

# Build climate for business

## Li Jun, Chinese ambassador, calls for efforts to deepen bilateral ties

REZAUL KARIM

**C**HINESE Ambassador to Bangladesh Li Jun lauded growth in Bangladesh despite the adverse impacts of the global economic and financial crisis. In an exclusive interview with The Daily Star recently, he talked on the Chinese investment and business environment in Bangladesh and duty-free access to Bangladeshi products.

Jun said Bangladesh has advantages in attracting foreign investment as the country has a relatively comprehensive system to attract foreign direct investment (FDI). He termed the current problems in Bangladesh economy temporary and said China believes the government and people of Bangladesh have the capability to deal with the challenges and maintain a balanced, fairly fast economic growth.

**The Daily Star (TDS):** What is your projection of future Chinese investment in Bangladesh?

**Li Jun (LJ):** China pursues a foreign policy of building friendship and partnership with neighbouring countries, and would like to promote all-dimensional cooperation with all its neighbouring countries, including Bangladesh, on the basis of equality and mutual benefit. The Chinese government actively implements the policy of 'going abroad' and encourages Chinese enterprises to invest overseas. The economies of China and Bangladesh complement each other. China has a positive view on the future of the Bangladesh economy and is willing to strengthen cooperation with the country in the area of investment.

Bangladesh has quite a few advantages in attracting Chinese investment, in particular, cheap labour. As a least developed country, Bangladeshi products enjoy preferential treatment in the European Union and some developed countries. More importantly, Bangladesh has established a relatively comprehensive system to attract FDI. With a large population, Bangladesh has demand for quality commodities

and offers a huge market.

Many Chinese companies are interested in investing here. According to local news reports, Chinese non-financial investment in Bangladesh in 2011 was more than \$200 million. The Chinese government always encourages qualified and capable enterprises to invest in Bangladesh and we will continue to do so. We also hope that Bangladesh can further improve its investment environment, especially in providing land and ensuring power supply for Chinese enterprises, so as to attract more investment from China.

**TDS:** How do you look at the present business environment in Bangladesh?

**LJ:** In recent years, the Bangladeshi economy has maintained fairly fast growth despite the adverse impacts of the global economic and financial crisis. In fiscal 2010-11, Bangladesh's GDP achieved 6.7 percent growth. Recently, many people are concerned over the current economic situation, especially inflation and depreciation of taka. I would like to offer my observations.

Firstly, the fundamentals of the economy are good and stable. Agriculture reaped harvests last year with an output of over 35.53 million tonnes, an increase of 4 percent from the previous year. Foreign remittance reached \$12.1 billion, an increase of 10 percent from the previous year. The export of readymade garments obtained an increase of 18 percent and foreign aid remained at almost the same level as the previous year.

Secondly, the current problems in Bangladeshi economy are temporary. The inflation rate has been high since last March. The government budget is becoming tight and the taka exchange rate is going down. These problems are the results of both international and domestic factors.

Thirdly, we have confidence on the future of Bangladeshi economy. Bangladesh has a huge domestic market and rich labour resources. Infrastructure is also improving step by step. All these are conducive to



Li Jun

the stable and healthy development of the economy in the long run. We will continue to encourage more Chinese companies to invest in Bangladesh, promote economic and trade cooperation in various forms with Bangladesh and seek mutual benefit and a win-win situation in the China-Bangladesh relationship.

**TDS:** Why is China not adjusting the yuan against the dollar and how has the nation cut its inflation?

**LJ:** China is a responsible country and always deals with the RMB exchange rate regime in the interest of China and the world. Starting July 21, 2005, China has moved into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. Since then, China is firmly pushing forward the reform of RMB exchange rate in a manageable,

independent and step-by-step manner. Since 2005, RMB yuan appreciated 30 percent to the US dollar.

When the international financial crisis was at its worst, the exchange rate of a number of sovereign currencies depreciated by varying margins. The stability of the RMB exchange rate played an important role in mitigating the impact of the crisis and demonstrated China's efforts in promoting global rebalancing.

In further proceeding with reforms to the RMB exchange rate regime, continued emphasis would be placed to reflect market supply and demand with reference to a basket of currencies. The exchange rate floating bands will remain the same as previously announced in the inter-bank foreign exchange market.

In 2011, the Chinese government

prioritised the control of inflation in macro-economic policy and adopted a series of measures in this regard.

Firstly, to control the overall monetary supply, the People's Bank of China raised the bank reserve requirement ratio 13 times. Now the ratio is 21.5 percent. Secondly, the government emphasised agriculture and food production and increase market supply, so as to achieve the balance between market supply and demand. Thirdly, the government strengthened supervision and management of the market, aiming to stabilise inflation expectation. These measures produced considerable effects and the increase of price in the fourth quarter of 2011 was effectively controlled. The inflation rate in November and December 2011 was 4.2 percent and 4 percent respectively. The general Consumer Price Index (CPI) in 2011 was 5.4 percent.

In 2012, the Chinese government will continue to focus on controlling inflation.

**TDS:** What are chances of the Chinese government giving duty free access to more Bangladeshi products in a bid to reduce the trade balance?

**LJ:** Starting July 1, 2010, China offered zero tariff treatment to 4,762 Bangladeshi products, occupying 70 percent of Bangladeshi products exported to China. As a result, export to China increased by 91 percent in 2010 and 79.5 percent in 2011. In the near future, the Chinese side will increase this ratio to 97 percent. The Chinese market will be wide open to Bangladeshi products. I hope the Bangladesh business community can make full use of this opportunity.

**TDS:** What is China's strategy for development since its labour costs are going up?

**LJ:** With economic and social development in China, the cost of labour is rising day by day. Labour intensive industries, including garments industry, need to be upgraded and relocated. This is the natural rule of economic development. Quite a number of labour intensive enterprises in China are looking for ideal overseas market for investment and industrial relocation.

Bangladesh has a fairly young population, which is a competitive advantage. The nation's garment industry is developing well and has potential. Bangladesh is one of the priority destinations for China to relocate its labour-intensive industry. At the same time, the interest of Chinese enterprises to run factories in Bangladesh is adversely affected by some factors such as insufficient land, power shortage, traffic congestion and low efficiency. We hope the government of Bangladesh and the business community could look at the opportunities of China's industrial relocation from a strategic point of view and take effective measures to create favourable conditions for the relocation.

**TDS:** Comment on China's efforts to maintain growth and meet the challenges of a demographic transition.

**LJ:** In 2012, the major goals of China's macro-economic policy are to maintain a stable and fairly fast economic growth, stabilise commodity prices, continue economic restructuring and further transform the pattern of economic growth.

To maintain economic growth, the Chinese government will continue to implement the proactive fiscal policy and prudent monetary policy. While maintaining the continuity of macro-economic policy, China will also interfere as appropriate or make minor adjustments so as to make the policy more flexible, more targeted, and more forward-looking.

A proactive fiscal policy plays a very important role in maintaining economic growth. Meanwhile, the Chinese government will further push forward the structural relieving of tax and ease the tax burden of low income groups, small and medium enterprises and micro enterprises.

The aging of the Chinese population is accelerating. Currently, there are 330 million aged people in China, which is 19 percent of the total population. By 2040, the figure will be 770 million. An aging population is not only an economic challenge, but also a social one.

## Preparing for the new Bangladesh

WILLIAM WESTGATE

**W**HAT makes some countries rich and others poor? How can one tell when a nation is poised for economic development and prosperity? In the scheme of things, there are a few more important questions worth answering. The "Father of Economics" Adam Smith observed quite rightly over 200 years ago that "Little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism but peace, easy taxes, and a tolerable administration of justice: all the rest being brought about by the natural course of things."

Of course, Adam Smith was a supreme believer in the natural industry of mankind, but once a country begins on the road to prosperity, history shows that it is very difficult to divert that path. By almost any measure, Bangladesh is now on that path. Of course, in our hectic, stressful daily lives it is not always easy to recognise the long-term trends that are unfolding under the surface. The media is usually full of stories of countless social problems such as crime, corruption and congestion and the personal anecdotes we hear are often similarly depressing. Thus it will always be; it was the same during the economic development of every country from America to Korea to Brazil.

**TRAFFIC IS ACTUALLY GOOD NEWS** For instance, let us consider Dhaka's notorious traffic congestion. That is actually good economic news because it reflects rising incomes. The first thing people do when their incomes rise is to buy consumer goods and cars, but it takes nation years to build the required transport infrastructure. All the world's great cities have suffered this problem. Truly bad news is no traffic problem as

that reflects stagnant incomes. "THE RULE OF 70"

One of the most powerful forces in nature is compounding growth or "the exponential function". When something is growing at 10 percent per year, that means it will double in size in seven years (70 divided by 10 percent = seven). If something grows at 2 percent, it will take 35 years to double (70/2), and so on. Bangladesh's economy is growing at a rate of nearly 7 percent which means the total value of goods and services this nation produces is set to double from current levels in just 10 years by 2022. This is a similar rate seen across many developing nations over the past several years and the economic and social change is transformational. And, all this occurs as we are stuck in traffic worrying about the latest personal or social problems.

**POWER OF THE MIDDLE CLASS** History also shows us that as the middle class expands, corruption necessarily declines because, unlike the very rich and the many poor, a middle class of merchants and entrepreneurs cannot -- and will not -- tolerate corruption.

**THE NEW BANGLADESH -- AN EMERGING ASIAN TIGER** For years, many Bangladeshis have wanted to emigrate to the West. But the West now looks to have entered a sustained "post growth world". The West may still be a pleasant place to live, but South Asia is now where all the action and opportunity lays. The secret in business is always to be where the growth is. Although it may not always feel like it, Bangladesh is the right place -- and now is the right time. Indeed, increasingly the new recommendation must be "Go East, young man!"

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## Wal-Mart silenced Mexican bribe inquiry

REUTERS, New York

**W**AL-MART Stores Inc, the world's largest retailer, squelched an internal investigation into allegations of bribery at its Mexican subsidiary instead of broadening the probe, the New York Times reported on Saturday.

The Times said that in September 2005, a senior Wal-Mart lawyer received an e-mail from Sergio Cicero Zapata, a former executive at the company's largest foreign unit, Wal-Mart de Mexico, describing how the subsidiary had paid bribes to obtain permits to build stores in the country.

Wal-Mart sent investigators to Mexico City and found a paper trail of hundreds of suspect payments totalling more than \$24 million, but the company's leaders then shut down the investigation and notified neither US nor Mexican law enforcement officials, the Times reported.

According to the Times, current Wal-Mart Chief Executive Mike Duke and former CEO Lee Scott, who now sits on the company's board, were among senior executives allegedly aware of the situation.

Wal-Mart said in a statement on Saturday it was "deeply concerned" about the allegations in the Times report and began an investigation into its compliance with the US Foreign Corrupt Practices Act (FCPA) last fall. The company also said it had disclosed the probe to the US Department of Justice and the Securities and Exchange Commission.

"Many of the alleged activities in The New York Times article are more than six years old. If these allegations are true, it is not a reflection of who we are or what



we stand for," said David Tovar, vice president of corporate communications at Wal-Mart.

The company said it had taken steps in Mexico to boost internal controls for stronger FCPA compliance. It declined to make any executives available for comment, and said the investigation was continuing.

Richard Cassin, a US FCPA lawyer, said Wal-Mart faces an uphill battle to convince the Justice Department and SEC that its problems are confined to Mexico. "A corporate attitude toward the corruption there that allowed a cover-up to happen could signal wider compliance problems," said Cassin, who writes an industry blog, FCPA Blog.

"Before any resolution with U.S. authorities is possible, the company has to look under every stone for possible corruption. Are there any similar issues in China or other countries? That's what US authorities will want to know. Wal-Mart's shareholders will be asking the same question," he said.

A spokesman at the SEC said it did not have any comment on the

New York Times article. A Justice Department spokeswoman declined to comment.

Wal-Mart de Mexico, or Walmex, as the company is known locally, has expanded rapidly since Walmart opened its first store outside the United States in Mexico City in 1991, then part of a joint venture.

In 2011, the Mexican unit reported total sales of 379 billion pesos (\$29 billion). Walmart's fiscal 2012 sales, for the year ended January 31, were \$443.85 billion.

Middlemen or "gestores" are used in Mexico to help companies perform a variety of tasks, from obtaining residency permits and resolving tax issues to obtaining planning authorisation.

They are often legitimate actors in Mexico's bureaucracy, but a lack of transparency in the system can make it impossible to know whether bribery is involved in their dealings, several foreign businessmen working in Mexico told Reuters.

The Times reported that Cicero, the former Walmex executive, gave

names, dates and bribe amounts, adding that he knew so much because for years he had been the lawyer in charge of obtaining construction permits for Walmex.

Cicero identified Eduardo Castro-Wright as the driving force behind years of bribery, according to the Times, adding that no Walmex leaders were disciplined.

Castro-Wright became CEO of Walmex in 2003 and was named CEO of Walmart US in 2005. He became a vice chairman in 2008 and led e-commerce from 2010 until January of this year, and is set to retire July 1. He could not be reached for comment.

Wal-Mart found documents showing that Walmex's top executives not only knew about the payments, but had taken steps to conceal them from Wal-Mart's headquarters in Bentonville, Arkansas, the Times reported.

Wal-Mart hired Willkie Farr & Gallagher, a law firm with extensive experience in FCPA cases, to look into the matter, but when the firm suggested a thorough investigation, it was rejected for a more "limited preliminary inquiry," the paper said. Willkie Farr could not be reached for comment.

The Times said Wal-Mart's own lead investigator, a former FBI special agent, said there was reasonable suspicion to believe Mexican and US laws had been violated and had recommended an expanded investigation.

The Times said that in a meeting where the investigation was discussed, then Chief Executive Lee Scott rebuked internal investigators for being too aggressive.

Days later, the paper said its records showed Wal-Mart's top lawyer arranged to ship the internal investigators' files on the case to Mexico City.