American taste for cheap clothes fed Bangladesh boom

THE WALL STREET JOURNAL

MONICA Brooks and her daughter Morgan, age 8, rifled through the racks at a Zara store in Dallas Thursday night, looking at $16 bejewelled T-shirts and $10 ruffled tops.

Labels inside the clothing at the fast-fashion chain showed that it came from around the globe, including from Bangladesh, the site of a spate of deadly textile-factory fires and a recent building collapse that has killed more than 1,100 garment workers.

US clothing prices have fallen significantly over the past two decades. Chains like Zara and H&M (shown here) have set the tone for inexpensive 'fast fashion.

That surprised Brooks, a 41-year-old software saleswoman who shops at Zara "more than I should," she said. "It just goes to show you that we are not paying attention to that."

Americans' appetite for cheap clothes is one of the strongest of the economic forces that led to a boom in Bangladesh, with the resulting race to add manufacturing capacity setting the stage for the series of horrific accidents.

US consumers have become accustomed to spending relatively little on clothing compared with other items -- and getting a lot for their money. Americans last year devoted just 3 percent of their annual spending to clothing and footwear, compared with around 7 percent in 1970 and about 13 percent in 1945, according to Commerce Department data.

One reason Americans now spend so little is that US clothing prices have fallen significantly over the past two decades, after rising in the 1950s, 1960s and especially in the 1970s.

Chains like Inditex SA's Zara and Hennes & Mauritz AB's H&M have set the tone for "fast fashion."

"Apparel prices are lower in absolute terms now than they were in the 1990s," says Dean Maki, an economist at Barclays .

Since 1990, clothing prices in the US have risen just 10 percent compared with an 82 percent jump in food prices during the same period, according to Jessica Tenvose, an economist with the US Bureau of Labour Statistics, which compiles the Consumer Price Index.

If adjusted for inflation, clothing prices would show a decline.

That may be changing a bit. Apparel prices rose about 2 percent in December 2012 from a year earlier, following a jump of almost 5 percent in the previous year when cotton prices spiked.

But with consumers so used to paying so little, retailers and apparel manufacturers are reluctant to raise prices and have become even more eager to find low-cost countries to produce their goods in, economists say.

The sluggish US economy and stagnant wage growth add to the pressure on retailers by capping consumers' disposable income, but the desire to shop for trendy new outfits remains strong.

Meanwhile, labour costs in China -- long the world's low-cost factory floor -- have been rising rapidly.

So retailers and apparel producers are switching to lower-cost alternatives like India, Vietnam, Cambodia, and Bangladesh, where the entry-level wage for garment workers is shy of $40 a month.

On Sunday, Bangladesh's textile minister said he will soon start talks with labour groups and factory owners to agree on a new minimum wage for the industry.

Depending on the size of the wage increase, Western retailers might pull business away from Bangladesh, though wages there would have to quadruple to top those in China.

In the short run, brands might absorb the rise, as many did in 2011, when cotton prices spiked.

The rush to Bangladesh began in earnest in 2005, when an international trade quota system called the Multi Fibre Arrangement expired, lifting the strict limit on the amount of textiles and garments developing countries could export to developed countries.

"Manufacturers saw that it was cheaper to manufacture in Bangladesh and places like Cambodia than China, especially to those manufacturers in Europe, where transportation was cheaper than from China," says Katie Quan, associate chair of the University of California, Berkeley, Centre for Labour Research and Education.

Inexpensive clothing allows consumers to buy more. "When I was a little kid in 1950, clothes weren't so cheap, and I remember we only had three or four dresses and that was plenty for a middle-class girl," Quan said. "Now I have three closets full, and it's not enough."

Yet when shifts in global labour costs and production occur abruptly, they can put enormous pressure on economies.

In Bangladesh's case, major factories became overbooked and so subcontracted more work to smaller outfits. Such subcontracting, and the increasing role of middlemen, have made it easier for retailers to lose track of which factories are producing their goods -- and, many critics say, to avoid taking responsibility for poor factory conditions.

The upshot: Bangladesh has quickly become among the world's largest exporters of clothing, and has suffered one of the worst industrial accidents ever.

"If wages rise quickly elsewhere, and producers all flee to the same place, you obviously can overwhelm an economy, and there seems to be a bit of that" in Bangladesh, says Robert Frank, an economics professor at Cornell University. "The influx of manufacturing there was so quick that there was very little time to adjust to it."

Zara's clothes were found in the latest factory fire last week. Inditex SA, Zara's parent company, didn't immediately respond to a request for comment.

Clothes for JC Penney Co, Benetton, Wal-Mart Stores Inc and Loblaw were found at recent factory accidents in Bangladesh.

Many of the retailers, such as Penney and Wal-Mart, have said they are phasing out use of factories within multiuse buildings. Loblaw said it plans to expand the scope of its factory audits.

Benetton said a one-time order from the collapsed factory was completed weeks ago, and that none of the companies there is a supplier now.

Another shopper at Zara, Mary Park, said she isn't bothered by where the clothes are made.

"I am from China," said Park, a 27-year-old cosmetics saleswoman. "Manufacturing has been good to the country."

STAR

A crane is being used to clear the rubbles of the collapsed Rana Plaza that killed 1,127 people in Savar last month. Labels of many global clothing brands were found in the debris.

Google+ struggles to attract brands

REUTERS, *San Francisco*

TO mark the Cinco de Mayo holiday this year, Domino's Pizza festooned its Facebook page with a string of posts, including an image of a Mexican-themed guacamole pizza that garnered over 2,000 "likes". But visitors to Domino's companion Google+ page on that day found less festive fare: The most recent post was from October 2012.

Two years after introducing its social network, Google Inc is struggling to win over the brands and businesses that have been its most loyal customers in the Internet search market.

For Google+ to thrive, it is vital to draw in household names, not just to lay the groundwork for potential future business, but also because users of the site have come to expect being able to follow, comment on or even vent about their favorite brands.

Progress has been slow. Rival services from Twitter to Amazon.com Inc are increasingly competitive in vying for corporate attention and marketing budgets, while technical shortcomings of Google+ have put off some companies accustomed to the flexibility of Facebook, marketing and corporate executives say.

The biggest problem for Google+ is that many more consumers use Twitter and Facebook - and they log in to Facebook for much longer periods.

A Google spokeswoman said Google+ has been used by millions of brands and businesses, and that the benefit of the service extends beyond Google+ Web pages, by providing brands with social capabilities that enhance Google's other products.

Google+, which was first introduced in June 2011, has roughly 135 million users that it says actively use its website news stream, and about 500 million that have set up Google+ accounts at some point, according to the company. Still, Facebook has 1.1 billion users who engage with the service at least once a month, while Twitter has 200 million.

The average U.S. visitor to Google+ spent 6 minutes 47 seconds on the site in March, versus more than 6 hours on Facebook.com, according to Nielsen Media Research, though the data does not include activity on the social networks' mobile apps.

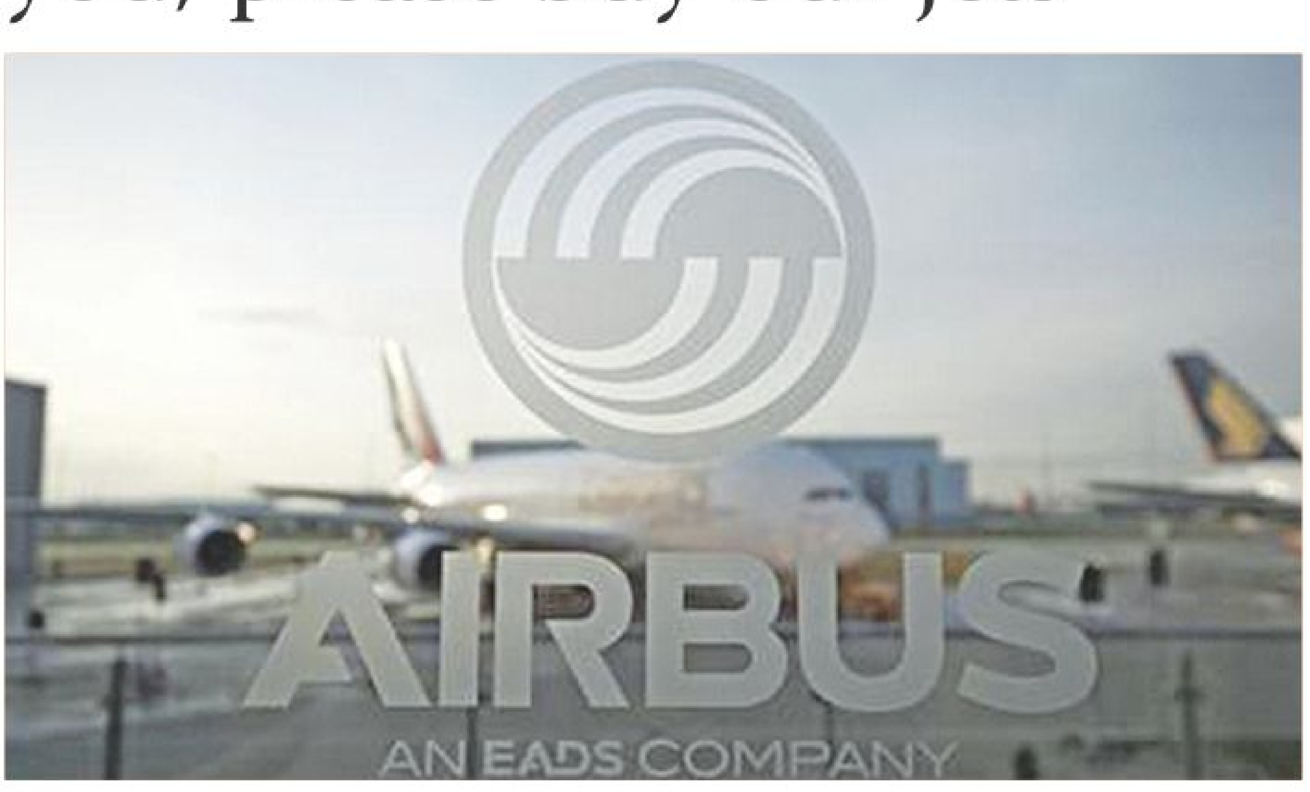
"The main reason we are more active on Facebook than Google+ is because that is where our customers and our target demographic are spending their time," said Dave Gilboa, the co-founder of online eyewear company Warby Parker.

Many businesses do build outposts on Google+, eager to benefit from its integration with Google's popular Internet search service. Some corporations have even used its online video feature for splashy product launches.

But the flurry of commercial activity common on other social networks - from restaurant promotions to movie trailers - is harder to spot on Google+, raising questions about its ability to rival Facebook or Twitter as a thriving online community.

Google does not provide detailed information on user activity. But the level of consumer engagement on other social services, such as Facebook, Twitter and Pinterest, is "orders of magnitude higher" than on Google+, Gilboa says.

Airbus to China: We support you, please buy our jets



REUTERS

An A380 aircraft is seen through a window with an Airbus logo during the EADS / Airbus 'New Year Press Conference' in Hamburg.

REUTERS, *Brussels*

CHINA'S decision to ease a boycott of some $11 billion in Airbus jet orders followed a high-level appeal from the planemaker urging Beijing to recognise its support over a trade row with Europe, a letter seen by Reuters shows.

It gives a glimpse into the intensity of the lobbying in the dispute, which helped persuade the European Union to freeze a law on regulating international aviation emissions.

China partly lifted a blockade on 45 long-haul A330 jet orders during a visit by French President Francois Hollande last month.

Behind the scenes, Airbus claimed partial credit for the EU climb-down and cheered what its chief executive described to Beijing as "joint efforts" to limit damage to Chinese airlines.

Writing to China's top aviation official shortly after the EU back-pedalled on its Emissions Trading Scheme last November, Fabrice Bregier said Airbus had been "very active" in supporting China's preference for a broader global system.

"Through our joint efforts, we have managed to ensure that Chinese airlines are not unfairly impacted by the scheme as previously planned," Chief Executive Fabrice Bregier said.

"I hope we at Airbus have been able to clearly demonstrate our strong support to Chinese aviation."

Airbus, which also got backing from European leaders, says the blocke orders alone put 2,000 jobs at risk.

"Since I became president of Airbus in June (2012), I have made this issue one of the top priorities for the company," Bregier wrote to Li Jiaxiang, the government official in charge of the Civil Aviation Administration of China (CAAC).

A spokesman for Airbus declined to comment on the letter but reiterated that the company, a subsidiary of EADS, welcomed the EU's decision to pause the scheme for a year.

Bregier signed the two-page letter on November 16, four days after EU Climate Commissioner Connie Hedegaard agreed to "stop the clock" for a year on plans to make all airlines using EU airports pay for their emissions through a trading scheme.

The proposal unleashed a volley of international criticism and China - which viewed it as a breach of sovereignty - froze orders for aircraft worth up to $230 million each.

Bregier urged China to respond to the European Union's decision by swiftly granting approvals for all 45 aircraft.

While Beijing approved 18 orders worth $4 billion, more valuable deals remain on hold as China awaits the outcome of international talks on the problem of managing borderless emissions without infringing sovereignty.

India's food plans to cost more than budgeted

REUTERS, *New Delhi*

THE Indian government's plan to give millions more people cheap food will cost more than its forecast of 1.3 trillion rupees a year and will accelerate inflation, a leading adviser on food issues for the government said in an interview.

The bill aims to provide subsidised wheat and rice to 70 percent of the 1.2 billion people in India, home to 25 percent of the world's hungry poor, according to a UN agency, despite being one of the biggest producers of food supplies.

The Congress, which leads the coalition government, is pushing to pass the National Food Security Bill before elections, which are due by May 2014.

But the government's own estimates say the bill would increase the annual food subsidy by 45 percent, threatening to add to an already hefty fiscal deficit. Critics say it is little more than an attempt to divert attention from corruption scandals involving the government.

"Our calculation is that (1.25 trillion rupees) is front-end subsidy. There are many costs that have not been counted," said Ashok Gulati, chairman of the Commission on Agricultural Costs and Prices which advises the government on farm goods prices.

Consumer Affairs, Food & Public Distribution minister KV Thomas has said the bill could cost 1.2-1.3 trillion rupees a year. The budget for the current year ending March 31, 2014 sets aside 900 billion rupees as the bill still awaits passage by parliament.

Gulati, who advises the government on prices to pay farmers for their crops, said large-scale state grain purchases to meet commitments under the bill would lead to higher inflation.

"If the government is going to buy the bulk of wheat and rice, there will be a shortage in the open market, and that will lead to inflation," he said in his office, which is in the same corridor as the farm ministry.

Food inflation currently runs around 10.61 percent.

NEED NEW SYSTEM

Gulati said the government should do away with the current inefficient system of buying wheat and rice from farmers and storing it for later distribution to the poor, because it fails to deliver all the food and piles up stocks in inadequate storage facilities.

He said the government could cut costs by instead giving cash direct to the poor for them to buy food in the open market.

"We have worked out that if you go through the cash transfer route, you can save 400 billion rupees," he said.

Much of that cost is for months of storage before the food can be distributed. Buying for the current food subsidy system has already led to massive stocks of wheat and rice.

Then the government sells the food through a rationing system or through "fair price" shops. But some ration shop owners sell grain earmarked for the poor into the open market at higher prices.

Experts say more than 40 percent of food meant for the poor gets siphoned off in India, where over 40 percent of children under five are malnourished, according to the World Food Organisation.

The government is currently trying to reduce its storage costs by offering gain for export, but traders have baulked at the high floor price it is setting of around $300 per tonne.

Global prices are around $265-$280 free on board (FOB). Last month sources said the government was considering lowering the floor price to help boost shipments. Gulati said the authorities should cut prices to save on storage costs.

"You drop prices by $20 today and save $80 (per tonne in storage costs), or you don't drop prices and carry the cost of $100 for two years," he said.

Gulati recommended the government start an alternative system of handing out cash in 33 cities where most people have bank accounts. India is already working on a plan to transfers some welfare money directly to the poor using a database being prepared for its entire 1.2 billion population under its Unique Identity project.

Under the current system, the government says it will need about 61 million tonnes of grain a year if the bill is passed, only 3 million tonnes more than it currently makes available, while it hopes better distribution and a clamp-down on corruption will cut waste.

REUTERS

A woman winnows wheat crop at a wholesale grain market on the outskirts of Ahmedabad in India.