Diversify trade to mitigate shocks

Natalie Blyth, global head of trade and receivables finance of HSBC, offers recipe for Bangladesh

MD FAZLUR RAHMAN

BANGLADESH should diversify its export base to mitigate trade shocks and explore opportunities in the emerging markets in Asia where trade is growing amid a slowdown in the West, said a top banker.

Natalie Blyth, global head of trade and receivables finance of HSBC, said Bangladesh is quite exposed to one segment, which is garment, and a couple of regions, namely the US and Europe.

She said Bangladesh has great penetration in the US and Europe, and there is no reason to believe that that should stop. But there are other products and other markets to explore, she said.

"The future is not just in clothing for Bangladesh. Apart from Europe and the US, there are markets in Asia, which I think is an area Bangladesh should move to," she told The Daily Star in an interview.

Clothing and apparel is Bangladesh's biggest export sector, which accounts for more than 80 percent of the country's export earnings. Marketwise, the US and Europe are major export destinations.

Blyth said there are half a dozen different sectors such as leather goods, jute and jute goods, and agricultural products that are set for double-digit growth from 2016-20.

Bangladesh is the second country Blyth has visited since taking up her new role at the Europe's largest bank a couple of months ago. She was in Dhaka in the first week of December this year to attend the Sixth HSBC Export Excellence Awards.

On the Bangladesh market, the British banker said, "It is an important business. It is a big trade hub."

Bangladesh would probably become a middle-income economy before or on its celebration of 50 years of independence in 2021, she said.

Natalie Blyth

"That's massive, exponential growth."

She has also visited the textile and pharmaceutical facilities of a local company and spoke to nine of the bank's clients in Bangladesh.

"All of them spoke about expansion in different segments, not only in garments. There are other sectors that are growing. That is a very positive thing."

Blyth said there is untapped potential for exports in the Asean region and other parts of Asia.

While Western Europe's share of world trade is forecast to fall to 22 percent by 2050 from 34 percent in 2015, the bank expects North-East Asia's share to rise to 29 percent from 22 percent and South-East Asia's share to rise to 11 percent from 7 percent by 2050.

There were 1.8 billion people in the global middle-income group in 2010, 28 percent of them living in Asia. This is expected to grow to 5 billion by 2030, with 66 percent of them in Asia.

Blyth said country risk is going to an agenda of vendors Bangladesh is supplying to, and they are going to be looking at their concentration.

If the vendors look at their concentration in Bangladesh they may look at it as "too much" and may decide to diversify to other countries in order to mitigate risks, said Blyth.

The bank forecast exports to grow at 10.6 percent on average from 2017 to 2020, helped by infrastructure development, currency competitiveness in Europe, and trade liberalisation.

The banker, who joined HSBC in 2007 from Deutsche Bank, also touched upon the terrorism threat issue confronting the countries.

There is absolutely no country that is immune to terrorist attacks, she said when asked about the impact of the July 1 Holey Artisan attack.

"So, Bangladesh is no different from the UK and France for that matter. Everybody has had hits and suffered the same way."

"I think Bangladesh's reaction to it has been exceptional, and you should be very proud of it as a Muslim country. The way that parents have reacted to the radicalised perpetrators is quite emotionally compelling and very strong."

"But I do not think the outside world has understood that yet," she said, adding that it is up to international visitors like her to come to Bangladesh, see for themselves and then spread the news.

She said Bangladesh's story is positive because the opportunity is huge. "There is a government that seems to talk to and get on with business – not every country does that. The government is very conducive to business."

Blyth studied biochemistry at St Andrews University in Scotland, but then was trained as a lawyer. She switched fields again later, in to banking.

The global trade environment is pretty challenging with unexpected headwinds. Global trade is growing slower than GDP, which is a pretty dramatic fundamental shift, as people had thought that global trade will grow multiple times of GDP infinitely, she said.

She termed the Brexit, referendum in Italy, populist reactions around the globe and the G20's move to put in 120 protectionist measures in just half a year as unprecedented surprises.

"All of these are anti-trade moves," she said, including US President-elect Donald Trump's pre-election rhetoric around his dislike of the North American Free Trade Agreement, and disapproval of the Trans-Pacific Trade agreement.

However, she said the positive of Trump is that the President-elect said he supports fair trade with strong rules and his emphasis is on building infrastructure.

The One Belt and One Road Initiative of China is going to be massive for the region.

"These are all politically positives for trade."

She also said currencies continue to be volatile. "I do not think that will hold last, and Trump's election may accelerate other currencies coming through, like the renminbi."

"I can imagine that the renminbi will become a legitimate reserve currency in a period of time."

HSBC organised a panel discussion in Singapore a couple of months ago addressing the China paradigm shift on commodities because China buys 50 percent of the world's top 15 or 20 commodities, and the prices of all these commodities are set in dollars although they do not come from the US.

"They are all set in dollars. I do not think that is sustainable," she said.

The panel includes businesses from China, Singapore and Indonesia.

According to Blyth, most participants in the discussion said it would take between 18 months and three years for the renminbi to become a legitimate reserve currency while an expert said it will take five years.

"It is going to be quite a dramatic development in trade."

Twenty percent of Bangladesh's imports come from China, and it will hinge on importers and exporters whether they will settle their trade in the renminbi.

HSBC is also the first bank to facilitate trade settlement in the renminbi. Blyth also discussed India's demonetisation move. "It is great to see a government taking up responsibility for cleaning up bad actors."

HSBC is the only international bank in Bangladesh which has its presence in all the eight export processing zones in the country. In 2014-15, EPZ factories exported goods worth $6.11 billion.

HSBC Bangladesh facilitates about 10 percent of the country's international trade.

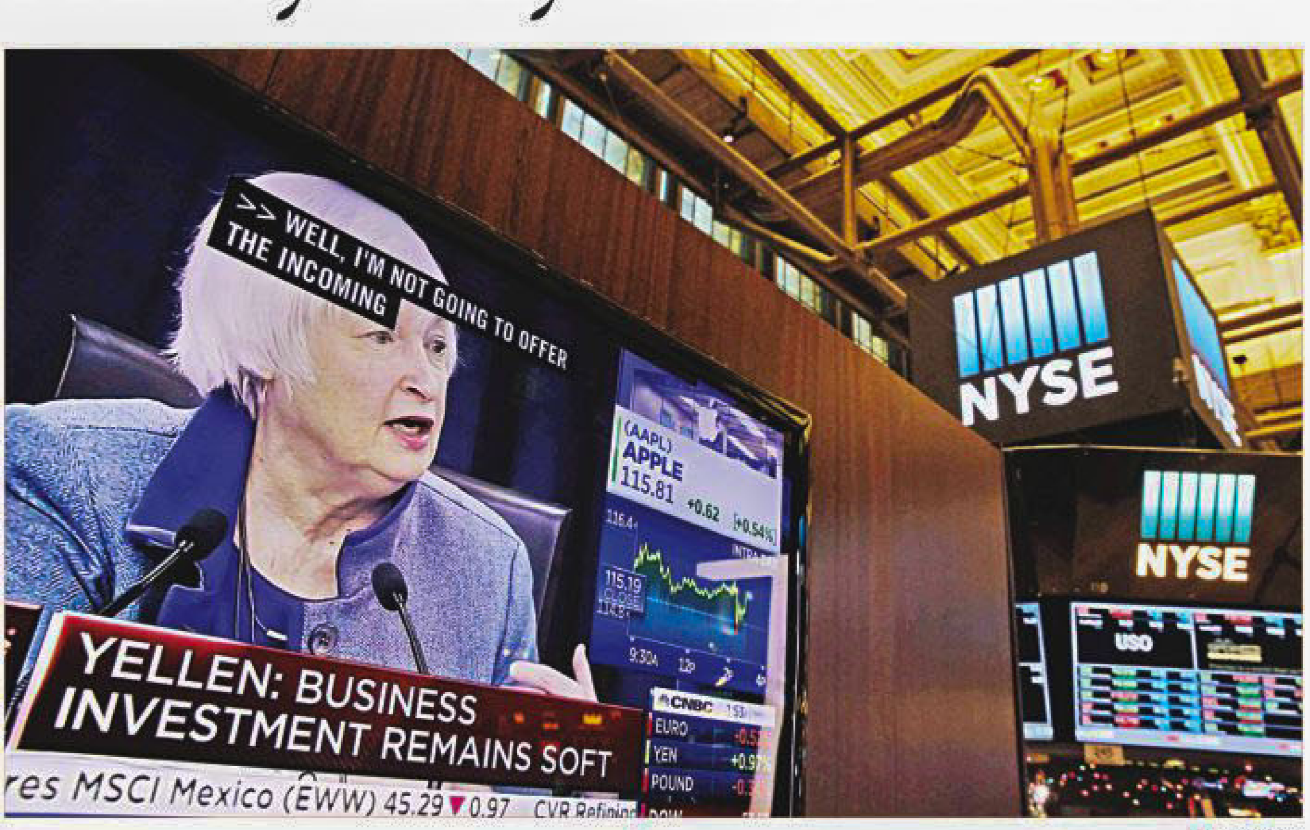
Normally Bangladesh does not allow firms to invest outside of the country. However, it has so far allowed a handful of companies to do so in a case-to-case basis.

But Mahbub-ur Rahman, deputy CEO of HSBC Bangladesh, said there is a realisation that this facilitates the businesses to grow outside.

"That makes us believe that if the situation warrants, the regulator will be open about it," he said the customers demand the rules to be more flexible.

If Bangladeshi exporters have to explore new markets, there will be a requirement of repatriation of some of the capital investment, according to Rahman.

Optimism, economic reality may clash in 2017



REUTERS

A television screen on the floor of the New York Stock Exchange displays the coverage of US Federal Reserve Chairman Janet Yellen on December 14. The dollar hit its highest level against the yen in 10 months and gained against other major currencies after the Federal Reserve raised interest rates for the first time this year.

REUTERS, *London*

INVESTORS sound optimistic about a breakout for the world economy next year, but for all the talk of huge tax cuts from the incoming US presidency of Donald Trump, the economic outlook looks similar to 2016: uneven and unspectacular.

Accelerating inflation and a soaring US dollar as the Federal Reserve raises interest rates are also risks to the economic balance, magnified by that pending stimulus.

Much may hinge on financial markets, which for a brief period around the start of this year looked like their fretting over China might throw the global economy off track. There is plenty more uncertainty about trade with China now than then.

So, many of the several hundred professionals polled by Reuters worldwide say the global trade slowdown during the world economy's lukewarm recovery from financial crisis that started nearly a decade ago could worsen.

Emerging economies will remain vulnerable. Brazil's persistent, crippling recession is way out of line with its soaring stock market, and much of Asia will grow below potential, putting the latest global growth forecast for the year ahead at 3.2 percent, less optimistic than it was this time last year.

For the developed world, meanwhile, it has been productivity gains that have been lacking for so long and policymakers remain at a loss on the reasons why, and how to remedy the problem.

The US jobless rate is already down to 4.6 percent and hiring slowing, so economists say improving growth in output per worker will be crucial for prosperity.

"Mr Trump and his team have promised growth of 3.5 to 4 percent or more, which we see as 'magical thinking' unless accompanied by accelerated productivity growth," noted Michael Carey, US economist at CA-CIB in New York.

The most optimistic US growth forecast for any point in 2017 in a Reuters poll taken a month after Trump's shock election victory was 3.8 percent, well short of the peak rate in a business cycle that is already mature by past standards.

The consensus, in line with the Fed's view, is a little above 2 percent. That is similar to a Reuters poll outlook for 2016 in a series of forecasts made a year ago on growth, rates, inflation and foreign exchange that were broadly accurate.

Such lukewarm growth does not compute with another set of wildly bullish stock market views, although it is clear many strategists who initially said Trump would be a threat to markets have abruptly changed their minds since the election.

Strategists foresee a rising US dollar, already at a 14-year high, and US Treasury yields edging up as the Fed follows through with more rate hikes next year. But Wall Street isn't convinced yet there will be three more.

A rising dollar may blunt future performance of US companies, many dependent on international business for revenue. Many of their share prices trade near record highs, but propped up by buyback schemes and stimulus, not business investment.

Protests flare over Venezuela cash chaos

REUTERS, *El Pinal*

PROTESTS and looting broke out in parts of Venezuela on Friday due to a lack of cash after the socialist government suddenly pulled the nation's largest banknote from circulation in the midst of a brutal economic crisis.

An opposition legislator said there were three deaths amid violent scenes in the southern mining town of Callao -- but there was no confirmation of that from the government.

Waving the now-worthless 100-bolivar bills, pockets of demonstrators blocked roads, demanded that stores accept the cash, and cursed President Nicolas Maduro in a string of towns and cities around Venezuela, witnesses said. Dozens of shops were looted in various places.

Last weekend, Maduro gave Venezuelans three days to ditch the 100-bolivar bills, arguing that the measure was needed to combat mafias on the Colombia border despite warnings from some economists that it risked sparking chaos.

Opposition leaders said the move was further evidence he is destroying the OPEC nation's economy and must be removed.

Authorities have thwarted a referendum sought by the opposition against the leftist leader. That might enable him to complete a six-year term ending in early 2019, but increases the prospect of social unrest.

With new bills - originally due on Thursday - still nowhere to be seen, many Venezuelans were unable to fill their vehicles' fuel tanks to get to work, buy food or purchase Christmas gifts.

Adding to the chaos, many cash machines were broken or empty. And large lines formed outside the central bank offices in Caracas and Maracaibo where the 100-bolivar bills could still be handed over and deposited for a few days more.

"This is a mockery," said bus driver Richard Montilva as he and several hundred others blocked a street outside a bank in the town of El Pinal in Tachira state near Colombia.

REUTERS

A man burns a 100-bolivar bill during a protest in El Pinal, Venezuela.

First Justice lawmaker Angel Medina said large numbers of shops had been ransacked, destroyed and burned in El Callao, with three people killed and many injured.

Reuters could not independently confirm his statements.

Speaking in general terms, Maduro condemned the violence around the country, and said two banks had been attacked by people linked to the opposition coalition.

He said the new bills would come into circulation soon, appealed for the population's "comprehension", and urged Venezuelans to use electronic transactions where possible.

About 40 percent of Venezuelans do not have bank accounts.

Outside the central bank in Caracas, thousands of Venezuelans lined up to swap the 100-bolivar bills before a final Tuesday deadline as National Guard soldiers kept watch.

An orange and avocado vendor offered to buy the notes up for 80 bolivars each.

Maduro's measure has stoked anger among Venezuelans already weary of long lines for food and medicine amid product shortages and triple-digit inflation.

He blames the crisis on an "economic war" waged against his government to weaken the bolivar currency and unseat him.

Smoggy Beijing orders factories to shut

REUTERS, *Beijing*

BEIJING'S city government ordered 1,200 factories near the Chinese capital, including a major oil refinery run by state oil giant Sinopec, to shut or cut output on Saturday after authorities issued the highest possible air pollution alert.

On Friday, China's environmental watchdog issued a five-day warning about choking smog spreading across the north and ordered factories to shut, recommended residents stay indoors and curbed traffic and construction work.

Red alerts are issued when the air quality index (AQI), a measure of pollutants in the air, is forecast to break 200 for more than four days in succession, surpass 300 for more than two days or overshoot 500 for at least 24 hours.

The Beijing Municipal Environmental Monitoring Centre showed an air quality reading of 297 by Saturday afternoon as haze started to envelop the capital, after an earlier reading of around 120. Levels in the 301-500 band are considered hazardous to health.

Traffic on the city's roads was lower than usual as residents complied with limits on car use and many of the city's 22 million residents sat out the haze at home.

"I'll just take a rest and not go outside," said Wang Jianan, a 23-year-old Beijing resident and teaching assistant.

With Christmas just a week away, others resorted to dark humour to help cope with the latest episode of toxic air.

One Beijing resident posted a cartoon on WeChat, China's mobile messaging platform, showing Santa Claus on his slay almost completely obscured by smog, saying: "I can't find China."

The city's municipal government said in a statement Sinopec's 10 million tonne-per-year Yanshan refinery, a Shougang Group steel product plant and a Cofco factory that makes instant noodles and crackers were among 500 companies it had ordered to limit output.

The statement also listed 700 companies that had been ordered to suspend operations altogether.

The national environmental watchdog was sending more than a dozen inspection teams to check that factories and heavy manufacturing plants were complying with the crackdown, it said.

The hazardous air underscores the challenge facing the world's second-largest economy as the government battles pollution caused by the coal-burning power industry and other heavy industry after decades of breakneck economic growth.