

International Business News

Governments urged to avoid protectionism in slump

AFP, Washington

Governments came under mounting pressure on Tuesday not to resort to protectionism to cushion themselves from the impact of the economic slowdown as unemployment levels grew and exports dwindled.

While Australia unveiled a stimulus package designed to safeguard tens of thousands of jobs, President Barack Obama was urged to ditch a "Buy America" clause in his own 900-billion-dollar bid to revive the ailing US economy.

Spain meanwhile became the latest leading European country to announce a sharp rise in unemployment, with the jobless rate hitting a 12-year high.

The head of the International Monetary Fund expressed hope that the world economy could stage a rapid recovery once it "regains its footing" but also urged countries to avoid protectionism during the slump.

"Beggars thy neighbour policies will never give a good result," Dominique Strauss-Kahn said in a speech in Tokyo.

The "Buy America" clause in Obama's stimulus package has sparked warnings of grave consequences from traditional US allies if it is approved by Congress.

African leaders discuss economic crisis

AFP, Addis Ababa

African leaders discussed Tuesday ways to ride out the global economic downturn, fearful that 2009 will see trade hit and reductions in much-needed aid and development finance.

Earlier sessions of the African Union summit were dominated by the election of Libya's Moamer Kadhafi to head the bloc as well as the conflicts and political strife blighting the continent, but the final day was being devoted to money matters.

Leaders gathered in the Ethiopian capital Addis Ababa warned that Africa would struggle to cope with the global downturn, which could end years of growth in many countries driven by record commodities prices.

"It has now become clear that the global economy is undergoing a deep crisis. Every week the prognosis for the world economy is a bit worse," Ethiopian Prime Minister Meles Zenawi said at the start of the debate.

As demand has fallen in industries around the world, commodity prices have also come crashing down, creating new problems for the continent's big exporters.



AFP

Demonstrators joined by retrenched workers rally outside the Department of Labour in Manila yesterday to demand job security and employment for retrenched overseas Filipino workers. Some 800,000 Filipinos are in danger of losing their jobs this year, nearly triple earlier official estimates, as the global economic slowdown hits home.

Saudi prince says Gulf jobs should go to Arabs

AFP, Abu Dhabi

Gulf Arab states, where foreigners make up half the workforce, should give employment preference to their citizens over expatriate labour, a prominent member of the Saudi royal family said on Monday.

"We should review our economic policies in a serious manner to build national economies that benefit their people and not the millions of foreign workers," Prince Turki al-Faisal bin Abdulaziz said at a conference on human resources in Abu Dhabi.

Prince Turki is chairman of the King Faisal Centre for Research and Islamic Studies. He is a former ambassador to Washington and London and before that spent more than 25 years as the head of Saudi Arabia's intelligence service.

"It's not understandable that there be one unemployed Gulf national in countries that receive millions of foreign workers," he said.

The six countries of the Gulf Cooperation Council (GCC) have witnessed six-years of growth fuelled by a surge in the price of oil -- their main source of income -- triggering a construction and services industries boom that required millions of foreign workers.

EU ups pressure on US over Buy American stimulus plan

AFP, Washington

The European Union ratcheted up pressure Monday against US President Barack Obama's Buy American stimulus plan, sending letters to the White House and Congress in protest.

The EU ambassador to Washington, John Bruton, told AFP he had written Monday to the leaders of Congress and the Obama administration expressing concerns about government legislation to restrict procurement to American goods, including steel and textiles.

"We regard this legislation as setting a very dangerous precedent at a time when the world is facing a global economic crisis," Bruton said.

The Senate is considering an 888-billion-dollar stimulus plan that restricts stimulus-funded infrastructure projects to use only US manufactured goods.

REAL ESTATE

Low-cost flats can fix crunch

Says chief operating officer of Shanta Properties

KAWSAR KHAN

The government should assist developers by providing land at low costs to solve the city's chronic housing problems, says Sheikh Aftab Ahmed, chief operating officer of Shanta Properties.

In a recent interview with The Daily Star, Ahmed says the present prices of flats are expensive for the middle class. The government could also build satellite townships and pair them with urban rapid transportation facilities, to ease the pressures on the capital.

"Apartments will not come within the reach of the middle class unless they are within Tk 2,000 per square foot or so. But under the existing market situation, it is not possible to provide apartments at this cost, due to the high cost of land," says Ahmed.

On apartment prices, he says: "If the cost of construction for a particular building is Tk 1,800 per square foot and the landowner takes a 50 percent stake in the project, the cost of the building stands at Tk 3,600 per square foot."

"And then comes the expenditures associated with management, marketing and profit."

If the government assists builders by providing land in a partnership arrangement, it will reduce apartment costs, he says. "Developers of a few projects on government land were able to provide apartments at low prices."

"We have to offer apartments between Tk 20 lakh and Tk 30 lakh, if we target the middle class as customers. But it is not possible for the developers to sell flats in this range," Ahmed adds.

He suggests the government could also think of acquiring land to build towns in the capital's adjoining areas.

Although some developers are eager to undertake massive housing projects, they could not do so as they were not able to acquire big pieces of land.

"The government can take the initiative to acquire land and involve private developers to construct public-private housing projects in Dhaka and nearby areas, such as Narayanganj and Gazipur," he adds.

"No-one ever thought about settling in Uttara just a decade ago. Look at the population of that area now," he reasons. People



Sheikh Aftab Ahmed

may also consider living on the outskirts of Dhaka, such as Kaliakoir, if the area develops and is connected with the capital via fast transportation facilities.

"The government could also think about shifting the capital or making a new Dhaka," Ahmed says. He drew examples from India and Malaysia, where the respective governments extended their capital cities to solve housing problems.

On the present trend in development in Dhaka, Ahmed says: "The city has developed in northern and eastern parts, but no major development is seen in other areas."

"It's time to develop in those underdeveloped areas."

"It is not the government's task to develop or allocate land to the people. Rather, it should instigate joint venture projects to offer low-cost apartments to people," he says.

Some companies are working exceptionally well while some others are tainting the

image of the sector, Ahmed said of the country's real estate.

Citing worthy examples from developed countries, Ahmed says the segmented nature of the real estate business in those countries allows them to maintain the quality of their projects.

"In developed nations, no company takes on the entire project by itself. There are separate companies for design, construction, supply of construction material, quality maintenance, interior décor, marketing and maintenance. This allows each sector to achieve specialisation and handle everything efficiently," he says.

But in Bangladesh, no company is willing to look after a segment of the task, like marketing or sales alone. "We have to administer all the fields and it is not possible to maintain 100 percent accuracy in all the segments," he says in an overview of the sector.

Ahmed points to a lack of adequate and

accurate information about the sector, which further depreciates the growth and improvement in quality of the sector.

"If we are to construct a multi-storey building in Motijheel, we will require information or case studies on previous construction work in the area, which will highlight the problems or the advantages the engineers faced in building the structure. But such information is not available. Such information is crucial to the development of the sector," he says.

Ahmed also urges the government to build a central database system that will keep building construction information.

He opposes the tendency of hiding sales information by various companies and says there should be a market survey to record accurate sales and demand of apartments in the city.

"Most companies might agree with me in this regard. Existing records depict an opposite scenario as most companies do not reveal exact sales figures," Ahmed says.

Developers are forced to undertake projects in the dark, as there is an absence of accurate information about market demand and sales. This makes the sector more volatile.

He welcomes the much-debated Real Estate Management Ordinance 2008 saying that there should be a law to regulate the sector.

"But it is not fair that a developer should go behind bars if he is unable to handover projects on time. The government should give the developers a chance to mend their mistakes before arresting them," Ahmed says.

He feels housing is a basic need and the government and other organisations such as the World Bank and the Asian Development Bank should come forward to finance the sector.

"If the WB could finance the CNG auto-rickshaw project or the rickshaw puller rehabilitation project, why not finance housing projects that is a basic demand of the people," he points out.

He terms the present real estate financing inappropriate and urges the government to provide low interest loans for people to reduce housing costs.

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COLUMN

SYED NASIM MANZUR

9,000 job cuts a day

In this day and age of gyrating markets, crashing consumer sentiment, failing banks and seemingly endless tales of greed and fraud, one number on the internet recently really hit home for me. In January 2009 the economies of the world shed 9,000 jobs per day on an average. The people lost their jobs in sectors ranging from electronics to telecom to pharmaceuticals to toys. On a single day alone January 26, there were 80,000 job cuts.

This is the fallout from Wall Street to Main Street as major corporations rocked by disappearing demand, dropping prices, drying up of liquidity and plummeting market capitalisation react to the changed scenario. British SMEs are slashing jobs at their fastest rate since the 1990s, Indian H-1B visa techies in the US are losing their jobs at Microsoft.

Today more than half of Bangladesh's gross domestic product (GDP) is linked to the global economy through exports and imports of goods and services. Developed economies buy 85 percent of our total exports and sell us about 60 percent of our total imports. If we include China, India and other emerging economies in this calculation, the percentages are almost cent percent. China is itself struggling with 6 million migrant workers returning from closed export factories to the rural economy and despite multi billion dollar local stimulus packages, curtailing growth forecasts. India has already announced downward revision of its growth target for the economy, although consumer spending has still not collapsed like the US or Europe.

What this means for countries like Bangladesh is decreasing demand. The Daily Star reported on February 2 how 20,000 contractual jute workers lost their jobs due to declining export demand.

To rephrase the old adage: When they get fired we go cold. This ballooning unemployment in the US and Europe means simply less consumption. Consumer spending has contracted for the first time in two consecutive quarters in the US since 1991. Rising unemployment dampens demand in two ways: one, the unemployed person consumes less and two, the remaining persons who are employed also scale back consumption since they fear they could be next. It is ridiculous to suggest that consumption will become zero but what is absolutely true is that they consume less. The spending will naturally be focused on essentials such as food, health, utilities and communication. Lifestyle expenditures such as travel, personal care, fashion will go down. And herein lies the danger for Bangladesh. I have read about the Walmart effects talked about by many garments exporters and government officials: How consumers will trade down to



AFP

Latin American workers from Japanese auto giant Honda Motor's parts makers, who cut their jobs, and their Japanese supporters stage a protest at the Honda headquarters in Tokyo on January 27.

lower priced garments where we are strong and where China and India are losing share due to rising costs, and so Bangladesh exports will overall gain share. I believe we must be careful to avoid a false complacency for the fundamental reason that not all our export products are in this category. Bangladesh has many low cost producers of garments who may be competing purely as lowest cost vendor but we also have many exporters producing for international brands in knitwear, ceramics, jute products, golf shafts, bicycles, frozen seafood and home textiles. It is the demand for such products that is most affected. The propensity of a consumer who has lost his job to buy that next knit T-shirt, cargo pants, dinner sets, golf clubs or leather moccasins is severely reduced. Bear in mind the average European consumer already has 8 pairs of shoes so the 9th pair is not an essential purchase; in good times the 9th pair is an impulse buy or shopping "therapy". But retailers are already reporting that the average number of items at the check out counter is less and the average price is dropping. This trading down by consumers is of course what is being called the 'Walmart effect' as consumers look for cheaper priced options. But there is also a contraction in demand as consumers defer any purchase

that they do not deem essential. Before the howls of 'compete or perish' I would like to point out that our exporters already compete very effectively in different segments of the market, despite many handicaps and disadvantages. In many cases they have been able to overcome the 'race to the bottom' and build world-class capacity and increase the value of their exports. Just because every exporter in Bangladesh does not operate at the bottom rung of the market does not mean they are inefficient. But it is also true that a ceramics manufacturer catering for renowned English and Italian brands cannot transform itself into the cheapest ceramics source overnight. So what can be done to help?

Exporters in Bangladesh need timely and proactive help to reduce their cost of doing business.

Bank interest rates and charges in Bangladesh continue to be much higher than in competitor countries such as India where the rates have been revised three times already and the liquidity has been increased. Close watch must also be kept to avoid crowding out of credit to private sector by public borrowing.

Cost of fuel, mainly diesel, has not come down proportionately to the fall in global oil prices and this has a huge impact on operat-

ing costs directly through power generators as well as through the supply chain e.g. local transport.

The government should ensure that the exchange rates against the US dollar and the euro along with spreads do not put our exporters at a disadvantage viz-a-viz their competitors.

GOB can also re-examine its ADP and, if required, divert resources from non-priority sectors where implementation is anyway very low to support industry. At the same time, faster implementation of essential projects will stimulate the local economy.

Assist exporters face the liquidity crisis abroad as buyers defer payment terms and demand more credit. Recently the 1 billion USD per annum auto components export sector in India has received pre-shipment finance guarantees from the government when banks were unwilling to finance further.

President Obama has said yes we can, I believe Bangladesh must say: yes we must. We must work together through this unprecedented crisis to deliver the growth we need.

The writer is the managing director of Apex Adelchi Footwear Ltd.