International Business News

Economic crisis tops agenda of Apec leaders' summit

AFP, *Lima*

The crisis plunging the world into a recession is to dominate an Apec summit in Peru next weekend, along with efforts to firm up an international response to the turbulence.

The November 21-23 gathering of leaders of the Asia-Pacific Economic Cooperation forum will also serve as the swansong multilateral summit for US President George W. Bush, who leaves office in January 2009.

Bush, and 20 other heads of state and government from Australia, Brunei, Canada, Chile, China, Indonesia, Japan, Hong Kong, South Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, the Philippines, Russia, Singapore, Taiwan, Thailand and Vietnam, will be attending the high-security event.

Organizers said the leaders -- whose countries account for half the world's trade and nearly 60 percent of its gross domestic product -- will be addressing the economic and financial crisis.

Canadian Prime Minister Stephen Harper was to give a speech on how the crisis has affected Apec's priorities, while the presidents of Mexico and Colombia, Felipe Calderon and Alvaro Uribe, were to examine the implications of the crisis for Latin America and the world.

Taiwan mulling shopping scheme to boost consumption

AFP, *Taipei*

Taiwan plans to launch a multi-billion-dollar shopping coupon programme to stimulate domestic consumption amid the global economic crisis, it was reported Sunday.

The programme, based on a similar initiative launched by Japan in 1999, may cost the government up to 70 billion Taiwan dollars (2.12 billion US), the Taipei-based Commercial Times said.

The programme was discussed when Premier Liu Chao-shiuan met cabinet members over the weekend to draft measures aimed at boosting the economy and staving off recession, it said.

According to the draft proposal presented by the Council for Economic Planning and Development, the island's top economic planning body, around 6.7 million families would be given shopping coupons worth 10,000 Taiwan dollars to spend on goods ranging from food to clothing and electronic appliances.

The wealthiest 12 percent of families may be excluded from the scheme, which has yet to be finalised, the Commercial Times said.

AFP

Shoppers browse for clothes at a shop in Taipei yesterday. Taiwan plans to launch a multi-billion-dollar shopping coupon programme to stimulate domestic consumption amid the global economic crisis.

IMF welcomes G20 action plan, calls for more stimulus

AFP, *Washington*

The International Monetary Fund chief Saturday welcomed the outcome of the Group of 20 summit, calling it a step toward resolving the world's financial crisis.

"Today's summit was significant because of the people present. A new world economic order is developing that is more dynamic and more inclusive than any we have yet seen," IMF managing director Dominique Strauss-Kahn said.

"The meetings are also significant because of what was agreed. The most important outcome of this weekend's meeting is agreement on an action plan and the commitment of all participants to implement the plan vigorously and fully."

He said the IMF "will give strong support to these efforts, as called for by the G20."

Strauss-Kahn said he welcomed the G20's "strong support for the important role of the Fund in crisis management and the reform of the international financial architecture," and noted the IMF has been working on a variety of aid programs including a new short-term liquidity facility.

Russian crisis could slip from Kremlin's grip

AFP, *Moscow*

The ruble is losing value, thousands of jobs are being cut and Russia's oil boom is over: after years of economic and political stability, the Kremlin could be losing its grip, experts said.

Finance Minister Alexei Kudrin this week admitted that lower oil prices meant Russia's financial reserves could run dry next year, while Kremlin economic aide Arkady Dvorkovich conceded the ruble could slip further.

Prime Minister Vladimir Putin has meanwhile been berating the country's banks for not passing credits granted by the state on to ailing banks and companies in the wider economy, accusing them of "corporate egoism".

For ordinary Russians lulled into a sense of greater security -- at least compared to the upheavals of the 1990s -- by the sound economic management under ex-president Putin, the financial crisis has come as a shock.

INTERVIEW

Benefit from meltdown

Chief of the Capital Market Originations, Citi South Asia, speaks on Bangladesh

SARWAR A CHOWDHURY

In today's integrated and global world economy, no country will remain untouched by the current global financial turmoil. Every nation will face an impact, either directly or through side effects, says Ravi Kapoor, a senior official at Citi South Asia.

However, Kapoor says, there are indeed ways for Bangladesh to take advantage of the global reshuffling and re-allocation of resources that are taking place and come out a winner in the process.

Kapoor, managing director and head of the Capital Market Originations, Citi South Asia, said this in an e-mail interview with The Daily Star.

Ravi Kapoor

Q: Many believe that the ongoing global financial crisis will not affect the Bangladesh economy; rather the country will benefit from the meltdown. Many others think that if the financial crunch prolongs, it will put a negative impact on the economy. What do you think?

A: As you have rightly pointed out, there is no consensus response to this question. I am of the personal belief that in today's integrated and global world economy, no country will remain untouched by the current crisis. There will be an impact - either directly or through side effects. However, while we wait for the dust to settle, there are indeed ways for Bangladesh to take advantage of the global reshuffling and re-allocation of resources and come out winner in the process. Timely and coordinated macro policies are crucial in ensuring that Bangladesh continues to remain on the radar of major market players.

Q: What are your views on the economy of Bangladesh and its development potential?

A: Citi has been operational in Bangladesh since the late 80s and have since then maintained a positive outlook for the country's growth potential and economic resiliency. We hope that Bangladesh will continue on its current growth trajectory, adjusting for the global economic impacts.

Q: South Asian countries, including Bangladesh and India, are talking about introducing 'cross border trading' among the regional countries, for a long time now. What is your view about cross-border trading?

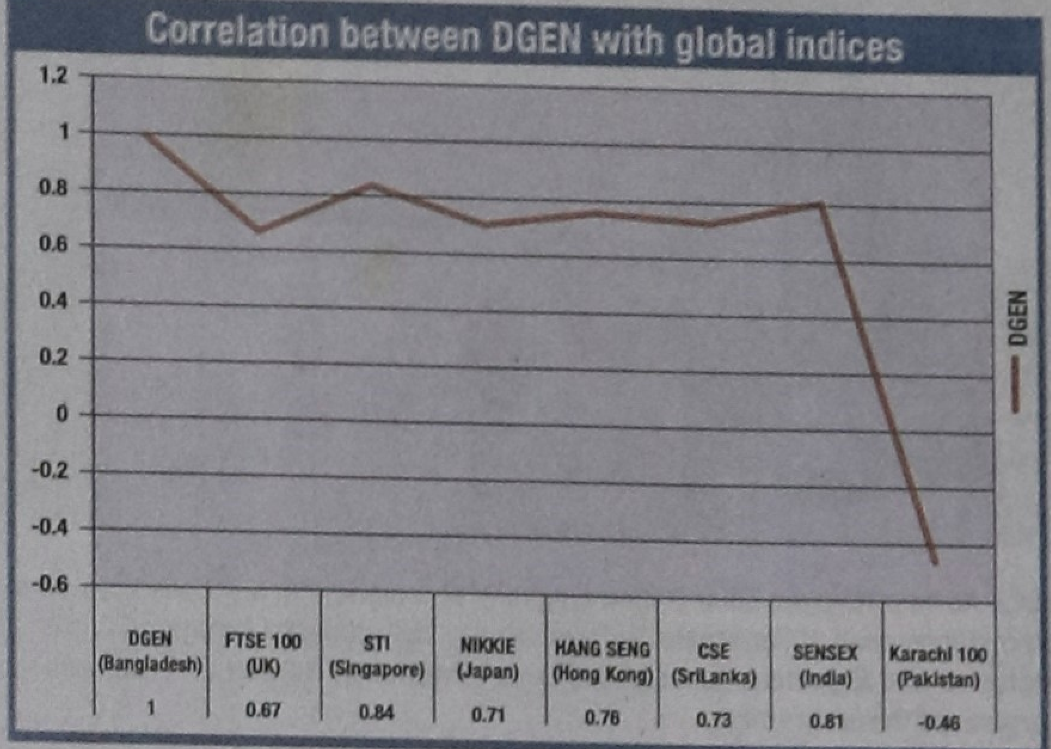
A: Despite the current setback, Asia will continue to be a hub of economic growth this decade, with South Asia continuing to play a major role. As such, any sort of formalised and well-planned 'cross-border trading' mechanism will benefit all the parties and develop our regional strength further and increase our regional self-sufficiency. However, proper emphasis has to be given to adequate disclosure, transparency, governance and other risk control measures to ensure robust businesses that can survive the test of time.

As an example, Bangladeshi corporate organisations can look to access capital through the Indian Depository Receipt platform that has been set up in India. Similarly, we may think of ways to set up proper investment vehicles for Bangladeshis to invest in regional companies and participate in the 'success' of the region. There are endless opportunities and very many permutations of 'cross border' partnership.

Q: How should our corporate organisations be preparing for the next growth trajectory?

A: While the global scenario has changed drastically, and we are still waiting to see the aftermath of the recent meltdown, some things that Bangladesh corporate organisations can benefit from by incorporating in their strategies include:

- Change is the only constant: Management needs to be proactive in anticipating changes that may come from the standpoint of customers, competitors or from the changes in technology or environment.
- Capital is global: The world's capital is mobile and will flock to quality investment opportunities, irrespective of country or creed. Bangladesh corporates can benefit from this by building world class franchises in the country and availing global capital or can become a 'forgotten story' if they cannot remain in front of the global investors' mind-set.



Q: What are your views on the development of the private sector in Bangladesh and the role of capital market in driving growth?

A: In terms of opportunities for Bangladeshi capital markets to act as partners in the private sector's ongoing growth strategy, we believe that there is enormous untapped potential.

The corporate organisations and investors are increasingly getting more sophisticated in their funding/investment approaches and we believe that this will translate into further development of the corporate bond market along with additional development of the equity and equity linked markets. As you know, well-functioning markets ensure funding efficiency and optimal allocation of resources.

Q: Please share with us your experience about the growth story of the Indian capital market over the last decade.

A: India's GDP grew on the back of reforms introduced in the early nineties, increases in domestic consumption and emergence of the services sector.

The Indian markets became more in-depth and vibrant on the back of constant reforms introduced by the regulators in a calibrated manner. The reforms which facilitated the growth in Indian capital markets include introduction of electronic trading platforms, dematerialisation of stocks, efficient settlement systems, de-mutualisation of stock exchanges, emergence of new investment vehicles to channel retail savings.

Q: The Bangladeshi stock market is mostly driven by speculation and rumours. Please comment on this.

A: 'News-based trading' is prevalent in every market. Such trends are deemed to be signs of a healthy vibrant market place, where capital allocation is instantaneously based on demand and supply. There is an optimisation of capital usage. However, while this sounds good in theory, we have to be extra cautious about ensuring that the right news goes to investors at the right time and from the right sources to ensure that the right investment decisions are taken. Otherwise, retail driven, shallow liquidity markets are particularly vulnerable to 'market manipulation'. Regulators and market players together have a major role to play in ensuring proper surveillance so that 'speculations' and 'rumours' have minimal impact on the overall market.

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COLUMN

SAJJAD ZOHIR

Financial rout and future options

In a recent article (Who are the Architects of Economic Collapse? Will an Obama Administration Reverse the Tide, Global Research, November 9, 2008), Michel Chossudovsky noted that the "bailout" proposed by the US Treasury does not constitute a "solution" to the crisis. On the contrary, he predicts, it will cause further collapse. To quote him: "We are dealing with an absurd circular relationship: to finance the bailout, Washington must borrow from the banks, which are the recipients of the bailout."

Chossudovsky suggests that the financial crisis is the outcome of a deregulated financial architecture. The Glass-Steagall Act, considered a pillar of president Roosevelt's "New Deal", was put in place in response to the climate of corruption, financial manipulation and "insider trading" that resulted in more than 5,000 bank failures in the years following the 1929 Wall Street crash.

We are informed that the Clinton administration initiated the 1999 Financial Services Modernisation Act (FSMA), which led to the repeal of the Glass-Steagall Act. And this "liberalisation", coined by many as policies of "greed and irresponsibility", and which President-elect Barack Obama had criticised during his election campaign, is alleged to have paved ways for subsequent mis-governance and the current crisis.

Chossudovsky concludes that Obama provides a "human face" to the status quo, which is drawn from his observations that the very 'engineers of financial disaster' are now being considered for the position of treasury secretary.

He mentions four names, all of whom are alleged to have connections with the financial institutions whose wrongdoings are said to have contributed to the recent crisis. They are Lawrence Summers, professor of economics at Harvard University; served as chief economist, World Bank (19911993). He was treasury secretary under president Clinton in 1999 and played important role in the adoption of the FSMA in November 1999. Summers is currently a consultant of Goldman Sachs, and managing director of DE Shaw Group, a hedge fund. Paul Volker was chairman of the Federal Reserve Board in the 1980s under Reagan. He is alleged to have played a central role in implementing the first stage of financial deregulation, which allegedly facilitated bankruptcies, mergers and acquisitions, leading up to the 1987 financial crisis. Timothy Geithner is CEO of the Federal Reserve Bank of New York, which is a powerful private financial institution in America. Jon Corzine, governor of New Jersey, former CEO of Goldman Sachs.

AFP

US President-elect Barack Obama embraces Iraqi war veteran Tammy Duckworth after the two placed a wreath at The Bronze Soldiers Memorial in honour of Veteran's Day in Chicago on November 11.

Chossudovsky obviously provided one perspective on happenings in the US and global financial markets. But there are others as well. Some find Chossudovsky's view to be heavily partisan, although see some merits in his identification of the problems with the liberal agenda. Surely, Volker believed that the market could work as long as someone like him kept monetary supply in check.

Unfortunately, he was followed by less prudent people.

An analyst I had an exchange with suggested that the issue cannot be traced to any one cause. He mentioned the following issues that were left out of Chossudovsky's analysis:

1) The Republicans, especially Bush, encouraged American homeownership and national hubris. The idea that someone should have a house over their heads with borrowed fund even if they cannot afford it is absolutely ridiculous.

2) The push towards pooling of pension vehicles and allocations towards IRAs (that fuel the action of any free market miscreants) is a Republican notion."

I was reminded of the need to look into the irrationality that led to a boom on paper when one looks for 'architects' of a collapse. There, (I quote) "the culprits lie across the chain: a) home-owners who purchased houses she/he could not afford; b) mortgage lender who was paid on commission and sold homes to dead people; c) banks who enticed those mortgage lenders because they knew they could wrap up the mortgages and transfer the risk; d) wall street people who packaged what was worthless and sold it for twice the price; e) "investors" who purchased these securities with no idea what's underneath, and most importantly, f) the pensioners, insurance purchasers, and people who put money into mutual funds --- who ultimately allowed this pooling of money to be allocated irrationally."

Does that mean that the government policies on both sides made it easier for the different players in this asset bubble to get away with their actions? "Oh yes!" was the answer.

Someone who followed through Obama's speeches suggested that he is too rational to follow his party line of welfare, which was a necessary campaign evil. A friend noted: "People like Summers, Buffett and Volker will be in favour of fiscal restraint. All are historians at heart, and surely they realise that FDR's actions in the 1930s led nowhere. In fact, it worsened the depression, until the war led to an increase in industrial activity."

I was further reminded that "American hubris will never let them admit that Hitler helped them jump out of the depression by exporting war"!

As an onlooker, I had more questions. There have surely been resource transfers across sectors and segments in society through the whole process (rise and fall of prices) -- what kind of implications do these have for the days to come and for policies to dominate? Surely, a large-scale war is historically proven to have 'helped' in getting out of economic recession, but is that conceivable?

The bailouts, the more tempting option for postponing the fall, may make the former option inevitable. Thus, only civil way-out seems to be fiscal restraint, that is, by restructuring the economy (which demands US consumers to live in austerity and for us to rely more on local market) and bearing with recession for some years to come without facing politically instability.

Could the incumbent US president lead that painful road? I am told that "fiscal restraint" is unlikely to be politically acceptable in the US, where "people have a sense of entitlement that is deeply embedded throughout all layers of their society, even amongst the more sensible people". Last person who tried this was Volker, who, as understood by some, was hated at the time.

"What happens along those lines depends on Obama's choice of lieutenants and his ability to stand up to an overly liberal party line" -- thus, the critics of Chossudovsky seem to agree with him on the importance of this choice!

What are we then left with -- a war at a global scale with history repeating itself? Or, have we come of age to innovate less painful ways? On the home front, there is a need to revisit unscrutinised import of 'intellectual wastes' at policymaking. More importantly, there is an urgent need for restructuring our economy -- greater equity for an enlarged domestic market, helping local industries to switch to that market, and greater caution with the 'bubbles'. The last thing we would want is turning into an instrument of the 'War' that many predict inevitable for recovery in the West!

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