

# Bright future for Bangladesh

*Jim McCabe of StanChart talks about real potential of the nation as he shares his experience about London summit*

MD FAZLUR RAHMAN

THE recently-held FinanceAsia Bangladesh Investment Summit in London has effectively portrayed to foreign investors what the country has to offer despite the confrontational politics and major industrial tragedies, a co-organisier said.

"It turned out to be a fantastic experience. Hundreds of very interested investors showed up," Jim McCabe, chief executive officer of Standard Chartered Bangladesh (SCB), which sponsored the summit, told The Daily Star in an interview last week.

The event, which presented the trade and investment opportunities in Bangladesh, was a follow-up to the summit held in Singapore last December -- and he says it was a bigger success. "The topics in the panel discussions were deeper and even better than those in the Singapore summit."

"Afterwards, so many people called me. I hope they will continue their interest and visit Bangladesh to explore the investment opportunities in person."

"When we were planning for the summit, we had no idea that there would be serious political protests or the tragedy of the Savar building collapse."

McCabe said SCB and FinanceAsia considered postponing or even cancelling the event in London because "the mood might not be positive".

"We admitted that it was a risk," he said, while acknowledging that it was a risk worth taking as the fundamental purpose of the summit was "very sound".

"People are interested and do not want the summit to be hijacked by insisting on just one question of political stability. This summit was about Bangladesh's future 10 to 20 years from now, and its potential



Jim McCabe

then, which is very real."

When asked what he specifically tells potential foreign investors about Bangladesh, he said: "Everybody has problems, but despite that Bangladesh has been able to forge a consistent performance for 10 years now -- that sheds light on its underlying strength."

The fact that the country's economy has grown at approximately 6 percent a year is something to be hailed.

"I talk about the stable, unchanged rating the country has had over the last four years -- that does not happen all the time around the world."

"I also tell them that

Bangladesh is the best client that many development agencies have. It is responsible and reliable, and it complies and repays. It has never defaulted on its loan to anybody."

Regarding the political turmoil of the past six months, the SCB chief said that it "will pass" as it is a "process of development, politics and democracy".

"Sometimes the roads are bumpier than you like it to be, but it is still a road going in that direction. It costs something, and we all know it. Hopefully, the process will improve."

McCabe said the Rana Plaza collapse has had a knock-on effect

around the world and brought on more "compliance, rigour and review" in many businesses.

"It caused so many people to rethink and reconsider what they do, how they do and who they do them with. The tragic losses of lives did not go in vain -- it has created very large benefits for the humanity."

SCB has advised the central bank on the issuance of the country's first-ever sovereign bonds to raise \$500 million, and McCabe thinks the bank has done a "very good job".

Regarding the timing of the issuance, he said it is a decision that the prime minister and the finance minister would have to make, and they are well-equipped for it.

McCabe, however, does not think the issuance would take place at present. "I can guess it might be done a little bit later."

Regardless, a solid foundation has been laid for the sovereign bond to prosper.

"The macroeconomic scenario is strong and consistent. There is lot of reserves and the currency is strong. The rating agencies have given stable ratings to Bangladesh for a number of years. So people are interested."

He reserved special praise for the country's private sector and its "resilience and ability to grow and develop the economy" in the face of various upheavals.

McCabe said he thinks the rest of the year would be exciting and challenging, and that a "fair and transparent" election would be held at the end of the year or early next year.

"In the meantime, everybody goes to work everyday and produces something. The country keeps on going. We are there to support and work with our clients on a daily basis, to help them out as best as we can. That is our job."

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# The hidden barrier to prosperity

FAARIA TASIN

IT would surprise many to learn that Bangladesh was once at par with countries such as Korea, Indonesia and Thailand in terms of gross domestic product (GDP). In 1970, this had been the case and the rapidly growing Malaysia only produced half of Bangladesh's GDP. People who had been visiting countries such as Malaysia and Thailand for the last few decades will tell us how radical their change has been. The highly used buzz words seem to be 'economic growth' when people reflect on such countries.

'Economic growth' is a multidimensional concept. In its crude form, it can only imply a rise in real income per head of a country. However, its multi facets include not only a change in the economic front, but also in political, social and institutional frameworks of the country. This could mean a rise in the standard of education, health, income equality, environmental sustainability and political stability among many other things. The successful expansion of education has been a key factor in Korea's industrialisation in the last six decades.

Education affects economic growth both directly and indirectly. Directly, education leads to human development and technological progress, which helps accelerate economic growth. Indirectly, education contributes to institution building and social development, which again can positively influence economic growth. Now, under the current circumstances, why can't the government of Bangladesh start construction of a thousand schools and hospitals with foreign aid tomorrow? This will increase human development and boost economic growth. Will this be a rational move? Unfortunately not and let us look at why.

To understand this, we need to look at how the government manages its budget. Broadly speaking, the government divides this into two parts: revenue/recurrent budget and development budget.

The proportion of the recurrent budget

stays stable because this part constitutes the 'reoccurring' expenditures such as salaries and wages. However, the development budget tends to be relatively erratic as its size depends on factors such as project cycles, emergency spending during natural calamities, availability of foreign aid and so on.

Allocations from development budget will always fluctuate more than revenue spending, which mainly comprises salaries and allowances and has its own internal momentum. Now say the government starts a project to give special stipends to ethnic students. Initially this project will

COUNTRY	TAX REVENUE AS % OF GDP
Vietnam	23.1
China	18.2
Korea	15.6
Malaysia	15.3
Bangladesh	10.5

SOURCE: DATA FROM ADB, BANGLADESH BANK

be funded from the development part of the budget. If this project proves to be a success, then the government would want to implement this stipend strategy year after year; but it will not be feasible to do so under the development budget as, in some years, it may not be able to accommodate this project due to increased need from other sectors. In this case, the project will have to be transferred under the recurrent budget.

Now assuming that the project costs Tk 10 crore a year, then every year, the recurrent budget has to churn an additional Tk 10 crore to run the project. Now if the government decides to build a thousand schools and hospitals with foreign aid, this will also mean recurring salaries for thousands of teachers, doctors and nurses year after year. If the recurrent budget cannot bear the expenses, then the construction of these buildings will be futile. In fact, the depreciation costs of these unused buildings will rise every year.

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## Indian IT firm Tech Mahindra completes Satyam takeover

AFP, Mumbai

Indian IT outsourcer Tech Mahindra on Tuesday completed a takeover of its partly-owned unit Mahindra Satyam, creating a new force in the sector with annual revenues of \$2.7 billion.

The new entity will retain the name Tech Mahindra -- with a new logo -- and be amongst India's top five locally-listed IT outsourcers with 540 clients, a Tech Mahindra statement said.

Tech Mahindra bought a 42.7 percent stake in Hyderabad-based Satyam in April 2009 when it was on the verge of collapse following an accounting scandal.

The company has since operated under the name Mahindra Satyam and has emerged from the crisis profitable, posting a net profit of 9.01 billion rupees (\$152 million) for the last financial year ended March 2013.

The two companies approved a full merger in March 2012.

The takeover of the remaining stake involves an exchange of stocks, with Satyam shareholders receiving one Tech Mahindra share for every 8.5 Satyam shares.

"Today we have fulfilled the commitment made in 2009, when we acquired Satyam, to jointly become one of the largest diversified players," said a statement from Anand Mahindra, chairman of parent group Mahindra and Mahindra.

The merger comes as many of India's IT outsourcing firms are going through a rough patch, with the outlook for the industry difficult due to uncertainty in key US and European markets.

Satyam stunned corporate India in 2009 when its founder B. Ramalinga Raju admitted he had for years overstated profits and inflated the firm's balance sheet by more than \$1 billion.

The scandal nearly pushed Satyam into bankruptcy as clients and staff exited, but Tech Mahindra, part of Indian auto and farm equipment manufacturer Mahindra and Mahindra, came to the rescue.

Raju, once a star of India's software boom, is awaiting trial for conspiracy, cheating and forgery.

# EU leaders meet as doubts grow over future

AFP, Brussels

EU leaders meet this week knowing they have to deliver growth and jobs, especially for the young, as years of debt crisis austerity and soaring dole queues test faith in the European project.

The debt crisis may have eased, allowing governments some leeway on austerity in favour of growth, but the question is how far they can go without compromising hard won gains.

Germany, the bloc's biggest economy and paymaster, insists that strained public finances still have to be put right first if the EU is to get back on track, while France under Socialist President Francois Hollande says growth is the priority.

The summit on Thursday and Friday comes against a distinctly mixed backdrop -- the European economic outlook is for further recession and the global picture is uncertain as China slows sharply.

At the same time, borrowing costs kept low by central bank intervention are beginning to rise and are expected to go much higher, clouding the outlook for both business and states whose debt burden will now only weigh heavier.

A plan to produce jobs must be approved "otherwise Europe will be seen by everyone as useless, negative and bureaucratic," Italian Prime Minister Enrico Letta said Sunday.

"Employment for young people in Europe has collapsed," Letta told RAI public television. "I hope we will be able to come out and tell people that we have done something concrete and which can be implemented immediately."

The numbers speak for themselves. In April, the last month for which figures are available, unemployment in the 17-nation eurozone hit a 24th consecutive monthly high at 12.2 percent or 19.3 million people, while the 27-member EU had an 11-percent jobless rate or more than 26 million out of work.

In the 16-25 age bracket, the



European Union President Herman Van Rompuy (R) shakes hands with Bulgarian Prime minister Plamen Oresharski prior to their meeting on June 21 at the EU council headquarters in Brussels.

situation was much worse -- the eurozone had an average unemployment rate of 24.4 percent or 3.6 million, and the EU 23.5 percent or 5.6 million.

Even worse, however, was the situation in bailed-out Greece, with a youth jobless rate of more than 60 percent, followed by Spain on 50 percent and Italy and Portugal at 40 percent -- levels so high that people are talking of a "lost generation" which may never find work.

EU President Herman Van Rompuy describes the problem as "one of the most pressing issues in most, if not all, of our member states" which leaders simply must tackle if the union is to prove its worth.

"We want to avoid another summit with a lot of declarations and little action," a diplomat in Brussels told AFP.

Growing frustration with the EU's role is clearly evident.

At the weekend, the pro-EU Dutch government said the time

of "an ever closer union" in Europe was over, setting out a raft of policy areas that should be left to member states rather than Brussels.

"This is an issue which strikes a chord with many people across Europe," it said, adding that its aim was to create "a European Union that is a more modest, more sober and at the same time more effective."

Conservative British Prime Minister David Cameron has called for powers to be taken back from Brussels and for Britain's refashioned membership to be put to an 'in-out' referendum.

Another key issue for growth and credibility are stalled efforts to put in place a "banking union," the new regulatory system meant to prevent failing lenders from damaging the wider economy, as they have done repeatedly during the debt crisis.

Lengthy talks last week produced no accord on how a failed bank should be wound up, mainly

due to differences over who should foot the bill. EU finance ministers will meet again Wednesday, right ahead of the summit.

"An agreement on banking union is fundamental for us," Letta said.

"We will not accept any compromise on this because banking union means protecting savers from possible crashes ... making the European financial system more solid and getting loans at lower rates," he said.

"I am not definitively confident," he said, adding: "There will be a tough battle."

On the diplomatic front, the summit is also set to give the go-ahead for Croatia to become an EU member on July 1 -- the first enlargement since Bulgaria and Romania joined in 2007.

EU leaders could also give an official start date for membership negotiations with Serbia -- after the former pariah state normalised relations with Kosovo earlier this year.

## Workers in emerging economies most concerned how companies behave

REUTERS, New York

Workers in emerging countries are more concerned about corporate behaviour than employees in more developed nations, according to a poll released on Tuesday.

The Ipsos survey of 24 nations showed that feelings about corporate responsibility were highest in Brazil, Mexico, Indonesia and India, where more than half of workers said it was very important for their employers to be responsible to society and the environment.

But in Japan and France less than 20 percent of workers felt the same way, and in Spain, Belgium, Germany, South Korea and China the number was less than 30 percent.

In other developed nations it ranged from 30 percent in Britain and 32 percent in the United States to 35 percent in Australia and 37 percent in Canada.

"The main finding, no matter where you look, is that companies can't neglect corporate social responsibility. People say it is important for their employers to do it," Trent Ross, a senior vice president with Ipsos, said of the poll results.

Overall, 61 percent of respondents thought companies should pay more attention to the environment, and 52 said they should contribute more to society.

Workers also consider a company's behaviour when making choices about products and services. About half of people in Indonesia, Brazil and Mexico said they are likely to think about a firm's social responsibility when buying something, compared to 15 percent or less in France, Japan, Belgium and Germany.

The three most important things companies must do to be respected, according to the poll, are: prioritize workplace safety, contribute to the socioeconomic development of the country, and abide by local laws and rights.

"In the western democracies it is the burden of governments to do these things and in the developing world it is the burden of multi-national companies to provide this lift because governments are less able to do it," Ross said in an interview.

Ipsos questioned a total of 18,150 adults for the online survey conducted from April 2 to 16. Approximately 1,000 people took part in each nation, apart from Argentina, Indonesia, Mexico, Poland, South Africa, South Korea, Sweden, Russia and Turkey, where about 500 people contributed to the survey.