

# China tightens grip on yuan to head off economic risks

REUTERS, Beijing

In rapid fire moves that have stunned investors, Chinese authorities have begun tightening control over the yuan, lifting it sharply in a concerted effort to restore market confidence and forestall risks of capital outflows and slower growth, policy insiders say.

Caught off-guard last month by a ratings downgrade by Moody's Investors Service that gave fresh momentum to bearish yuan bets, traders said Beijing has reverted to its old play book - intervening in markets to bend them to its will.

The key priority for authorities was maintaining market confidence ahead of a leadership transition later this year, policy insiders said, as growing debt risks, higher US interest rates, capital outflows and possible trade tensions with the United States threatened to knock the economy.

The policy insiders say last month's introduction of a mysterious 'counter-cyclical factor' that increases the central bank's influence over the yuan's reference rate showed how serious authorities are about flushing out bearish bets and heading off any slide towards 7 yuan to the dollar.

The move highlighted the challenge China faces between safeguarding economic and currency stability and speeding up capital market reforms - important steps in its quest to internationalise the yuan.

"They (authorities) are clearly tightening their grip (on the yuan), which is related to politics and diplomacy," said a policy adviser.

"From monetary authorities' perspective, they definitely do not want to see the yuan falling past 7 - a landmark move that could affect market expectations," the adviser said.

The People's Bank of China (PBOC), responding to Reuters' request for comment, denied suggestions that it's tightening control on the yuan via the counter-cyclical factor.

"Such a statement is not true," the PBOC said in a rare email response, and reiterated the official explanation that changes to the way the mid-point is calculated were geared to better reflect macroeconomic fundamentals and temper "irrational" market expectations. Beijing is



People buy fruit at a fresh food market in Beijing, China.

REUTERS

especially sensitive to any renewed criticism of its currency policy by the United States, and a weaker yuan could play into President Donald Trump's protectionist proclivities as Washington engages in 100 days of trade talks with China.

A second adviser said that with the Federal Reserve set to raise rates further at next week's policy review, authorities are worried that capital outflows could drive persistent weakness in the yuan - the last thing Chinese leaders want before the closely-watched leadership transition in the autumn.

In 2015, a botched stock market rescue attempt tarnished Beijing's reform and broad policy-making credentials.

The yuan has gained 2.2 percent versus the dollar this year, including 1.3 percent since May 24 - when Moody's downgraded China's credit ratings for the first time in nearly 30 years, citing its mounting debt risks.

A Reuters poll predicted the yuan to slip toward 7.05 per dollar in 12 months.

Policy insiders believe authorities had been experimenting with the new mid-point regime and may have been forced to introduce it early after the Moody's downgrade. The central bank meanwhile has also aggressively strengthened the mid-point since the start of the month.

Authorities are also concerned that rapid falls in the yuan, which is allowed to trade two percent above or below the mid-point rate, could undermine Beijing's bid to boost the Chinese currency's global clout.

"The central bank will use various means to intervene if the yuan falls to 7 - this is a so-called red line," another policy adviser said, underscoring unease that a destabilising fall in the yuan could sap confidence and hurt the economy.

China burned through nearly \$320 billion of reserves last year but the yuan still fell about 6.5 percent against the dollar, its biggest annual drop since 1994. Latest data showed foreign exchange reserves rose to a seven-month high of \$3.054 trillion in May, as stringent capital control measures helped staunch outflows.

# Uber woes mount ahead of workplace probe report

AFP, San Francisco

Uber has parted ways with another top executive, in the latest dent to the reputation of the ridesharing giant as it prepares to release the results of a probe into workplace misconduct.

The executive, Eric Alexander, read and discussed medical information about a woman raped in India in 2014 during an Uber ride, according to reports in the New York Times and Recode.

Alexander, who headed Uber's Asia-Pacific operations, showed the records to Uber chief executive Travis Kalanick and others, the reports said.

An Uber spokeswoman told AFP on Thursday that Alexander is "no longer with the company," but declined to comment on the reasons for his departure or on the reports on his handling of the India rape case.

In the case, a 26-year-old woman was assaulted after hailing an Uber ride. An Indian court in 2015 sentenced the Uber driver to life in prison in a case that inflamed fears over sexual violence in the capital.

The reports about Alexander come amid a far-reaching investigation into misconduct and workplace practices at Uber, which operates in dozens of countries and is valued at some \$68 billion. Earlier this week, Uber said it had fired 20 people following preliminary results of the investigation.

The on-demand ride service said the terminations came as it looked into a total of 215 claims of discrimination, harassment, unprofessional behavior, bullying, retaliation and "physical security."

A report containing recommendations for changes inside Uber to cure workplace ills was to be released next week.

Uber has seen a shake-up in its executive ranks as it works through a series of scandals that included disclosures about a culture of sexism, cut-throat workplace tactics, and covert use of law enforcement-evading software.

Jackdaw Research analyst Jan Dawson referred to the incident involving the Uber executive in India as a "notable and damaging" revelation, calling it "absurd" that an

internal probe depicted by the company as far-reaching seemed to have spared the executive.

"Overall, plenty more evidence here of both the nasty culture and the difficulty of turning around," Dawson said in a blog post.

In addition to the workplace investigation, Uber faces a potentially damaging lawsuit over trade secrets allegedly stolen from Alphabet's self-driving car unit Waymo.

Uber fired executive Anthony Levandowski, who came from the unit previously known as Google car, for failing to meet a deadline to turn over information for an internal investigation. Waymo's lawsuit contends that Levandowski in December 2015 downloaded files from a highly confidential design server to a laptop and took the data with him to the startup.

Uber has lost other key executives this year and one report said it is the subject of a criminal investigation.

Top engineering executive Amit Singhal resigned in February after the ride-sharing titan learned he ended his career at Google after a sexual harassment complaint, reports said. In March, Uber's p president, Jeff Jones, resigned after just six months.

The woes so far have not hit Uber's growth trajectory, but some analysts say Uber's problems won't be fixed without a change in leadership.

"Firing 20 people is just a Band-Aid to act as if they are doing something," analyst Rob Enderle of Enderle Group said of Uber.

"Nothing will change" as long as Kalanick, "who seems to be the source of many problems" remains on top, the analyst argued.

Kalanick, who was also embarrassed this year for a video where he berates an Uber driver, has said Uber is seeking a number two executive as part of an effort to restore confidence. Uber's biggest problem may be that it is "bleeding out cash," according Enderle.

Uber said that its revenue during the first three months of this year rose some 18 percent to \$3.4 billion, but the company logged a loss of \$708 million without taking into account stock compensation for employees.

## Experts slam new duty on solar panels

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The Institute of Energy under Dhaka University and the Bangladesh chapter of Climate Parliament, an international cross-party network of legislators dedicated to promoting renewable energy, organised the event at the university campus.

The government should provide the local industry with incentive to give a boost to the sector, Razzag said.

The government can impose taxes only when the local firms become able to manufacture enough solar panels to meet the country's demand, he said.

Nine solar mini grade projects are now in operation in Bangladesh, 25 such projects are in the process to be implemented and the work for 25 more are in progress, said Saiful Haque, director of the Institute of Energy.

The cost of these projects will increase by about 50 percent if the proposed duty is implemented, Haque said.

The decision may have been taken for the development of local industries, as the duty will discourage import of solar panels and promote its local manufacturing, said Muhammad Abdul Mazid, former chairman of the National Board of Revenue.

But such decision should be taken after having thorough talks with the stakeholders, he said.

"Solar energy is the most potential source of renewable energy. We have done the groundwork for this sector as we are now at the take-off stage," said Siddique Zohair, a member of the Sustainable and Renewable Energy Development Authority. "At this stage, imposition of import duty is a setback for us."

It will be difficult to achieve the 2,000MW renewable energy generation goal by 2020 with the new import duty in place, he said. "The price of solar panel-based electricity will increase significantly."

"Local manufacturers are yet to be ready to make panels that can be used for irrigation and on the rooftop for solar home systems," said Nasir Uddin, executive director of Upokolio Biddutayan O Mohila Unnayan Samity, a non-profit development organisation that works in rural areas.

"They have the ability to meet the 10 percent demand of the country. So the new import duty will be a suicidal decision."

Golam Mustafa, general secretary of IDCOL Partner Organisation Forum, and Nasif Shams, assistant professor of the Institute of Energy, also spoke.

## Phase out savings certificates

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It said more targeted and less costly alternatives could be considered such as expanding the social safety net and reflecting the costs on budget that achieve the government's social policy goals without distorting financial markets, hindering monetary policy and impeding capital market development.

The report quoted the government as saying that the certificates are playing an important social role by providing support to vulnerable segments of the population in the absence of unemployment insurance and wide pension coverage, and eliminating the certificates outright would not be a viable option now.

At the same time, the government recognised that excessive reliance on the certificates for budget financing not only impedes capital market development but also hampers monetary policy management, according to the report.

The certificates are currently poorly targeted and misuse of the system is increasing, the IMF quoted the government as saying.

The government is working on proposals that would improve monitoring to better identify the beneficiaries, and is also considering options for aligning the certificates' rates with market interest rates. The government is also open to reviewing the eligibility criteria and limits on purchases.

The IMF welcomed the introduction of the VAT law which has attracted serious debate.

It said mobilising domestic revenue should be a policy priority to allow increasing public investment and

strengthen social safety nets.

"To this effect, the directors emphasised that in addition to modernising the VAT, efforts should continue to improve the income tax regime and strengthen tax administration," says the IMF report.

On another note, the IMF said the cabinet recently approved a proposal to create a "sovereign wealth fund" that would make the central bank's reserves available for financing large infrastructure investment projects.

It said the fund would be allocated \$2 billion in foreign exchange per year for a maximum allocation of \$10 billion out of \$32 billion in total reserves.

The government is in the early stages of its plans and few concrete details of the fund and guidelines on how it would operate have been made public.

If this fund is to be launched, care should be taken in its design and execution to prevent it from encumbering reserves in a way that could harm external resilience or hamper the country's ability to tap global capital markets when called for in the future, said the IMF.

The IMF also identified some risks about the future economy: a resumption of political unrest as the next election cycle approaches, a rise in extremism, a further deterioration in the security situation affecting confidence and investment, a protracted slowdown in key export markets, particularly the EU, and a further weakening of remittances.

It also said a sustained appreciation of the US dollar could require adjustments to the nominal exchange rate to avoid harming export competitiveness.

## China urges banks to devolve loan approval responsibility

REUTERS

China's banking regulator has urged lenders to devolve responsibility for loan approvals in order to boost credit to small and micro businesses, but also emphasized that risks need to be kept under control.

Guo Shuqing, who was appointed chairman of the regulator in February, said it would also explore preferential policies to alleviate poverty and spur industrial development to help smaller businesses.

Guo's comments were made at a forum on Friday, the China Banking Regulatory Commission said in a statement on its website.

"Banks and financial institutions are encouraged to, under the premise that risks are controllable, to decentralize credit approval authority," it quoted him as saying.

China launched a plan last year to promote "inclusive" finance" with a target of launching financial services across all rungs of society, and has urged state-owned banks to take the lead.

## WTO largely backs Boeing in trade row, faults tax break

REUTERS, Geneva

The World Trade Organization largely cleared the United States of maintaining unfair support for Boeing Co, but said it had failed to withdraw a tax break in its main planemaker state that continues to cause trade fireworks.

The ruling added another page to an exhausting 13-year-old battle between the transatlantic plane giants just as a US tribunal agreed separately to investigate Boeing's concerns about alleged price-dumping by Canada's Bombardier.

The WTO said the United States had failed to remove aid for Boeing, as alleged in a trade complaint brought by the European Union, but ruled that few of the subsidies hurt EU interests. It found that one US subsidy programme, a business tax rate reduction in the state of Washington, where Boeing builds most of its aircraft, had "adverse effects", involving customers from the United Arab Emirates, Canada and Iceland.

Both sides claimed victory after the ruling, which is about whether Boeing complied with a 2012 decision that it had received billions of dollars of subsidies including aid from space agency NASA and tax breaks from Washington State.

"The panel found only one state-level program, which had an average value of \$100-110 million in the 2013-2015 period, to be contrary to WTO rules. The United States disagrees and plans to appeal this limited finding," the office of the US Trade Representative said.

European planemaker Airbus insisted the United States had not complied with the WTO's earlier decisions in the case and claimed it had suffered \$100 billion of harm when combined with a follow-up complaint.

"The amount of money involved completely distorts trade ... and the WTO should make it clear that no government or company can escape from their international responsibilities," Airbus Chief Executive Tom Enders said in a statement.

The WTO said Boeing had failed to comply with part of the earlier 2012 ruling relating to tax breaks in Washington state.

Those tax breaks are now the subject of a new case, having been extended to cover Boeing's newest wide-body jet.

In November, the WTO defined the tax break to help Boeing develop its new 777X jet as a prohibited subsidy.

That decision, contested by the United States, is now working its way through the WTO's appeals tribunal.

## BD Welding halts production for cash crisis

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When it started announcing less than 10 percent dividend, it was downgraded to the 'B' category. In 2015 it was brought down to the 'Z' category as it stopped declaring dividends. Curiously, the company's share price has been on an upward trajectory for the last couple of weeks. It gained Tk 0.4 to close the week at Tk 16.

BD Welding was listed on the stock market in 1999 with paid-up capital of Tk 42.92 crore. As of April, of the total shares, 65.39 percent are held by public, 31.01 percent by sponsor-directors, 2.88 percent by institutions and 0.72 percent by foreign nationals.

Established in 1969, it was the first welding electrode manufacturer in the soil of the then East Pakistan, with its plant and machinery coming from Switzerland.

The plant was taken over by the government in 1973 as abandoned property only for to be divested in 1984. AR Khan, former deputy secretary and founder chairman of BD Welding, purchased the factory by ending up as the highest bidder. Khan continued to run BD Welding as a private limited company until March 1997.

In 1999, it entered the stock market through an initial public offering to raise fund to set up an industrial oxygen plant in Chittagong.

## Jewellers call off strike

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But the urgent need for a guideline arose after the seizure of 567 kilograms of gold and 7,639 pieces of diamond ornaments from five branches of Apan Jewellers in Dhaka by the Customs Intelligence and Investigation Directorate last month for failure to present valid documents.

The incident put the jewellers in a panic mode as they feared they would also be harassed by the government officials in the absence of a guideline for best practices in their line of business. This prompted the leaders of the BJS last Wednesday to call a countrywide strike for an indefinite period in protest of the harassment by a section of government officials.

Abul Kalam Azad, chief coordinator of Sustainable Development Goals of the Prime Minister's Office, will liaise in formulation of the guideline, which will focus mainly on import, storage and sales of gold. The FBCCI president urged the government officials not to create any panic among the jewellers until the formulation of the guideline.

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