International Business News

G20 looks to expand emerging nations' role in global economy

AFP, *Sao Paulo*

World finance chiefs aimed to forge a consensus Sunday on boosting the role of emerging nations and crafting a new system to help a struggling global economy.

The Group of 20 gathering of finance ministers and central bank governors wrap up a meeting in Sao Paulo that seeks to lay the groundwork for next week's Washington summit on the deepening economic crisis.

World Bank President Robert Zoellick, who is part of the discussions, said a new financial architecture will take time but that all countries see the need for a coordinated response to the economic troubles.

"All of us know it's a meeting at a time of historic challenge," Zoellick said.

"The food and fuel crises of the recent years have now been supplemented by the blow of a financial crisis. Virtually no country has escaped ... All countries are moving into a danger zone."

Zoellick, who last month said that the Group of Seven was "not working" in fixing the economy but that a G20 system was "too unwieldy" indicated Saturday that a new system will take time to evolve but was inevitable.

"These global challenges require global solutions," he said.

Deutsche Post to shed thousands of US jobs

AFP, *Berlin*

German logistics giant Deutsche Post will on Monday announce thousands of job losses in the United States in the wake of heavy losses, a German newspaper reported.

In its edition to appear Monday the Frankfurter Allgemeine Zeitung (FAZ) says that group chief executive officer Frank Appel "cannot do other than announce massive job cuts" when he presents third quarter results that day."

According to the FAZ, "40,000 jobs are under threat in the United States," of which "20,000 are directly linked to Deutsche Post and as many again to the US partners."

The paper said that within the group there was talk of a "bloodbath".

Deutsche Post had already revised downwards its objectives for 2008 and "assesses for this year alone at 1.3 billion dollars, or five million dollars a day, the loss recorded in the United States," the FAZ said.

It said Appel "wants to pull out of all the commitments where he thinks the risks can no longer be calculated and costs no longer controlled."

AFP

Cambodian commerce officials parade during an Independence Day celebration in Phnom Penh yesterday. Prime Minister Hun Sen said he was committed to maintaining annual economic growth of seven percent, after warnings that the country's red-hot economy would soon slow.

Iranian economists slam Ahmadinejad in open letter

AFP, *Tehran*

Iran's confrontational attitude toward the rest of the world is costing the country dearly in lost trade and investment, according to a letter signed by 60 economists published on Saturday.

The open letter, the latest broadside against President Mahmoud Ahmadinejad and published by the semi-official Ilna news agency, denounced the "heavy price paid by the country over the negative consequences of government policy."

In particular, it spoke of the "misguided trade policy and the policy of tension with the rest of the world, which has deprived Iran of opportunities for trade and foreign investment."

It said the sanctions imposed by the UN Security Council over Iran's refusal to halt uranium enrichment had added billions of dollars in extra costs to the country's foreign trade.

Hong Kong sourcing giant to slash costs in global slowdown

AFP, *Hong Kong*

Hong Kong sourcing giant Li & Fung has implemented a hiring freeze, cut travel expenses and could lay off some employees because of the slowing global economy, the company said.

The firm supplies global retailers, including US giant Wal-Mart, with goods ranging from clothes to gadgets, often made in southern China's factory belt.

"Due to worsening economic conditions which are impacting some of its customers, Li & Fung... announced that the company is undertaking a critical review of its cost structure," it said in a statement issued late Saturday.

"Initiatives include a hiring freeze in most locations, reduction of travel and other discretionary expenses and, as a last resort, employee downstaffing," the statement added.

"At this stage, it is envisaged that a limited number of employees working with business units whose customers have suffered most severely will be made redundant."

ANALYSIS

It's time to realign business

REFAYET ULLAH MIRDHA

The two main economic pillars of the world, the US and the EU, face turbulent times due to the ongoing global financial turmoil. Countries in the rest of the world scratch their heads, puzzled and confused, as they had based their budgets and business plans, targeting to export products to those destinations.

Manufacturers around the world are busy trying to distinguish their products from the rest, innovating their formulas and theories to make the cut. Most of the tested formulas have failed so far, pushing powerhouses into deep waters.

Businessmen say it is time to sit together and chalk out a future plan of actions to maintain normal business.

Bangladeshi manufacturers are also struggling in the race, trying to find a reasonable way to maintain the ready-made garments (RMG) export.

Scholars, academics, local and international trade experts, economists, researchers, independent think-tanks, government officials, manufacturers and exporters have been frequently hosting roundtables, seminars, discussions and conferences on how to increase their share of the RMG global export market pie.

The Bangladesh Garment Manufacturers and Exporters Association (BGMEA) held such conferences on the sidelines of the association's annual Batexpo-2008 fair at Sonargaon Hotel.

A few days ago, another RMG exporting association, Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA) held such conferences on the sidelines of its annual Knitexpo-2008 fair, where the future of the local RMG sector was mainly was discussed.

Even in such tough times, local RMG exporters are upbeat about the sector's future, as Bangladesh mainly produces basic items.

Foreign RMG manufacturers and exporters, who have displayed their products at the Batexpo fair, also expressed similar opinions about Bangladesh.

Talking to The Daily Star, foreign participants view Bangladesh should follow suit and undertake corrective measures to align themselves with the rest of the world.

They also believe Bangladesh is at low risk as the country produces basic items and has an opportunity to export their products all over the world.

Manufacturers say success depends on the ability to embark upon aggressive marketing drives, especially in such difficult times.

Joe Han, sales manager of Wuxi Yihe Textile Company Ltd and Hotex Industrial Company Ltd, the Chinese textile companies at the Batexpo, said aggressive marketing drives are a must.

Bangladesh should seek new markets soon, to be more competitive in the global apparel business, he said.

China's performance in the global textile and garments business is no longer impressive as many giant companies have faced closure due to the high wages of workers and the appreciation of the Chinese currency against the US dollar, he says.

Now most Chinese RMG products belong to the high-end category. As a result, China has been losing their grip on the market for basic products, he says.

Vichai Phromvanich, executive director of Absolute Denim, one of the biggest denim factories in Thailand, says the situation is such that quite a lot of people are chasing fewer markets with similar products.

"The market for RMG products will soon face saturation," he adds.

He advises Bangladesh to diversify markets for RMG products, as the country has potential to diversify both products and markets.

Aminul Islam Sagar, chief executive of Intimates Corporation, a local buying house, says Bangladesh has the ability to grasp a major share of the global apparel market. Bangladeshi manufacturers can now even target the Middle East and South Africa, he says.

South Africa has also recently been coming to Bangladesh to place orders in bulk. The country mainly supplies apparel items to many other African countries.

"To strengthen Bangladesh's ties with South Africa, initiatives from both the government and private sector entrepreneurs is required," he says.

Bangladesh may export apparel items even to the Middle Eastern countries like Saudi Arabia, Kuwait and Abu Dhabi, as there are a lot of Bangladeshis, Indians and Pakistanis living there, participants at the Batexpo says.

The good sign for Bangladesh is that local manufacturers have already started exploiting the Japanese, Canadian and New Zealand markets, in fresh vigour to tackle any fallout from the global financial recession.

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STAR

Visitors browse clothes at Batexpo at Sonargaon Hotel.

COLUMN

MIR MAHFUZUR RAHMAN

Heavily weighted toward perception

The Dhaka Stock Exchange (DSE) General Index fell by 317 points or 11percent during the last 30 days. Nothing has changed in our economy nor has there been any earnings forecast downshift from any leading company. We are decoupled quite strongly in our capital market, with total foreign portfolio investment being about $200 million in fiscal 2007-08.

However, there are some signs of sell-off by portfolio clients of merchant banks, who it is presumed to have an increasing portion of the daily volume. This is perhaps because of the exposure in the stock market at high prices, considered risky, or there are other liquidity pressures on the merchant banks.

The reason for such behaviour is the stock market's inability to read its future. Hence, the market seeks information from perception rather than forward- looking analysis. That our market is trading at a higher price earning (PE) than the markets in Mumbai, Karachi and Colombo, the ones that are our closest peers, has been evident this entire year. However, very few of us even know the PEs or other indicators in those markets.

Not many traders, brokers, portfolio managers will be able to tell an investor off-hand the over-riding issues that are affecting the market. The stock market industry is extremely sharp with a very close assessment of the localised liquidity factors affecting the industry. But not much is available in terms of forward-looking information of companies to make wise investment decisions. As a result, the bent towards perception is even more important for a market with scant research available.

STAR

The file picture shows police guarding the Dhaka Stock Exchange as investors took to the streets in the wake of a sharp fall in share prices.

The fact that perception is paramount is widely acknowledged even in Wall Street. After Dow Jones fell by more than 15percent in October, the market had no direction, and was driving with one eye in the rear view mirror. The first legitimate bounce of the market came from the news that the American billionaire Warren Buffett is buying a $5 billion slice of Goldman Sachs. However, a close look at the deal will explain the value of perception.

Warren Buffet's announced investment of $ 5 billion in Goldman Sachs and $ 3 billions in General Electric fetch him 10 percent interest per annum in addition to free warrants convertible into shares for next 5 years at then-depressed prices. It was considered by many as signs of confidence from one of the most revered and legendary investors of all time. It was never questioned why Buffet's company, Berkshire Hathaway, was given a yield of 10 percent, a rate normally associated with junk grade bonds or companies. This was at a time when the Federal Reserve was willing to lend at 1.5-2 percent.

For those interested in the basics, the deal is structured in two parts, giving Berkshire a stream of cash and potential ownership of roughly 10percent of Goldman. Berkshire will spend $5 billion on 'perpetual' preferred shares of Goldman. These are not convertible into equity but pay a high 10percent dividend. Berkshire also will get warrants granting it the right to buy $5 billion of Goldman common stock at $115 a share, which was 8percent below the closing share price of the day prior to the deal. Goldman Sachs has no obligation to pay any dividend on the preferred shares but they cannot pay any dividend on the common stock until Buffet gets his $500,000,000 a year.

It should be clear from such a transaction that from Buffet's perspective, there was a little risk associated with the deal and a lot of upside. Inversely, it would seem that there was a huge amount of risk associated with investing in the market for those who are not provided preferred shares and warrants. However, the market rose substantially the very next day and it was taken as a major sign of confidence.

There are four easy rules to remember for casual investors in the market, especially in one such as ours, where research and analysis are scanty. First, the worst mistake investors make is trying to time the market. They buy high and sell low, time and time and time again. The stock market is a huge creator of wealth, but only if you stay invested for the long-haul.

Second, it is important not to chase rumours. Investments should be kept in the market with the growth sectors. In investing, what goes up most definitely comes down, which means that the rise and fall of indices are a part of cyclical economics while perceptions exaggerate their extremes. Buy the total market through available instruments and hold it.

Third, as an investor in the market, it is best to buy into index funds or well-researched managed funds. Day trading active management by non-securities professionals is very difficult. The best way to invest is to own the market through diversified index funds.

Fourth, as all successful business owners, especially in Bangladesh, know that asset allocation and diversification is the key to strong risk-adjusted returns. Most business owners try to adjust their risk by taking part of their wealth and investing in land, property, new ventures and various currencies. In the same manner, it is important to be well diversified through several funds. There should also be some debt.

There is a huge lack of managed funds in Bangladesh. Analysis has shown that only 2percent of the market is under management by professionals. In most other countries, it is close to 50percent or even more in developed economies. Even if our stock market is affected by 'internally generated' change agents, it is important to note that continued growth of managed funds for investors will provide a long term process of sustainable development of the market.

As our market goes through its 'internal generated' volatility, it is important to remember that such volatility will probably go on till the end of this quarter. Make decisions thinking of the longer term and, hopefully, the short term will not affect one's portfolio.

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