

Eurozone's factory activity stuck in downturn

REUTERS, London

Euro zone manufacturing activity remained mired in a deep and broad-based downturn last month, according to a survey which showed on Monday that demand kept shrinking at a pace rarely surpassed since the data was first collected in 1997.

HCOB's final euro zone manufacturing Purchasing Managers' Index (PMI), compiled by S&P Global, dipped to 43.4 in September from August's 43.5, matching a preliminary estimate. A reading below 50 marks a contraction in activity.

An index measuring output, which feeds into a composite PMI due on Wednesday and seen as a good gauge of economic health, fell to 43.1 from 43.4.



Workers tie sacks of potatoes to a handcart to take them from a cold storage to a wholesaler in Haatkholra area of Barishal city recently. A day's work earns them anywhere from Tk 800 to Tk 1,000.

PHOTO: TITU DAS

China's outbound tourism sees robust recovery

ANN / CHINA DAILY

Prominent travel platforms reporting full bookings, bustling queues in international departure halls at airports, and Chinese tourists flocking to popular global destinations... China's outbound tourism market is certainly brimming with exhilaration.

Wang Shihua from Taiyuan, capital of North China's Shanxi province, has joined the wave of tourists during the Mid-Autumn Festival and National Day holidays, lasting from September 29 to October 6.

After spending the Mid-Autumn Festival, a traditional Chinese festival usually marked by reunions which fell on Friday this year, at home, he flew to Thailand together with his family. During their six-day trip, Wang plans to visit popular attractions including the Grand Palace, as well as savor Thai massage and local cuisine.

"I visited Thailand several years ago, and the experience left me with great memories. Now that my city has opened direct flights to Thailand, I have got to visit it again," Wang said.

China's outbound tourism during the National Day "golden week" holiday has shown a "blowout" growth. According to data from China's leading travel platforms, including Trip.com Group and Fliggy, orders for overseas trips during the eight-day holiday surged nearly 20 times compared with the same period last year.

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As one of the most popular destinations for Chinese tourists, Thailand announced a five-month visa free policy for Chinese tourists in September. Since then, the number of travel inquiries and bookings for the Southeast Asian nation has continued to grow, ranking among the top destinations for outbound travel during the ongoing holiday.

Li Gaochao, assistant general manager of a major international travel agency in Shanxi, said that the visa free policy saves around 500 yuan (\$69.64) in travel costs. After Chinese travel agencies and online tourism service providers resumed offering group tours to an expanded range of countries and regions in August, travel routes to Central and East Africa, as well as Europe, have gained popularity. Additionally, tour packages for Middle Eastern destinations like Dubai were fully booked early September.

Representatives from numerous countries have flocked to China to attract customers, capitalizing on the swift resurgence of the country's outbound tourism market. Recently, the national tourist boards of countries such as Denmark, Finland and Sweden, and the European Travel Commission joined hands with China's online travel agency Mafengwo to attract tourists to Northern Europe.

In mid-September, the Korea Tourism Organization signed a memorandum of understanding on cooperation with Trip.com Group. It is expected that during the Mid-Autumn Festival and National Day holidays, the number of outbound tourists to the Republic of Korea will usher in the annual peak.

Ensure sustainability to reduce environmental impact

BGMEA urges garment makers

STAR BUSINESS REPORT

Garment makers should follow sustainable production practices as the country could lose nearly \$27 billion in apparel exports by 2030 if environmental degradation continues at the current pace, according to the Bangladesh Garment Manufacturers and Exporters Association (BGMEA).

A recent study shows that protecting the environment is very important for the garments industry as deteriorating climate conditions are adversely impacting overall production, said BGMEA president Faruque Hassan.

For example, excessive rainfall and flooding hampers the movement of workers and goods. Similarly, extreme heat leads to unbearable temperatures even inside production units, making it practically impossible to operate efficiently.

"So, I always encourage our members to protect the environment and facilitate better working conditions so that they [labourers] do not get fatigued," Hassan told The Daily Star yesterday.

The study jointly compiled by

Schroders PLC and Cornell University shows that including Bangladesh, the combined apparel export earnings of four Asian countries could reduce by \$65 billion by 2030.

Besides, the local garments industry stands to lose about 250,000 jobs as a result of lower exports.

"This is a concern for us as Bangladesh is one of the most climate vulnerable countries. So, we cannot remain indifferent about it," Hassan said in a letter to BGMEA members issued earlier the same day.

The BGMEA chief also said the importance of sustainability in the garments industry is increasing among all relevant stakeholders, particularly foreign buyers.

As such, global apparel retailers and brands are aiming to become carbon neutral within a committed timeframe by using renewable energy, green technologies and sustainable production practices.

These practices include rainwater harvesting, using low-liquor ratio dyeing machines, installing water efficient equipment, ensuring proper waste

management, and reusing or recycling products as needed.

"The world is becoming more focused on circular fashion and using sustainable materials and non-hazardous chemicals in the manufacturing process," Hassan said, citing how various countries are adopting new rules for protecting the environment.

Environmental protection protocols adopted by foreign governments include the Due Diligence Supply Chain Act of Germany, Corporate Sustainability Due Diligence Directive of the EU, and Responsible and Sustainable International Business Conduct Act of the Netherlands.

The core purpose of these initiatives is to establish supply chains that are free of social and environmental exploitation.

Also, Bangladesh will need to improve its compliance with Environmental, Social and Governance (ESG) issues to ensure avoid losing exports after graduating from a least developed country in 2026.

"Being a part of the global supply chain, we need to continuously improve ourselves, especially in the area of responsible manufacturing," Hassan said. Bangladesh is actually already among

the few countries that have made distinct progress in areas of sustainability and workplace safety in such a rigorous and transparent manner.

Still, in the ever-expanding horizon of sustainability, local garment makers have no scope to be complacent.

Instead, they need to enlighten and prepare themselves on new and emerging issues so that they can adapt to upcoming changes.

"With that spirit, we reinvigorated the BGMEA logo, which captures our glorious past of resilience and dynamism and connects us to the future and possibilities," he added.

Hassan also said that while unveiling the new logo, the BGMEA shared its Sustainability Strategic Vision 2030, which identifies key ESG priorities for the local garments industry.

Bangladesh currently has 73 platinum-rated, 115 gold-rated, 10 silver-rated and four green certified garment manufacturing units.

The country is home to 13 of the 15 top-rated LEED certified green factories in the world. Meanwhile, another 500 units are in the pipeline to secure the certification.

External debt nears \$100b

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Rather, the debt reduction has been driven by difficulty. As a result, the foreign exchange shortage has deepened."

Of the external debt, the government's portion stands at 77.5 percent while the rest belonged to the private sector, according to BB data.

The private sector's short-term credit from the external sector fell to \$13.65 billion in June from \$14 billion three months ago.

Hussain blamed multiple factors such as delayed settlement of payments and negative outlook regarding Bangladesh's economy by global rating agencies for the drop in the short-term foreign debt.

"This has spooked the confidence of our creditors abroad," he said, adding that the cost of credit has edged up as creditors' credit risk premium, along with non-interest costs, have gone up.

"Even after that, many are unwilling to lend. This has affected the credit rollover."

Ahsan H Mansur, executive director of the Policy Research Institute of Bangladesh, said the decrease in the short-term external credit for the private sector at this time is not a good sign.

"It is piling up pressure on our foreign exchange reserve."

The reserve stood at \$21.15 billion last week, down from \$33.4 billion at

the end of 2021-22.

Mansur said Bangladesh needs to roll over credits. "But many foreign banks are cutting lending. As a result, the net availability of funds is falling."

He called for initiating steps so that foreign creditors reschedule the repayment period and roll over funds.

The former economist of the IMF says the increase in long-term loans is a sign of stress in the economy.

Syed Mahbubur Rahman, managing director of Mutual Trust Bank, says the imposition of taxes on external loans and the increase in interest rates are among other factors behind the drop in the short-term foreign loans.

"In one sense, the decline is not good. It was an alternative source of foreign exchanges and an increased flow of short-term credits would help better manage the forex."

Mansur says Bangladesh's external debt is rising fast and it is not a healthy sign since export receipts are not growing at the expected pace.

Currently, Bangladesh has to repay foreign loans worth \$2 billion to 2.5 billion annually. And the amount is expected to rise in the coming years, prompting economists to urge the government to focus on enhancing revenue collection.

Bangladesh has one of the lowest tax-to-GDP ratios in the world.

Hussain said since a large portion of the public sector's external debt

was concessional loans with low-interest rates and longer repayment periods, the overall debt dynamics have been favourable to Bangladesh.

According to the IMF's sustainability threshold, foreign debt should be less than 40 percent of the gross domestic product (GDP). It is less than 20 percent for Bangladesh.

In an unwelcome development, the proportion of concessional loans from multilateral lenders in the overall debt stock is declining while the interest rate is rising.

"So, it would not be wise to take it for granted that the favourable dynamics that we had in the past will remain favourable forever," Hussain said.

Knitwear's export

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Because of wider use of jacquard technology, Bangladesh has turned into a major sweater-exporting destination.

In the last fiscal year, sweaters worth \$5.94 billion were shipped from Bangladesh. In the 2021-22 fiscal, the export amount was \$5.64 billion, EPB data showed.

During the Covid-19 pandemic, when people were confined to their homes, the demand for knitwear items from the country increased manifold.

This was because while other countries were not exporting goods, most factories in Bangladesh continued operations and shipped goods globally.

In recent years, Bangladesh has also been increasing exports of man-made fibre garments, causing the knitwear sector's exports to grow.

Following Covid-19, the global landscape changed a lot and consumers now prefer knitted items to woven items," said Fazlee Shamim Ehsan, vice-president of Bangladesh Knitwear Manufacturers and Exporters Association.

Lower prices of knitted items also played an important part, he added.

Historically, woven garment items have dominated exports. But in recent years, the knitwear sector has been dominating.

Weak batch of data paints

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A market-based exchange rate could narrow the difference, but it is yet to be in place despite repeated calls from experts.

Sadiq Ahmed, vice-chairman of the Policy Research Institute of Bangladesh, thinks it is difficult to generalise the broader economic effects from three months' data.

"However, the slowdown in exports and import growth in the first three months is consistent with the pattern observed in FY23. This means that there is a need for stabilisation measures and structural reforms to revitalise the economy."

Ahmed, who served in various positions at the World Bank, including as the chief economist for the lender's South Asia region, says the export slowdown is also indicative of the continued inability to boost non-RMG exports, which suffer from serious disincentive problems caused by an overvalued real exchange rate and heavy trade protection that favours import substitutes.

Md Deen Islam, an associate professor of economics at the University of Dhaka, said many market players think since the exchange rate has been kept artificially low, the central bank would eventually be compelled to adjust it.

"Consequently, the supply of foreign currencies is dwindling as individuals prefer to hold onto foreign exchanges."

Other conventional factors, including capital outflows preceding the election cycle and the prevalence of illegal or informal channels for remittance transfers, have also taken a toll on remittance receipts, he said.

Historically, Bangladesh has grappled with a negative trade balance where import payments outweigh export receipts. Under such circumstances, funds sent by migrant workers have acted as a crucial buffer.

"Unfortunately, in recent months, remittances have seen a concerning decline. This presents a worrisome scenario," Islam said, warning that without the cushion of remittances, the exchange rate will rise.

The taka has lost its value by about 28 percent against the US dollar in the

past one and a half years.

According to Islam, if the government or the central bank opts to control exchange rates, it will need to impose restrictions on imports.

In either case, inflation will surge, eroding the purchasing power of the populace and dampening economic activities, which, in turn, could lead to slower economic growth.

He said the recent plummet in remittances can also be attributed to the prevailing uncertainty surrounding the election.

"This uncertainty has cast a shadow on people's expectations about the country's future economic prospects."

A noted entrepreneur says businesses are facing difficulty in importing goods even for industrial use.

"The price of gas is high while there is no assurance of uninterrupted supply of electricity. People are more concerned about carrying out their regular activities smoothly, rather than political uncertainty."

He called for business-friendly attitudes of the revenue authorities and the Bangladesh Bank.

WHAT COULD BE DONE?

The return of the export growth to double digits will require export diversification focused on non-RMG shipments, according to Sadiq Ahmed.

He said some correction of the overvaluation of the real effective exchange rate has happened in recent months, especially in FY23.

"But trade protection continues unabated. In addition to the market-based exchange rate, this will require a sharp reduction in import duties and other para-tariffs like supplementary duties and regulatory duties. Improvements in trade logistics will also be necessary."

The economist suggested lifting the exchange rate and import restrictions to allow importers to buy necessary raw materials and goods used in production.

"Demand management should be used to lower imports rather than through import controls."

Ahmed thinks flexible management of the exchange rate and lowering of credit demands through higher

interest rates will stabilise the balance of payments and allow growth momentum to accelerate without destabilising the macroeconomy.

However, Deen Islam does not see any solution to the current predicament in the short term.

"Expectations concerning the economy are intertwined with political stability. Nonetheless, the situation could be improved if certain market-oriented policies are adopted."

Firstly, the central bank should embrace a flexible exchange rate regime, allowing market forces to determine the prices of foreign currencies.

"This move would likely stimulate more exports and reduce the likelihood of speculative behaviour and currency manipulation by vested groups in the foreign exchange market," he said.

Secondly, there is a pressing need to bolster customs operations to effectively curtail foreign exchange outflows through under- or over-invoicing, he said.

"Thirdly, while the garment industry remains the dominant foreign exchange earner, it heavily relies on imported materials. In order to address this, efforts should be initiated to diversify exports and incentivise the sectors with lower import contents."

Non-life ins

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30 life insurance companies are paid through bKash, said its head of corporate communications, Shamsuddin Haider Dalim.

This facility will simplify accessing insurance products, increasing insurance penetration, he said.

Nagad is connected to a similar number of insurance companies, according to its head of public communications, Muhammad Zahidul Islam. Customer interest is growing, with premiums collected up until this year being more than double that last year, he said.

There are now 35 life insurance and 46 non-life insurance companies active in the country. Of them, 49 are listed with the stock market.