International Business News

Japan, Vietnam sign free trade pact

AFP, *Tokyo*

Japan and Vietnam signed an economic partnership pact Thursday with a promise to cut tariffs on some 92 percent of goods and services traded between the two nations within a decade.

Japanese Foreign Minister Hirofumi Nakasone and Vietnam's minister for industry and trade, Vu Huy Hoang, signed the deal which still needs final approval by the Japanese parliament.

"The agreement will strengthen the mutually beneficial economic collaboration between our two countries by facilitating freer flows of goods, services and investments," the two ministers said in a joint statement.

"We are convinced that such economic cooperation will contribute to the economic development of our two countries, promote well-being of our peoples, and expand opportunities and benefits for our business sectors," it said.

The agreement allows for freer bilateral trade than a wider trade agreement between Japan and the whole of the Association of Southeast Asian Nations, which includes Vietnam, Japanese officials said.

Under the new agreement, Vietnam will get duty-free access to the Japanese market for shrimp, durian and okra, among other farm and marine products.

China plans to avert US-style auto crisis

AFP, *Shanghai*

China's top economic planning agency is drafting a stimulus package to save the automotive sector from a US-style crisis, state media reported Thursday.

The National Development and Reform Commission is to send rescue plans to the cabinet by the end of the week, and if approved they are expected to be implemented in January, the Shanghai Securities News said, citing sources.

Measures will include cuts in the 10 percent vehicle purchase tax to boost consumption, and direct government funding to help automakers upgrade their technologies, the report said.

The Ministry of Science and Technology has also suggested steps such as facilitating mergers in the sector and encouraging banks to provide low-interest loans to automakers, the report said.

China's auto sales fell 14.6 percent in November from the same month a year earlier, according to industry association figures, as consumer confidence showed further signs of weakening amid the economic slowdown.

China cut gasoline and diesel prices by around 13 percent and 17 percent respectively last week, in what was seen as a signal aimed at boosting confidence among car buyers and manufacturers.

AFP

Chinese revellers hit a city square to celebrate Christmas in southwest China's Chongqing municipality early yesterday. Economists have warned that the global downturn could mean that China will end 2008 with its weakest economic growth for nearly two decades, as China has not posted annual growth of less than 7.6 percent since 1991.

US sees progress in easing trade disputes with China

AFP, *Washington*

The United States said it expected to make significant progress in resolving trade disputes with China in 2009 even as the Asian giant imposed new restrictions on market access and foreign investments.

The cautious optimism appeared in US Trade Representative Susan Schwab's 2008 report to Congress Tuesday on China's compliance with commitments it made since it joined the World Trade Organization (WTO) seven years ago.

The 115 page congressionally mandated annual report said US companies in 2008 had pointed to further evidence of Chinese restrictions on market access and foreign investment in China.

They included the setting of "unique" Chinese national standards, promotion of famous Chinese brands of merchandise using what appeared to be prohibited forms of financial support, use of export quotas and export duties and restrictions on foreign investment and foreign companies, the report said.

Fed approves GMAC bank request in boost for GM

AFP, *Washington*

The US Federal Reserve on Wednesday approved a request by GMAC, the troubled financial arm of General Motors, to become a bank holding company, allowing it to tap government bailout funds and emergency loans.

The move, announced only hours before Christmas day, boosts the prospects of General Motors after the US government last week approved a 13.4-billion-dollar rescue loan package for GM and Chrysler to stave off collapse amid tight credit and dismal sales.

GMAC faced possible bankruptcy, jeopardising financing for GM car dealers and customers, and its demise could have dragged down the Detroit automaker's fortunes with it.

"In light of the unusual and exigent circumstances affecting the financial markets, and all other facts and circumstances, the Board has determined that emergency conditions exist that justify expeditious action on this proposal" for changing GMAC's legal status, the Fed said in its decision, which the board approved four votes to one.

RETAILING

Supermarkets on the rise

DIETER BACHMANN

With the recent opening of its second pilot superstore in Dhaka, ACI diversifies the retail sector. After opening two new outlets in a short span, it plans to open another dozen or so in next four months.

Old Dhaka might not exactly be an area where one would expect to find the latest trends in retail. Yet, it is here that ACI has chosen to test the reaction of the local population to its Fresh'n Near superstore format.

After a first shop in Postagola area, a second one opened recently at Wari. Besides a range of manufactured consumer goods, the shops also offer a variety of fresh vegetables, meat and fish. With prices of the perishable goods being offered below the prices of the nearby kitchen markets, the company hopes to convince customers to change their shopping habits. The company aims to provide a hassle-free environment for women, who otherwise feel uncomfortable shopping at crowded markets.

ACI's attempt will not be limited to Old Dhaka alone. Within the next four months, ACI plans to open another 10 to 15 stores, says Asif Iqbal, the company's chief operating officer.

So far, the pace of expansion of the existing key-players in the supermarket business has been rather slow. Agora, Meena Bazar, Nandan and PQS have no more than a handful of stores.

Many plan to expand their business, but quite a few difficulties arise when launching a superstore-chain in Bangladesh.

"The biggest problem is the supply chain," says Niaz Rahim, managing director of Agora Superstores (owned by Rahimafrooz).

"The distribution system is just not organised," he adds. This means that the goods are not delivered to the stores on time.

Another problem is finding affordable space for expansion. According to Rahim, his company plans to double the number of stores, from four to eight outlets, in the next two years.

"The government does not recognise supermarkets as a form of service to the people", says Pravin Robin-David, chief operating officer of Meena Bazar.

"We can provide goods at lower prices because we buy in bulk," he says.

He also stresses improvements in food quality and freshness that supermarkets are trying to achieve by using quality controls, better hygiene and correct storage conditions like cooling and refrigerating.

Within the first quarter of 2009, Meena Bazar, a concern of Gemcon Group, aims to double the number of supermarkets to a total of 10 stores in Bangladesh.

STAR

Shoppers at Agora in Maghbazar, Dhaka yesterday.

David also says the company faces challenges in the amount of time required to get all the necessary permissions, before opening a new store, sometimes even a year or more. They also have to deal with distributors and suppliers, some of whom are unprofessional.

In order to secure a reliable supply of products, Meena Bazar is developing the sourcing channel of fruits and vegetables directly with groups of farmers.

However, a majority of Bangladesh customers will not change their shopping habits anytime soon. At least this is what the leading academic researchers in this field view.

Supermarket diffusion in developing countries has occurred in three waves, so far, starting in the 1990s with much of South America, East Asia (outside China) and South Africa. This was followed by a second wave in the mid-to-late 1990s, including Mexico, Central America and much of Southeast Asia. In the late 1990s and early 2000s, a third wave hit China, India and Vietnam.

According to Thomas Reardon, a professor at the Department of Agricultural, Food and Resource Economics at Michigan State University, Bangladesh is part of a fourth wave that just barely has emerged in the last few years. Other countries at a similar stage are Cambodia, Bolivia and certain countries in West Africa.

The American researcher feels it is likely that the diffusion of supermarkets will be quite slow for the fourth wave, compared to the first three waves. The reason is that the key socioeconomic changes necessary for a change in the retail environment are happening in Bangladesh at a pace much slower than, for example, in India.

These changes acting as a driving force behind supermarket diffusion include increasing urbanisation, increasing number of women working outside their home (which leaves them with less time for shopping of essentials), and increasing incomes per capita.

By the estimates of Ashok Gulati, director of International Food Policy Research Institute (IFPRI), it will probably take another decade or two, until supermarket diffusion in a country like Bangladesh is appreciable, meaning that roughly around 20 to 25 percent of retail sales are made through this channel. "But the time for South Asia seems to have come," he adds. "Just look at the expansion of Cargills Ceylon in Sri Lanka." That retailer has more than 120 food-supermarkets all over the country.

In fact, Sri Lanka with a population of over 20 million people has 240 supermarkets, while Dhaka with its 15 million inhabitants does not even have 50 such stores.

"It will not stay like that forever, just look anywhere in the world," explains Meena Bazar's Pravin Robin-David. "It's just a question of who does it first". But it will even take time before the big players get in each other's way.

"Each of the five big chains in the country has growth potential for another 100 new stores, without one hurting the other," he adds.

FINANCIAL CRISIS

Confidence in Swiss banks at a low ebb

DIETER BACHMANN

You think of a Swiss bank account as one of the safest places for your money? Well, think again.

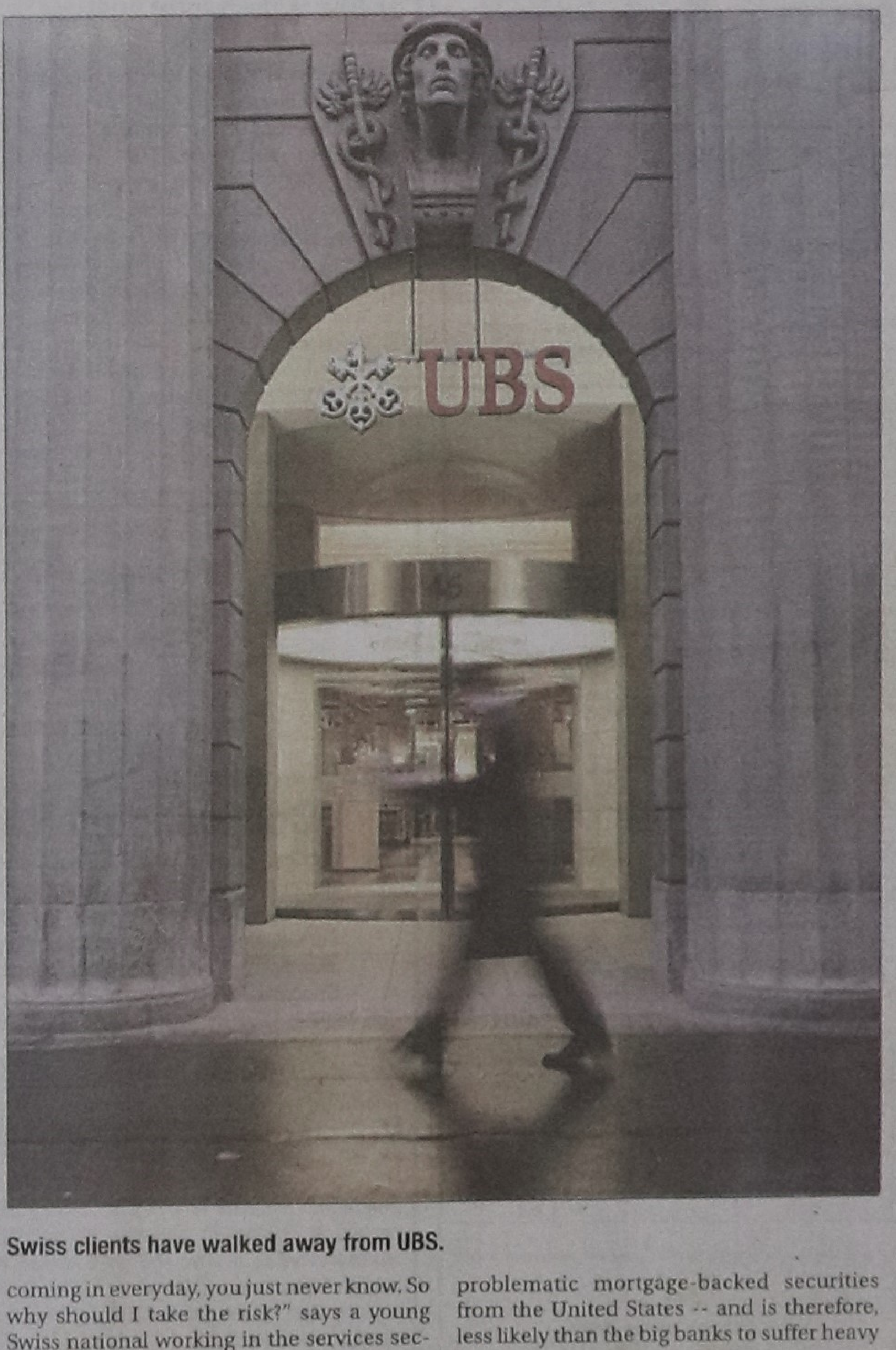
At least that is what many people in Switzerland did in the last couple of months because of the financial crisis. Probably for the first time, they were asking themselves, where they should put their money. The confidence of the population in the banks that they have been proud of has undergone an unprecedented crisis. The price to get it back is high and the ongoing downsizing of banks' operations is weakening public support even further.

Just to get this straight: so far, nobody with a Swiss bank account has lost any of his or her savings due to the collapse of a bank. Yet, a different kind of damage has been done -- even if it is not possible to say what it amounts to. It is the fact that Swiss people have actually started to doubt, whether the two large banks of the country, UBS and Credit Suisse, would survive the turmoil caused by the problems in the US-real-estate market. For a country famous for its banking services, trust is crucial and the lack of it spells disaster.

So, apart from the global liquidity crisis, which led to the situation where no bank would lend money to another institute, the two big players in Switzerland suffered withdrawals of savings by their clients. Typically, but not exclusively, it would be the retail clients -- who were inexperienced in financial matters, more easily susceptible to doomsday-headlines in the media -- who shifted their deposits from the two big institutes to the smaller retail banks and to the partly state-owned regional banks. But since many people decided to do so, withdrawals amounted to several billions of Swiss francs.

The motivation of the clients to change banks was twofold: on the one hand, it was simply the fear of losing the money someday. On the other hand, people just didn't want to do business with banks anymore that have managed to write huge losses in a very short time and still kept on paying their executives exorbitant bonuses.

"Even if it is quite unlikely that one of the financial giants crashes, with worse news coming in everyday, you just never know. So why should I take the risk?" says a young Swiss national working in the services sector. He, like many others, has now an account in a small regional bank, which has not been involved in the risky business of problematic mortgage-backed securities from the United States -- and is therefore, less likely than the big banks to suffer heavy losses.



Swiss clients have walked away from UBS.

Extremely high salaries of top-managers in banks and other sectors, sometimes amounting to $20 million a year, provoked a public debate in Switzerland. The government is currently reviewing a proposal filed by angry citizens to hold a public vote on the issue. The proposal wants shareholders to have their say on the publicly listed companies' compensation policy.

A severe heart attack that made the country's 65-year-old finance minister to refrain from his duties for several weeks in this critical period of time did not help reassure the population, either.

But the worst was yet to come. In October, the unthinkable happened. The government came up with a bailout plan for UBS. It involves an injection of fresh capital for the badly-hit bank, the world's biggest wealth manager. In addition, the plan foresees the purchase of all the toxic assets by a newly created fund controlled by the central bank. The whole package was presented to the taxpayers as an unavoidable move to restore the confidence in the country as a financial centre.

It is not sure, what would have happened without the government's intervention, and whether the timing and size of the bailout were appropriate. It was definitely a gaffe to set up the fund destined to buy the UBS subprime assets in the Cayman Islands, an offshore tax haven. Only after public protests, the Swiss central bank decided to incorporate the bailout vehicle in Switzerland.

It is in the light of all the write-offs, losses and the outlook of a global economic slowdown, that UBS and Credit Suisse and other banks are now downsizing their operations. Credit Suisse is slashing 5,300 jobs, 11 percent of its workforce. Even if the biggest cuts are being made in the investment banking and in the United States, the staff at the bank's headquarters in Zurich is reduced as well. "Just because some greedy investment bankers on the other side of the Atlantic have screwed up big time, normal people like me, who have had nothing to do with subprime-papers, lose their job", says an employee who has been sacked only a few days before Christmas.

Dieter Bachmann, a business journalist for Basler Zeitung, a Swiss daily newspaper, is currently doing his internship at The Daily Star.