International Business News

India inflation slips to three-decade low

AFP, *New Delhi*

India's annual inflation rate slipped to a three-decade low at just above zero, official data showed Thursday, as banks looked likely to cut rates in line with the central bank.

Inflation stood at 0.13 percent for the week ended May 30, down from 0.48 the previous week, according to the Wholesale Price Index, India's most watched cost-of-living measure.

Domestic banks were expected to lower rates after Finance Minister Pranab Mukherjee on Wednesday urged them to act in line with the central bank's rate cuts in recent months.

The central bank, the Reserve Bank of India, has slashed rates six times since October last year, but some private and state-run banks have yet to cut their lending rates.

The Congress-led government will present its budget in early July and its focus is expected to be on spurring growth even at the risk of a wider fiscal deficit.

The government is hoping to revive growth to the around nine percent at which Asia's third-largest economy was expanding annually before the global financial crisis.

Japan economy shrank less than thought

AFP, *Tokyo*

Japan's economy shrank less than initially thought in the first quarter, data showed Thursday, as hopes grew of a recovery from its worst recession since World War II.

The world's second biggest economy contracted 14.2 percent in the first three months of 2009, according to revised government figures, an improvement on the 15.2 percent shrinkage reported last month.

Rising sentiment for a rebound in the economy was reflected in the stock market, where shares broke the 10,000 point barrier for the first time in eight months, although they closed the day just below that mark.

"Optimism about a recovery is increasing," said Ryuta Otsuka, strategist at Toyo Securities. "Risk money which had fled to bond markets is beginning to return to stocks and commodity markets."

The new data also said the Asian powerhouse economy shrank by 3.8 percent in the January-March period against the previous quarter, less than the initial estimate of a 4.0 percent fall.

However, the annualised 14.2 percent drop was still Japan's worst on record since comparable data were first kept in 1955.

AFP

Pedestrians walk past a beggar at a shopping district in Seoul yesterday. South Korea's central bank froze its key interest rate for the fourth straight month, saying the country's economic downturn has ended.

Canada to establish carbon trading market

AFP, *Ottawa*

Canada announced Wednesday plans for a carbon market that could eventually link up with nascent EU and proposed US markets to form a global system for carbon pollution trading.

The local market would provide Canadian companies and individuals an opportunity to reduce their carbon emissions, which are linked to global warming.

"It does so by establishing a price for carbon in Canada -- something that has never been done before in this country," Environment Minister Jim Prentice said in a speech to the Economic Club of Canada.

"Anyone wanting to offset their emissions will be able to purchase credits -- from small businesses, to individuals, to travelers," he said.

"Every offset credit will represent a real and verified emission reduction, equal to the equivalent of one tonne of carbon dioxide."

Rules and requirements for generating offset credits, including registration of projects and issuance of actual credits and an explanation of how CO2 cuts would be verified, are to be published after a 60-day public consultation.

Downturn officially cost 187,800 French jobs in Q1

AFP, *Paris*

The economic downturn destroyed 187,800 French jobs in the first quarter this year, with temporary workers hardest hit, according to figures from the official statistics agency.

With one percent of all jobs scrapped across the entire private sector -- excluding agriculture -- the tally of job destructions was twice as high as for the whole of 2008, INSEE found.

Temporary workers, already hard-hit by the downturn throughout 2008, are continuing to feel the full impact of recession, accounting for 80,800 of the jobs destroyed between January and March.

France's unemployment rate jumped in the first quarter by 1.1 percentage points, the biggest increase since 1975, to 8.7 percent of the workforce, and the government warns it will continue to rise for several quarters.

Economy Minister Christine Lagarde warned Monday that the French economy was likely to contract by 3.0 percent this year.

BUDGET

Infrastructure gets more focus

The new budget has marked Tk 6,100 crore for Roads and Railways Division and Bridge Divisions, a 34 percent rise from last year.

AMRAN HOSSAIN

STAR BUSINESS REPORT

Since physical infrastructure and communication sectors are still far from meeting needs, Finance Minister AMA Muhith proposed an increased allocation in the budget for the fiscal year 2009-10, attaching equal importance to roads, railways and waterways.

He proposed Tk 6,100 crore for Roads and Railways Division and Bridges Division, a 34 percent higher than the amount allocated last year.

"The communication network is neither integrated nor consistent with the socio-economic realities of the country. The government has worked out an integrated multi-model transport policy. Once finalised and implemented, this policy will help integrate the communication network," the minister said in his budget speech.

He emphasised a public-private partnership (PPP), prioritising construction of Padma Bridge, Karnaphuli Hanging Bridge and an environment-friendly transport system in the capital city. He said initiatives will be taken to solve traffic congestions in major cities.

He said the railway sector has gradually become weak and risky because of the persistent negligence. "Problems in this sector have been identified and are being addressed through a 20-year Railway Master Plan," Muhith said, promising restructuring of the railway network.

He also laid bare a plan to commission an electricity-powered railway transport system, construct a double-track railway line between Dhaka and Chittagong and circular railway around Dhaka to ease pressure from increasing population.

"We would take an integrated approach to tackle the problems arising from increasing traffic jam, deteriorating water supply and drainage system and environmental pollution," the minister added.

He said the Bangladesh Railway will be linked to Trans-Asian railways, while both metre-guage and broad-guage in the same track will be developed.

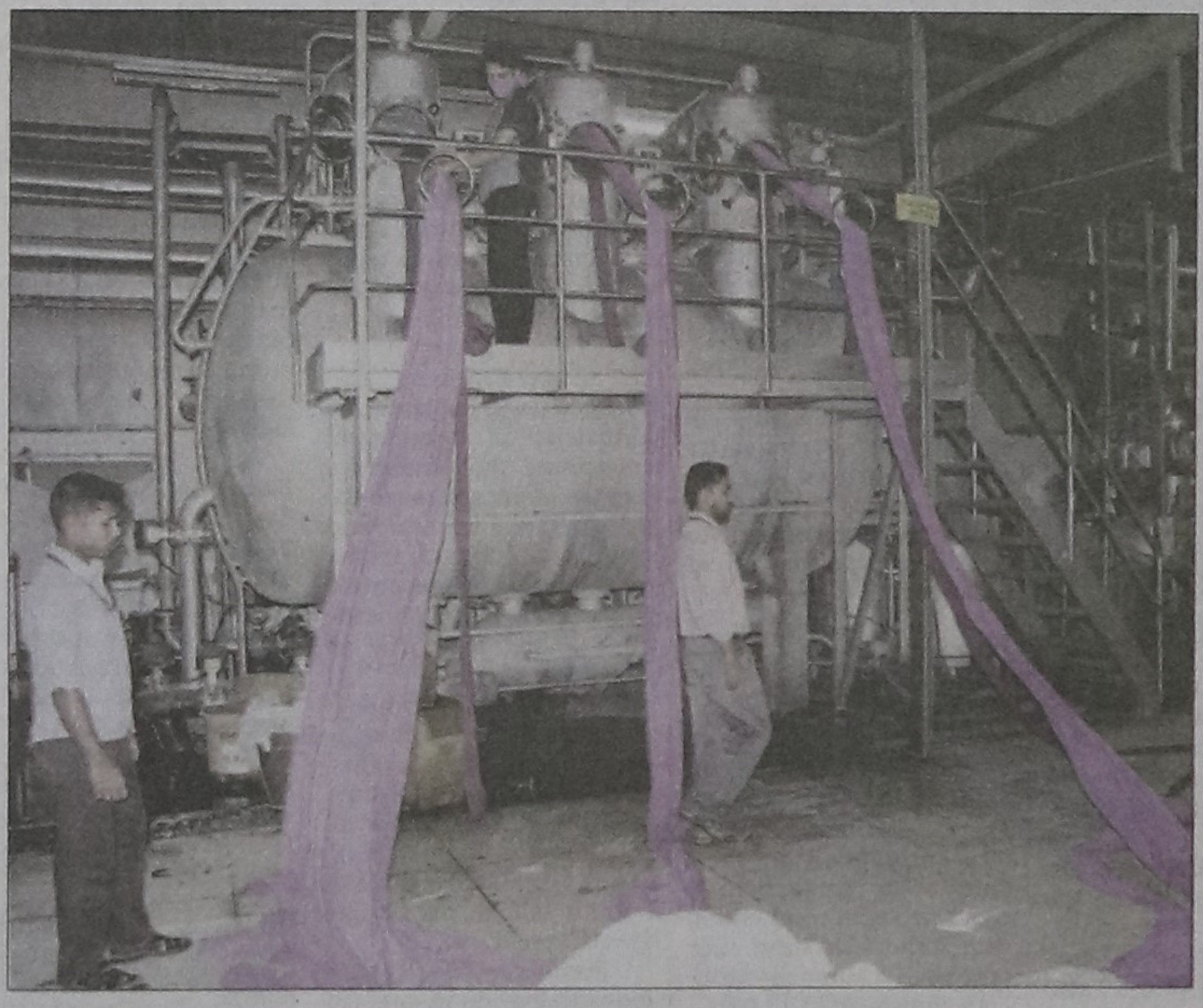
Emphasising dredging, the finance minister said, "We are taking up an integrated dredging programme to increase the navigability of waterways, develop river ports and to make the river ways safer."

To solve the problems of public transportation system in Dhaka city and traffic jam, he said the existing project for circular river ways around the city will be made effective.

"We are strengthening security system in inland waterways to reduce accidents," the minister said.

He said the construction of New Mooring Container Terminal is underway to enhance the capacity of Chittagong Port, while the plan for setting up a deep seaport at Sonadia is in progress.

Duty on capital machinery raises confusion



AMRAN HOSSAIN

The picture shows a dyeing machine at a textile factory in Gazipur. Businessmen yesterday expressed confusion over the new import duty on capital machinery.

STAR BUSINESS REPORT

Manufacturers are confused about the import duty on capital machinery and parts proposed in the budget for the next fiscal year. The finance minister did not clearly explain the matter in his budget speech, they say.

The previous budget had 1 percent duty on import of export-oriented capital machinery and 3 percent on import of capital machinery and parts for local industrial production.

Finance Minister AMA Muhith yesterday proposed 3 percent duty on capital machinery and parts, 7 percent on basic industrial raw materials, 12 percent on intermediate raw materials and 25 percent on finished products.

Reacting to the proposal, Bangladesh Textile Mills Association President Abdul Hai Sarker and Prime Group of Industries Chairman MA Awal said it is not clear whether the 3 percent duty has been fixed for importing all kinds of capital machinery or not.

"We want zero percent duty on import of capital machinery," Abdul Hai said.

"In fiscal year 2009-10, I propose reducing the duty on basic raw materials from 7 percent to 5 percent to make our local industries more competitive both in local and international markets," Muhith said in his budget speech.

Other duty slabs of 3 percent, 12 percent and 25 percent will remain unchanged, he said.

"Our government has declared agriculture as the top priority sector. I propose continuing with the zero tariff on imports of fertiliser, seeds and major food grains," the finance minister said.

COMMENT

Focus on ADP out, PPP in

ZAHID HUSSAIN

Bangladesh needs to reduce its reliance on the Annual Development Programme (ADP) to deliver energy, infrastructure and social services. Notwithstanding continued attempts by successive governments to increase size of the ADP, protracted decision making processes and depleting implementation capacity in the line ministries have made ADP an increasingly ineffective instrument for development.

This is evident from the declining rate of public investment in recent years. In this background, an introduction of public private partnership (PPP) in the 2009-10 fiscal budget is certainly a step in the right direction.

Under the proposed PPP initiative, energy and power, telecommunication and port development have rightly been attached high priority. In addition, health, education, information technology, tourism, drinking water, sanitation and the residential sector have also been opened to PPP initiatives. As in most cases, the success in making PPP deliver the goods will depend on the details of implementation.

International experience shows that the institutional arrangement for implementation is the key. In countries like the UK, Netherlands, Czech Republic, Greece, Ireland, and Italy, specialised PPP units to facilitate and manage infrastructure investments have existed for years. Other high-income countries, such as Australia and Canada, have also established public institutions that support PPP development. Such units have recently begun to proliferate in the developing world as well.

Beginning in the late 1980s, in some countries PPP functions were simply added to the responsibilities of the centralised privatisation units. Countries like Zambia and the Côte d'Ivoire were leaders in creating privatisation agencies with necessary power, independence, resources and reputation. In other cases, new units have been created to focus only on PPPs. Consideration of such units in regions like Africa, East Asia, and South Asia has been driven by the increasing recognition of the need to boost infrastructure investment.

Some important lessons learnt from these experiences include: ineffective governments tend to have ineffective PPP units, a PPP unit will most likely fail without high-level political support and effective PPP units have tended to be attached to Ministries of Finance in parliamentary systems, reflecting the natural role of the treasury in coordinating government policies and expenditure, its mandate to manage fiscal risk, and the power treasuries derive from managing public finance.

Experience also shows there is no unique formula to develop a sound PPP framework. However, successful programmes are characterised by clear policy and legal frameworks for PPPs, competent and enabled institutions that can appropriately identify, procure and manage PPPs and efficient oversight and dispute resolution procedures.

Private sponsors in PPP ventures have a natural tendency to press for deals that effectively privatise the profits while socialising the losses. To guard against such magnification of risks borne by the government, the PPP unit needs to be staffed with technically sound and experienced negotiators with sector-specific knowledge on project design, financing and management. Such expertise is unlikely to be available in-house and hence may need to be outsourced.

The writer is a senior economist at the World Bank's Dhaka office.