

Ashulia unrest baffles garment makers

REFAYET ULLAH MIRDHA and MD FAZLUR RAHMAN

A 10-day shutdown of garment factories in the wake of labour unrest in Ashulia in June dented the country's image as one of world's leading readymade garment exporters, industry people said yesterday.

They are at loss over the repeated labour unrest at the garment factories in Ashulia, although they strictly maintained labour standards and reasonably remunerating the workers.

"We even pay festival bonuses which are not covered by the labour laws," said one garment owner, citing the rarity of unrests in other industrial belts, particularly Gazipur.

The Ashulia garment owners suspect there is an influential group with vested interests behind the unrest. A lawmaker is accused of having a hand in the violence.

Their comments came at a discussion with The Daily Star at the newspaper's office in the capital.

"During the unrest, many buyers threatened to shift their order to other countries," said Shafiul Islam Mohiuddin, president of Bangladesh Garment Manufacturers and Exporters Association (BGMEA).

Mohiuddin mentioned an instance of one major American buyer trying to shift 50 percent of its orders to India, despite the production cost being 35 cent higher there.

AK Azad, president of the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI), said the unrest in Ashulia greatly concerned the buyers.

"After the unrest in Ashulia, they have become wary and are now closely monitoring all developments, including the political situation," said Azad.

Fazlul Hoque, president of Bangladesh Employers Federation, blamed local influential politicians for the

unrest in Ashulia.

He also questioned the role of labour leaders and urged them to play a constructive role.

"During the unrest in Ashulia, no labour leaders went there to mitigate the situation, ask the workers to stop the violence."

Abdus Salam Murshedy, president of Exporters Association of Bangladesh, said Ashulia-based factories are the model factories.

"Still, a majority of unrest takes place in Ashulia. This is happening regularly because there has not been any trial for the perpetrators of the violence so far," he said, calling for an investigation into the matter.

Mohiuddin said the violence at the industrial belts discourages youth from taking up jobs at the garment factories.

"Every factory is already running with a 25 percent shortage in workforce. Parents do not want to send their children to garment factories thanks to the violence of which there has been a huge coverage in the media," he said.

"There are even examples of trainees leaving the factories despite undertaking the requisite training," he said.

The BGMEA chief does not want that the reputation of the sector to be tainted further.

"We are closely working with labour organisations and the government to narrow the gap between the owners and the workers," he said, acknowledging communication problems generating from mid-level management who are not adequately trained.

"It would be unfortunate if the country's garment factories fail because of hostile environment created," he added.

Mohammad Hatem, vice president of Bangladesh Knitwear Manufacturers and Exporters Association, also spoke.

Libor: the saga of recession continues

KINGSHUK NAG

EVERY time a catastrophe is reported in the financial markets, invariably banks have a role to play either directly or indirectly as such bankers have earned a new title, bankster, with the suffix possibly hired from the word scamster. Lately, a scandal has put the banking industry in tenterhooks and additionally the human resources function of the banks in overdrive. It surely must be hard work issuing mass pink slips to blemished traders in the wake of the Libor scandal which some consider as "The Crime of the Century". Surely someone for the stature of Bob Diamond, who led Barclays to being one of the top international banks in just over a decade, signing the pink slip is just a precursor to the global headwinds faced by the banking industry.

Until news of the Libor manipulation broke across all forms of media, we thought that the financial markets were going through a serious breakdown and a resultant of threadbare economic decisions. But now signs of dishonesty and greed are seen as the major drivers in pushing the global economy to its deepest trench ever. However, the suppression of the Libor rates was brought to the knowledge of the regulatory bodies on both sides of the Atlantic as and when it happened by Barclays in early 2008. Nevertheless, the revelation that the suppression was carried out allegedly on the orders of Paul Tucker, deputy governor of the British Central Bank, to ease tensions on the financial stability of the broader economy is nothing but startling. Consequently, it is becoming more and more difficult to escape the questions post the Libor scandal especially if your livelihood arises from one of the cubicles stationed in the dizzy structures of Canary Wharf.

Libor or the London Inter Bank Offered Rate is a lending rate benchmark at which banks can borrow and lend funds among each other. Every weekday, member banks of the British Banker's Association (BBA) submit a rate to the BBA that they would pay if they sourced funds from another bank by 11am London time. Thomson Reuters on behalf of the BBA calculates the benchmark rate by dumping the top quarter and the lowest quarter and averages the residual submissions. Banks usually quote Libor plus an additional percentage on borrowings and the additional percentage is a reflection of the creditworthiness of the borrower. As a result of loans and derivatives being tied to the Libor worth hundreds of trillions of

dollars, any manipulation in the Libor rate will invariably lead to a financial mess.

On June 28, Barclays, UK's second biggest bank, was levied a hefty fine of \$450 million after it admitted to charges of false submissions in Libor and Euribor rates between 2005 and as late as 2010 according to the notice given by FSA UK. Every day a team of submitters at Barclays as per the liquidity situation in the market decides on the rate it will pass on to Thomson Reuters for the estimation of the final Libor rate and the submitters are supposed to act autonomously. However, the derivatives traders at Barclays made numerous requests to influence the rate to be submitted to Thomson Reuters on the basis of their long/short positions. The FSA examined 111 such requests made by the derivatives traders to the submitters between 2006 and 2007 and



more than 75 requests were entertained by the submitters. Such requests in exchange for a cup of coffee were not only limited to insider requests but also from traders of other banks who offered a higher bait in the form of an exquisite Bollinger champagne.

Such requests that altered the submissions by a basis point were enough for any bank to pocket a couple of million dollars given the size of the contracts in the derivatives market. Although reports reveal that traders fiddled with the benchmark rate to earn higher profits, it is also true that it was done to ease tensions that majority of the banks suffered from liquidity crunch post the Lehman Brothers crash. Libor is a major indicator on the financial health of markets and if Libor goes up, so does the anxiety among market participants. At the height of the economic crisis in 2008 when the Libor was rigged by market participants, the rate reached a high of 6.25 percent reflecting the uneasy situation of banks to lend among each other. Apart from these, Barclays traditionally submitted higher rates much to the dismay of the market participants and was compelled by the negative press to eventually submit lower rates.

A combination of market good, individual gain and synchronisation with market rates by Barclays led to widespread tampering of the benchmark interest rates. The fiddling of the rates happened in collusion with other market participants that depicted a pseudo picture of the health of the financial markets during the Lehman crisis.

As such trillion dollars worth of derivative instruments, loans and mortgages tied to the Libor are expected to lose or gain money out of the unrestrained setting of the world's most widely used benchmark interest rate. For instance, a US mortgage borrower on one hand would be paying lesser monthly instalments and on the other would get lesser interest income if his pension funds lent money to the banks due to the suppressed lower interest rate. Already hundreds of pension funds, states and cities in the US are counting the costs and leading the crusade is Baltimore City in the US claiming to have been "robbed" of millions of dollars. Nonetheless, it remains to be seen whether the mortgage borrowers who doled out lesser interest payments will be kind enough to calculate their profits and give it back to the greedy but needy banks.

Amid the sheer ruckus in the financial markets, one section of professionals are facing insatiable demand for their skills as legions of attorneys are expected to represent their clients in filing and defending a series of lawsuits against or for the banks depending on the sides they choose to stick with. Cities, pension funds and hedge funds in the US are already lining up in federal courts to recover their profits lost due to the suppression of the benchmark interest rate. More than a dozen banks valued at trillions of dollars are under the scanner and the lawsuits threaten to push the profitability of the banks out of the window landing them in huge debts in order to settle the lawsuits. This in effect will potentially turn the road to global economic recovery off track and should be enough to bring back memories of the Great Depression to life.

The writer is a banker and can be reached at kingshuk_nag001@yahoo.com.

Can Super Mario save the euro?

HUGO DIXON

CAN Super Mario save the euro? Mario Draghi said last Thursday that the European Central Bank's job is to stop sovereign bond yields rising if these increases are caused by fears of a euro break-up. While this represents a sea-change in the ECB president's thinking, it risks sowing dissension within his ranks. He will struggle to come up with the right tools to achieve his goals.

Draghi seemingly stared into the abyss and had a fright. Spanish 10-year bond yields shot up to 7.6 percent on July 24 while Italian ones rose to 6.6 percent. The high borrowing costs are not simply a reflection of the two countries' high debts and struggling economies. Investors also fear "convertibility risk" -- or the possibility that the euro will break up and they will get repaid in devalued pesetas and liras.

The central banker's statement that dealing with convertibility risk is part of the ECB's mandate is therefore highly significant. He rammed home his message, saying: "Within our mandate, the ECB is ready to do whatever it takes to preserve the euro. And believe me, it will be enough."

Markets responded swiftly. Spain's borrowing costs fell to 6.8 percent, while Italy's dropped just below six percent. But these yields have to drop below five percent -- and stay there -- before confidence in the euro project will return. What's more, it's unclear what Draghi will actually do.

One possibility, immediately latched onto by investors, is that the ECB will relaunch its programme of buying government bonds in the market. But such an operation would be tough to calibrate. If the ECB was prepared to do whatever it took to drive yields below a certain level, the pressure



Mario Draghi

would certainly be off Spain and Italy. But politicians might then stop reforming their economies. When the ECB bought Italian bonds last summer, that's precisely what happened.

That's why Germany's Bundesbank, which has a powerful voice within the ECB but no veto over its actions, is opposed to bond-buying potentially setting the stage for a stormy meeting when the ECB governing council meets to discuss what to do on Aug 2. It's not yet clear how big a spoke the German central bank will be able to put into Draghi's plans.

On the other hand, if the ECB made its support conditional on good behaviour, investors might not be reassured. Their anxiety would be heightened if central bank bond-buying pushed private creditors down the pecking order. That's what happened when Greece's debt was restructured earlier this year: private bondholders suffered big losses while the ECB theoretically stands to make a profit. A half-hearted bond-buying programme might therefore simply encourage investors to dump their holdings on the ECB while having no lasting effect on Spain's and Italy's borrowing costs.

Draghi may think that the two countries' current leaders Spain's Mariano Rajoy and Italy's Mario Monti -- are more serious about reform than their predecessors Jose Luis Rodriguez Zapatero and Silvio Berlusconi. But even the new leaders have shown signs of losing momentum. Rajoy's latest spurt of action -- further budget-tightening and a plan to recapitalise the country's struggling banks -- only occurred because his back was to the wall. In Italy, meanwhile, Monti says he will stop being prime minister next spring. It's not clear whether his successor will be committed to reform.

For these reasons, Draghi seems reluctant for the ECB just to buy bonds on its own. Rather, he seems to want to do so in combination with the euro zone's bailout funds, which have the ability to buy bonds directly from governments -- something the ECB is banned from doing. One advantage is that Madrid and Rome would have to sign memorandums of understanding setting out their reform plans in order to access the bailout funds. It would then be easier to hold them to their commitments.

A further idea, reported by

Reuters, could help deal with private creditors being pushed down the pecking order. Policymakers are working on a "last chance" option to cut Athens' debt -- involving the ECB taking a haircut on its Greek bond holdings. If that happened, investors would worry less about being unfairly treated if Spain or Italy ever needed to restructure their debts. They might then not view bond-buying as the perfect chance to offload their holdings onto the public sector.

The two-pronged approach is preferable to the ECB buying bonds solo. But it would still put the central bank in the front line of rescuing governments. A better approach would be to scale up the euro zone's bailout funds and get them to do the entire job of lending to Spain and Italy, if they need help. This could be achieved by letting the soon-to-be-created European Stability Mechanism (ESM) borrow money from the ECB.

Draghi should prefer lending to the ESM than buying Spanish or Italian bonds because, if either country got into trouble, the bailout fund not the ECB would take the first losses. Unfortunately, the ECB said last year that extending loans to the ESM would contravene the Maastricht Treaty -- a position Draghi himself repeated after he took over as president, even though there are plenty of lawyers who think the opposite.

Super Mario is now warming to the idea of lending to the ESM, according to Bloomberg, even though that's not part of his immediate plan. If Draghi does this, he'll have to find a way to eat his words without losing credibility. If not, he will have to rely on second-best options with all their drawbacks. Mind you, it's the job of super heroes to get out of tight spots.

Hugo Dixon is the founder and editor of Reuters Breakingviews.

Chidambaram: India's reformist new finance minister

AFP, New Delhi

INDIA'S new finance minister P. Chidambaram is a Harvard-educated former lawyer from a wealthy southern family picked to help reform India's economy as it battles slow growth and galloping inflation.

Chidambaram, who is set to begin his third stint as finance minister, has robustly defended the government's commitment to pro-market reform and its ability to revive the once-booming economy.

"This government will get India out of the present trough. We will get back to high growth," he told reporters earlier this month.

Born on September 16, 1945 into an aristocratic family in southern India, Chidambaram studied law in the city of Chennai before heading to the United States to pursue an MBA at Harvard.

While working as a lawyer, he joined the ruling Congress party in the late 1960s and led a trade union until then prime minister Rajiv Gandhi asked him to serve as deputy commerce minister in 1985.

Chidambaram, whose first name is Palaniappan, once described himself as "a committed socialist" until the late 1970s.

"At the end of that period, I knew that that whole approach had failed, he said in a 2001 interview with the US television network PBS.

"I was observing it both as a member of a political party, the ruling party, and as a lawyer handling real live cases in court involving government on the other side," he said.

By the time he joined the government in 1985, he was devoted to reforming India's heavily regulated and state-controlled economy, a legacy of dominant socialist thinking in post-independence India.

Displaying an independent streak, he quit the Congress party in 1996, annoyed with the leadership over its alliance with his longtime regional rival Jayalalithaa.

He followed this up with his first stint as finance minister of a short-lived coalition government from 1996-1998, a role



P Chidambaram

that thrust him into the spotlight.

During this period, he unveiled a budget hailed by economists which cut personal and corporate taxes, but increased revenues by widening the tax net and encouraging entrepreneurship.

In 2004 he returned to the Congress party, following which Prime Minister Manmohan Singh appointed him finance minister again from 2004 to 2008.

His pursuit of economic development and pro-business policies have led to brickbats from left-wing parties that the former socialist has forgotten about the plight of the poor.

"People are being deceived to believe that the existing state of life is an ideal state of life and development and industrialisation will make it worse," he said in a 2008 interview with the Indian weekly Tehelka.

"They live in abject poverty and you want me to accept the argument that if you set up a steel plant or mine the minerals there, they will become even poorer? What are we talking about?" he said.

The outspoken father-of-one wins plaudits from supporters for his discipline and daring, while his detractors say his self-confidence tips over into arrogance and an inability to tolerate criticism.

He took over the home ministry in 2008 with a mission to shake up a vital ministry whose dysfunctional organisation was exposed in the 2008 Mumbai attacks that left 166 dead.