

RMG in shadows of global turmoil

STAR BUSINESS REPORT

The global financial turmoil seems to have weighed on Bangladesh's lifeline, garments, as orders are being deferred by buyers from the countries, where stores have reported declining sales.

Exporters have also said buyers are trying to cut down costs of imports to cope with a slump in consumer confidence.

"Generally, September is a golden month for knitwear exporters, but this year's orders appear to be declining for the first time in four years," said Fazlul Hoque, president of Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA).

However, remittance inflows, also allied with the global economies, are still immune to probable fallout from the unfolding financial crisis that rattled depositors and investors worldwide.

"If 9/11 had affected Bangladesh's export growth significantly, I don't believe this huge crisis would bypass us," said Hoque.

Hoque's remarks came a day after Nobel Laureate Professor Muhammad Yunus and others warned that Bangladesh's export and remittances would take a hit from the global crisis, which promoted governments



Protesters demonstrate outside the Bank of England in London yesterday. The picture, right, shows a number of firms that crumbled or were bought out in the global crisis.



said Taslim, citing the example of China, which raised exports after the 9/11 attacks on the US.

Analysts suggested that the regulator maintain a competitive exchange rate to encourage exporters and remitters. They also suggested a mechanism for timely delivery, cheap sourcing of raw materials and no hike in utility prices.

Although some argue that remittance inflows would slow due to the global turmoil, Zahid Hussain, a senior economist for the World Bank's Dhaka office, said any direct immediate impact on remittance looked unlikely, as its inflows remained resilient against the previous financial crises in the world.

In Bangladesh, the bulk of remittance inflows, which recorded a significant rise in the first quarter of the current fiscal year, come from the Middle East, and less than a third comes from the US, UK and Germany.

"However, if a deep and protracted recession starts in the US and EU, the Middle Eastern economies are likely to be adversely affected," Hussain said.

"Even if the current nearly \$8 billion level of remittances is sustained, it would be challenging to maintain its growth momentum if the world economy remains depressed for an extended period," he said.

and central banks around the world to initiate nationalisation and cut interest rates to restore confidence.

Bangladeshi exports, mostly to the US and Europe, are set to become vulnerable to the debacle, although knitwear and garments registered 84 percent and 58 percent growth in July from the same period a year ago.

"Buyers are now bargaining for price reduction," said Habibur Rahman, owner of Pandemic Fashion Ltd that exports knitwear to Scandinavian countries.

The IMF has recently pro-

jected that income growth in Bangladesh's export markets will decline to 0.5 percent in 2009 from 1.5 percent in 2008.

"The growth of orders received by the exporters in July has slowed down in the last two months," said Centre for Policy Dialogue Executive Director Mustafizur Rahman, citing his talks with knitwear exporters.

Anwar-ul-Alam Chowdhury Parvez, president of Bangladesh Garment Manufacturers and Exporters Association (BGMEA), has said buyers seem slow to place

orders in an apparent sign of businessmen losing confidence in the world markets.

"They (buyers) are now waiting out the turmoil," the BGMEA president said.

But Mustafizur Rahman of CPD said: "It's not clear whether this is because of the global economic turmoil or a seasonal outcome. But RMG prices may go down further amid buyers' move to cut costs."

Mamun Rashid, chief of Citibank NA in Bangladesh, thinks the problems might run deeper because of the likely delay in export receipts and the

possible cancellation of orders.

Of Bangladesh's export, only less than 30 percent goes to retail giants such as Wal-Mart, Jc Penny's, Levis, Gap, Zara, Van-Heusen and H&M, while others are mostly small and mid-sized companies, more vulnerable to any financial shock or surprise.

However the ultimate impact may be little less because of diversion of orders from other countries such as Vietnam and China due to rising labour costs in those countries, Rashid said.

BRIGHTER SIDE

Zaid Bakht, research director of Bangladesh Institute of Development Studies, believes RMG exporters would receive increased orders for its edge over China where the production costs would jump another step in the wake of the crisis.

Professor MA Taslim, chief executive of Bangladesh Foreign Trade Institute, also looks at the brighter side of the situation.

"It's also an opportunity. Garment makers can take advantage of the decline in exports from other countries by increasing competitiveness,"

Local banks bring back funds from abroad

MDs to talk crisis fallout next week

SAJJADUR RAHMAN

Bangladeshi banks have withdrawn their surplus funds from the troubled banks abroad following the deepening financial crisis that rattled the global banking system, local bankers said.

Meanwhile, the Association of Bankers, Bangladesh (ABB), a platform of banks' managing directors, has convened an emergency meeting next week to review the global banking crisis and its impact on the country's economy.

"The meeting will advise the banks on how to deal with the growing concern stemmed from the global financial turmoil," said Mahmood Sattar, president of ABB.

"Every bank is moving cautiously. Local banks have withdrawn their excess money kept in different US and EU banks," said Sattar, also the managing director of The City Bank.

His bank withdrew its fund worth \$2 million from US banks.

Local banks used to keep an open volume of fund in different US and European banks for easy import payment against large-scale letter of credit (LC). According to Bangladesh Bank officials, the total direct deposits of Bangladeshi banks in different foreign banks were \$569.28 million as on October 6, 2008.

Most of those funds were withdrawn and deposited to the central bank, officials said.

Private bank officials said they have brought back their funds from the problematic US banks such as Wachovia and Mashreq, sensing the consequences. Local banks also withdrew funds from European banks, including Standard Chartered and HSBC.

"We have brought back all our excess funds from the US banks, including those in Wachovia," said Shahjahan Bhuiyan, managing director of United Commercial Bank.

"Those funds are now kept in the central bank to avert

risk," Bhuiyan said.

The US central bank, the Federal Reserve, has approved a \$12 billion takeover of the troubled bank Wachovia and its subsidiaries by Wells Fargo.

Wells Fargo became the winner in a bitter battle with another financial giant Citigroup to take over one of the US largest banks.

Officials in different private banks said some 28-30 local banks have withdrawn their funds from Wachovia, which was the fourth largest bank in the US.

These banks used to keep an open volume of funds ranging from \$2 million to \$18 million for big LC payments against imports, the officials said.

"We have brought down our funds in different banks abroad to half a million US dollars from nearly \$5 million," said Abdus Sobhan, in-charge of Shahjalal Bank's treasury division.

"Now we are giving import payment on need basis," he said. sajjad@thedailystar.net

Britain takes stakes in banks

AFP, London

Britain said Monday it would inject up to 37 billion pounds of public money into three ailing banks, urging other countries to take similar radical steps to prop up the global financial system.

Shares in London soared more than five percent in early trading on the news that 64 billion dollars (47 billion euros) was being pumped into Royal Bank of Scotland (RBS), HBOS and Lloyds TSB.

While insisting his government was not taking permanent stakes in banks, Prime Minister Gordon Brown said it had to be a "rock of stability" during the global credit crunch and revive confidence in financial institutions.

The bail-out was "unprecedented but essential for all of us," he told reporters, after the Treasury said the government could own up to more than 60 percent of RBS and 43.5 percent of a combined Lloyds TSB-HBOS entity.

"For savers, for small businesses, and for homeowners, we must in an uncertain and unstable world be the rock of stability on which the British



A combination of photographs shows logos from the Royal Bank of Scotland, Halifax Bank of Scotland and Lloyds TSB.

people can depend.

"Taking shares is a temporary measure. We have no interest in running British banks; we do have an interest in strengthening their financial position. A common-sense response to the difficulties we are facing."

The announcement was the first implementation of a res-

cue package for banks unveiled last week, in which it made available 50 billion pounds to inject cash into financial institutions in return for shares.

The plan also makes available 450 billion pounds in cash for banks and guarantees, to encourage banks to start lending to each other again -- a

crucial function for the world economy.

Taxpayers' money will be used to buy five billion pounds worth of shares directly from RBS. The government will also underwrite a 15-billion-pound share issue.

Brown insisted the government's shares would be held temporarily and "at arm's length" to be sold once the banks are sufficiently strengthened.

"This is perhaps the first government to do what I believe a large number of governments are going to do over the next few days," he said.

Finance minister Alistair Darling said he hoped other countries caught in the credit crunch would base their rescue packages on Britain's bank bail-out plan.

"It is now clear that this is a model that other countries are going to adopt because this is a truly global problem," the chancellor told BBC radio.

As part of the bailout RBS chief executive Fred Goodwin is quitting immediately, to be replaced by British Land boss Stephen Hester. Chairman Tom McKillop is to retire.

Maksons Spinning to go public soon

Set to float 8m primary shares of Tk10 each

SARWAR A CHOWDHURY

Maksons Spinning Mills is going to be the first company since 2002 in textile sector to be listed with the country's stock market.

Six years ago another such company Metro Spinning Mills went public, while there are 39 textile-related firms that have so far been listed on the Dhaka Stock Exchange.

The subscription for primary shares of Maksons Spinning started on Sunday and the subscription will be closed on Thursday for resident Bangladeshis and on October 25 for non-resident Bangladeshis.

Maksons Spinning, which was incorporated as a public limited company in September 2003, will float eight million primary shares of Tk 10 each to raise Tk 80 million from public through initial public offering (IPO).

The raised fund will be used for loan repayment of the company to Southeast Bank Ltd.

A subsidiary of Maksons Group, Maksons Spinning aims to add \$2 million to its annual turnover within next one year.



Raw cotton and yarn. Maksons Spinning produces cotton-combed and carded yarn, and is going to be the first company since 2002 in textile sector to be listed with the country's stock market.

Maksons Group.

Khokon said Maksons Spinning, which started commercial operation in May 2006, is equipped with

state-of-the-art machinery imported from Switzerland, Germany, Japan, China, Spain, India, USA, Italy, France and

Taiwan. "Our aim is to produce international standard products," he said.

He said the country's 100 per-

cent export-oriented readymade garment and knitwear makers are the customers of Maksons Spinning, which was set up on a 32-bigha land at Ashulia in Savar on the outskirts of Dhaka.

"In future we want to use our backward linkage industry's products in our forward linkages. To this end, a knitwear factory will be set up on Maksons Spinning premises next year," he said.

Khokon also said he wants to increase the group's total turnover to a billion dollar within next 10 years.

Maksons Spinning, which was set up at a cost of Tk 1.18 billion, produces 100 percent cotton-combed and carded yarn with an annual installed production capacity of 91,60,000 kg.

However, currently it produces 20,000 kg of yarn per day using 45,000 spindles.

It imports raw cotton from

Commonwealth of Independent States.

The authorised capital of the company is Tk 500 million, while its paid-up capital is Tk 340 million as of April 26, 2008.

The company made a net profit of Tk 9.6 million as of December 12, 2007.

Its earning per share stood at Tk 10.69 as of December 31, 2007.

The total workforce of Maksons Spinning is over 1,000, of which 600 are getting residential facilities on the factory premises.

The other subsidiaries of Maksons Group are Metro Spinning Ltd, Maksons Jute Mills Ltd, Maksons Knit and Rotor Spinning Mills Ltd, Maksons Properties and Developments Ltd, Makcot International and Mak Fashion Ltd.

saarwar@thedailystar.net

Stocks

DGEN	▲ 1.15%
	2,888.70
CSCX	▲ 1.75%
	5,832.93

Asian Markets

MUMBAI	▲ 7.64%
	11,332.23
TOKYO	Closed
SINGAPORE	▲ 6.57%
	2,076.35
SHANGHAI	▲ 3.65%
	2,073.57

Currencies

	Buy Tk	Sell Tk
USD	68.15	69.15
EUR	90.67	95.07
GBP	114.29	119.32
JPY	0.68	0.71

SOURCE: STANDARD CHARTERED

Commodities

Gold	▲
	\$863.75 (per ounce)
Oil	▲
	\$80.87 (per barrel)

SOURCE: AFP

(Midday London Trade)

More News

Likely impact of global crisis on Bangladesh



Overall, there is absolutely no reason to panic. Bangladesh is relatively insulated from the financial side, but vulnerable to potential global economic slowdown, particularly in the US and EU. However, depending heavily on garment exports is where the main risk of global financial turmoil lies.

B-4

China keen to relocate industries here

China is keen to import more products from Bangladesh, relocate some of its factories and provide assistance for building infrastructure here, said Liang Wentao, the leader of the visiting 20-member Chinese trade and commerce delegation yesterday.

B-3

International

Zoellick stresses new multilateral system

The global financial crisis underscores the need for coordinated action to build a better multilateral system, World Bank president Robert Zoellick said Sunday. "We need to modernize multilateralism for a new global economy," Zoellick said at a news conference in Washington.

B-4

Contact Us

If you have views on Star Business or news about business in Bangladesh, please email us at business@thedailystar.net