

Ferraris, Bentleys soar in value as gold price sinks

REUTERS, London

Classic cars such as Ferraris, Bugattis and Bentleys soared by 28 percent in value in the year to June, outstripping gold, art and luxury London property thanks to rising demand from wealthy Asians.

Property consultancy Knight Frank, which publishes an index tracking the performance of luxury goods, said the world's wealthy were putting more money into tangible items that they could enjoy as the world economy looks to be recovering.

In July, a rare 1954 Mercedes-Benz W196 in which five-time Formula 1 World Champion driver Juan Manuel Fangio of Argentina won two grands prix, was sold at auction for 19.6 million pounds, making it the most expensive car ever sold at auction.

"It's an asset class that's very rare and it's very aspirational," said Andrew Shirley, editor of the report. "A lot of Asian high net worth individuals have acquired classic cars...They keep them in their garage in the UK or Europe and they come over and drive them in rallies."

This is in stark contrast to gold, seen as a safe haven investment in difficult periods, whose value has slumped by 23 percent over the same period following a 12-year bull run.

"The thing about gold is that it's tangible in the sense it's a physical thing but there's no great enjoyment to be had from gold...Whereas a classic car, it's still a safe haven play but it's something you're going to enjoy," Shirley said.

After classic cars, the next biggest gainers in the index were coins and stamps, up 9 and 7 percent respectively.

Growth momentum hinges on foreign investments

Senior Citi official speaks on Bangladesh economy and its challenges

SOHEL PARVEZ

BANGLADESH needs to attract investment from abroad and develop its human capital base if it wants to sustain the growth momentum, an international banker said.

The country's economy increased two and a half times in size since the beginning of the millennium and still enjoys 6 percent-plus growth, Stephen Bird, chief executive of Asia Pacific for Citi, told The Daily Star in a recent interview.

"Bangladesh has got the capacity to continue to grow, but to be able to grow at 5-6 percent sustainably it will need to continue to attract investments and develop the people of the economy."

Bird, who supervises Citi's operations in 17 markets in Asia and the Pacific, was in the capital last week to attend the eighth Citi Microentrepreneurship Awards and inaugurate the bank's new corporate office.

He said the country has some specific challenges to address, particularly that of infrastructure, while calling for long-term planning and further investment. "We want to play a part in that," he added.

The 201-year-old American bank entered Bangladesh in 1987 and now runs four branches employing a staff of 180.

The bank has been involved in some of the landmark transactions of the country, such as the world's first AAA-rated micro-credit securitisation transaction of \$180 million for BRAC, leading the issuance of the largest local currency bond of \$102 million equivalent for Orascom Telecom and underwriting Grameenphone's public offering



Stephen Bird

to raise \$141 million.

Bird is particularly upbeat about the contribution of microcredit and the establishment of small businesses based on seed capital extended by microfinance institutions.

"That aggregation of small businesses creates stability, stabilising incremental growth and makes the country less susceptible to global macro issues."

On Asia, from where the bank accrues close to a third of its global profits, Bird says the region will continue to grow faster than the developed world, driven by globalisation, urbanisation and digitisation.

Home to more than half of the world's population, the region generated over \$15 billion in revenues last year for Citi.

"The US was the great emerging market in the 20th century and now it is Asia's century," he said, adding that the region has more middle-class consumers emerging than anywhere else in the world.

The Citi Asia-Pacific head believes the region's current volatility, especially in the currencies of India and Indonesia, will pass and fundamentals will prevail.

"The path from fledgling to emerging to advanced economy is not a straight line. A key component is consistency of governance and building up credibility with a long term policy framework that gives investors a degree of confidence."

The banker emphasised the need for investment in technology, a move which has allowed

Citi to better serve its global network of clients.

"It is also important to first listen to clients, understand their challenges and needs and then present the appropriate solutions. That is why we invest so much time on training and development and hiring the right people."

Risk management skills are increasingly becoming a competitive advantage, he said, adding that the bank completely overhauled its risk management systems following the global financial crisis of 2008.

Bird went on to commend the new regulations which emerged in the aftermath of the crisis, saying they made the banking industry "more sophisticated and transparent".

Models join protest over sweatshops at NY fashion week

AFP, New York City

MODELS joined labor activists on Thursday at New York fashion week to protest clothing brand Nautica over its parent company's failure to sign up to improve conditions in Bangladesh factories.

As Nautica unveiled its spring menswear collection on the catwalks at the Lincoln Center, a handful of people picketed outside, holding boards which read: "no one should die for fashion."

"Nautica don't throw workers overboard," read another, as fashionistas dressed to the nines rushed to the Nautica show.

Liana Foxvog of the International Labor Rights Forum said the protesters were demanding that VF corporation -- which produces scores of popular clothing brands such as Wrangler, Lee Jeans, Timberland and Eastpak -- sign the accord.

In the wake of a series of fatal clothing factory fires, and the devastating factory collapse in April which left 1,129 dead, 86 companies signed the accord to protect the safety of workers who sew their clothing.

They include well-known US brands -- Calvin Klein, Tommy Hilfiger, Abercrombie & Fitch, American Eagle -- but the majority are European retailers such as H&M and Zara.

Kalpona Akter, executive director of the Bangladesh Center for Worker Solidarity, was also at the Big Apple's premier fashion event, imploring the retailer -- one of the world's largest -- to step up.

She hit out at "retailers like VF who know their factories are unsafe and (are) not taking any action."

On its website, VF states it "did not have a business relationship with any of the factories in the collapsed building" but that it works hard to ensure a "safe working environment" for workers sewing its clothes in Bangladesh.

However according to Foxvog a December 2010 fire that claimed 29 lives took place at a factory that produced clothes for VF.

"They prioritize profits over people's lives," she said. A handful of models also joined the picket such as Sara Ziff who said unsafe labor practices continue because "people turn a blind eye and its as simple as that."

"Ten years ago, when I modeled for Nautica, I didn't think about the garment workers who made the clothes I was wearing," said Ziff.

However after a visit to the factories in that country she said she felt a moral responsibility to expose "the unsafe working conditions under which our clothes are produced, and the plight of the workers who produce them."

The April disaster highlighted appalling conditions in Bangladesh's 4,500 garment factories, where workers toil for 10-12 hours a day for basic monthly wages of around \$40.

Foxvog said initial investigations into factory conditions under the accord were starting this month and initial reports were expected by the end of the year.

India and the Great Man fallacy

JAMES SAFT

ENTHUSIASM for new Reserve Bank of India (RBI) head Raghuram Rajan is understandable, but blind faith in him is misplaced.

While Rajan, the former IMF chief economist who took over as governor of the RBI on Wednesday, made promising first steps, he simply doesn't have the tools or levers to do what is needed.

Almost more to the point, the euphoria around Rajan is evidence of the Great Man fallacy of central banking, an always foolish belief that complex events can be bent to the will of one magical civil servant.

Indian markets were jubilant, and media portrayed him as James Bond, after Rajan unveiled a host of measures designed to support the rupee. Bank shares soared by 9 percent, the BSE Sensex rose 2.2 percent and, best of all, the rupee rose by as much as 2.3 percent.

Rajan's raft of measures were both clever and far-sighted.

Of most immediate impact was a plan to attract investment from Indians living overseas by allowing banks access to preferential swap rates at the central bank. India thereby gets some of the money it needs to attract, banks make a nifty profit and the central bank avoids taking assets onto its own balance sheet.

By creating an essentially off-balance-sheet way for the central bank to subsidize but not completely underwrite capital flows, Rajan intelligently worked around his main problem. His predecessors, faced with what could be a ruinous and self-sustaining fall in the rupee, responded by tightening conditions to attract flows, thereby risking a credit famine and recession.

Rajan also indicated that banks should gradually be allowed to cut their new mandatory holdings of government paper, something which will make more funds available for loans to the productive private sector while imposing a measure of discipline on government borrowing decisions.

The RBI also reversed an earlier



Raghuram Rajan

decision which further limited overseas borrowing by Indian companies, which had been a tightening of capital controls.

All of this is great, and it's easy to see why India enjoyed such a strong relief rally. That said, faith in Rajan raises some thorny issues, in and of itself.

One problem, of which Rajan is surely aware, is that the more the market respects him, the more international capital gives credit to his efforts, the easier it is for those in India with the real responsibility for change to avoid making it.

Central banks can, by keeping inflation stable and regulating finance appropriately, create some of the preconditions for economic growth, but no matter how much they support asset prices, they do not actually create any wealth.

Thus Rajan can buy India some time, but the real task lies elsewhere.

The immediate cause of India's distress comes from outside, in the form of the expected tapering of bond

purchases by the U.S. Federal Reserve. But really that is only tightening conditions which had been left unnaturally loose for much of the world's economy.

That allowed India to limp along quite happily with a deep current account deficit for which there was, seemingly, so long as global liquidity was deep, little penalty.

Those times are apparently about to end.

India's real problem is that it took a pass on deep reform during its pre-financial-crisis boom and is now faced with what, in the absence of a wider tax base, feels like a structural

government deficit. And India is heading into elections, never a time for painful reform.

This is the huge problem with the Great Man fallacy of central banking. It is used, by those who ought to know better, as an excuse to avoid doing painful things. Fed by credit and asset inflation under Greenspan, the US failed to reckon with the hollowing out of its middle class, creating instead an economy too dependent on real estate jobs for those with fewer skills, and financial intermediation jobs for those with more. Similarly, Bernanke's creative work during the crisis has allowed the US to more painlessly avoid reforming its financial system.

Rajan has been a perceptive and prescient critic of central bankers before him.

It would be a terrible irony if he played a similar role in India. I am betting he won't, which may be reason to steer clear of the rupee.

James Saft is a Reuters columnist.

Not all Asian countries need to fear the Fed

ANDY MUKHERJEE

FALLING Asian currencies have triggered a sell-off in bonds and equities. Some investors now fear a repeat of a 1997-style crisis. Yet while a new Breakingviews' interactive risk map shows no economy in the Asia-Pacific region is entirely sober, it is India that has become most addicted to cheap money.

The risk map ranks the region's economies according to eight vulnerabilities by measuring the deterioration since just before the onset of the global financial crisis. The most pressing concern for investors is the region's worsening trade balance.

India and Indonesia, whose current accounts are in deficit, have predictably suffered big drops in their currencies. But the analysis reveals that trade surpluses of Thailand, Hong Kong and Malaysia have narrowed even more since the second half of 2007. However, this is partly because Thailand and Malaysia have boosted domestic investment, which lifts imports.

A shrinking trade surplus won't cause a crisis if countries can still sell debt and equity to foreigners. This is where India's diminishing net wealth makes it uniquely handicapped. India was a debtor nation even in 2007, and since then, foreigners have acquired another 8 percentage points of GDP in net claims on Indian assets. Understandably, they aren't keen on more. By contrast, all other Asia-Pacific nations have increased net wealth since 2007.

For Singapore and China, where GDP growth has weakened even more than it has in India, a bigger headache is the outsized expansion in private sector credit. Additionally, China's real exchange rate has shot up the most in Asia, mak-

ing exports less competitive -- though that is part of an intended shift toward domestic consumption.

Malaysian and Indonesian companies are grappling with a margin squeeze: The two commodity-producing economies have witnessed the biggest rise in their real cost of capital. The Philippines has the opposite problem: Falling inflation-adjusted returns for savers. This should worry Manila, which is basking in the warm glow of 7.5 percent growth. India has repressed savers for years in the hope that an interest-rate subsidy for borrowers would help keep growth rates high. The misadventure saw the banking system run out of resources.

Rising public debt is mainly a problem for Japan and Australia. Rightly or wrongly, though, the sovereign debt issued by developed countries is perceived as safe. Malaysia is not in the same league, and it is pruning petrol and diesel subsidies to control its growing public debt problem.

Unlike in 1997, most Asian countries have relatively straightforward choices. Malaysia can introduce a goods and services tax to control the 14 percentage point increase in its sovereign-debt-to-GDP ratio since 2007. Indonesia can raise interest rates to tame 9 percent inflation. The main problem is India, with its cocktail of slumping growth, high inflation, a creaking banking system, reckless fiscal policies and political uncertainty. Other Asian nations can't take rising US interest rates lightly, but they are far from a crisis.

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