International Business News

Singapore Press Holdings profit falls 12.6pc

AFP, *Singapore*

Singapore Press Holdings (SPH) said Monday second quarter net profit fell 12.6 percent year on year and that the recession will continue to hurt advertising revenues in 2009.

The company, which owns the city's Straits Times newspaper, said net profit in the three months to February totalled 87.05 million Singapore dollars (57.6 million US), down from 99.6 million dollars for the same period last year.

Overall revenue in the quarter declined 4.1 percent to 289.5 million dollars from 301.8 million dollars last year, the publisher said in a statement.

Revenues from the firm's newspaper and magazine business segment, by far its biggest source of operating income, fell 13.5 percent or 31.8 million dollars to 204.57 million dollars.

"The recession in Singapore is expected to last through 2009 and this would have a continued impact on advertisement revenue," said Alan Chan, the firm's chief executive.

"The group had taken several initiatives to enhance revenue and contain costs at the beginning of the financial year and had subsequently implemented further measures including the wage reduction exercise in April 2009," he said.

Switzerland 'to hit back' at OECD in tax row

AFP, *Zurich*

Switzerland is considering further measures against the OECD in the row over how much the country is doing to reform its policy on tax havens, media reports said Sunday.

The Neue Zuercher Zeitung (NZZ) quoted Swiss officials as saying they might block progress in cooperation with China, India and other emerging countries in protest against being placed on the OECD's "grey list".

On Wednesday Switzerland blocked a payment of 136,000 euros (180,000 dollars) to the OECD, a 30-member organisation of major industrialised countries.

Officials were now considering delaying their membership subscription of 10 million Swiss francs (8.65 million dollars) or blocking the 2011 reelection of OECD secretary general Angel Gurria, the paper reported.

The federal finance ministry could not be reached for comment.

But Interior Minister Pascal Couchepin told Sonntag, another Sunday paper, that it was not up to the OECD to act as a "restaurant guide" on the issue.

On April 2, the Organisation for Economic Cooperation and Development (OECD) released a "grey list" of countries that "have committed to the internationally agreed tax standard, but have not yet substantially implemented" the measures.

AFP

Young Chinese women gather for a job interview at a company hiring only female staff in Beijing on Sunday. Measures taken by China to combat the global economic crisis are beginning to show results, state media quoted Premier Wen Jiabao as saying, ahead of first quarter results due next week.

Indonesia sees economic rebound in 2009

AFP, *Jakarta*

Indonesia expects the impact of the global economic downturn on the domestic economy to dissipate this year, a minister said Monday.

Gross domestic product should grow by a lower than previously expected four percent in 2009 as exports, imports and domestic demand plunge, Planning and Development Minister Paskah Suzetta said.

But a six-billion-dollar stimulus plan and the underlying strength of domestic demand should help steer Southeast Asia's biggest economy away from the negative growth experienced in neighbours like Singapore and Thailand.

"The effect on Indonesia of the economic crisis should end in 2009 as the fiscal stimulus is being set in motion to increase domestic consumption," the minister told reporters.

"I am sure that our economic growth will reach four percent" this year.

The stimulus is made up mostly of tax incentives to boost purchasing power and investment.

US govt tells GM to prepare for bankruptcy filing

AFP, *Washington*

The US Treasury Department has told General Motors to make all necessary preparations for a possible bankruptcy filing by June 1, even though the troubled automaker insists it can restructure its business on its own, The New York Times reported late Sunday.

Citing unnamed people "with knowledge of the plans," the newspaper said the instructions had been conveyed by members of President Barack Obama's automotive task force, who spent last week in meetings and on conference calls with GM in Detroit and Washington.

The talks are expected to continue this week, the report said.

According to the paper, the goal is to prepare GM for a fast "surgical" bankruptcy.

The automaker already has been granted 13.4 billion dollars in federal aid, and its managers are insisting the company's image should not be damaged.

FINANCIAL CRISIS

Falling exports hit economy

STAR

Export growth in the crucial garments sector has slowed as orders are evaporating. In July, garment exports were up 72 percent from a year earlier, but by February growth had slipped to 4 percent year-on-year.

AFP, *Dhaka*

Export growth for Bangladesh's crucial garments sector has ground to a halt as a result of the global financial crisis, threatening to pull down the rest of the economy, experts said.

Clothing manufacture underpins impoverished Bangladesh's industrial activity, accounting for 80 percent of overseas sales and pulling in 11 billion dollars a year.

"What started as the best year for us has suddenly vanished due to the global meltdown," said Abdus Salam Murshedy, head of the Bangladesh Garment Manufacturers and Exporters Association (BGMEA).

Export orders are evaporating as the appetite for made-in-Bangladesh goods falls in the country's main US and European markets as customers tighten their belts.

At the start of Bangladesh's financial year in July, garment exports were up 72 percent from a year earlier, but by February growth had slowed to four percent year-on-year as orders from Western retailers evaporated.

"The whole economy can unravel if garment exports continue to slow down as many other sectors such as transport, services and construction are directly dependent on this sector," said Masato Miyazaki, an IMF adviser on Bangladesh.

Many garment factories now have no orders, said Fazlul Hoque, who heads the country's 1,300-member Knitwear Manufacturers and Exporters Association.

"Hundreds of factories are on the verge of closure and many have shed jobs," said Hoque, warning that thousands more jobs were at stake in the sector.

The garment industry employs 2.5 million workers, mostly women, who account for more than 40 percent of Bangladesh's industrial workforce.

One of the country's biggest selling points was its ability to undercut rivals India, Pakistan and China as Bangladeshi labour was among the world's cheapest.

But those countries now are beating Bangladesh on price, industry leaders said.

"We used to boast that nobody could beat us but Pakistan, China and India are now offering cheaper rates," said Z.A. Chowdhury, director of leading manufacturer Knit Asia, which sells garments to British supermarket chain Tesco.

He said the currencies of India and Pakistan have depreciated against the dollar in recent months, making their goods cheaper, while the Bangladeshi taka has remained steady.

"Garment exports grew over 40 percent in the first quarter as orders meant for China directed to Bangladesh because of its cheap production cost,' said trade expert Mustafizur Rahman, a visiting Yale University professor.

"But it started to slow down sharply since October as China has withdrawn taxes and pumped incentives to its apparel manufacturers to cushion against global recession," he said.

The BGMEA, which groups 4,500 export-oriented garment factories, said firms need subsidies worth 10 percent of the value of their exports to stay competitive.

Rahman said the export downturn is taking a toll on economic growth, and could push millions more below the poverty line in what is already one of the world's poorest countries.

Close to 40 percent of its 144 million people survive on a dollar a day.

The World Bank has forecast growth this financial year could be two percentage points lower than expected at 4.5 percent, the lowest in eight years.

Last year the economy grew by 6.2 percent and the government had been aiming for 6.5 percent this year.

On top of the export slump, Bangladeshi workers abroad are being laid off in the Middle East, South East Asia and other countries where Bangladeshis find low-skilled, low-wage work.

This has hit remittances, another worry for authorities as money sent home by workers abroad is the second biggest foreign exchange earner after exports.

"The economy is clearly slowing down as exports have been hit by global recession and overseas jobs have declined sharply with more workers returning home," said the World Bank's Miyazaki.

"It's a worrying sign for the country's poor."

COLUMN

MAMUN RASHID

Offshore banking: Its opportunities

Offshore banking refers to international banking involving non-residents' foreign currency-denominated assets and liabilities. Offshore banking units conduct their deposit taking and lending activities with foreign investors without conflict with the domestic fiscal and monetary set-up and independent of the local commercial banking system. An efficient offshore banking system is imperative in ensuring the success of incoming foreign investment. In our country, most of the foreign direct investment is made in the eight export processing zones (EPZs). The success story of Bangladesh export growth can be greatly attributed to the crucial role played by these EPZs.

In FY2007-2008, exports from the EPZs stood at \$2.43 billion while the foreign investment in the EPZs amounted to \$302 million of which more than 40 percent was generated by the Chittagong EPZ, followed closely by the Dhaka EPZ. There are three types of companies operating in EPZs:

- Type A: 100 percent foreign ownership (252 companies)
- Type B: Joint venture (78 companies)
- Type C: 100 percent local venture (130 companies)

South Korea is the primary foreign investor in the EPZs contributing almost 26 percent of total investments. The others include Japan, China, Malaysia, India, Taiwan, USA and UK. In terms of industry concentration, garments and textiles are the leader constituting more than 72 percent of total investments (garments 26 percent, textile 25 percent, garments accessories 11 percent, knit and other textile 10 percent).

Success of these EPZ companies greatly depends on the access to proper banking services. The banking needs of the companies located in the EPZs are quite unique compared to other local corporations and mostly centre around international trade activities. OBUs can play an important role in this regard.

Under existing Bangladesh Bank regulation, foreign investors do not have the opportunity of raising funds from local commercial banks. The OBUs are operated through completely separate counters and maintain their own accounts relating to offshore banking business separately. The OBUs, regardless of their location, get coverage under the EPZ Act. 1980 and conduct transactions in freely convertible foreign currencies. The OBU clients have been allowed exemptions from the preview of provisions of Banking Companies Act 1991, except some particular sections as declared by the Bangladesh Bank.

In view of the current global turmoil, where the local exporters/importers are going through significant stress, the OBU's can act as major facilitating hubs and can play an important role in bringing efficiency and reducing the cost of doing business by the exporters/importers. The following measures, if adopted, can further enhance the OBUs' ability to attract even more increase in exports:

1. The type C companies should be allowed to avail financing from the OBU's just like the Type A investors. This will put them in level playing field with the foreign investors.

2. The companies outside EPZs that are engaged in export business should have easier access to OBU financing to set up export oriented industries and should have the option to borrow in foreign currency if they enjoy natural hedge against FX movement risks, with Fcy export receivables.

3. Board of Investment (BOI) approval process in this connection needs to be streamlined or handed over to Bangladesh Bank, as turn around time would be the key success factor.

4. OBU units should also be allowed to extend short-term trade loans to settle the deferred import obligation of onshore banks, which will bring the following benefits:

- No deferred period interest will be required to be remitted outside the country.
- It will also bring back all the revenues currently being earned by the beneficiary's bank in foreign countries.
- Foreign suppliers will quote lower prices as the payment will be at sight and hence will require even lower outward remittance.
- As this financing will be made against the onshore import obligations, so overall there will be no increase in the country's foreign currency obligation. Under the above proposition the funding cost will be in the range of 5 percent to 7 percent whereas local funding cost is around 14 percent.

One argument which has been often offered against more deregulation of OBU is that it would 'dollarise' the economy by increasing Fcy debt and make the country vulnerable against external shock. However, we must remember that most of these Fcy loans will be used to facilitate trade finance and as such will be mostly be short-term revolving or long-term financing capital machinery for expansions. There would be very little opportunity for diverting these fund flow to unproductive sectors and the flow of speculative fund will not be incentivised. The additional availability of enhanced trade finance capability of the OBU operators will attract more real investors in various EPZ. Also, at this stage our economy's leverage in terms of Fcy borrowing is very limited and we have still certain room to accommodate some, non-speculative, real investment which will make our economy more attractive to the potential investors.

At present, there is a crying need for proper banking facilities in the EPZs as the existing OBU set-up of the country is simply not adequate to meet the ever-growing banking needs of the expanding EPZs. Currently there are only 5 foreign banks and 6 local private banks operating OBUs in the EPZs, mostly offering `plain vanilla' products. Since Bangladesh Bank stipulations, allow OBU's to operate as any other offshore bank, time has come for us to review our OBU operations and capabilities and take this further for continuous solutions building.

In most other nations around the globe, the OBUs are subject to preferential tax treatment in the form of taxes and levies being imposed at lower rate or not being charged. However, in Bangladesh OBUs enjoy no tax benefits whatsoever. As a result, local banks are discouraged to set up OBUs and as a result companies in the EPZs are suffering because of lack of access to banking services. Therefore, the OBUs should be brought under special tax bracket in order to maintain and enhance the growth of our exports and thereby ensure the prosperity of our great nation.

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