Seize the day or lose

Youngone chairman explains how Bangladesh can take apparel exports to $30b

SAJJADUR RAHMAN

Bangladesh might double its apparel exports to $30 billion within three years, but limited capacity and a poor business environment could foil the opportunity, said Kihak Sung, chairman of Youngone.

The Youngone boss talked about Bangladesh's export potential, in a recent interview with The Daily Star at his Uttara home. He spoke about the speculation of restricting foreign investment in the RMG sector, Bangladesh's move for duty- and quota-free access to the US market and Korean Export Processing Zone in Chittagong.

Relaxation of generalised system of preferences (GSP) rules by the European Union and access to East Asian markets can become a major springboard for Bangladesh's garment exports.

Without building capacity in the areas such as energy and infrastructure, including ports, Bangladesh might lose the chance to its competitors, he added

"Garment exports to Europe may double to $14 billion due to flexible GSP rules. Another $4 billion income is possible from exports to East Asian countries," said Sung.

Sung is optimistic, particularly about the export potential in South Korea, Japan and China. However, it will not be easy for Bangladesh to cash in on the opportunity, he said.

Downside risks lie with four core areas: energy constraint, labour issues, port capacity and general law and order situation.

Seoul-based Youngone, the largest manufacturers and exporters of readymade garments in Bangladesh, had a business turnover of $1.2 billion in 2010. Nearly half -- 45 percent -- of it came from Bangladesh operations.


AMRAN HOSSAIN

Kihak Sung

Youngone started business in Bangladesh in early 1980s and presently, it has 47,000 employees with some 4,500 in officer rank. Ninety-nine percent of them are locals as the company's philosophy is to run enterprises by local people.

Sung said Bangladesh has an excellent opportunity to increase its garment exports in few years. Besides Europe, he sees East Asia as a major export destination as China gradually shifted to high-end products from low-end ones.

The European Union relaxed rules for the least developed countries (LDC) under GSP in textile trade. The new rules of origin (RoO), effective from January 1, allowed most apparel items from all LDCs would get duty-free access, no matter where the raw materials originated.

Korea has recently allowed Bangladesh duty-free export of some items including jackets. More items will follow, said Sung who is believed to be the main architect behind this duty free access.

"If four issues are resolved, at least reasonably, Bangladesh will have an enormous export opportunity." They must be addressed simultaneously without specific prioritising, he noted.

Without building capacity in the areas such as energy and infrastructure, including ports, Bangladesh might lose the chance to its competitors, he added.

"The energy problem is looming over and disrupting business seriously," said Sung. The unnecessary delay in the port cause huge business losses.

On the issue of minimum wage, Sung said: "It's not enough, but agitation cannot ensure it." He said his company gives Eid bonuses, rice subsidy and medical services for the workers.

About the recent agitation at Youngone factories in Chittagong, he said the company wanted to merge rice subsidy with the wages, but workers misunderstood it as a cancellation move.

Sung, a Korean national, blamed outsiders for the agitation. "Ninety percent of the agitators were outsiders," he claimed.

Youngone invested Tk 130 crore to develop Korean EPZ in Chittagong, but the government took almost one decade to issue permit. In the meantime, he shifted some of his planned factories to China and Vietnam. The EPZ, if developed, would employ some 50,000 workers.

Foreigners were given special facilities at the EPZs in Bangladesh so that they would transfer technology and their skills to Bangladeshis but some raised questions about it.

He said technology has been transferred and it is one of the main reasons for flourishing apparel factories in Bangladesh. "Some 50 Bangladeshis run our factories in Vietnam and another five work in China," he added.

However, the garment maker hailed local entrepreneurs for their relentless efforts to go forward amid lot of limitations.

Restricting foreign investment in garment sector in Bangladesh will not be a wise decision, Sung said. It will give bad signals to the global markets, he added.

The Youngone chairman said it is very unlikely that Bangladesh would get duty- and quota-free market access to the US, which he believes cannot negate the same facilities to Africa, Jordan and Israel.

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2011 and beyond: What's in store for Indian investors?

NIPUN MEHTA, *for Reuters*

For any investor globally, the start of each year gives rise to renewed emotions of hope, greed, fear, expectations and the like, of the kind of returns they will make on investments.

In India, equity markets, real estate, gold and silver investments get primary attention. So what does 2011 have in store for us?

For a start, a good part of both global and domestic concerns of 2010 will continue into the coming year. While visible signs of a turnaround in the U.S. and European economies exist, it can be expected to continue to be grindingly slow.

This means interest rates in those economies which could otherwise pull significant chunks of money there will rise, but very slowly. Is there a possibility of yet another PIIGS-like crisis being thrown up in the developed world?

Looks unlikely. The huge government aid, the tranches of Quantitative Easing, etc will ensure there is unlikely to be one, at least as serious.

For the domestic economy, for the next decade, a high single-digit growth closing in on to a double-digit growth appears a serious possibility. In fact over the last couple of years, there has been a gradual but interesting change in mix of contribution of sectors in India's GDP growth.

Services had been so dominant that growth of manufacturing, agriculture and mining had stopped being in the spotlight. Over the last few quarters, agricultural and manufacturing growth have reared their heads, raising visions of a 9 percent GDP growth for 2011-12 and beyond.

FII flows, which have been a key to liquidity and the consequent rise of domestic equity markets, will continue to play a major role.

However, will FII interest and flows continue at the same level? Looks very likely. India equity market valuations (which look fairly valued currently) haven't reached a stage where they are completely out-of-sync with other emerging market valuations.

The fact that India continues to show high single-digit GDP growth will ensure that FII fund flows continue. The only reason why they could potentially slow down is a sharp rise in interest rates in developed markets, which appears unlikely.

Domestic inflation, however, appears unlikely to show any signs of coming under control soon, particularly with oil prices expected to rise further during the year. This means interest rates will keep inching upwards, though slowly.

Interest rate sensitive sectors like real estate and automobiles will get directly affected. On the other hand, fixed income investments could become preferred options for select investors.

With rising incomes, India's consumption story continues to act as a serious contributor to GDP growth. Sectors mirroring this consumption-led growth should clearly benefit.

This means FMCG, two- and four-wheeler companies, paints, etc. will be direct beneficiaries. Infrastructure was a clear underperformer last year. Execution of projects takes time and is preceded by bidding, financial closure, etc. This means infrastructure might not be a runaway winner in the first few months of this year too.

The second half could be better if the government too takes execution of the key road, port and power projects with greater earnestness.

Banking as a sector has shown consistent growth over several quarters now. The next two could be different. With higher cost of funds (read higher deposit rates), and lending rates not rising as much, interest margins will be under pressure. Any losses over exposure to real estate or to the 2G licence purchasing companies which are still dormant and which may just face licence cancellation, could impact bottom lines further.

But except for such event-based impact, the sector will truly mirror India's consumption and investment-led growth story. Do not hesitate to take exposure to either of large/mid-sized PSU or private sector banks.

The government's PSU disinvestment drive restarted in 2010. This will continue into 2011 with several mega IPOs and FPOs in the pipeline.

Gold and silver can be expected to give high single-digit to double-digit returns during 2011 as well, while real estate could run into some rough weather.

For equity markets anywhere from 12 15 percent return for the year may be considered realistic. Anything above that should be considered a bonus since valuations at those levels could become steep in comparison to some of the other emerging markets that too have shown robust growth.

What could be attractive sectors from a decade-long perspective? Banking, metals (ferrous and non-ferrous) and cement look to be great bets for a certainty. Even infrastructure growth, which anyways should be significant, could play second fiddle to them, simply because it has a variable that the other three don't government support.

All in all, we appear set for another big decade for Indian equity investors. Do not hesitate to increase or at least maintain your exposure to equities. Happy investing.

Nipun Mehta is a private banker with many years of experience across Asia.

Investors look at stock market data in India where equity markets, real estate, gold and silver investments get primary attention.

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