

International Business News



A Pakistani worker carries boxes of mangoes at a fruit market in Islamabad yesterday. Pakistan's economy grew by 4.1 percent in the financial year ending on June 30, compared with 1.2 percent growth in the previous year, according to the 2009/10 Pakistan Economic Survey.

AXA in talks to sell British businesses for 3.3b euros

AFP, Paris

French insurer AXA is in talks with British rival Resolution on a 3.3-billion-euro (\$4 billion) deal to sell its life insurance and savings businesses in Britain, the French company said yesterday.

"If implemented, this transaction would result in AXA retaining its market leading AXA Wealth Management and AXA Direct Protection businesses and selling the remainder of its UK life and savings business to Resolution Ltd," it said in a statement.

AXA said that the deal, which would require Resolution's shareholders and regulators' approval, would leave it with net cash proceeds worth 1.7 billion euros (\$2.1 billion).

AXA however sounded a note of caution: "There is no certainty these discussions will result in a transaction being signed, or if signed, that the transaction will ultimately be completed."

The sale would involve a combination of cash payment of 2.7 billion euros and 600,000 euros in deferred notes, the statement added.

Britain's Inmarsat moves into satellite phone market

AFP, Singapore

Inmarsat, a leading provider of global satellite communication services, yesterday unveiled its first phone model in a bid to grab a slice of the increasingly affordable market.

The London-based company said at the launch of the IsatPhone Pro in Singapore that it hoped to grab a 10 percent share of the global handset market, which it estimates is worth 350 million US dollars in wholesale revenue.

It aims to reach that goal by 2012 through an aggressive price plan, with sales driven by Europe and the United States, its key markets.

"It's an opportunistic play for us. Inmarsat has been the market leader in the mobile satellite sector for a long time but we've never been a serious contender in the hand-held market," said Helen Stalker, its commercial director for global satellite phone services.

Priced at 699 dollars and with usage expected to cost one dollar a minute, Inmarsat hopes its low-price point will capture a wider range of users beyond the sectors usually reliant on mobile satellite services.

China's AgBank IPO could raise \$28b

AFP, Hong Kong

Agricultural Bank of China's planned share sale could raise as much as \$28 billion, putting it on course to be the world's largest initial public offering (IPO).

AgBank plans to raise as \$15 billion in Hong Kong and \$13 billion in Shanghai before its shares start trading next month, Dow Jones Newswires said yesterday, citing details of a term sheet for the massive offering.

AgBank -- the last of China's four big lenders to list -- would price its shares on July 7 with trading in Hong Kong set for July 14, while the sale's bottom end would raise a total of about \$19 billion.

Singapore state investment company Temasek Holdings plans to buy \$300 million of Agbank shares while Middle Eastern sovereign-wealth funds Qatar Investment Authority and Kuwait Investment Authority are mulling an investment of more than a billion dollars.

Europe, US interest rate hikes not expected before 2011: BIS

AFP, Geneva

European and US interest rates are unlikely to rise before next year so as not to hurt a global economic recovery that is being weakened by Europe's debt crisis, the world's top central bank body said Sunday.

"In the United States, federal funds futures and options suggested that the first rate hike was not expected to occur until late in the first quarter of 2011," said the Bank for International Settlements.

The probability of a rate increase in September and December this year is "declining," it said in its quarterly report on banking and financial market developments.

"Forward rates in Europe signalled a similar postponing of the expected first rate hike by the European Central Bank beyond 2011," said the bank for central bankers.

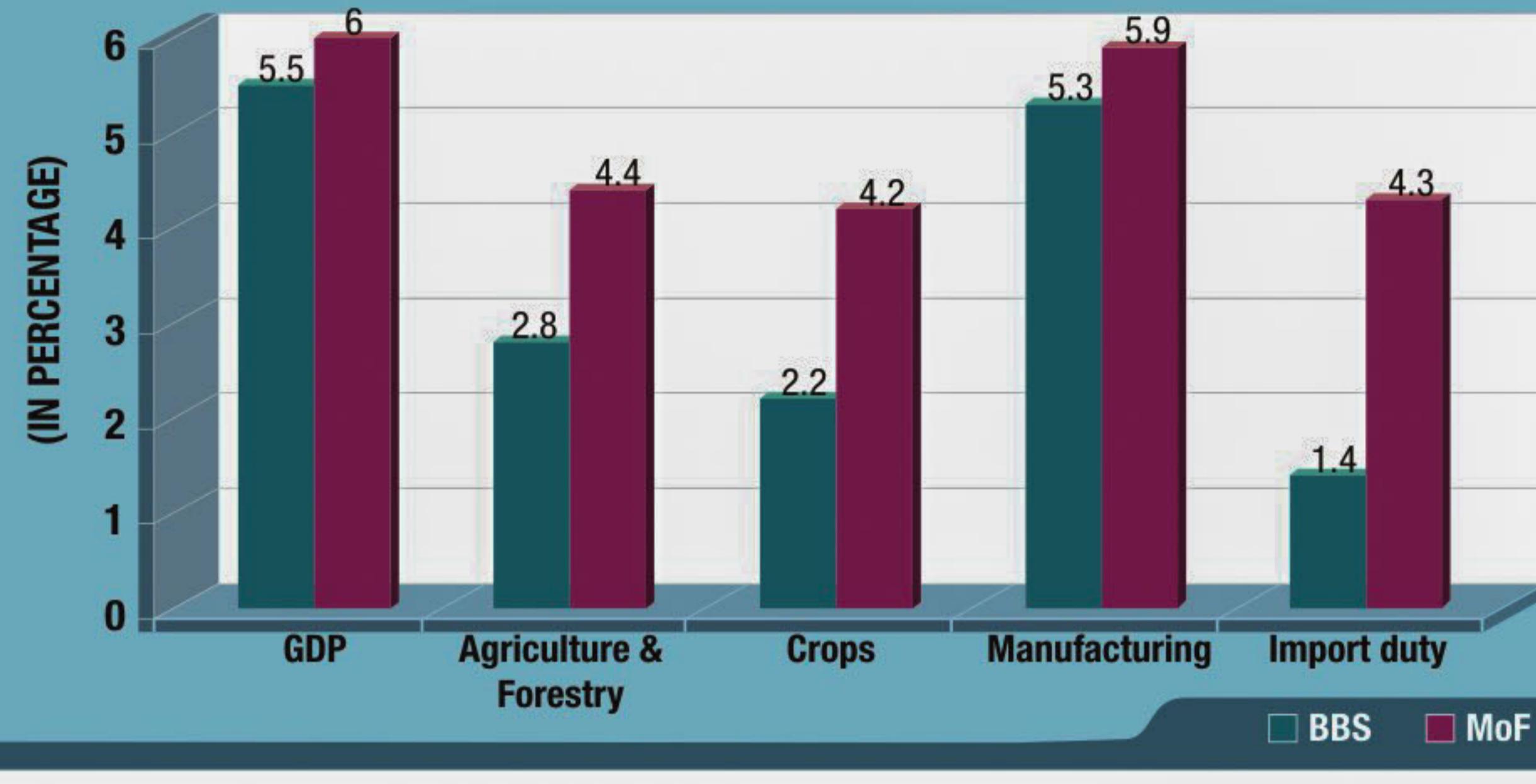
The BIS said this reflected indications put out by central banks that they were not expecting to raise rates, but also "investors' concerns that volatile market conditions could derail the nascent economic recovery."

It added that the market was expecting fiscal belt-tightening in several countries which in turn could lead to contraction in the economy.

ANALYSIS

Growth caught in the fog of stats

GROWTH ESTIMATES FOR FY2009-10



SAJJADUR RAHMAN

Growth estimates on different indicators made by the Bangladesh Bureau of Statistics (BBS) and the Ministry of Finance (MoF) have sparked a debate -- which one is right?

In the recently placed budget for fiscal 2010-11, sharp differences are seen between the MoF and the BBS estimates on economic growth (GDP), agriculture, industry, and export and import.

The MoF has made an upward revision of GDP growth rate by 0.5 percentage point to 6 percent from the BBS estimate of 5.5 percent for the outgoing fiscal year to June 30.

The BBS estimates that agriculture and forestry will grow by 2.8 percent, which the MoF estimates at 4.4 percent, 57 percent more than the BBS calculation.

The Bureau says crops are to grow by 2.2 percent, while the MoF projects the growth at 4.2 percent, a difference of over 90 percent.

The BBS shows the manufacturing sector will grow by 5.3 percent that the finance ministry estimates at 5.9 percent.

An analyst said export and import volumes have to pick up significantly in the last two months of the outgoing fiscal year if the MoF estimates are right.

"The projected export and import growth of 8 percent and 6 percent respectively mentioned in the budget may not be attainable," said Mustafizur Rahman, executive director of Centre for Policy Dialogue (CPD).

Rahman said export and import have to grow by 40.7 percent and 35.5 percent respectively in the last two months to meet the targets.

He said the BBS estimates were lower because of the time period it considered for the survey.

He said the BBS considered six months for industries and nine months for exports.

"Exports, imports and industries have started picking up for the last two/three months," Rahman said.

Former finance adviser to a caretaker government Dr Akbar Ali Khan said the BBS is the ultimate organisation to conduct the statistical activities.

"The estimates could be different, but the MoF should make it clear why it differs with the BBS," Khan said.

Rahman of the CPD said it is the responsibility of the BBS that should make update projection.

Both the analysts have sought a strong and independent BBS so that it can conduct the estimates efficiently.

sajjad@thedadystar.net

COLUMN

A balanced budget through tax hikes

SHAIDUL KAZI

Governments in modern day economies engage in numerous social welfare and national development activities, which they finance through their income.

The governments may have many sources of income, but taxation is the vital one. Social welfare and national development activities in the developed world are undertaken principally based on collected taxes.

However, in the developing world, a large part of social welfare and the national development budget is provided by donor agencies, creditors, or developed countries in the form of different types of aid, like grants, loans, tied aid and bilateral and multilateral aid. Conducting social welfare and national development activities through foreign aid makes the recipient countries dependent on the aid providers.

In the longer run, this dependency impedes national development as those aid providers influence national policies, priorities and development strategies of the recipient countries, to accomplish their own interest.

Consequently, governments in the developing world and especially in Bangladesh should prioritise to carry out social welfare and national development activities by increasingly utilising its own resources collected through taxation -- income tax, capital gain tax, inheritance tax and expenditure tax.

As a logical step in the proposed national budget of 2010-11, Bangladesh has proposed for the first time a 10 percent tax on institutions that profit from the trade of shares and a 5 percent tax on the income made by sponsor shareholders or directors of listed companies.

In addition, the government proposed tax at source on commissions received by the members of the stock exchanges.

Furthermore, the government could have imposed taxes on profits made by individuals as well.

Investment in the financial market has two sides -- gain and loss. Consequently, in order to encourage investors, the tax rate imposed upon investment gains should be a flat rate, which means the tax rate will not change with a change in the amount gained.

The above discussion mainly focused on taxation in the capital market, but what about taxation on the income of individuals



Traders scan data on computers at a brokerage house in Dhaka. In the new budget, the government has proposed for the first time a 10 percent tax on institutions that profit from the trade of shares.

and inheritances. Like previous governments, our current government is also reluctant about imposing these two types of taxes.

The NBR from time to time takes initiatives to expand the tax net by bringing business people under the tax net, but why not individuals.

The government should impose income taxes based on the progressive principle, which means that the higher the level of taxpayers' earnings, the greater the proportion of income paid in that tax.

The money collected through progressive income taxes could be used for national economic development as well as to conduct social welfare activities. In addition, the government could introduce inheritance taxes, so that whenever wealth or property is transferred to heirs, that wealth

or property must be subject to an inheritance tax at a progressive rate.

It was earlier very common for governments to make balanced budgets, but nowadays it is more popular to make deficit budgets. However, for a healthy economy, the deficit should not exceed more than 1-3 percent of GDP and more importantly, the government must consider how the deficit will be financed. The proposed national budget of Bangladesh 2010-11 has a 5 percent deficit, which the government is planning to finance through internal and external sources.

In Bangladesh, internal sources usually mean borrowing from banks and external sources mean different types of aids. Borrowing from the bank for financing a budget deficit creates a huge demand for

money, which leads the interest rate to rise. The higher interest rate affects the national investment prospect negatively.

On the other hand, borrowing from outside sources in the form of different types of aid creates dependency on the aid providers. Consequently, the deficit should be kept as lower as possible -- not more than 1-3 percent.

There is no better alternative to financing the national budget but from the government's own income, where a major part comes from taxation. Keeping this in mind, the government of Bangladesh should expand its tax net in the future and consider keeping its budget deficit in between 1 and 3 percent of GDP.

The writer is a senior lecturer at Tampere University of Applied Sciences, Finland

Emerging market telco M&A needs skill, humility

REUTERS, London/Munich

Potential buyers need to pay attention to detail and keep their egos in check to prevent regulatory and political hurdles derailing the richest-ever phase of emerging markets telecom consolidation.

Last-minute hitches have already thwarted South Africa's MTN and Bharti, two companies seeking to bulk up in developing countries.

Announced takeovers of emerging markets telecom companies have soared to \$64.6 billion so far this year -- more than a third higher than the previous record of \$39.4 billion in the first six months of 2006.

Companies are looking to increase their footprint in Africa, Asia and Latin America as growth at home slows.

Yet the failure of talks this week between MTN and Egypt's Orascom Telecom was the latest reminder that these deals call for diplomatic finesse as well as financial muscle.

"It is natural evolution of the kind we have seen happening in Europe and the U.S.... Bharti and MTN are looking to become emerging market titans," said Nick Jotischky of research firm Informa Telecoms & Media, adding that the two had deep pockets and sufficient scale necessary for such a move.

Both companies have had their ambitions halted recently by regulatory and political intervention, however.

MTN's bid to become the world's third largest mobile player and grow beyond its core markets of South Africa, Nigeria and Iran collapsed when the Algerian government stepped in to buy Orascom's money-spinning Algerian unit.

Bharti has just become the world's fifth biggest cellphone company by subscribers after buying Zain's African operations for \$9 billion -- but only after two earlier attempts at a tie-up with MTN failed.

The last attempt flopped in September, because the South African Government was unwilling to allow a flagship company to lose its national character.

"Companies need to work harder in private to get these deals done," said an investment banker familiar with emerging market telecom deals who asked not to be identified.