International Business News

Belgium announces measures to stabilise banks

AFP, *Brussels*

Belgium announced a series of measures Friday aimed at reinforcing banks' stability and returning market confidence, including a plan to facilitate borrowing between banks.

The government announced in a statement "a temporary guarantee plan that aims to facilitate the refinancing of Belgian banks on inter-banking markets."

"Only credit establishments under Belgian law with solvency judged to be adequate by the government are eligible" for the guarantee, the statement said.

The plan is to last through October 2009, but "could be extended", it said.

Belgium's government will "support all initiatives aimed at harmonising the granting of state guarantees at a European level" and that it "would adapt" its guarantee in accordance with a possible European-wide plan, said the statement.

The statement came after France said eurozone leaders would gather in Paris on Sunday for a summit on the financial crisis as they race to make joint plans to help battered banks after weeks of separate national interventions.

This week Britain offered not only to partially nationalise troubled banks but also to guarantee their borrowings from each other so that liquidity in the banking system does not entirely dry up.

China's central bank pledges global cooperation

AFP, *Beijing*

China's central bank has pledged to continue international cooperation to tackle the global financial crisis and maintain market stability, according to state media.

The pledge on Friday came after China this week joined the US Federal Reserve, the European Central Bank and other major central banks to cut interest rates in response to the global financial turmoil and fears of a domestic slowdown.

"The PBOC (People's Bank of China) will continue close contacts and cooperation with counterparts and international financial organisations to jointly maintain stability of global financial markets," PBOC spokesman Li Chao told Xinhua news agency.

The PBOC would monitor the crisis and take action to guard against financial risks, Li said.

The global economic slowdown had reduced demand for Chinese exports and affected China's economy, he added.

But Li was confident that China could ride out the crisis, according to Xinhua.

"China has a huge domestic market and the liquidity is abundant," he said.

AFP

A tourist films outside the Bank of China Tower in Hong Kong yesterday. Emerging from the wreckage of a historically bad week of trading, dealers from Tokyo to London and New York say the financial turmoil has left markets in an irrational state of fear.

Two major department store chains to merge in Japan

AFP, *Tokyo*

Two Japanese department store chain operators, Takashimaya Co. and H2O Retailing Corp., announced a merger plan on Friday to jointly survive tough business conditions.

As a first step, the two firms will take a stake of about 10 percent in each other by around the end of February through the purchase of outstanding shares, they said in a joint statement.

They will then aim to integrate their operations by 2011 to become one of Japan's biggest department store chain operators, with combined annual sales of 1.5 trillion yen (15 billion dollars).

H2O runs two department store chains -- Hankyu Department Stores and Hanshin Department Store, both strong in western Japan -- while Takashimaya has a major presence in Tokyo and other major cities across the country.

"We would like to weather difficult business circumstances by establishing a strong network," Takashimaya president Koji Suzuki told a press conference in Tokyo.

Crisis sends Germans back to state savings banks

AFP, *Berlin*

Germans are moving their nest eggs to the safety of state-owned banks, figures suggested Friday, despite Chancellor Angela Merkel's pledge this week to guarantee all savings and current accounts.

In the past two weeks alone, Germans have put more than one billion euros (1.4 billion dollars) into accounts at the country's massive network of Sparkasse savings banks, according to a survey by the Bild daily.

"A while ago banks could not be international enough and the only ones that were 'modern' were those that were active on international markets," said Michaela Roth, spokeswoman for the German Sparkasse federation DSGV.

"But now there is quite clearly a change in awareness taking place and the image of this very conservative, very solid business model is improving," Roth told AFP.

ANALYSIS

Takeover: Lessons to learn

Nationalisation in US and Europe raises questions on policy push for others

SAJJADUR RAHMAN

Western powers come down heavily on developing and least developed countries (LDCs) when they delay freeing state-owned banks from government control. Developed countries through the World Bank, Asian Development Bank or International Monetary Fund put pressure on them to speed up privatisation. The rich nations do not want to consider that these banks in the LDCs or developed states play a pivotal role in reaching credit to the poor and powerless.

Things seem to have changed.

The developed nations are taking over their crisis-ridden institutions to help avert the financial crisis. What the United States and its allies in Europe are doing now is termed 'nationalisation' in Bangladesh. The US and the EU may call it takeover or bailout step. Deemed to be socialist- or communist-like remedy, nationalisation has now been adopted by the western economies, the initiators of the free market economy. It seems that they have a little choice other than nationalising the troubled financial institutions.

Does it not reflect the double standards of the western countries? The rules of the game change for them, really.

Nationalisation can be adopted when people in the US or Europe need to be protected from losses. But the same move will be discouraged or even denied by them when an LDC like Bangladesh needs to do so to protect their citizens from similar kind of fears.

The nationalisation of banks in Bangladesh at least opened the way for ordinary people to use the financial system for small and tiny deposits. It paved the way for what is known as compulsory priority-sector lending. In other words, the banks have to provide a certain amount of credit to agriculture and rural areas. The private commercial banks lend only to sectors that offer assured and fairly high returns. But the nationalised banks have a social obligation to fulfil, and the directive to do so is met because the government runs those.

The Bangladesh government in consultation with its donor organisations and countries is going through rapid privatisation of its nationalised entities, including banks. Apart from banks, the government here has privatised most of its jute and textile mills without considering the joblessness of thousands of people.

Does it mean that nationalisation is being promoted?

"There are some lessons for Bangladesh from the global financial crisis," said Prof Mustafizur Rahman, executive director of private think-tank Centre for Policy Dialogue (CPD).

"There must be sequence in implementing donor-driven policies. There should also be oversight institutions to monitor those activities," he said.

Rahman, who is also a trade expert and economic analyst, think the US economy tumbled down because of poor oversight.

Zaid Bakht, research director of state-run Bangladesh Institute of Development Studies (BIDS), echoed him.

Bakht urged Bangladeshi authorities to take lessons from the global financial crisis so the country can avert this kind of disaster.

Bakht however criticised the donors who impose policies on countries like Bangladesh from their own mindset.

"Donors should consider that Bangladesh's perspective is totally different than that of developed world," the BIDS director said. He cited example of World Bank's stand on the country's agriculture sector.

The WB earlier said there is no need to subsidise the agriculture sector, but now suggests subsidies seeing the growing food insecurity.

He said the US's nationalisation and the Bangladesh's are totally different. "The US is nationalising its financial institutions on temporary and transitional basis," he added.

He also said Bangladesh should be cautious in terms of implementing donor-pushed policies. "If the rural people miss access to bank finance due to privatisation of all government-owned banks, that will not be good for the country," he said.

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AFP

Stock traders negotiate during the afternoon session at the Mercantile & Futures Exchange (BM&F) in Sao Paulo, Brazil on Friday. Once one of the most promising emerging markets, Brazil is now trembling from the effects of the global financial crisis after seeing nearly a third of the value of its currency wiped out in just two months.

COLUMN

ROHAN SAMARAJIVA

Bangladesh doesn't need a universal-service tax

The best news I heard at the Telecom Asia Forum in Bangkok earlier this month was that Bangladesh had not finalized the universal service law being planned for the telecom industry. There is still time to avoid a mistake.

Bangladesh currently has the lowest mobile prices in the world and perhaps the world's highest mobile growth rate. Pretty good, by any measure. A universal service tax can ruin the business model that has given millions of Bangladesh citizens the opportunity to get connected to an electronic network for the first time and to use telecom services at affordable prices. Instead of solving a problem, it will create one.

DISBURSEMENT SCHEDULE FOR THE USO FUNDS IN INDIA

Year	Amount collected	Amount allocated and disbursed
2002-2003	INR 16.53 billion ($367 million)	INR 3.00 billion ($66 million)
2003-2004	INR 21.43 billion ($476 million)	INR 2.00 billion ($44 million)
2004-2005	INR 34.58 billion ($768 million)	INR 13.14 billion ($266 million)
2005-2006	INR 35.33 billion ($785 million)	INR 17.67 billion ($392 million)
2005-2010 (Estimated)	INR 375.41 billion* ($8 billion)	INR 179.36 billion (Almost $4 billion)

THE HARM IT WILL DO

Bangladesh, along with India, Pakistan and Sri Lanka, has the lowest mobile prices in the world. The same basket of calls, texts and apportioned connection charges (low-user basket, based on OECD methodology adapted for the region by LIRNEasia) that costs $5.25 in Nepal, costs only $2.46 in Bangladesh.

Yet, the low prices and the resulting low ARPUs [Average Revenues per User] have not bankrupted the mobile operators. They are making enough profits to justify the continued investments that will keep growth going. Low prices and decent profits indicate that a different business model is at work.

How can a budget airline like Ryanair make profits while Alitalia haemorrhages money? Different business model. Ryanair is making money by filling most of the seats on most of its planes most of the time. It does this by offering low prices. The lower the prices, the higher the fill rate. High fill rates combined with radical cost cutting makes the model work.

This is the business model implemented by Bangladesh telecom operators also: low prices that lead to more revenue-yielding minutes on the same network. Any tax the government introduces (whatever name it is called by), increases prices and reduces the efficacy of the model.

By introducing universal service taxes, the government of Bangladesh will harm the business model that has given the country the highest growth rates, the lowest prices and coverage of the entire national territory. It will not help connect more people (the stated objective of all universal service programs) but will slow down the model that has connected more people than any government program ever has.

THE GOOD IT WILL NOT DO

Universal service funds are created to serve those whom the market will not serve. In practical terms, this means that the fund provides subsidy for serving hitherto unserved areas such as rural areas or subsidizes the costs of backbone networks. Bangladesh has almost complete coverage, except for areas that are barred for security reasons, and it has well developed backbone networks. So finding ways to spend the money once collected will be problem.

The BTRC chairman's suggestion in Bangkok that universal service funds may be spent on creating government websites indicates that he understands that there is no need for universal service funds to improve telecom access. From understanding that there are no good uses that can be made of the money to understanding that there is no need to collect the money is a short step. I am confident that the intelligent and articulate Chairman will take that step.

If mobile is connecting people satisfactorily and it makes no sense to impose special taxes on people in order to build government websites, what remains? Broadband? Bangladesh will get broadband when it frees up spectrum, issues licenses and allows innovative business models to be implemented. The licences are being issued and prices will come down. Subsidies are not needed. Taxes to fund subsidies that will make broadband more expensive are not needed.

India has one of the world's largest universal service funds. It, together with Brazil, accounts for most of the unspent universal service taxes in the world. By 2008, India had spent only 31 percent of the collected funds, leaving a total of $3.11 billion unspent. At no point has the Fund succeeded in spending all the money it collects.

Because India charges a fixed 5 percent of revenues and over 6 million new connections are being added every month, the fund keeps growing very rapidly. But the government is experiencing difficulty in spending the money (though the rural-urban gap is being rapidly closed without its help). In the last auction of universal-service subsidies, many operators came in with zero bids.

Sri Lanka does not have a conventional universal service levy. It does not tax individual subscribers. Since 2003, it has been keeping a portion of incoming and outgoing international voice revenues as a universal service fund. Not one cent of this money has been disbursed yet.

The Regulatory Commission has proved incapable of developing an effective disbursement mechanism despite several consultations and announcements. There is little reason to think Bangladesh will be any better at disbursing universal service funds than its neighbours.

Does it make sense to get operators to collect money from their customers, then pay that money to government, then have the government go through its cumbersome procedures to give that money back to the operators?

IN SUM

Bangladesh has the world's lowest telecom prices, highest growth rate and almost total coverage. Imposing universal service taxes on millions of current and future users will not solve any problems. It will create problems by slowing down a business model that is connecting millions at affordable prices.

If the government wants more people connected, it should reduce existing taxes and allow more freedom for operators to price flexibly. The last thing it should do is impose new telecom-specific taxes by whatever name to generate funds that will stagnate in government accounts doing no good for anyone.

Rohan Samarajiva is the former director general of Sri Lanka Telecommunication Regulatory Commission. He is now the executive director of LIRNEasia, a Colombo-based regulatory and policy research outfit that studies South Asia and South East Asia.