## International Business News

### China's forex reserves pass $1.9 trillion

AFP, *Beijing*

China's foreign exchange reserves, already the world's largest, rose to 1.9056 trillion dollars by the end of September, the central bank said on Tuesday.

The figure was up 32.9 percent from a year earlier and about 25 percent higher than at the end of 2007, according to data posted on the People's Bank of China's website.

The year-on-year growth showed a continued easing from the nearly 40 percent increase recorded in the first quarter of this year, amid the slowing global economy.

The easing growth in reserves also comes amid government measures to curb speculative capital inflows.

Official concern has been rising over a surge in "hot" money inflows, as speculators have bet on the yuan continuing to rise by illegally pouring money into the Chinese economy.

"Hot money" has emerged as a third major factor in the spectacular rise of China's forex reserves, alongside the two traditional sources of reserve growth -- the trade surplus and incoming foreign direct investment.

The forex reserves figure came out a day after China said its trade surplus hit a monthly all-time high of 29.3 billion dollars in September despite the world financial crisis.

### HK guarantees all bank deposits

AFP, *Hong Kong*

Hong Kong on Tuesday said it would guarantee all bank deposits and set up an emergency capital fund for the city's banking industry, but insisted the sector remained stable despite global turmoil.

Financial secretary John Tsang said that all retail deposits in the territory would be fully guaranteed until 2010, following similar moves by other governments trying to instill confidence in the wobbly sector.

"(We will) use the exchange fund to guarantee the repayment of all customer deposits held in authorised institutions in Hong Kong," Tsang told reporters.

"This is to provide assurance to depositors that their money is fully protected," he said.

Previously the first 100,000 Hong Kong dollars (12,800 US dollars) were guaranteed. The new measure will be introduced with immediate effect, Tsang said.

Tsang also announced a new system to allow local banks that require funds to access extra capital, replicating moves by European governments looking to increase confidence in a system where liquidity has been clogged by an unprecedented credit crisis.


AFP

**Anti-globalisation activists protest outside the Manila-based Asia Development Bank (ADB) in Manila yesterday. The activists blamed the ADB as well as fellow lender World Bank for "neo-liberal policies" forcing poor nations to adopt deregulation policies that they claimed helped lead to the collapse of the global financial system.**

### Australia unveils massive stimulus package

AFP, *Sydney*

Australia's government on Tuesday unveiled a 10.4 billion dollar (7.25 billion US) stimulus package to counter a slowdown caused by the global financial crisis, Prime Minister Kevin Rudd said.

The package, which primarily targets pensioners, low and middle-income families, and first-home buyers, is needed because global growth targets have been significantly downgraded following the eruption of the crisis, Rudd said.

Adding to that is evidence of softening prices for Australian commodities on international markets and falls in business and consumer confidence both in Australia and overseas, he said.

"So you can either sit back and watch this data unfold or you can act on it, the prime minister said.

### Philippines prepares 'worst-case scenario' for overseas workers

AFP, *Manila*

The Philippine government has prepared a "worst-case scenario" should thousands of overseas Filipinos return home due to the global financial crisis, the labour secretary said Tuesday.

"We have the mechanics to assist our workers, to receive them and if necessary, provide them with all the necessary assistance," Marianito Roque said without giving details.

More than eight million Filipinos work in more than 200 countries around the world. Last year they sent home more than 14 billion dollars, which contributed 10 percent of the country's gross domestic product.

While no one expects all eight million workers will be forced home by the financial crisis there is a view by economists that some will be affected.

FINANCIAL WOES

# Luxury brands under stress

AFP, *Hong Kong*

During a recent trip to her expensive Hong Kong hairdresser, luxury brand consultant Radha Chadha asked her stylist if recent turmoil in the world's stock markets had affected business.

"I am now offering people shorter haircuts. It's so they will last longer," the stylist told Chadha, author of "The Cult of the Luxury Brand: Inside Asia's Love Affair with Luxury".

The question of whether the Asian market for branded handbags, watches, jewellery and fashion will be snipped or scalped by the likely global economic slowdown is dominating retailers' minds.

Over the past five years, Asia has provided extremely strong profits growth for luxury names such as Louis Vuitton, Gucci and Rolex, Chadha said.

"Asia has been very helpful in keeping the luxury industry boasting a decent rate of growth," she told AFP.

High streets are packed with the heavily designed "brand experience" stores, even in second and third tier Chinese cities, highlighting the crucial role the country plays in luxury companies' growth strategy.

Glossy magazines heave under the weight of high-end adverts, with a recent 808-page edition of Hong Kong-based lifestyle monthly "Prestige" tipping the scales at a handbag strap-ripping three kilograms (6.6 pounds).

But there are creeping signs that the region's tumbling stock markets could stifle the previously insatiable appetite for the correct brand name.

Japan's retail sector has been in the doldrums for a while. Sales at department stores dropped 3.1 percent in August from the same month a year earlier, the sixth consecutive monthly decline, the Japan Department Stores Association said.

**Asia's favourite brands**

*Based on sales performance, brand image scores*

| | |
|---|---|
| 1 | Louis Vuitton |
| 2 | Rolex |
| 3 | Cartier |
| 4 | Gucci |
| 5 | Burberry |
| 6 | Hermes |
| 7 | Chanel |
| 8 | Prada |
| 9 | Tiffany |
| 10 | Armani |

*Source: R. Chadha, P. Husband, "The Cult of the Luxury Brand"* 141008 AFP

Staff at one of Singapore's prime shopping districts said sales of luxury goods had slipped in recent days because of fewer tourists. Customers are buying less and some just browse, they said.

The number of visitors to the city state fell 7.7 percent in August compared to a year earlier.

"We are located in a tourist area and there are fewer tourists now," said one salesperson in a store selling Prada handbags.

A Japanese tourist coming out of a nearby Gucci store said she had planned to spend 3,000 Singapore dollars (2,000 US) during her trip on branded goods, but recent events had cut her budget.

"It makes me feel guilty to spend more because of the economic crisis," she said.

Chadha, who is based in Hong Kong, said such behaviour is not unusual.

"There is a lot of spending which needs that feel-good factor," she said.

"When things are going really well, that is when a lot of people go and spend. People are not going to splurge on a bag if they have lost money during the day."


AFP

**A pedestrian walks past a billboard advertising luxury goods in Hong Kong.**

Despite the negative signs, some top-end brands believe it is too early to tell if the global slowdown has stopped people buying.

"So far there has been no effect in regards to traffic or a decline in sales compared to last year," said a spokesman for jewellery brand Cartier.

"The effects of the economic slowdown on the luxury goods sector in Asia remains to be seen. Christmas will be a better indicator in regards to whether the industry will be affected."

Swiss luxury goods giant Richemont recently said the company enjoyed sales growth of 19 percent in the region during the five months to the end of August, although Japan dropped eight percent.

And the outlets, many long planned, keep coming.

The Emporio shopping centre in New Delhi was given the go-ahead two years ago and became one of the country's first dedicated luxury malls when it opened recently.

"Staff there were very positive," said Chadha, who has visited. Only around half of the plots were filled, Chadha added, although such a situation is not unusual for a new mall.

Whether the Emporio is bustling in six months could be a crucial test of whether the region will overcome the gloomy economy to remain a brand-selling powerhouse.

### I should have seen it coming: Krugman

AFP, *Washington*

Paul Krugman, winner of the 2008 Nobel Prize for economics, said Monday in an interview with National Public Radio (NPR) that he should have anticipated the current financial turmoil.

"I should have seen it coming," said Krugman.

"I berate myself for not understanding the extent to which we have these financial domino effects. I saw there would be a burst bubble and there would be a lot of pain, but I didn't realize how big the pain would be."

Krugman, a Princeton University professor and a New York Times columnist, has worked intensely on the impact of free trade and globalization, as well as the driving forces behind urbanization, the Nobel citation said.

He has said he is "extremely terrified" of the financial crisis, and told NPR on Monday that he wondered how economists and politicians "could have been so blind."

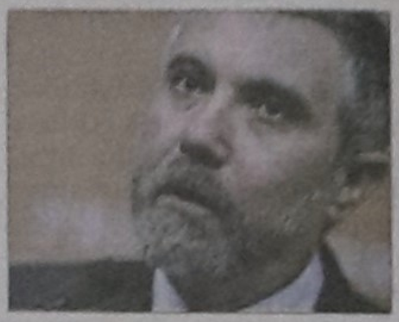
"We created a financial system that basically outgrew the defense we created back in the 1930s to protect against crises. We should have understood that because the system had outgrown those defenses, there was the possibility of another one.

"But very few people saw it coming," he said.

Krugman told NPR he "had no anticipation" he was to recieve the Nobel prize, which he described as "an awesome surprise."

"I was stark naked, about to step into the shower," Krugman said about the moment he learned of the award from the Nobel academy in Stockholm.

A fierce critic of President George W. Bush's handling of the global financial crisis, Krugman has also reserved harsh words for Republican presidential candidate John McCain.



Paul Krugman

**NOBEL Economics**

| | |
|---|---|
| 2008 | Paul Krugman (USA) |
| 2007 | Leonid Hurwicz, Eric Maskin and Roger Myerson (USA) |
| 2006 | Edmund S. Phelps (USA) |
| 2005 | Robert J. Aumann (Israel/USA) and Thomas C. Schelling (USA) |
| 2004 | Finn E. Kydland (Norway) and Edward C. Prescott (USA) |
| 2003 | Robert Engle (USA) and Clive Granger (Britain) |
| 2002 | Daniel Kahneman (USA/Israel) and Vernon L. Smith (USA) |
| 2001 | George A. Akerlof, A. Michael Spence and Joseph E. Stiglitz (USA) |
| 2000 | James Heckman and Daniel McFadden (USA) |
| 1999 | Robert Mundell (Canada) |

AFP

COLUMN

SYED NASIM MANZUR

# Another BRIC in the wall

What a difference a week can make! Only the other day it seems one could not throw a brick in a room full of economists without hitting someone who was touting the 'decoupling theory' where the remarkable economic growth in the unfortunately named BRIC countries -Brazil, Russia, India and China- along with emerging powerhouses such as Vietnam and Indonesia would more than compensate slowing economic growth in Europe, USA and Japan.

It would no longer be the case that if the American economy sneezed, the world economy would catch a cold.

Fast forward to the events of the last week: the US markets lost more than $1 trillion in one day of trading, the FTSE followed suit dropping to below 4000 in more than 5 years, Iceland almost went down as the first sovereign bankruptcy and almost every single major stock market in the world lost heavily.

But guess what else happened? Brazil has seen nearly a third of the value of its currency wiped out in the last three months; Russia has seen billions of dollars of market capitalisation vaporise in the last weeks prompting repeated market suspension; the Indian rupee is at an almost all time high against the dollar and the central bank had to release billions of rupees to restore liquidity; China has already revised downwards its growth targets as it sees demand for its products adversely affected by recession in the US and Europe. If this is the new improved decoupled economy, give me the old one any day.

This fallout is not just a reminder of the continued dominance of traditional economic powers of the G7 but also of the record degree of connectivity amongst all our economies and hence our fortunes today. We have not de-linked but become more interdependent and thus vulnerable as is evident from this crisis of epic proportions. Bollywood is having a harder time finding new finances for its films because of reduced credit and capital availability. Mexican remittance earnings from Mexicans working in USA could fall as much as 20 percent ($5 billion) this year due to the recession in USA.

Even Venezuela and Iran, neither of whom are known for their high levels of integration with the global economic order or affinity for the capitalistic system, already face lower export revenues as oil prices have crashed and seem headed further south. One reason is that with lower growth forecast for almost the entire globe and especially 'insatiable' China, prices of all commodities are correcting.

Oil is no exception and the OPEC president has said current oil prices are a true reflection of supply and demand now that speculators are out of the market. In a breathtaking display of self-serving behaviour OPEC has also announced that they are considering production cuts to boost prices.

**Seemingly endless solvency concerns about some largest US and European financial institutions have pushed the global financial system to the brink of a systemic meltdown**

So what does all this mean for Bangladesh? Is ignorance really bliss in our case as is one argument being made by some who say that we are so NOT wired into the global economy that it will be business as usual in Bangladesh? Will our exports flourish as the west demands lower priced goods?

My answer to all of the above: you must be joking!

We are already being hit by the crisis - the penny has just not dropped yet. From July 7 to October 7 this year, the Taka has gained 12.6 percent against the Euro thereby rendering our euro exports less competitive. As the Taka remains pegged to the Dollar, our exchange rate is causing us to lose competitive edge against India and Pakistan, both of whom have seen their currencies slide against the US dollar. This will mean lower export earnings growth and also margin pressure on exporters by buyers fighting weak consumer confidence.

As western consumers worry about their jobs, bank deposits and pensions, retail spending has slowed down. Retailers are already asking for longer credit terms or easier payment terms reflecting tighter credit. We must remember the time lag between orders placed now and our export performance. So policy makers and exporters must be prudent when projecting growth in 2008-2009, because the recent past is no longer relevant.

The seemingly endless solvency concerns about some of the largest US and European financial institutions have 'pushed the global financial system to the brink of a systemic meltdown' according to the IMF president and we are already seeing unparalleled bailouts in USA, UK, and Germany. All three countries are major development partners and donors to Bangladesh and we can probably expect reduced aid flows as well as slowdown in FDI.

The third probable fall out from this crisis could be on remittances, particularly from white collar Bangladeshis facing layoffs, lower wages or working hours. Further falls in oil prices could adversely impact the Middle East as well, which of course is our largest source of remittances. The potential double whammy of declining export earnings and remittances and the impact on our balance of payments position is the stuff of nightmares.

So what can we do? China has already tried to replace foreign demand for its products with local demand. Six central banks have jointly reduced lending rates to boost credit. India is boosting liquidity and allowing the Rupee to slide against the dollar. What we cannot do is believe that we can escape unscathed by this turmoil. We are just another brick in the wall, and the whole wall is shaking.

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