Compliance key to market access

Outgoing EU ambassador William Hanna calls upon govt to improve labour standards and factory conditions further

MD FAZLUR RAHMAN

BANGLADESH needs to fully comply with international labour standards and make gains in ensuring workers rights sustainable to retain market access to the European Union, a top diplomat said.

"I think market access, compliance and sustainability go together. They are part of the same picture," said William Hanna, head of the EU delegation to Bangladesh.

"As long as things go well and we work through reforms, our market access will be there," he told The Daily Star in an interview recently.

He also said there are a number of issues that still need to be addressed as the EU wants to stay engaged with Bangladesh. "We are not in the business of taking sanctions."

Hanna called upon the Bangladesh government to improve labour standards and factory conditions further to be able to continue enjoying the benefits of generalised system of preferences of the EU.

"Market access can't go forward without sustainability. If the foundation for the success is solid you are not going to encounter problems."

Currently, the EU is Bangladesh's single largest export market: in fiscal 2013-14 the country's exports to the EU hit a record high at more than $16.4 billion. This accounts for more than 54 percent of Bangladesh's total exports.

Hanna said the duty-free market access under the GSP has been a tremendous opportunity for Bangladesh.

"The country has taken advantage of the market access and witnessed great success over the past few years."

Hanna has been in Bangladesh for three and a half years now, and since his arrival the country's exports to the EU went up 57 percent.

"It is an enormous amount. I don't think any developing country has leapt as much as Bangladesh. That shows that Bangladesh's workers and managers have got the right skills."

William Hanna

Besides, the quality of Bangladeshi products is good enough to access the market and create jobs, wealth and prosperity for the future, the outgoing diplomat said.

The GSP allows all products, except arms, to enter the EU market duty-free. "So, there is scope to broaden and diversify Bangladesh's exports to the EU," Hanna said.

He said the EU trade and labour commissioners will sit in Brussels later this year to review the progress of all stakeholders under the Sustainability Compact. "So the work has to continue."

In July last year, Bangladesh signed the time-bound agreement with the EU and the International Labour Organisation to improve labour, health and safety conditions for workers and to encourage responsible behaviour by businesses in the garment sector. Later, the US also joined in the Compact.

The ambassador said, as part of promises made under the Sustainability Compact, Bangladesh has progressed a lot, but more needs to be done. "It is not over yet. We have to keep working to ensure there is sustainability."

He also said: "All factories must be safe. It means better labour relations. It also means all workers should be allowed to associate freely and bargain collectively whether it is in factories inside or outside the export processing zones."

He said improving labour and factory conditions in Bangladesh is a long-term issue. "That is normal in any reform process: you make a start and you move ahead, and you will have to continue."

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The dilemmas of monetary policy

ZAHID HUSSAIN

THE Monetary Policy Statement for the first half of fiscal 2015 to be announced on July 27 is subject to several dilemmas. There is already a lot of tempest over teapots on whether it should be expansionary or contractionary and to what extent it should accommodate fiscal policy expansion. A monetary stance is referred to as contractionary if it reduces the size of the money supply or increases it only slowly, or if it raises the interest rate.

An expansionary policy increases the size of the money supply more rapidly, or decreases the interest rate. Often, monetary policies are also described as accommodative, if the interest rate set by the monetary authority is intended to boost economic growth; neutral, if it is intended neither to boost growth nor combat inflation; or tight if intended to reduce inflation.

The challenges of designing and implementing monetary policy in developing market economies are very different compared with developed market economies. Analyses of monetary policy in developing countries differentiate between two types of policies: accommodative and stabilising. An accommodative policy provides a steady supply of credit for an expanding economy. In contrast, a stabilising policy is used to offset undesired changes affecting the economy.

In the accommodative stance, monetary growth accommodates output growth and price inflation targets set by the government. In the stabilising stance, the monetary authority varies monetary growth in order to counter the effects of shocks to growth, inflation, and exchange rate depending on the objectives of monetary policy.

The challenge is to strike a proper balance between accommodation and stabilisation. Bangladesh Bank has met this challenge reasonably well in recent years. BB succeeded in reducing core (non-food) inflation (from its recent peak of 11.3 percent in October 2012 to 5.4 percent in June 2014) and maintaining a stable nominal exchange rate.

Unlike in many developing countries, BB is allowed operational autonomy. Hence, the objectives of monetary policy can be clearly defined. In the Monetary Policy Statement (MPS) for January-June 2014, this was stated as follows: "The monetary stance in H2 FY14.......will target a monetary growth path which aims to bring average inflation down to 7 percent, while ensuring that credit growth is sufficient to stimulate inclusive economic growth." Despite the fact that both reserve money and broad money growth has been below the MPS target, the 7.3 percent inflation in fiscal 2014 has exceeded both the MPS target as well as that of last year's 6.8 percent.

There are mixed signals from BB on the likely change in the monetary stance. BB took a significant monetary policy action on June 23 when it increased the cash reserve ratio on demand and time deposits from 6 percent to 6.5 percent on a biweekly and from 5 percent to 5.5 percent on a daily basis. Reserve requirements are one of the monetary policy tools any central bank uses to implement monetary policy. Banks and other depository institutions are required to hold a portion of their deposits as reserves. Banks earn no interest or profit on this. Increasing the ratio reduces the volume of deposits that can be supported by a given level of reserves and, in the absence of other actions, reduces the money stock while raising the cost of credit.

Changes in reserve requirements also typically lead to changes in pricing schedules for bank services that are set based on reserve requirements. Although the increase in CRR is likely to have been driven by BB's rising interest costs associated with reverse-repo operations, it still signals a tightening of monetary policy. Tightening may have been motivated by inflation being still higher than the target. However, judging from media reports, there also appears to be an expectation that BB may reduce policy rates to boost the flow of credit to the private sector. This will be incongruous with the CRR increase.

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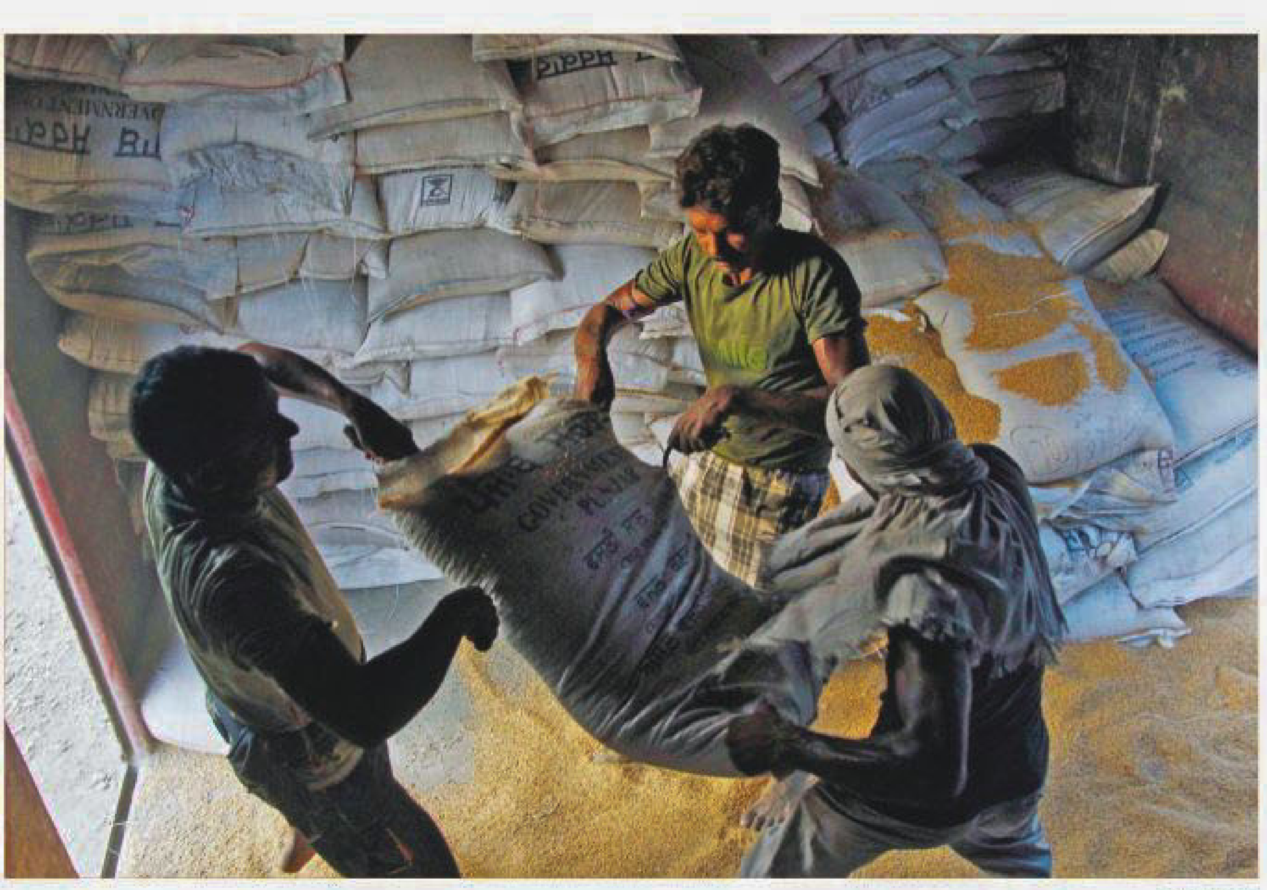

REUTERS

Labourers unload sacks of wheat from a goods train at a railway yard in the northern Indian city of Allahabad.

India's tough stance takes global trade pact down to the wire

REUTERS, *Sydney*

EFFORTS to assuage Indian concerns about a landmark global trade pact appear to have failed, sources involved in the discussions said on Monday, setting off a frantic rush to win its support before a Thursday deadline.

India is the most prominent of a group of developing nations angry with rich countries for failing to address their concerns about a deal on trade facilitation struck by WTO member states in Bali, Indonesia, last year.

Proponents believe the deal could add $1 trillion to global gross domestic product and 21 million jobs by slashing red tape and streamlining customs, eliminating delays at the border that can often cost more than tariffs themselves.

A failure could prove disastrous for the moribund World Trade Organization (WTO) and the system of global free trade deals it underpins.

As late as Sunday, hopes were high that publicly addressing Indian concerns during a G20 Trade Ministers meeting in Sydney this past weekend would give it a face-saving path towards reaffirming its assent before the July 31 deadline.

India stockpiles food for its poor, citing the need for food security, but doing so puts it at risk of breaking the rules of the WTO which worries that the stockpiling of subsidised food can distort trade.

In Bali, WTO members agreed to give India a pass on its stockpiles until 2017, while negotiating a permanent solution.

Officials told Reuters that India had not supplied any clear indication of concessions it wanted, so attempts were made at the meeting to reassure it that its concerns, whatever they may be, were being heard.

"India clearly and forcefully expressed its concern that work proceed on all fronts, including food stockpiling, and received assurances that all G20 members are committed to the full implementation of all Bali agreements on the agreed timetables," US Trade Representative Michael Froman told Reuters on Monday.

A confidential "Summary of Discussion" circulated to G20 participants by Australian Trade Minister Andrew Robb obtained by Reuters details what one official said was an example of India winning acknowledgment of its concerns.

The document notes that specific Indian concerns about the deal were raised by the members and pledges to work constructively this week to address those issues.

In principle, the WTO could pass the agreement on the basis of a qualified majority, but experts say that would be unprecedented and virtually impossible in an organisation that operates on consensus.

"India is quite influential, so let's hope that they're going to back down in some way," Peter Gallagher, an expert on free trade and the WTO at the University of Adelaide, told Reuters.

Philips reports profit slump

AFP, *The Hague*

Electrical appliance group Philips reported a setback in its switch to focus on healthcare technologies on Monday, revealing that overall net profit slumped by nearly a quarter in the last three months.

But the group said that its traditional lighting business, driven increasingly by energy-efficient LED technology, was doing well.

Group second-quarter profit fell by 23 percent to 243 million euros ($329 million) from the equivalent figure last year, and the group warned that trading conditions for the whole of this year would be difficult.

Overall sales fell by 5.0 percent to 5.3 billion euros.

Group operating profit was 415 million euros, representing nearly 8.0 percent of sales.

"In the second quarter we continued to face headwinds, including ongoing softness in certain markets, unfavourable currency exchange rates and the voluntary suspension of production at our health care facility in Cleveland," chief executive Frans van Houten said in a statement.

Philips, a household name around the world for home appliances, has a strategy to focus more on advanced lighting technology, and on medical technology where margins are strong and less vulnerable to competition from emerging markets.

Last year, Philips announced the sale of its lifestyle entertainment branch, which makes stereos and DVD players, after selling its troubled TV-making arm in 2012.

But sales by the healthcare division fell by 4 percent in the quarter, and the group suffered from a decision to suspend temporarily production at a factory making medical scanners at Cleveland in the US.

REUTERS

Customers shop inside a Best Price Modern Wholesale store of Wal-Mart at Zirakpur in Punjab, India. Wal-Mart Stores Inc has infused fresh funds worth 6.2 billion rupees into its Indian wholesale business in June, according to a filing made by its Indian unit to the Registrar of Companies. The funds were allotted as share application money, the filing showed. Wal-Mart runs 20 wholesale stores in the country and plans to roll out 50 more over four to five years.

Switzerland, China agree swap boosting role of yuan

AFP, *Geneva*

THE Swiss and Chinese central banks signed a currency swap agreement in Beijing on Monday, marking an important step in the development of a market for yuan in Switzerland, the Swiss central bank BNS said.

The agreement, highlighting steps towards international use of the yuan, ensures that Swiss francs will be available in China and that yuan, also known as renminbi, will be supplied to financial centres in Switzerland.

The BNS statement said that the agreement was "an important step" for the renminbi business in Switzerland.

The agreement permits the two central banks to buy up to a maximum of 150 billion yuan or 21 billion Swiss francs (17.3 billion euros, $23.4 billion).

The deal was signed by the governor of the People's Bank of China Zhou Xiaochuan and BNS president Thomas Jordan.

The BNS also obtained a quota of investment in yuan which opens the way for it to invest part of its currency reserves on the Chinese bond market.

Under this arrangement, the Chinese central bank allows BNS a quota of 15 billion yuan or about 2.0 billion Swiss francs to invest on the Chinese interbank bond market.

In a separate statement, the Swiss finance ministry welcomed the agreement with China, saying it showed that Switzerland was playing an increased role in the internationalisation of the Chinese currency.

A free-trade agreement between China and Switzerland took effect on July 1. It is the first agreement of its type between China and a European country.

China is the sixth-biggest export market for Switzerland, and the fourth supplier to it.

Switzerland hopes that with this agreement it can get ahead of other European countries, acting as a bridgehead into Europe for Chinese trade and companies, and also as a centre for finance in yuan.

Switzerland is not a member of the European Union but has close trading relations with it.

The Swiss finance industry is also re-structuring its activities to compensate for constraints arising from new international agreements, and from US action clamping down on cash outflows into foreign banks.