Globalisation isn't dead, just 'transformed'

Says IMF chief economist

AFP, *Washington*

While the global economy has faced shocks and trade turmoil, globalisation is not dead -- it is simply being "transformed," the International Monetary Fund's chief economist told AFP Friday in an exclusive interview.

The world's lender of last resort will release an update to its World Economic Outlook on July 8, with all eyes on whether -- or how far -- it revises down growth estimates from its April update due to the economic fallout of the US-Israeli war on Iran.

By then, however, Chief Economist Pierre-Olivier Gourinchas will have moved on after completing a four-and-a-half year tenure that saw the IMF grapple with the economic fallout from the Covid-19 pandemic, Russia's invasion of Ukraine, Washington's upending of global trade through tariffs and the recent war on Iran.

Reflecting on a tumultuous time for the world economy, Gourinchas remains confident that recent upheavals in global trade caused by US President Donald Trump's tariffs are not necessarily ending globalization -- just adjusting certain bilateral relationships.

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"Well, it's certainly not dead," he told AFP in his office at the IMF's headquarters in Washington, pointing to solid global trade-to-GDP ratios.

"We haven't experienced de-globalization," he said. "We have experienced (that) it's being transformed."

Gourinchas, a 57-year-old Frenchman, said the latest movements should be seen mainly as "a desire to reduce the bilateral level of trade between the US and China. I don't think that is something that is a mystery for anyone."

Since returning to office for a second term, Trump has targeted US friends and foes alike with punishing tariffs, saying he intends to rebase manufacturing to the homeland and to address what he terms unfair trade practices.

Small businesses power industry, employ over 3cr

SME Foundation says, analysing BBS economic census of 2024

Ai-assisted infographic

STAR BUSINESS REPORT

Micro, small and medium enterprises (MSMEs) account for nearly 99 percent of Bangladesh's 1.17 crore industrial establishments and employ more than three crore people, underlining their crucial role in the country's economy.

The sector contributes around 30 percent to the economy and provides nearly 85 percent of industrial employment, according to the SME Foundation's analysis of the Bangladesh Bureau of Statistics' Economic Census 2024. The analysis was released on the occasion of International MSME Day.

The SME Foundation said the cottage, micro, small and medium enterprise sector remains a key driver of employment and socio-economic development, particularly in a country with a large population and limited resources.

Since its establishment under the industries ministry in 2006, the foundation has supported about 22 lakh small and medium entrepreneurs through various programmes, with women accounting for 60 percent of the beneficiaries.

Speaking at a programme marking International MSME Day at the Bangladesh Investment Development Authority auditorium in Agargaon yesterday, Industries, Commerce, and Textiles and Jute Minister Khandakar Abdul Muktadir said Bangladesh still lags behind many regional countries in terms of MSMEs' contribution to GDP.

"In countries like Vietnam, Cambodia, and even India and Pakistan, MSMEs contribute much more to GDP than they do in Bangladesh. We want to raise their contribution," he added.

Muktadir said the rate of new entrepreneur creation had declined sharply over the past 12 to 15 years, contributing to rising income inequality.

"Those who already owned industries and factories became bigger, while fewer new entrepreneurs were able to emerge. One of the main reasons was the shortage of gas," he added. He also said economic opportunities had become concentrated in the hands of a small group.

"This has kept economic activity concentrated among a few people. It is one of the main causes of rising inequality, and unfortunately, we followed that path. As a result, income inequality is much higher today than it was 15 to 20 years ago," he added.

The minister stressed that strengthening the MSME sector is essential for keeping the economy dynamic and inclusive.

To promote entrepreneurship, the government is preparing a comprehensive plan to support new entrepreneurs through development and mentorship programmes, he added.

FY27 budget prioritises MSME development with SME Foundation service platforms, cluster mapping updates, YESS programme, and broad support including mentorship, training, credit access, exports, branding, and market expansion for entrepreneurs

The government is also launching mentorship programmes and has started initiatives to establish new industrial parks through the Bangladesh Small and Cottage Industries Corporation in Pabna, Sylhet and Saidpur in Nilphamari.

It also plans feasibility studies for additional industrial parks where existing ones are fully occupied. Addressing the gas crisis, Muktadir said the government would prioritise industries with lower energy consumption while continuing efforts to ease gas shortages affecting factories.

He added that the national budget for FY27 gives special importance to MSME development and creating new entrepreneurs.

The budget includes plans to establish service platforms through the SME Foundation, update SME cluster mapping, and implement the Youth Entrepreneurship & Startups for Students (YESS) programme.

It also includes targeted support for new entrepreneurs through mentorship, technical training, database development, demand-based credit, export support, branding and design assistance, and improved access to local and international markets.

WOMEN REMAIN UNDERREPRESENTED

Nasreen Fatema Awal, president of the Women Entrepreneurs Association of Bangladesh, highlighted the wide gender gap in entrepreneurship.

She said Bangladesh has around one crore male entrepreneurs, compared with only about 7 lakh women entrepreneurs.

"This gap is not just a statistic; it reflects the untapped potential of our economy," she added.

Nasreen also said that increasing the number of women entrepreneurs would create more jobs, raise household incomes, improve children's education and healthcare, and make economic growth more inclusive.

Anwar Hossain Chowdhury, managing director of SME Foundation, said more than 250,000 entrepreneurs have received direct assistance from the organisation since its inception.

Since 2009, the foundation has disbursed around Tk 1,300 crore in loans to nearly 15,000 entrepreneurs through its credit wholesaling programme. At least 25 percent of the recipients are women.

He said the foundation continues to promote entrepreneurship, strengthen business capacity, encourage technology adoption, expand market access, and advocate policy reforms to make Bangladesh's MSME sector more competitive.

Financial and economic challenges ahead

AF NESARUDDIN

There has been a serious concern about economic growth because of the liquidity crisis, huge volumes of bad and doubtful loans, inadequate revenue collection, pressure on foreign debt repayments, declining remittances from non-resident Bangladeshis and uncertainty over export growth. Some of these challenges are beyond our control, while others, including revenue collection, debt recovery and liquidity management, can certainly be addressed through appropriate policy measures.

Bad and doubtful loans reported so far need to be categorised in a dispassionate and objective manner. A large portion of these outstanding loans resulted from fraudulent lending, with funds siphoned out of the financial sector. These are criminal offences and should be dealt with through legal action. Some loans have become bad because of adverse economic conditions, including slower imports caused by the foreign currency crisis, the wars in the Middle East and Ukraine, inadequate power supply to industrial units, rising fuel prices and production costs, weaker exports and other related factors. There is also another category comprising wilful and habitual defaulters. Even in these difficult circumstances, many borrowers continue to repay their loans regularly, demonstrating their commitment and honest intention.

Loans that have become bad because of economic factors beyond borrowers' control warrant rehabilitation schemes in both the short and long term. Such support should follow careful review on a case-by-case basis, taking industry-specific issues into account. Working capital financing is another critical requirement for boosting production and, where applicable, increasing exports.

Unfortunately, since independence, Bangladesh has seen the persistent presence of habitual and wilful defaulters, with or without political patronage. This has seriously undermined the repayment culture, encouraged corruption and ultimately weakened economic growth. This issue should be addressed firmly, with no further incentives or concessions for wilful defaulters. Strict measures could include restrictions on business expansion, overseas travel by family members, children's overseas education, infrastructure development and donations to institutions used to fulfil political ambitions. It is unfortunate that many wilful defaulters have never been brought to account, while a large number have escaped responsibility one way or another. This should not be allowed to continue.

Where appropriate, legal action should be initiated without further delay. Inter-company loans are another important area requiring close review. It is necessary to determine whether such funds have been extended to subsidiaries and associated entities and whether those entities have the capacity to repay them on time. It is well established that borrowers often overstate the value of their personal assets when securing loans. Subsequently, those assets may be diverted or disposed of, with or without the knowledge of banks or financial institutions. As a result, loans become effectively unsecured, exposing banks to greater risks in recovering overdue advances.

Increasing revenue collection is equally important. For many years, Bangladesh has failed to raise revenue to the expected level, leaving its tax-to-GDP ratio below that of neighbouring countries and comparable economies. Weak measures by the National Board of Revenue (NBR), inadequate digitalisation and corruption remain major obstacles. Required tax payments cannot be expected solely on a voluntary basis. Greater emphasis should be placed on credible financial statements, effective tax audits as practised in many countries, third-party verification of key financial information, adoption of a faceless assessment system and stronger action against corruption. Good governance is equally important, as poor governance encourages corruption, which ultimately undermines economic growth.

Bangladesh must overcome these challenges. Otherwise, economic growth will be seriously affected at a time when the world is already facing severe pressures from wars and continuing economic uncertainty.

The writer is a senior partner of Hoda Vasi Chowdhury & Co and former president of ICAB

Asia's vendors grapple with rising costs of ever-present plastics

AFP, *Taipei*

Food vendors across Asia who rely on plastics for everything from bags to cups and containers are grappling with their rising costs, the result of the energy crisis sparked by the Middle East war.

While the United States and Iran have reached a deal to halt the conflict, it will take time for markets to recover and supply flows to return to normal, with persistent concerns over traffic through the economically vital Strait of Hormuz.

At Taipei's Songjiang market, chicken vendor Li Yu-ping, 52, said in early June that the price of plastic bags had jumped nearly 60 percent, while the cost of plastic trays had risen by a third.

"We use them everywhere," she said of the bags. "Our food containers are also plastic, all disposable."

Wary of hiking prices, "all of this has become a cost for the vendors", she said.

A key raw material for many of these plastic goods is ethylene, which is derived from naphtha, an oil by-product. Around 60 percent of the naphtha imported to Asia comes from the Gulf.

Faced with tight supply and soaring prices due to the monthslong closure of the Strait of Hormuz, petrochemical companies mainly in South Korea and Japan have scaled back production capacity, sending the cost of basic goods such as plastic bags surging.

In Bangkok, Nikorn Sai-inthara, a 60-year-old selling vegetables from a street cart, estimated his operating costs had risen by 30 percent.

"I rely on plastic bags for my work because I sell vegetables on the go to busy people and office workers," said Nikorn, who wraps individual portions in plastic and secures them with a rubber band.

"Ever since the fighting started in the Middle East, my profits have fallen, but I don't dare raise prices for my customers," he told AFP. Several vendors across the region told AFP they do not have a practical alternative to the plastic products they use on a daily basis.

"We have no choice. If you don't give customers plastic bags, they complain," said Chang Chiu-hsiang, a 78-year-old grocer in Taipei.

"I think you can't really avoid using them," added Li, the chicken vendor, noting however that some customers have started to use reusable bags.

Somsak Jaidee, 62, who sells rice porridge in bags secured with rubber bands at a Bangkok market, said that while "everything is more expensive... I have to endure it."

"I can't think of anything else that offers the same convenience for my customers as plastic bags."

A cautious reopening of the Strait of Hormuz since the US-Iran deal was signed last week has yet to fully impact naphtha prices, which have dipped only slightly.

And manufacturers continue to process naphtha purchased when prices were higher.

In early June, Taiwanese manufacturer Formosa Petrochemical reported cutting the utilisation rate of its ethylene steam cracker to 35 percent, down from 53 percent in March at the very start of the war.

"At this point, the situation is not entirely due to lack of feedstock. The bigger issue now is that the feedstock has become extremely expensive, and some of our customers simply can't bear the higher prices," Formosa's president, Lin Keh-yen, told AFP.


PHOTO: AFP

Plastic bags hang at a vegetable stall in a traditional market in Keelung, Taiwan on June 9. A key raw material for many of these plastic goods is ethylene, which is derived from naphtha, an oil by-product. Around 60 percent of the naphtha imported to Asia comes from the Gulf.

In South Korea, supply tensions remained acute in early June.

"Normally, if we order 10,000 plastic bags, they arrive within about a week. Now suppliers are telling us that we may have to wait more than a month" with prices 30-percent higher, said a shop employee in Seoul.

A nearby dry cleaner said the price of plastic garment covers had more than doubled, while a cafe owner noted a 50-percent increase in the cost of plastic cups.

South Korea's plastics industry association said the Middle East war had forced manufacturers to hike prices, although "alternative" supply routes have helped stabilise the situation.

Fajar Budiyono, secretary-general of the Association of Olefin, Aromatic, Plastic and Chemical Industries in Indonesia, said a shift to suppliers in places like China and Africa has helped keep prices at bay.

In the Philippines, meanwhile, manufacturers said they had absorbed some of the additional costs.

"Our profits got squeezed. We could not simply raise prices as we would be swamped by imports," said Steve Tavera, a member of the Philippine Plastics Industry Association.

As a result, price hikes have so far been "conservative", he said.