What explains the concern over GSP?

SADIQ AHMED

There is considerable ongoing debate and discussion in Bangladesh regarding the suspension of trade benefits to Bangladesh from the US Generalised System of Preferences (GSP). On June 27, 2013 President Obama slapped the suspension to register the US concerns over poor working conditions and protection of worker rights in the readymade garments sector. While the Rana Plaza tragedy triggered this punitive action, problems with worker rights and safety issues were simmering for a while along with growing hostility of the American Federation of Labour and Congress of Industrial Organisations. A review of the debate and discussion in Bangladesh suggests there is considerable confusion and lack of clarity about the underlying issues including the relevance of GSP to Bangladesh trade and the related implications of the GSP suspension. In this article I will try to provide some clarity so that readers have a better basis to judge for themselves the politics and economics of the GSP suspension.

The GSP was instituted in January 1, 1976 by the US government as a means of promoting growth in the developing countries through preferential access of their exports to the USA. The GSP provides for duty-free entry into the US for some 5,000 products of 122 countries. The value of GSP exports stood at around $20 billion in 2012. The largest beneficiaries are India, Thailand, Brazil and Indonesia in that order.

The GSP is not extended to garments owing to trade protection reasons for US manufacturers and the garment duty rates tend to be much higher than for most other products. In 2000, former US president Clinton initiated the Africa Growth and Opportunities Act (AGOA) as a special preferential trade programme for Sub-Saharan African countries. The AGOA extends the GSP privileges to a larger number of products including garments.

Bangladesh has gradually increased its exports to the USA. According to data from US sources, Bangladesh exports to the USA increased from $196 million in 1985 to $5.4 billion in 2013. In contrast to this, US exports to Bangladesh grew by $219 million to only $709 million over the same period. As a result, the trade balance grew from a negative $22 million to a surplus of $4.7 billion, which is the Bangladesh's largest country-specific trade surplus. The importance of US market for Bangladesh trade is obvious.

STAR/FILE

Bangladesh's garment exports to the USA have grown at an impressive pace of 13 percent per year between 1985 and 2013.

Despite this progress, Bangladesh is an insignificant player in the US market. Total imports of goods and services into the USA stood at $2,757 billion in 2013; so the share of Bangladesh is a mere 0.2 percent of total US imports. Even with a five-fold increase in Bangladesh exports, the share will be around 1 percent of total US imports. The five largest exporters to the USA in 2013 were: China ($440 billion); Canada ($331 billion); Mexico ($281 billion); Japan ($139 billion) and Germany ($115 billion). Clearly, there is tremendous scope for Bangladesh to expand its exports to the USA.

What is the relevance of GSP in this task? Presently, Bangladesh exports a tiny $35 million under this facility. As a share of its total exports to the USA, it is less than 1 percent. So, virtually all Bangladesh exports to the USA are outside the GSP. The reason for this is that almost all Bangladesh exports to the USA comprise of garments, which are outside the GSP. Bangladesh has lobbied extensively to get the AGOA benefits that include apparel products. However, the US has declined to do so, mainly because unlike Sub-Saharan Africa, Bangladesh is a big player in the US market for garments and therefore comes in conflict with the interests of domestic producers of garments.

But interestingly, despite the high customs duties on garments (15-16 percent as compared with average import duty of 9 percent on total imports), Bangladesh's garment exports to the USA have grown at an impressive pace of 13 percent per year over the 28 years between 1985 and 2013. Because of this, its market share has steadily improved and it is now the third largest supplier of imported garments in the USA after China and Vietnam.

A second aspect is the fact that the GSP facility needs to be renewed periodically through the approval of the US Congress. The validity of the GSP ended in June 30, 2013. It has not yet been extended. So, legally, the GSP does not exist anymore, although there are expectations that the US Congress will likely extend the duration. Therefore, until and unless GSP is formally extended, all imports have to pay the existing import duties. In the past, when there was a gap between extension and end of GSP, the Congress also approved retro-active implementation of GSP from the date it lapsed. Through this provision, duties collected on imports of GSP-entitled products for GSP beneficiaries were reimbursed by the US Treasury. However, this is not an automatic feature of GSP renewal and it has to be specifically authorised by the Congress.

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Uber business model faces legal scrutiny in Taiwan

REUTERS, *Taipei/Shanghai*

UBER Technologies Inc is under fire in Taiwan and the Chinese mainland mega city Chongqing over concerns that it and its drivers are not appropriately licensed, adding to a string of official complaints aimed at the fast-growing US start-up.

Uber has been subject to similar action in economies as varied as Thailand and Spain. But an investigation in Chongqing - a city with a third more people than Taiwan - marks the first time Uber's legality has come under scrutiny in mainland China, and comes less than a week after Uber won investment from Chinese Internet giant Baidu Inc.

Uber, through its apps, charges a fee to play matchmaker between passengers and drivers, some of whom are registered taxi drivers. But a lack of regulation for the relatively new business model has brought Uber and similar taxi-hailing companies to the attention of authorities worldwide.

In Taiwan, the transport ministry said Uber is licensed to provide information services rather than transport. As such, it is investigating whether it has the authority and enforcement capabilities to block access to Uber's website and mobile apps.

"If Uber obtains the proper licence it can continue operating in Taiwan," Ministry of Transportation and Communications Deputy Director Liang Guo Guo said on Monday. "The company has not made clear how it plans to proceed."

In a separate statement on Monday, the Chongqing government said it was investigating the legality of Uber's business model using private drivers. It said private drivers operating without a commercial licence would be "classified as illegal behavior". It said it would fine unlicensed drivers operating via car-hailing services 30,000 yuan ($4,826) to 100,000 yuan. It did not state any action against car-hailing service providers.

Uber, valued at around $40 billion, operates in eight Chinese cities. Chongqing, where it has been carrying out a free trial, would be the ninth.

"We are actively communicating and seeking clarification with the Chongqing government," Xue Huang, communications lead for Uber in China, said in emailed comments to Reuters.

The company did not respond to a request for comment regarding Taiwan's announcement.

Monday's announcements add to an array of challenges that have hit the San Francisco-based company in recent weeks. As well as bans in cities around the world, Uber has faced accusations of violating user privacy and has had to tighten screening after a driver in India was arrested for rape.

China's Xiaomi raising $1b from investors

REUTERS/FILE

Xiaomi's International Vice President Hugo Barra speaks with the media during the launch of Mi phones in New Delhi on July 15.

REUTERS, *Singapore/Shanghai*

CHINA'S Xiaomi is raising over $1 billion from investors including Singapore sovereign wealth fund GIC that would value the smartphone maker at over $45 billion, a person familiar with the deal said.

The fund raising was first reported by the Wall Street Journal, which also said this round was led by tech fund All-Stars Investment and included Russian tech fund DST Global and Yunfeng Capital, a private-equity firm affiliated with Alibaba Group Holding Ltd Executive Chairman Jack Ma.

All-Stars Investment is led by former Morgan Stanley analyst Richard Ji, who declined to comment.

GIC's investment in Xiaomi comes after Singapore state investor Temasek Holdings Pte Ltd bought a small stake in the smartphone maker during an earlier funding exercise, a second person said.

The people were not authorised to speak to media on the matter and so declined to be identified. Xiaomi and GIC declined to comment.

Xiaomi's valuation has skyrocketed in the four years since it was founded by Chief Executive Lei Jun, reflecting investors' belief that it will grow into a global powerhouse despite signs it is encountering intellectual property challenges outside its home country China.

This month sales in India were temporarily halted after Swedish telecommunications firm Ericsson filed a patent complaint.

Still, the Beijing-based company will likely come close to its 2014 sales target of 60 million smartphones, up from less than 20 million in 2013. At $45 billion, it is now worth nearly three times the market capitalisation of Lenovo Group, the world's No. 1 PC maker and one of its rivals in the smartphone market.

Xiaomi has had six rounds of funding to date, including most recently an investment in 2013 at a $10 billion valuation. It turned down investment offers at a $30 billion valuation this year, according to a person close to the company.

Regulatory filings showed Xiaomi reported revenue of 26.6 billion yuan ($4.28 billion) and a profit of 347.5 million yuan in 2013, although the company has said the documents did not account for the entirety of its business or reflect its overall profitability.

Ricky Lai, an analyst at Guotai Junan Securities, said Xiaomi's smartphone shipments were "over market expectations" in the third quarter, when it sold close to 18 million handsets, according to multiple market research firms.

Xiaomi brands itself as an Internet company that eschews traditional marketing and sells hardware at low prices as a distribution channel for its real money maker, software and services.

It has been investing heavily in other manufacturers with the aim of building an ecosystem of Internet-connected devices and appliances to extend its reach beyond smartphones.

Nomura analysts said in a report earlier this month that Xiaomi and founder Lei Jun had invested in 43 companies across China's mobile Internet eco-system,

The inside story of the new Airbus A350 jet

REUTERS, *Paris*

TEN years ago, the boss of Qatar Airways, who takes his first new A350 jet this week, warned Airbus it was flying off course.

Boeing was knocking on his door with a "super-efficient" jet boasting 30 percent fuel savings thanks to a carbon-composite design.

In Toulouse, some Airbus engineers, riding high after overtaking Boeing and suspecting a short-lived marketing stunt, laughed off the future 787 with a "tail like a dolphin".

Qatar Airways CEO Akbar Al Baker urged Airbus to take the 787 seriously and said its draft response, a quick fix to its A330 with new General Electric engines, was inadequate.

As Qatar Airways planned for rapid regional and long-haul growth, Al Baker recalls: "There was a requirement for an aircraft that has capacity that is optimal on two fronts: customer comfort and technologically forward-thinking."

That clamour for both cabin comfort and better economics eventually forced Airbus into a fundamental shift in strategy.

But after Al Baker's warning, it took another two years of sales setbacks and doubts at the highest management level before Airbus agreed to build the A350XWB to be delivered on Monday.

That story is revealed here after interviews with customers, suppliers and industry sources. Airbus declined comment.

The fluctuating, decade-long journey from half-hearted tinkering to an all-new family of jets highlights a chess game still being played out as Airbus and Boeing battle each other in the wide-body market, valued at $1.9 trillion over 20 years.

Next month, the A350 will start competing with the 787 in the skies, having garnered 778 orders against 1,055 for the 787.

To build the carbon-plastic jets, planemakers have tested themselves to the limit. But they have also carefully avoided a head-on collision, searching for pockets of empty space in the twinjet market by unveiling variants that rarely have precisely the same capacity as their competitor's.

Some analysts say that may help support their profit margins, though as the A350's story demonstrates, competition for sales is intense.

"I think they are now pretty well matched," said Steven Udvar-Hazy, who as CEO of lessor ILFC at the time was the world's biggest buyer of commercial jets and would prove to be an important influence on the A350s development.

A decade ago, air travel was changing. Planes with two engines were able to fly further, and proving more efficient than big jets with four engines.

Boeing's twin-engine 777 was beating Airbus's four-engine A340 in the market for big planes, and Airbus's huge four-engine A380, the biggest airliner ever, had yet to enter service.

REUTERS

Fabrice Bregier, CEO of Airbus Group, speaks with journalists during the first delivery of new Airbus A350 XWB passenger jet to Qatar Airways in Toulouse, southwestern France, yesterday.

Airbus was strong in the market for small wide-body jets, doing well with its twin-engine A330. But fast-growing airlines like Qatar and Emirates were demanding more comfortable cabins with space to install new lie-flat beds.

That might have suggested a new fuselage, a decision planemakers rarely take more than once every couple of decades.

But Airbus was behind in new materials technology, focused on finishing the A380, and hoarding resources to improve its most profitable cash cow, the A320 small jet, in case Boeing refreshed its 737 model, people familiar with the matter said.

When Boeing launched the medium-sized 787 to compete with the A330, Airbus responded defensively. It's answer, the A350, was basically an A330 with carbon wings and new engines, rather than a new plane.

"People were cringing at the time, saying it was inelegant or 'how can you put a patch on a broken leg'," said Henri Courpron, chairman of Plane View Partners and former head of Airbus North America.

Soon, Airbus customers in Boeing's backyard, like Northwest Airlines and Air Canada, were writing checks for 787s. Airbus found itself straining to compete with both flagship Boeings.

In December 2005, pressure reached boiling point with two big Boeing wins. Qantas chose the 787; Cathay Pacific picked the 777.

An internal post-mortem on Qantas laid out the problem: the original A350 was "reactionary" and Airbus had lost credibility.

Airbus Chief Executive Gustav Humbert called in his 43-year-old strategy chief Olivier Andries and gave him a delicate task.

"I asked him to take the best guys and set up a long-range policy team," Humbert, who is now retired, told Reuters.

Humbert urged him to consider whether Airbus could capture 50 percent of the big-jet market, up from 35-40 percent, by straddling the largest 787 and smallest 777: around 300 seats.

"I was encouraged to think outside the box ....about the whole long-range strategy," said Andries, now chief executive of engine firm Turbomeca. He declined to discuss details.

Monitored by a team of retired "Wise Men," the group of 10 drew up confidential scenarios from makeovers to bold new jets.

In March 2006, Udvar-Hazy, who now runs Air Lease, piled on pressure by urging Airbus to drop its cautious A350.

"We looked at the economics and concluded it was not a contender in a meaningful way. So I felt it would get a silver medal and didn't deserve to get built," Udvar-Hazy told Reuters.

In Toulouse, it was proving hard to make the business cases stick, but one proposal labeled "1d" looked promising.

It dived deep into a planemaker's armory of wings, cockpit, cabin, engines and the all-important wider fuselage.

It would cost about 11 billion euros to build rather than the 4 billion budgeted for the original A350, while setting Airbus up for 20 years with projected sales of 2,000 planes instead of 800. But it was still a step behind Boeing's 787: the tube would be in metal rather than carbon.