International Business News

World needs new multilateral system: Zoellick

AFP, *Washington*

The global financial crisis underscores the need for coordinated action to build a better multilateral system, World Bank president Robert Zoellick said Sunday.

"We need to modernize multilateralism for a new global economy," Zoellick said at a news conference in Washington. "We need concerted action now to ... build a better system for the future."

Zoellick spoke on day two of annual meetings of the World Bank and the International Monetary Fund, overshadowed this year by the global financial crisis that erupted in August 2007, evolving into the worst of its kind since the Great Depression.

Developing countries complained at the World Bank gathering Sunday that the crisis will put their recent hard-won economic gains at risk while rich nations dwell exclusively on their own problems.

With donor aid programs under pressure due to the financial crisis, the World Bank estimates that up to 100 hundred million people are at risk of falling into poverty because of higher food and energy prices.

Japan considers guaranteeing all bank deposits

AFP, *Tokyo*

Japan's finance minister said Monday he would consider guaranteeing all bank deposits, as world leaders outlined detailed measures to tackle the growing financial crisis.

A government-backed scheme already guarantees up to 10 million yen (100,000 dollars) deposited in Japan's banks, but Shoichi Nakagawa said this may be extended if necessary.

The upper limit was temporarily removed between 1996 and 2005, when Japan suffered its own financial crisis.

"In terms of guaranteeing all bank deposits, I will consider it if necessary," he told reporters as he arrived at Tokyo airport after attending the Group of Seven meeting of finance chiefs in Washington.

"I am thinking of everything in case something bad happens," he said.

The comments came as European leaders agreed a plan that would inject billions of dollars into troubled banks in an attempt to restore confidence in the financial system.

Nakagawa also said the government was considering reviving a recently expired law that allows it to inject public money into small regional banks at times of crisis to protect depositors.

AFP

An elderly woman reads a newspaper using a magnifying glass at a securities trading house in Taipei yesterday. Taiwan share prices closed down 2.15 percent on lingering concerns about the global economy amid the current financial crisis, dealers said.

China posts another record trade surplus despite global slowdown

AFP, *Beijing*

China said Monday its trade surplus hit a monthly all-time high of 29.3 billion dollars in September despite slowing global demand brought on by the financial crisis.

Exports in September reached 136.4 billion dollars, up 21.5 percent over the same month last year, while imports during the period were 107.1 billion dollars, up by 21.3 percent, the General Administration of Customs said.

The previous monthly surplus record was 28.7 billion dollars in August.

China's trade surplus for the first nine months of the year reached 180.9 billion dollars, down 2.6 percent year-on-year, the administration said on its website.

Despite the unexpectedly high trade surplus for September, China's exporters would not be able to avoid the global economic downtown that has been exacerbated by the crisis embroiling financial markets, analysts said.

Malaysia attacks palm oil stockpile by raising exports

AFP, *Kuala Lumpur*

Malaysia, the world's second-largest palm oil producer, will hike exports by 50 percent to reduce a "worrying" stockpile causing by slowing demand, Plantations Minister Peter Chin said Monday.

Chin said stocks currently stood near an all-time high at 1.9 million tonnes as the slowing global economy suppresses demand, worsening the pressure on prices which have slumped 60 percent this year.

Malaysia tightly regulates exports of crude palm oil to protect the tropical oil refining industry, until now enforcing a 2.0 million tonne annual limit.

"We have agreed to allow (exports of crude palm oil) to 3.0 million tonnes ... with immediate effect," Chin told reporters on the sidelines of an international rubber conference.

"Our stocks are increasing. This is worrying," he added.

FINANCIAL CRISIS

Likely impact on Bangladesh

ZAHID HUSSAIN

The stock price plunge and severe credit crunch we are watching today in global financial markets are byproducts of the developments in the US six years ago. In late 2001, fears of global terror attacks after 9/11 shook an already struggling US economy, one that was just beginning to come out of the recession induced by the bursting of the dotcom bubble of late 1990s.

In response, during 2001, the Federal Reserve, the US central bank, began cutting interest rates dramatically to encourage borrowing, which spurred both consumption and investment spending. As lower interest rates worked their way into the economy, the real estate market began to get itself into a frenzy. The number of homes sold and the prices they sold for increased dramatically, beginning in 2002. At the time, the rate on a 30-year fixed rate mortgage was at the lowest levels seen in nearly 40 years.

Subprime and similar mortgage originations in the US rose from less than 8 percent of all mortgages in 2003 to over 20 percent in 2006.

The crisis began with the bursting of the US housing bubble and high default rates on subprime and adjustable rate mortgages, beginning in approximately 2005-2006. For a number of years prior to that, declining lending standards, an increase in loan incentives such as easy initial terms, and a long-term trend of rising housing prices had encouraged borrowers to assume difficult mortgages in the belief they would be able to quickly refinance at more favourable terms.

However, once interest rates began to rise and housing prices started to drop in 2006-2007 in many parts of the US, refinancing became more difficult. Default and foreclosure activity increased dramatically as easy initial terms expired, home prices failed to go up as anticipated, and adjustable rate mortgage interest rates reset higher. Foreclosures accelerated in the United States in late 2006 and triggered a global financial crisis through 2007 and 2008.

Initially the companies affected were those directly involved in home construction and mortgage lending. Financial institutions, which had engaged in the securitisation of mortgages, fell prey subsequently. The rest is history.

The crisis is still unfolding. There remains great uncertainty as to the depth and severity of the crisis as well as its impact on the real sectors (so called main streets) in US and Europe. This makes it difficult to assess clearly how it will impact Bangladesh.

However, overall, there is absolutely no reason to panic. Bangladesh is relatively insulated from the financial side, but vulnerable to potential global economic slowdown, particularly in the US and EU. The foreign exchange reserves of Bangladesh Bank and commercial banks have limited exposure to the securities markets and banking system risk in the US and EU.

Foreign capital flows are largely in the form of concessional official lending. FDI and foreign portfolio investments are small. However, Bangladesh's economy relies heavily on garment exports. This is where the main risk lies. Remittances may also be vulnerable. On the positive side, import payments may be favourably affected as a result of declining commodity prices, particularly oil and food.

The export sector is potentially the most vulnerable in Bangladesh since it depends heavily on US and EU economies. The readymade garment (RMG) industry accounts for over three quarters of export earnings and depends almost entirely on US and EU markets. There is growing concern that a deep and prolonged recession in the US and EU may reduce consumer spending significantly across the board, thus undermining the demand for Bangladeshi exports. BGMEA and BKMEA have indicated that growth in export orders was slow in the first quarter of Fy08. IMF has projected that income growth in Bangladesh's export markets will decline from 1.5 percent in 2008 to 0.5 percent in 2009. If this happens, consumer spending will decline.

Although demand for Bangladesh's exports is not too sensitive to income, export prices may decline and this could have significant effects on our export earnings even if export volumes remain largely unaffected.

STAR

Bangladesh's economy relies heavily on garment exports. This is where the main risk of global financial turmoil lies.

There is unlikely to be any direct immediate impact on remittances. Remittances in Bangladesh proved to be resilient during previous financial crises in the world. The bulk (over 60 percent) of Bangladesh's remittances come from the Middle East, and less than one-third come from the US, UK and Germany. Strong remittance growth (44 percent) has continued in the first quarter of FY09.

However, if a deep and protracted recession ensues in the US and EU, then the Middle-Eastern economies are likely to be adversely affected. Stock markets in important Middle-Eastern economies have already started to crash. Even if the current nearly $8 billion level of remittances is sustained, it would be challenging to maintain its growth momentum since 2001 if the world economy remains depressed for an extended period.

Official aid flows may take a hit. Governments in rich donor countries are doling out massive amounts to rescue their domestic financial institutions. They may look for savings from other sources to finance these bailouts. Foreign aid budget is relatively easy to cut since the foreign aid recipients do not count as their voters.

Import is probably the one channel through which Bangladesh may benefit. Import payments in August have reportedly been US$531 million lower than import payments in July. This decline in import payments is mainly due to the fall in prices of petroleum products, wheat and edible oil. Record high oil prices last year raised import payments to over US$20 billion in FY08, compared to slightly over US$15 billion in payments in FY07. The gains on account of reduced import payments can be sizable.

While mindful of the risks, early indications in FY09 are that the economy is on track to achieving the 6.5 percent growth projected by the government. Agricultural production outlook so far looks very good, export growth in July was exceptionally strong (71 percent), and service sector growth should maintain its recent growth trend.

Bangladesh's remarkable resilience so far to this ongoing global financial crisis and slowing growth in high-income countries is in large part because of the country's relative insulation from international capital markets and the negligible role played by foreign portfolio investors in the country. This resilience also derives from sound policy framework and macroeconomic fundamentals. However, investor psychology is much less insulated than the capital market itself, as demonstrated by the sudden increase in volatility in Dhaka and Chittagong Stock Exchanges last Sunday (October 12).

The overall financial leverage in Bangladesh is low. Unlike the global financials, Bangladesh's banking system has no toxic derivative engagements. Barring a prolonged slowdown in the world economy leading to a drastic reduction in RMG exports, it is highly unlikely that the external shocks will increase the risk of asset quality problems or precipitate a credit crunch in Bangladesh. This is due to Bangladesh's low level of external debt, robust international reserves, and limited direct exposure to the international financial system.

Low level of global integration shields Bangladesh from the global financial turmoil. However, Bangladesh is far from being completely insulated. Its heavy dependence on US and EU markets for merchandize exports is a real source of vulnerability as are remittances and foreign aid, though may be to a lesser extent. There is therefore no alternative to stronger policy vigilance and preparedness.

Policy makers have to make sure that markets do not panic by continuously providing evidence on the economy's resilience in various sectors. They must proactively monitor the channels through which the global financial turmoil may start creeping into the Bangladesh economy and take appropriate mitigation measures.

Inflation has recently been the biggest macro policy challenge in Bangladesh. With the aggravation of the financial turmoil we have seen a sharp decline in global commodity prices. This makes the inflation battle a little easier for Bangladeshi policymakers. But new policy dilemmas are likely to emerge if export earnings begin to slow down and currencies of Bangladesh's competitor countries depreciate. This will put exchange rate policy under pressure to maintain export competitiveness.

Market interventions aimed at depreciating the currency will dilute through declining international commodity prices to domestic prices and, consequently, undermine the objective of reducing inflation from its current double-digit level.

For Bangladesh a more momentous shock over the past couple of years has been the soaring price of commodities, which some have also blamed on financial speculation. The food-price spike in late 2007 and early 2008 caused havoc to the lives of the poor and middle-income groups. In response, the government extended its reach by increasing subsidies and expanding safety nets. FY09 budget has already built-in an expansionary stance to continue providing support to the poor so that they can afford to pay the high food prices.

If manufacturing is hit badly by recession in western economies, there will be fresh demand for further expansion of safety nets and increase in direct and indirect subsidies to exports. This will call for some more tough choices, accommodate these demands through increased domestic borrowing and/or restrain other spending if additional concessional financing cannot be mobilised from external sources.

The writer is a senior economist for the World Bank's Dhaka office. The opinion expressed here is his own.

Poor countries forgotten as turmoil bites

AFP, *Washington*

Developing countries complained Sunday that the global financial crisis will put their recent hard-won economic gains at risk while the rich nations focus only on their own problems.

The poorer countries could be hit twice by the crisis -- finding it more difficult to get access to funding and as their exports fall as the crisis undercuts demand, Indian Finance Minister P. Chidambaram said.

"The developing countries will suffer for no fault of theirs. They did not cause the contagion. Many are not well-equipped to face the consequences," Chidambaram told the Development Committee of the International Monetary Fund and World Bank.

The Development Committee advises the World Bank and IMF on how to promote economic development in poor countries, many of whom feel their problems are being neglected amid the turmoil on global markets.

The plight of the poor countries has been "largely forgotten," said Sierra Leone Finance Minister David Carew.

"We expect to see a reduction of inflows to Africa and that is of concern to us," Carew said, citing likely falls in remittances, foreign exchange reserves and foreign investment.

Worse still, the banking system in poorer countries could face volatility because of links with banks in the developed world which have been pushed to the brink by the crisis destroying their capital.

"Africa does not have (the) capacity for intervention" to help its banks that the developed world does, Carew said, adding: "The ripple effect of the crisis is coming ... likely later this year."

IMF head Dominique Strauss-Kahn warned on Saturday that it would be a mistake to forget the "other crisis" of soaring food prices and aid cutbacks faced by developing countries.

"We are in a big crisis but don't forget the other one," Strauss-Kahn said, adding that while food costs had moderated in recent months, "this bill is still unaffordable for poor countries."

AFP

Niger's Finance and Economy Minister Ali Lamine Zeine speaks to reporters at the IMF in Washington yesterday. Zeine spoke of the 15th meeting of Highly Indebted Poor Countries (HIPC) finance ministers that was held on October 10.

With donor aid programs under pressure due to the financial crisis, the World Bank estimates that up to 100 hundred million people are at risk of falling into poverty because of higher food and energy prices.

"The large surge in food and energy prices -- and an associated rise in inflation -- present major policy challenges for most countries, further compounded by the uncertain global conditions as the financial crisis unfolds," an update for the IMF and World Bank Development Committee said.

The 185-member IMF and especially the World Bank are tasked with aiding development and their annual meetings normally devote much time to reviewing progress made and new programs.

This year, however, they have been overshadowed by the financial crisis, with a major summit of eurozone leaders underway in Paris to follow up a Group of Seven industrialized nations gathering in Washington on Friday.

The G7 -- the United States, Britain, Canada, France, Germany, Italy and Japan -- said they would use all means available to combat the crisis, having already spent hundreds of billions of dollars to support their banks and financial systems.

For some developing countries, the difference between these sums and the money that they need is galling.

"Who will compensate the innocent countries who are going to ... suffer from this debacle?" Kenyan Foreign Minister John Michuki asked Saturday.

A top Chinese official criticized rich nations for the problems in the global financial system and called on them to "shoulder the responsibility" of preventing more damage being caused.

"The major reserve currency-issuing countries should shoulder the responsibility for preventing further spillovers and minimizing shocks to other countries," said Yi Gang, deputy governor of the People's Bank of China.

The charity Oxfam was highly critical of the IMF.

"The IMF's only plan for the poorest countries is to offer them small amounts of money, loaded with conditions. This will be too little, too late," said Marita Hutjes, senior policy advisor at Oxfam International.

"The IMF has agreed that rich countries must use all possible tools to deal with the crisis but the same institution is limiting the tools available to the poorest countries by loading its lending with conditions."

As for aid budgets, Hutjes said the "poorest countries need a bailout, too. The rich world can raise one trillion dollars in just a couple of weeks; surely it can respond to the needs of developing countries with the same level of urgency."