International Business News

Japan to help trim Asean development gap: Surin

AFP, *Manila*

Japan on Wednesday promised to help the Association of Southeast Asian Nations narrow the gap between its rich and poor members that could undermine economic integration.

Japanese Foreign Minister Masahiko Komura met with his ASEAN counterparts in Singapore and promised Tokyo would soon appoint a permanent ambassador to the bloc, ASEAN secretary general Surin Pitsuwan said.

"We are looking into further cooperation. They are supporting efforts of ASEAN in bridging the gap" between the rich and poor members, Surin said.

"We told them this was a structural defect within the ASEAN organisation. If we can't bridge the gap, it would be difficult to create one fully integrated economy," Surin said.

"Japan has taken that issue very seriously."

Japan has already signed a free trade accord with ASEAN, under which about 90 percent of trade between Asia's largest economy and the 10-nation bloc will be tariff-free within 10 years.

ASEAN has also signed a landmark deal with Japan's economic rival, China, to create the world's biggest free trade zone by 2010.

China warns state firms against risky investments

AFP, *Shanghai*

A Chinese watchdog has warned state-owned enterprises to exercise extreme care when investing in a time of growing financial turmoil, state media reported Wednesday.

Li Rongrong, head of the State-owned Assets Supervision and Administration Commission, urged the companies to cut costs when getting involved in mergers and acquisitions, the Shanghai Securities News reported.

In a speech Tuesday, he especially warned firms with large-scale investments both at home and abroad, according to the report.

State-owned companies should avoid investments outside their core business, and should take care not to exceed their financial capacity or participate in projects with low returns, according to the newspaper.

Li also warned companies against using bank loans for speculative investments in securities and real estate.

In a statement posted on the administration's website, Li said state companies are facing challenges from high global raw material prices, a rising local currency and financing difficulties due to a tight monetary policy.

AFP

Indian brokers work at a brokerage firm in Mumbai yesterday. Indian shares closed up 5.94 percent after the government won a parliamentary confidence vote, boosting its economic reform agenda. The government's win averted snap elections and allows it to push on with implementing a controversial nuclear deal with the US.

Limited success for poverty programmes in Philippines

AFP, *Manila*

The Asian Development Bank said Wednesday that its programmes aimed at lifting millions of Filipinos out of poverty have only had limited success.

"ADB assistance programme over the past five years has been successful in meeting its more selective objectives, despite need for improvements. However, the larger context for the next country strategy continues to be daunting," it said.

The Manila-based lender said it had lent nearly 10 billion dollars for programmes addressing the Philippines' fiscal woes, developing capital markets and ensuring reliable power supply.

Despite these, tax revenues slipped to 14.1 percent last year, below the 14.8 percent target set by the government, and poverty rose to 32.9 percent of the population in 2006 "despite robust growth."

Sri Lanka tea output grows by over 18pc

AFP, *Colombo*

Sri Lanka's tea production rose by 18.2 percent to 171.3 million kilograms (376.9 million pounds) during the first half of this year, the Sri Lankan Tea Board said Wednesday.

Production in June was 27.3 million kilograms, up 16.2 percent from the 23.5 million kilos during the same month last year.

"The weather gods have been good to us this year, while companies are also applying fertiliser periodically, despite high world prices," said Anil Cooke, senior vice president of the privately-run Asia Siyaka Commodity brokers.

Ceylon Tea is one of Sri Lanka's main foreign currency revenue earners along with remittances, clothing and tourism.

Sri Lanka, the world's largest exporter of tea after Kenya, has benefitted from the recent global commodity boom. It earned 507.1 million dollars from tea during January to May this year, up 43 percent over the same period in 2007.

ANALYSIS

Brinkmanship, not breakthroughs, dominates WTO talks

AFP, *Geneva*

High-stakes brinkmanship took hold on day three of crucial WTO trade talks on Wednesday, with both advanced and developing countries demanding concessions to avert another failure.

There were hopes that the late arrival of Indian Commerce Minister Kamal Nath, a leading emerging country representative, would spur progress but he appeared in little mood to give ground.

"This is a round where developed countries have to put something on the table," he told reporters, adding that "real" cuts in farm subsidies and tariffs were needed from rich countries rather than empty proposals.

The European Union and the US have both made opening gambits with offers to reduce trade-distorting assistance to their farmers and are now calling for steps by developing nations to open their markets for industrial products.

The World Trade Organization has convened a meeting of about 30 leading trade negotiators this week with the aim of mapping out a deal to conclude the long-delayed Doha round of global trade talks.

The Doha round began seven years ago with the aim of helping poor countries, but it has been delayed by disputes between developed and developing nations over subsidies and tariffs for farm and industrial products.

The brinkmanship fits a pattern that has seen several previous meetings since 2001 collapse without a deal.

"Progress has been modest until now," WTO Director-General Pascal Lamy conceded in comments to the organisation's 153 members, his spokesman Keith Rockwell said Wednesday.

But Rockwell suggested there had been an "intensification" of talks during and since a ministerial meeting late on Tuesday.

The United States on Tuesday offered to cut official aid to its farmers to 15 billion dollars a year, two billion dollars more than offered previously, in a bid to spur movement at the WTO talks but found no support from key player Brazil.

The US overture came after an attempt by EU Trade Commissioner Peter Mandelson to jolt the talks into movement on Monday with an announcement that the European Union was now ready to extend tariff cuts on agricultural products to 60 percent from 54 percent.

Nath, who arrived late because of a confidence vote against the government in the Indian parliament on Tuesday, called the US offer "wholly inadequate" on Wednesday.

The EU offer was described as "propaganda" by Brazil and even dismissed as nothing new by the EU farm commissioner Mariann Fischer-Boel.

Among all the pessimism, Indonesia's trade minister sounded a note of optimism, saying she had seen "coded signals" indicating that the key players were ready to make new offers to reach a final deal.

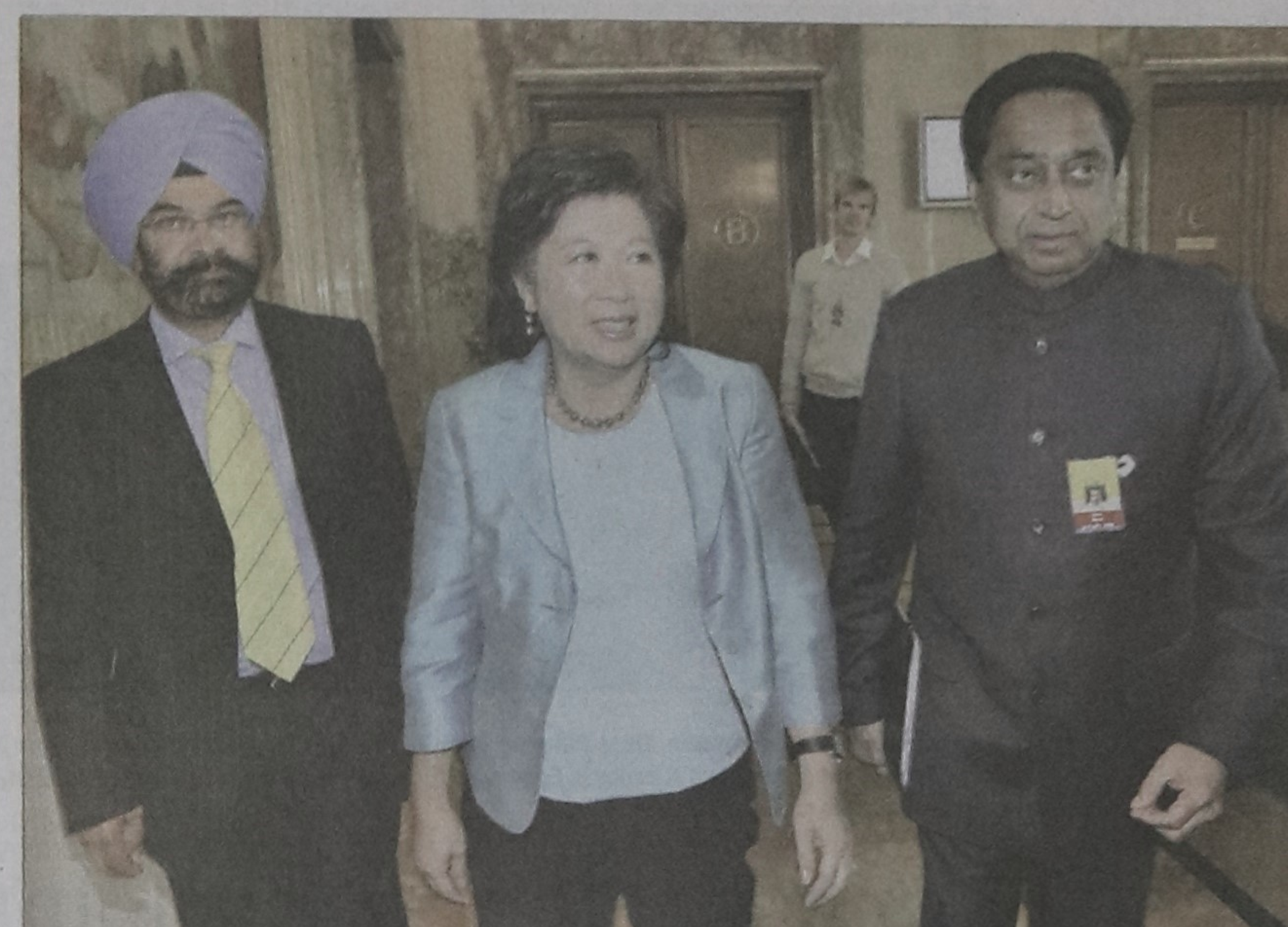
"I have to be cautiously optimistic (about progress). There were coded signals -- some evidence was there yesterday, even though they were not putting explicit offers on the table," said Mari Elka Pangestu of a ministerial meeting Tuesday night.

Pangestu, who speaks for the G33 group of developing countries, added that it was "not just the US or Europe", but that "it's what we call the major countries."

Nath insisted on Wednesday however that he would be prepared to let a global trade deal founder if developed nations insisted on including in an accord measures that would compromise India's industries.

Developed nations are pushing for a so-called anti-concentration clause -- which stops countries from exempting certain sensitive sectors from tariff cuts, to be included in a final global trade deal.

"All developing countries must protect their infant industry, must protect their small industry, and if it is a deal breaker so be it," he said.



AFP

Indonesia 's Minister of Trade Mari Pangestu (C) walks between Indian Trade Minister Kamal Nath (R) and Ambassador of India to the WTO Ujal Bhatia during the third day of crucial trade talks at the WTO headquarters yesterday in Geneva. Nath poured cold water on attempts by the US and Europe to jolt stalled WTO talks forward, saying developed countries needed to propose "real" cuts.

CURRENCY

Chinese yuan yet to see equilibrium

XINHUA, *Beijing*

The yuan, the Chinese currency, has appreciated more than 20 percent against the greenback since the country dropped its peg to the US dollar with a one-off two-percent revaluation exactly three years ago.

The central parity rate of the yuan, or renminbi (RMB), was set at 6.8271 yuan against the dollar on Monday after peaking at 6.8128 last week, according to the China Foreign Exchange Trading System.

Both represented a 21 percent rise against the dollar compared to 8.2765 yuan per dollar before the de-pegging, announced on July 21, 2005.

Let's see what's ahead as well as the route of the yuan's appreciation over the past three years and its impact on the economy and normal people.

Many critics from outside China said the government had kept the currency undervalued by at least 20 percent to give its exporters an advantage in the world market, when the country took the move.

With the yuan now nearing 6.8 yuan against 1 dollar, analysts started to ponder on the equilibrium prices of the yuan, especially as the national economy slowed in the first half and anticipation for the yuan's continued bilateral appreciation began to ebb.

Many believed the yuan would continue its upward motion in the near term, but there may be expectations for its depreciation as early as the end of this year.

They said the yuan's exchange rate was gradually approaching its equilibrium and could eventually become a truly flexible currency moving in both directions.

China's trade, at present, contributed about 5 percent of the GDP.

The latest statistics showed China's GDP rose 10.4 percent in the first half over the same period last year, 1.8 percentage points lower than the first half last year.

Back in July 2005, the Chinese economy was in the third year of high growth following two years of double-digit growth; the country's foreign exchange reserves topped 700 billion US dollar at the end of June as a result of galloping trade.

The economy, though showing no sign of a slowdown, was challenged by a sudden surge of trade disputes with other countries. This followed a pick-up in trade surplus growth and increasing criticism accusing China of being a big consumer of the world's resources such as cement and steel.

China's currency was maintained at a fixed rate against the dollar before the 2005 revaluation.

In July, the country ended the currency's peg to the dollar to adopt a more flexible exchange rate mechanism. Since then, the yuan's reference rate has been set against a currency basket that also includes the euro, yen, won and British pound.

The news was applauded by many countries including the United States, the United Kingdom, Japan and the Republic of Korea, given China's rising power.

Statistics showed China's GDP rose to 3.28 trillion US dollars in 2007, up from 216.5 billion US dollars in 1978 when the country's initiated its opening-up reform.

The country is now the fourth largest in the global economy, the third largest trading nation and the world's biggest holder of foreign exchange reserves.

Since the revaluation, the country had gradually furthered its exchange reform to allow the market to play a bigger role.

These measures included widening the floating band of currency against the dollar and other major currencies on the spot market and relaxing controls on foreign exchange held by individuals and companies.

The yuan exchange rate has become a hot topic among the public over the past three years since the currency began to appreciate against the dollar, in contrast to the lukewarm response back in 2005.

This was a result of Chinese citizens getting more involved with the outside world to purchase imported products or to go abroad to study and travel; a rising yuan meant bigger purchasing power for them.

National Tourism Administration statistics showed that about 40.95 million Chinese went abroad last year, 32 percent more than in 2005.

The rising yuan against the Hong Kong dollar also created a shopping craze among mainland tourists to the Special Administrative Region; Hong Kong residents, in tandem, became enthusiastic about holding yuan deposits.

The exchange reform would no doubt promote the country's economic restructuring, or the industrial upgrading and a shift from the heavy reliance on resources and energies for growth.

But exporters suffered as less orders came in and profit margins were squeezed.

Since last year, quite a few exporting companies in the manufacturing hub of the Pearl River Delta area, especially labour-intensive textile producers, went bust or were forced to find new locations.

The rising yuan was cited among reasons that also included increasing labour costs, higher taxes and industrial upgrading.

However, the process seems inevitable, as seen in other countries, which naturally saw their currencies rise in value after years of growth.

Many companies also sought ways to avoid risks from a rising currency, such as switching the currency in which payment would be made and splitting orders of a long period into smaller ones.

The Chinese economy had scored double-digit growth over the past three years since the yuan revaluated, along with a rising population of newly employed and continuously dropping unemployment rates.

Exports have slowed as expected without experiencing a drastic drop.

The economy seemed to go in the right direction with consumption on the rise to make bigger a contribution to the economy and exporters shifting to turn out better products amid wide-ranging industrial restructuring.

But decision makers had to throw caution against many factors, including the global slowdown and the international financial market turmoil that originated in the US as changes in the rates of major currencies and global prices of energies and grain would both affect the movement of international capital.

Some analysts said the accelerated influx of international capital posed new threats to China's macro control, with the country struggling to tame liquidity.

Some warned the government of the negative effect of a rising yuan, such as harm to exporters, and said the country should take measures to avoid an economic slope.

Others noted the financial risks following the yuan's depreciation, such as the outflow of a large amount of capital.

However, economists agreed the country's current exchange policy was appropriate in addressing the imbalance of international payments, and measures had been effective, as seen from the decelerating trade surplus.