International Business News

Singapore concerned over 'Buy American' clause

AFP, *Washington*

Singapore expressed concern Friday over a controversial "Buy American" plan in US efforts to stimulate recovery, saying some nations were exploiting gray areas in global trade rules.

The plan was embedded in the nearly 800-billion-dollar US stimulus package adopted earlier this year that required projects funded with stimulus money to use only US-made steel, iron and manufactured goods.

"Some of these measures of course cause a lot of discomfort to many of us including Singapore," said Lim Hng Kiang, the island nation's trade minister, in Washington for meetings with trade officials and US lawmakers.

He said that while Singapore was not directly affected by the restriction, it understood the concerns of countries hit by the action.

"We empathize with countries like Canada, which is more directly affected by what some of the states in the US have done in following some of these regulations and policies and we are monitoring the situation very closely," Lim told reporters.

He said that Singapore "will add our voice to concerns" that "such actions might beget other actions and then cause the situation to snowball in the wrong direction."

Lim, without pointing his finger at the United States, also said it might be difficult to pin down countries that took steps that bordered on protectionism, at the World Trade Organization, the global trade watchdog.

Canada sheds 42,000 jobs in May

AFP, *Ottawa*

Canada shed 42,000 mostly manufacturing jobs in May, pushing its unemployment rate up 0.4 percentage points to 8.4 percent -- its highest rate in 11 years, Statistics Canada said Friday.

Since an employment peak in October 2008, employment has fallen by 363,000 or 2.1 percent, the government agency said.

"It's hardly shocking that Canadian employment has retreated again -- the job shakeout likely still has a way to go, even if the broader economy bottoms out in the coming months," said BMO Capital Markets analyst Douglas Porter.

However, as increases in job numbers usually lag behind other signs of economic recovery, these dour job figures failed to sour analysts' optimistic forecasts.

"Arguably, the very narrowness of the job losses in May -- almost exclusively concentrated in Ontario manufacturing -- holds out a whiff of good news for the broader economy," Porter said in a note.

"That is, the devastation in the (Ontario-based) auto sector is not being repeated in other sectors," he said.

"Indeed, the modest gains sprinkled among most services sectors and around much of the rest of the country add to the view that domestic spending is stabilizing."

AFP

Chief Minister of the western Indian state of Gujarat Narendra Modi waves to a huge gathering while launching MOVIA, the first Metro train made in India at Bombardier Transportation India at Savli near Vadodara, some 140km from Ahmedabad on Friday.

Merkel sparks debt debate

AFP, *Frankfurt*

German Chancellor Angela Merkel may have sought to score political points by slamming central banks last week, but she also echoed fears over growing public debt and waning bank independence.

Merkel shocked financial markets when she said in Berlin: "We need to get back to an independent central bank policy and a policy of common sense."

Her rare criticism singled out the US Federal Reserve in particular, as she expressed scepticism over "the extent of the Fed's powers," which include the authority to buy 300 billion dollars (210 billion euros) worth of government and private debt.

Merkel's remarks came days before a rate decision by the European Central Bank (ECB). The ECB, she said, had "bowed to international pressure with its purchase of covered bonds," a non-conventional measure to boost credit markets.

The comments also preceeded a European parliament poll this weekend and a general election in Germany in September, prompting the Financial Times to call her comments "political point-scoring."

Worst of crisis still ahead in Russia: Minister

AFP, *Saint Petersburg*

Russia has still not passed the worst of the economic slowdown and faces a second crisis wave, a minister warned Friday, clouding the mood at the country's premier economic conference.

Long-serving Finance Minister Alexei Kudrin -- known for his blunt straight talking -- said at the Saint Petersburg Economic Forum that Russia was set to face problems due to bad loans made by banks to struggling companies.

His comments were more pessimistic than an earlier speech by President Dmitry Medvedev who had nonetheless warned it was too early to pop the champagne corks to celebrate an economic recovery.

"In the presentations of the main speakers, I did not hear it said that the bottom has been reached. The president has said that we are at the worst point but it is unclear how long it will last," Kudrin said.

He went on to tell Russian state television that because of the problems created by bad loans "a second crisis wave is unavoidable."

ANALYSIS

Lack of research sets back RMG

REFAYET ULLAH MIRDHA

Bangladesh's readymade garment (RMG) sector has now many success stories in terms of volume of manufacture and exports, but it has some hurdles, too, that are to overcome to sustain its growth.

Around 20 years back, some young entrepreneurs, inspired by a group of Koreans equipped with high technology who relocated their factories to Bangladesh, ventured into garment business to try their fortune.

Presently, RMG takes up around 80 percent of the country's exports. Bangladesh fetched $11 billion from exports of the item last year and is expecting more than the figure this time, even during the global recession, which is said to be the severest after the Great Depression of 1930.

Although it is a thrust sector, lack of proper research and development work remains a major shortcoming for long.

In the absence of a world class design institute, Bangladesh's RMG factories make clothing items in accordance with the designs supplied from buyers' end, which is popularly known as 'cut and paste development'.

The country lags behind China and other countries in design. Foreign buyers hardly choose a local design. Hence, experts call for a due focus on such design diversification both on government and exporters' part.

Some see the making of mainly basic items as an advantage for Bangladesh's RMG to keep itself immune from global crisis, but many lament such product non-diversification. They point to China who has made a significant diversification over the last few years in their garment products and grabbed the global apparel market.

As a result, the rate of value addition in China's exportable garment products is higher than other countries.

Bangladesh now taps only 2.0 percent of the global apparel trade a year, according to industry insiders. It might be more if the country could have manufactured high fashioned and fancy clothing items.

In modern business strategies, a aggressive marketing drive is considered the most important tool for success. But Bangladeshi manufacturers are making clothing items targeting only the EU and USA.

The country is yet to properly tap the market potential for RMG products in South Africa, Canada and India (which allow duty-free access), Japan, China, New Zealand, Australia, Brazil, Mexico and the Middle Eastern countries.

However, there is a ray of hope that the RMG manufacturers started exporting to those destinations on a limited scale as part of a market diversification.

Another hurdle for the sectoral growth, many complain, is the government's negligible role in developing private entrepreneurship.

International buyers always point to Bangladesh's low productivity, which should also be addressed, many say. At present, the RMG sector suffers from 25 percent shortage of skilled workers.

Recently, both the BGMEA and BKMEA have taken their initiatives to produce skilled workers for the sector through imparting them training in as many as 31 centres.

Another important segment of RMG business is merchandising, an area that Bangladesh lags behind.

Merchandisers can hardly bargain with international buyers, as they are not highly skilled and professional in price negotiation. As a result, the buyers take the situation to their advantage and offer a throwaway price for RMG.

Government and makers' laxity has kept the RMG research and development on a backseat.

At present, the BGMEA has a small cell in the name of 'Research and Development Cell' where mainly the post-export activities like counting the percentage is done.

The pre-export activities like searching new export destinations, aggressive marketing drive on research data are absent there.

Similarly, the iART (Institute of Apparel Research and Technology) of the BKMEA mainly conducts research on post-export activities.

Recently, some graduates have come out from the BGMEA Institute of Fashion and Technology (BIFT), but most of them prefer merchandising. As a result, other sections of business remain unattended.

Against the backdrop, some private universities and institutes have come forward to open faculties on apparels, which is inadequate for attaining the expected result.

At present, 3.0 million workers are directly employed in 45,000 woven, 1700 knitwear and 1300 spinning, weaving, finishing and dyeing factories.

To meet the growing demand of the research and development, the government has handed over the management of the Bangladesh Textile Mills Corporation's National Institute of Textile Training, Research and Design to the Bangladesh Textile Mills Association on May 6.

To give a boost to the research and development, a BKMEA official said, "We need a concerted effort in research and development for the RMG sector. The government, manufacturers, trade body leaders, chambers, executives and scholars can play a vital role for a sustainable RMG sector."

Anwar-Ul-Alam Chowdhury Parvez, the immediate past president of Bangladesh Garment Manufacturers and Exporters Association (BGMEA), suggested that besides a central institute, there should have an interconnected research desk involving the central bank, foreign ministry and commerce ministry for forecasting long-term business strategies.

"The foreign ministry should have separate desks for US, EU, Asean and Indian markets. The manpower for those desks should be hired from business cadres in a long-term service for development of expertise," Parvez said.

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Garment workers stitch clothes at a factory in Gazipur. Lack of proper research and development work remains a major hurdle to the RMG sector.

COLUMN

Capital market not ready for PPP funds

A QUADIR CHOUDHURY

The government is reportedly going to unveil a PPP (public-private partnership) project for which a sum of Tk 3,500 crore is being earmarked in the 2009-2010 fiscal year budget. From Bangladesh's economic development perspective this is no doubt a new concept aimed at involving participation of the private sector in the capital-intensive infrastructure development projects. The idea, among others, is purported to make best use of the undeclared income of local entrepreneurs and business houses for which necessary provisions are also expected in the budget allowing use of such funds in the sectors to be earmarked. This is a wise move by the government to bring in undeclared money for utilisation in the national development programmes.

The issue that has cropped up centring this matter is interesting. Some are of the opinion that instead of the government spending this fund from its own coffer it should better be raised from the capital market by issuance of IPO and bond so the capital market is enlarged and made more vibrant. In my way, I would like to look at this issue strictly from a point of view of financial viability, taking into account the interest of the investors so far the capital market is concerned. The first thing we have to think is that the infrastructure projects are supposed to be the "Green Field" projects that take long years to complete and then go into commission or commercial operations to plough back fund, generate profit and offer dividends to the stakeholders. Is our capital market ready to absorb such ventures? Will the investors, under the given situation, wait for long uncertain period to get the dividend or value appreciation on that investment? The fact is our capital market is still dominated by small investors who are more interested in quick return for obvious reason so that they can recycle this fund. They can ill-afford any long-term investment in the projects perceived in the PPP. This is the hard reality of the market.

Institutions and merchant banks are still very shy and way off from playing their due role as expected from them because of volatility of the market. Investors will always look for opportunity cost and opt for short- and mid-term investment as they are doing now considering the nature of the market. Taking a large chunk of liquidity out of the market for a long period will tend to dry up the market which may run counter to make the market vibrant.

Bangladesh's capital market is far from ready to allow long-term gestation for investing in big projects. We are not clear about the nature and size of the projects to be in the agenda of PPP. We have only heard about the amount the government is going to allocate for the proposed PPP.

We have bitter experience and burned our fingers enough on the Green Field projects not offering dividend for long years in case of IPO-based projects and interest in case of debenture or bond-based projects. The debenture market is virtually closed for long for default of issuers in respect of payment of interest in time. The bond market is still nascent and is highly leveraged with tax exempt issues. In the name of boosting capital market by raising fund through it for the PPP projects we must be guarded and careful about the goose that lay golden eggs.

Nothing as such should be done in a hurry that kills the goose that lays golden eggs. Look at the textile sector in the capital market. Most of the shares of the listed companies in this sector are below face value for long years. The investors have virtually turned their face on this sector and I am afraid of the fate of a new issue in this sector. After years of sustained efforts by all successive governments and unstinted support by donor agencies the market has reached a level, which must be given a lega-up to stabilise and face usual somersault. The turnover we notice is pushed because of liberally leveraged margin fund by the banks and financial institutions that own the merchant banks and brokerage houses. Out of 412 listed companies, 97 are said to be in Z categories. From this point of view, the overall health of the market is far from healthy from prudential standard. Banks, insurance and financial institutions are still major players in the capital market instead of the real sectors. This is not a good indicator. This should have been other way round.

In view of the above, I put forward the following suggestions for consideration:

1. The government should immediately offload by direct listing remaining shares of those state-owned enterprises, which are listed in the bourses and take steps to enlist at least 40 percent shares of the erstwhile state commercial banks as a first measure to insulate the capital market. The government should perform and set examples of performances.

2. The government should force foreign banks, pharmaceutical companies, mobile phone operators and multinational companies to be listed.

3. It will have to put a cap on the credit ceiling of all the local big companies or group of companies with a tie on either paid-up capital or credit exposure on individual company or group of companies in respect of borrowing from banks singly or through syndication making it mandatory on them to plough back the syndicated fund from the capital market through IPO after a certain period of time. This type of syndicated project loan may be termed as "Bridge-Loan" instead of long term loan to be preceded by memorandum of understanding (MoU) to be signed between the bank(s) and the borrower after the limit is sanctioned (but surely before disbursement of the loan) whereby the borrowing company shall be pledge-bound to repay the loan by raising fund from the capital market within the stipulated period as agreed upon in the MoU which is how the market can be enlarged and the fund may be recycled for other projects.

4. Immediate listing of projects or bridges such as the Meghna bridge, Bhairab bridge and Zia Fertiliser Factory which have crossed break-even and are now getting huge profits may create a pool of fund to be re-invested by the government in other infrastructure projects.

5. The government should follow the success stories of build-own-operate and build-operate-transfer models followed by Thailand, Malaysia, Indonesia and other countries.

6. The PPP projects with Bangladeshi companies (detailed layout still not known) should be allowed to be listed in the capital market only after they have crossed proven breakeven point and gone to profit, otherwise any attempt to raise money from the capital market for the PPP green field projects may prove counter-productive. The government should remember the oft-quoted simple arithmetic dictum, "Two and two does not always make four."

The author is a financial analyst and managing director of Phoenix Securities Limited.

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The picture shows a power plant in Bangladesh. Public-private partnership can be a tool to build infrastructure. The government should follow the success stories of models followed by other countries.