

International Business News

Indian exports slide for fifth straight month

AFP, New Delhi

India's exports fell by nearly 22 percent in February from a year earlier, the fifth monthly contraction in a row, as overseas demand is battered by the global downturn, data showed Wednesday.

Analysts forecast more bad news ahead for Asia's third-largest economy as appetite for made-in-India goods slackens with the slowdown worsening in the country's key US and European export markets.

Exports fell to 11.91 billion dollars in February from 15.22 billion a year earlier, commerce ministry data released in New Delhi said.

Imports tumbled 23.3 percent to 16.82 billion dollars on the back of a huge fall in oil prices and weakening domestic demand, shrinking the trade deficit by 27 percent to 4.91 billion dollars.

For the first six months of the financial year to March 31, 2009, exports grew by 31 percent.

But shipments started shrinking in October as the worldwide financial crisis started to bite, reducing export growth for the first 11 months to just 7.3 percent.

With the US and several European countries slipping into recession, Indian exporters have hit hard times with widespread layoffs in the export-oriented garment and jewellery sectors.

The government has already cut its export target for the 2008-09 financial year to 170-175 billion dollars from an earlier goal of 200 billion dollars.

'Controlled bankruptcy' mulled for GM

AFP, Washington

The US government is considering a "controlled" bankruptcy for General Motors that would require approval by some creditors of a plan to break up the troubled automaker, US media said Wednesday.

Carefully monitored by the authorities, the bankruptcy would be "somewhere between a prepackaged bankruptcy and court chaos," The New York Times reported, citing people familiar with the matter.

"Instead of signing on every creditor as is typically required in prepackaged deals, administration officials are using as leverage the promise of taxpayer financing," the newspaper explained.

"The administration appears to be drawing in part from a playbook used with troubled banks, with the goal of creating a new, healthier GM, but leaving behind its liabilities and less valuable assets, perhaps for liquidation."

Under a plan being developed by the government, GM would file for "pre-arranged bankruptcy" and then use a special legal provision to promptly sell off desirable assets -- which could include Cadillac and Chevrolet -- to a new, government-financed company, according to the Times.



President and Chief Executive Officer of Samsung Electronics India Jung Soo Shin (R) and Indian actress Genelia D'Souza pose for pictures during the launch of the Samsung Ultra Touch mobile phone in New Delhi yesterday. The Samsung Ultra Touch mobile phone is priced at \$543.

French workers release Caterpillar bosses

AFP, Grenoble, France

French workers Wednesday released four managers held hostage for 24 hours at a Caterpillar bulldozer plant, after the US firm offered to reopen talks on layoffs under mediation by the state.

Employees at the Caterpillar factory in the southeastern city of Grenoble barricaded their bosses inside an office on Tuesday after talks between management and 733 workers facing redundancy broke down.

Factory director Nicolas Polutnik was set free along with the head of personnel and two other managers. A fifth executive, the human resources director who suffers from heart problems, had been allowed to leave Tuesday.

Hecklers shouted out "Resign!" while some 400 workers booed and whistled as the executives were driven from the site, headed for the regional labour office where the talks with unions are to take place.

Their release came after President Nicolas Sarkozy moved to defuse the situation by offering in a radio interview to meet union leaders from the plant to hear their demands.

Eurozone unemployment rises to 8.5pc

AFP, Brussels

Unemployment in the 16 countries using the euro rose in February to 8.5 percent to hit the highest level in close to three years, according to official EU data on Wednesday.

The unemployment rate hit the highest level since May 2006 in February as an estimated 319,000 jobs were shed across the single currency bloc, the European Union's Eurostat data agency said.

The eurozone joblessness rate stood at 8.3 percent in January and 7.2 percent in February 2008.

"Extended and now deep economic contraction, extremely weak business confidence and deteriorating profitability is weighing down ever harder on labour markets," IHS Global Insight economist Howard Archer said.

After gradually falling in recent years to a record low of 7.2 percent in March 2008, unemployment in the then 15 eurozone countries began creeping higher from April 2008 in the face of a deteriorating economic outlook.

INTERVIEW

No scope for complacency

STAR BUSINESS REPORT

Mamun Rashid, the managing director and Citi country officer for Bangladesh, shares his opinions on the global financial meltdown and ways to overcome the crisis, in an exclusive interview with The Daily Star. With a banking career spanning over 20 years, he has served many senior positions in treasury, institutional banking, debt restructuring and recoveries and corporate banking, at home and abroad.

Rashid is also the chairman of the International Chamber of Commerce (ICC) Standing Committee on Banking Techniques and Practice for Bangladesh and a Securities and Exchange Commission-nominated director for the Chittagong Stock Exchange.

**How would the recession impact financing of big projects as well as small ones in Bangladesh?**

Unlike some parts of the world, our economy is not yet into recession, at least from the theoretical definition of economics. However, there is also no scope for us to remain complacent. The global financial crisis is trickling down to many developing countries and the economic activities of those countries are contracting at a rapid pace.

Since the recession that we fear would be driven by a global financial crisis, if it becomes a reality, it would have a dual impact on our

economy - from the supply side as well as on the demand side. In fact, increased risk aversion among the foreign investors due to the global crisis has already limited the flow of foreign investment for project financing and increased the cost of scarcely available foreign funds. If the lack of investors' confidence spreads to our local investors, project financing would face a major hurdle from the supply side.

On the other side, recession would drag down the revenue potential of the projects, as consumers (both institutional and retail) would be restraining their spending and expenditure. However, if timely and well maneuvered quantitative easing and expansionary measures can be devised, policy makers might be able to stimulate the demand side of the economy.

**How do banks hedge themselves in the current scenario?**

Banks would have to remain cautious in the current scenario portfolios must be monitored and controlled. However, it must also be noted that if the banks become overly cautious, it would hurt the credit flow in the economy, which would magnify the slowdown of economic activities. In such cases, policy makers can think of providing some kind of incentives to banks who are lending to the productive sector.

**What could be done to bring down the interest rates?**



Mamun Rashid

Policymakers are talking about bringing down the interest rates. We have observed certain actions in the money market. The central bank has brought down the reverse repo rates from 6.75 percent to 6.5 percent.

Going one step further, we have seen the central bank not accepting any reverse repos from the market. This is a clear signal to the market to bring down the interest

rates. We have also seen the central banks in our neighboring countries taking a few more steps to bring down the interest rate. Cutting reserve ratios is certainly the most talked about among those. If reserve ratios are reduced, it would bring down the interest rates due to a reduction in reserve costs and eventually will enable the banks to lend at a lower rate. Moreover, lower

reserve ratios would also increase the flow of credit due to the multiplier impact of money creation. In the face of reduced price levels and lower probability of inflationary pressures, we can also give a thought to this particular policy measure.

**How are banks going to suffer because of the recession?**

As I said earlier, recession is not yet a reality in Bangladesh. However, we have already seen slowdown in trade volumes (both export and import) due to falling commodity prices and a reduced foreign demand for consumable products. The fall in trade volumes has already reduced the business size of the banks.

If recession grips economy, bad loans might increase due to the manufacturers' inability to sell their goods. The profitability of the banks would suffer. However, if a stimulus package can be devised properly, the chance of avoiding a recession becomes higher.

In a time like this, our objective should be to maintain the flow of credit and to retain investors' confidence by all means. Regulators and policy makers should remain vigilant and they must be prepared to take immediate actions if the credit situation deteriorates. As competition is intensifying in the shrinking consumer market, we cannot and will not be able to afford a fall like Lehman Brothers in our country.

COLUMN

IFTY ISLAM

PPP as a catalyst for growth

The first meeting of the recently established Bangladesh Financial Crisis Taskforce took place on March 24. Essentially, the taskforce is likely to split prospective policies between countering the immediate effects of the crisis in depressing demand conditions in the economy, primarily via the export sector or reduced remittances, and more structural measures such as in the energy, infrastructure or agricultural sectors as well as export diversification and increasing FDI, that will likely help increase Bangladesh's underlying level of growth over the medium-long term.

Among the various initiatives the government has hinted at, it was encouraging that Finance Minister AMA Muhith has emphasised a commitment to a specific programme to boost Public-Private Partnerships (PPP) in the upcoming budget. He should also be commended for thinking about PPP beyond just energy to other sectors such as healthcare and education.

PPP has been the buzz phrase in public policy circles around the world for some time. But what does it actually mean?

In the emerging market economies, governments are increasingly constrained in mobilising the required financial and technical resources and the executive capacity needed to cope with the rising demand for infrastructure and other utilities. Developing countries are experiencing increasing pressure from their citizens, civil society organisations, and the media to provide accessible and affordable infrastructure and basic services.

For countries in South Asia, bridging gaps in infrastructure is key to achieving goals for growth and poverty reduction. Over the years, governments have under invested in infrastructure assets and especially in maintaining them. While the infrastructure gap is rising, government budgetary resources are increasingly constrained in financing this deficit. Since neither the public sector nor the private sector can meet the financial requirements for infrastructure in isolation, the PPP model has come to represent a logical, viable, and necessary option for them to work together.

According to an ADB-JBIC-WB (2005) study, to meet expected infrastructure service needs, East Asia would have to spend about \$165 billion a year from 2006 through 2010 or roughly around 6.2 percent of its GDP annually on electricity, telecommunications, water and sanitation, and major transport networks. Investment requirements for South Asia as given in a World Bank/UNESCAP study indicates that developing Asian and Pacific countries need



A truck rumbles down the Dhaka-Chittagong Road. The proposed Dhaka-Chittagong Expressway is a future area for public-private partnership in Bangladesh.

annual investments of \$228 billion from 2006 to 2010, with nearly half of it required for the energy sector. In another estimate, the Asia-Pacific Infrastructure Forum found that the region's investment requirements would be approximately \$300 billion per year.

Today policymakers increasingly recognise that PPP in infrastructure is most promising for developing infrastructure and other utility services. The emergence of PPPs is seen as a sustainable financing and institutional mechanism, with the potential of bridging the infrastructure gap. PPPs primarily represent value for money in public procurement and efficient operation. Mainly in emerging markets, the efficient use of resources, availability of modern technology, better project design and implementation, and improved operations combine to deliver efficiency and effectiveness gains, which are not readily produced in a public sector project.

PPPs allow governments to overcome their budgetary and borrowing constraints and raise finance for high-priority public infrastructure projects. Acting on critical policy, regulatory, and institutional reforms, paying close attention to the design of transactions, and tackling major constraints to private participation is the key to successful PPPs.

Some benefits of PPP include: Users Pay: users, rather than taxpayers, pay for what they use. Thus, those who benefit most from the project pay for it with

tolls, thereby freeing up tax dollars for other projects and needs.

Synergistic Effect: PPP adds value through synergies between public authorities and private sector companies through the integration and cross transfer of public and private sector skills, knowledge and expertise.

Improved Service Quality: by making use of specific expertise developed within the private sector, in some cases, it is possible to offer citizens better quality services. It also creates competition among the players for further incentives for strengthening their future image.

Private Sector Innovation: PPP allows government to tap on to the private sector's capacity to innovate. This is the greatest source of value for money gain, and is achieved by government not specifying how a service should be delivered or how an asset has to be designed and built. Instead, government will spell out the services it needs, and the desired outcomes/outputs. The private sector can then introduce innovative solutions to meet government's objectives.

Better asset utilisation: Government assets/facilities can be shared with third-party users. Space in government buildings can be rented out for suitable alternative uses. Sharing government facilities with other users can contain cost increases for government and thus public services.

As the World Bank's Public-Private Infrastructure Advisory

group has noted, "(South Asia) will be unable to bridge this (infrastructure) deficit as long as its infrastructure policy deficit remains, manifested in distorted pricing, poor governance and accountability, and weak financial and operational performance. The policy deficit has had the biggest impact in the power and water sectors, where a lack of credit-worthy off-takers has limited private investment."

India has led the way in the region in the most effective PPP policy. Chidambaram, former Indian finance minister, stressed a 'well-defined' and 'stable' PPP policy to encourage private investors, partnering with the government in infrastructure funding. The policy should evolve, but not revolve, the minister said, promising "complete transparency" from bidding to tax concessions under the public-private-partnership (PPP) funding model.

PPPs alone are not a panacea. Rather, they are one tool governments have at their disposal for facilitating infrastructure delivery tool that requires careful application. Think outside the box on PPP. Effective PPP can substantially enhance public sector service provision and capability in areas like civil service training and marketing 'Brand Bangladesh'.

So why has PPP not been developed to a greater extent in Bangladesh? One might argue there has been a lack of consistency in the PPP framework with different ministries having different rules. Pressure for greater

transparency in the procurement process from donor agencies needs to be balanced with the effect it has on risk-aversion by civil servants and extended delays in decision making the Dhaka Chittagong highway has been tendered four times and Bibiana power plant multiple times.

More fundamentally, we need a change in public sector attitude to reflect private sector policy initiatives and projects. It may make sense for the government to appoint a PPP 'Czar' and policy unit as part of the PM's office that has the cross-ministry authority to drive through PPP projects. Power projects, land ports, fiber optic cable network, more Dhaka city flyovers and urban mass transit systems, power plants, the proposed Dhaka-Chittagong expressway are some future areas for PPP in Bangladesh.

By making the best use of the full range of delivery models that are available and continuing to innovate/learn from failure instead of retreating from it the public sector can maximise the likelihood of meeting its infrastructure objectives and take PPPs to the next stage of their development. This development, in turn, will enable this relatively new delivery model to play a far larger role in closing the infrastructure gaps constraining Bangladesh's economy and allow it to emerge as Asia's next "Tiger" economy.

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