

## China fast encroaching on Germany's share of EU markets

REUTERS, Berlin

Chinese manufacturers are increasingly giving German manufacturers a run for their money in their home European Union market, especially in the field of advanced industrial goods where Germany is a leader.

A study by the employers' economic think tank IW found that in some sectors China's share of EU imports had risen as much as or more in the two years to 2022 as they had in the preceding decade, prompting the think tank to warn that there was a risk of Germany's economic motor stalling.

Germany's economy entered recession in May as its champion exporters were battered by supply chain woes, inflation and rising energy costs.



**A dead vegetable patch comprising cucumber, bottle gourd and bitter gourd plants which succumbed to recent floods in Bandarban sadar upazila. Farmer Rustam Ali, who had been cultivating the plants, said the inundation caused him to lose at least Tk 15 lakh-worth trees and plants on six acres of land, including those of sweet orange, papaya, jujube, guava, eggplants and long bean. The photo was taken from Raicha area on Monday.**

PHOTO: MONG SING HAI MARMA

# Economy growing but trade-GDP ratio falling gradually

## STAR BUSINESS REPORT

Bangladesh's exports and imports as percentage of its gross domestic product (GDP) has been falling gradually, although the economy has continued growing by 6.5 percent annually in the last one decade.

The ratio of import to GDP, which was 21.2 percent in 2013-14 fiscal year, halved to 10.69 percent in 10 years.

The ratio of export to GDP even experienced a sharper fall, from 17.2 percent a decade ago to 7.66 percent in FY23, according to data by Bangladesh Economic Review 2023.

As a result, share of Bangladesh's international trade to its growing economy has halved in the past one decade, raising questions about the credibility of national income estimates.

At the same time, the falling ratio of exports and import also shows Bangladeshi entrepreneurs' lack of appetite to try their products in the international market through exports, two analysts said last week.

"Behind the drop, one reason could be that our industrialisation strategy is inward looking. There is high tariff protection for domestic market-oriented

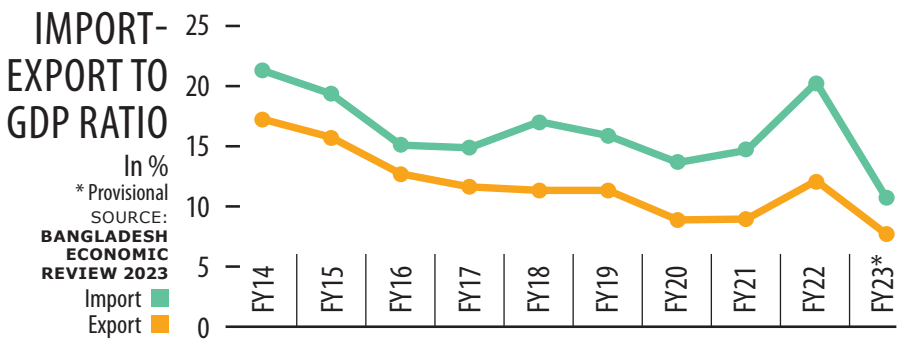
industries that prevent entry of foreign products. This makes profits from business from domestic market protected," said Zahid Hussain, former lead economist at the World Bank Dhaka.

So, naturally entrepreneurs will be interested to invest for domestic market in lieu of competing for selling their products

protection rate was 30.58 percent.

"When you provide high tariff protection, incentive to become efficient does not exist," he said, "Export to GDP would have risen had we focused on export diversification."

The economist said local industries have been getting tariff protection year



in the international market, he said.

"Return on capital is much higher in doing business locally than exporting."

The maiden national tariff policy published this week showed that the customs authority has cut Bangladesh's average tariff protection rate from over 70 percent two decades ago.

During the FY23, average tariff

after year. Now even an efficient firm loves protection, he said adding that the government provided incentive to Bangladesh's main export earner garment industry in the 1980s after it showed potential.

"The incentive has helped the sector scale up," he said.

Hussain said the fall in trade to

GDP ratio also raises questions about the credibility of GDP estimate by the Bangladesh Bureau of Statistics. "Our estimated GDP has grown so fast that it could not keep pace with growth of exports and import," he said.

The former WB economist said Bangladesh has inadequate natural resources and raw materials.

The estimate of economic growth shows it is manufacturing driven and the question is why will imports fall if the economic growth is manufacturing driven, he questioned.

"Input has not increased even though output has grown. This raises question about GDP," Hussain said.

Mustafizur Rahman, distinguished fellow of the Centre for Policy Dialogue (CPD), said in general the proportion of export and import grows with the expansion of overall output of the economy.

The fall in export to GDP ratio is a very bad sign because payment of import bills, building of foreign exchange reserves and servicing debt is related with imports, he said. In general, exports and imports grow when the economy grows.

But the decline in overall trade as percentage of GDP is not a good sign at all, he said.

## Simplify policies to diversify exports: experts

### STAR BUSINESS DESK

A number of policies and regulations need to be simplified for meeting the export diversification targets in national plans and export roadmaps, experts said.

They made the comment at the 14th Private Sector Development Policy Coordination Committee (PSDPCC) meeting organised by Business Initiative Leading Development (BUILD) and the Prime Minister's Office (PMO) on the latter's premises, said a press release.

"We will regularly review the overall investment scenario in the private sector and set out ways to improve and identify bottlenecks," said Md Tofazzel Hossain Miah, principal secretary to the PMO, while chairing the meeting.

This will be aimed at removing barriers and building cooperation between public and private sectors, he said.

BUILD Chairperson Nihad Kabir pointed out the e-commerce industry does not require a trade licence if it was recognisable through the digital business identification number (DBID).

Referring to a BUILD proposal, she urged to consider the DBID as a document for accessing bank loans.

BUILD CEO Ferdous Ara Begum, in a keynote presentation, mentioned that out of 72 reforms proposed from the 5th to 11th PSDPCC meetings, 37 were implemented.

She informed that the Local Government Division had already been allowed to issue trade licences with a 5 year tenure. However, it has not been fully implemented across the country.

Tapan Kanti Ghosh, senior secretary to the commerce ministry, Fatima Yasmin, secretary to the finance ministry, Abu Hena Md Rahmatul Muneem, chairman of the National Board of Revenue, Zakia Sultana, secretary to the industries ministry, Satyajit Karmakar, secretary to the planning division, Shaikh Yusuf Harun, executive chairman of Bangladesh Economic Zones Authority, and Nafuil Hasan, director general of the PMO, were present.

## India's retail inflation surges

REUTERS, New Delhi

India's annual retail inflation in July rose to its highest in 15 months as vegetable and cereals prices skyrocketed, beating all market expectations and putting pressure on the government to take action to bring down prices.

India's annual retail inflation rose sharply to 7.44 percent in July from 4.87 percent the previous month. A Reuters poll of 53 economists had forecast a rate of 6.40 percent. The figure was the highest since April 2022.

The figures breached the upper end of the central bank's inflation band of 2 percent-6 percent for the first time in five months.

"The spurt in CPI inflation in July 2023 was on expected lines, however, 7.44 percent retail inflation was totally unexpected," said Devendra Pant, economist at India Ratings.

## China suspends youth jobless data after record high readings

REUTERS

China suspended publication of its youth jobless data on Tuesday, saying it needed to review the methodology behind the closely watched benchmark, which has hit record highs in one of many warning signs for the world's second-largest economy.

The decision announced shortly after the release of weaker-than-expected factory and retail sales data sparked rare backlash on social media amid growing frustration about employment prospects in the country.

It also marks the latest move by Chinese authorities to restrict access to key data and information, a trend that is unnerving overseas investors.

Fu Linghui, a spokesman for the National Bureau of Statistics (NBS), said the release of data would be suspended while authorities look to "optimise" collection methods.

"In recent years, the number of university students has continued to expand," Fu said. "The main responsibility of current students is studying. Society has different views on whether students looking for jobs before graduation should be included in labour force surveys and statistics."

This issue, as well as the definition of the age range currently set at 16-24, "needs further research," Fu said. In recent months, China has restricted foreign users' access to some corporate registries and academic journals and cracked down on due diligence firms operating in the country, a vital source of information on China for overseas businesses.

"The declining availability of macro data may further weaken global investors' confidence in China," said Ting Lu, chief China economist at Nomura, adding that youth unemployment was expected to have risen in July.

## Businesses for deferred implementation

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Since Bangladesh will enjoy preferential trade benefits to the European Union until 2029, the government should not implement the new tariff policy, they said.

It should rather continue protecting and supporting further growth of the local industries and conglomerates, said the business leaders.

Moreover, Bangladesh has started availing benefits of global geopolitical tension as international businesses have started relocating to different locations from, for instance, China.

Bangladesh has been receiving business, especially garment work orders, from international clothing retailers and brands opting for alternatives to China, they said.

It is good that the tariff policy will be liberalised for the graduation, said Md Saiful Islam, president of the Metropolitan Chamber of Commerce and Industry.

But it will be better if it happens

after 2029 so the local industries can have more time to take preparations, he said.

The objective of the national tariff policy is to make the local industries competitive in context to international standards, said Mohammad Ali Khokon, president of Bangladesh Textile Mills Association.

However, some issues relating to local industries like bank interest rate, ease of doing business, cost of doing business, price of raw materials and productivity efficiency should also be upgraded to that of international standards first, he said.

However, the tariff can be immediately liberalised for industries which are dependent on imports, he said.

Mohammad Hatem, executive president of the Bangladesh Knitwear Manufacturers and Exporters Association, welcomed the policy, saying he expects it to bring ease to doing business.

Md Ali Zaman, president of the SME Owners Association of

Bangladesh, wanted the government to implement the policy in a way such that it gives more protection to cottage, micro, small and medium enterprises so that they could grow.

Md Amin Helaly, senior vice-president of the Federation of Bangladesh Chambers of Commerce and Industry, also welcomed the tariff policy. He also demanded long-term protection of the cottage, micro small and medium enterprises.

Such a policy is needed due to the upcoming graduation and protecting the future of industries, he added.

Senior Commerce Secretary Tapan Kanti Ghosh earlier said in a high tariff regime, countries may not be interested to ink free trade deals with Bangladesh.

"Tariff rationalisation will indicate that the country is maintaining the standards set by World Trade Organization," he said.

Tariff rationalisation, however, does not mean that all tariffs will be made zero, he added.

## Digital nano loans

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support from relevant authorities, this product has immense potential to grow," said Nazeem A Choudhury, deputy managing director for consumer banking of Prime Bank.

"We have designed innovative loan offerings to white-collar customers and digital device financing. We are currently working to expand our scope into digital micro-credit solutions tailored for regular retail customers," he said.

Dhaka Bank has so far disbursed around Tk 10 crore under e-Rin products, said the bank's managing director and CEO, Emranul Huq.

"Over 3,000 people have so far availed the loan and the number is increasing every day. The default rate is almost zero, which is great."

"Initially we launched the product for the payroll account holders and now we have opened it for general customers as well," he added.

Bank Asia has recently launched digital nano loans on a pilot basis to transform its business with the rapidly changing technological environment, according to Quazi Mortuza Ali, its senior vice-president.

The loan disbursement process uses a credit scoring model analysing financial and metadata. Initially, loans amounting from Tk 500 to Tk 50,000 will be provided, payable in six months, according to Bank Asia.

The digital loan initiative was also backed by Bangladesh Bank as it introduced a Tk 100 crore refinance scheme in 2022.

The central bank has raised the fund for digital refinance scheme to Tk 500 crore July this year dedicated for the marginalised people.

The loans are disbursed entirely digitally by using internet banking, mobile apps, mobile financial services, or e-wallet services.

The organisations which have massive numbers of customers data, technological supremacy, data processing capacity and heavy investment capability will rule the roost in digital lending, said Ahsan H Mansur, executive director of the Policy Research Institute of Bangladesh.

"bKash has already become such a platform equipping it with those prerequisite criteria. If others can do that, they will also be successful."

## Now what as BB hits

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The NPLs stood at Tk 120,649 crore at the end of 2022 as per official data, but the actual figure is much higher since most banks don't furnish the BB with the actual data, he said.

Syed Mahbubur Rahman, managing director of Mutual Trust Bank, describes the outstanding rescheduled loans of Tk 212,780 crore as a matter of concern.

"Some of the rescheduled loans might not come back to banks because of the wrong decision made while approving loans in the first place."

"We all have to work jointly to speed up the loan recovery. Otherwise, the situation in the banking sector will not improve."

Rahman urged banks to bring

down the volume of rescheduled loans using legal procedures.

However, Anis A Khan said data provided by banks is mostly

**Syed Mahbubur Rahman, managing director of Mutual Trust Bank, describes the outstanding rescheduled loans of Tk 212,780 crore as a matter of concern.**

accurate because of the regulator's supervision.

"But some bad loans are restructured for the sake of the

country. This is because when the NPL ratio increases, foreign banks charge higher while providing services to local lenders."

Muinul Islam, a former economics professor at the University of Chittagong, said the condition of the banking sector has kept worsening.

"The central bank will have to take strict measures for the betterment of the sector."

Mamun Rashid, a former country chief of Citibank NA Bangladesh, termed the situation in the banking sector concerning.

"Good banks are finding it increasingly difficult to separate good borrowers from bad ones. And added to this is the long pending default cases at courts and insider-lending between directors."

## Local banks' overseas

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The return on assets decreased to 1.14 percent from 1.28 percent in 2021, partially due to an increase in the total asset.

The return on assets of Janata Bank's UAE operation was 0.87 percent in 2022. It was 2.65 percent for AB Bank's India operation and 2.31 percent for Sonali Bank's operation in the neighbouring country.

The BB report said although the overseas branches are running in a smooth way, prudent monitoring is required to ensure proper compliance by the branches in order to avoid any potential risk.

It said as the overall financial

health and banking activities of the branches represented a very insignificant portion of parent banks' aggregate balance sheet exposures, no significant financial threat was observed in 2022.

The branches have been brought under the AML CFT (Anti-money Laundering and Counter-terrorism Financing) regime to strengthen their compliance culture.

Apart from the three banks, 20 lenders provide overseas banking services to collect remittances and carry out other activities through 28 exchange houses, five representative offices and six subsidiary companies.