

## ADB approves \$1.4b for Pakistan energy sector

AFP, Islamabad

The Asian Development Bank said Friday it has approved combined loan assistance to Pakistan of nearly \$1.4 billion for programmes targeting its power sector, a crucial boost as Islamabad struggles to resolve a years-long energy crisis.

The Manila-based bank said \$990 million would go to a power distribution enhancement programme that would introduce a metering system for power companies across the country, helping to reduce loss and improve revenue collection and load management.

A second programme will receive a \$400 million loan to support ongoing policy reforms aiming to build an affordable, sustainable energy sector, the ADB statement said.

Pakistan has been struggling to provide enough power to its nearly 200 million citizens for years, and solving the energy crisis was a key campaign pledge for Prime Minister Nawaz Sharif in the run-up to the 2013 general election.

Chronic infrastructure problems and daily-load shedding are complicated by the vicious cycle of "circular debt", brought on by the dual effect of the government setting low electricity prices and customers failing to pay for it, resulting in state utilities being unable to pay their bills and suppliers cutting them off.

# Growing in the middle

## Growth challenges facing medium-sized companies

TIM EVANS

GLOBAL economic growth is sliding towards a five-year low, a gloomy backdrop for all but the most nimble of businesses. The silver lining for Asia is that the regional economy is driven by the kind of entrepreneurial firms that have opportunism etched into their DNA - medium-sized enterprises that combine scalability with flexibility. They are the ones to watch in this downturn.

We call them the Mid-Market Enterprises (MMEs), companies that have an annual turnover of between \$50 million and \$500 million. A purely quantitative definition however, misses many of the qualities that MMEs typically share. They are usually privately-owned and are often leading providers of a specialist product or service; and collectively, they play a key role in creating growth in many of the world's largest economies.

China for example, has approximately 40,000 MMEs contributing a staggering 74 million jobs; while in the much smaller Singapore, companies in this size bracket create 400,000 jobs - accounting for more than 7 percent of the population. For this reason, we should all care about the health of these mid-sized companies, and that they can enjoy sustainable growth.

Asia's most significant cluster of MMEs can be found in Guangdong - the beating heart of China's manufacturing sector, and a place where companies have proven able to continually reinvent themselves.

It is not unusual to see an MME in the province that started out as an OEM manufacturer, producing components for another company's products, make the shift into producing goods under their own brand, or even shifting into another industry altogether.

This dynamism helps provide an insight into the kind of problems an MME can encounter when they grow. Instead of looking for an inflection point in MME revenues to find a magic number that can be used to predict when the company will find further expansion difficult, it is much more effective to evaluate whether additional growth could cause the company to lose the advantages that define them.

One of the reasons that MMEs are so nimble is that they are often specialists in their



Tim Evans

product or service that have direct contact with their clients, rather than via a third party. The result is a deep understanding of their customers and their needs. Combine this with the entrepreneurial spirit that would normally find in a smaller firm, and you have a company that can rapidly maneuver to take advantage of new trends.

The risks grow when an MME starts thinking about an expansion that takes it outside of this comfort zone. It might have focused on a particular category of products, but has plans to grow into a new area where it has yet to develop such a close relationship with customers. Moving into a new geographical region can present a similar leap into the unknown.

And when problems do occur, they tend to reflect the fact that an MME does not yet have the resources of a large corporation. Consider for example, the process of developing a new product - a costly exercise that comes with a number of risks.

Development could overrun, or the finished product might not sell as well as expected.

When a large company encounters this kind of situation, it can be a significant setback, but one that is mitigated by its extensive access to financing. For an MME that lacks the deep pockets of its larger counterparts, the impact of a failed product is likely to be much

worse. And in this period of global economic malaise, making the wrong move could be fatal.

Another area where MMEs can find it difficult to compete with a big corporation is in the area of attracting and retaining talent, as they are often outbid by larger firms when it comes to compensation. If an MME doesn't have the right management in place to lead an expansion, or if key managers leave the company half way through its growth plan, its chances of success diminish significantly.

Since the stakes are high, it is essential for an MME to undertake extensive planning before going ahead with any major expansion plan. Part with of this will involve making a detailed plan of action, while at the same time ensuring that all the relevant stakeholders are on board - a long list that will include senior management, the board of directors, as well as potential clients.

How to finance the expansion will also be an important consideration. Banking partners must be engaged with as early as possible in order to work out how much capital is needed, and whether it is available.

Careful planning will take into account the potential risks and the impact that they could have on the company. And this will involve asking tough questions. What if the new products fail to catch on? Does the company have enough reserves to weather a drop in prices and at the same time maintain its expansion plans? Does the company have enough people with the necessary management experience to lead the change?

Sometimes the answers to these questions will be negative, and if that is the case, then it is worth considering putting an expansion plan on hold until the company is confident that any potential mishap will not seriously affect the company.

The MME, however, that has analysed the risks through careful planning is in a much stronger position to successfully grow in scale. That's not only good news for the business, it's good news for all of us - as sustained growth in the middle rung of the corporate ladder provides a bright spot in a period of broad economic gloom.

The writer is the regional head of Middle Market Enterprises, HSBC Asia Pacific.

# Delegation leaves for Ticfa meeting

## in Washington

REFAYET ULLAH MIRDHA

A Bangladesh delegation left for Washington to attend the second Ticfa meeting on Friday, amid high hopes of winning back trade privileges from the United States.

At the meeting, Bangladesh will highlight the progresses made for strengthening workplace safety and improving labour rights under the guidelines of the Bangladesh Action Plan, a 16-point agenda given by the Obama administration after suspension of trade privileges in June 2013.

Hedayetullah Al Mamoon, senior secretary to the commerce ministry, will lead the Bangladesh delegation to the meeting scheduled to be held in Washington on November 23.

Signed in November 2013, the Trade and Investment Cooperation Forum Agreement is a platform between the US and Bangladesh to settle any trade-related dispute.

The first Ticfa meeting was held in Dhaka in April last year. With the hope of regaining the generalised system of preferences scheme, Bangladesh has twice submitted its progress report to the United States Trade Representative, the chief trade negotiator for the Obama administration, but received no positive response from the US side.

Of the fulfilled conditions, the amendment to the labour law and formulation of the supporting rules were major steps.

Bangladesh has recruited more than 200 additional factory inspectors, allowed trade unionism with full freedom of association.

Bangladesh has already published a publicly accessible database and a hotline on the garment sector and completed the preliminary inspections of the 3,500 garment factories. It also signed a sustainability compact with the European Union, the main export destination for Bangladesh, in July 2013, and in so doing, committed to responsible business behaviour. Later, the US also joined the compact.

Although the GSP had covered only 0.54 percent or \$26 million of Bangladesh's total exports to the US a year, the continuation of the privilege was important as the other countries where Bangladesh enjoys duty benefits might be influenced by the US's decision.

Apart from the GSP reclaim, Bangladesh will also seek the US's support in the upcoming 10th World Trade Organisation Summit, according to Shawkat Ali Waresi, additional secretary to the commerce ministry.

At the WTO summit, Bangladesh will ask the US to include the country's main export item, garment, in the duty-free package that the developed countries committed to in the fifth WTO Ministerial Conference in Hong Kong in 2005, Waresi said.

The American government has kept apparel items out of the package.

# Dry bulk shipping record low a warning flag for global economy



Slower demand for coal and iron ore has battered the dry bulk sector.

REUTERS, London

A slump in dry bulk shipping is set to worsen as the meltdown in global commodities and too many ships free for hire rock the sector used by investors to gauge the health of world trade.

Slower coal and iron ore demand from China - the world's biggest industrial importer - have battered the dry bulk sector, already in the midst of its worst ever downturns that is expected to extend well into next year.

This week the Baltic Exchange's main sea freight index , which tracks rates for ships carrying dry bulk commodities and seen by investors as a forward-looking indicator of global industrial activity, plunged to an all-time low.

A slump in oil and other commodity prices, due to slowing Chinese demand, has widely been seen as one of the reasons for US Federal Reserve hesitancy in tightening policy.

"Dry bulk demand is very much dependent on the world economy," said Symeon Pariaros, chief administrative officer of Athens-run and New York-listed shipping firm Euroseas.

"The slowdown in the world economy has caused both dry bulk and container shipping to suffer a lot lately. Euroseas, having exposure in both these sectors, is facing the consequences of this very low rate environment."

The Baltic's BDI index, which gauges the cost of shipping resources including iron ore, cement, grain, coal and fertiliser, has dropped to 498 points and is over 95 percent down from its all-time

high of 11,793 points in 2008 before the financial crisis first hurt the sector.

"Demand slowing down and (ship) supply continuing to increase are the reasons why we will see the BDI likely hit figures in the 400 point level, which would be absolutely uncharted territory for the market," said Khalid Hashim, managing director of Precious Shipping, one of Thailand's largest dry cargo owners.

Worries over China and the health of the world economy have also pushed the 19-commodity Thomson Reuters/Core Commodity CRB Index to near 13-year lows in recent days, mirroring in part some of the pain felt by dry freight players.

"You can't ignore the role of sentiment in the markets. Right now dry cargo shipowners' heads are down and they are taking a daily battering at these earnings levels," said Tony Foster, chief executive of British shipping asset manager Marine Capital.

"The market is clearly very weak in the short-term and 2016 is going to be very difficult."

There have already been casualties. In September, Japanese bulk carrier Daiichi Chuo Kisen Kaisha filed for protection from creditors. This followed private equity backed Global Maritime Investment Cyprus Ltd, which filed for Chapter 11 bankruptcy protection in the United States.

While prospects for commodities markets are shaky, the dry bulk freight players will also need to contend with more ship deliveries hitting the water in coming months.

# India's central bank employees strike over pensions

BBC NEWS

India's central bank has been in a debate with the government over its interest rate setting process

Most of the Reserve Bank of India's (RBI) 17,000 employees went on strike on Thursday in what the central bank described as "mass casual leave".

The walk out resulted in "some interruptions" to clearing and settlement operations at the central bank, but it said that its systems were largely operational. Four unions had called for the strike to demand better pension benefits.

It was also against reforms that would reduce the RBI's regulatory powers.

The central bank has been in debate over its policy independence with the government, which has been trying to assert more influence over the RBI's interest rate setting process.

The government wants to create a rate-setting board with its appointed members to vote on such decisions.

The RBI has cut interest rates four times this year, with the latest move in September to boost growth as inflation hit a record low on tumbling commodity prices.

'Losing independence' Union leaders said the dispute over retirement benefits showed that the bank was losing its independence, because it used raise pensions without approval from the government.

Workers want their pensions to be increased to reflect rising costs and payments to former employees raised by \$75 (£49) a month so that they can afford healthcare.

The unions have warned of longer strikes in the near future if the central bank does not meet its demands.

# France economy to shake off Paris shock: analysts

AFP, Paris

FRANCE can withstand the financial shock of the Paris attacks, analysts say, despite people deserting big stores, shunning concert halls and cancelling hotel bookings.

Beyond the incalculable human cost, the experience of attacks in New York in 2001, Madrid in 2004, London in 2005, and Mumbai in 2008 shows the economic impact may be fleeting.

The November 13 jihadist shooting and bombings in the French capital, which killed 130 people and wounded hundreds more, led to an immediate 80-percent plunge in concert ticket sales, an association of promoters said.

Shoppers also fled Paris' iconic department stores Printemps and Galeries Lafayette, which reported customer numbers tumbling by between 30 and 50 percent.

Hotels, too, reported a slump in bookings.

Such reactions are likely to be transitory, however, analysts said.

After the March 11, 2004 Madrid train bombings, which killed 191 people and wounded nearly 2,000, the capital's Complutense University estimated the cost to the city's economy at 0.16 percent of annual economic output and the cost to the country at 0.03 percent of output.

In Britain, consumer confidence took a hit when four coordinated suicide attacks on three London underground trains and a bus killed 56 people. But a budding economic recovery continued, said analysts at BNP Paribas.

"In the similar attacks in Madrid and London, the impact on country-wide statistics and overall consumer confidence was relatively small," said a report by Goldman Sachs.

The Paris attacks differed, however, because they came only 10 months after gunmen attacked satirical weekly Charlie Hebdo, killing some of France's most beloved cartoonists in a rampage that left 17 dead there and elsewhere in the city.

"While the terrorist attacks on Paris came at a massive human cost to the city and to France more widely, the sanguine reaction of the financial markets to the atrocities and past experience of similarly



AFP

A woman sits in front of candles and flowers at a makeshift memorial in Nice, in tribute to November 13 attacks in Paris.

tragic events suggest the economic impact is likely to be limited," BNP Paribas analysts Dominic Bryant and Gizem Kara said in a report.

"As this is the second attack on Paris in less than 12 months, however, there is some risk of a greater reaction than elsewhere, particularly as the French economic recovery has been relatively tepid," they said.

In Mumbai, India, where Islamist gunmen stormed luxury hotels, the main railway station and other sites in November 2008, killing 166 people, businesses reported a plunge in profits and a wave of cancellations by tourists.

"The business climate was affected for several months," said Ashutosh Data, economist at IIFL Institutional Equities.

"But the situation returned to normal after three to six months because, as terrible as the attacks may be, there was not a feeling that the country was becoming unstable," he said. Investors, too, are unlikely to shun France, said Muriel Penicaud, managing director of Business France, which promotes French business.

"An investment is always a long-term decision linked to corporate strategy," Penicaud said.

"The risk of an attack is a big concern in Europe and beyond Europe," she added. "The need to invest in countries with talent, infrastructure, markets, remains very important to companies' strategies."

Consumption is recovering after the Paris attacks but the impact on tourism may last longer, said Philippe Gudin, analyst at Barclays.

"Attacks against civilians in a European country are likely to weigh on consumer confidence, a major risk in a situation where the main driver of growth in Europe is consumer demand, with other components of demand still very subdued," Gudin said in a report.

"Tourism could be hurt more durably," he said, with a likely impact on economic activity in the final quarter of 2015. "Longer term impacts are more uncertain," he added. It is still too early to draw conclusions about the longer term impact, the analyst cautioned, citing an apparently growing international threat of attacks by Islamic State jihadists.

Gudin noted in particular the twin bombing in Beirut this month that killed 44 people and the bomb attack on a Russian passenger jet over Sinai last month that claimed the lives of all 224 people aboard, both claimed by the Islamic State jihadist network.

"In addition to the Paris attacks, other recent terrorist attacks including the attacks in Beirut and its suspected downing of a Russian passenger airliner in Egypt show that the threat from ISIS is intensifying and spreading and that geopolitical risk is a growing downside risk to global growth," Gudin said.