China factory activity contracts for first time in three months

AFP, *Beijing*

Factory activity in China shrank for the first time in three months in May, data showed Friday, a setback for Beijing as the sector is seen as a key driver of a fragile economic recovery owing to sluggish consumer spending.

The manufacturing purchasing manager's index (PMI) -- a key measure of factory output -- dipped to 49.5 last month, from April's 50.4, according to the National Bureau of Statistics (NBS).

The reading was also short of the 50.5 forecast in a Bloomberg survey. A figure below 50 indicates a contraction in activity, while anything above points to expansion. The last time the manufacturing PMI came in below 50 was in February.

NBS statistician Zhao Qinghe said manufacturing activity had been affected by "insufficient effective demand".

China's manufacturing sector has been an important pillar of a nascent recovery in the world's number two economy, with the country's army of consumers still cautious about spending owing to a debilitating debt crisis in the vast property sector.

And while authorities have unveiled a raft of measures to support developers and the real estate industry, analysts said more work was needed to revive consumer spending.

Sukesh Halder sorts lemons for sale at Tk 180 to Tk 260 per 80 pieces at wholesale markets of Barishal city. The photo was taken at Shatadashkathi village of Jhalakathi recently.

PHOTO: TITU DAS

New customs act to come into effect on June 6

STAR BUSINESS REPORT

A new customs act will come into effect from June 6 this year aiming to enhance fiscal discipline, accountability in import revenue collection and trade facilitation.

On May 30, the government issued a gazette in this regard signed by Abu Hena Md Rahmatul Muneem, chairman of the National Board of Revenue (NBR).

The Customs Act 2023 will replace the existing Customs Act, 1969.

Some existing provisions have been revised and incorporated in the new law to make customs agents, exporters and importers more responsible, according to the NBR officials.

The Customs Bill of 2023 was placed in parliament on October 25 last year by Law Minister Anisul Huq.

It was subsequently referred to a parliamentary standing committee for scrutiny. The committee was asked to provide its report within seven days.

Later, the bill was passed by voice vote.

The upcoming law, framed in Bangla, incorporated up-to-date provisions on revenue collection to foster growth in import and export trade, facilitate business activities, and promote the development of new industrial sectors.

The existing law, enacted in English by incorporating international best practices related to customs, was part of a multifaceted reform and modernisation programme undertaken by the government and the NBR.

It had sought to promote international standards of customs management in international trade and import and export.

Dollar set for first monthly drop

REUTERS, *New York*

The dollar was lower on Friday and on track for its first monthly decline in 2024 after data showed US inflation rose in line with expectations in April, offering little clarity on how soon the US Federal Reserve will be able to cut interest rates.

The personal consumption expenditures (PCE) price index increased 0.3 percent last month, the Commerce Department's Bureau of Economic Analysis said on Friday, matching the unrevised gain in March.

"These numbers do not give any sense that the Fed is achieving its goal," said Joseph Trevisani, senior analyst at FX Street. "It's already stated what its goal is, so the markets are willing to give it some time ... but that time I do not think is unlimited."

The US dollar index was last down 0.12 percent at 104.64.

The Fed has raised borrowing costs by 525 basis points since March 2022 in a bid to cool demand across the economy. Financial markets initially expected the first rate cut to come in March, but it then got pushed to June and now to September.

Official data showed on Thursday the US economy grew at an annualized rate of 1.3 percent from January through March, down from the previous estimate of 1.6 percent after downward revisions to consumer spending.

Although inflation is "moving in the right direction," said Kyle Chapman, FX markets analyst at Ballinger Group, "policymakers are definitely not out of the woods yet."

"I would caution against over-interpreting a single month's data," he said.

The euro edged up after data showed price pressures in the euro zone accelerated faster than expected in May, complicating the outlook for the European Central Bank.

Examine prospect of using local currencies in cross-border trade

Asian Clearing Union advises its member countries

STAR BUSINESS REPORT

The board of directors of the Asian Clearing Union (ACU) has advised its member countries to examine the possibility of using domestic currencies to facilitate cross-border payments.

The recommendation comes at a time when most countries wanted to reduce the use of the US dollar in international trade.

The ACU made the recommendation at its standing technical committee meeting in Dhaka on May 29, according to a press release.

The meeting was part of the two-day meeting of the board of the ACU, which began on the same day.

Bangladesh Bank Governor Abdur Rouf Talukder, also the chairman of the ACU for 2024, presided over the meeting.

The ACU board recommended examining the possibility of launching the ACU central bank digital currencies to facilitate cross-border payments

Tehran-headquartered ACU has nine members: Bangladesh, India, Bhutan, Iran, the Maldives, Myanmar, Nepal, Pakistan, and Sri Lanka.

The representatives from the member countries were present at the meeting. Those from Myanmar and Pakistan central banks attended it virtually.

The board recommended examining the possibility of launching the ACU central bank digital currencies to facilitate cross-border payments, the risk of using domestic currencies in the ACU mechanism, and the risk of emerging issues, including the linkage of the payment systems.

The meeting also decided to hold a special discussion on utilising local currencies in the next meeting.

The ACU is an arrangement whereby the participant central banks settle payments for intra-regional transactions on a net multilateral basis.

DS Korea (BD), Sparrow Trade sign MoU on textile chemicals distribution

STAR BUSINESS REPORT

DS Korea (BD), a concern of Daesung Group of Korea, yesterday signed a memorandum of understanding (MoU) with Sparrow Trade International to distribute dying chemicals of textiles among exporters.

Baek Ho-young, chairman of Daesung Group, and Md Nazrul Islam, chairman of Sparrow Trade International, penned the MoU at Uttara Club in Dhaka.

The agreement will facilitate the growth of the textiles chemical industry in the country, said Mohsin Khan, managing director of DS Korea (BD).

Social spending gets less priority

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Healthcare spending decreased to 5 percent in FY22 from 5.80 percent in FY09, which is much lower than the World Health Organization's recommendation.

The UN agency advises that countries like Bangladesh allocate 5 percent of GDP (gross domestic product) to the health sector. Bangladesh allocates only around one percent of the GDP.

"The imbalanced spending has pushed back the country from its smooth sustainable growth trajectory," said Debapriya Bhattacharya, a distinguished fellow of the Centre for Policy Dialogue.

"If you don't allocate enough to health and education, it will create a shortfall in output needed to build efficient human capital. It is upsetting that we are undermining the process."

Spending in social sectors such as education and health is low in Bangladesh compared to peer nations and very low compared to emerging nations.

"Against this backdrop, any further reduction in education and health budget is unwelcome," said Bazlul Haque Khondker, chairman of the South Asian Network on Economic Modeling (Sanem), a think-tank.

"The implications of such declines have been reflected in the decline in education quality and surge in out-of-pocket health expenses. Both have deleterious impacts on human capital development."

The Sanem chairman added that a chunk of the large expenses in the public service sector could be attributed to increased facilities for government employees, driven by the costs of implementing a new pay scale for public officials in 2015 and associated spending.

MM Akash, a former chairman of economics at the University of Dhaka, said the transport sector has boomed over the years in terms of the budget share, which has crowded out other sectors.

"We have spent much more than the actual requirement in the transport sector. For example, the work worth Tk 1 has been done for Tk 3. As a result, the education, health and social protection fell short of the mark."

Prof Akash expressed his concerns about a drastic fall in the share of expenditure in the agriculture sector.

The spending in the farm sector was 10.85 percent in FY09, but dropped to 7 percent in FY22 although Bangladesh is yet to attain self-sufficiency in cereal production.

"When the country needs more investment in agriculture to ensure food security and achieve self-sufficiency, we have not maintained the pace," Prof Akash added. "Rather, we have reduced it."

The implications of the falling investment in the agriculture sector are lower agricultural output and incomes and higher agricultural prices.

"Sustained recent increases in food prices in Bangladesh may have been associated with such a structural shift in the budget," Khondker said.

According to the Bangladesh Bureau of Statistics, one in every five households experienced food insecurity in 2022.

On a positive note, Khondker opined that there had been a massive shift in spending in the transport and communication sector, including paying for infrastructure projects like the Padma Bridge and metro rail, which benefited all sections of society.

"Expansion of transportation infrastructure is beneficial to businesses, industrialisation, and individual movement. Bangladesh has been reaping the benefits of these mega investments."

However, Bhattacharya believes that the government has opted for the physical signs of development. One may suspect that the government is trying to legitimise its rule by delivering visible development projects. He also said the government will face complications in the coming days as it must pay huge amounts to service debts taken for such mega projects.

"From a financing point of view, it will put pressure on the debt burden if it is not covered by domestic sources. And it is increasingly becoming unsustainable."

Additionally, a huge gap was seen in the share of spending on social security and welfare, which dropped from 8.95 percent in FY09 to 6 percent in FY22, finance ministry figures showed.

The same occurred in the housing, rural government and rural development, and public order and safety sectors. However, the share of expenses for the defence sector and the recreation, culture and religious affairs sector has remained almost unchanged.

"Owing to the fallout of the pandemic and the Russia-Ukraine war, low-income groups have become more insecure and helpless. Therefore, they need social protection," said Prof Akash, adding that the proportion of both allocation and expenditure has gone down in the area.

Bhattacharya said the existing allocation in health, education and social protection is in stark contrast to the commitments made in the two documents of the government: the Eighth Five-Year Plan and the election manifesto.

He said the documents specifically mentioned it, but the allocation does not reflect the reality. "In fact, it is almost half of the budget promised in the two documents."

RMG export prices fell up to 16%

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He urged the government to review the decision to enable investors to set up factories outside of the zones.

The BGMEA president also urged the government to prepare major special economic zones with adequate supplies of gas, power and logistics services so that those could become operational soon.

He also suggested that the government bring an end to harassment at the National Board of Revenue's offices, such as those dealing with customs, bond and VAT.

Kochi demanded that the government reduce source tax to 0.5 percent from existing 1 percent in the next budget to make businesses more competitive.

Moreover, the government should continue to provide cash incentives at previous rates until 2029, he said.

This is due to the fact that the World Trade Organization also agreed to continue trade benefits up to 2029 for least developed countries, including Bangladesh, graduating to developing nation status, he said.

The government should ensure rations of essential food commodities for garment workers and facilitate entrepreneurs investing in non-cotton and manmade fibres for the country to grab a bigger share of the world trade of value-added garments, he said.

Achieving the $100 billion garment export target by 2030 is possible if the government ensures gas and power supplies and provides policy support, he added.

Bangladesh exported garment items worth $40.49 billion in the July-April period of the current fiscal year, according to data of the Export Promotion Bureau.

In the same 10 months of fiscal year 2022-23, export earnings from the sector stood at $46.99 billion.

The BGMEA has been trying to increase exports to new destinations like Turkey, Brazil, Argentina, Russia, South Africa and member countries of the Association of Southeast Asian Nations, he said.

Kochi also said the new BGMEA board has also been trying to simplify the trade procedures by resolving problems related to customs, VAT and RMG Sustainability Council.

FDI inflow is shrinking

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A top official of a multinational company, preferring anonymity, said the main problem that his company faces relates to the delicate handling of government officials, who seek bribes in many forms.

He added that local politicians also extort the businesses.

He added that a foreign company could not pay anything as a bribe. However, in Bangladesh, bribes and extortion are a bitter reality.

"A lack of governance in every space is a major barrier to FDI," the official said.

Such barriers ultimately create problems for companies and that deters others from investing here, he said, adding that many investors were fed up with corruption and frequent policy changes.

Interestingly, the FDI stock started to fall after at least 17 years in 2022, when it decreased by 3.8 percent. In 2023, the FDI stock fell by 1 percent to $20.54 billion.

At the same time that stocks are falling, disinvestment is rising. In 2023, disinvestment of FDI stood at $965.36 million.

Furthermore, new investment was markedly low.

In 2023, existing companies reinvested earnings of $2.20 billion out of total net FDI inflow of $3 billion. This means that 73.5 percent of FDI came from existing investors.

Zaved Akhtar, president of the Foreign Investors' Chamber of Commerce & Industry, said a trustworthy partner for investment and business-friendly government regulations are essential to attracting FDI.

Honouring alternative dispute resolutions and international arbitration, consistent payment and incentives for tax exemptions in EPZs and hi-tech parks, and progressive and collaborative regulatory frameworks are needed to grow FDI, he said.

Consistency in policy is also required, meaning it should be ensured that policies are steadfast and no sudden changes are made.

The internal revenue mobilisation policy must also facilitate trade and investment so that the effective tax rate falls and it should go for more direct tax instead of high rates of indirect tax, he added.

Akhtar further said capacity-building, in terms of lifting the floor and ceiling of human capital, is also important.

He also said that investors' aftercare services should be better and that the National Board of Revenue should be fully digitalised.

Bangladesh could not only ensure a larger number of jobs but, given the current crisis in the foreign exchange reserves, find great support by attracting higher FDI.

However, the country has been failing to live up to its potential as the proper environment for FDI is yet to be prepared.

It is high time to realise that FDI will not come simply by requesting foreigners to invest in sectors with potential.