A quagmire of economic problems

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THE Indian finance minister was quoted recently as saying "I am concerned, not depressed" on the sidelines of the underperforming economic giant. Still, Germany and the BRICs are probably the only consortium of nations left impervious to the global recession that began half a dozen years back. But with Germany being forced to underwrite the massive EU debt and Chindia's growth tapering off drastically to record lows, immunity to the global headwinds is now a thing of the past.

In Bangladesh however, the economic conditions have led even the most optimistic jingoists to consider having "anti depression" tablets to resuscitate life back to their sanguinity. Although inflation numbers have officially touched single digits, the grocery markets in my locality continue to charge essentials double its price from last year. Even the most economical of economic restaurants that found my taste buds wanting every weekend has not only hiked the price of its entrée but also reduced its quantity much to my displeasure.

Surely it has been frail times for Bangladesh's economy and with the stock markets continuing to go south, every common man wonders how long can they survive in an economy which offers little hope. As resident economists are rolling out their free services probably to be the first economic adviser to the PM, a magic panacea is something that still eludes many in putting Bangladesh back to its feet. The economy stands on a thin thread with multiple issues plaguing the country ranging from feeble export markets, volatile energy and food prices to falling forex reserves, rising subsidies and increased government borrowings.

It is often said that a country's capital market acts as a barometer of its economic health. If that is true, Bangladesh is in a state of coma. The stockmarket crash that began in December 8, 2010 caused many investors to take to the streets as the index fell from a high of 8,500 to 7,000 points. As I speak or rather write, the index stands at 4,200 and the few retail investors that braved their creditors until now are probably looking to end their "Riches to Rags" journey soon. The country's central bank by adopting a restrained monetary policy to curb inflation has sucked liquidity out of the market and a controlled divergent stance is the only way to perk up the markets.

STAR/FILE

High consumer prices take a heavy toll on ordinary people.

In February this year, a sibling of mine was supposed to pursue his higher education abroad but with a 15 percent depreciation of the taka against the US dollar in a space of few months quashed his dream forever. For him and many others who secure that coveted admission letter from their dream university, they often overlook the impact of currency volatility. On the back of higher petroleum imports for diesel run power plants, capital machinery imports and steep decline in foreign aid at the end of last year, the taka witnessed a major depreciation vis-à-vis the dollar. Although the taka has clawed back some its depreciation, it is still susceptible given the demand for imports are price inelastic. The Indian rupee has suffered a 25 percent fall this year against the dollar and the Indian govt is contemplating to introduce a dollar bond with higher interest rates to attract non-resident Indians. Resurgent India Bond of 1998 and India Millennium Deposit of 2000, previously introduced by the Indian government, channelised $10 billion into the Indian economy immediately arresting the rupee's slide.

The readymade garments industry has for long been the bedrock for Bangladesh's exports but inclement weather both at home and abroad is ruffling feathers sparing none. At home, minimum wages fixed for the workers about two years back have not been able to commensurate the rise in rent, food and other essential items for their consumption. With inflation reaching its highest levels in 15 years in January, it was only a matter of time when Ashulia, a major RMG belt, went up in arms demanding a wage hike. Outside home, Bangladesh's two major export destinations, Europe and US, are experiencing a major slowdown in their economies and the situation is not expected to improve in the short to medium term amid the EU debt crisis. To substantiate the inclement weather in figures, Bangladesh's exports experienced a downturn three months on the trot since March this year. In March this year, exports dipped by 7 percent followed by another 7 percent in April with May declining by 4 percent compared to a year earlier mirroring the subdued state of the EU-US economies.

Fiscal profligacy in the form of huge subsidies to shield the end consumers from rising global energy and food prices has led the S&P to issue a warning on Bangladesh's fiscal prudence. At present, the government shoulders subsidies amounting to Tk 24 per litre on diesel, Tk 16 for furnace oil and Tk 2.78 per unit for electricity. The government in the past year or so has tried to hike prices of such essentials but the amount of subsidies refuses to pare down to sustainable levels. Case in point is Bangladesh Petroleum Corporation which received a massive $1.1 billion in subsidies in the fiscal year ending this June against $500 million it received in FY 2010-11. This massive layout in subsidy is partly due to the fuel required to feed the newly built oil-based power plants and partly due to the rising global oil prices after a halt in oil production in the Middle East-North Africa region as an aftermath of the Arab Spring.

The subsidy allocation for FY2012-13 is estimated to be around 2.5 percent of GDP and one way to fund the massive subsidy is through increased government borrowings. The government plans to borrow a massive $4 billion for FY2012-13 as against the $3.5 billion borrowed last fiscal year. This has already led to crowding out of private sector investment and increased the odds of an impending rise in interest rates thereby halting the process of development in crucial sectors.

To the common man, they could not care less of the recent inflation or GDP numbers for what they strive for is enough wherewithals to support three square meals and a roof to call home. On the contrary the donor and credit rating agencies could not care less of the populist measures in the form of a massive subsidy establishment. It is tough managing the finances of a country wherein any subsidy cut and/or adoption of an expansionary monetary policy might cause inflation rates to soar threatening to send scores of people below the poverty line. On the income side, Bangladesh's total revenue collection stands at a mere 13 percent of the country's GDP and an increase in taxes to mobilise resources for increased revenue threaten to unseat the ruling party given elections are due in 2013. Bangladesh is engulfed in a quagmire of economic problems and the situation that confronts us makes me strongly deem that being the finance minister of Bangladesh is the least favoured in anyone's career wish list.

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India cuts airwave auction base price

REUTERS, *New Delhi*

THE government on Friday reduced by almost a quarter the minimum bid price in an auction for mobile airwaves, failing to appease carriers hoping for a deeper cut.

The country is selling 2G airwaves through open auction for the first time after the Supreme Court said a 2008 government grant process was flawed and ordered all 122 zonal permits to be revoked.

"We are quite disappointed," Rajan Mathews, director general of industry lobby Cellular Operators' Association of India told Reuters, adding a high auction price will hit carriers' margins.

"The reserve price will mean we will have to raise upwards of 3.2 trillion rupees in additional debt."

Most carriers in the once-booming sector are bleeding after a sharp drop in call prices due to cut-throat competition, while banks have been wary of lending to the sector hit by regulatory uncertainties after the 2008 licensing scandal came to light.

The auction base price was set at 140 billion rupees, or at about 7.4 times the 2008 price, for 5 mega hertz of second-generation airwaves in the 1800 MHz band, in which GSM-based mobile carriers operate, for all of India's 22 telecoms zones, telecoms minister Kapil Sibal said.

The cabinet, however, decided to continue with the existing annual airwave usage slab of between 3 and 8 percent of companies' revenue, higher than a flat 3 percent rate suggested by the sector regulator.

The base price is a 23 percent cut from the telecoms sector regulator's proposed price of 181.1 billion rupees. Carriers campaigned for an 80 percent cut.

The decision to lower the base price was aimed at sending a positive signal to investors, Sibal said.

"We want to ensure further investment in this country."

Sibal expected the final auction bids to be "much higher" than the base price.

The government has budgeted about $7 billion from the auction in the fiscal year to March 2013 to help narrow its fiscal deficit. At the same time a high price does not augur well for companies who are already pressured by heavy debt. The Supreme Court's order affected eight carriers including the Indian units of Telenor and Sistema, as well as Idea Cellular.

Telenor and Sistema have threatened to pull out of India if the auction becomes too costly. On Friday, Telenor said it still has not decided if it is going to stay in India.

For airwaves in the 800 MHz band, which is currently used by CDMA-technology based carriers such as the Indian unit of Russian conglomerate Sistema, the cabinet

India's online grey market for US clothing brands

REUTERS, *Mumbai/Chicago*

WHILE India's politicians dither over rules allowing foreign retailers into the country, some online stores are already selling discounted clothing from companies such as Abercrombie & Fitch Co that have yet to officially enter the market.

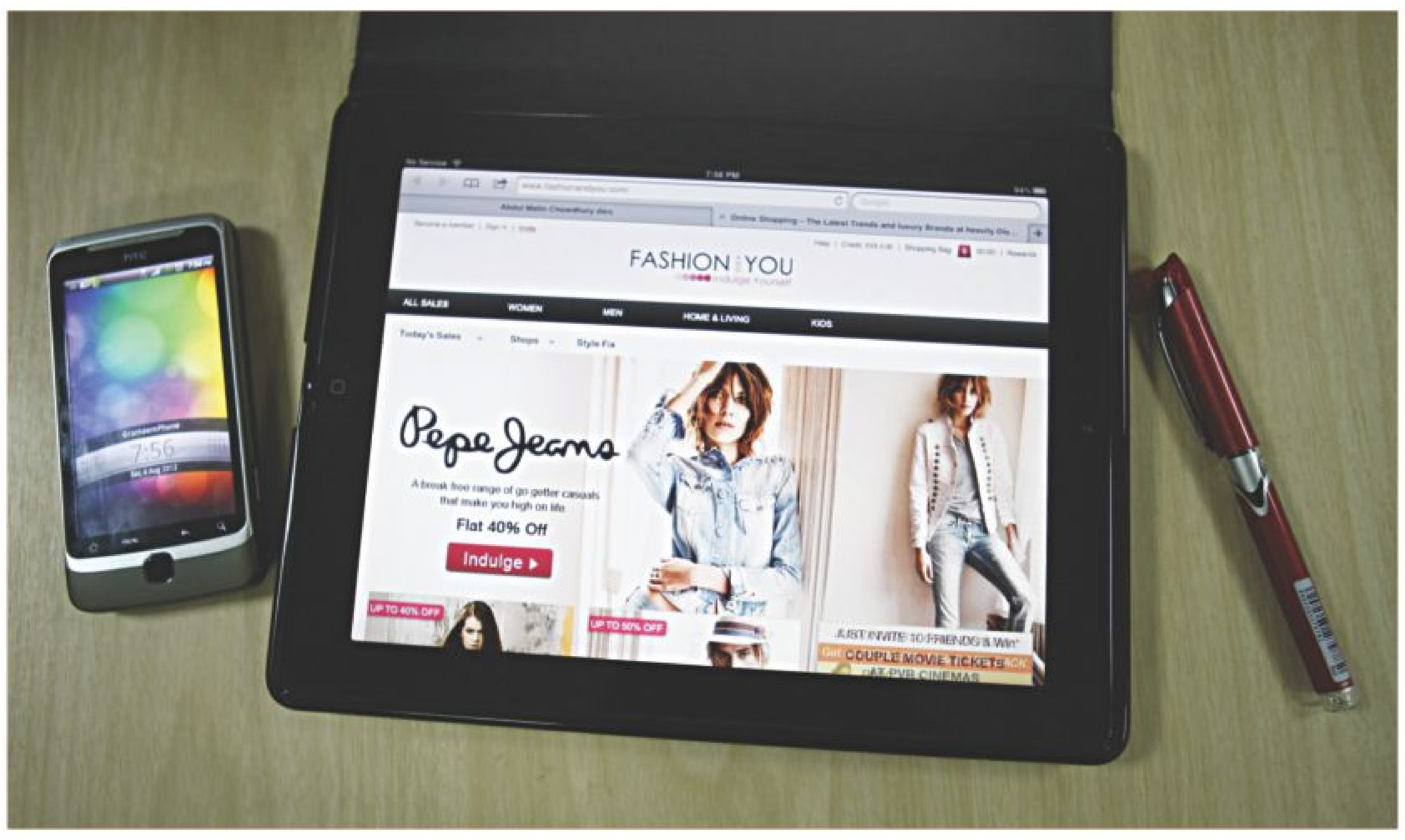
Homegrown start-ups including fashionandyou.com, myntra.com, snapdeal.com, dealsandyou.com, yebhi.com and HomeShop 18 -- which is eyeing a US initial public offering -- are introducing India's growing middle class to mid-market US brands, at discounts of more than 50 percent.

Reuters interviewed nearly two dozen online retailers, distributors and officials from US and Indian firms to try to determine how some of the hottest Western clothing brands, including Abercrombie, American Eagle Outfitters Inc and Aeropostale Inc, ended up for sale on these websites.

None of these US chains have opened stores in India, and they have no official licensees. Abercrombie and American Eagle said Indian websites were not authorised to sell their products.

"Our brands do not have any authorised third party websites anywhere in the world; all of our stores and official websites are owned and operated by A&F directly -- we do not license or franchise our front-line sales," Abercrombie said in a statement to Reuters.

A unit of online daily deal company Groupon Inc in India stopped offering some Abercrombie and American Eagle clothing in July following questions by Reuters.



RASHED SHUMON

The website of Fashion and You, an Indian online store for clothes, is pictured on an iPad.

Some of the clothing available on Indian websites found its way through distributors in Asia, the Middle East, Europe and the United States who buy off-season or overstocked merchandise and sell it in countries where they hope demand is higher.

In other instances, online retailers bought from local manufacturers who supply the global brands. Those manufacturers are not supposed to sell apparel with name-brand labels, two Indian lawyers said.

"What will happen is when these (foreign) brands eventually decide to come to India they will blacklist these sites," said Darshan Mehta, chief executive of Reliance Brands, one of India's biggest retailers of foreign brands and controlled by its richest man, Mukesh Ambani.

For clothing companies waiting to get into India, where a complex set of rules limits foreign investment, the online retailers can provide a useful consumer testing ground.

But once foreign companies launch their own business in India, usually through joint ventures or licensing agreements, they typically become proactive in stopping unauthorized sales and are quick to take legal action to shut down those channels.

Harminder Sahani, managing director of retail consultancy Wazir Advisors in Gurgaon, India, said brands that have managed to navigate India's restrictions on foreign retailers and enter the market have been successful in stopping unlicensed sales.

"No one sells Tommy Hilfiger online at discounts any more, not Calvin Klein, not Zara," Sahani said. "All those brands already have a presence in India and they won't allow it."

The branded clothing that Reuters found for sale in India's fledgling $10 billion e-commerce market does not appear to be counterfeit. Some of it arrives in India through distributors who may be licensed to sell in their home country but not in India.

"There are goods that get procured from the Bangkok-Dubai grey market, also from regional consolidators who may not have the right to sell them here," said Arun Sirdeshmukh, founder of Fashionara.com, a new entrant into the online retail market.

Sirdeshmukh said his firm buys its merchandise directly from foreign companies that are present in India and that allow sales of their brands on these platforms.

"It's because everybody wants to run the cheapest sales online... It is a problem that impacts the credibility of the industry but not every website does it," he said.

Few online retailers contacted by Reuters acknowledged the practice of buying goods from unlicensed sellers, and most declined comment for this story. HomeShop 18, myntra.com and yebhi.com declined to comment while dealsandyou.com and snapdeal.com did not reply to requests for comment.

Jennifer Pritchard, a consultant at Alvarez & Marsal in Atlanta and a former executive with clothes retailer Chico's, said US retailers often send unsold goods to Asia.

"When we've had too much inventory in the US, we have shipped it overseas to Asia in truckloads," she said.

What makes India's situation unusual is that the rules governing how foreign retailers can enter India are in flux.

Full ownership was allowed in January, but the government tacked on a rule requiring firms to source 30 percent of their products locally, which discouraged many chains.