

Institutional reforms key to higher economic growth

WB economist says Bangladesh should fix domestic challenges and speed up infrastructure projects

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BANGLADESH should fix domestic challenges, carry out institutional reforms and focus on completing priority projects in 2017 to help the country take a quantum leap towards higher economic growth, said an economist.

Zahid Hussain, lead economist of the World Bank in Dhaka, said: "I think domestic challenges are bigger. If we can handle them properly then Bangladesh will be able to cope with external uncertainties."

During an interview, Hussain reflected on the just-concluded year which was marked by uncertainties, unpredictability and unexpected changes globally.

"It was a mixed year for Bangladesh as in some areas the country did better than expectations while some unprecedented and unexpected incidents took place."

The consistency in agriculture production and export growth is noteworthy, he said.

There was uncertainty in garment exports and a question emerged whether Bangladesh will be able to retain its market share and beat Vietnam in the US market. But apparel exports fared well in the US market compared to 2015 despite 15-16 percent duty.

Hussain said a sort of crisis that resembles the Great Depression of 1930s is being formed now across the world. The multilateral trading system will face a survival threat in 2017.

Although there had been a Cold War since 1945, the US was the foremost leader in the global economy. The US has led the establishment of the world's trading system, and the multilateral trading system under the World Trade Organisation, supported by Europe.

"But the new faces in the US administration are not too much excited by the multilateral trading systems. Even they are saying that they will not sign the Trans-Pacific Partnership (TPP) agreement."

"If TPP is not signed it will be a piece of good news for Bangladesh. But it is not good news for the world trade because it will weaken the foundation of the multilateral trading system."

Hussain said the US is moving towards bilateralism whereas the country has been seen as the pioneer of multilateralism.

If the US embraces bilateralism and the Brexit comes into effect, the future would not be bright for the small countries such as Bangladesh in terms of economic capacity as these countries would not be able to cut export reliance in the short term.

Small countries do not have adequate institutional capacity to go for bilateral trade agreements, he added.

Hussain said it is good that two major infrastructure projects, including Dhaka-Chittagong Highway, were opened to public in 2016, after long delays.

Priority has to be given to major infrastructure projects that have already been undertaken, he said.

Many initiatives aimed at institutional and infrastructure reforms have been undertaken, but there is no progress. "If we can make progress in these areas then raising GDP growth from 6.5 percent to 8 percent in the short term will not be very difficult."

He said the major barriers that stand in the way of industrialisation are a shortage of water, gas, land and weak transport systems. Special economic zones have been designed as a package solution to these problems.

Bangladesh plans to develop 100 special economic zones (SEZs) in the next 15 years, with a target to earn an additional \$40 billion by exporting goods from the economic zones by 2030. The government has so far approved 30 SEZs and awarded contracts for some zones.

"If we can start with some SEZs, even if they are small, then investors will be keen about them. So, we have to ensure that some of them are completed in time," he said,



Zahid Hussain

adding that the government also needs to involve foreign investors in implementing the rest of the SEZs.

He said there are many projects under the annual development programme (ADP). But the projects that can strengthen communication and create congenial environment for setting up new industrial units have to be fast-tracked this year.

Bangladesh has raised its ranking in the World Bank's latest Doing Business Index to 176th from 178th, out of 190 countries. But Bangladesh still remains in the near bottom layer in the sub-indices such as access to electricity, property registration, or contract enforcement.

Hussain said Bangladesh has to accelerate effectiveness of the alternative dispute resolution. He said Bangladesh International Arbitration Centre has helped settle some disputes.

It would be unrealistic to think that it will be possible to fix the court system in the shorter run, he added. Besides, 95 percent of the business disputes are settled outside the

court system globally.

"If we can increase the effectiveness of alternative dispute resolution mechanism in areas such as tax disputes or contract enforcement then Bangladesh's ranking would quickly climb up in these indices."

The WB economist said the uncertainties in some areas will be clear in 2017, allowing Bangladesh to exactly understand what the risks are.

"Once we understand the risks, we will be able to understand what steps have to be taken to counter them. I hope 2017 will further clear the uncertainties. I am not saying that the uncertainties will go, but the sky will be clear."

He warned that some new uncertainties may emerge as the country nears the next national election due in 2019.

"We hope there will be stability and there will be a cooperative environment so that we can take our national economy forward."

Talking about the utilisation of foreign assistance, Hussain said Bangladesh's options for taking external credit have widened.

The Asian Infrastructure Investment Bank

has made available huge amounts of funds. India is providing bilateral credit line and is interested to provide more. Bangladesh is also getting offers from China.

"On one hand, it is a problem of plenty." He said dealing with the new multilateral lenders would not be very difficult for Bangladesh as these institutions are following almost the same model of the World Bank or other multilateral lenders.

But in case of bilateral agreements, which are normally administered through Export Import banks, the true financing cost of the projects has to be identified clearly. It has to be ensured that Bangladesh has institutional capacity to handle these agreements.

"It is being said that these are soft loans and the interest rates might not be more than 1.5 percent to 2.0 percent. But the details have to be looked into. Maybe the word 'interest' has not been used in the details but the interest fee might go up 1 percent to 1.5 percent furthermore in the name of commitment fees, processing fees and management fees."

"Similarly, if 10 percent or 15 percent is paid upfront then the country will get 90 percent or 85 percent of the loan. In such case, the interest rate will be fixed on the 100 percent of the loan, not the 90 percent of the loan that is being actually given."

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Mexicans march to protest rise in gasoline prices

AFP, Mexico City

Hundreds of irate Mexicans marched in Mexico City on Sunday to protest a steep rise in gasoline prices.

They carried signs denouncing President Enrique Pena Nieto, whose government announced last week that the price of gasoline would increase by as much as 20 percent to 0.88 dollars per liter on New Year's Day, while diesel would rise by 16.5 percent to 0.83 dollars.

Pena Nieto has promised that fuel prices will eventually fall thanks to a landmark 2014 energy reform he instituted, which ended a seven-decade-old monopoly held by the state-run firm Pemex.

The government plans to end subsidies and let the market dictate prices in March. But Mexicans will feel the pinch at the pump before they start falling. The protesters marched Sun along Mexico City's Reforma avenue towards the vast central square called the Zocalo.

"With this news about gasoline I don't know how much more we can take," said Dulce Maria Coeta, a homemaker. "Even as it is, the minimum wage is not enough to buy groceries. Now, it will be even worse."

Mexicans flocked to gas stations last week to fill their tanks before the price rise. News reports Sunday said some ran out of fuel.

Pemex said this happened in less than one percent of its service stations.

The protests are the latest headache for Pena Nieto.

His popularity has plummeted below 25 percent this year due to his government's failure to curb drug-related violence, disappointing economic growth and his unpopular decision to host Donald Trump before the anti-immigration Republican won the US presidential election.

How ties to an 'equestrian princess' landed Samsung at centre of a scandal

REUTERS, Seoul

SAMSUNG Electronics Co's sponsorship of the equestrian-athlete daughter of a long-time friend of President Park Geun-hye has helped to land South Korea's top company in the centre of the country's influence-peddling scandal.

Samsung agreed last year to pay \$18 million to Core Sports International GmbH, a consulting firm controlled by Park's friend Choi Soon-sil, who is in jail and faces charges of abuse of power and fraud in a criminal trial that began this month.

A South Korean court has also issued an arrest warrant for Choi's Germany-based horse-riding daughter, 20-year-old Chung Yoo-ra - who has been the main beneficiary of the sponsorship - for alleged criminal interference related to her academic record, and other unspecified charges.

The sponsorship deal is being examined by prosecutors as they try to ascertain whether Samsung, which was also funding and chairing the Korea Equestrian Federation (KEF), sought favours from Choi and President Park in return for funding initiatives backed by them. In particular, they are looking at whether favours included the National Pension Service' support for Samsung's founding family in a shareholder vote last year.

"A crucial part of our investigation is to look into why Samsung and the KEF supported Choi Soon-sil and her daughter Chung Yoo-ra and transferred funds to companies set up by Choi or involved with Choi," an official at the special prosecutor's team told Reuters by phone. He declined to be identified because he is not authorised to speak with the media.

Park has been impeached by parliament over her role in a wide-ranging influence-peddling scandal linked to Choi, and now awaits a Constitutional Court review of that decision, which if upheld would make her the first democratically-elected South Korean leader to leave office in disgrace.

Reuters has reviewed a copy of Samsung Electronics' August 2015 contract with Core Sports to sponsor the team at a German facility in Biblis, a small town south of Frankfurt. Neither party announced the sponsorship.

"Samsung wishes to develop an Equestrian Team, including overseas training of athletes to prepare for 2018 Asian Games and World Equestrian Games," the consulting agreement says.

Samsung Electronics ended up spending about 8 billion won (\$6.6 million) on the team, which went to support Chung, according to testimony by Samsung Group's de facto head, Jay Y. Lee, during parliamentary testimony earlier this month.

A more precise accounting, including whether some of that funding supported her coach and fellow rider, Park Jae-hong, was not available.

The team was meant to include six riders with 12 horses, Samsung's contract says, but never grew



Chung Yoo-ra

beyond Chung and her coach, according to lawmakers on a parliamentary committee investigating the presidential scandal.

Reuters was unable to determine why the team did not expand beyond the two riders.

Samsung's outlay included the 1 million euros (\$962,000) purchase of a horse to be used by Chung named Vitana V, according to Lee.

He told the hearing there was a reason the group felt compelled to fund the equestrian team, but did not say what that was.

"I was told there were inevitable circumstances ... But I admit that the deal was done in an inappropriate way and regret that I didn't look into it more thoroughly," Lee testified. He didn't elaborate further.

Chung was not available for comment and her lawyer, who also represents her mother, did not return multiple requests for comment. Choi, who has denied legal wrongdoing, told lawmakers on Dec. 26 that she had not sought the sponsorship from Samsung. Reuters could not reach Park Jae-hong for comment.

Samsung Electronics declined to comment for this story. Sung-Kwan Park, a Frankfurt-based lawyer who was Core's managing director, declined to discuss details of the deal when approached by Reuters, citing attorney-client privilege.

Samsung Electronics' support for Choi-backed initiatives also included 1.6 billion won to a foundation run by Choi's niece Jang Si-ho, and another 20.4 billion won, funding shared with the com-

pany's affiliates, to two foundations set up by a major business lobby to support Park policies. Prosecutors say in their indictment of Choi that they suspect that she controlled the foundations, including choosing staff.

Jang has said the foundation she ran was established to support young athletes and that Choi had asked her to set it up. Her lawyer told a court hearing on Thursday that Jang put pressure on Samsung to sponsor the foundation, but said it was not clear that was the reason for Samsung's backing.

Lee told lawmakers Samsung's contributions to the two foundations backing Park's initiatives were not made with any quid pro quo expected.

Samsung's offices have been raided twice by prosecutors but none of its officials have been charged with any wrongdoing.

The Samsung Group, which has been a major sponsor of the Olympic Games, has also funded a range of sports in South Korea in the past 20 years, including soccer, baseball, basketball, and volleyball. While those sports have mass appeal, equestrian, as in many countries, is seen as a sport for the wealthy elite - there were just 251 registered equestrian riders in the country in 2014, according to the KEF.

The conglomerate and its founding family have a long-term relationship with the sport. The 48-year-old Lee, grandson of the group's founder, is an accomplished horseman and represented South Korea at international events, winning medals in various competitions in the late 1980s and early 1990s.

In 2014, Samsung pulled out of sponsoring the KEF only to return to the sport in March 2015 when Samsung Electronics President Park Sang-jin took over the chairmanship of the KEF.

That was at a time when the KEF was being accused by lawmakers and local equestrian federations of granting Chung undue favors, including selection to the national team, because of her mother's perceived influence with Park.

In 2014, Chung was labeled the "Equestrian Princess" by South Korean media, though she partially answered her critics by winning a group dressage gold medal at the 2014 Asian Games.

The KEF declined to comment, citing the ongoing investigation by prosecutors.

Park Jong-so, a veteran rider and former national team head coach, said many in the country's equestrian community were puzzled when Samsung resumed its leadership of the federation.

Samsung gave 2.6 billion won to the KEF between resuming the sponsorship and August this year, according to a document it filed to parliament and shown to Reuters by a lawmaker.

The country's culture ministry, which oversees sports, said in a December audit report that the KEF signed fake documents provided by Chung to excuse her absences from high school and gain credit for volunteer activities she never did.

Apple's partner seeks to expand India smartphone parts plant

REUTERS, Mumbai

Smartphone component maker Wistron Corp, which counts Apple Inc among its customers, has applied for permission to expand its plant in Bengaluru, a high-ranking regional government official said on Monday.

The Taiwanese contract manufacturer has also requested that its application be fast-tracked, the official at the state government of Karnataka told Reuters.

The move comes less than two weeks after the Wall Street Journal reported that Apple was in talks with the Indian government about the possibility of assembling products in one of the world's biggest smartphone markets, where the U.S. tech firm controls less than 2 percent.

Apple setting up production in India would be a significant win for the government which has embarked on a major campaign to attract global manufacturers under the slogan "Make in India".

"Wistron has approached us to expedite certain clearances with regards to the augmentation and expansion of its existing unit," said the official, who was not authorised to speak publicly on the matter and so declined to be identified.

Whether Apple will begin manufacturing in India is unknown, but Wistron's desire to expand "pretty quickly" could represent "several steps in that direction," the official said.

Apple did not immediately respond to an email seeking comment. Wistron could not be reached for comment.

Analysts have said local manufacturing could come as part of a wider strategy for Apple to expand in India and even lower prices after Chief Executive Tim Cook visited the country in May and met Prime Minister Narendra Modi.