

The season of light and the season of darkness

RUBANA HUQ and ANNISUL HUQ

IT is indeed the best of times and the worst of times for Bangladesh's RMG sector. With the rest of the world not offering any substantial capacity in producing apparel, Bangladesh faces a tremendous potential to grow in quantity, value and repute. And of course, it is the worst time ever with 1127 deaths haunting us every night.

Consumers are reacting to Made-in-Bangladesh labels, activists are lining up in front of the stores importing from Bangladesh, buyers are anticipating more hiccups from our end and we are facing wrath, locally and internationally.

The EU trade commissioner has warned that he would be initiating an investigation, which could negatively impact our EBA (everything but arms) scheme. The US is also reaching their final verdict in regards to generalised system of preferences by June, which could impair our image.

Brands are fond of Bangladesh, but because of international NGO pressures and risks to a brand's reputation, many may rethink their sourcing strategy and consider shifting from Bangladesh, in the long run. This will clearly spell disaster for the country. In order to address this possibility, this industry needs a paradigm shift in the short, medium and long term.

We have formulated our proposals based on which a process of remediation can begin and also be modified in any manner deemed fit by the experts.

A quick look at the garment industry is needed at this point. Under Bangladesh Garment Manufacturers and Exporters

A BRIEF SUMMARY OF COSTS		VALUE: LAKH/TAKA
	VALUE	
*Land	25	
Construction	325	
Machinery	350	
Furniture	16	
Busbar	32	
Exhaust fan	10	
Lighting	11	
Boiler	16	
Firefighting	100	
Substation	40	
Lifts	25	
Generator	30	
Total	980	

The approximate cost of setting up a 25,000 sqt ft for basic shirt/blouses factory would be Tk 10 crore. If 1,000 factories are identified as Tier 3, then the riskiest 500 factories of that same tier should be able to shift immediately by locating a land of around 250 bighas (½ bighas for 1 factory based on six-storey industrial buildings).

**In a six-storey industrial building, six factories may be set up. The building may also be built on a three-bigha land which approximately will cost: Tk 1.5 crores (Tk 50 lakh per bigha). Therefore, the land value when split into six, will cost Tk 25 lakh per factory.*

Association (BGMEA), we have 4,382 factories, employing around 3.5 million workers. Of the total, Dhaka has 3,292 factories, Chittagong 788 and Narayanganj 314. A total of 2,068 factories are direct exporters with UID (utilisation declaration) status and the rest are indirect exporters, as per BGMEA data.

Under Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA), there are 1,870 plus registered factories that employ 600,000 plus workers. Of these, 900 directly export obtaining UID; 500 of these factories could be rated as Tier 1 and the remaining 400 as Tier 2 and 3. There are 270 factories that are associate accessory units, while the rest 700 is reported not to be in production or has no existence.

In reality, there are a few hundred factories that are closed in both BGMEA and BKMEA. The system has allowed the leakage and there are many factories that exist possibly only on paper because of many bad years in business.

The first step would be to exercise diligence and scrutinise the existence of all factories falling under Tier 1, 2, 3, closed, and only registered factories without any existence. Since BGMEA and BKMEA are voters' organisation, this assessment needs to be done by a third party, as BGMEA/BKMEA cannot be expected to do a neutral investigation.

This should be completed by August 2013 so that the government -- starting September -- has a clear document reflecting a clear picture in hand. This will enable the government to plan on a short, medium and a long-term basis.

However, the immediate closure of factories out of panic is not recommended. This is not going to be beneficial for the owners or workers.

Relocation is going to be the next big requirement for a medium and long-term solution. Of the factories we have, almost 33 percent have 100 percent compliance problems or can be identified as Tier 3 factories.

For example, 1,568 factories exist in Dhaka where 647 factories have direct export, and 500 could fall under the second tier of compliance. Therefore, we can safely say at least 1,000 factories need to be relocated.

Relocation needs not be done in one go and to one place. These factories could be split in two phases in two different locations. The process can be replicated in Chittagong as well, so that the factories can be relocated in four years.

What is this going to cost? Ideally, a worker needs approximately 50 square feet of space in a compliant factory. If 500 workers of a small factory need to move, they will need 25,000 square feet of floor space.

The government should kindly provide raised land at subsidised price, which can be paid by the manufacturers. The total requirement per project for 1,000 factories will be Tk 10,000 crore which could initially be funded by the government and later adjusted gradually from the exporters' export proceeds. The related infrastructure and utilities must also be provided by the government. With this in mind, the government should allocate Tk 3,000 crore in the upcoming budget for project implementation on 'khas' land.

READ MORE ON B3



From left, Sanghwa Song, general manager of Samsung Electronics Bangladesh; Michael Malvebo, director of Grameenphone; Latifur Rahman, chairman of Transcom Group; and Arshad Huq, chief operating officer of Transcom Mobile Ltd, attend the local launch of Samsung Galaxy S4 in Dhaka yesterday.

Samsung Galaxy S4 launched in Bangladesh

STAR BUSINESS DESK

SAMSUNG Electronics Bangladesh and Grameenphone yesterday jointly launched Samsung Galaxy S4, a smartphone, at a programme in the capital.

The new cellphone priced at Tk 67,500 is available in selected Grameenphone (GP) Centres and Samsung Smartphone Cafés across the country, Samsung said in a statement.

Samsung and GP also introduced a 24-month instalment purchase options exclusively for the network's users. GP clients can buy the S4 at Tk 2,810 monthly through credit cards of Standard Chartered Bank and BRAC Bank.

Sanghwa Song, general manager of Samsung Electronics Bangladesh; Hasan Mehdi, head of mobile at Samsung Electronics Bangladesh; Latifur Rahman, chairman of Transcom Group; Arshad Huq, chief operating officer of Transcom Mobile Ltd; and Michael Malvebo, director and head of product and commercial of GP, attended the event.

The radical force of 'Abenomics'

ANATOLE KALETSKY

THE 3.5 percent gross domestic product growth announced by Tokyo Wednesday suggests that Japan may be the fastest-growing economy in the G7. Since the Tokyo stock market hit bottom exactly six months ago, the Nikkei share index has soared almost 80 percent. Meanwhile, the yen has experienced its biggest six-month move against the dollar. All these events appear linked to the election of Shinzo Abe and the regime he has installed at the Bank of Japan.

Even after 20 years of stagnation, Japan remains the world's third-largest economy, with a 2012 GDP of \$6 trillion, equal to France, Italy and Spain combined. Financiers, business leaders and economists everywhere are starting to ask the obvious question: Is Japan finally taking the truly radical action required to fix its economy and end its "lost decades"?

This, however, is the wrong question. It confounds two very different issues -- which need to be carefully distinguished to understand what's happening in Japan.

The first question is whether Japan is truly committed to actions far more radical than anything attempted in the past 20 years. The second question is whether these actions, if pursued with determination and persistence, will fix Japan's economy.



Japan's Prime Minister Shinzo Abe in the cockpit of T-4 training jet at the Japan Air Self-Defense Force base in Higashimatsushima, Miyagi prefecture.

and win their intellectual contest with skeptical bottom-up analysts.

This could happen for four reasons.

First, the wealth effect created by a rising stock market and a falling currency could transform some structural problems. Andrew Sheng of the Fung Global Institute has calculated that the gains in Japan's household wealth resulting from the recent market movements have already been equivalent to almost 40 percent of GDP. This extra wealth has already contributed to big improvements in consumer confidence and is likely to boost consumer spending and business expansion, especially in service industries. Similarly, the extra profits for Japanese exporters resulting from the weak yen are bound to increase wages and dividends, also encouraging more consumption.

Second, because the bull market in Japanese equities has largely been driven by investors, who focused on the macroeconomic issues, the vast majority of traditional long-term investors, who concentrate on structural issues and bottom-up company analysis, have missed one of the greatest investment opportunities in years.

If Japan's stock market gains are soon reversed, this will not matter. But the very fact that many traditional investors have been left behind suggests that the bull market in Japan may have a long way to go, rather than being near its peak. If the bull market continues even a few months longer, skeptical bottom-up investors will have to start buying if they want to stay in business.

As these investors are drawn in, they will find reasons to believe that corporate and economic fundamentals are improving. Instead of asking whether monetary policy will help Sony invent the next iPad, they will start to speculate that Sony must have some brilliant new products on the drawing board -- since its stock price has risen so fast.

Third, if bullish macroeconomic analysis starts to overwhelm structural skepticism, this change in expectations can itself transform economic reality. Investment,

Apple, US lawmakers in offshore tax showdown

AFP, Washington

APPLE and US lawmakers are gearing up for a showdown over taxes -- specifically how to deal with the huge stockpile of cash held by Apple and other multinational firms offshore.

A Senate panel has called Apple chief executive Tim Cook and others from the California tech giant to testify at a hearing Tuesday on "methods employed by multinational corporations to shift profits offshore."

The hearing comes amid increased scrutiny on offshore holdings of big US corporations, which have hundreds of billions overseas but are reluctant to bring the funds home because they could be subject to a top tax rate of 35 percent.

Apple is in focus because of its \$145 billion cash stockpile, much of it offshore. The company recently sold \$17 billion in bonds to raise cash instead of repatriating profits, which would be taxed.

Cook told The Washington Post he will be offering his own proposal to lawmakers, which he argued would make it easier for Apple and other companies to repatriate offshore profits.

"If you look at it today, to repatriate cash to the US, you need to pay 35 percent of that cash. And that is a very high number," Cook told the daily.

"We are not proposing that it be zero. I know many of our peers believe that. But I don't view that. But I think it has to be reasonable."

Cook declined to offer specifics but indicated he would propose a "simplification" of the corporate tax code when he testifies. Apple "likely is the largest corporate taxpayer in the US," Cook said in the interview, estimating that the iPhone and iPad maker would pay \$7 billion this year in income taxes.

In a separate interview with the Politico news website, Cook sought to deflect criticism that Apple is shifting profits to escape taxation.

"Apple is contributing in a lot of different ways to the economy, and we're very, very proud of it, particularly in the job-creation area and the work we do to protect our environment," Cook said.

"I hope to make some clear recommendations, and I trust there will be receptive parties there."

He added that the company is investing \$100 million in US manufacturing, as it brings back some production of computers from overseas.

The hearing will also include Apple chief financial officer Peter Oppenheimer and its head of tax operations, Phillip Bullock, along with tax experts from Harvard and Villanova University, and officials from Treasury and the Internal Revenue Service.

The question of offshore profits remains a hot topic with the US government facing high deficits and complaints rising about fairness in taxation.

A study by the activist group Citizens for Tax Justice found that some 300 of the Fortune 500 corporations collectively held \$1.6 trillion offshore at the end of 2011.

And the group said 10 big US firms including Apple and Microsoft added a total of \$106 billion to their offshore holdings last year.

Because these overseas profits are not subject to US tax unless the funds are brought back, the US government is expected to lose some \$600 billion in revenues in the next decade, according to a congressional estimate cited by the group.

Anatole Kaletsky is a financial economist who also worked for The Economist, the Financial Times and The Times of London before joining Reuters.