

International Business News

Sri Lanka says it's poised for economic takeoff

AP, Singapore

Sri Lanka is poised for an "economic takeoff" now that its military has routed the Tamil Tiger rebels, the country's foreign minister said Sunday.

Rohitha Bogollagama told a high-level security and defence conference that the government's priorities now are reconciliation with the Tamil minority in the Sinhalese-majority country, rehabilitation of Tamil civilians and holding free and fair elections.

"Our people are weary of war, yet they are resilient and want to get on with their lives," Bogollagama told the Shangri-La Dialogue, an annual meeting of defense ministers, officials and experts.

The Sri Lankan government announced last week it had ended the 25-year separatist war on the island after expelling the Liberation Tigers of Tamil Eelam from their last holdout in the country's northeast and killing the rebel leader Velupillai Prabhakaran.

"We have overcome terrorism and Sri Lanka is poised for an economic takeoff," Bogollagama said. "Sri Lanka, absent of terrorism, will be the most liberalized economy in this region and could be compared with some of the most developed countries."

The separatist war shattered the country's economy, which was once one of the most vibrant in South Asia thanks to its thriving tea, tourism and garment industries.

Eurozone interest rate locked, new steps on tap

AFP, Frankfurt

The main eurozone interest rate is probably locked in at 1.0 percent for now, but credit flows remain weak and the European Central Bank will detail this week new ways to get money flowing again.

The ECB will also release Thursday its latest staff forecasts for growth and inflation in the 16-nation bloc, with a downward revision likely for the former owing to a disastrous first quarter in its leading economies.

With interest rates most likely on hold for a while, "the focus has shifted to any developments regarding unconventional policies," said Capital Economics economist Jennifer McKeown.

The ECB has already said it will buy 60 billion euros (85 billion dollars) worth of covered, or collateralised, bonds, a move that should help restore cash flows in French, German and Spanish markets where such instruments are traded most widely.

Details are expected after a meeting of the bank's governing council.

But the amount corresponds to just 0.6 percent of the eurozone's gross domestic product, McKeown noted, whereas bolder moves by the US Federal Reserve and Bank of England are worth around 10 percent of their respective GDP.



Street painter Jeff Lewis works on a painting to sell to tourists at the port in Nassau yesterday. The Bahamian economy is based primarily on tourism, which is concentrated mainly in Nassau and Grand Bahama. Tourism alone accounts for more than 60 percent of GDP and directly or indirectly employs almost half of the archipelago's labour force.

Japan shadow finance minister wants single Asian currency

AFP, Tokyo

The man who hopes to be Japan's next finance minister envisions an Asia united by a single currency, saying the dollar may no longer reign supreme in future.

The opposition's 'shadow finance minister' Masaharu Nakagawa also says he hopes to reshape the world's number two economy into a kinder, gentler place if his Democratic Party of Japan (DPP) wins elections this year.

"You can't invigorate society only through... the law of the jungle where the strong become stronger," he told AFP. "The same player would always win if there were no handicaps in golf."

Japan's conservative Prime Minister Taro Aso must call elections by September, when the DPP hopes to topple his Liberal Democratic Party, which has been in power for almost all of the past half century.

In an interview with AFP, Nakagawa outlined some of the changes he would like to make if he becomes finance minister in Asia's largest economy, which is now in the throes of its worst post-World War II recession.

Taiwan's opposition pushes for China trade referendum

AFP, Taipei

Taiwan's pro-independence opposition on Sunday renewed its pledge to hold a referendum aimed at stopping the Beijing-friendly administration from signing a comprehensive trade pact with China.

The Democratic Progressive Party (DPP) said it hopes to collect at least 80,000 signatures before the end of August in the first part of a two-step process required by law for the campaign, announced last month, to go ahead.

Once it reaches its target figure, the party will then have to enlist the endorsements of up to one million supporters before a referendum can take place.

"Concerns are mounting about signing an ECFA (Economic Cooperation Framework Agreement) with China as it is not a pure trade agreement. Rather it has something to do with sovereignty," DPP spokesman Cheng Wen-tsang said.

CREDIT CRISIS

A day of reckoning for US auto giants

AFP, Washington

The once mighty US auto industry faces a day of reckoning on Monday with the looming bankruptcy of General Motors and an expected court ruling on the sale of Chrysler to a group led by Italy's Fiat.

The global economic crisis has hit the US industry hard, prompting massive intervention by President Barack Obama's administration to prevent total collapse and a new blow to the nation's economy, which is already in recession.

A government rescue plan for GM could put as much as 72.5 percent of the country's biggest automaker under state ownership.

With the hours counting down for GM, company bondholders with slightly more than 50 percent of GM's 27.2 billion dollars in bond debt voted Saturday in support of the restructuring plan, The New York Times reported.

Among the backers was a committee of large investors holding about 20 percent of GM's outstanding bonds, The Times said.

No official announcement of the vote tally has yet been made.

Under the plan, the bondholders would obtain the rights to buy an extra 15 percent of GM's stock at a low price. They would also control 25 percent of the new GM, after having supported the new company's creation in bankruptcy court.

Recalcitrant bondholders who opt for confrontation rather than cooperation "will get nothing or very little," an Obama administration official told reporters Thursday.

Government-backed restructuring in bankruptcy court for GM, once the world's largest automaker, appeared all but certain.

Monday marks a deadline imposed by the Obama administration for the company to submit a viable restructuring plan or file for bankruptcy.

Meanwhile, a US bankruptcy court judge in New York was widely expected to approve a deal between Chrysler and Fiat on Monday.

The third biggest US automaker has declared bankruptcy and is seeking a tie-up with Fiat in a plan presented as the only way to save the company from liquidation.

Developments at Chrysler could provide an example for restructuring at GM, which will similarly have to sell some of its brands and close many dealerships.

But the administration official said a 60- to 90-day timeframe was "better" for GM, contrasted with the fast-track process for Chrysler, which filed for bankruptcy protection on April 30.

"This is a much more complicated company than Chrysler, as a global company. It's three times the size," noted the official.

The United Auto Workers (UAW) union said Friday its members ratified a deal to allow GM to radically cut costs and its debt load, clearing the way for a quick exit from the expected bankruptcy filing.

GM also announced plans to retool an



The General Motors world headquarters building is shown in Detroit, Michigan.

idle US plant to build small cars it had originally planned to import, and two more US assembly plants could potentially be saved.

The automaker, which normally shuts down plants for two weeks during the summer, is planning longer-than-normal closures at a variety of facilities this summer, The Detroit Free Press reported.

Some factories will be shut down for as long as nine weeks, according to the newspaper report. This week, about eight out of its 15 assembly plants will be running.

The bankruptcy filing could also be sped up by a deal struck Saturday after marathon talks that saw Canadian parts maker

Magna and its Russian backers taking over GM's Opel.

The deal for GM's European operations, brokered by the German government, amounted to a major development in the remaking of the global auto industry.

GM employs some 50,000 people throughout Europe and Magna plans to cut about a fifth.

German Chancellor Angela Merkel, whose government agreed to stump billions of euros (dollars) in loan guarantees and emergency loans to keep the ailing Opel afloat, acknowledged that talks over the future of GM Europe had sometimes been difficult.

FACTS

● Once the biggest corporation in the world, steady growth overseas was unable to rescue General Motors from spiralling losses in the United States.

● Founded in 1908, GM sold more vehicles than any other automaker from 1931 until 2008, when it was overtaken by Japan's Toyota.

● The largest of the Detroit Three automakers, GM has seen its US market share fall from a peak of 54 percent in the 1950s to just 22 percent in 2008.

● It nonetheless sold a whopping 8.35 million vehicles in 2008 despite a collapse in global auto sales amid a credit crunch and widening economic downturn.

● GM last made a profit in 2004, earning 2.8 billion dollars, and has been operating under ever-deepening restructuring plans ever since. It lost nearly 88 billion dollars from 2005 through the first quarter of 2009.

● Global employment levels reached more than 850,000 in 1978, of which more than 600,000 were in the United States, making GM the nation's largest private employer.

● By 2005 it had already shrunk to 335,000 people and further cuts this year will bring it below 200,000 worldwide.

● GM's unionised workforce has taken the most dramatic hit. GM employed 440,000 hourly workers in the United States in 1981.

● By 2000, that had dropped to 133,000 and the automaker ended 2008 with just 62,000.

● The latest restructuring plan calls for the unionised workforce to shrink to 38,000 by 2011: less than a tenth of what it was two decades earlier.

● Once studied in business schools for the success of its brands, which operated as separate divisions aimed to satisfy different segments of the market, GM is shedding most of its marks -- including Sweden's Saab, Hummer, Pontiac and Saturn. It will concentrate on Cadillac, Buick, Chevrolet and GMC.

● The latest restructuring plan will shrink GM's US dealer network by 40 percent and will cut its US plants from 47 to 31.

-AFP

FINANCIAL INSTITUTIONS

Corporate income tax needs a cut

MD DIN ISLAM MIAH

Non-bank financial institutions (NBFIs) play a vital role in SME (small and medium enterprise) development in Bangladesh. Twenty-nine NBFIs are providing various types of financial support for entrepreneurs' development, particularly giving a main focus to SME. It became a very popular sector for providing financial support through its different types of modern products for immediate solution to financial requirements of the entrepreneurs within a short time.

NBFIs have an important role in providing alternative sources of fund, capital assets and many other solutions for the entrepreneurs. The sector became attractive to the large-scale businesses for its efficient, cost-effective, tax benefits and emergent financing solutions in private sector. The NBFIs have to take more risk than banks for financial services for industrialisation of the country. They help develop capital market of the country by investing funds in securities, sanctioning loan against lien over securities, by merchant bank operation and entering the capital market through IPO (initial public offering).

Lease finance, the main product of the NBFIs, was introduced in the country in 1985. Now it is a well-established financial sector with an impressive increasing trend in terms of portfolio, employment generation, development of capital market and contribution to the GDP.

NBFIs can take term deposit from individuals as well as institutions for mobilisation of their fund. They are mainly dependent on loan from banks. An NBFI has



to arrange fund through re-finance from the Bangladesh Bank, issuance of securities and utilisation of reserves and surplus. As it has to mobilise fund for investment mainly from banks, its cost of fund is higher than banks. More over banks have some deposits that are interest-free. The NBFIs take deposit at a higher rate from banks. Sometimes banks place their idle fund in NBFIs as term deposit at a higher rate of interest.

NBFIs have to take more risk than banks for investments. Most of the loan of banks is secured by

adequate collateral security. But NBFIs are to provide working capital loan, lease finance without collateral security and only secured by the corporate or personal guarantee. So, the profitability of banks is higher than that of NBFIs. Cash credit (CC) and Hypo loans are very secured products of banks that are not allowed for NBFIs.

Cost of fund is an important factor to maintain profitability, financial strength and stability of banks and NBFIs. NBFIs face too many problems including competition with the banks that have a

lower rate of cost of fund. The NBFIs have to borrow fund from the banks with higher rate of interest to meet fund requirements for their investments. As the banks have a great opportunity of taking interest-free or lower-rated deposits, the weighted average cost of fund (WACF) of banks can be minimised. But the NBFIs are not allowed to take public deposit by way of current or savings account. In spite of the higher rate of interest of the NBFIs, the entrepreneurs prefer loan or lease or other financial services and facilities than banks because of the dynamic,

need-base, and quick services as well as the collateral-free financial services provided by them.

The NBFIs are governed according to the Financial Institutions Act 1993 whereas the banks are regulated by the Banking Companies Act 1991. All other related regulations such as Companies Act 1994, circulars of Bangladesh Bank, SEC regulations and DSE /CSE listing regulations are equally applicable for both the banks and NBFIs.

Income tax rate of banks and NBFIs are 45 percent but the profitability of banks is higher than the NBFIs. So the burden of income tax on NBFIs should be reduced to keep them in a sustainable condition.

A main product of NBFIs is lease financing and the NBFIs became very popular as leasing companies for this product. This product was very popular as a good solution to the requirement of capital machinery, working capital as well as income tax benefit for both the lessee and lessor. Depreciation allowance on lease assets was withdrawn by the Finance Ordinance 2007 which affected the leasing industries, reduced the import of new machinery in Bangladesh and became a heavy tax burden for NBFIs along with global financial crises. To maintain sustainable condition and promotion of NBFIs, it is necessary to re-introduce depreciation allowance on lease assets for NBFIs by the Finance Act 2009 and reduce the corporate income tax rate at 35 percent from the existing 45 percent.

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