

Steelmakers in tight corner

MD FAZLUR RAHMAN

LOCAL steel millers' vast capacity to produce rods has remained largely untapped due to a drop in demand with nearly non-existent development and infrastructure works in the public sector.

Industry leaders said many factories have cut their production by up to half due to a rise in the prices of raw materials, gas, electricity and oil and a bleak prospect in the country's infrastructure projects.

Bangladesh has more than 400 steel, re-rolling and auto-re-rolling mills with a combined annual production capacity of 80 lakh tonnes. But it consumes only 40 lakh tonnes of rod a year, making the country one of the lowest consumers of steel products in the world.

Not only are major construction projects stuck due to various implications, the construction of small bridges, culverts and buildings by the government across the country has slowed compared to activities a few years ago, said SK Masadul Alam Masud, chairman of Bangladesh Auto Re-Rolling and Steel Mills Association.

Masud spoke at a meeting with The Daily Star earlier this week as part of the newspaper's weekly business talks at its office. Top leaders of Bangladesh Steel Mill Owners Association, Bangladesh Re-Rolling Mills Association and Bangladesh Auto Re-Rolling and Steel Mills Association took part in the discussion.

Manufacturers said Bangladesh has not needed to import steel products and rods since independence.

"Once we used to import raw materials such as billet. Now we produce a majority of the billet. We have also installed state-of-the-art technology to make our production efficient," said Masud.

Fazlur Rahman Bakul, chairman of Bangladesh Steel Mills Owners Association (BSMOA), said local investors invested heavily in the sector in the last decade in hopes that the steel industry would grow at 10 percent in the coming days, riding on government programmes centring its vision for 2021, a real estate boom in urban areas and an inflow of remittance in rural areas.

"But the industry is not growing at that

pace."

He said the government accounts for nearly 40 percent of total steel consumption in the country, which has gone down significantly. The private sector appetite has also slowed down.

In addition, a low pressure of gas, depreciation of the taka, rising costs of raw materials and bank borrowing, and a tight liquidity situation have hurt the Tk 30,000 crore industry in recent months, manufacturers said.

They said by meeting total local requirements, manufacturers are saving billions of dollars in foreign exchange. The sector has created direct jobs for about 10 lakh people.

"But nobody looks after us," Masud said.

Masud said the cost of producing a tonne of 60-grade rod has increased by Tk 18,000 between January 2011 and January 2012, mainly because of a depreciation of the taka against the US dollar. Steelmakers import at least 70 percent of their raw materials.

The latest move to withdraw the upper cap on bank lending rates has also pushed production costs up.

Though the leaders could not say much on future steel (rod) prices, they hinted that prices would continue to rise in local markets till the taka stops to depreciate. Currently, the price of a tonne of 60-grade rod has risen by Tk 10,000 to Tk 72,000 a tonne.

"The price hike will continue for as long as the dollar continues to appreciate," said Md Shahjahan, secretary general of Steel Mills Owners Association.

Abu Bakar Siddique, general secretary of Bangladesh Re-Rolling Mills Association, said, "We are not getting an adequate supply of gas and are being forced to use costly coal and furnace oil to run our factories."

The industry leaders also urged the government to withdraw the pre-shipment inspection arrangement. Instead of getting services, they face harassment, they added.

"We do not need any pre-shipment inspection. Before the announcement of the budget last year, we urged the government to withdraw pre-shipment inspection for us. But the government did not listen, although such a system has been withdrawn for many sectors," said Md Syfur Rahman Khokon, chairman of Rahima Ispat Ltd.

Pre-shipment inspection firms charge Tk



SK Masadul Alam Masud



Fazlur Rahman Bakul



Abu Bakar Siddique



Md Shahjahan

500 to certify a tonne of raw materials.

Masud said the fall in consumption could make many factories sick in the coming days, as they are not getting working capital from banks at low interest rates.

If the prices of all raw materials and production cost go up, millers cannot increase the retail price outright, he added. "We have to increase the price in phases. By the time we reach breakeven, we incur losses. We cannot stop selling in fear of losing market."

He said the high bank interest rate has already dealt a serious blow to the industries, as they are not getting funds to buy

raw materials. The new contractionary monetary policy will also dry up funds for them, he added.

He said the existing small-scale development and infrastructure projects across the country would also face trouble due to a rise in rod prices. "If the government rates for the rods are not adjusted, the contractors will delay completion of the projects."

The general secretary of Bangladesh Re-rolling Mills Association said local manufacturers are meeting the demand of the country's total rods and steel products consumption.

Siddique said Bangladesh has the capac-

ity and potential to export rod to India, especially its northeastern seven sisters region. "But we cannot explore our export potential due to various non-tariff barriers imposed by the importing countries."

He said although this is a basic industry, the government and NGOs are hostile to the sector.

Siddique said the Bangladesh Energy Regulatory Commission cannot increase electricity prices more than once a year. "But prices have been raised thrice recently."

"We are not getting an adequate supply of gas. When we get gas, the pressure is low. We are being forced to use costly coal and furnace oil to run the factory."

Siddique said rod consumption has gone up in rural areas due to a rise in people's income levels and a steady inflow of remittance.

Masud said Bangladesh has an export potential for rod. "But we have to be given incentives so that we can exploit overseas markets."

Siddique said Bangladesh has the capacity to export rod to the northeastern Indian states, but cannot do so due to non-tariff barriers.

Md Harun-or-Rashid, information director of BSMOA, said the government should lobby with the Indian government so that they accept the standardisation of Bangladesh Standards and Testing Institution.

Masud said they are not against the price hike of gas and electricity. "The government should reduce a 30 percent system loss. There are malpractices in the billing process, which need to be addressed first."

The incidents of mugging also worry the business leaders.

The BSMOA information director said the law-enforcing agencies should step up efforts to prevent the growing incidents of mugging of trucks and vans carrying rods in the city as well as other parts of the country.

So far, two trucks carrying rods from his company were snatched by criminals last year. But police retrieved only one truck.

Bakul said the government should set up a separate ministry for the steel sector to help the sector grow.

fazlur.rahman@thedailystar.net

The rise of state capitalism

THE ECONOMIST

OVER the past 15 years striking corporate headquarters have transformed the great cities of the emerging world. China Central Television's building resembles a giant alien marching across Beijing's skyline; the 88-storey Petronas Towers, home to Malaysia's oil company, soar above Kuala Lumpur; the gleaming office of VTB, a banking powerhouse, sits at the heart of Moscow's new financial district. These are all monuments to the rise of a new kind of hybrid corporation, backed by the state but behaving like a private-sector multinational.

State-directed capitalism is not a new idea: witness the East India Company. But as our special report this week points out, it has undergone a dramatic revival. In the 1990s most state-owned companies were little more than government departments in emerging markets; the assumption was that, as the economy matured, the government would close or privatise them. Yet they show no signs of relinquishing the commanding heights, whether in major industries (the world's ten biggest oil-and-gas firms, measured by reserves, are all state-owned) or major markets (state-backed companies account for 80 percent of the value of China's stockmarket and 62 percent of Russia's). And they are on the offensive. Look at almost any new industry and a giant is emerging: China Mobile, for example, has 600m customers. State-backed firms accounted for a third of the emerging world's foreign direct investment in 2003-10.

With the West in a funk and emerging markets flourishing, the Chinese no longer see state-directed firms as a way-station on the road to liberal capitalism; rather, they see it as a sustainable model. They think they have redesigned capitalism to make it work better, and a growing number of emerging-world leaders agree with them. The Brazilian government, which embraced privatisation in the 1990s, is now interfering with the likes of Vale and Petrobras, and compelling smaller companies to merge to form national champions. South Africa is also flirting with the model.



This development raises two questions. How successful is the model? And what are its consequences -- both in, and beyond, emerging markets?

State capitalism's supporters argue that it can provide stability as well as growth. Russia's wild privatisation under Boris Yeltsin in the 1990s alarmed many emerging countries and encouraged the view that governments can mitigate the strains that capitalism and globalisation cause by providing not just the hard infrastructure of roads and bridges but also the soft infrastructure of flagship corporations.

So Lee Kuan Yew's government in Singapore, an early

exponent of this idea, let in foreign firms and embraced Western management ideas, but also owned chunks of companies. The leading practitioner is now China. The new model bears little resemblance to the disastrous spate of nationalisations in Britain and elsewhere half a century ago. China's infrastructure companies win contracts the world over. The best national champions are outward-looking, acquiring skills by listing on foreign exchanges and taking over foreign companies. And governments are selective in their corporate holdings. Overall, the Chinese state has loosened its grip on the economy: its bureaucrats concentrate on industries where they can make a difference.

Yet a close look at the model shows its weaknesses. When the government favours one lot of companies, the others suffer. In 2009 China Mobile and another state giant, China National Petroleum Corporation, made profits of \$33 billion -- more than China's 500 most profitable private companies combined. State giants soak up capital and talent that might have been used better by private companies. Studies show that state compa-

nies use capital less efficiently than private ones, and grow more slowly. In many countries the coddled state giants are pouring money into fancy towers at a time when entrepreneurs are struggling to raise capital.

Those costs are likely to rise. State companies are good at copying others, partly because they can use the government's clout to get hold of their technology; but as they have to produce ideas of their own they will become less competitive. State-owned companies make a few big bets rather than lots of small ones; the world's great centres of innovation are usually networks of small start-ups.

Nor does the model guarantee stability. State capitalism works well only when directed by a competent state. Many Asian countries have a strong mandarin culture; South Africa and Brazil do not. Coal India is hardly an advertisement for efficiency. And everywhere state capitalism favours well-connected insiders over innovative outsiders. In China highly educated princelings have taken the spoils. In Russia a clique of "bureaucrats", often former KGB officials, dominate both the Kremlin and business. Thus the model produces cronyism, inequality and eventually discontent -- as the Mubarak's brand of state capitalism did in Egypt.

Rising powers have always used the state to kick-start growth: think of Japan and South Korea in the 1950s or Germany in the 1870s or even the United States after the war of independence. But these countries have, over time, invariably found that the system has limits. The Chinese of all people should understand that the best way to learn from history is to look at its long sweep.

Mozena's take on Bangladesh

ARUN BIKASH DEY, Chittagong

BANGLADESH can become the next China with proper infrastructure developments, said Dan Mozena, US ambassador to Bangladesh.

"I was in Bangladesh a decade ago. I was here for three years -- from 1998 to 2001. I was the chief of the political and economic section," said Mozena. "Now, two and a half months ago, I came back as an ambassador of my country to Bangladesh."

"I see Bangladesh with the potential to be the next China. That's how I see Bangladesh. I am very excited about this country and the potential of this country to become a middle-income country."

Mozena spoke to The Daily Star on the sidelines of a programme at Independent University Bangladesh in Chittagong on Tuesday.

"Some people say Bangladesh is a little country. No, it is a huge country and it can be a prosperous country," he said.

"I am talking about Bangladesh as the world's largest exporter of readymade garments (RMG), the world's largest exporter of household textiles, a huge player in pharmaceutical production, information technology, animation, finished leather goods, ship building and I see it as an agricultural powerhouse," said the US envoy.

He said the country not only produces enough rice; it has the means to acquire protein and vegetables for its people.

"I like a hundred and fifty five million things in Bangladesh and those are the people of Bangladesh. That is the magic of Bangladesh. When I presented my credentials to his Excellency President Zillur Rahman, I said to him Bangladesh is a huge country."

"I said Mr President, how do you judge a country? How do you measure a country? How do you assess a country? Do you count the acres, hectares? Do you count oil in the ground? Do you count cows? What do you count? I said I count people. Not the number of people, the character of the people," Mozena said. "The people are more energetic, more dynamic, more creative, and more resilient in Bangladesh," he said.



Dan Mozena

On the port city, Mozena said: "Chittagong is a glorious place. I made a joke last night (Monday) at a big event that sometimes people say we shall move the US embassy to Chittagong."

Mozena said it is a wonderful city, in a beautiful location and it is critically an important city. "I said earlier that I have a vision of Bangladesh being the next China. But that cannot happen unless this port city has the capacity to bring imports and to take out exports at two times, three times, four times the current volume."

"So Chittagong faces the challenges of creating infrastructure to help Bangladesh become the next China," he said.

On the US-Bangladesh relationship, Mozena said America's partnership with Bangladesh has so many facets. "This partnership is strong and getting stronger."

Over the next five years, the US will invest \$1 billion in partnership as the US government is working to help Bangladesh improve the lives of its citizens, especially children, he said.

The US is committed to Bangladesh and the people of this nation, he said. "I come to Bangladesh to further broaden, deepen and strengthen this partnership, and I commit myself to do everything that I can to this end."