International Business News

Mideast leaders meet in Japan on economic project

AFP, *Tokyo*

Senior officials from Israel, Jordan and the Palestinian Authority held talks Wednesday in Japan in a bid to lay the groundwork for peace by improving the Palestinian economy.

Japan, which is seeking a greater role in the Middle East, hopes the talks will lead to a deal on its signature project in the region -- starting an agro-industrial park in the West Bank in early 2009.

Japanese Foreign Minister Masahiko Komura pressed Israel during the talks to halt plans to build more Jewish settlements.

He called for progress on the "road map" to a peace deal creating a two-state solution to the Israeli-Palestinian conflict as outlined in the November summit in Annapolis near Washington.

Environmental Protection Minister Gideon Ezra, heading the Israeli delegation, replied that the Jewish state "will continue to abide by the road map and continue to pursue negotiations with the Palestinian side," according to a memo released by Japan after the talks.

"Israel praises Japan's support to improve the lives of Palestinians and wants to cooperate as much as possible," he was quoted as saying.

Microsoft seeks partners for new bid for Yahoo

AFP, *Washington*

Microsoft is considering a new attempt to buy part of Yahoo in a deal with other media companies that would likely see a break-up of the Internet firm, the Wall Street Journal reported Wednesday.

Microsoft has approached Time Warner and News Corp, among other media companies, to assess their interest in different parts of Yahoo, according to sources close to the discussions quoted by the newspaper.

The software giant has in the past suggested an arrangement under which it would acquire Yahoo's search engine business and another partner would join forces with what was left of the Internet firm, the Journal reports.

According to the same sources, Microsoft Chief Executive Steve Ballmer asked Yahoo president Roy Bostock for a meeting to discuss a new idea involving other partners. The meeting, set for Monday, was subsequently cancelled by Microsoft.

AFP

A shopkeeper lifts a chicken out of its cage at a live poultry store in Hong Kong yesterday. The familiar clucking of chickens returned to Hong Kong's markets after a three-week ban, but bird flu fears may soon consign the local preference for freshly-killed meat to history.

Cathay Pacific issues profit warning over jet fuel prices

AFP, *Hong Kong*

Hong Kong carrier Cathay Pacific issued a profit warning Wednesday in the latest sign that the soaring cost of jet fuel is piling pressure on the aviation industry.

The airline said big swings in the fuel price made it impossible to accurately forecast the impact on its bottom line but its shares still tumbled nearly six percent.

"The financial results of Cathay Pacific for 2008, including those for the first half, are expected to be disappointing," the company said in a statement to the Hong Kong stock exchange.

"Cathay Pacific's financial performance is being materially and adversely affected by the high price of jet fuel."

Nokia plans to close Navteq deal within five days

AFP, *Helsinki*

Finnish mobile phone goliath Nokia, which received clearance from Brussels on Wednesday to acquire US digital navigation group Navteq, said it expected to complete the deal by early next week.

"Nokia has now received all approvals for the purchase and expects to close the deal within the next five business days," the world's leading mobile phone maker said in a statement.

The European Commission gave the greenlight on Wednesday to Nokia's purchase of Navteq, which it said "would not significantly impede effective competition."

Nokia announced plans last October to buy Navteq, which makes digital maps for cars mobile devices and the Internet, for 8.1 billion dollars (5.1 billion euros).

INTERVIEW

Bangladesh: The new frontier

In the wake of Citi establishing an investment banking presence in Bangladesh, FinanceAsia magazine talks to Citi country officer - Bangladesh Mamun Rashid about the opportunities that the market presents.

Bangladesh remains one of the few remaining outposts in investment banking in Asia. But banks are steadily investing in the country and last year Citi established an investment banking presence in Bangladesh. The bank's chief country officer explains what opportunities lay ahead for Citi in Bangladesh. Star Business reprints the interview for its relevance to Bangladesh.

Citi Country Officer Mamun Rashid

What investment banking opportunities are there in Bangladesh?

There is a wide range of opportunities to help clients in Bangladesh raise capital to support their growth or advise them on opportunities to grow either domestically or internationally. We are also seeing an increased interest from companies looking to invest in Bangladesh.

A recent example of this would be the announcement in mid-June where AK Khan & Co signed a definitive agreement for the sale of its 30% stake in TMIB to NTT DoCoMo for a purchase consideration of $350 million. [TMIB is the third largest mobile operator in Bangladesh, with around 7.1 million subscribers as of December 2007: AKK is one of the largest and oldest private sector corporations in Bangladesh.]

The acquisition by NTT DoCoMo will serve to increase its footprint in the fast growing Asian wireless market. What better example of the increasing international investment appetite into Bangladesh than an investment by one of the world's leading corporations?

On the capital markets front, the pace of privatisation is increasing and the government has started floating state-owned enterprises. Last year alone 14 companies were listed on the Dhaka Stock Exchange through IPOs. The pace of reform has been impressive and the government and regulators have done a good job in promoting development. Over the past five years the Asian Development Bank along with the Securities Exchange Commission have developed new trading rules, public issue rules, settlement systems and bond issuance rules to govern the market and create more transparency in the marketplace.

More and more companies in Bangladesh are also increasingly using risk management products and hedging in today's volatile global markets. This is also something where we can play a role via our equities, fixed income, currencies and commodities teams to help clients navigate these volatile markets, including hedging against future rises in commodities prices.

How sophisticated are some of Bangladesh's leading companies? What products and services do they use?

There is a noticeable increase in sophistication, the dialogue we are having with some of our clients in the country is evolving fast: 'What are my opportunities in the international capital markets?' or 'Give me some local and regional ideas to help me grow our business...' are now regular discussions that were not so common just a few years ago.

Our main business though remains in the global transaction services space. Many companies in Bangladesh are looking for-cost effective and flexible transaction management services. In April, Citi signed a network arrangement which will allow our clients to use more than 10,000 post offices in Bangladesh for their regular banking services. Also this year we signed an agreement with Dhaka Electric Supply Authority to offer our CitiConnect services to help them facilitate online bill collections and payment services. We are also active in the corporate and commercial banking space, providing corporate loans and other products to small- and medium-sized companies and multinationals in the country.

Bangladesh is also a pioneer in the field of microfinance services and we were honoured to have led the world's first micro credit securitisation for BRAC in 2007, allowing BRAC to diversify its funding sources and help develop the microfinance sector in Bangladesh.

What are some of the Challenges?

Let me give you a vision. It is the year 2021, the golden jubilee of independence. Bangladesh has just become a poverty-free, middle-income nation with a per capita income exceeding $3,000. Bangladesh is well on its way to become the 22nd largest economy in the world and a globally integrated regional economic and commercial hub. Economists around the world are at awe at the overwhelming success of this South-Asian nation. It seems just a few years ago in fact, that it used to be called the poorest of the poor. The recent track record of the country certainly gives us hope that we will indeed be able to see this vision materialise.

The World Bank calls the phenomenon the Bangladesh Paradox. The Bangladesh economy has steadily accelerated in recent years, with growth reaching almost 7% in fiscal 2006-2007. In spite of the country's troubled political environment and poverty, it has scored particularly well on socioeconomic indicators. Global banks and multilateral institutions present a highly optimistic outlook. Points they highlight: This impressive growth has occurred in a climate of political restructuring. The government is implementing reforms toward privatising many state-owned enterprises. The Dhaka Stock Exchange Index is at a 10-year high, up 66% this year, making it Asia's top performer after China. And the stock market is expected to double in size in 2008.

However, Bangladesh has failed to realise the full potential of its development prospects. Despite the major socioeconomic progress made in recent years, obstacles like political instability, poor resource mobilisation and a weak capital market are impeding the attainment of economic emancipation. Government revenues, at only 10.7% of gross domestic product, remain far too low to meet growing demand for infrastructure and social services. The country's primary foreign exchange earner - the garment industry - is now more constrained by poor infrastructure, including ports, roads, rail, and power supply, than by inadequate trade access.

Some of these issues need to be addressed in the coming years if Bangladesh is to reach its full potential.

How easy is it to convince some of your seniors to visit Bangladesh when they come to Asia?

Most of my colleagues in Asia realise that Bangladesh has always had potential and this potential is now turning into reality so it is certainly getting easier. In the last 12 months, we have had more than 20 visits from our Asian senior management team and once they have come once, they want to come back - we do also have some excellent restaurants in the country, which helps. Global management is the next challenge and I am confident as our business grows and develops in Bangladesh, it will not be too long before Dhaka will be on the agenda of senior visits as the likes of Mumbai and Shanghai are now.

COLUMN

IFTY ISLAM

Vietnam: From Asia's FDI champ to 2008 stockmarket chump

In an earlier Daily Star column titled, 'The plus one strategy and other lessons from Asia's FDI champion', published on May 8 2008, I discussed the lessons for Bangladesh from Vietnam's impressive tenfold increase in FDI. What a difference a year makes!

Early last year, a spate of stories appeared in the international press proclaiming Vietnam as 'the new Asian miracle' and 'the next Asian tiger'. The country joined the World Trade Organisation (WTO) in January 2007, prompting a surge in annual foreign direct investment approvals to more than $20 billion or around 30 percent of GDP.

The Ho Chi Minh City Stock market was at a similar size to the Dhaka Stock Exchange (DSE) at around $11 billion. It was Asia's stellar performer, with the index reaching a peak of 1,170 in March 2007, up by 140 percent, year on year. Rising global commodity prices drove export revenues to nearly $50 billion, an increase of more than 20 percent over 2006. For the year as a whole, the economy grew by an impressive 8.5 percent, the fastest pace since 1996.

Lets cut to 2008. While the pace of Foreign Direct Investments (FDI) commitments in Jan-May 2008 remained strong at $15 billion, the Vietnamese equity market has fallen by 60 percent with volumes down by more than 90 percent.

The extent of the Vietnamese authorities' shellshock was their decision in March to cancel a major investors' conference, marketed under the title 'Sustaining Growth and Reform in Asia's Next Tiger'. This step was owed to 'pressing macro- and microeconomic concerns'. The government later claimed that the organiser's permits were not in order.

The May inflation rate has jumped to 25.4 percent and the trade gap in the first five months of 2008 was $14.4 billion versus $4.25 billion, just a year ago. Credit growth was also running at 50 percent annum while the budget deficit was 7 percent of GDP. The government has also banned the import of gold with hoarding by locals to hedge against inflation risks,' adding to the trade problems.

The causes of the Vietnamese 2008 stock market crash was that while the authorities were the champions of attracting FDI, they were ill prepared to receive the flood of foreign capital when it arrived. The failure to sterilise the inflow by offsetting a withdrawal of liquidity by the central bank saw a huge growth in bank lending, which primarily found itself fuelling both equity and property price bubbles.

In an effort to slow the market's decline, daily trading-band limits of 1 percent were imposed on all stocks of this year. This was the wrong step by a government that knows little about markets. Those limits were raised to 2 percent in April.

But what really happened? The market opens and the price of virtually every security traded on the exchange opens down the daily 2 percent limit. Trading essentially stops at that level, and the next day the market opens limit-down again in a perfect lock-step fashion. This was repeated for 23 days in a row.

The volatility in the stock market and domestic macro environment also threatens to end the FDI fairytale. The head of Vietnam Amcham and Ford Vietnam, noted that Vietnam's success in attracting foreign investment has largely been built on the expectation of economic and political stability, Hanoi now needs to take 'urgent and decisive action' to curb a speculative real estate bubble. It not only threatens the financial sector, but is also undermining Vietnam's long-term competitiveness as it is challenged for foreign investment by neighbouring countries.

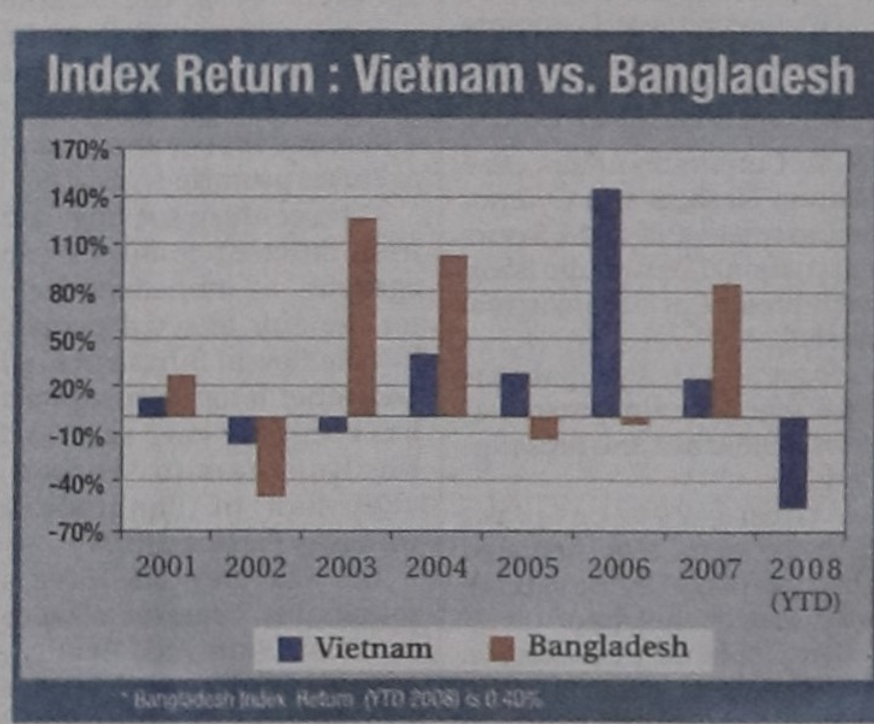
Rising labour costs are also a significant concern to US business operating in Vietnam and labour unrest is directly related to the macroeconomic problems.

The policy response by the Vietnamese authorities has been confused at best and reflects the complex allocation of economic policymaking responsibilities with the central bank responsible for monetary policy but the finance ministry for inflation. The Planning Ministry is responsible for investment spending and several State Owned Enterprises report directly to the Prime Minister's Office.

There are concerns about whether further policy confusion and missteps might see a repeat of the 85 percent decline in Thai stocks in the period, Jan 1996 - Aug 1998, or indeed the collapse in the Bangladesh stock market index in Nov 1996 - Dec1997 from 3649 to 711.

The Bangladesh and Vietnam's stock market differs in terms of the level of foreign participation with 25 percent for the latter. By contrast in 2007 foreign portfolio flows were $200 million in Bangladesh versus a market cap of $10 billion. This explains why the DSE has been less sensitive to moves in global markets than Vietnamese, Indian or indeed Chinese equities.

However, both Bangladesh and Vietnam has a relatively large retail investor base and an underdeveloped domestic institutional sector. This may explain the extreme moves in the market as household investors in a news-driven rather than fundamentally driven market are more likely to adopt a 'herd mentality'. Hence, Bangladesh equities



might be vulnerable to extreme moves unless the authorities can help build an institutional client base by insurance and pension fund reforms.

The Vietnamese experience also underlines the fact that foreign investment is not a panacea for all Bangladesh's economic problems. But I would still maintain that in a growth capital constrained economy like Bangladesh, FDI holds the key to a lift off in growth from 6 percent to (+) 8 percent.

However, the process needs to be managed carefully with sufficient attention spent not only on developing a fundamentally driven professional investor base but also more effective monetary policy tools. The ineffectiveness of curbs on trading in Vietnam and/or government offers to buy in the market directly underlines the unsustainability of market manipulation by the authorities.

Even still, the 2008 Vietnamese market meltdown will likely act as a catalyst for global corporates and investors to seek an alternative Asian investment destination. We believe the prospects for a move to an elected democracy in 2009, coupled with an effective Brand Bangladesh campaign and a focused 'India plus one' economic vision, will leave us well positioned to benefit from the problems elsewhere in the region.

The writer is the managing partner of Asian Tiger Capital Partners and welcomes feedback at ifty.islam@at-capital.com.