International Business News

G8 finance chiefs to tackle soaring oil, food prices

AFP, Tokyo

Finance ministers from the Group of Eight rich nations will this weekend discuss ways to limit the economic damage of soaring oil prices that have eclipsed the credit crisis as their biggest worry.

But experts said the G8 powers have few obvious options to cool the commodities boom in the near future, with any calls for the Opec producer cartel to open up the taps likely to fall on deaf ears.

Soaring crude oil prices are causing growing concern in the major economies and raising the prospect of credit tightening by central banks to contain inflation, even as global economic growth slows, led by the United States.

While the fallout from the US credit crunch continues, the sense of alarm on world markets seen after the turmoil erupted last year appears to have eased, helped by central bank action to shore up the financial system.

Malaysia says no more fuel price hikes this year

AFP, Kuala Lumpur

Malaysia's Prime Minister Abdullah Ahmad Badawi said Wednesday there would be no more fuel price hikes for the rest of the year.

Abdullah said that because Malaysians were still coping with the impact of last week's 41 percent fuel price increase, the government will absorb the cost of soaring crude oil costs.

"There will be no more fuel price hikes for this year," he said in a statement.

Malaysia, a net oil exporter, heavily subsidises petrol and diesel but said it was forced to implement the deeply unpopular price hike as the cost of subsidies would have ballooned to 17 billion dollars this year.

US, China to tackle inflation, currency in talks: Paulson

AFP, Washington

The United States and China will discuss rising inflation and the thorny issue of the Chinese yuan at bilateral economic talks next week, US Treasury Secretary Henry Paulson said Tuesday.

"Managing financial and macroeconomic cycles will be our first discussion topic next week. Both the United States and the Chinese economies face current challenges, including adjusting to higher energy and food prices," Paulson said in a speech at a Washington think tank.

His remarks came after the Shanghai stock market plunged seven percent, its worst one-day slump in a year, after China's central bank tightened credit conditions to contain inflation.

Paulson said the June 17-18 meeting of the high-level US-China Strategic Economic Dialogue (SED) would also focus on issues including trade and open markets, investment and advancing opportunities for cooperation in energy and development.

AFP

An Indian Central Reserve Police Force soldier keeps vigil as Indian tourists sit beside a closed shop during a strike in Srinagar yesterday. A general strike was called by Kashmir's traders federation to protest against a recent fuel prices hike.

Malaysia frozen seafood firms urge EU export ban delay

AFP, Kuala Lumpur

Malaysia's frozen seafood industry Wednesday urged the European Union to delay an imminent ban on its multi-billion-dollar exports, which do not meet European health standards.

The EU is expected to impose a ban on June 18, dealing a major blow to the seafood firms as their top export destinations include France, Britain, Belgium, Italy and Spain.

"A ban will be devastating for us as Europe is one of our major markets and it would result in many of us going out of business," Ch'ng Chin Hooi, chairman of the Malaysian Frozen Foods Processors Association, told AFP.

Toyota to produce new hybrid battery next year

AFP, Tokyo

Toyota Motor Corp. said Wednesday that it plans to start producing lithium-ion batteries next year as it races against rivals to develop new high-mileage hybrid vehicles.

Toyota, seeking to keep its lead in the growing hybrid market amid rising petrol prices, said its joint venture with Matsushita Electric Industrial Co. will move into full-scale production of lithium-ion batteries in 2010.

The Japanese giant was a pioneer of hybrids, which are equipped with an electric motor and a standard petrol engine to make them more economical.

ANALYSIS

Vietnam economic boom hits high-speed wobbles

AFP, Hanoi

AFP

Containers are seen piling up at Saigon port in Ho Chi Minh city on June 8, 2008. Vietnam's economy, until recently a darling of foreign investors, has overheated and may be sliding into a boom-and-bust cycle that could require IMF-style assistance, according to analysts.

Vietnam's economy, until recently a darling of foreign investors, has overheated and may be sliding into a boom-and-bust cycle that could require IMF-style assistance, analysts say.

The economy widely hailed last year as Asia's next tiger has been battered by double-digit inflation, a ballooning trade gap, a tanked stock market and worries about the currency and banking sector.

Credit rating agencies Standard & Poor's, Fitch and Moody's and several investment banks have revised downward their outlooks for Vietnam at a time when the spectre of a US recession could spell global trouble.

Aseambankers Research said "the worst-case scenario would be for Vietnam to suffer massive capital flight, triggering a balance of payment crisis and forcing the country to go to the International Monetary Fund for help."

Analyst Adam Le Mesurier wrote for consultancy DSG Asia that "an 'IMF programme' style policy response will be needed within six months," including monetary and fiscal tightening and a dong currency devaluation."

Many investors and donors in Vietnam remain upbeat about the market of 86 million, pointing to strong exports -- including of food and oil -- investment inflows, growing tourism, and the potential of its young workforce.

"It's too easy to get excited and claim that Vietnam has gone from poster child to problem child," said EU chief country representative Sean Doyle.

"But I'm not sure it's very wise and very balanced ... Vietnam, if it can keep steady, stick with the right policies, will be attractive."

Nonetheless, the turnaround in investor perception has been stunning.

Communist Vietnam's 2007 entry into the World Trade Organisation fuelled enthusiasm for the low-wage "mini-China," bringing an influx of foreign cash.

Domestic investors gambled on a sky-rocketing stock exchange, the government went on a spending spree, and banks lent freely, fuelling rapid credit growth.

The wheels started to come off about half a year ago, when inflation hit double digits as the economy tried to digest six billion dollars in foreign direct investment (FDI) disbursed last year, or 8.4 percent of GDP.

Since the start of the year prices have galloped, driven by global food and energy costs, to 25 percent year-on-year inflation in May. Wage demands sparked 300 labour strikes in the first quarter alone.

"The wage-price spiral that appears to be beginning, if it becomes embedded, could make matters much worse," said an HSBC report that predicted a rise to 30 percent inflation amid hoarding of commodities.

Another alarm bell sounded when surging imports drove the trade deficit to 14.4 billion dollars in May, compared to 12 billion dollars for all of 2007.

The stock market has tumbled amid tighter credit and falling investor confidence, turning from the world's best to worst performing bourse. Last week it crashed below 400 points, from its high of over 1,100 in March 2007.

Many investors have bought gold or offloaded their value-losing dong for greenbacks, briefly sending the black market rate in Vietnam to 18,500 to the dollar last week, against the official rate of around 16,000.

Standard Chartered Bank said recently that the "Vietnamese dong has come under downward pressure, and such pressure is likely to persist until solid improvement is seen in the trade balance."

Some observers now fear a banking crisis amid tighter liquidity, depositor-flight and non-performing loans.

"Urgent action is required in the financial sector," said Michael Pease, chairman of the Vietnam Business Forum. "Vulnerability of some financial institutions threatens not just the domestic financial sector but also the confidence of foreign investors."

Vietnam's government -- which has adopted a fight-inflation-first strategy and pledged other economic fixes -- has lowered its 2008 economic growth target to 7 percent from last year's blistering 8.5 percent.

IMF country chief Benedict Bingham has suggested Vietnam cool its "overheated" economy with higher interest rates and public spending cuts, freeing up of the exchange rate and accelerated reforms of its state-owned enterprises.

While Bingham said the IMF was "encouraged" by government plans to fix the economy, he called for "a concrete and convincing policy package that will bolster investor confidence and restore macroeconomic stability."

COLUMN

ZAIDI SATTAR

Budget FY09: Import substitutes win over exports

Riding on the wave of a record revenue performance in FY08 (up nearly 24 percent), but fading business confidence for the most part, Budget FY09 could afford to ease the tax burden on business and industry. So it did. A preliminary assessment of the tax and tariff proposals finds a general scaling back of import taxes on raw materials, machineries, and intermediate inputs, alongside protective increases of tariffs and para-tariffs on finished goods of selected import-substitutes.

In the sphere of direct taxes, some relief is also evident in respect of corporate taxes, together with mitigating measures for easing the tax burden on SMEs. Rather than eliminating tax holidays completely, there is a proposal for a staggered elimination over the medium-term.

With regard to trade policy, in a departure from past trends, the budget is conspicuous by an absence of any commitment to keep trade liberalization on track. Over the past year, the caretaker government has assessed the trade-off between the trade policy goal of greater openness that introduces more import competition and the need for raising profitability of business and industry in the backdrop of spiraling international prices of industrial raw materials and intermediates and an adverse investment climate.

Budget FY09 comes out in favor of raising business profitability, ostensibly in line with pre-budget submissions by various chambers.

Suffice it to say that FY08 has been a tough year for business and industry in Bangladesh, mainly due to rising production costs. The tax and tariff measures in Budget FY09 will therefore help to ease the cost burden and raise profitability of business and industry.

A nagging question that remains is whether there is any incentive in this package to promote productivity and efficiency, or to foster competition. In the absence of such measures, the proposed tariff adjustments will raise profitability without any benefit accruing to consumers, as prices are unlikely to fall since tariffs on outputs have not been reduced. Nor is there any hint about raising export competitiveness. In general, the import-substitute lobby seems to have won out. Profitability though not efficiency of producing for the domestic market gets a boost.

Trends in average protective tariffs

	FY09	FY08	FY07	FY06	FY05
Top general tariff rate	25.0	25.0	29.0	29.0	29.0
Average protective rate	20.4*	22.0	24.3	26.5	26.5
Dispersion (coeff of variation)	122.3	109.4	93.2	102.5	96.4
Avg tariff on final goods	33.3	34.0	35.8	38.8	37.3
Avg tariff on intermediate	14.6	16.6	17.1	18.5	19.6
Avg tariff on raw materials	12.3	14.2	13.4	14.4	15.6

Source: NBR, Budget various years. (*) preliminary estimate.

The idea that a four-tier tariff slab has replaced the old three-tier tariff structure is a myth in the sense that the FY08 structure was essentially a four-tier structure (i.e. 5, 10, 15, and 25), though the 5percent tariff for capital machineries was maintained. This year, the same slab reduced to 3percent, has been formally announced.

Preliminary estimates suggest a reduction of average nominal protection compared to last year from 22 percent to 20.4 percent. This decline roughly corresponds to the trend reduction in average tariffs over the past three years. These adjustments will leave a dent in customs revenue to the tune of 10 percent (from its expected growth) or roughly 0.3-0.4 percentage points of GDP. The sharp difference this time around is that almost all of the reduction comes from slashing duties on intermediates and raw materials.

This should not lead to the conclusion that protection for import-substituting industries has been reduced. With top rates, including supplementary duties largely in tact, the tariff reductions on basic raw materials, intermediates and capital machinery, leads to the logical inference that effective protection to domestic industries has gone up.

Given the pronouncements of the Finance Adviser during the last budget regarding making protection time-bound, and given his understanding of the efficiency costs of protection if sustained for long, these tariff proposals are disappointing for those who counted on his commitment to continue to take trade openness one step further.

A number of domestic import-substituting activities have been identified for higher effective protection and occasionally complementing this with supplementary duties(e.g. paints and varnishes, Teflon tape, printed books and brochures, children's coloring books, diamond (polished), table and kitchenware, electrical apparatus, etc.). The underlying logic seems to be if an activity shows signs of success, give it more protection. The analytical underpinnings of such a policy stance quite common in the past is debatable.

The one significant policy change, which will enhance competitiveness of exports, is the introduction of bonded warehouse facility for enterprises that have 100percent export-oriented units. Like RMG, they can now import inputs without having to pay duties. This should spur growth of non-RMG exports and propel export diversification.

All in all, Budget FY09 signals little or no progress towards greater trade openness, which appears to have become a victim of adverse economic circumstances in the past year. Meanwhile, a few rising industries ostensibly doing well in the domestic market have a chance to augment their profits. Let us hope this gives them the incentive to expand and create jobs. Yet, global evidence and Bangladesh experience suggest it is enterprises geared to the export market that have the greatest job creating potential.

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