# Bangladesh a key market for trade finance

## HSBC official says the country offers huge business opportunities

MD FAZLUR RAHMAN

BANKING giant HSBC terms Bangladesh a growth market as the country, with a booming economy, offers huge business opportunities.

"Bangladesh is an important market for trade finance within Asia Pacific and within the group," said Stuart Tait, head of global trade and receivable finance of the British bank.

Tait began his career with HSBC more than 30 years ago and has held a variety of roles in trade finance, commercial banking, retail banking and wealth management, among many other departments.

During his visit to Dhaka last week, he met a number of leading business leaders in the areas of apparel, pharmaceuticals and others.

"Corporate Bangladesh is very optimistic. The conversations were very open. People talked about their plans and optimism as well as the challenges they face," he told The Daily Star in an interview.

Tait said any company that is growing faces some common challenges across the globe.

A lack of adequate skilled people, problems with access to finance and poor infrastructure are the key challenges for Bangladeshi businesses, he said.

HSBC is the only international bank with a presence in all of the eight export processing zones of Bangladesh, facilitating trade.

The bank helps exporters ship products to more than 100 countries each year.

HSBC is also the first bank to offer low-cost financing solution to onshore apparel exporters and to facilitate trade settlement based in the renminbi.

The international trade volume of Bangladesh was $21 billion in 2005 and the amount went up to more than $70 billion in 2015. More than 10 percent of Bangladesh's global trade is channelled through the bank.

"Our customers in Bangladesh are growing. It is solid growth, not sporadic. They are investing for the future," Tait said.

He is very bullish about Bangladesh. The country records the highest 'trade confidence score' in HSBC's latest survey of 25 countries. Respondents were particularly positive about the outlook for trade volumes and trade with Europe, buoyed by lower costs for logistics and materials and higher profit margins.

"It says so much about the country."

He said HSBC's global footprint and its presence at both ends of the world's biggest trade corridors means the bank is uniquely positioned to help customers profit from this wave of change and capitalise on emerging growth opportunities.

Textiles and garments account for more than 80 percent of Bangladesh's exports. But HSBC says the future is not just in clothing for Bangladesh.

Chemicals, machinery, mineral fuels, transport equipment and raw materials are set to grow at a double digit pace from 2016-20 with the only one growing slower is likely to be agriculture, which largely reflects the economy is upgrading.

The London-based bank expects export of clothing and apparel to contribute three quarters of the increase in exports from 2021-30.

Tait said there is a slowdown in the advanced economies and the demand is not picking up. But volumes are still growing.

"What is apparent to us as we operate with so many companies in so many countries, in recent years there has been growth in the east and the south, and we expect that to continue.

"If you look beyond the West, for example in China, individual consumption is growing."

He said the shift in the flow of trade to South and East from traditional developed markets over the coming years will transform international supply chains and give a major boost to emerging economies.

Tait also talked about the oil price which has started to rebound in recent months after hitting a historic low.

"There is a question whether it will continue. Our view is any excess in supply relative to the level of demand will work its way through. We believe the commodity prices will continue to recover."

The bank's first quarter results were published recently. Its net profit in the quarter fell to $4.3 billion from $5.26 billion a year ago. Revenues declined 5.8 percent in the first quarter to $14.98 billion.

Without going into details, Tait said: "It is a positive set of results relative to expectations."

He said some of the bank's products that are strategic to growth have performed well compared to the market.

Businesses in Bangladesh are expecting double-digit growth in a world where both trade and GDP growth are sluggish, said Tait.

Bangladesh is becoming competitive in the garment industry for a variety of reasons, including standards and accreditation received by many corporate firms, its geographic location between China and India and strong relationships built with big buyers and retailers.

"It is not just cost of labour."

Growth of the apparel sector is a success story for the country and it should not be overlooked. "All companies and governments look to diversify revenue streams. Often, we need an engine for growth. A particular engine at a particular time can be harnessed and that's a good thing."

But industries in Bangladesh are far more diverse than just garments, he said.

According to Tait, growth is hard to come by in some of the largest economies at the moment, and much of the attention in the corporate world is around costs.

At the same time financial technology or fintech companies have emerged which can help cut costs. Partnerships are being created between trading companies, banks and fintech firms to look at ways to streamline trade.

He said HSBC is working with fintech companies and also to digitise trade. The bank is constantly working to bring ease to doing business for its clients.

Infrastructure is a big area for companies to invest in, and this is true for many countries, particularly in Asia. "We also see the demand for better infrastructure in Bangladesh."

HSBC has arranged about $1.12 billion to implement four major power projects, of about 1,300MW, for the government in the last three-four years.

"We will continue to do that. We have the capability in project financing and are keen to do business with those who are active in the sector. We make expertise available from around the group."

He said economic growth of more than 6 percent year after year puts strains on any infrastructure.

"In Bangladesh, it is encouraging that the government is investing in energy for the large unmet demand and HSBC would like to partner with relevant parties to make that happen."

Once a sprawling bank across 87 countries, HSBC has exited swaths of businesses across the globe to improve profits and now has operations in 71 countries.

Its main regions now are Asia, the UK and North America. In February, HSBC decided to stay based in London after considering a return to its original Hong Kong base.

Stuart Tait

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# Puerto Rico, a US tax haven in tatters

The Puerto Rican and US flags are seen in San Juan, Puerto Rico.

AFP

AFP, *Washington*

STRANGLED by debt and a decade of recession, US territory Puerto Rico is pleading for help from Congress.

But ironically the Congress is partly to blame for the Caribbean island's woes, having helped devise its failed economic strategy of becoming a corporate tax haven, and then allowing that attraction to expire.

The island, which defaulted on a huge bond payment on Monday, is grappling with a massive $70 billion debt and a decade of recession after pursuing for years a growth strategy based on offering tax breaks to investors.

Between 1976 and 2006, Section 936 of the US tax code provided US companies operating in Puerto Rico tax-free income from those operations.

US giants like software maker Microsoft and drug makers Pfizer and Johnson & Johnson were among the companies rushing into Puerto Rico to offset the 35 percent US corporate tax rate, the highest among advanced economies.

The surge in investment boosted Puerto Rican growth, with the expansion hitting a robust 9.8 percent annual rate in 2001.

But when the tax break ended after 30 years, little by little companies deserted the island, draining revenues, shedding jobs, and pushing the economy into recession.

"It created a kind of bubble that burst when the mechanism expired in 2006," said Scott Greenberg, an analyst with the Tax Foundation, an independent tax policy research group, in an interview.

"It didn't create a sustainable growth model for Puerto Rico, because the companies were only investing there because of the tax benefits, and because Puerto Rico failed to capitalise on the business activity to develop its economy," Greenberg said.

The island's government, which had a decade to prepare for the end of the tax benefit, did nothing, said Argeo Quinones-Perez, an economics professor at the University of Puerto Rico.

"No effort was made, no industrial policy was decided, no plans were made," he told AFP.

He said that the island had gotten little in return to support growth for various tax advantages offered to companies since the middle of the 20th century.

"We should have obtained more benefits by requiring job creation or direct investment on the island," he said.

Another tax break has aggravated the economic woes of Puerto Rico.

Under a 1917 law that gave Puerto Ricans US citizenship -- but not the right to vote in US presidential elections -- the interest earned on bonds issued by Puerto Rico is exempt from taxes, unlike that for other US states and cities.

That advantage enabled the island to issue huge amounts of debt to hungry US buyers, even as the island's finances and economy deteriorated.

"If their bonds wouldn't have been subsidized by the US tax code, the investors may have stopped buying bonds earlier because their concerns about Puerto Rico's fiscal situation would have outweighed the potential gains from the bond income," Greenberg said.

# India shows China the way to deal with bad debt

PETER THAL LARSEN

INDIA could teach China a thing or two about dealing with bad debt. Banks in the world's two most populous countries have lent hundreds of billions of dollars to politically connected companies that are now in trouble. Yet while Indian authorities are at last pushing lenders to come clean, their counterparts in Beijing seem intent on ignoring the full extent of the problem. It is a rare example of India showing its larger neighbour the way.

Most corporate lending in both nations resides on the balance sheets of banks, the majority of which are government-owned. Larger-than-life Indian tycoons like Vijay Mallya and vast Chinese state-owned enterprises such as Bohai Steel have historically used strong political connections to help them borrow. That helps explain why lenders have continued extending credit even after companies run into trouble. The absence of a functioning bankruptcy process also discourages banks from calling in overdue loans.

These structural shortcomings have left behind mountains of bad debt. The Reserve Bank of India (RBI) estimated earlier this year that 14.1 percent of all the country's bank loans were doubtful. By contrast, just 1.7 percent of Chinese loans at the end of 2015 were officially classified as non-performing. But that figure has little credibility. Researchers from the International Monetary Fund last month estimated that at least 15.5 percent of bank loans to Chinese companies are at risk of not being repaid.

For years, Indian regulators hoped the country's banks would grow their way out of the problem. That changed last summer when Prime Minister Narendra Modi's government set out a plan for state-owned lenders to raise $27 billion in fresh capital over four years, with more than a third coming from taxpayers. New Delhi has also stopped interfering in lending decisions.

At the same time, RBI Governor Raghuram Rajan is forcing state-owned banks to acknowledge their bad loans and set aside adequate provisions. The regulator has drawn up a list of delinquent borrowers, and is pushing all lenders with an exposure to those companies to recognise their loans as potentially defunct.

Though the cleanup in India is still underway, it has scored some early success. Banks are now hounding overextended moguls like Mallya, who has fled to London. Bank of Baroda, India's second-largest state-owned lender, announced in February that bad debt provisions for the final quarter of 2015 had increased fivefold, dragging the bank into the red. Yet its shares soared as investors applauded the newly installed management team's decision to clean house.

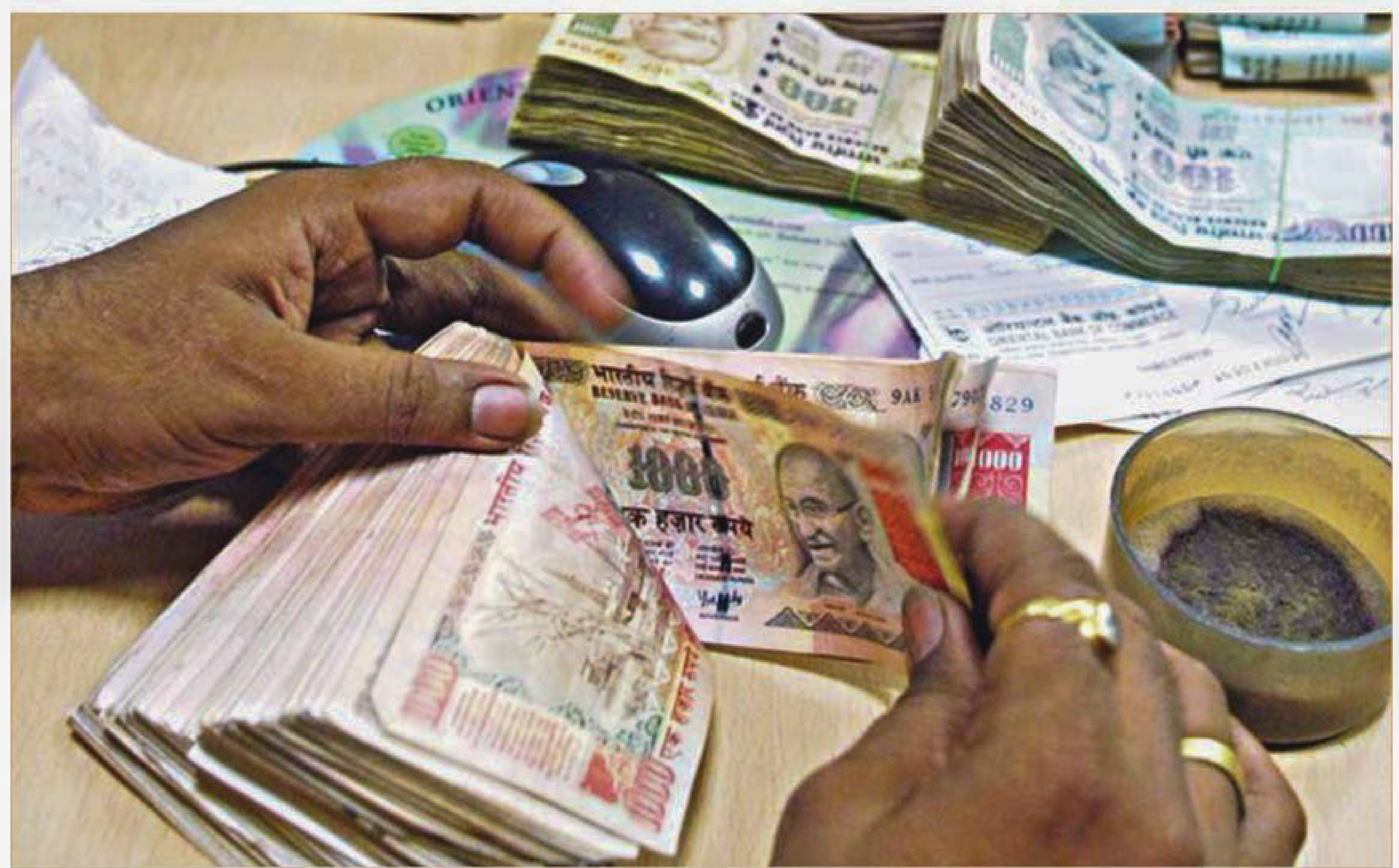
The contrast with China is striking. Though big banks like Industrial and Commercial Bank of China and China Construction Bank are reporting higher bad debts, they are not topping up provisions at the same pace. A government plan to swap a reported 1 trillion yuan ($154 billion) of corporate debt into equity only makes sense if the underlying businesses are viable. Meanwhile, lenders are still doling out credit – banks handed out new loans worth $718 billion in the first quarter, according to the People's Bank of China, almost a third more than in the same period of last year.

It's true that China's debt headache is much, much larger. Chinese companies collectively owed a massive $17.4 trillion at the end of September, according to the Bank for International Settlements (BIS) – equivalent to 166 percent of GDP. India's total corporate debt burden of $985 billion, which is equivalent to about half the country's yearly economic output, looks small by comparison.

On the face of it, however, the People's Republic should be in a stronger position to tackle the problem. While Modi must worry about the electoral backlash of bailing out state-owned banks, China's communist rulers face fewer constraints. Besides, the Chinese government has more financial capacity to fund capital injections. The country's sovereign debt was 43.5 percent of GDP at the end of September, according to the BIS, well below India's 68.4 percent. And China does not depend on fickle foreign investors for funding.

Though India's efforts are more promising, there is no guarantee they will succeed. The government's estimates of the cleanup costs look optimistic, especially as private investors are unlikely to put up fresh capital while banks are still controlled by the state. Recognising bad debt does not mean defunct companies will be closed down or restructured. And failure to overhaul banks' governance and risk management could lead to a new reckless lending binge.

Nevertheless, the divergent paths taken by India and China could have significant long-term consequences. Better-run banks with cleaner balance sheets should be in a stronger position to direct credit where it is most productive. By contrast, large volumes of unrecognized bad loans can strangle economic growth as banks overlook deserving new borrowers. China could learn some lessons from its less developed neighbour's bold approach.



A cashier counts banknotes in a bank in India.

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