

# Economy faces risks despite high growth

MCCI says overall economic situation is positive

STAR BUSINESS REPORT

THE country should prudently deal with the downside risks facing the economy in order to keep up the growth momentum, the Metropolitan Chamber of Commerce & Industry, Dhaka (MCCI) said yesterday.

In its review of economic situation in Bangladesh for April-June, the chamber said Bangladesh economy has achieved a lot of successes in recent times. The multilateral lenders that previously downgraded the country's growth projection to below 7 percent have raised their projection to between 7.3 percent and 8 percent.

Although their projections are below the Bangladesh Bureau of Statistics' estimate of 8.13 percent, the country's achievement is immense compared with the GDP growth of many other developing countries.

While these achievements boost people's confidence in the country's ability to attain accelerated economic growth and emerge as a middle-income country by 2024, there are significant downside risks that pose threats to its economic growth.

"Power and gas shortage, insufficiency of investment and weak infrastructure are the major obstacles to growth, as they disrupt industrial production and also discourage new investment."

The chamber said the overall economic situation is positive as indicated by steady improvements in the major economic indicators.

Steady progress in agriculture, moderately good growth in industry despite power sector crisis, decline in inflation, macroeconomic stability, build-up of a comfortable foreign exchange reserve, and good progress in achieving the Sustainable Development Goals boost people's confidence.

Another laudable success of the government was to bring down the annual average inflation to 5.48 percent in the last fiscal year, comfortably way below the

official target of 5.6 percent.

"However, despite the creditable performance of the economy in certain areas, overall achievements remain below their true potential," the review said.

The MCCI said inadequate infrastructure and lack of investor confidence in the economy discourage fresh investment. There is also weak implementation and ambiguity of regulatory and policy frameworks.

"These impediments must be removed to restore the confidence of the foreign investors as well as the country's own business and investor community."

The chamber said it is foreseen that the political situation will remain stable and peaceful in the coming days. Export, import, and remittances will, therefore, increase. The foreign exchange reserve is likely to fall in July and September due to payments to the Asian Clearing Union against imports.

The review expects that the upward trend in inward remittance will continue in the current fiscal year as the government has announced 2 percent cash incentive for remittance receipts.

The government has allocated Tk 3,060 crore as subsidies in the budget for this fiscal year to encourage expatriate workers to send money through legal channels. Besides, the strengthened surveillance of the central bank, as in the past, to check illegal transfer of funds should also contribute to raising the remittance inflow.

Foreign direct investment inflow, however, is low compared to many countries at similar level of development.

Bangladesh's low labour costs are generally believed to be attractive to foreign investors, yet they hesitate to make fresh investments in the country because of underdeveloped infrastructure, shortage of power and energy, lack of consistency in policy and regulatory frameworks, scarcity of industrial land, and corruption.

"The government needs to address these impediments to attract more FDI."



Power and gas shortage is a major obstacle to growth, as it disrupts industrial production and also discourages new investment, MCCI says.

STAR/FILE

# Focus more on SMEs to be a developed nation

SME Foundation chairperson says

AHSAN HABIB

BAKLADESH should give more focus on small and medium enterprises to materialise its vision of becoming a developed nation by 2041, SME Foundation Chairperson KM Habib Ullah said.

"If we really want to make it within the timeframe, we will have to focus on small and medium enterprises. There is no alternative to the SMEs."

It is not possible for a populous country like Bangladesh to provide jobs to everybody or to engage everyone in farming due to scarcity of lands, he said.

Moreover, there is capital shortage to restrict the country to go for massive industrialisation, he said.

"So, developing the SME sector is the way forward," Habib Ullah told The Daily Star in an interview recently.

With an endowment fund of Tk 200 crore, the government established the not-for-profit organisation in 2007 that works to promote and develop SMEs.

The fund has been kept with a number of



KM Habib Ullah

## AT A GLANCE

(Till June 30; Source: SME Foundation)

Loans disbursed so far: Tk	85.75 cr
Number of entrepreneurs who got loans:	1,754
Number of women entrepreneurs who got loans:	512
Districts covered:	35

banks as deposits and the foundation uses the interest income from the deposits to extend loans to the entrepreneurs.

At present, the country has around one crore SMEs and they are the bedrock of the economy, Habib Ullah said.

SMEs account for about 45 percent of manufacturing value addition, about 80 percent of industrial employment, about 90 percent of total industrial units and about 25 percent of the labour force, according to a planning ministry document.

Their total contribution to export earnings varies from 75 percent to 80 percent, he said.

The industrial sector makes up 31 percent of the country's gross domestic product, most of which comes from the SMEs, he said.

Japan and South Korea have become developed nations by developing their SME sector and now Malaysia, Singapore, Thailand, India and China are following the suit, Habib Ullah said.

He said the SME Foundation is suffering from lack of funds to disburse among the SMEs.

As of June 30 this year, the foundation lent Tk 85.75 crore in loans, which was around Tk 50 crore at the end of 2015.

The size of the loans ranges from Tk 50,000 to Tk 10 lakh. In special cases, the amount can be a maximum Tk 20 lakh.

"Our area is very vast but our capability is very little."

The national budget for 2019-20 was disappointing for Habib Ullah, as there was no set-aside fund for the foundation while Tk 10 crore had been allotted in the previous budget for 2018-19.

"So, our capacity to boost the SME sector has reduced. It is not possible to run at a high speed with such low amount of funds."

However, overall SME lending is growing in Bangladesh.

At the end of March 2019, SME loan disbursement rose 2.10 percent year-on-year to Tk 197,718 crore, which was 19.63 percent of the total loans disbursed, according to Bangladesh Bank data.

Habib Ullah said India and Malaysia have set up dedicated banks to cater for the SMEs and reduce misuse of such loans.

"Bangladesh can think of such a bank. The foundation can work on this purpose to accommodate the SME loans of all banks."

SMEs suffer from capital shortage and struggle in getting low-cost loans, as banks do not extend loans to them easily.

"Nevertheless, if they get a loan after so much effort, the interest rate remains very high. None gets the loan at single digits. Only, the SME Foundation lends at a single digit."

The foundation provides loan through banks at 9 percent and it comes down to 8.5 percent for women. The recovery rate is 100 percent.

Habib Ullah said a huge amount of SME loans is going to home, construction and many other sectors.

Another problem the SMEs are confronted with is the spiralling cost of production, he said.

The cost of production will have to be reduced so that SMEs can compete with foreign products and to do that they need low-cost loans, he said.

Smuggling of foreign products into Bangladesh has to be stopped, according to the chairperson.

Many cheap products are smuggled into the country through illegal routes, which come as a blow to the local SMEs, he said.

Habib Ullah suggested SMEs should take benefit of the latest technologies to cut production cost.

"SMEs need proper training and technological support to improve the quality of their products."

SMEs also face problems when it comes to product standardisation, so the government should set up a dedicated laboratory to certify the products produced by the SMEs.

As many SMEs do not have showrooms, they cannot market their products.

To solve the problem, the foundation organises fairs every year allowing SMEs to display products. Last year, it organised expositions in 23 districts and a national fair in Dhaka.

The foundation has already sought land from the government to set up exhibition halls for SMEs in all divisions.

As per the plan, one exhibitor will be allowed to showcase their products for 15 days so that all the producers can avail the display opportunity.

Habib Ullah said SMEs are facing many other problems and the SME Foundation can solve all of them.

"But we can only materialise the plans we have to solve the problems if we are provided with funds and our capacity is enhanced."

# Japanese jobs for South Korean graduates dry up amid trade row

REUTERS, Seoul

SONG Min-su, a Japanese major in his final year at Hannam University, south of Seoul, has watched in dismay as a spat between South Korea and Japan over wartime forced labour has spiraled into a damaging political and economic row.

Song, 25, has been pursuing his dream of working in Japan. With historic labour shortages in Japan, he had been confident he would avoid the tough job search many of his peers faced at home in South Korea, where youth unemployment is growing.

But Japanese curbs on the exports of high-tech materials to South Korea has escalated a bitter diplomatic feud between the neighbors, sparking boycotts that have hit the sales of Japanese cars, beer and other goods in South Korea, as well as travel to Japan.

"It will not only get harder to

find a job in Japan, but the current sentiment will also make things more difficult to find a job in Korea with the use of my Japanese major," Song said.

South Korea has long had testy relations with former colonial ruler Japan, with Tokyo citing a dispute over forced labour during World War Two as a factor that led to tighter export controls implemented in July.

South Korea responded by stripping Japan of favoured trading nation status and scrapping an intelligence sharing pact.

The dispute has derailed a surge in hiring of highly educated South Korean graduates by Japanese companies in recent years, forcing job seekers, employment consultants and the Seoul government to rethink Japan as a place to work.

That has piled more pressure on South Korean President Moon Jae-In, who came to power in 2017 on promises to create jobs and address inequality.

Nearly 10% of South Koreans aged 15 to 29 were jobless in July, according to Statistics Korea, but the department says the real rate be as high as 24% including those with temporary or part-time jobs, who gave up looking for jobs or who are preparing for state examinations.

Employment growth in South Korea has been sluggish as conglomerates that dominate the economy have slowed hiring due to a sharp rise in minimum wages and a cooling economy, especially in the manufacturing and construction industries.

Japan, with unemployment at a 26-year-low, was the most popular overseas place to work for Koreans in 2014 and 2016-2018, data from Human Resources Development Service of Korea shows.

Japan was the destination for nearly one-third of the 5,783 South Korean graduates who found jobs overseas last year under government programs, more than triple the number in 2013.

NO SHOW  
But last month, the Labour Ministry cancelled a job fair focused on Japan and Southeast Asia for late September that would have been the largest organized by the government, blaming the strained ties.

Another job expo held by the Korea-Japan Cooperation Foundation for Industry and Technology in mid-July, also with a focus on jobs in Japan, received 20% fewer participants than its previous fairs, an official told Reuters.

South Korea's Labour Ministry is planning the second of its bi-annual global job fairs in November, but instead of focusing on jobs in Japan as it did last year, it plans to broaden the list of countries.



REUTERS/FILE

Jobseekers look at recruitment advertisements during the 2018 Japan Job Fair in Seoul, South Korea.

# Brexit-worn Britain looks on track for recession: PMI

REUTERS, London

BRITAIN'S economy is in serious danger of entering its first recession since the financial crisis as business confidence wilts in the Brexit chaos, a closely watched business survey showed on Wednesday.

Growth in Britain's dominant services sector slowed to a crawl in August and business expectations were at their lowest in more than three years, according to the IHS Markit/CIPS UK Services Purchasing Managers' Index (PMI).

Its headline reading fell to 50.6 from 51.4 in July — barely above the 50 barrier between growth and contraction. A Reuters poll of economists had pointed to a reading of 51.0.

The survey added to questions over Britain's ability to bounce back from an economic contraction in the second quarter when a hangover from the stockpiling boom before the original Brexit deadline in March hit output.

PMI compiler IHS Markit said the overall economy looked on track to shrink again in the July-September period at a quarterly rate of 0.1 percent — a result that would officially herald a recession.

Signs the economy is fading will raise the stakes in the political crisis gripping Britain.

Prime Minister Boris Johnson will try to call a snap election on Wednesday after lawmakers seeking to prevent him taking Britain out of the European Union without a divorce deal dealt him a humbling parliamentary defeat.

"A lot will hinge on the events today in Westminster, but the bottom line is that risk of a 'no deal' Brexit on 31 October is unlikely to fade



REUTERS/FILE

People walk through the Canary Wharf financial district of London, Britain.

completely after this week. This will continue to keep the pressure on underlying growth," ING economist James Smith said.

August marked the eighth month running in which the British composite PMI, covering both the manufacturing and services sectors, has underperformed the euro zone equivalent.

The British PMI's gauge of optimism in the services sector fell to its lowest level since July 2016, the month just after the Brexit vote, while growth in new orders slowed sharply.

Some economists say surveys like the PMIs tend to overstate the extent of upturns and downturns, but they are nonetheless closely watched by the Bank of England as early indicators of moves in the wider economy.

"The PMIs are excessively influenced by business sentiment and have given a misleadingly weak

steer during the past 12 months of heightened political uncertainty," said Samuel Tombs, economist at consultancy Pantheon Economics.

BoE Governor Mark Carney and other members of the Monetary Policy Committee are due to answer questions from lawmakers at 1315 GMT.

JPMorgan said the weakening data could prompt the BoE to consider whether it might need to cut interest rates in scenarios other than a no-deal Brexit, such as an extension of the Brexit deadline with no clarity on what happens next.

"We do not yet expect the BoE to signal a significant shift in tone while the question of the timing and outcome of a snap election is still up in the air. But the odds of a BoE cut this year — even if no-deal is avoided — are going up," said JPMorgan economist Allan Monks in a note to clients.