

# China to become major RMG export market for Bangladesh

STAR BUSINESS REPORT

**B**ANGLADESHI readymade garment exports can hit the one billion dollar-mark within the next few years due to China shifting their production focus from basic to high-end garment items.

"Since Bangladesh is a strong player in the basic segment of the market, it can grab a share of the 1.3 billion Chinese customers," said Feng Dehu, vice-president of China National Garment Association, who is currently leading a high-powered Chinese business delegation to Dhaka.

China, the leader in global apparel exports, is increasingly shifting its focus to manufacture of high-end garment items due to spiralling wage rates.

As a result, the country has become an attractive market for Bangladeshi readymade garment (RMG) products, Dehu purported, adding that the Chinese middle-income group are now being catered by imported garment items.

"So, it will not be difficult for Bangladesh to export one billion dollar worth of garment items to China in the next few years," Dehu said.

China's annual garment output clocks upwards of \$300 billion, according to Dehu, and their garment exports in 2011 stood at \$143 billion.

"Given the current state of the Chinese market, one billion dollar worth of garment export is too small. I am hopeful the exports



Commerce Minister GM Quader speaks at a press conference with a visiting Chinese business delegation at BGMEA office in Dhaka yesterday. BGMEA President Shafiul Islam Mohiuddin and leaders of China National Garment Association were also present.

will be more," Dehu said at a joint press briefing at the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) office in Dhaka.

At the briefing BGMEA president Shafiul Islam Mohiuddin said Bangladesh exported \$102 million worth of garment items to China last fiscal year, which was almost zero as recently as the fiscal 2008-09.

On July 1, 2010 the Chinese government offered duty-free facility to 4,721 Bangladeshi products, mainly garment items, after which exports to China have been on a steady rise.

China is not only important to Bangladesh as an export destination, but of late it has become a source of foreign direct investment as well.

"A number of Chinese entrepreneurs are coming to Bangladesh to set up garment and textile factories," the BGMEA chief said.

Bangladesh's RMG exports are still concentrated in the North American and European region, with the percentage being upwards of 87 percent, according to Mohiuddin.

"It is a high-risk factor for the sustained growth of our industry.

Unforeseen phenomenon like the global recession is also a major source of risk, given the overwhelming market concentration."

Commerce Minister GM Quader assured the visiting Chinese business delegation of all the support necessary for setting up factories in Dhaka.

"We need to diversify both of our products and market," Quader added.

In fiscal 2011-12, total exports to China from Bangladesh stood at \$320 million, while imports registered were \$5.9 billion, BGMEA data suggest.

# Should CRR be phased out?

An analyst asks whether CRR is necessary

DH PAI PANANDIKER

**B**ANKERS have always looked at cash reserve ratio (CRR) with scepticism. The reason is that this part of the deposits which the banks have to keep with the Reserve Bank of India does not earn interest.

SBI Chairman Pratip Chaudhuri was quite candid about it. "CRR does not help anybody," he said, "it is locked up in the vault and not ploughed back into the economy... it needs to be phased out as it does not earn any interest income and increases pressure to earn more from remaining resources". The RBI was quick to retort. Deputy Governor KC Chakrabarty bluntly remarked that Chaudhuri "has to find some other place" if he could not work within RBI regulations.

The loss of interest on CRR is not the major issue. A more basic question is whether CRR is at all necessary and, if not, should be phased out.

Not all central banks follow the same practice. In the United States, the reserve requirement is in respect of transaction (current) accounts and is at about 10 percent. There is no reserve requirement for time deposits. In the UK, it is voluntary. Even so, banks do keep reserves to have enough liquidity to prevent any sudden increase in cash outflow which can result in a run on the bank. On average it is about 3 percent. In the euro zone, the reserve requirements are at 1 percent.

Generally, central banks in the US and EU do not change the reserve requirements and liquidity is regulated through open market opera-

tions. CRR serves two objectives. First, it helps the banks to have enough cash to meet any eventuality. Second, it enables the RBI to regulate liquidity in the banking system and try to control inflation.

Banks in India are also required to invest 23 percent of the deposits in government securities. This ratio, called the statutory liquidity ratio, is also a policy target set by the RBI. This risk-free investment improves the risk quality of banks' assets. In the absence of CRR and SLR, banks can come under unexpected danger as was realised by investment bankers in the US in 2008.

Reserves are necessary. That is why in spite of the absence of compulsion in the UK, banks maintain reserves. Reserve is a precaution. What the level should be is a matter of judgment on the part of the banker. Three percent could be a good enough back-up. Also, both the CRR and the SLR should be stable ratios which can be changed only in exceptional conditions.

Chaudhuri has been concerned about the interest foregone by banks on CRR. In the absence of CRR, banks would, in any case, keep reserves in the cash vault. Hence, reserves up to 3 percent should be interest free; reserves above that level should be eligible for interest payment.

That leaves the RBI with open market operations to control liquidity and the repo to regulate the interest rates. Both are effective instruments and together make a complete package.

DH Pai Panandiker is president of the RPG Foundation.

# How can Sahara group pay back \$3b?

JEFF GLEKIN

**T**HE Supreme Court has struck a blow for the little man. Judges have ordered the conglomerate to refund more than \$3 billion it had raised from millions of small investors. Add in 15 percent interest, and the bill could be as high as \$5 billion. The question is how the sponsor of India's cricket team and owner of New York's Plaza hotel will comply with the ruling.

The case is a high-profile test for India's financial system. In 2008, two unlisted Sahara group companies, with paid up capital of less than \$20,000 each, began raising funds through an instrument known as an optionally fully convertible debenture (OFCD). Sahara argued the fundraising was in the form of a private placement. The Securities and Exchange Board of India countered that a private placement should be for a maximum of 50 investors -- not 23 million.

The sums raised by the politically well-connected Sahara group exceed the amount raised in India's largest ever IPO, that of Coal India. Its largely rural investors exceed the total number of retail investors for India's entire universe of listed stocks.

While the outcome of the case is positive, it still raises serious questions over how such a huge mobilisation of funds was allowed to take place at all. Investors were sold a product that benefited from neither the protection associated with a public issue nor the safeguards a depositor would get from putting money in a bank.

The case also highlights the fact that very large quantities of money in rural India is looking for a savings home. India's rural savers deserve better than Sahara. And unless the money is paid back swiftly their confidence in the financial system could take a serious dent.

So how will Sahara manage to return the cash? Over a third of the sum raised through issue of OFCDs has been invested in Aamby Valley, a luxury township project developed by the group in Maharashtra, according to annual reports for the year ended June 2010. Sahara has always maintained that if it loses the case that it has sufficient liquidity to pay the



Subrata Roy Sahara, chairman of Sahara India Pariwar.

sum back in full. For the sake of India's financial system, it needs to make good on that promise - soon.

### HIGHLIGHTS

- The Supreme Court on August 31 ordered the Sahara conglomerate to refund more than \$3 billion it had raised from millions of small investors, reaffirming an order from the capital markets regulator on 30 August.
- The Supreme Court also ordered Sahara to pay 15 percent interest to investors on their deposits, a lawyer on the case said.
- Two unlisted group companies of Sahara, which has interests ranging from financial services and housing to media and sports, had between 2008 and 2011 raised a total of 177 billion rupees from 22 million small investors through an instrument known as an optionally fully convertible debenture.
- The Securities and Exchange Board of India last year ordered the group companies to refund the money, with 15 percent annual interest, after it found that the fund-raising process did not comply with rules.

The author is a Reuters Breakingviews columnist.

# Coffee giant Starbucks taps into tea-loving India

AFP, Mumbai

**S**TARBUCKS is betting on big returns as it seeks to lure an expanding legion of coffee lovers in India -- primarily a tea-drinking nation where lifestyle changes have spawned a booming market for the drink.

After eyeing the Indian market for years, the world's largest coffee chain is planning its foray into the country later this year, with an initial \$78 million investment to tap the country's fast-growing appetite for the drink.

"Coffee has changed from being a traditional beverage, consumed mainly in south India, to a mainstream beverage with a national presence," said Starbucks' China and Asia-Pacific president John Culver.

"Given the size of the Indian economy, the growth of cafe culture and the rising spending power, India will be a very large market over the long term," he told AFP in an emailed interview.

In a traditionally tea-drinking nation, India's annual per capita coffee consumption of 82 grams (three ounces) is far below that of 6.79 kilograms (15 pounds) in Germany and 5.87 kg in Brazil, according to data from the International Coffee Organisation.

But appetite for the bitter brew is growing amid an explosion of hip Western-style cafes catering to the country's young consuming class who offer significant opportunities for investment with their rising disposable incomes.

In addition to the Indian-owned Cafe Coffee Day chain which dominates the market, foreign chains such as Britain's Costa Coffee and American brand Coffee Bean and Tea Leaf are well-established in major Indian cities.

Along with its distinctive



Customers wait in line to place their orders at a Coffee Bean and Tea Leaf outlet in Mumbai. Starbucks is betting on big returns as it seeks to lure an expanding legion of coffee lovers in India.

green-siren logo cups, Starbucks has vowed to tackle competition with "locally relevant" flavours as it adapts its menu to suit local taste buds, following similar moves by other large chains in India.

US outlets such as Pizza Hut and McDonald's have "Indianised" their offerings, selling Indian cottage cheese pizzas and spicy potato burgers to woo subcontinental consumers.

But analysts offer mixed forecasts for the Seattle-based brand which is teaming up with local player Tata Global Beverages to enter the Indian market.

"The Tatas have tea and coffee plantations, but little experience in operating coffee chains," said P Phani Sekhar, fund manager at Angel Broking, adding the alliance would have to "be street-smart and nimble in deci-

sion-making".

Sekhar said spiralling real-estate costs could also be problematic, with Indian cities such as Mumbai recording a sharp rise in property prices in recent years.

"The prohibitive costs... could affect store profitability and make (achieving) break even more challenging," he said, adding that this could complicate Starbucks' expansion plans into smaller Indian cities and towns.

It also remains to be seen whether Starbucks can bank on its brand appeal to charge higher prices in India's inflation-prone economy.

With the India's GDP growth having fallen to 6.5 percent in the year to March, after near double-digit expansion for much of the past decade, the growth in demand for premium coffee may

be slower than hoped.

The key issue will therefore be of "penetration and network chains rather than of Indians drinking more coffee", said Vijay Chugh, consumer and auto analyst with BNP Paribas Securities.

Starbucks had promised a simultaneous launch of stores in New Delhi and Mumbai by August-September, but Culver declined in the interview to give a specific date, saying only it would be "during the calendar year 2012".

"I never really enjoyed their coffee," said Arjun Rajagopal, a well-travelled executive with a global consultancy firm.

"It's the cozy, informal ambience which is important, while meeting friends or for low-key business meetings to get work done," he said.