The year in business: 2013

MARTIN WEBBER, *BBC World Service*

AFTER years when the failures of the financial derivatives industry dominated business headlines, a shocking tragedy in a much older, much more basic industry - clothes making - was the most momentous event of 2013.

In April, more than 1,100 people were killed when the Rana Plaza factory in Bangladesh collapsed. The workers there had been making clothes for many big global brands.

It quickly emerged that the building had actually been converted from a shopping centre and had never been designed to cope with the weight of heavy machinery, hundreds of workers or the extra two stories later built on top of the original six stories.

It also emerged that big cracks had appeared in the building the day before the disaster.

Yet workers had entered the building anyway, saying they had been threatened with a big loss of earnings if they didn't get on with their work.

The disaster raised difficult questions for the building's owners, the Bangladesh government, global clothing brands and consumers of cheap clothes in rich countries.

Everyone agreed it was a scandal that the safety of human beings could still be treated with such contempt in the 21st century.

But who was to blame and what should happen next to improve things?

'They need these jobs'

Workers' rights groups insisted that the answer was certainly not any sort of consumer boycott. Kalpana Aktar of the Bangladesh Centre for Worker Solidarity in Dhaka told me people should continue to buy clothes made in Bangladesh.

"These jobs are so important for these female workers who are working in this industry." "We are talking about four million workers and they are young. They need these jobs because they need the economic freedom.

"But we need these jobs with dignity - our workers need a safe working place, decent wages and a union voice."

Kalpana Aktar says shoppers in rich countries should write to retailers to persuade them to take part in an accord set up after the disaster, under which some retailers have made legally binding commitments to fund safety inspections and give workers a chance to negotiate on working conditions and wages.

Brands who have already signed up include H&M, C&A, Zara, Primark and Tesco.

The collapse of the Rana Plaza factory was one of the world's worst industrial accidents in 2013. BBC

An alternative plan to improve conditions, known as the Alliance, has been joined by many US retail chains including Wal-Mart, Target and Gap.

Brands 'should do more'

The first inspections under this scheme do already appear to have led to improved safety in some Bangladesh factories.

But Kalpana Aktar argues that this Alliance "is not strong enough".

And - eight months after the tragedy - she says no significant changes to improve safety have been initiated by the Bangladesh government or factory owners.

Global clothing brands have flocked to Bangladesh in recent years because it has millions of skilled workers, willing to work for the lowest wages in the world.

Bangladesh is estimated to produce more than 5 percent of the world's garments.

Subcontracting to sub-standard factories often seems to happen without the knowledge of the big brands because Bangladesh's purpose-built factories simply cannot cope with demand.

Many critics say the brands should do more to check how their products are made.

Chinese housing worries

Bangladesh is a huge clothes export machine, but China remained last year the most powerful exporting nation overall, maintaining growth of over 7 percent, according to official figures.

Close attention was paid to changes at the top of China's ruling Communist Party. The leadership is generally refreshed every 10 years.

In the past year, the new regime consolidated its hold on power but there was little sign of the new leadership allowing any more openness.

Websites of western media groups were censored when they wrote stories about corruption allegations.

Concern continues that China will be the next economy to suffer the impact of the bursting of a house price bubble.

Among the pessimists is Anne Stevenson-Yang of J Capital Research in Beijing. "The economic path forward is not really a pleasant one. China has insanely over-invested, it's really quite tragic," she says.

"I don't think I've been to a single city in China for the last two years that doesn't have groaning empty real estate.

"Tower after tower that is utterly dark, empty ballparks and museums and libraries."

Demand from China seems to have been a major reason why the online virtual currency, bitcoin was one of the top investments of 2013.

Bitcoin's value soared from $13 in January to more than $1,000, before then halving in price after reports that Chinese exchanges would no longer accept them.

Stability fears recede

On more conventional markets it was a very good year, as growth picked up in the United States, while emergency stimulus of cash by the US central bank continued.

The Dow rose to a record high, gaining around 25 percent in 2013. The gains were significant after 13 years where average shares prices had effectively stood still.

Investors still had plenty in the background to worry about. American politics frequently was in stalemate, leading to a partial temporary government shutdown.

The total US government debt sold to the public kept rising, and is now at $12.7 trillion.

The news from Europe changed little during the year, although one of the most troubled nations, Spain did manage to return to growth, even with unemployment still more than 25 percent.

Rightly or wrongly, fear about the stability of banks and government debts in western countries gave way to milder concern.

Many politicians hope that will provide a springboard for more confident consumers and business in 2014.

India okays Tesco's $110m investment plan

REUTERS, *New Delhi/Mumbai*

THE foreign investment regulator of India has approved a $110 million investment plan by Tesco, formally paving the way for the British retailer to venture into Asia's third-largest economy.

Tesco this month took the initial steps to becoming the first foreign company to set up a chain of supermarkets in India's $500 billion retail sector after announcing it had applied to buy a 50 percent stake in Tata Group's Trent Hypermarket.

The deal was widely expected to be cleared without much political opposition thanks to Tesco's low-profile approach and its decision to expand at a slow pace, consultants said.

The Foreign Investment Promotion Board (FIPB) also approved a proposal by British telecoms group Vodafone to take full ownership of its Indian business in a $1.6 billion deal. That proposal, however, needs final approval from the Indian cabinet.

India's Economic Affairs Secretary Arvind Mayaram told reporters that Tesco and Vodafone's proposals had been approved.

Tesco's decision to invest in India is seen as a vote of confidence in an economy that grew at its slowest pace in a decade in the past fiscal year and is struggling to attract foreign investors.

The venture also provides a boost for the Indian government after its decision to open up the supermarket sector in September 2012 received a muted response from overseas retailers put off by ambiguous foreign participation rules and political opposition.A senior Tesco official, who spoke on condition of anonymity, had told Reuters it took months of arm-twisting and assurances by the government to persuade the company to take the plunge.

In October the world's biggest retailer Wal-Mart called off a joint venture with India's Bharti Enterprises, citing unfriendly regulations.

Tesco has had a franchise agreement to provide support to Trent's Star Bazaar chain since 2008, but is now expected to open three or four stores a year under a slow expansion plan designed to comply with sourcing regulations.

Tesco's India investment follows declining third-quarter sales in all nine of its continuing overseas markets for the second consecutive quarter.

The world's third biggest retailer, which makes about two thirds of its revenue in Britain, is currently in the midst of a $1.6 billion turnaround plan.

UK firms must pay workers more: CBI

BBC NEWS

THE head of the UK's main business lobby group has said too many people are "stuck" in minimum wage jobs, despite an upturn in the UK economy.

John Cridland, director general of the CBI, said businesses should deliver "better pay and more opportunities" for their employees.

He told the BBC: "If we get productivity going, we are creating more wealth, and we can share it."

Recovery should be sustainable before wages increased, he said.

Cridland said: "It's nice for once to have a somewhat more upbeat message. The message is, if the economy is growing, we can have everybody swim upwards."

But he said lacking productivity was a "bit of a worry" in the UK economy and that it was important that skill shortages did not undermine recovery.

In his annual new year's message, Cridland said despite economic growth, there were "still far too many people stuck in minimum wage jobs without routes to progression, and that's a serious challenge that businesses and the government must address."

Cridland said businesses must support employees in "every part of the country" to progress in their careers and help young people get their first jobs.

He called for a vocational system, similar to Ucas, to help raise awareness about other routes to higher skills.

Cridland said: "If 2013 was the year that business trust took a hammering on a range of issues from corporate taxation to energy prices, then 2014 must be the year that business leaders take action to rebuild that trust."

His comments came as the Chartered Institute of Personnel and Development (CIPD) warned 2014 had to be a "year of productivity" if earnings were to rise sustainably.

Mark Beatson, chief economist at the CIPD, said: "Employment growth looks set to continue at an impressive rate over the year to come. However, the downside is that UK productivity has yet to improve and remains below its pre-recession level."

He said the low productivity was behind falling real wages and the high cost of living in the UK.

Beatson said: "Central to this [lacking productivity] is business and government acting together to improve the way people are managed, with more emphasis on working smarter and creating value."

He said the "crisis of trust" in many organisations had to be tackled to boost productivity, alongside making more use of the "skills and talents of our workforce".

Eurozone set for volatile 2014 as it tackles banks

AFP, *Paris*

THE eurozone is finally set to return to growth in 2014 but the single currency bloc may not have put its crisis behind it as efforts to shore up its banks could boomerang.

After beating back market panic that the eurozone was set to break up, eurozone nations moved in 2012 and 2013 to put their finances on a stable footing and strengthen the banking sector.

A new pact puts their finances under stricter control, with an obligation to cut the high debt levels seen as one of the reasons behind the crisis.

Eurozone leaders also moved to create a banking union, to reinforce lenders and reduce the likelihood wobbly banks would force countries into bailouts.

However the introduction of the banking union in 2014 risks doing the opposite as lenders are given a thorough checkup but individual eurozone countries are left on the hook for the costs of treatment.

In the hot seat will be the European Central Bank, which is conducting the in-depth reviews of the top 130 or so top eurozone banks before taking over as their supervisor at the end of 2014.

Lax supervision by national regulators has long been a concern of the market, and the ECB could well find that numerous banks are undercapitalised or even insolvent.

Top euro area banks are to generate twice as many loan losses on average in the years to come than their non-euro counterparts in places like Britain and Switzerland, according to a recent study by the research arm of Moody's ratings agency.

As each country will have to pick up the bill separately, the ECB may find itself come under intense pressure from member states to avoid sparking a banking crisis the likes of which have already forced Ireland, Spain and Cyprus to seek bailouts.

"The tension can be expected to generate more market volatility in Europe in 2014 than was seen in 2013," Nicolas Veron of the Bruegel Institute think tank said in a recent comment.

European Central Bank President Mario Draghi talks to the media as he arrives at a European Union leaders' summit in Brussels recently. REUTERS

The ECB, which has been credited with rescuing the euro by calming markets, could ironically find itself unleashing the next panic if it conducts a rigorous review of banks that is widely seen as necessary for a sustainable recovery of the eurozone.

"The ECB will be in no position to demand that banks raise capital if there is no backstop," said Wolfgang Muenchau in a recent Financial Times commentary.

Eventually there will be a common 55-billion-euro ($75 billion) fund to help close down banks, but following opposition from Germany, the eurozone didn't create a transitional joint mechanism, or "backstop", to help recapitalise or wind down lenders.

But if the ECB finds banks are in bad shape in 2014 then eurozone states could find themselves with the same choice of ruining their finances or seeing banks collapse.

"It would risk financial instability if it exposed a bank as undercapitalised that has no access to outside capital," added Muenchau.

Eurozone states could try to tap the bloc's ESM bailout fund, as Spain did for its banks, but the money would come with tough conditions.

However Veron believes that the ECB cannot afford to fudge the review of the banks.

"The risk is that, if the assessment fails to be consistent and rigorous, the ECB may find its reputation so damaged that the credibility of its monetary policy -- and the perception of Europe's ability to get anything done -- could be affected," he said.

The agreement reached by eurozone leaders in December 2013 on banking resolution has been widely criticised as being a too complicated collection of half measures.

Not only will it take a decade for the joint resolution fund to fill up, at 55 billion euros it "looks too small to deal with major systemic crises", said economist Christian Schulz at Berenberg Bank.

Germany also refused to hand over decisions on closing down banks to the European Commission.

Instead, when the ECB recommends a bank should be closed, a mixed committee of EU and national officials will make the decision, but the Commission and the Council (EU member states) can overrule the decision.

The European Parliament must also approve the resolution mechanism, and its president Martin Schulz has warned the system is too complex to close failing lenders quickly.

"If a bank cannot be wound up within a weekend in order to prevent a run on the banks, the system is too complicated," he told EU leaders at their December summit.

A banking union built on this basis "would be the biggest mistake yet in the resolution of the crisis" and could even "jeopardise financial stability", said the parliament leader.

However Berenberg's Schulz said there may be methods behind the imperfections.

"Tough bail-in rules and a shaky backstop should incentivise the ECB as a supervisor as well as national governments and the banks themselves to do everything to avoid a new crisis in the first place."

The agreed bail-in rules regulate how losses will eventually be shared in bank failures, with investors and big depositors on the hook before public money is to be injected.

But analysts have also worried that banks may prepare for the ECB review by selling off commercial assets and government bonds, and scale back on granting loans, which would only worsen the prospects for recovery.

The ECB at the beginning of December revised up its forecast for 2014 eurozone growth to 1.1 percent, with the region's economy expected to contract by 0.4 percent this year.