Terrorist attacks to take toll on business prospects

A professor of economics at Yale School of Management tells The Daily Star

SOHEL PARVEZ

THE recent terror attacks may affect Bangladesh's business prospects as the incidents have spread panic among foreign businesses and westerners, said an economist.

The nervousness stems from the fact that foreigners were targeted in the attack, according to Ahmed Mushfiq Mobarak, a professor of economics at Yale School of Management, in an interview with The Daily Star.

The attack in Gulshan on July 1 has drawn the attention of many across the world; many foreign businessmen, including westerners, come here as potential buyers for garments, he said. There are also some South Asians who run garment factories here, he added.

Countries like Cambodia, Vietnam and El Salvador are competing with Bangladesh in the same product category and foreign buyers can easily go there instead, said Mobarak.

"It's going to have an impact on the country's propensity to do business," he said, adding that the terror threat is also going to affect other related sectors, like hotels and restaurants.

Similarly, foreigners may become cautious about allowing Bangladeshis in their countries, he said.

He said Bangladesh's prospects lie in two sectors -- garments and human resources. The country is quite reliant on the rest of the world for its economic prospects. But any event that disrupts the country's connection with the rest of the world is potentially damaging for business.

The apparel sector is one of the lifelines of the Bangladesh economy, employing 44 lakh workers and accounting for more than 80 percent of its export earnings of 34.24 billion recorded in fiscal 2015-16.

Another major source of earning is remittance sent by Bangladeshi migrant workers,

Ahmed Mushfiq Mobarak

which was $14.93 billion in fiscal 2015-16, down 2.54 percent year-on-year, according to official data.

He said all the events that are happening across the world -- not just in Bangladesh, but in countries such as France -- are quite risky, as these might disrupt the country's relations with the rest of the world.

The emerging attitude in the US and the UK towards immigrants might create some friction in the interconnectedness as well, he added.

Mobarak said he was organising an event in Bangladesh for Yale University and some foreigners were supposed to come.

"But they did not come. They cancelled trips," he said, adding that many are reluctant to come to Bangladesh following the terror attacks.

"A part of the problem is, given the nature of the terrorists, people perceive that terrorists are part of a socio-economic class that resides in Dhaka and are not easy to identify or catch. People are uncertain about how many young people there are with the same attitude."

Mobarak, who conducted a study on tax compliance in Bangladesh earlier, said giving recognition to taxpayers can help boost revenue collection in countries like Bangladesh, where enforcement capacity is low.

He said the National Board of Revenue has been doing a similar job of giving recognition to taxpayers, but the programmes should be designed such that 95 percent of firms become motivated to pay.

To induce people to pay taxes, whether income tax or VAT, it is important for people to understand where their money is going to. And it is important for them to understand that these are revenue and come back through the provision of public services, he said.

"That type of communication is necessary," he added. "It is important for people to understand that the traffic and electricity problems are linked to resources that the government has."

On the VAT system, he said one way to make the system work is to give incentives to buyers.

He cited examples from Brazil and Taiwan; these countries introduced a lottery system for consumers who collect receipts from sellers.

"VAT requires a strong receipts system in place. We do not have that history or culture in our country. To make the system work, they had to figure out how to encourage people to demand receipts," he said.

These countries ensured that every receipt would have a lottery number. They later went for national lottery by offering prizes for randomly chosen ticket numbers. Then people started demanding receipts, he added.

He said the lottery system itself was not for tax collection. "But it was a necessary step to create an enforcement system," said Mobarak.

Oil prices extend losses on fresh supply glut fears

AFP, *Singapore*

Oil prices slipped to fresh three-month lows Wednesday as worries about a global oversupply resurfaced ahead of the release of US stockpiles data later in the day.

With the US summer driving season -- when demand peaks -- drawing to a close investors are growing increasingly concerned that stocks in the world's top crude consumer remain at elevated levels.

The Energy Information Administration is due to release a report Wednesday, with a survey of analysts warning gasoline inventories rose in the previous week, while oil supplies dipped for a tenth week.

The EIA last week announced a smaller-than-forecast drop, which sparked a sell-off in the commodity.

On Wednesday at around 0715 GMT, US benchmark West Texas Intermediate was down 22 cents at $42.70 while Brent fell 25 cents to $44.62. The losses come after a three-day sell-off.

"The general driver behind the negativity seems to be the excess crude and gasoline stockpiles," Angus Nicholson, a markets analyst at IG Ltd. in Melbourne, said.

"The market is very much in a down trend and it doesn't look like it's going to reverse at the moment. There is some key technical support around $40 a barrel."

Adding to the downward pressure was a pick-up in the dollar following series of strong US economic figures as well as an increase in the number of rigs coming online, meaning more production.

After topping $50 a barrel early last month on the back of output disruptions, the cost of crude has tumbled about 15 percent in recent weeks as the crucial US holiday driving season comes to an end and global demand remains weak.

It had fallen to near 13-year lows below $28 in February, as world markets were crippled by worries over China's economy, weak demand, tepid global growth and a supply glut.

Britain plans £344m expansion for London City Airport

AFP, *London*

The British government hailed a £344 million (410 million euro, $450 million) investment to expand London City Airport on Wednesday as evidence Britain was "open for business" despite its Brexit vote.

Finance minister Philip Hammond was at the airport to cheer the announcement by the Canadian-Kuwaiti consortium which owns the airport, a business travel hub located close to Britain's financial centre.

The "ambitious growth plans will boost international connections, strengthening the City of London's links to destinations across the world, and send a clear signal that Britain is open for business," he said.

The investment will expand the airport terminal, create more space for planes to taxi and add new stands to allow bigger planes to use the airport.

The finance ministry said it expected the expansion would create 1,600 airport jobs for staff, as well as 500 construction jobs and could contribute £1.5 billion to the British economy by 2025.

Flights from City go to Europe as well as New York. Last year it had a record 4.3 million passengers -- an 18-percent increase from 2014.

Its expansion had been blocked by then London mayor Boris Johnson, who is now the foreign minister.

But the new mayor Sadiq Khan lifted the ban.

Japan PM unveils $266b stimulus plan to boost economy

AFP, *Tokyo*

JAPAN'S government Wednesday announced a stimulus package worth more than 28 trillion yen ($266 billion) in its latest attempt to fire up the lukewarm economy, with the central bank expected to unveil its own measures this week.

Policymakers are under pressure to boost growth as Prime Minister Shinzo Abe's 'Abenomics' plan to kickstart the world's number three economy comes under threat from poor data and sagging business confidence.

Abe confirmed the new plan Wednesday but gave few details, except to say about half the total would be fiscal measures including government spending. Cheap loans could also be part of the package. More details are expected next week when the cabinet meets to approve the measures.

The move is a response to Britain's vote last month to quit the European Union. The decision sparked a rally in the safe-haven yen currency that threatened profits at Japan Inc and fanned fears about the already weak economy.

Traders buy Japan's currency as a safe bet in times of turmoil or uncertainty. But it makes exporters less competitive overseas and takes a bite out of their bottom line.

The stimulus news on Wednesday briefly pushed the yen into a dive, giving Tokyo stocks a boost.

Our package "has to be something that will support domestic growth and ensure there is a path to a recovery in the economy", Abe said.

However, analysts generally gave a thumbs down to the plan, with some suggesting that actual new spending may only comprise a fraction of the total.

"This is not a very meaningful number," Martin Schulz, senior research fellow at the Fujitsu Research Institute in Tokyo, said of the whopping 28 trillion yen figure.

"It adds up all sorts of existing and additional incentives and credit guarantees for infrastructure programs that stretch out over years and do not result in immediate spending."

- 'Abenomics engine' -

The package would do little to advance Abe's longer-term goals such as bringing more women into the workforce, said Satoshi Osanai, senior economist at Daiwa Institute of Research.

"Abe pledged to 'rev up the Abenomics engine to the maximum' but this stimulus

AFP

Japanese Prime Minister Shinzo Abe delivers speech at a programme in Fukuoka yesterday.

won't be enough for that," Osanai said.

The news comes as speculation mounts that the Bank of Japan will further ease monetary policy after a two-day meeting ends Friday.

Among the possible measures, the central bank could expand its mammoth bond-buying plan, a cornerstone of Abe's push to end years of deflation and kickstart growth.

It might also cut interest rates further into negative territory, as it tries to boost lending to people and businesses.

But the BoJ's fledgling negative rate policy, launched in January, was widely criticised as a desperate move to prop up Abe's failing growth plans.

The programme effectively charges commercial banks for keeping excess reserves in the BoJ's vaults, giving them an incentive to lend more.

On Friday Japan is due to release monthly economic data that could influence the BoJ's decision.

The last figures painted a worrying picture, with household spending falling and inflation dropping for a third straight month. Abe's government has delayed a consumption tax increase after an earlier rise pushed the country into a brief recession.

While the labour market remains tight, there are growing concerns about second-quarter economic growth. Japan dodged a recession in the first three months of the year.

The Bank of Japan's most recent Tankan survey showed confidence among small firms and non-manufacturers worsened during the second quarter.

Australia inflation eases to 17-year low

AFP, *Sydney*

AUSTRALIAN inflation eased to a 17-year low in April-June, official figures showed Wednesday, raising the prospects of another interest rate cut to shore up the economy.

Borrowing costs are already at a record-low of 1.75 percent and economists said they could fall further after the consumer price index rose one percent year on year, the weakest level since the June quarter of 1999.

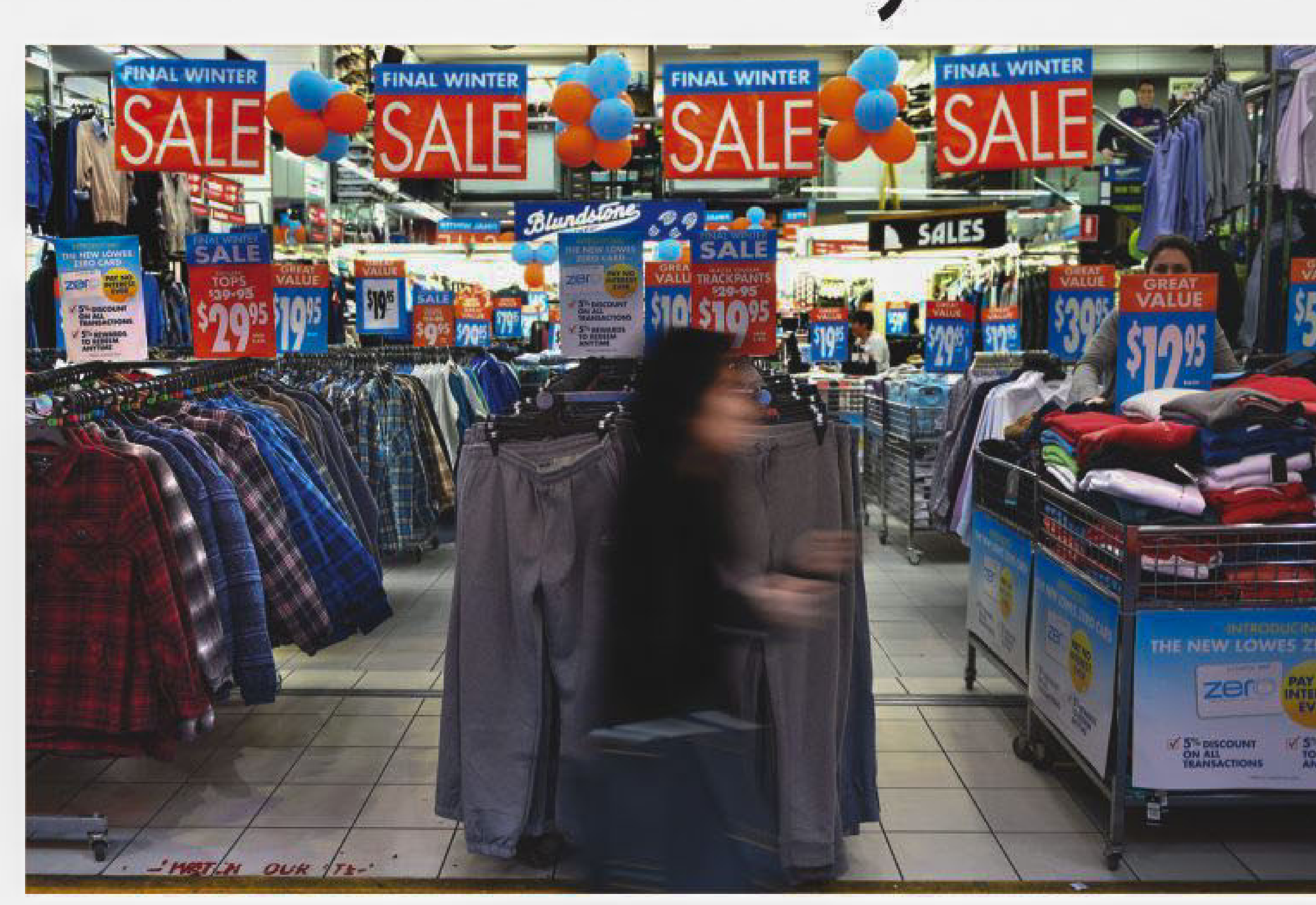
It was also well off the Reserve Bank of Australia's target of 2.0-3.0 percent.

The 0.4 percent on-quarter reading, however, matched market expectations and was stronger than in the January-March period, where prices fell 0.2 percent -- the first drop since 2008.

Australia has been growing stronger than most of the world's most advanced economies, but like most countries it is struggling to kickstart inflation, with oil prices subdued and global trade tepid.

"Quite clearly, deflationary pressures globally are continuing to be imported to Australia, and intense competition domestically and historically weak wages growth are keeping price pressures low and inflation below target," AMP Capital chief economist Shane Oliver said.

Underlying, or core inflation, which strips out volatile items and is more closely watched



AFP

A woman passes a clothes store on a street in Sydney yesterday.

by the central bank, came in at 0.45 percent on-quarter and 1.5 percent annually.

Australia's economy has been charting a rocky path after exiting an unprecedented period of mining investment, with weak wages growth and non-mining industries failing to fill the gap left by the resources sector

But analysts said overall growth expectations remained healthy and an August rate cut was not a definite.

"Inflation is clearly low enough to allow them to cut (rates), but... the data release is not screaming at the RBA to loosen policy again," HSBC Australia economists said in a note.

British economy picks up speed in second quarter

AFP, *London*

BRITAIN'S economic growth unexpectedly accelerated in the second quarter in the run-up to the nation's shock EU exit referendum, official data showed Wednesday.

Gross domestic product (GDP) grew 0.6 percent, the Office for National Statistics (ONS) said in a first estimate for April-June, which included the shock EU exit referendum towards the end of the period.

That beat market expectations for 0.5-percent growth, as activity was boosted by rebounding industrial production, and followed 0.4-percent expansion in the first quarter.

"Today's GDP figures show that the fundamentals of the British economy are strong," said Conservative finance minister Philip Hammond.

Chancellor of the Exchequer Hammond added Britain was in a

REUTERS/FILE

A shopping trolley is pushed around a supermarket in London.

strong position to negotiate its departure from the European Union, after Britons voted on June 23 in favour of Brexit.

"In the second quarter of this year our economy grew by 0.6 percent -- faster than was expected," he said.

"Indeed we saw the strongest quarterly rise in production for nearly twenty years, so it is clear we enter our negotiations to leave the EU from a position of economic strength."

Economic activity was driven by particularly strong growth in industrial production -- which expanded by 2.1 percent.

That compared with a 0.2-percent decline in the previous three months and matched figures last seen in the third quarter of 1999.

The services sector meanwhile grew 0.5 percent in the second quarter, but this was offset by falls in agriculture and construction.

Scotiabank economist Alan Clarke added that the second quarter was not rocked by "intense" worries over Brexit -- because many had expected Britain to remain in the EU.

"The outcome of the referendum was a real surprise," said Clarke.

"Most people thought the UK would vote to stay in the EU, so the pre-vote jitters were probably not as intense as feared."