# News & News

## (Aug/Sept-2007)

## nepal

## GDP Growth projected at 5 percent

Minister for Finance Dr. Ram Sharan Mahat while presenting the budget estimates for the fiscal year 2007/08 said that the implementation of the proposed budget, Gross Domestic Product growth rate is estimated to be at 5 percent. Inflation will be around 5 percent.

He noted that followed the suggestions from the Revenue Advisory Committee, other business organizations, professionals and experts. He said that he had accorded high importance to the areas of helping to revitalize export, industries based on domestic raw materials and reforming investment climate.

He clarified that he had adjusted revenue policy.

He also noted that about the facility to carry over the losses for income—tax purpose by the Industries, customs rebate to cut down the cost of the tourism industries, and income tax rebate for the infrastructure industries.

Finance Minister asserted that he had also mentioned earlier the reform in the Customs refund process to reduce the cost of exporters.

Regarding Revenue Policy, he said that in view of the recent depression is going to be completed 2007/8,' will be connected to the central grid, resulting enhancement in the supply of electricity to some extent.



## Nepal & ILO sign EmPLED project

The government of Nepal and the International Labor Organization (ILO) signed an implementation agreement recently for the Employment for Peace Building through Local Economic Development (EmPLED) project.

The three-year project of Rs 194.7 million, funded by the Dutch government targets employment creation in Dhanusa and Ramechhap districts, stated a press statement issued by the ILO office in Kathamdu.

The project has targeted youth, women, disadvantaged and marginalized groups as primary beneficiaries.

The project will be launched under the guidance of a National Stakeholders Steering Committee and focuses on developing the local service providers' capacity to deliver a range of demand-driven training services and products to primary target beneficiaries.

## Nepal's trade surplus with Bangladesh

Despite the repeated disturbances in vehicular movement and Terai unrest, Nepal enjoyed a trade surplus with Bangladesh through the 'Mechi customs during the fiscal year 2006\\07.

Statistics of Mechi customs show that the country recorded a surplus in trade worth Rs 299.8 million during the year. In 2005/06, Nepal had suffered a trade deficit of Rs 0.57 with Bangladesh.

Moreover, officials said that bilateral trade of the country with Bangladesh via the Fulbari-Banglaband transit route reached Rs 755.1 million in the fiscal year.

Customs data show that Nepal exported goods worth Rs 527.41 million to Bangladesh and imported merchandize worth Rs 227.6 million during the period.

Beside lentils, Nepal also exported peas, leather, infant food, animal feed, wooden furniture, flour, herbal medicines, seed, plastic bottles, lids and caps of bottles, tyres for four-wheelers and machinery parts, among others.

On the other hand, the country imported glass, raw cotton and garment along with sugar, soft drinks, medicine, vitamin, woolen carpet, chocolate and biscuits from Bangladesh.

## Lankan minister assures support for investment

Sri Lankan Minister for Foreign Affairs, Rohitha "Bogollagama recently assured that he would encourage Sri Lankan entrepreneurs to invest in various sectors in Nepal Including education, urban development, industry and business.

Bogollagama returned home recently upon the completion of his three-day official visit. Addressing a press conference in

Kathmandu he said that he would encourage Sri Lankan investors to invest in Nepal's hospitality industry in Lumbini, the birthplace of Lord Buddha.

They also talked about resuming flight service between Kathmandu and Colombo.

He also expressed his interest in assisting Nepal to carry out excavations and infrastructure development in Kapilbastu. Stating that it was up to the government of Nepal to work out a modality for the development of Lumbini, Bogollagama said, "We are always prepared to support them."

He requested the Nepal Government to move hand in hand with Sri Lanka in giving international dimension to the issue of Lumbini development during the upcoming United Nations General Assembly.

Bogollagama has also invited representatives of Federation of Nepalese Chambers of Commerce and Industry (FNCC1) to Colombo and corroborate with Sri Lankan business people for increasing the volume of bilateral trade.

## Tourist arrivals rise by 9.6 %

The encouraging trend in tourist arrivals to Nepal continued for yet another month, although the pace slowed down a bit.

The month of June saw an increase of 9.6 per cent with a total arrival of 23,502 tourists compared to the same month last year. 21,444 tourists via air had visited Nepal in June 2006.

The arrival figures released by the Immigration Office at the Tribhuvan International Airport show that the European market recorded a strong growth of 39 per cent during the month, in keeping with the ascending trend of arrivals every month this year.

Indian arrivals, however, dropped by 12.8 per cent. Despite this, the Indian market alone contributed more than 50 per cent of the total arrivals. A total of 12,379 Indian tourists visited Nepal during the month against 14,189 arrivals in June last year.

Overall, the Asian market registered a commendable upsurge in arrivals with a significant rise of 289.5 per cent from China, 235.4 per cent from Taiwan and 11.7 per cent from Japan. The major tourist generating markets from both Europe and America registered a healthy growth, despite some records of negative trend from France and Italy. Canada and USA markets grew by 81.4 per cent and 50 per cent, respectively. Sweden, Belgium, the Netherlands and Norway recorded a remarkable growth, more than doubling the number of arrivals compared to corresponding month last year.

Other major markets with bigger share in total arrivals from the European segment like UK, Germany and Spain also showed a healthy growth of 48.1 per cent, seven per cent and 71.7 percent, respectively. The total arrival figures till June 2007 has reached 167,133, up by 37.5 per cent or 45,538 arrivals compared to the same period last year. This clearly shows that tourism sector is registering a gradual yet strong recovery. All tourist generating markets have performed notably well, as arrivals from them have registered a growth during the first half of 2007.

## Nepal-Netherlands sign MoU

A Memorandum of Understanding (MoU) was concluded recently between the Government of the Kingdom of the Netherlands and the Government of Nepal regarding the assistance to the Nepalese private sector through 'Programme for Co-operation with Emerging Markets' called PSOM.

The programme aims at fostering private sector development in Nepal by promoting and supporting economic cooperation between the business sectors of Nepal and the Netherlands on the basis of equal partnership and mutual benefit in setting up joint innovative pilot projects in specific sectors of investment, making use of inter-national and local know-how, goods and services.

Under this Programme, Official Development Assistance will be granted by the Netherlands Government to provide funding to joint Nepal-Netherlands business projects.

The Programme will mainly support activities in areas such as agriculture, forest-based industries and service sectors. In all these sectors, specific attention shall be given to corporate social responsibility issues. The role of the Government of Nepal would be to facilitate the programmee[1] as in other countries participating in 'PSOM'.

## Nepal-Korea sign MoU on labor

Nepal and South Korea, recently signed a long-awaited Memorandum of Understanding (MoU) regarding sending Nepali laborers to Korea under the Employment Permit System (EPS).

Minister of State for Labor and - Transport Management Ramesh Lekhak and his South Korean counterpart Lee Sang-Soo inked the MoU that opens an opportunity for Nepal to send laborers to South Korea, its most lucrative labor destination.

It comes as the second such MoU on July that Nepal has signed. Lekhakh signed a similar MoU early July. With the signing, Nepal became the 11th country to sign such MoU with South Korea.

The MoU will fix the criteria for Nepali job aspirants, along with the worker-selection procedure, venue and process of remitting earnings. Likewise, it will also set the required qualifications of blue-collar workers, criteria to recruit them by Korean Companies and process of appointing agencies that receive Nepali workers in S Korea, among others.

Under the MoU, both countries will open supervision offices at each other's capital to oversee labor related issues. The MoU also includes ways of settling disputes along with labor rights, and perks and benefits that Nepali workers will enjoy.

## Nepal, UAE sign labour pact

Nepal and the United Arab Emirates recently signed a labour pact, paving the way for secured employment opportunities and providing legal recognition to Nepali migrant workers in the UAE.

Ramesh Lekhak, minister of state for labour and transport management and Dr Ali bin Abdullah Al Kaabi, labour minister of UAE, signed a memorandum of understanding to this effect on behalf of their respective governments, recently.

The UAE is the first country with which Nepal has formally signed a bilateral labour pact, establishing a legal status for Nepali migrant workers.

The accord has not only set a legal framework for thousands of migrant workers but also clearly spells out requirements for both job seekers and recruiting agencies in the source country. Employers in the UAE are now bound to comply with the contracts signed between recruiting agencies and workers.

# SAARC

## Indian economy set to grow 9% in 2007-08

Riding an investment boom, the Indian economy will grow 9% in the current fiscal, on top of the 9.4% growth registered last year, and price rise will be contained at 4%—so says the Prime Minister's Economic Advisory Council. To pull off this feat, however, the managers of the economy managers will need to make some tough choices such as curbing the inflow of external debt, allowing the rupee to appreciate further, and removing "administrative and procedural impediments" to acquisitions abroad. The EAC has also made some oblique criticism of the present accounting practice in public finance, which understates the combined fiscal deficit of the Centre and states by around 2% of GDP.

The panel is not in favour of disrupting inflow of external investment into equity. "Equity investment by its very nature is high risk and policy continuity is an essential element to initiate and maintain such flows. They cannot be turned on and off at will. However, on the debt side, there are some areas that can do with some scrutiny," the council suggested. The panel suggested three instruments to face the strong capital flow; allowing the rupee to appreciate, sterilizing capital inflows in excess of what can be absorbed into reserves without pushing money supply growth above 17.5%; and instituting a policy of encouraging capital outflow and discouraging external borrowing for rupee expenditure.

## Indo-Pak trade soars

Indian and Pakistani officials met *recently* to boost two-way trade that has nearly doubled in the past year despite lingering political disputes between the nuclear -armed rivals.

Trade between the two countries nearly doubled to US$ 1.67 billion (euro 1.22 billion) in the financial year ended March, from about US$850 million (euro620.12million) a year earlier, an Indian government statement said."Our bilateral trade has grown phenomenally in the past few years," said India's Commerce Secretary Gopal Pillai. The trade could rise to US$10 billion (euro7.3 billion) by 2010, he said.

The South Asian neighbors at present allow only a limited number of goods to cross into each other's territory despite the vast potential for bilateral trade.

Their political rivalry has also delayed implementation of a free trade pact among seven countries of the South Asian region India, Pakistan, Sri Lanka, Bangladesh, Nepal, the Maldives and Bhutan.

India and Pakistan have lifted some trade barriers and allowed the shipment of goods by road since they began pace talks in 2004 aimed at resolving the decades-old Kashmir dispute, the cause of two of their three wars since they independence from Britain in 1947.

## Bangladesh exports rise to record US$ 12b

Bangladesh's exports rose by nearly 15.7 percent to a record 12.18 billion dollars in the year ended June despite months of political and labour unrest, officials said recently. Textiles led "the record growth as exports of T-shirts, jeans and other clothing items grew by more than 16 percent to 9.2 billion dollars, data released by the country's Export Promotion Bureau said.

"Once again textiles led the way but exports of frozen food, engineering, leather, agro-processed food and light engineering products have also done well," an export official said. Bangladesh was rocked last year by months of violent street protests and nationwide strikes over vote-rigging allegations.

The economy was also hit by months of labour unrest in the textile sector early in the fiscal year. Low wages and poor working conditions are widespread in the industry. Impoverished Bangladesh has more than 4,200 garment factory is employ millions.

## China, Bangladesh set to improve bilateral ties

China and Bangladesh have committed to promote bilateral economic relations, narrow the trade imbalance and to encourage investment between the two countries. Chinese assistant minister of commerce Wang Chao and Bangladeshi finance and commerce Advisor Azizul Islam expressed their desire to encourage bilateral relations during a meeting in Dhaka recently.

Islam said the two countries had achieved a breakthrough in trade relations with a rapid growth of mutual trade. The trade between the two Asian countries reached a record level of about $3.19 billion in 2006, 28.5 per cent higher than the previous year.

However, Bangladesh's export to China amounted to only about $98.8 million indicating a huge negative balance of trade between the two countries.

Islam said that China had granted tariff-free access to 84 Bangladeshi items within the framework of the Asia Pacific Trade Agreement (AFTA) and hoped more items like jute products, leather and textile will enjoy duty free access in the future.

Islam invited more Chinese investment in Bangladesh in sectors like power, infrastructure, construction and electrical products, promising that the Bangladesh government would provide a fair and equal environment.

Wang Chao, who led a large economic and trade delegation to Bangladesh.

# ASIA

## China GDP growth jumps to 11.9%

China's annual economic growth surged to an II-1/2 year high of 11.9% in the second quarter, cementing expectations for tighter policy to keep the world's fastest-growing major economy from overheating. The figures put China on course to chalkup its straight fifth year of double-digit growth and to overtake Germany as the world's third-biggest economy— perhaps as soon as this year. "It's stunning. We should expect them to raise interest rates or reserve requirements at any moment," said Tim Condon, head of Asia research at Dutch bank ING in Singapore. The spurt in gross domestic product growth from 11.1% in the first quarter blew past expectations of a 10.8% rise, data from the National Bureau of Statistics showed recently.

"We will continue with moderate tightening to control the monetary and credit situation," Li Xiaochao, the statistics agency's spokesman told reporters.

## China's trade surplus up 67%

China's trade surplus soared to its second highest monthly level on record in July, according to data reported recently amid mounting pressure by US law makers to sanction Beijing over trade and currency disputed.

July's surplus totaled $24.4 billon, the official Xinhua News Agency reported, citing Chinese custom agency. That was a 67% jump from the year-earlier period and beat every previous month except June's all-time high of $26.9 billion.

Analysts had expected the surplus to ease in July after exporters rushed to ship goods in earlier months to beat changes in tax policy meant to narrow China's yawning trade gap. The surplus grew despite recalls and warnings targeting faulty or tainted Chinese goods ranging from toothpaste to tires to seafood in the US and other countries.

The US and other trading partners are pressing Beijing to ease currency controls and barriers to imports. Some US lawmakers are pressing for sanctions on China if it fails to ease controls on its currency, the Yuan, which critics say is undervalued and gives Chinese exporters an unfair price advantage.

## Japan's economic gauge above boom

The key gauge of the current state of Japan's economy stood above the boom or bust threshold of 50 percent for the third consecutive month in June, the government said recently.

The index of coincident economic indicators came to 77.8% supported by strong production related indicators, the Cabinet Office said in preliminary report.

The index of leading indicators, which predicts economic developments about six months down the road, stood at 80.0% in June, topping the 50% line for the first time in 12 months led by positive readings in indicators of equity and commodity markets.

A reading above 50% is considered a sign of economic expansion and figure below that line is seen as a sign of contraction.

The government left unchanged its view to the current economic situation for the second month, saying the economy is "improving recently," instead of "seesawing" as used in April, a Cabinet Office official said.

## Japan meets on imports

Japanese government and business leaders held an emergency meeting recently to assess the safety of imported goods amid growing global concern about Chinese products.

"People are increasingly interested in the safety of imported goods," Chief Cabinet Secretary Yasuhisa Shiozaki told reporters in announcing the meeting.

"The government and the private sector will join hands for the safety of (imported) foodstuffs, commodities for daily use, pharmaceuticals and other goods," he said.

The one-day meeting includes officials from the health, farm, trade and foreign ministries as well as representatives from a private sector frozen food association, department stores and other groups.

## Singapore cuts trade forecasts

Singapore recently cut its 2007 trade growth forecasts as key exports expanded at a slower 1.2% in June, dragged down by a continued slump in electronic exports

Overall trade growth projections for 2007 were revised downwards to 5.0 to 7.0% from 8.0 to 10% due to sustained declines in electronics shipments and a weaker than expected trade performance so far this year, International Enterprise Singapore (IE Singapore) said.

IE Singapore also cut its 2007 growth forecast for non oil domestic exports (NODX), a key health barometer of the trade driven economy, to 4.0-6.0% from 7.0-9.0%.

# WORLD

## US economy woes not 'international crisis'

Bank of England governor Mervyn King recently said that credit problems being experienced in the United Stats did not amount to an "international crisis,".

In a press conference following publication of the BoE's latest quarterly economic report King added that bad debts were largely confined to the US subprime mortgage market.

"Are we seeing signs of bad loans arising ? Clearly we are, in the US subprime mortgage market," King told the conference.

"But don't think there is much evidence of major damage to loan performance in other markets,"

King added," It is not an international financial crisis,"

## German consumer confidence rises

Germany consumer confidence in Germany, Europe's biggest economy, continued to show signs of solid growth reaching an eight month high, according to a survey published recently, but foreshadowed slight concerns down the road about its health.

The GfK research group said its forward-looking consumer climate indicator rose to 8.7 points for August, up from a revised 8.5 points in July, and in line with estimates of analysts polled by Dow Jones Newswires.

But the index, which measures the economic expectations of German consumers, continued to fall, slipping to 64.8 points in July from 69 points in June and down from 69.5 in May. It also found that consumers' plans for making major purchases, including cars, white goods and homes, dipped for the first time after four consecutive months of increases, to 9 points in July, down from 9.1 points in June.

### Germany to protect companies from foreign funds

The German government is considering steps to protect companies from unwanted advances by foreign state owned investment funds, with proposals to be drawn up by autumn, Chancellor Angela Merkel said in a newspaper interview recently.

Merkel told the business Handelsblatt that her conservative CDU party "is to draw up proposal for legal implementation in the autumn."

"We mustn't be naive," the German leader told the newspaper. "State-owned funds can also have politico-strategic aims in mind that could be problematic in sensitive areas.

"How do we handle state owned funds that are increasingly looking for investment opportunities in Germany," Merkel asked.

## US economy can weather market drop

US Treasury Secretary Henry Paulson said he's confident about the strength of the US economic and suggested it can weather the sell off in financial markets. "The underlying economy is very healthy," Paulson told reporters recently in Beijing, repeating remarks he made on at least three occasions. "As an economic matter, this is largely contained because we have a healthy and diverse economy."

US stock index futures fell along with European and Asian equities as the US subprime market rout spreads and rattles investors' confidence.

Investors are growing increasingly concerned that defaults among mortgage debtors, triggered by a housing recession in the world's largest economy, will infect credit markets and hurt corporate earnings. It will take a "good period of time" before the crisis fades and "losses may occur in a number of institutions, "Paulson said.

## German unemployment drops

Germany's unemployment rate continued to improve in June, falling to 8.8 % from 9.1% the month before in another reflection of better times in Europe's biggest economy.

The number of unemployed people fell to 3687 million from 3.812 million the month before in the country of 82 million people, according to figures released recently by the state jobs agency.

The agency said that 711.000 fewer people were jobless compared to a year ago as the expanding economy puts more people to work. Some German officials have even warned about labor shortages for high-demand skills such as engineers, a sign of how far the economy has come in reducing the jobless rate from above 12% in early 2006.

**Compiled and Edited by :**
Rameswar Acharya
**Assisted by :**
Bidur Chandra Lamichhane
**Published by :**
Federation of Nepalese Chambers of Commerce & Industry (FNCCI)
Panchali, Sahid Sukra FNCCI Milan Marg, Teku
P.O.Box: 269, Kathmandu
Tel.: 4262218, 4262061, 4266889
Fax: 977-1-4261022, 4262007
E-mail: publication@fncci.org