FDI into China shrinks for first time since 2012

REUTERS, *Beijing*

Foreign direct investment (FDI) into China shrank for the first time in over a decade in 2023, data released by the commerce ministry showed, underscoring the challenge Beijing faces if it is to win back foreign firms as Western governments talk up "de-risking".

Overseas companies last year invested 1.13 trillion yuan ($157.1 billion) in the world's second-largest economy, according to a statement on Friday, which represents a drop of 8 percent year-on-year and marks the first decline since 2012.

Foreign firms have been sour on the Asian giant ever since Beijing abandoned its strict zero-COVID curbs in late December 2022, with concerns over China's business environment, economic recovery, and politics weighing heavy on the minds of foreign investors.

"2024 will be worse," said Alicia Garcia Herrero, chief economist for Asia-Pacific at Natixis.

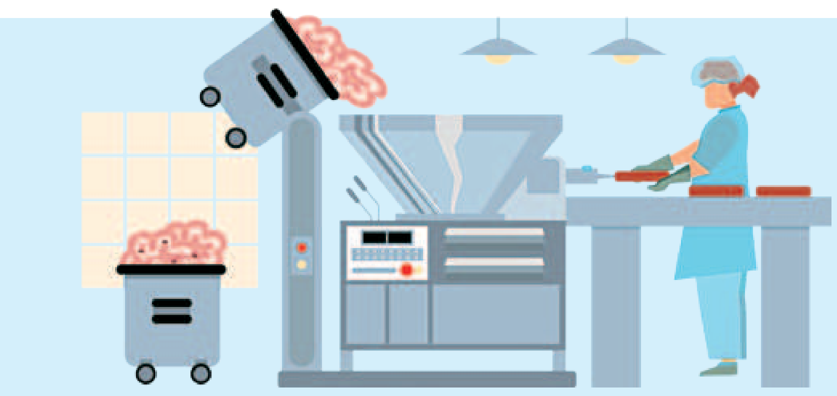
Overseas companies last year invested $157.1 billion in China, which represents a drop of 8 percent year-on-year

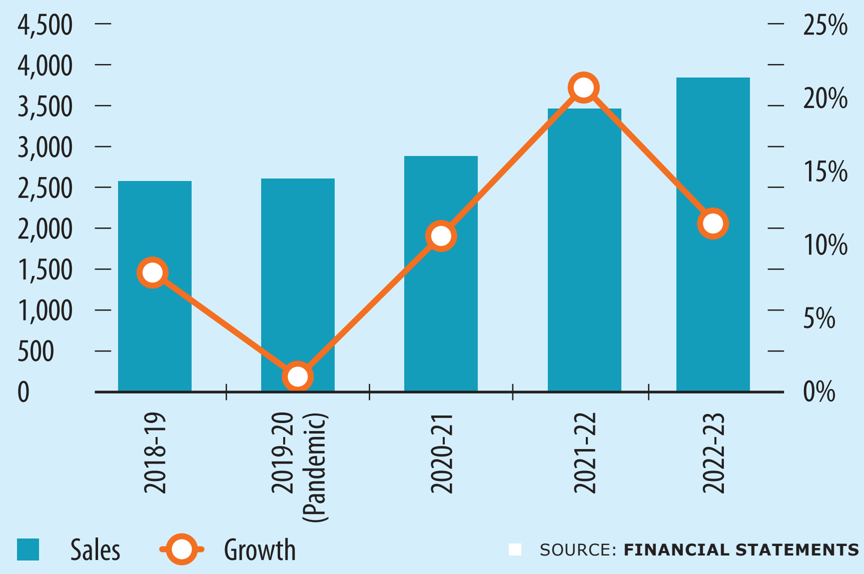
"They would need to fully open many more sectors, eliminate forceful location, and close down a few state agencies, but none of that is going to happen, so I think FDI will continue to fall," she added.

Premier Li Qiang told delegates at a World Economic Forum summit in Davos on Tuesday that the Chinese economy was open for business and highlighted its potential for foreign investment, but US and European officials are calling on their companies to consider whether they are already over-exposed to China.

President Xi Jinping's increasing focus on national security - in particular a recent crackdown on consultancies and due diligence firms - has also left many foreign companies uncertain about where they might step over the line of the law.

Borrowing costs have increased for multinational companies over the past year, too, as a result of interest rate hikes by the US Federal Reserve, which have made the parent companies of Chinese subsidiaries reluctant to up their investment due to the elevated borrowing costs they would need to bear in US dollars, analysts say.





REASONS BEHIND SALES DECLINE

Drop in demand at home and abroad for high inflation | Disruption in supply chain

SALES OF MAJOR COMPANIES

(In crore taka)

	In 2021-22	In 2022-23
Olympic Industries	2,143	2,578
AMCL Pran	315	322
Apex Foods	351	241
Fu-Wang Foods	114	118
National Tea	106	95

There was a shortage of containers and mother vessels while the freight costs surged. On the other hand, raw material prices soared. All of these contributed to the higher prices of food items.

Kamruzzaman Kamal
Marketing director
PRAN-RFL Group

Food makers' sales growth halves amid higher inflation

Bangladesh's economy has been facing tough times of late as sustained high inflation, hike in interest rates and massive devaluation of the local currency continue to plague the country. In this series, we take a look back at how various industries fared amid the crisis in fiscal year 2022-23. Here, in the fifth instalment of the series, we placed listed food makers under the scanner.

AHSAN HABIB

The sales growth of listed food and allied companies halved in the last financial year despite an upward adjustment of prices, indicating a cut in consumption as people suffered from high inflation.

Twelve food companies listed on the Dhaka Stock Exchange have published their financial reports for 2022-23.

The reports showed that their combined sales rose 10.7 percent year-on-year to Tk 3,837 crore in the year. The growth stood at 20.7 percent in 2021-22.

Of them, sales of Apex Foods plunged 31 percent, Bangas witnessed a 10 percent decline, National Tea saw a sales fall of 10 percent, and Lovello Ice Cream's sales dropped 2 percent.

A top official of a biscuit manufacturer said the demand for processed foods declined due to higher inflation.

The Consumer Price Index rose 9.02 percent in 2022-23, the highest in 12 years.

However, the sales growth of the company was strong in FY23 as it operates in the low-end segment, the official said.

He said the industry's sales growth decelerated despite adjusting prices in line with a hike in input costs.

"This means people are consuming less amid the erosion of purchasing power."

He said the companies that deal in the high-end segment, with most of them not listed, have definitely seen a fall in demand.

In the annual report, Bangas Managing Director Md Rafiqul Haque said turnover declined owing to post-Covid-19 effects, geopolitical tensions stemming from the Russia-Ukraine war, supply chain disruptions, and a spike in input costs.

So, consumers were unwilling to purchase items other than basic products and this had a significant impact on the decreasing turnover, he added.

Combined sales of 12 food companies listed on the DSE rose 10.7 percent year-on-year to Tk 3,837 crore in 2022-23, but their sales growth dropped

Of the major food and allied companies, Olympic Industries clocked 20 percent year-on-year higher sales in FY23. Pran AMCL's sales grew 2 percent.

Kamruzzaman Kamal, marketing director at PRAN-RFL Group, highlighted the challenges that the supply chain confronted in the last fiscal year amid the fallout of the coronavirus pandemic and the war.

"As a result, exporting products was tougher," he said.

There was a shortage of container and mother vessels while the freight costs surged. On the other hand, raw material prices soared.

"All of these contributed to the higher prices of food items," Kamal said.

According to the official, export destinations are quite price-sensitive, so the sales fell.

The impact was comparatively low in the local market as products were resized in many cases to keep the prices unchanged, he said.

The combined profits of the listed food companies rose 28 percent year-on-year to Tk 127 crore in the last financial year.

Apex Food's financial report showed that its sales dropped as the demand for shrimps fell, along with prices, amid the war and an elevated level of inflation globally.

The company owns and operates a shrimp processing plant and exports 100 percent of its products.

The prices of Bangladeshi shrimp dropped 24 percent in FY23, said Shahriar Ahmed, managing director of Apex Foods, in the annual report.

In most cases in Bangladesh, shrimp farming is done in a traditional way. So, production stands at 300-400 kilogrammes per hectare, the lowest in the world. If farming follows the scientific method, output will be 3-4 tonnes per hectare, the report said.

Unlike leading exporters such as China and Vietnam, Bangladesh is still unable to produce higher value-added frozen shrimp products, which have higher demand abroad, Ahmed added.

Can monetary policy help?

MAMUN RASHID

Post-pandemic, Bangladesh recovered reasonably quickly and was seeing encouraging signs that the economy was well poised to return to the pre-Covid growth path. However, a combination of global inflationary pressure and supply disruptions owing to the Russia-Ukraine War, a rising US dollar, increasing international inflation rates, and the emergence of recessionary fears in advanced economies coupled with a few not-so-thoughtful domestic policy measures created a hostile economic environment for us.

Bangladesh has been facing some serious macroeconomic challenges, reflected in high inflation, balance of payments pressure causing the loss of foreign exchange reserves, and fiscal pressures indicated by a severe revenue constraint and rising fiscal deficits.

History has shown us when it comes to influencing macroeconomic outcomes, governments have typically relied on one of two primary courses of action: monetary policy or fiscal policy. Central banks use monetary policy tools to keep economic dents in check and stimulate economies out of distress.

While central banks can be effective, there could be negative long-term consequences that stem from the short-term fixes enacted in recent times. If monetary policy is not coordinated with a fiscal policy enacted by governments, it can undermine efforts as well.

We, therefore, felt that addressing the current macroeconomic issues in Bangladesh requires the use of different policy instruments that best relate to each of these areas: monetary policy instruments to ease the inflationary pressure; the exchange rate policy to ease the balance of payments pressure; and tax or expenditure policy measures to ease the budgetary pressure. Their combined use can help avoid the bluntness of any single instrument and reinforce the effectiveness of each of the policy reforms.

Our central bank formulated the monetary policy for the second half of 2023 promising emphasis on liquidity supply to the manufacturing and agricultural sectors and reducing the gap in dollar rates for export proceeds and remittance. The policymakers also introduced a new financial instrument for Shariah-compliant banks to aid their liquidity management and strengthen their governance standards.

However, the policy came in the wake of reports of some big cash-outs through shady lending. This raised questions on the credibility and effectiveness of the decision and even the independent decision-making ability of the central bank.

On the cap on interest rates, speculations were ripe regarding who is benefitting the most? Such a cap was supposed to help small businesses, small and medium entrepreneurs (SMEs), and the rural economy, but the beneficiaries are the already wealthy big business owners and those who were taking undeserved and unfair advantage of low-cost funds from commercial banks.

Our authorities needed to be very wary of falling into the trap of policy myopia where to address the short-term issues, they often lost sight of the longer-term solutions.

The central bank has recently released the monetary policy statement for the next six months in 2024, trying to put a brake on the spiraling inflation and help market liquidity improve up to a respite level. This time, whether there is any IMF pressure or not, they have decided to support the interest and exchange rates to go up and the market to play a historically accepted role.

Though the central bank governor, in response to media queries, brought many irrelevant issues onto to table, the apprehension about the efficacy of the monetary policy remains with its failure in taming errant banks and financial institutions, ending indiscipline in the banking sector, and taking visible reforms to strengthen the watchdog.

Whether we like it or not, we must let the market play its role.

The writer is an economic analyst

What does Red Sea disruption mean for Europe's economy?

REUTERS

Weeks of attacks by Iranian-backed Houthi militants on vessels in the Red Sea have disrupted shipping in the Suez Canal, the fastest sea route between Asia and Europe carrying 12 percent of global container traffic.

For the European economy, already skirting a mild recession as it tries to shake off high inflation, prolonged disruption would be a new risk to its outlook and could derail plans by central banks to start cutting interest rates this year.

Here are some factors that policymakers are considering as they assess the situation and its implications.

In macroeconomic terms, small to negligible. While Germany's Economy Ministry stressed it was monitoring the situation, it said this week that the only noticeable impact on output so far had been a few cases of stretched delivery times.

Bank of England chief Andrew Bailey concurred, telling a parliamentary hearing it "hasn't actually had the effect that I sort of feared it might", while acknowledging the uncertainties remained real.

No impact from the attacks has yet turned up in Europe's main economic indicators - including December inflation numbers, which ticked up slightly across the region on a mix of largely expected statistical effects, some one-offs and some pressure on prices for services.

For the European economy, already skirting a mild recession as it tries to shake off high inflation, prolonged disruption would be a new risk to its outlook

That might change - watch next Wednesday's preliminary PMI readings for activity in European economies in January, and February 1's first estimate, opens new tab of euro zone inflation for the same month. ECB President Christine Lagarde may well broach the

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Red Sea shipping attacks pressure China's exporters

REUTERS, *Shanghai/Beijing*

For Chinese businessman Han Changming, disruptions to Red Sea freight are threatening the survival of his trading company in the eastern province of Fujian.

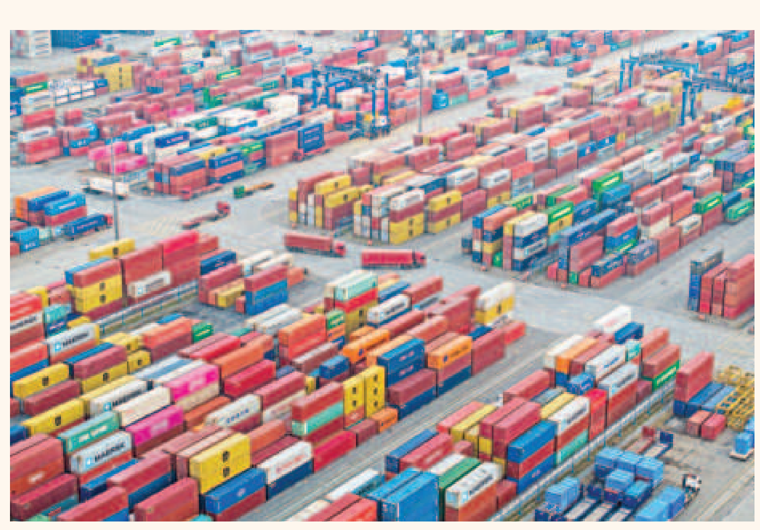
Han, who exports Chinese-made cars to Africa and imports off-road vehicles from Europe, told Reuters the cost of shipping a container to Europe had surged to roughly $7,000 from $3,000 in December, when Yemen's Iran-aligned Houthi movement escalated attacks on shipping.

"The disruptions have wiped out our already thin profits," said Han, adding that higher shipping-insurance premiums are also taking a toll on Fuzhou Han Changming International Trade Co Ltd, the company he founded in 2016.

The rupture of one of the world's busiest shipping routes has exposed the vulnerability of China's export-reliant economy to supply snarls and external demand shocks. In a speech at the World Economic Forum in Davos on Tuesday, Premier Li Qiang emphasised the need to keep global supply chains "stable and smooth", without referring specifically to the Red Sea.

Some companies, such as US-based BDI Furniture, have said they are relying more on factories in places such as Turkey and Vietnam to mitigate the impact of the disruptions, adding to recent moves by Western countries to reduce dependence on China amid geopolitical tensions.

At stake for China now is the danger that other firms will follow suit and reassess their de-risking strategy, opting potentially to shift production closer to home, an approach known as "near-shoring".



The aerial photo taken on January 4 shows shipping containers stacked at Nanjing port in China's eastern Jiangsu province. PHOTO: AFP

"If it's permanent, and it could be permanent, then the whole mechanism will be readjusted," said Marco Castelli, founder of IC Trade, which exports Chinese-made mechanical components to Europe. "Some (companies) may also consider moving more production to India, which is one week closer to Europe. Companies need to reevaluate everything."

Further Red Sea disruptions would pile pressure on a struggling Chinese economy already contending with a property crisis, weak consumer demand, a shrinking population and sluggish global growth.

With Europe and Africa trade accounting for 40 percent of Han's overall business, he said he had been pleading with suppliers and customers to shoulder some of the additional costs to keep his company afloat. Shipping times for some orders were delayed by up to several weeks, he said.