

Bangladesh emerging as hotspot for suit making

REFAYET ULLAH MIRDHA

Bangladesh is turning into a lucrative destination for manufacturing high-end formal suits as foreign investment proposals are coming to the sub-sector, with China losing its competitiveness, industry insiders said.

The foreign brands are either sourcing the suits, formal jackets and trousers for men and women or establishing joint ventures in Bangladesh to tailor the suits.

The majority of the orders are being shifted from China, the world's largest apparel supplier, as the Asian manufacturing giant loses its competitiveness for high cost of production and shortage of workers in the readymade garment sector.

Ananta Group, one of the local garment giants in Bangladesh, is constructing a factory at Adamjee Export Processing Zone exclusively for manufacturing suits in joint venture with a Romanian company.

The suits tailored from the factory will be supplied to the exclusive European customers, said Asif Zahir, a director of the group. The factory is scheduled to start operations in September.

"The suit is a relatively new product on our export list. But, recently, orders for suits are coming to Bangladesh. Bangladesh is able to manufacture suits for high-end customers," he said.

He said it takes intense training to make the workers skilled for producing such specialised garment items for special markets. But such workers are not available in Bangladesh, Zahir said.

Zahir's factory aims to produce 1.5 million suits a year in the partnership factory worth \$20 million, he said.

A few days ago, a Japanese company willing to set up a suit factory came in Bangladesh, said a senior official of Japan External Trade Organisation (Jetro) in Dhaka requesting anonymity.

But the company now plans to outsource the suits from a local garment company for its high-end customers in Japan, as it failed to find any suitable land for its manufacturing unit, the Jetro official said.

The company wants to have an operation in Bangladesh, as its China operation has become expensive.

Currently, some factories make suits for domestic customers, although they have export potential, industry insiders said.

What's really wrong with Europe?

EDWARD HADAS

THE euro zone debt crisis shows that something is seriously wrong with Europe. But what is it? Most financial professionals think the problem is economic. They have long considered continental Europe something of a mess -- slow GDP growth, inept governments, smothering regulation and a culture that doesn't "get" markets. European residents seem equally gloomy, especially about the economy. In the most recent Eurobarometer survey, 71 percent of respondents did not expect the crisis to be over two years hence.

The economic worries of both financiers and citizens are misplaced. Even if the slow patch does last a few more years, the European economy will continue to do what a modern economy is supposed to do. European consumers are basically as well off as Americans after adjusting for longer European holidays and different lifestyle choices. There is probably greater justice in the distribution of incomes and consumer goods in Europe than in the United States. The euro zone's low trade deficits -- less in total since 1990 than the United States ran in the last six months -- suggest that Europe is globally competitive. Europe probably has a worse unemployment problem than the United States, but national governments are belatedly trying to remedy that.

Where Europe is really weak is not in economics but politics. A lack of political cohesion turned relatively minor financial problems -- one small reprobate government (Greece) and two small careless ones (Portugal

and Ireland) -- into a disproportionately large struggle to avoid a devastating financial meltdown. Despite the risk, politicians and bureaucrats spent years bickering. They may have finally found the necessary toughness and solidarity, but there are enough unanswered questions to suggest that further crises are a lively possibility.

The indecision and discord needs to be kept in proportion. Politically, Europe is far more stable than it was a century ago, when a much smaller trigger set off the First World War. It is more unified -- fiscally and financially -- than it was in that war's aftermath, when the anti-solidarity policy of reparations and the anti-flexibility of the gold standard wreaked havoc.

Still, Europe could do better. I suggest a three-pronged effort to make the region stronger.

The first is supposedly underway: balanced national budgets in normal economic times. An earlier effort to mandate this, the Stability and Growth Pact, failed, but the intervening crisis may have concentrated minds and strengthened resolve. If it hasn't, then the euro project is liable to topple over as soon as economic challenges arrive.

Second, national politicians and the European Central Bank should agree -- and state it publicly in no uncertain words -- that the fiscal compact implies that the cost of future national fiscal failures will be shared between debtor and creditor nations. There will always be disputes about how to apportion the losses, but those can be resolved if everyone accepts the principle of shared responsibility. A bad loan is a sign that both sides messed up. A multi-country currency union cannot



German Chancellor Angela Merkel (L) and Italy's Prime Minister Mario Monti give a joint press conference following their meeting at Palazzo Chigi in Rome on March 13. Monti brushed off reports that he could be nominated to lead the Eurogroup of eurozone finance ministers during a visit by German Chancellor Angela Merkel.

survive without solidarity among its members.

Third, Europe needs to make the economy the servant of something greater, something with more political resonance than a prosperity pact. A merely materialist agreement will always be vulnerable to economic downturns.

Half a century ago, when the predecessor to the European Union was founded, there was a good reason to emphasise economic unity: other sorts of multi-national convergence were much more challenging. Europe is not like the United States, which can boast of a single "American way of life" both culturally and politically. (US states' rights were effectively crushed 150 years ago in

the Civil War.) Nor is Europe like China, which established a national language and culture three millennia ago.

On the contrary, European nations have basically been moving apart for centuries, developing their own national languages and cultures. The nations often behaved like teenage gang members, convinced of their own superiority and always up for a mutually destructive fight.

After the biggest fight, World War Two, the peacemakers followed their profession's best practice: build trust by focusing on a common effort in the least controversial area -- the economy. It has worked, although almost every step has been difficult. The last step, the

merger of monetary and fiscal policies, proved traumatic.

But after 60 years of economic success, it should be clear that greater unity need not destroy national diversity. Italians may never be as much like Germans as New Yorkers are like Californians, or as Shanghaiites are like Beijingites. But Europeans should be able to find enough common ground -- if only as an entity able to hold its own against the United States and China -- to give the EU stronger support than mere economic self-interest. If not, there really will be something wrong with Europe.

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The future of Asian banking

ANDREW SHENG

THIS week was my first visit to Bangkok since the floods in December. The city seems to have recovered and the economy is on the mend. After an estimated 0.1 percent growth in real GDP in 2011, the International Institute of Finance (IIF) is forecasting a robust 7 percent growth recovery in 2012, helped by a multi-year fiscal stimulus that would bring the fiscal deficit to an estimated 5.5 percent of GDP for the fiscal year 2011-2012. The package of fiscal stimulus included a 40 percent hike in minimum wages from April and an aggressive cut in corporate income tax rate from current 30 percent to 23 percent and a further cut to 20 percent for 2013. This would put Thai corporate tax rate closer to those of its neighbours. The combination of increase in minimum wage rates and generous price support programme for rice mean that the government is serious about tackling income gaps and pushing consumption.

The purpose of the Bangkok trip was to debate the future of Asian banking business models. The central question is how to recycle Asian savings within Asia. Because of its demographics and prudence in consumption, East Asia has always run a net current account surplus, with its accumulation in savings placed largely in the advanced markets. Why can't some of these savings be used to fund much needed infrastructure within the region?

In 2003, Dooley, Folkerts-Landau and Garber named the current cross-Pacific arrangement Bretton Woods II, where Asia funded the US current account deficit by reinvesting its savings back in the advanced markets. This arrangement can also be called the Grand Bargain. Basically Asia swapped dollars for jobs for the youth entering the labour force and the exploitation of its natural resources. The Grand Bargain is ending as Asians realise that their holdings of dollars may be exposed to future depreciation.

tion and that Asian labour force and natural resources should not be cheap forever.

The Grand Bargain had implications for the advanced country banking business models. A deficit country will very soon find that its banking system must have loans/deposit ratios running higher than 100 percent, because the excess consumption has to be funded by credit. In Asia, the average loans/deposit ratio is lower than 100 percent, because savings are larger than debt. The American banking system had to shift from retail banking into a wholesale banking system, relying on securitisation of its assets (mortgages and loans) and selling them into the global market to fund its loan book. Quite a lot of AAA-rated securities ended up in European portfolios, because the prudent Asians stuck mostly to Treasuries. Thus, when the subprime crisis erupted in 2007, the European banks were one of the bigger victims.

There are good reasons why US and European banks evolved into leveraged wholesale banks turbocharged by derivative markets. Ninety percent of OTC derivative trading in the US are dominated by five large banks. Europe as a region accounts for 70 percent of total global interest rate derivative trading. The Atlantic banks went into proprietary trading and financing engineering because by the 1980s, under competition from the Japanese banks, net interest margin business (basically the margin between lending rate and deposit rates) became less and less profitable.

This shift out of traditional retail banking business was also due to the free market ideology to reduce market friction to zero by lowering transaction costs (such as transaction taxes and commissions). In the old days when brokers made money from fat commissions, they were willing to provide research for their customers. When margins became near zero with computerised trading, securities firms engaged more and more into proprietary trading and leveraged trading



Vehicles are seen in the congested traffic of Bangkok. Thailand's economy, affected by floods in December, is now on the mend.

in order to make money. Good quality research became scarce. Banks made more money from "pushing" derivative products to their retail investors, because they could earn more fees up-front and from granting credit to their customer from leveraged trading.

The combination of proprietary

than the real sector and therefore Too Big to Fail.

This change in culture was exemplified by the remarkable Op-Ed by Greg Smith, a former executive director in Goldman Sachs, published in the International Herald Tribune on March 15, 2012, which I read on the plane back to Hong Kong. He basically highlighted the debate whether one should be making money for the bank or making money for the client.

Because Asia as a whole did not run into deficit, the banking system has not strayed from its retail banking roots. After the painful lessons of the 1997-98 Asian financial crisis, Asian regulators have been much more cautious in allowing Asian banks to go the derivative route.

The game is changing dramatically because Asian interest margins are also beginning to be squeezed as competition intensifies. Some Asian banks are already being rapped on the knuckles for not paying enough attention to client suitability in selling inappropriate wealth management products to customers. So the debate on whether Asian banks should make more money from capital market business is very much on the table.

This raises a fundamental question which the current global regulatory reforms have not addressed. I have gone on record to say that if green engineers are paid less than financial engineers, will we expect a green economy to emerge before asset bubbles? Similarly, if banks are to serve their real sector customers better, what policies are required to induce them to make more money from real customer service than leveraged proprietary trading?

This means that regulators need to pursue less what banks should not do, but what business models are appropriate for the banks to serve the real sector better? This obviously requires the regulators and the industry to have a better conversation than the current lines of engagement.

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The combination of proprietary trading and leveraged derivative financial engineering morphed banking business away from being a trusted agent of the real sector into a competitor or principal that may trade sometimes in conflict against the interest of its customers