International Business News

Mistakes were made, says AIG chief

AFP, *Washington*

AIG Chairman and CEO Edward Liddy, who heads the insurance giant at the epicenter of a scandal over executive bonuses, acknowledged mistakes in an opinion piece published on Wednesday.

Anger over the government rescue of AIG as well as the rising demand for accountability "is understandable, and I share it," Liddy wrote in The Washington Post.

"Mistakes were made at AIG, and on a scale that few could have imagined possible," he acknowledged.

"I am mindful of the outrage of the American public and of the president's call for a more restrained compensation system. I am also mindful that every decision we make at AIG has consequences for the American taxpayer."

The US government has demanded that the American International Group repay the 165 million dollars it gave in executive bonuses while taking more than 170 billion dollars in bailout money.

The bonuses were doled out to the Financial Products unit, the AIG division at the heart of the company's near collapse.

World Bank cuts China's growth forecast

AFP, *Beijing*

The World Bank Wednesday slashed China's economic growth forecast to 6.5 percent in 2009, well below the level the nation says it needs to keep enough people at work and to avoid social unrest.

The Washington-based development lender based its estimate for the world's third-largest economy -- down sharply from a 7.5 percent forecast made in November -- on a dramatic worsening of the global outlook in recent months.

"China's economy cannot escape the impact of the global weakness," it said in its quarterly update on the Chinese economy.

"Since end-November 2008... developments in and the outlook for the global economy have been worse than expected."

The World Bank's forecast comes less than a week after Chinese Premier Wen Jiabao insisted that the economy would be able to achieve eight-percent growth "with considerable effort."

South Korea unemployment hits 4-year high

AFP, *Seoul*

South Korea's unemployment rate rose to 3.9 percent in February -- its highest in almost four years -- as companies cut back on recruitment amid the economic downturn, data showed Wednesday.

The February rate, up from 3.6 percent the previous month, is the highest since March 2005 when it stood at 4.1 percent, the National Statistical Office said.

The number of people in employment was 22.74 million in February, 142,000 fewer than a year earlier, the office said. It was the largest reduction since September 2003 when 189,000 jobs disappeared.

Younger people were hardest hit, with the unemployment rate among those aged 15-29 rising to 8.7 percent in February.

"The job market usually remains sluggish in February when more college graduates come out to find work," Jeong In-Sook, head of the NSO's employment statistics division, told reporters.

AFP

A model poses with newly launched Sony digital cameras in New Delhi yesterday. Sony India launched slimmest camera Cybershot T-90 available at price of 17,990 rupees ($346), 12 mega-pixels cyber shot S-series cameras at prices between Rs7,990 to Rs9,990 ($153 to$192), and cyber shot H-series cameras at Rs17,990 to Rs 29,990.

Vietnam 2009 growth seen at 4.75pc: IMF

AFP, *Hanoi*

The International Monetary Fund on Wednesday downgraded its growth forecast for Vietnam to 4.75 percent this year, further below the government's 6.5 percent target.

"While inflation pressures are subsiding with easing food and energy prices, growth is expected to slow further to 4.75 percent in 2009 on the back of weaker domestic and external demand," the IMF said after a routine assessment mission to the country and talks with Vietnamese officials.

In December, an IMF official had forecast the country's real gross domestic product growth would ease to five percent this year.

Vietnam recorded 6.2 percent expansion in 2008, the lowest level in almost a decade and a sharp drop from 8.5 percent in 2007.

INTERVIEW

Growth hinges on GP listing

Former SEC boss says in an interview with The Daily Star

SARWAR A CHOWDHURY

As the Grameenphone initial public offering (IPO) prospectus awaits the green light from the Securities and Exchange Commission (SEC), its success will dictate the path to market growth.

Its triumphant floatation will not only attract others to be listed on the stock market, but also help the market draw foreign or portfolio investment into Bangladesh.

"Failure of the Grameenphone listing will have devastating effects and it will dampen market interests in the long run," Faruq Ahmad Siddiqi says in an interview with The Daily Star.

"Furthermore, new companies, including multinationals, will hesitate to come in the market," the immediate past chairman of the SEC points out. Several big companies are anxiously waiting to see the outcome of the Grameenphone listing, he says.

People close to the Grameenphone IPO move said Bangladesh's largest mobile phone operator has fulfilled all the requirements by the market regulator regarding the $65 million, or Tk 449 crore worth IPO in the last week of February this year.

Successful floatation of the Grameenphone shares will be a pivotal catalyst in the development of the Bangladesh stock market, he believes.

Career bureaucrat Siddiqi completes his three-year tenure as SEC chief on March 12. He joined the SEC as chairman on March 16, 2006.

Siddiqi says, instead of forcing or pressuring companies including multinationals to be listed on the stock exchanges, they should be encouraged to come in the market. "The environment prevailing in the market should be such that it lures multinationals and other big players into the market."

Listing of multinationals will enhance the supply side of the market and attract foreign direct investment, he observes.

"The government should immediately offload the stakes that it holds in different companies, including the foreign ones. The new government should pay more attention to this area, in the interest of the market," he suggests.

In his three-year tenure, the Bangladesh stock market witnessed robust growth with volatility and manipulation efforts in some cases.

"The figures speak for themselves," says Siddiqi, also a former secretary.

When he took up responsibility in 2006, the market capitalisation was only Tk 22,670.67 crore, turnover was Tk 15.44 crore, DSE General Index was at 1,555.82 points and the volume was 33,82,959.

Faruq Ahmad Siddiqi

On the contrary, on his last working day on March 12, 2009, market capitalisation stood at Tk 1,02,246.75 crore, turnover reached an all time high at Tk 611.98 crore, DSE General Index stood at 2,653.11 points and volume was 3,75,41,462.

What are the factors that contributed to such tremendous growth?

"There was a need for an environment that facilitated trade and commerce. We tried to create such an environment, especially through regular awareness programmes in association with the Dhaka and Chittagong bourses and other market stakeholders, all within the limited resources. And we succeeded," Siddiqi recalls.

He says the public awareness programmes and the SEC's role as a facilitator, not as a regulator, helped the general investors regain confidence, which was shattered after the 1996's bubble and burst.

"The entry of new companies and fresh investors, expansion of brokerage activities across the country, issuance of rights and bonus shares as dividend by the existing companies, increasing investor confidence and an inflow of fresh liquidity also helped the market reach today's position," he says.

Apart from rapid growth, he says, there were some problems such as volatility, manipulation, and liquidity gluts and crunches.

"A lack of appropriate manpower within the SEC is a major problem," he says.

Referring to the resignation of several senior officials from the SEC, he says the existing pay scale could not suffice or attract professionals to work for the SEC.

He says the SEC is in need of professional people who can analyse the quality of financial disclosures, public issues, and monitor the market stakeholders and credit rating agencies.

"The commission has no people qualified enough to monitor the credit rating agencies. There are only two people in the surveillance department, which is an important, tough and demanding section," he cites.

In order to build capacity of the market regulator by attracting skilled personnel, he recommends: "The SEC and other similar organisations should be kept outside the national pay scale."

Siddiqi considers two issues as major achievements during his tenure. The first, forming guidelines for margin loans provided by merchant banks to their clients, and the second, book building for IPO pricing.

"Prior to the guideline, merchant bankers provided margin loans indiscriminately. The guideline helps the market stabilise," he says.

The introduction of book building, a modern mechanism for IPO pricing, will encourage big and established companies, from both home and abroad, to be listed on the stock exchanges, as the book building method ensures a fair price of a company's stocks, he adds.

Commenting on the Dhaka Stock Exchange's recent move against listing securities with a face value of Tk 1, he says, "The DSE cannot take such a decision. The DSE may recommend or request the SEC to take steps to forbid the listing of securities with a face value of Tk 1."

He, however, welcomes the DSE move on de-listing the Z category companies, which are not in operation or production or an existing status. "But such companies should be carefully identified," he suggests.

In his concluding remarks, Siddiqi says the Bangladesh stock market has an opportunity to grow in the coming years.

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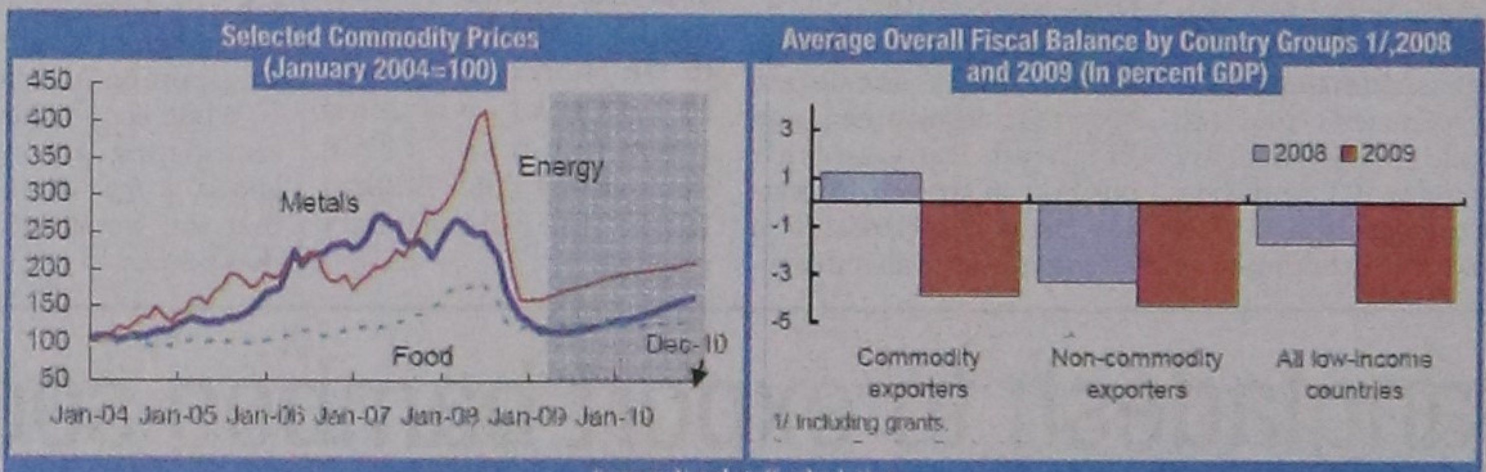
COLUMN

IFTY ISLAM

Protecting the poor from global crisis

As G20 leaders gather in the UK for the upcoming summit on tackling the global financial crisis, they will face major challenges, focusing on aggressive fiscal stimulus to boost economic demand, dealing with toxic assets in banking systems, boosting the resources of multilateral institutions such as the IMF and the World Bank, ensuring retention of the progress made in global free trade and avoiding the disastrous protectionism of the 1930s.



Source: Fund staff calculations

The pressures within Bangladesh to tackle the financial crisis has also risen in recent weeks, with calls from the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI) for a Tk 6000 crore package and the Bangladesh Garment Manufacturers and Exporters Association (BGMEA), Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA), Bangladesh Jute Association (BJA) and other assorted trade groups asking for fiscal and monetary support, ranging from 10 percent cash incentives to lower bank interest rates and repayment moratoriums.

Some actions to offset the spillover effects of the global crisis are warranted. However, Bangladesh policymakers face a challenge in terms of targeting sectors that have genuinely been affected by the crisis and not becoming susceptible to the natural tendency for every business group to seek cushions, whether they are warranted or not.

But this week, I will focus on the challenges of protecting Bangladesh's poor from the effects of the global crisis. I will not dwell too long on the justification or otherwise, of the BDR mutiny last month. Whether there were legitimate grievances in terms of low pay/promotion prospects and lack of participation in UN peacekeeping from the BDR rank and file, it is impossible to justify the kind of barbaric killings we saw, which included some civilians.

However, one might objectively argue that while the responses were extreme, the tensions between the "haves and have nots" in many third world countries is something that governments need to be cognizant of.

The economic boom that preceded the current bust in countries like India and China and even the US saw a large increase in income inequality. As a record number of billionaires were created in the BRICs, many in the villages of India and China continued to struggle to make a subsistence living.

In Bangladesh, the spontaneous and violent protests seen by workers in the garments industry, might be another manifestation of the entrenched feeling of injustice by the people at "the bottom of the pyramid", to paraphrase the famous book by University of Michigan Professor CK Prahalad.

A recently published IMF report titled "The Implications of the Global Financial Crisis for Low-Income Countries", notes that the global financial crisis is expected to have a major impact on low-income countries (LICs) that are exposed to the current global downturn more than in previous episodes, as they are more integrated than before with the world economy through trade, Foreign Direct Investment (FDI), and remittance. They go on to note that in many LICs, the ability to offset adverse shocks through spending hinges on higher donor support. With many countries facing binding fiscal constraints, and the outlook for significantly increased bilateral aid flows unlikely, many countries will need to rationalise spending and increase efficiency to create fiscal space for protecting social and Millennium Development Goals (MDG) related spending.

Efforts will also be required to strengthen revenue mobilisation. Given the economic downturn, efforts to strengthen safety net programmes to protect the poor become more urgent. Transfer programmes that effectively target the poorest often result in a larger stimulus to aggregate demand, given their higher propensity to consume. The capacity of many LICs to put in place newly targeted programmes will be limited in the near term.

As the chart attached shows, fiscal deficits have increased for all low-income countries, albeit the swing has been more extreme for commodity exporters than importers given the collapse in commodity prices.

One positive benefit for Bangladesh's poor, as illustrated in the chart, is the sharp decline in both energy and food prices as a result of the collapse in global demand. But there are a number of more specific steps we should consider taking.

Firstly, overseas workers laid off and forced to return to Bangladesh should receive a "transition allowance", to cushion the blow for their families from the loss of income, many of which hit the poor in the villages.

In addition, the government should pro-actively set up a network of vocational training colleges so that returning overseas workers can be re-trained in higher value-added professions and be in a position to get higher-paying jobs as the global economy picks up and the demand for migrant workers resumes in 2010.

While the current cyclical downward pressures on demand is at the forefront of everyone's minds, it is important not to overlook the longer-term structural demographic trends, namely the ageing of populations in Europe and parts of Asia such as Japan and China. Bangladesh is well positioned, so remittance flows will double on a 5-10 year view.

A second priority to safeguard the poor is to ensure workers in RMG and other sectors receiving export assistance or cash subsidies from fiscal measures see material benefits from government packages. Specifically, companies who receive government assistance ensure at least part of the subsidies goes directly to the workers either in pay or subsidised accommodation or food. Although there has been much talk of the "Walmart effect" or the resilience of Bangladesh RMG to global recession, downward pressures on garment prices and hence margins might force factory owners to try and push RMG workers' pay down, with potentially catastrophic social and economic consequences.

We also need to remain focused on the most effective means of increasing agricultural productivity and providing more effective access for farmers to both technology and financing. Higher crop yields remain an important priority to raise rural standards of living.

The broader challenge is one of how to increase the standard of living and quality of life of the poorer members of Bangladeshi society, while maintaining a conducive business environment for the businessmen and entrepreneurs to create wealth.

Income re-distribution is necessary and the latter group needs to persuade to pay a greater share of their profits and income in taxes to allow this to happen. But at the same time, the government needs to ensure that we can maintain and perhaps even increase the rate of growth of the economy in these extremely challenging times of the global financial crisis. This will require greater focus on ensuring progress on tacking the energy and infrastructure deficiencies in the economy and attracting greater foreign investment.

Bangladesh has fortunately been less affected by the global crisis than the majority of other emerging markets in Asia. But we are not immune from both an equity and social cohesion perspective and we need to ensure that any counter-global crisis strategies remain inclusive and focused on protecting the most vulnerable in our society.

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