

Dell's direct selling model has been a staggering success, but few of its customers could guess that each one of the catalogues is laid out by a small company in Dhaka.

Nor could the readers of some of northern Europe's largest magazines and newspapers ever imagine that the sparkling adverts appearing on the pages in front of them each morning are put together by another company, also located in the heart of the Bangladeshi capital.

AMRAN HOSSAIN

(L) A catalogue developed by local company Click House. (R) A graphic designer at Graphic People develops a catalogue for Dell. Bangladesh is fast becoming a hub for IT outsourcing despite the lack of skilled labour and poor internet connection.

During the past few months there has been much talk about the huge potential of IT outsourcing and almost as much noise about the problems the industry faces, in terms of the lack of skilled labour and poor internet connections. However in the field of Desk Top Publishing (DTP), Bangladesh has been quietly making a name for itself for several years.

Imtiaz Ilahi, managing director of Graphic People, a joint venture company between Bangladesh and Denmark, now has 50 employees, many of them working on the Dell catalogues. He said Graphic People's Danish partners had explored outsourcing alternatives in around 30 countries before settling on Bangladesh.

"The catalogues normally range from 16 to 72 pages and there are also flyers and direct advertising materials, moreover we are working in 15 different languages," Imtiaz said.

Graphic People receive the text, photos and instructions from Copenhagen and then fit the text and photos into a template. The template has been developed to cope with the different European languages, so the fact that the DTP artist cannot understand the text is not important.

"Our basic advantage is cost. Desktop publishing is very man hour intensive and it was becoming increasingly expensive to do in Europe. To do the work in Bangladesh costs less than 20 percent of the price in Europe, and we are around 30 percent cheaper than India," Imtiaz said.

But it is not just price that keeps the clients happy, "it's also about quality," explains Imtiaz.

Graphic People now employs 50 people with two Danes on hand mainly for training and development purposes. Dennis Worck, one the Danes, who works as production director, said that in the four years the joint venture has been running the quality of staff has improved sharply.

"When we started the type of people we recruited were far below the standard we are getting right now. Over the last few years it has really gone up and has reached a level where we have to spend less and less time on training," Worck said.

Graphic People is not the only Danish IT joint venture, indeed there are now around 20 opertating in Dhaka in fields ranging from software development to animation, and more are looking to establish themselves.

Earlier this year Denmark sponsored one of the country's major IT exhibitions, SoftExpo 2008, where the Danish ambassador described Bangladesh's IT industry as having almost 'unlimited potential."

Another success story in the Desk Top Publishing sector has been Click House, a joint venture between Danish Click House and local Visual Soft.

"Our agency has more than 50 customers in Denmark, " said Thomas Juul Jensen, project adviser of Click House, that now counts two daily Danish newspapers among its clients.

Sitting in the company's stylish Banani office last week Jensen was correcting advertising images for a big Danish weekly magazine distributed by a supermarket chain.

"Basically we receive pictures and text from our clients and then we put together all the materials to make a complete catalogue," Jensen explained.

"We make the soft copy and then we send it to Denmark via the internet for final printing."

Working on a magazine or catalogue, deadlines can be staggered to fit into the weekly rhythm. With daily newspapers the pace is more demanding. "We get all the materials the day before and we deliver the ads to the newspapers in the afternoon European time and they can print them that night," Jensen said.

Jensen said cultural differences do create challenges. "The layout is not normal Bangladeshi layout, its Danish layout, so I have to educate the people to accept that, okay, this is actually what Danish people like."

However he recognizes the quality of Bangladeshi DTP and graphic artists."When we came here for the first time last year, we were surprised about the quality of the people. I don't see any difference in the technical abilities in Bangladesh and Denmark."

And he is clear why outsourcing has the potential to grow. "Denmark is a low unemployment country---- almost everybody is working. If I am a newspaper owner and want a DTP artist, I have to pay at least seven times more than I pay people working here."

Of course there are problems, and while the success of small companies is encouraging, many experts believe Bangladesh needs to develop a major IT firm to put the country on the map.

At Graphic People Imtiaz points to failures in infrastructure as a major hurdle, be it unreliable internet connections or power supplies. These mean his company has to pay heavily to provide back up solutions. Internet pricing is also an issue although Imtiaz was positive about the moves now being taken by Bangladesh Telecommunication Regulatory Commission to lower costs.

"But we really need to do more to brand Bangladesh as an outsourcing nation. We can win business here and there, but it needs the government to launch a broader campaign to raise the awareness outside the country of what is possible in Bangladesh."

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COLUMN

SYED NASIM MANZUR

Profit...it's not a bad word

A TV news show recently reported that some business people were allegedly disappointed that they could not use this budget as a reason to immediately raise the prices of everything.

This general impression of the business community by the public, encouraged to some extent by the media, is that we spend all day and night scheming on how to gouge out extortionate profits, is comically naive. I will not, and cannot, deny that some business people are unethical and dishonest but to paint the entire community with this brush is dangerously simplistic.

Whether it is the steel rod industry, the pharmaceutical industry or the universally 'respected' used car industry, the business community could be forgiven for starting to think that it is sinful to be profitable.

We need to differentiate between profit making and profiteering: one is legal and the other is not.

This brings us to three fundamental questions, what are acceptable profits, what are the acceptable sources of profits and what are the acceptable uses of profits?

Profits are an important measure of efficiency and a means of keeping economic score. Profitability is a function of innovation, risk, capital, competition and most of all, human endeavour. Artificially trying to set 'acceptable' levels for it is ludicrous.

The pharmaceutical industry is probably the favourite target for proponents of the excessive profit argument. In 2006, US pharmaceutical firms spent $55 billion on research and development and so, the few medicines that do come to market, have to pay for all the other costs. Lets face it folks, if the drug companies do not make the profits, they will not be spending the $55 billion.

Let's look at profit figures for the first three months of 2008 for two agro product giants as reported by GM Watch UK, on May 17, 2008 and compare it with other companies:

Archer Daniel Midlands (ADM) recorded gross profits of $1.55 billion, up by 55 percent from last year and they can expect to earn $700 million from ethanol alone, which is heavily subsidised by the US government. The subsidy today means that every dollar that ADM makes from ethanol in 2008 will cost the US tax payer $2.85. Diversion of agricultural lands to fuel crops to produce ethanol is one of the reasons for food shortages today.

Monsanto recorded gross profits of $2.23 billion, up by 54 percent, and the bulk of their seed profits have come from corn seeds, at a time when the corn price hikes is also a key reason for food price inflation.

On the other hand, Toyota, poised to becoming the largest automobile manufacturer in the world, and by far the most profitable, has focused on profit maximisation over the long term (40 years) through quality, innovation and investment. They have proved to be more successful and sustainable against General Motors (GM), whose obsession was with short-term (quarterly) earnings.

Why do the first two examples raise the ire of most people while the Toyota profit machine is admired and lauded?

Daniel Yenkelovich summarised it brilliantly by differentiating between an enlightened self interest; making a profit by meeting a need (Grameen Phone) versus an unenlightened self interest: I win, you lose (Enron).

I would hazard that most business people are blissfully unaware of such concepts but I believe this could be the new invisible hand. The general public does not begrudge profits but when profits are perceived, to be made at the expense of others, it leads to resentment. The high levels of mistrust in business communities further exacerbate this.

A major step towards overcoming this trust gap is to look at how companies deploy profits. Aggressive and innovative companies often retain a high percentage of their profits for expansion. In 1976, Levi Strauss reinvested 90 percent of its profits. But the tyranny of quarterly earnings and the temptation of earnings based compensation packages today, have changed everything.

According to Peter Ashton in 2005, the oil majors reinvested 53 percent of their profits; yet their advertising would have us believe that it is mostly going into renewable energy. Exxon Mobil alone distributed $71 billion to their shareholders since 2001 in the form of dividends and share purchases.

In contrast, Cherokee Nation Enterprises, which operates seven profitable casinos in the US, reinvested 70 percent of their profits in job creation. The remaining 30 percent was used to fund social services. In 2007, that figure amounted to $34 million, spent on roads, health care, education etc.

Measuring Profit as Return on Capital Employed (ROCE)

	in percent	
	2004	2005
ExxonMobil	23.8%	31.3%
Chevron	25.8%	21.9%
BP	16.4%	19.9%
Shell	20.1%	25.6%
ConocoPhillips	23.3%	32.1%
AVERAGE	21.9%	26.2%

Woody Allen once quipped "If my films don't show a profit, I know I am doing something right." To paraphrase him, the sentiment today seems to be; if our firms are showing profits, they must be doing something wrong!

We must move beyond such stereotypes to recognise that profits rewards risk and hard work. The government should not determine the score, its role is to set up the playing field and the rules, and step back.

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