

A new market player

ABDULLAH MAMUN

Khamis Mohammed Buharoon, chairman of Burooj Properties, a subsidiary of Abu Dhabi Islamic Bank, recently signed an agreement with Datasoft, a Bangladeshi software company, to form a joint venture based in UAE. He speaks to The Daily Star on business issues and opportunities.

What are your views on the current condition of the UAE, as it was suffering financially in recent years?

What happened in the Gulf is not only pertinent to the UAE, but to the whole world due to recession in recent years. In UAE, it happened because we are ahead of other neighbouring countries, ahead in everything. I would like to say that the country invested billions of dollars on infrastructure development, like airports, roads, malls, hospitals, metros, etc. They made plans 20 years ahead, which cost a lot of money and thus, inflation took place. The population of the country is only 6 million but we do have the Dubai airport that carried 40 million passengers in 2010. It is above expectations. That is how a lot of expenses were incurred.

The good news is that a sort of correction took place for us. Our overhead costs were too high for us. Now that recession has receded, it will be easy for end users to go and buy what they want. This is a better year. The year 2012 or even the middle of 2011 will be better than now. Banks will go back to finance and the circle of life will return to normalcy.

Why did you choose Bangladesh for this joint venture, rather than, say, India?

We chose Bangladesh because of labour costs and a few other factors. I don't think Bangladesh is less experienced than India. DataSoft is experienced enough with their knowledge of 300 people. They are already trained and they have implemented a lot of systems. So, for us to go to India, would cost a lot of money. And we believe Bangladesh is a new player in the market.

We are with the Bangladeshi company DataSoft as a partner. It is not our investment only, it is their investment as well. And we will make it together. We will support and work together. Bangladesh is better than its neighbouring countries. It has more educated people. In the information technology (IT) site, I was told, more than eight thousand graduates are coming out every year. So from them, we will take the best of the best and do business.

The joint venture is a 50-50 investment. What will be your contribution?



Khamis Mohammed Buharoon

Our support is in our knowledge and experience on markets and people. Our doors are open. I was a banker for the last 20 years. I know all the banks and what the market needs. I know what is exactly right or wrong in my country. It would have taken DataSoft a long time to learn these if it started on its own.

Secondly, I will give them all my promises. Our set up is already there. We will invest in them and we will supply the customers.

On the other hand, they will bring in their knowledge to the joint venture. The system programmes are all ready. They just have to be upgraded and adjusted to market needs and regulations in the UAE.

The partnership is not only in UAE. For example, in Cairo, I was the chairman of National Development Bank, a development bank in UAE with 70 branches and 2,600 staffs. SME (Small Business Enterprises) is a major business here and there. I will do business on both sides. I will do the business in Cairo or Morocco; or even in Bangladesh. What is not in here, I will bring from UAE. So both parties will be benefited from this joint venture.

We have learnt that you are looking for more opportunities to invest in Bangladesh, especially in the power sector. What are your thoughts actually?

I have a joint venture in Egypt. We act like bro-

kers as well as investors. We are taking a lot of factories to other countries we have shifted factories from Europe to other places after recession. It can be done in Bangladesh or UAE. One of my partners is involved in factories, like tiles, aluminium, porcelain, steel, medicine, and power plant. So we are involved in such businesses. We have shifted 200 factories to other places.

I know gas is a problem in this country. But this can be solved. So by setting up power plants, we can solve other problems too. Once the storage is opened you will create many more factories. And people will find jobs. All of these are linked together. From my investment site, I can create more funds and more budgets with syndication loans. I can shop around to bring in more money to do this.

What kind of help do you expect from the Bangladeshi government or regulators?

Of course we want to make our life easy with regulation, taxation or money transactions. We have met the governor of the central bank of Bangladesh in this regard. As an investor, I don't want to see my money blocked here. Investors want to get their money back and they want the local banks to participate.

The foreign investors also want to involve the local banks. If Bangladeshi people do not spend money, how can they expect the people from other countries, like China, Europe or Arab countries, to invest here? With local participation, it would be possible to take 20 or 25 percent in loans from the local banks.

A number of people are working in the UAE. What are the differences you noticed after you came to Bangladesh?

We have more than 800,000 people working in the UAE from Bangladesh. They are mostly involved in agriculture.

I also have a construction company where Bangladeshi people work for me. You will see them working in garages, factories and a lot of other jobs. I found a huge potential with them, like in the hotel business. I can use their experience here in Bangladesh, or even there. They are already working in many different factories. I can take educated people from here, especially from IT.

To make each system programme, you need six months and 50 people, working 12 hours a day. I can take human resources from here. I can hire them with comparatively cheaper salary packages than in my country. There are a lot of ways to work between the two countries.

abdullah.mamun@thedailystar.net

"I know gas is a problem in this country. But this can be solved. So by setting up power plants, we can solve other problems too. Once storage is open, you will create many more factories. And people will find jobs. All of these are linked together"

US vs China: which economy is bigger, better?

DEREK SCISSORS

One of the most surprising developments resulting from the financial crisis is the belief among ordinary Americans that China has become the world's leading economy. This view appeared in the roughest times of 2009 and has persisted even though the impact of the crisis has begun to ebb. US media have frequently conveyed the same belief. But it is patently absurd.

The principal reason for Americans' dismay is jobs: Official US unemployment breached 9 percent during the past two years. It is even higher when counting those who have stopped looking for jobs, yet would work if they could. In contrast, Beijing issues an urban unemployment figure below 4.5 percent, but this includes only those officially recognised and no one, including officials at the Ministry of Human Resources and Social Security, believes it is accurate.

The state-controlled Chinese Academy of Social Sciences placed urban unemployment at 9.4 percent before the full impact of the financial crisis was felt. The PRC's rural unemployment has long exceeded 20 percent. True Chinese unemployment is certainly higher than true American unemployment, and, depending on how unemployment is measured, could be much higher.

The contest in income, meanwhile, is utterly unequal. American Gross Domestic Product (GDP) in 2009 was nearly \$15 trillion, while China's was \$5 trillion, despite a population more than four times as large. The average American had \$48,000 in 2009 income, the average Chinese had less than \$4,000. Both of these gaps narrowed in 2010, as they have almost every year in the past 30, but they remained huge.

It is true that many consumer goods are cheaper in China, some much cheaper. Economists try to formalise different prices in different countries by checking the purchasing power of



the same amount of money. The idea is that the same amount of money should buy the same good or service everywhere. When it does not, because one country has far lower prices than another, for instance, it can be useful to compare incomes using differences in prices. The difference in prices is called purchasing power parity (PPP). PPP recognises that earning \$50,000 a year in London is very different from earning \$50,000 a year in Luanda, Angola. But PPP is often not very accurate.

PPP is one of the reasons for the claims that China is about to pass the U.S. Adjusting for purchasing power, the CIA estimates China's GDP to be near \$10 trillion in 2010. PPP estimates are imprecise and some figures for China are still higher. Because China is growing quickly, the \$5 trillion gap PPP

shows between the U.S. and China could, if American growth stagnates, disappear in as little as five years.

While PPP is a step in the right direction in principle, there are multiple pitfalls. For economies as large and diverse as those of America and China, differences in purchasing power within each country are huge. It is almost meaningless to find an average price for all of the U.S. or all of China. Perhaps even more important in comparing two economies, PPP changes over time. Because prices change at different rates in different places, purchasing power comparisons made at one point can be quite misleading just a few years later, and even more misleading when projected forward in time.

The PRC offers a dramatic example. Chinese inflation has generally been

growing faster than American inflation since about 1999. Due to the cumulative effect, the World Bank retroactively cut the size of its 2005 PPP estimate of China's GDP by more than 40 percent.

In an instant, the Chinese economy became 40 percent smaller. If this had not happened, Chinese GDP would be comparable to American GDP right now. Moreover, since 2005, Chinese inflation has again been faster than American inflation. The World Bank has not yet adjusted for this faster inflation. Nearly all economic projections that show China surpassing the US in the next few years are based on a PPP measurement that is out of date. These projections overstate Chinese GDP considerably and should not be trusted.

If China's economy is well behind that of the US now, how long will that

last? While official Chinese data are certainly flawed, it is also certain that Chinese growth has outpaced American growth by a huge margin over the past 30 years. Between 1981 and 2010, U.S. GDP increased a fairly impressive 4.7 times. Chinese figures are less precise but it looks as if China's GDP increased approximately 30 times over the same time period. Such an outstanding performance appears to all but guarantee that China will surpass the U.S. in the next 30 years, and probably far sooner. In fact, the PRC's outstanding performance has led to some exceptionally inaccurate projections of its trajectory for the next three decades and beyond.

Whither Chinese growth?

Economic results are not determined by history. If they were, Chinese reform would have failed and the pre-1978 suffering would have continued. If they were, the US would remain the world's largest economy simply because it has been so for more than a century. If 30 years of rapid growth guaranteed 30 more, Japan would now be the world's largest economy. Instead, 40 years of Japan soaring up the global ladder have been followed by 20 years of stagnation.

Results are instead determined by a nation's resources and policies. Resources include but are not confined to natural resources; there are also critical human and financial resources. Beijing in particular has relentlessly pushed investment forward for a decade. In 2001, fixed investment was the equivalent of 38 percent of GDP. In 2010, because its growth easily outpaced GDP every year since 2001, fixed investment was the equivalent of 70 percent of GDP. It is not possible to exceed 100 percent of GDP. The policy of boosting growth simply through the pure quantity of money spent cannot extend through the current decade as it did through the last decade -- China must change course or face sharply smaller GDP gains.

Chinese inflation has generally been growing faster than American inflation since about 1999. Due to the cumulative effect, the World Bank retroactively cut the size of its 2005 PPP estimate of China's GDP by more than 40 percent

TO BE CONTINUED