Wrinkles aside, plastic banknotes on the rise

BBC NEWS

Banks from around the world are transitioning to plastic notes.

CONSTANCE GUSTKE, *for BBC*

DESPITE the rapid rise of cashless payments worldwide, many people still prefer to have cash in hand and rely on paper money. But, increasingly, those notes aren't paper at all, but come in the form of a high-tech, plastic banknote.

More than two dozen countries, from Romania to Vietnam and Israel have switched from old-fashioned cotton paper notes to polymer ones. Recently, the Bank of England announced that the Sir Winston Churchill £5 note will be made with plastic in 2016. Fiji and Canada also ditched their crinkly paper notes for plastic in 2013. And Australia, which pioneered plastic-based money, has successfully used the notes since the late 1980s.

These newer, non-paper notes are meant to be more secure and to last longer than paper-based bills. There are some drawbacks to the new-fangled money, too (have you ever tried to fold plastic in a wallet?).

The polymer-based notes are made from a thin, clear plastic film that can be printed on like paper. By turning to plastic, central banks worldwide will be able to slow the movement of faked currency by adopting high-tech security devices, such as holograms and see-through windows that contain hard-to-forge images. These tools make counterfeiting, which plagues countries like China and Peru (which do not use polymer-based banknotes), harder than it currently is with cotton paper notes.

"The technology for counterfeiting is rapidly advancing," said George Cubaj, editor of the Standard Catalog of World Paper Money. "To be secure, money has to stay on top of new technologies."

Besides being more secure, the new banknotes are also tough — and potentially cleaner than paper money, which is alive with bacteria. Paper-based money, for instance, can transfer live flu viruses for up to 17 days. The new notes can last longer too: at least 2.5 times as long as paper currency—a typical five-dollar bill has an estimated life of 4.9 years, while a 20-dollar bill lasts an estimated 7.7 years, according to the US Federal Reserve. Another benefit of the plastic -based currency is that it can also be recycled and survive searing heat and freezing temperatures.

"Polymer notes can withstand heat as high as 140 degrees Celsius," said Richard Wall, the director of currency at the Bank of Canada. "And you can even clean them by wiping them down with water."

These new notes aren't without problems.

Nigeria, which is still a largely cash-based society, is going back to old-fashioned cotton paper cash this year. The country began testing low-denomination polymer notes in 2007. But the ink on the notes faded under the blazing sun experienced year-round in the African country — and Nigerian bus conductors and other merchants began rejecting the blurry notes.

Polymer currencies also suffer from another problem: they don't always stay folded.

"They have memory and can spring back from being flat," said Cubaj. That was a problem in parts of Thailand, he added, where it's traditional to fold banknotes. Other people complain that the new notes are slippery and stick together.

For now, some big countries like the United States are sticking with their paper money. There are no plans for the US to convert paper dollars into plastic ones, said Cubaj. One reason: the exorbitant cost to replace the high number of vending machines nationwide so that they would take the new polymer notes, he said.

What's more, US dollars are also already coveted in their current form and hoarded globally because they're seen as the safest, most stable currency. Despite the rapid rise in digital payment options, in year-end 2013, the amount of US currency in circulation soared to a record $1.23 trillion, up from $1.16 trillion the year before, according to the Federal Reserve.

Although Cubaj believes plastic currency is here to stay, he conceded that people will continue to stash money under their mattresses at home or keep paper bills in their safety deposit boxes.

"Cash is a comfort zone for people," he said.

Gustke is a New York-based journalist who has written for the Atlantic, CNBC.com, Reuters, and other major publications.

Indian women's group seeks limit on gold for weddings

REUTERS, *Mumbai*

THE women's commission in Kerala is seeking to limit the amount of gold given at weddings to no more than 80 grams to reduce the burden on families and help ease India's trade deficit.

Most Indians see gifts of gold, mostly jewellery, from the bride's family to the groom as auspicious for a marriage, helping to ensure financial security.

But grooms have been seeking increasing amounts of gold as rising duties and restrictions on imports have led to a shortage in India, the world's second-largest gold consumer after China.

"The tendency among our parents (has become) to sell residential property to buy gold for marriages and go for rented houses," KC Rosakutty, chairperson of the Kerala Women's Commission told Reuters.

"This is creating a lot of trouble for families."

Kerala now uses up to 400 grams of gold per wedding, or 80 tonnes per year - about a tenth of India's total demand in 2012.

The commission has sought a meeting with Kerala Chief Minister Oommen Chandy to press for a limit on gold gifts at 80 grams, which would cost about 224,800 rupees. Chandy could not immediately be reached for comment.

The proposal is unlikely to find any takers in political circles ahead of elections due by May, experts said.

"Gold is more of a culturally deep-rooted thing, and this would find resistance among women themselves," said Rammohan Kamath, secretary of the Calicut Bullion Dealers Association in Kerala.

"This will all remain on paper. Even for political parties, the gold jewellery business is a big money spinner for elections," Kamath said, adding that implementing the cap would be difficult anyway.

If the proposal were to be accepted, it would be good news for Finance Minister P Chidambaram. Apart from raising gold import duties to a record 10 percent last year, he has also been vocal about the need to end Indians' fascination with gold.

Bullion prices have risen by 120 times since 1972 to about 29,000 rupees per 10 grams currently, data from the Reserve Bank of India showed.

Meanwhile, India's gold imports have dropped by more than 50 percent in recent months from previous average levels of about 60 tonnes per month.

Imports fell to 21 tonnes in November from a record of 162 tonnes in May, and the total for 2014 is expected to drop to around 500 to 550 tonnes, according to trade body All India Gems and Jewellery Trade Federation.

China to allow foreign ownership in telecom services

BBC NEWS

CHINA will open up some telecom and internet services to foreign ownership.

Five areas, including call centres and home internet access, will be open to full foreign ownership, the state-owned Xinhua news agency has said.

Firms providing online data and analysis services will have a cap of 55 percent foreign ownership.

Foreign companies looking to offer these services will have to base their infrastructure in the Shanghai free trade zone, Xinhua said.

However, overseas firms will be allowed to offer services across the country, the Xinhua news agency quoted Wen Ku, head of the telecom development department as saying.

The only exception is home internet access, with foreign-owned firms allowed to offer the service only to consumers within the free trade zone.

Opening up?

The Shanghai free trade zone was launched in September last year as part of efforts by China to open up parts of the economy.

Policymakers said at the time of the launch that restrictions on foreign investment will be eased inside the area.

The move is seen as an attempt by policymakers to spur a fresh wave of economic growth.

Earlier this week, the government said that it would allow foreign firms to make video games consoles within the free trade zone and sell them in China.

However, it said the consoles will have to be inspected by cultural departments before being sold.

Within the Shanghai zone the government is experimenting with free trade in the Chinese currency and allowing interest rates to be set by market forces.

John McAfee: glad Intel dropping name from security software

REUTERS, *Boston*

JOHN McAfee, the flamboyant millionaire who founded a pioneering anti-virus software company that Intel Corp bought for $7.7 billion, says he is glad that the chipmaker plans to drop his name from its products.

Intel Chief Executive Brian Krzanich announced the decision to abandon the McAfee name late on Monday at the Consumer Electronics Show in Las Vegas, saying the company plans to adopt the "Intel Security" brand.

"I've been begging them to drop the brand or fix the product," McAfee said in a telephone interview on Tuesday. He did not speculate on a reason for the move, which was not completely unexpected.

Last June, McAfee appeared in a profanity-laced video attacking the quality of the software produced by the company, which he founded in the late 1980s. He said he frequently gets emails from customers who complain that it degrades the performance of their computers and is difficult to remove.

Intel has repeatedly said the attacks on the quality of its software are "ludicrous" and without merit.

Its chief technology officer, Michael Fey, said on Tuesday that the company was not concerned about the video, partly because customers knew that John McAfee had not worked for the company in some 20 years.

"Everybody realized the man was trying to get a laugh or make a joke. It is far from something that most buyers took seriously," he said. "We didn't really feel much pressure."

Still, he said, it would be a relief to be able to ignore John McAfee's antics once Intel stopped using his name.

"As an employee I am happy to stop having to answer that," Fey said.

Questions about Intel's plans for keeping the McAfee brand first surfaced in late 2012, when John McAfee, to much publicity, left the Central American nation of Belize after police sought to question him about the murder of a neighbor. He said he was framed for a murder he did not commit.

Emerging market investors face year mined with political risks

REUTERS, *London*

AS the tidal wave of global central bank liquidity recedes in 2014, emerging market investors are growing more anxious about local political risks - and how to spot them early on.

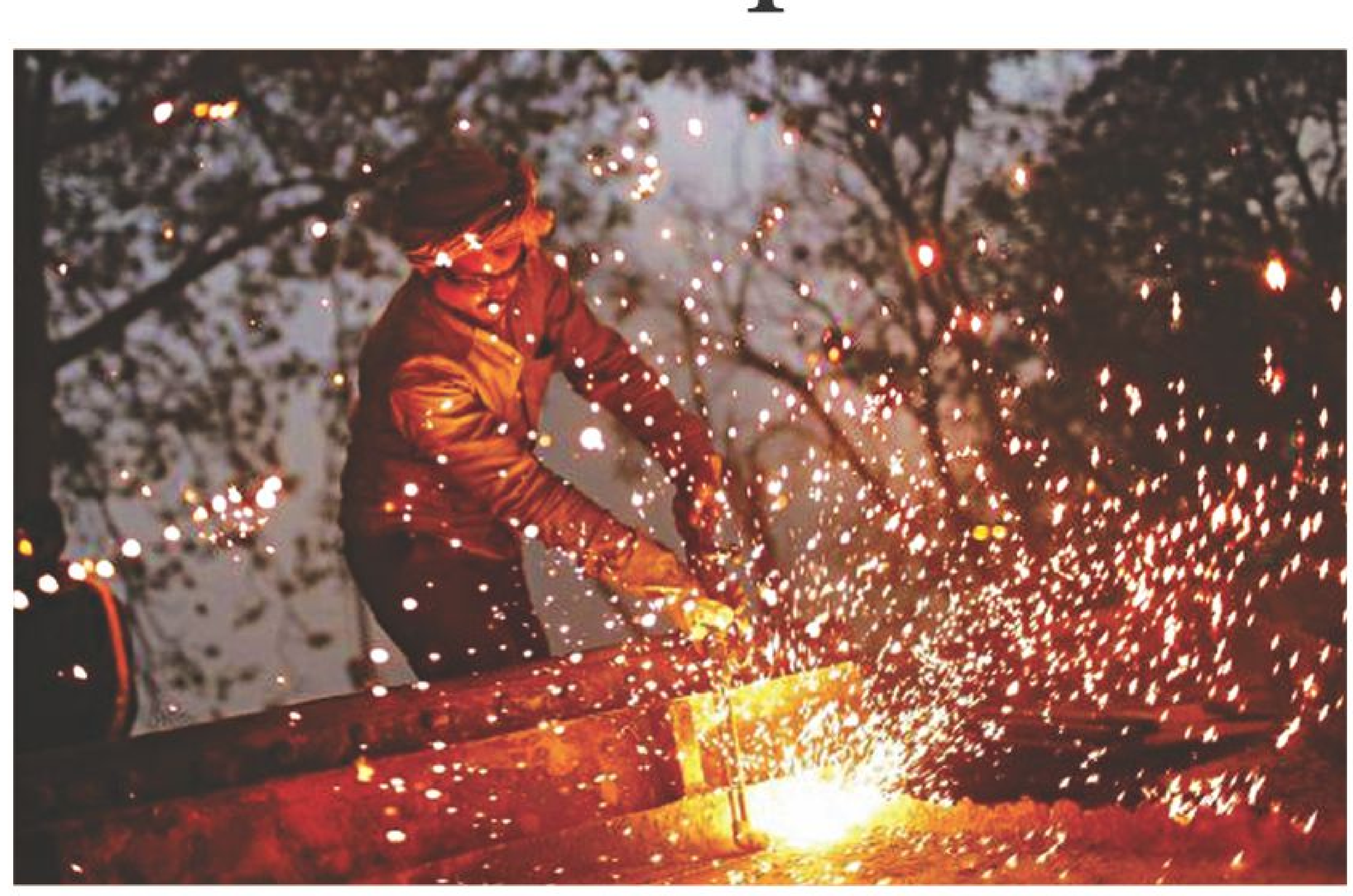
Developing economies have had a rough ride since the Federal Reserve first mooted a wind-down of its money printing last year. The looming withdrawal of easy cash worldwide pushed the dollar and Treasury yields up and drove Western investors home, jarring countries most dependent on foreign capital.

Emerging market bonds posted only their third year in the red since 1998 last year, while emerging equities ended 2013 in the red for the second year in three.

And as the global investment tide sweeps out, it may reveal a beach strewn with political detritus.

As competition for funds hots up while their economies rapidly lose steam, political risks have been amplified in the so-called 'Fragile Five' of Turkey, South Africa, India, Indonesia and Brazil, the emerging economies with the biggest overseas financing needs.

All five face elections this year, adding to brewing local concerns over a deepening corruption probe in Turkey or the waning popularity of South Africa's and Brazil's leaders.



REUTERS

A worker uses a welding torch to weld an iron machine at the construction site of a flyover in New Delhi.

South Africa and India hold parliamentary elections in 2014, while Brazil and Turkey have presidential elections. Indonesia has both. In fact, 12 of the major emerging markets go to the polls in some format this year.

"2014 will be a year in which the return impact from idiosyncratic political events in emerging markets could increase substantially," asset manager M&G Investments told clients this week.

"The prospect of these elections could potentially reduce the net capital flows into these economies on a temporary basis," it added, citing the threat of local capital flight, delayed foreign direct investment or portfolio flows as well as increased demand for currency and bond hedging.

Navigating the scheduled elections may be the easy bit, however. Some of the biggest political disruptions of the past four years were rather more sudden, such as the Arab Spring upheavals across the Middle East and North Africa or the more recent street protests in Ukraine.

For funds seeking to assess political risk well in advance, some form of advance warning system or scorecard is critical.

The world's biggest asset manager Blackrock, for example, publishes a Sovereign Risk Index every quarter that now ranks 50 countries in terms of governments' overall creditworthiness.

The index covers areas such as external finance needs, fiscal policies and banking stability, but also captures the essence of pure political risk under a heading 'Willingness to Pay'.

The introduction of Ukraine and Nigeria to the list this week saw the two countries come in at 45th and 39th respectively on overall ratings.

Their scores for 'Willingness to Pay', however, are far below the average of their emerging market peers. Only Venezuela has a worse rating than Nigeria, for example.

What's more, Blackrock highlighted the growing political element in its risk ratings, citing the recent unrest in Thailand and Ukraine in particular, and it said it had added an additional source in compiling its 'willingness to pay' gauge to strengthen monitoring.

All of the 'Fragile Five' flashed red on this category when Blackrock last updated this index in October.

Portfolio investors, therefore, may have their radars up in order to exit quickly, but does this work for companies with bricks and mortar investment on the ground?

Political risks to so-called foreign direct investments go well beyond tax hikes or payment risks and extend to outright expropriation of assets, threats to staff or plant and inventory damage from conflict or social unrest.

Traditionally these risks to foreign direct investment have had to be judged by deep local knowledge, or assessed by government insurance bodies or bespoke political risk agencies.