

China's elite tighten their belts as crackdown bites

AFP, Hong Kong

China's big spenders are reining in overt shows of wealth, shelving shopping trips in Hong Kong and Macau gambling sprees in the face of the Communist Party's anti-corruption and frugality drive, analysts say.

President Xi Jinping has launched a much-publicised graft crackdown since taking office last year with a series of high profile takedowns of party officials sending shockwaves through an elite who once did little to hide their prosperity.

A related austerity drive -- ordering an end to excessive gift-giving and banquets within the state sector -- has also meant officials are wary of popping too many champagne corks.

Fearful of attracting any scrutiny that might lead to a potentially career-ending probe, many of China's most powerful are either tightening their belts or being much more careful about how they spend their money publicly, analysts say.

That shift has been most keenly

felt in the Chinese elite's nearest playgrounds of Hong Kong and Macau. But a ripple effect is beginning to have an impact as far afield as the luxury fashion houses of Europe.

"The corruption crackdown shows no signs of slowing down. It has created a lot of concern within the country and as far as I can see a lot of high profile individuals are much more cautious about their overt spending," Steve Vickers, a risk consultant and former head of the Royal Hong Kong Police's Criminal Intelligence Bureau, told AFP.

Recent key indicators of the luxury market in Hong Kong and Macau have shown a noticeable downward trend in areas where China's elite play a key role.

Gambling revenues in Macau have fallen for the second month in a row while retail sales in Hong Kong, a city that many locals complain has become a giant shopping mall for wealthy mainlanders, have been slipping since the beginning of the year.

The dip in Macau's gambling revenues -- the first major drop since 2009 following the global economic crash -- is particularly stark.

The territory's gambling watchdog, the Gaming Inspection and Coordination Bureau, said casino income dropped by 3.6 percent year on year in July following a 3.7 percent dip in June.

Analysts attribute the fall in part to a drop-off in so-called "VIP junkets", organised trips where Chinese high rollers from the mainland blow huge sums of cash on casino floors and in private rooms.

"We believe there is nothing on the horizon to suggest that a VIP recovery is imminent," Union Gaming Research Macau analysts Grant Govertsen and Felicity Chiang wrote in a briefing note shortly after the figures were released.

"To the contrary, the anti-corruption crackdown in the PRC (China) seems to be accelerating / expanding, which in our view should result in continued, although indi-

rect, pressure on the VIP segment."

Analysts say Hong Kong's falling retail sales have been affected by a number of causes, including the general slowdown of the world's second-largest economy, anti-mainland sentiment in the southern Chinese city and the tendency of high spenders to splurge further afield where their shopping sprees are less noticeable.

Sales of jewellery, watches and other valuable gifts slumped 28.2 percent in June according to official government data.

"At this critical moment, you don't want to lavishly spend a lot of money and draw attention overseas even if it's your own money," David Ji, head of research and consultancy for Greater China at realtor Knight Frank, told AFP.

On the mainland itself, other key indicators illustrate the more cautious approach officials and big spenders are taking.

The nascent but growing market for private jets has slowed as business tycoons opt for smaller or less flashy models while demand for yachts has also seen a hiccup.

John Watkins, CEO of ASC Wines, one of the most prominent wine importers to China, said sales of high end bottles and vintages purchased by state officials have dropped by 80 to 90 percent.

"The premium end of the imported wine market has been affected starting two years ago. The impact is still felt today," he said.

"With government officials we are seeing very little activity in restaurants, hotels and clubs."

Last month British drinks maker Diageo said its international brands fell 14 percent in China during the last financial year, largely driven by weakness in demand for its whiskies.

Luxury goods houses in Europe are beginning to feel the pinch. France's Hermes reported that sales decreased in the second quarter, in part because of slowing sales in China.



AFP

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Apple's Cook stresses need to make workforce more diverse

REUTERS, San Francisco

Apple Inc on Tuesday released a report on employee diversity, and its numbers are similar to those of other Silicon Valley companies, prompting Chief Executive Tim Cook to say there is still work to be done.

The employee survey comes on the heels of recent reports from technology companies Google Inc and Twitter Inc, but it is unique in one significant way. It alone is accompanied by letter from a company CEO, in which Cook stresses the company's commitment to being "innovative in advancing diversity."

Blacks and Hispanics make up about 18 percent of Apple's workforce, a ratio that is about triple of those of most other tech firms. Nine percent of its workers did not disclose their ethnicity.

Apple breaks down the numbers into three categories: leadership, technology and non-technology. The technology category, which is 80 percent male, includes Genius Bar employees and engineers.

The numbers include its large contin-

gent of store management employees. Apple runs 254 retail stores in the United States and 427 globally, according to its most recent quarterly report.

"As CEO, I'm not satisfied with the numbers on this page," he wrote. "They're not new to us, and we've been working hard for quite some time to improve them."

But Cook noted that Apple's definition of diversity goes beyond traditional categories such as race and gender. "It includes personal qualities that usually go unmeasured, such as sexual orientation, veteran status and disabilities," he wrote.

The diversity reports have spurred a national debate about the lack of diversity at Silicon Valley's tech companies and how to improve the ratio. At Google, some 70 percent of employees are also male, and 61 percent are white. Twitter's overall employee population is 70 percent male and 59 percent white.

While Apple's numbers are similar to those of its competitors, some experts say that the company is a step ahead of the rest.

Japan's economy shrinks after sales tax rise

AFP, Tokyo

Japan's economy suffered its biggest quarterly contraction since the 2011 quake and tsunami as a sales tax rise slammed the brakes on growth, data showed Wednesday, throwing into question plans for another increase next year.

The 1.7 percent dip in gross domestic product for the second quarter -- or a 6.8 percent contraction at an annualised rate -- gave the clearest picture yet of the impact of the levy rise.

The weak figures may force Tokyo to reassess another planned tax increase next year, a move aimed at finding new revenue sources to shrink the massive national debt.

While the April-June figure was slightly better than market expectations, it appeared at odds with the government and Bank of Japan's view that the impact of the rise on the world's number-three economy had been minimal.

Still, Prime Minister Shinzo Abe acknowledged that his administration had some work to do. "As a government, we're going to analyse it and do our best to bring the economy back on a recovery path," he told reporters.

With the exception of flat growth in the last quarter of 2013, the Wednesday data marked the first quarterly contraction in nearly two years and the biggest since the natural disasters more than three years ago.



PARTEX STAR GROUP

Md Quamruzzaman, chief operating officer of Partex Star Group, receives the International BIZZ Award by World Confederation of Business from Jesus Moran, chief executive of World Confederation of Business at a programme in Hawaii, USA recently.

As money leaves Russian stocks, China, other BRICS benefit

REUTERS, London

With the threat of further Western economic sanctions hanging over Russia, foreign investors are deserting Moscow's equity markets and funnelling cash into other BRICS states, with China a standout beneficiary.

Russia has performed worse than any other big emerging market so far in 2014, with stocks down 17 percent in dollar terms and the rouble losing 9 percent. In the bond market too, anyone who bought rouble-denominated debt this year would have lost 14 percent, according to JPMorgan's GBI-EM index.

Sanctions placed on Moscow for its perceived role in the Ukraine crisis do not yet bar holding shares of Russian companies that are viewed as close to the Kremlin.

But investors have been exiting all the same, fearing more sanctions that could pull other Russian assets into the net.

Data, which may not capture the latest exodus, shows that more money left Russian stocks and bonds in mid-July than at any other time in the last six months.

Investors pulled \$353 million from Russia equity funds in July and \$172 million in the week after a Malaysian passenger plane was brought down on July 17 over rebel-held eastern Ukraine, according to fund tracker EPFR. Boston-based EPFR is estimated to capture some 15 percent of global fund flows.

The outpouring of money from Moscow has led analysts to ask: where is all this cash going?

As funds exited Russia, emerging equity funds as a whole, tracked by EPFR, drew buoyant flows totalling more than \$10 billion over July and the first week of August.

Russia has a relatively small 5 percent share in MSCI's emerging equity index, but given \$1.3 trillion is benchmarked to that index, a lot of money is at stake.

China appeared well placed to benefit as domestic factors, which had caused an early year blip in Chinese equities, began to improve just as tensions between Russia and the West reached their high point.

Hints of a stimulus plan from Beijing



REUTERS/FILE

Leaders of BRICS pose for the official photo session at the sixth BRICS summit and the Union of South American Nations in Brasilia in July 16.

Amazing rural transformation

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This is a powerful but incomplete story. Fertility, food and farming explain the developments in rural Bangladesh between 1972 and 2000 quite well. From 2000 onwards, other dynamic factors have started playing a more dominant role in changing the rural landscape. Rice and farming are still important, but the factors underlying the economics of rice production have changed quite a bit from the early years. Importantly, the rapid decline in rural fertility between 1972 and 2000 (from 6.7 to 2.7) has meant that further reductions in fertility will be much smaller, even allowing for regional variations in the countryside.

What are these other dynamic forces?

To appreciate their role, it is instructive to look at the sources of rural household income. While there are major concerns about the accuracy of the income data, especially those reported in the 2010 HIES, the directional changes indicated by earlier HIES numbers are helpful. These directional changes are also consistent with the independently prepared national accounts data. HIES data suggest that even in 1991 farming accounted for some 53 percent of rural household income. By 2005, this share had fallen dramatically to only 34 percent,

whereas the share of non-agricultural income surged from 36 percent to 51 percent.

The other important and growing contributor is total transfers from domestic and foreign sources, which expanded from 11 percent in 1991 to 14 percent in 2005. Much of this transfer is accounted for by the contribution from foreign remittance. If reliable income data for 2010 were available (unfortunately the 2010 HIES income data appear to be seriously flawed), it is most likely that the share of income from agriculture would have shown a further decline whereas the share of both remittance and non-agricultural income would have increased.

This is corroborated by developments in national accounts that show that as compared with agriculture, which grew by an average of 4.4 percent during 2005-2010, manufacturing grew by 8.2 percent and services by 6.2 percent (i.e. both grew much faster than agriculture). The employment share of agriculture also fell while the employment share of manufacturing grew. Importantly, the value of remittance inflows nearly tripled between 2005 and 2010 in US dollar terms. If the 2010 rural remittance share was similar to its share in 2005 (57 percent), then this would imply that rural house-

hold income from remittance would have also grown by nearly three times in nominal dollars. Although, farmers benefitted from a substantial improvement in the terms of trade owing to a surge in rice prices, the most likely scenario is an increase in the income shares of non-farm and transfers and a further reduction in the share of income from farming.

These changing income trends suggest a huge transformation of the rural economy as non-farming activities are becoming the dominant source of income in the rural areas. While the income from farming tends to be more equalising than income from non-farming and transfers, once we allow for the general equilibrium effects of growing demand for services in the rural economy financed by the remittance and non-farm income, the most likely beneficiary of this is the rural wage earners, who tend to belong to the poorest income group. The observed improvement in the quality of life of the rural population in terms of housing, rural infrastructure, health and education is an example of the growing demand for services.

The expansion in rural electrification, cell phone services and internet services are also changing the economic and social character of the rural

population. Better communications along with improvement in rural transport has lowered the transaction costs between the rural and the urban economy, thereby further supporting rural trade and commerce.

The economics of farming is also changing in important ways. First, on the supply side, with the growing encroachment on agricultural land, it is fast becoming a binding constraint on farm production and employment. Second, on the demand side, the substantial slowdown in population growth rate along with low income elasticity of rice has meant a gradual slowdown in the domestic demand for foodgrain. As income rises, the substitution of other food for rice will also come into play. This suggests that the government should actively pursue the option of rice exports to keep farmer incentives in place. This obviously has implications for real rice prices that will likely rise.

Will it not hurt poverty reduction? What is the recent evidence from Bangladesh?

As earlier noted, the government has rigorously pursued a policy of declining real prices of rice to reduce poverty. It supported farmer incentives through investment in technology supporting productivity improvements and input subsidies. But the

substantial decline in the real price of rice (except for a brief reversal in 2005-2008 global food price crisis period) and budgetary constraints are increasingly making it difficult for the government to sustain rice as a major source of income for the rural economy.

The declining real rice price played a major role in reducing poverty at initial stages when income was very low, population growth was high, dependency ratio was high and there was a large incidence of hunger and food poverty. Today, the rural and urban scenarios of Bangladesh are vastly different in all these dimensions. Indeed research shows that the unintended consequences of the transmission of the global food price crisis on Bangladesh domestic rice prices were highly positive for growth of rural incomes and poverty reduction between 2005 and 2010. Furthermore, the fact that the urban poverty also declined the fastest during 2005-2010 despite increasing real rice prices suggests that a mildly increasing real price of rice may not be inconsistent with poverty reduction. Thus, securing a continuous decline in the real price of rice may not be the best policy in today's Bangladesh.

So, instead of fearing a food price crisis, Bangladesh should seriously consider exporting rice. It can of course

always watch price trends carefully to offset short-term upswings and significant from long-term trend through buffer stocking, trade regulation and other policies. The other policy implication for rice is that supporting further productivity improvements through investment in farm technology will continue to be important. Outside rice, supporting productivity of other farming activities will be important, especially for products with high income elasticity of demand (fruits, vegetables, fisheries, poultry, meat and dairy products).

In view of the growing importance of non-farm activities in rural areas, the government will need to support services that provide incentive to these activities. These include further efforts to intensify rural electrification, further improvements in rural roads, higher public spending on rural health and education, and supply of rural credit. Efforts to improve access of the low served rural areas to external migration facilities through information support, protection of worker rights and institutional loan facilities to lower the initial financial cost of migration may also be helpful.

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