International Business News

Australia's Myer to sell online from China

AFP, *Sydney*

Australia's largest department store chain Myer will open an online business based in China in a bid to lure Australian customers with the promise of zero taxes on their goods, reports said Saturday.

Myer, which floated on the Australian stock exchange 12 months ago, said it would start up the Chinese site and ship goods from a warehouse in southern Shenzhen in a bid to dodge Australia's 10 percent goods and services tax (GST).

"We will take jobs offshore and we will ship product out of China through our Internet site," Myer chief Bernie Brookes said, according to Fairfax newspapers. "It's a bloody shame."

Brookes said the push aimed to give Myer a more "level playing field" with online shopping outlets, which are exempt from GST on purchases worth less than 1,000 dollars. Major retailers have been lobbying Canberra to change the law.

Australian shops are struggling to compete as the local dollar hovers near parity with the greenback, giving customers better value for money at offshore-based Internet sites.

Honda to end motorcycle joint venture in India

AFP, *Tokyo*

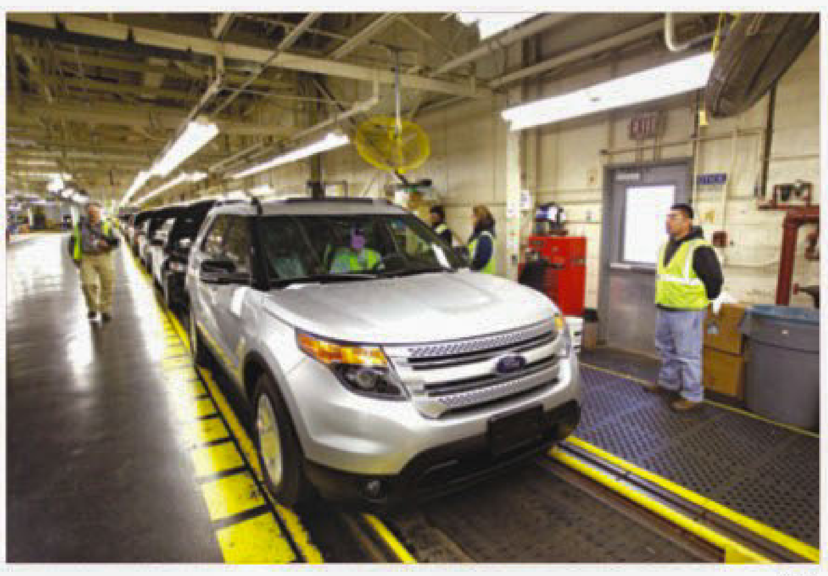
Honda Motor Co. plans to sell its stake in India's top-ranked motorcycle maker, Hero Honda Motors, and instead focus on its wholly owned subsidiary in the country, a news report said Saturday.

The Japanese automaker may earn some 100 billion yen (1.2 billion dollars) from the sale of its shares in Hero Honda, founded in 1984 with India's Hero Group, the Nikkei business daily said.

Honda and the Hero Group reached a basic accord this week to dissolve their partnership, Nikkei said, adding that they will seek final approval from their respective boards of directors later this month for the breakup.

Honda will sell its entire stake in the motorcycle maker to the Hero Group's founding family and investment funds by as early as March, and will no longer provide technical support to Hero Honda.

Hero Honda sold 4.5 million Honda-brand motorcycles in the previous fiscal year, grabbing 48 percent of the growing Indian motorcycle market, the world's second-largest behind China.



AFP

Ford Explorers roll out of the assembly at the Chicago Assembly Plant in Illinois. The plant builds the Ford Taurus, Explorer and Lincoln MK X. Ford reported a 24 percent rise in November sales from the same period last year.

Tata plans hiring spree in Detroit

AFP, *Detroit, Michigan*

Tata Technologies, a subsidiary of India's Tata Motors, said Friday it plans to hire 400 engineers by the end of the year at its technical center near Detroit to help with projects for car makers in North America.

Dan Saad, Tata Technologies director of communications in North America, said Tata is looking candidates with engineering, design and experience in product lifecycle.

"The 400 positions are currently open in our HR database to be filled by January 3 that are a result of new automotive program work our engineering and our PLM/Consulting groups have won over the past months," Saad said.

"The positions are at automotive client sites - about 80 percent in metro Detroit, about 20 percent elsewhere in the US We have about 500 employees in the US now, and about 350" are assigned to the company's Novi, Michigan, he said.

Tota follows on the news that General Motors Corp. is looking to hire 1,000 engineers over the next two years and Chrysler has added 1,000 employees at its technical center in Auburn Hills and is planning to hire additional personnel to handle engineering projects and to help the company prepare for an initial public offering of stock in the second half of 2011.

Spain backs pension reform

AFP, *Madrid*

Spain's government Friday set a date to raise the retirement age and backed multi-billion-euro sales of stakes in the lottery and airports in a bid to ward off debt pressures threatening the country.

Prime Minister Jose Luis Rodriguez Zapatero pulled out of a Latin American summit in Argentina to attend a cabinet meeting Friday on the economic crisis, sending a powerful message about Spain's determination to avoid a Greek-style debt debacle.

The Socialist government will approve on January 28 a plan, fiercely opposed by unions, to gradually raise the retirement age from 65 to 67, Deputy Prime Minister Alfredo Perez Rubalcaba said.

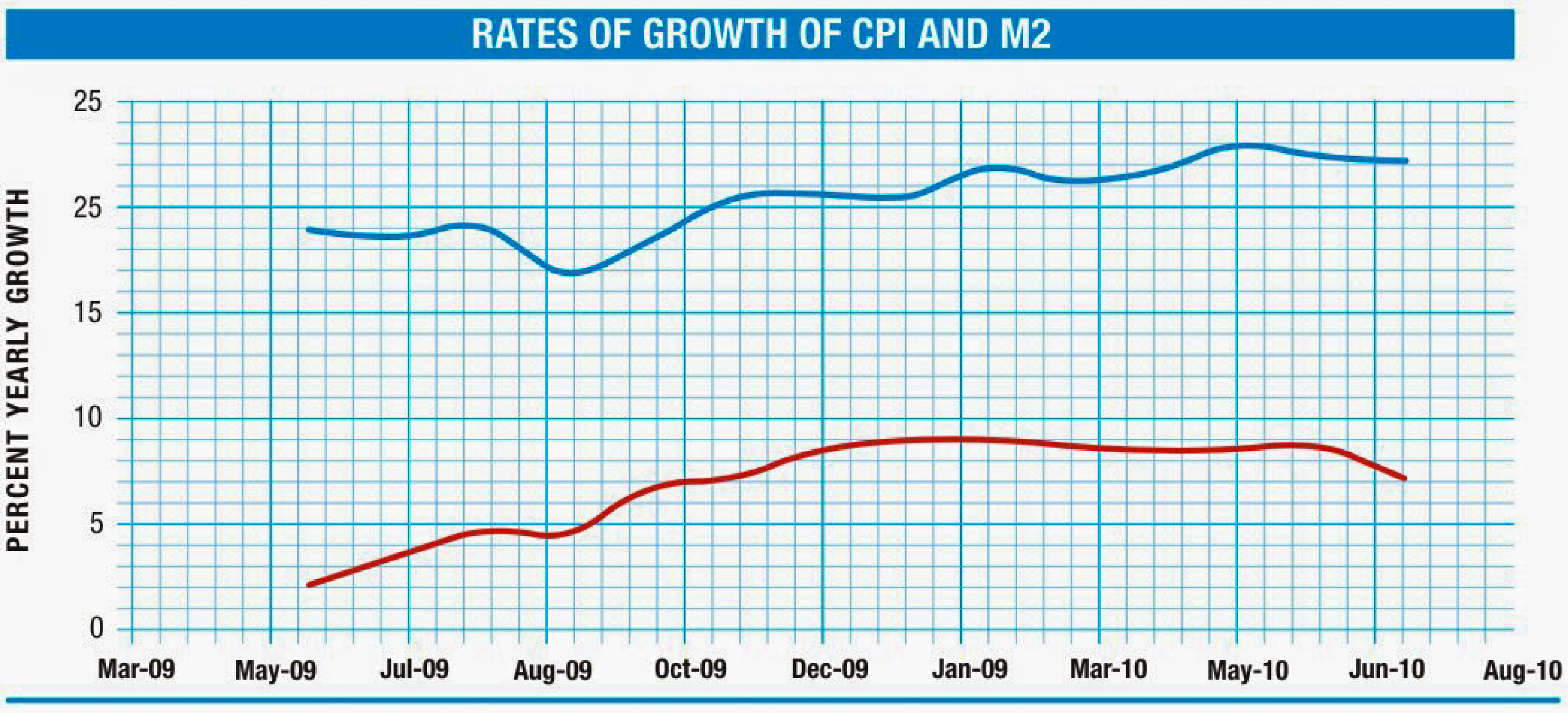
"We have agreed that the government will approve the reform of the pensions system on January 28 in order to send it to parliament," he told a news conference after the cabinet meeting.

The government floated the plan more than a year ago, aimed at ensuring the social security system remains viable amid a rapidly ageing population and strained public finances.

COLUMN

Proper role of the central bank

SADIQ AHMED



The recent initiative of the United States Federal Reserve to stimulate economic growth by injecting some $600 billion through the purchase of US Treasury bonds, known as the "Quantitative Easing" (QE2), has generated considerable controversy and debate both abroad and in the USA. The concern abroad is that this would cause their currencies to appreciate against the dollar and thereby reduces their export competitiveness. The outside world, which holds a lot of the US Treasury debt instruments, also worries that this policy will inflict capital losses by inflating the US economy and lowering the real value of these dollar debt instruments. The concern in the US is that the fiscal deficit is already very high ($1.3 trillion or 8.9 percent of GDP); this action will further raise the budget deficit and also increase inflationary expectations.

The US government is happy with the action of the Federal Reserve because it is worried about the persistent high unemployment rate and the slow pace of the economic recovery from the 2008 global financial crisis even though it has already injected a substantial amount of fiscal stimulus through tax cuts and additional Federal spending. The expectation is that this move will lower the long-term interest rates and stimulate economic activities. Additionally, the expected depreciation of the US currency will boost exports and create jobs.

The opponents in the USA, led by the Republicans and conservative economists, fear that the monetary stimulus from the latest Federal Reserve initiative will spark inflationary pressures both through excess liquidity and due to the depreciation of the US currency. They are also concerned that continued high fiscal deficits will worsen the already burgeoning federal debt ($13.7 trillion or 93 percent of GDP as of November 19, 2010) that has implications for increases in future tax obligations that could hurt future growth prospects. The Republicans are worried to such an extent that there is even a talk about introducing new legislation that takes away the Federal Reserves' mandate on economic stimulus and restricts its role to only inflation management.

While this could be a political ploy to put pressure on the Democrat government in power, the issue from an economic perspective is a substantive one. Standard macroeconomic theory has grappled with this challenge of assigning proper roles to various policy instruments in economic management. Based on the path-breaking work of Nobel laureates Jan Tinbergen, James Meade and Robert Mundell, the conventional wisdom is to assign inflation management primarily to monetary policy, economic growth to fiscal policy primarily, and balance of payments management primarily to exchange rate. Given inter-dependence, in a modern economy these three policy instruments obviously need to be coordinated to achieve the policy goals in each of these areas. From a long-term perspective, however, the primacy issue is substantive and deserves serious attention by policymakers.

Led by the pioneering work of another Nobel Prize winning economist Milton Friedman, it is now well accepted that over the long-term inflation is mostly a monetary phenomenon. So the ability to attain and sustain an inflation target over the longer term will depend upon whether monetary growth and inflation targets are properly aligned. While it is understood that short-term deviation is possible, continued large deviation of monetary growth from the inflation target is not likely to be a sustainable inflation control policy over the longer term. It is because of this long-term relationship, the central bank that is responsible for the conduct of monetary policy is also primarily accountable for keeping inflation under control. When a central bank becomes active in stimulating economic activity in an environment of rising prices, the suspicion of trade-off between growth and inflation and the fear that the monetary authority is deviating from its primary task of inflation control become real concerns.

A similar debate as in the USA about the proper role of the central bank and the conduct of monetary policy seems to have emerged in Bangladesh recently. Inflation has been rising steadily over the past 15 months while growth of broad money supply (M2) has also been rising steadily, mostly fuelled by the rapid growth of remittances but also due to Bangladesh Bank's policy to keep interest rates low in order to stimulate economic activity. More generally, with average GDP growth in the 6 percent range and growth of M2 at 22 percent as presently, there is bound to be inflationary pressure in the economy. Average global inflation rate for 2010 is 3.7 percent, while it is 1.5 percent in high income economies and 1.2 percent in the USA. Clearly, the average inflation rate of 7-9 percent prevailing in Bangladesh is not a welcome development and cannot be blamed on exogenous factors only.

Critics of this expansionary monetary policy argue that the policy stance of the Bangladesh Bank is not benefitting economic growth but fuelling price hikes in stock markets and in real estate while at the same time fuelling general inflation. Bangladesh Bank believes that inflation is fed by increases in global and domestic food and commodity prices and that low interest rates are benefiting business and economic activity. Since there is very little empirical research to prove one or the other hypotheses, it is difficult to be conclusive. Yet, the observed correlation between rising inflation and the high average M2 growth rate (that is much in excess of GDP growth and the inflation target), the galloping real estate and stock prices, and much slower global inflation rate -- all would seem to suggest that the worry of the critics about excess monetary growth fuelling inflation is well founded and cannot be easily dismissed.

Without being dogmatic about the role of the central bank, I think it is a fair principle that this must be the institution that is accountable for managing inflation in the country. In the US, the inflation rate presently is very low (below 2 percent per year) and the unemployment rate is very high. So it is understandable why the Federal Reserve is less worried about inflation at the present time. In Bangladesh where the inflation rate is rising substantially faster than the global inflation, it is hard to justify an expansionary monetary policy irrespective of whether or not low interest rate benefits growth. Bangladesh is growing at a healthy 6 percent and the constraints to higher growth are not the interest rate but factors such as infrastructure, labour productivity, trade protection and cost of doing business. A tighter monetary policy aimed at bringing down inflation to around the global level would seem to be a much more desirable policy of the Bangladesh Bank at the present time than an expansionary monetary policy.

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The push and pull of mobile banking

ABUL KASHEM MD SHIRIN

Preventing money laundering, eliminating informal foreign remittance inflows and promoting savings among rural people have driven the theme of "financial inclusion" worldwide. Financial inclusion aims to include more people in the banking process. In Bangladesh, where only 13 percent of the population has a bank account and 33 percent a mobile phone, relevant parties are considering using mobile phones to deliver banking to the unbanked. In such initiatives, bank-nominated agents perform banking activities, including opening a mobile bank account and providing cash.

Bangladesh Bank has greenlighted some commercial banks to do cash and other transactions beyond their branches through such nominated agents nationwide. Banks can nominate any establishment as an agent. However, using an established agent network, like that of mobile operators, NGO, post office, or courier, will be more manageable. BTRC, the national telco regulator, has also allocated short codes, which the customers and agents will use to communicate with the software in the bank's data centre.

The green signal to the banks mobile banking plan is a bank-led model. Each bank is responsible for its customers, known as KYC (Know Your Customer), and is the custodian of each customer's money and customer information. Banks are experienced in ensuring proper customer handling. Internal auditors and auditors from the central bank periodically check compliance, and regulators, law-enforcers and government are confident that if a fraud occurs, the account-holder can be identified within a few hours. Banks are very much trusted as custodians of deposits. Depositors do not hesitate to keep money with a bank.

The central bank has many mechanisms and regulation to ensure that when customers ask for their savings, banks are able to pay it. Such mechanisms include maintaining proper liquidity, Capital Adequacy Ratio (CAR), Cash Reserve Requirements (CRR) and Statutory Liquidity Ratio (SLR). These requirements help to keep the health of each bank in good condition and to protect the depositor's interest. Maintaining secrecy of the customer's information and amount deposited is a mandatory requirement of a bank. This is why no bank can afford to keep its customer database in shared software or in software systems installed and maintained by a third party. All Western countries, and our neighbours India and Pakistan, follow some type of bank-led model for mobile banking.

On the other hand, in a telco-led model, the telephone company is responsible for KYC of the customer, while the telco is the custodian of the depositor's money and information. However, they should keep an equivalent amount of deposited money with one or more bank (at a negotiated rate of interest). Kenya, Philippines and some other similar countries adopted telco-led model.

In a bank-led model, the main challenge is unhindered access to the telco network. The agents and mobile banking customers will interact with the systems of the Bank using cellular phones through the telco network. The network should be secure and very fast to carry out thousands of transactions in a second.

In the bank-led model, the telco needs to work with the banks in partnership to provide this support by updating their "unstructured supplementary service data" or equivalent channels, and by extending their network of retailers as bank agents. The telco may charge the banks for its connectivity and agent services, to earn revenue. Note that the SMS connectivity over a short code is not reliable for bank transactions.

The row over bank-led and telco-led model has slowed down the launching of the mobile-commerce service in Bangladesh. Banks have obtained short codes from the BTRC, but some of the telcos are not providing USSD connectivity through this code for banking transaction. BTRC may yet make such connectivity to the allocated short codes mandatory and fix a price for such services.

As the mobile banking is in its infancy in Bangladesh, the banks and the telcos should move forward very carefully and in unison. The central bank may outline some transaction limits, in terms of amount per instance and the number per day/month for the mobile banking customers. It may also provide guidelines for agent-selection criteria, minimal required information to be obtained for customer's KYC, KYC-verifying authority, maintaining confidentiality of the customer's information and minimum deposit to be maintained by the customers.

The dark part of the mobile banking is that the service will not be cheap either for the targeted poor rural customers or for the banks. The customers need to pay a fee to the agents and/or banks for each of the transactions in his mobile account. The banks must set up and maintain a mobile banking system with very high initial costs, due to configurations costs and necessary software and hardware. Banks also need to engage a large numbers of employees at each union/upazila level for verification of KYC and data entry. But the end result will be priceless -- the first truly unified and ubiquitous financial system in Bangladesh.

With all these impediments, we still believe that all the concerned parties and authorities should embrace the opportunity to bring our huge rural population into this banking channel.

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