International Business News

Protectionism to hurt economy: Apec leaders

AFP, *Lima*

Leaders of 21 Asia-Pacific economies making up around half of world trade warned Saturday that protectionism would only worsen the troubled global economy.

"There is a risk that slower world growth could lead to calls for protectionist measures which would only exacerbate the current economic situation," Asia-Pacific Economic Cooperation forum leaders said in a joint statement.

The leaders, who are holding talks in Peru, endorsed a proposal from last week's Washington summit promising not to erect new barriers to trade in the next 12 months.

The leaders including US President George W. Bush voiced "our firm belief that free market principles and open trade and investment regimes will continue to drive global growth, employment and poverty reduction."

They said they would press their governments to look for further ways to integrate economies of the Pacific rim including the possible development of a vast Asia-Pacific free trade area.

The 21 leaders, who also include Chinese President Hu Jintao and Japanese Prime Minister Taro Aso, promised that the global financial crisis would not distract them from other goals including fighting poverty in developing nations.

Britain to slash tax of goods, services

AFP, *London*

The British government was on Monday set to announce a cut in value added tax (VAT) to 15 percent from 17.5 percent to stimulate spending on goods and services as the country faces recession, reports said.

The cut in VAT was emerging as a likely centrepiece of the Labour government's latest budget report, British newspapers said on Sunday.

"I want every household facing difficulty at this time to know we are ready to help and on their side," Prime Minister Gordon Brown wrote in the popular News of the World weekly tabloid.

"I know how worried many people are about their jobs, making ends meet at the moment and about the security of their homes.

"No politician can promise to stop the difficult times, but I can promise that we will do everything we can to help people get through them fairly," Brown added.

British finance minister Alistair Darling will on Monday unveil a budget report also expected to outline plans to boost government spending.

Darling, formally known as the chancellor of the exchequer, will present his pre-budget -- an outline of his taxation and spending plans ahead of the full 2009/2010 annual budget due early next year.

AFP

Shoppers queue up at a cashier of a shopping mall in Taipei. Taiwan's 2009 per capita gross national product (GNP) is forecast to decline year-on-year -- only the fourth drop since the 1970s -- due to the global economic slowdown, it was reported.

Palm oil crash spells misery for Asian farmers

AFP, *Kuala Lumpur*

The global economic slowdown has sent palm oil prices crashing, spelling misery for countless smallholders who have been forced to watch their harvests rot on the trees.

Hundreds of thousands of farmers in Indonesia and Malaysia, which produce 85 percent of the world's palm oil, are reliant on the industry which has gone from boom to bust in just a few months.

Palm oil prices have plummeted from a March high of 4,486 ringgit (1,248 dollars) per tonne to less than 1,500 ringgit, due to the financial crisis and the falling price of crude oil -- which reduces demand from the biodiesel industry.

Malaysia's deputy commodities minister Kohilan Pillay said today's prices were close to the production costs of most smallholders, squeezing their earnings and pushing them to the brink of bankruptcy.

Oil mills are causing further hardship by flouting laws that require them to buy fruits from smallholders, whatever the going rate, he said.

"Their excuse is that it is not economical for them to process CPO (crude palm oil) at this time as prices are too low so they just shut down production," Pillay told AFP.

Worst of crisis yet to come: IMF economist

AFP, *Zurich, Switzerland*

The IMF's chief economist has warned that the global financial crisis is set to worsen and that the situation will not improve until 2010, a report said Saturday.

Olivier Blanchard also warned that the institution does not have the funds to solve every economic problem.

"The worst is yet to come," Blanchard said in an interview with the Finanz und Wirtschaft newspaper, adding that "a lot of time is needed before the situation becomes normal."

He said economic growth would not kick in until 2010 and it will take another year before the global financial situation became normal again.

The International Monetary Fund on Friday promised to help Latvia deal with its economic crisis after it assisted Iceland, Hungary, Ukraine, Serbia and Pakistan.

But Blanchard said the IMF was not able to solve all financial issues, in particular problems of liquidity.

FINANCIAL CRISIS

Stemming the tide of gloom

JAMES F MORIARTY

The world currently faces serious economic challenges. The crisis in financial markets is affecting the real economy in almost every corner of the world. As we often heard in the recent US presidential election campaign, the economic crisis is affecting Main Street, not just Wall Street.

The global nature of the current problems makes it critical for nations to work together to solve these problems. At the same time, we must remain committed to the basic free market principles that have lifted millions of people out of poverty and have ensured prosperity for millions of others. Today I would like to focus on three areas: the origins of the crisis, actions taken by the United States and other nations, and the way ahead.

Let's start with the origins of the crisis. How did we get to this point? The story begins with a decade of benign economic conditions. Strong global economic growth and robust capital flows combined with low inflation and low interest rates. Lulled by these favourable conditions, investors sought ever higher returns on their investments. Investors, globally, took increased risks to secure higher rewards on their investments.

The US housing market is one example. Buoyed by low interest rates, easy credit, and rising housing values, many homebuyers -- with the encouragement of lenders -- purchased homes they could not really afford. Financial institutions packaged the mortgages that financed these homes and sold them to investors. Investors from around the globe bought these "mortgage-backed securities," injecting large amounts of capital into US financial markets.

But homebuyers, mortgage brokers and investors failed to remember one thing: Markets go up, but they also go down.

Home values could not keep going up forever. Eventually, fewer and fewer people could afford the ever-higher prices of houses. Sellers found they had to lower prices if they wanted to sell. Home values dipped. Then, homeowners owed more money on their mortgages than their homes were worth.

Meanwhile, interest rates on many mortgages started to increase. Many people had bought their homes with sub-prime adjustable rate mortgages. In the first years of the loan, the interest rate was very low, well below the prime rate. Then after five or seven years, the interest rate would be adjusted upward to a much higher rate, well above the prime rate, for the remainder of the loan.

Borrowers, many of them first-time home owners or people with bad credit, hoped that by the time the rates went up, their economic situation would have improved so they could afford the higher payments, or they would be able to find another sub-prime loan, or they would be able to sell the house for much more than they had paid for it.

Over the past year, however, many of these homeowners found that none of these conditions applied any longer; they could not make their monthly mortgage payments. And if they wanted to sell their homes to pay off their mortgages, they couldn't. Why? Because now the homes were worth less than what the owners had paid for them.

AFP

US President George W Bush (R) greets Russian counterpart Dmitry Medvedev at the G20 Summit at the National Building Museum in Washington on November 15. Leaders of the Group of 20 richest economies and emerging economic heavyweights vowed a joint effort to deal with the global financial crisis.

This led many homeowners to default on their mortgages. Banks found the mortgages and property serving as collateral for the mortgages were worth less than expected. Institutions like Fannie Mae and Freddie Mac, which guaranteed many mortgages faced failure.

The crisis in the housing market was only the beginning. The demand for ever higher returns not only encouraged irresponsible lending in the housing sector, it also encouraged the creation of complex new, and mostly unregulated, financial products. For example, banks had packaged and sold their mortgages. As the housing market slipped into crisis, it became harder and harder to figure how much these mortgage-backed packages were worth, or how to price them properly.

These financial instruments had performed well during the credit boom; they proved fragile under stress. Shaken investor confidence in housing markets had a domino effect throughout world markets. The unwinding of these complex financial instruments forced institutions, like AIG, and even countries, like Iceland, to the brink of collapse.

These events shook the confidence of investors and consumers alike - and confidence is critical to the health of financial markets. This has been true since Adam Smith, the father of capitalism, wrote, "All money is a matter of belief."

What is the United States doing to restore confidence and shore up battered markets? The United States and partner governments around the globe have moved quickly, and in concert, to tackle the crisis.

The United States has taken systematic, aggressive, bipartisan measures to protect the financial security of the American people and the global community. The measures aim to shore up troubled financial institutions, unlock credit markets and thaw global liquidity. Again, Adam Smith accurately identified the proper role of financial institutions when he observed that banks exist not just to accumulate capital, but to put that capital to productive use "to increase the industry of the country." The actions of the United States and other nations aim to achieve just that.

For example, the US government in October passed bipartisan legislation providing funds to help banks rebuild capital and resume lending. The Federal Deposit Insurance Corporation broadened its guarantees for depositors, banks and other institutions.

The Federal Reserve lowered interest rates, increased support for banks, and launched a new programme to support short-term financing for American businesses.

Other nations took similar actions in coordination with the United States. In early October, the Federal Reserve lowered key interest rates jointly with several European central banks and the Bank of Canada, with the Bank of Japan expressing support. Nations around the world, from Europe to China, have announced rescue and stimulus packages to bolster financial markets and boost the real economy.

Most recently, President Bush hosted a summit of G-20 leaders whose economies account for roughly 85 percent of global GDP.

These leaders discussed measures taken and long-term actions to ensure future global prosperity. The leaders agreed on common principles for reforming financial markets. They launched a detailed, 47-point action plan. These principles include transparency and accountability, sound regulation, financial market integrity, international cooperation, and the reform of international financial institutions. The action plan tasks G-20 finance ministers to take specific actions immediately and in the medium-term. These actions will be reviewed at the next G-20 summit, currently planned for April 2009.

The G-20 leaders took a final step critical to paving the way forward. They reaffirmed their commitment to the principle of free markets.

Open economies and well-functioning markets are essential to economic growth, employment and prosperity. This crisis can only be resolved through a commitment to the rule of law, respect for private property, open trade and investment, competitive markets and efficient, well-regulated capital markets.

What does this mean exactly? In terms of efficient, well-regulated capital markets, it means that national regulators work together to support discipline, competition, dynamism and innovation in the marketplace. Financial institutions bear responsibility for the recent turmoil. They recognise losses, improve disclosure, strengthen internal governance and stop rewarding risky management practices.

In terms of trade and investment, our interest and that of our international partners lies in pursuing the open markets and open investment which have fuelled so much economic growth worldwide. The United States is working with partners to unleash the greatest engine of prosperity the world has ever known, free trade. For developing nations, the value of trade is nearly 40 times the value of foreign aid. According to the World Bank, the complete elimination of barriers to trade in goods would boost annual income in developing countries by more than $140 billion.

What does all this mean for Bangladesh? I think that the current financial crisis reinforces the need for Bangladesh to focus on economic priorities.

These priorities include investment in infrastructure, diversification of exports and manufacturing, enhancing food security, and the development of human capital. The United States will continue to be a committed partner as Bangladesh pursues these endeavours.

The effort and resources expended on this financial crisis have led some to question the commitment of developed countries to helping poor nations around the globe. Let there be no question that the United States will continue to stand by its friends, including Bangladesh. As President Bush said recently, "America is committed and America must stay committed to international development for reasons that remain true regardless of the ebb and flow of markets."

Adam Smith, too, recognised the need for prosperous nations to assist others in need. He said, "No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable." No crisis can distract us from needs of our friends and partners around the globe. The United States looks forward to working with its partners to address this crisis, while at the same time continuing its efforts to promote growth and prosperity for all nations.

The article is adapted from US Ambassador to Bangladesh James F Moriarty's speech delivered at a programme of the International Business Forum of Bangladesh in Dhaka.

Property investors look East for hope

AFP, *Hong Kong*

There could have been no worse time to hold an expo on the Asian property market this year than November.

As the impact of the global financial crisis on the region unravels -- in the form a slumping stock market, company bankruptcies, steep falls in flat prices, and job cuts -- even the most daring of property investors have taken a step back.

It was against this backdrop that the Asian version of an international real estate summit held annually in Cannes, France, was held last week in Hong Kong.

The number of exhibitors at the MIPIM Asia conference -- developers, banks, fund managers, architectural firms, hotel groups and construction companies, mostly from Asia -- dropped to 190 from last year's 236, organisers said.

Visitors were also down to 1,700 from more than 2,100 last year.

During the three days, November 19-21, there were times when the number of people manning the exhibition booths outnumbered visitors.

Despite the lukewarm attendance, however, those who did make it to the expo shared the same enthusiasm for answering the question: Is the Asia market the last bastion of hope for property investment?

"More than ever, we do need this kind of event, our trade delegates really need to communicate in this hard moment," Gilles Chaumet, MIPIM Asia director, told AFP.

As the domestic property markets in the US and Europe are being battered by the credit crunch, many investment groups are starting to preach to their clients about the wisdom of shifting their capital to Asian properties.

"What we will probably see at some stage in early 2009 is that investment committees and fund managers will sit down to look at their asset allocations and say we want to have a certain amount in emerging markets," Glenn Maguire, chief Asia economist at Societe Generale in Hong Kong and keynote speaker at the expo, told AFP.

"I think you will see a reweighting of asset allocation within the emerging market space which is more favourable to Asia, and less favourable to Latin America and Eastern Europe," he said.

Given that a lot of wealth created over the past decade from the equity market has proved to be worthless, Maguire said, investors will find themselves increasingly attracted to the tangibility of properties.

While Eastern Europe and Latin America both have high exposure to the international banking system, Asia, which is leveraged off China, has generally kept its financial system intact with relatively low borrowing levels, he said.

The resilience of Asian economies under the sub-prime crisis appears to be supported by recent economic data.

AFP

A staff member of Singapore's Marina Bay stands next to the company's property development model during "MIPIM Asia", the international property market exhibition for Asia-Pacific at the Hong Kong Convention and Exhibition Centre. There has been no worse time to hold an expo on the Asian property market this year than the month of November, as the impact of the global financial crisis on the region unravels.

An analysis by AME Capital showed that gains made by real estate funds with an Asian mandate dropped to 0.25 percent in 2007 from 33 percent in 2006 -- which compares favourably with European and US mandated funds, which posted respective losses of 25 and 20 percent in 2007.

Within Asia, Maguire said he expected economies which have for a long time exported to China, such as Hong Kong, Japan, Taiwan and South Korea, to outperform those which have relied on US consumption, such as Singapore, Malaysia and Thailand.

Despite the downturn, funds targeting Asia have burgeoned in recent months, said Andrew Weir, who looks after property and infrastructure at KPMG China.

Apart from continuing interest from the Middle East, he said, many sovereign funds had maintained high asset allocations to Asian properties "behind the radar screen".

"The other source of capital coming to the Asian market is what I call 'unlisted wealth' -- high net-worth individuals in Asia who haven't been really affected by the stock market situation," he said.

Weir considered it a "once-in-a-lifetime" opportunity for long-term investment into second-tier Chinese cities such as Chongqing and Wuhan as the central government had recently unveiled economic stimulus packages to boost infrastructure, speed up urbanisation and encourage domestic consumption.

"If you have the perspective that China's long-term demographics and urbanisation story is very solid, this is a historic opportunity to get sites in those cities," he said.

"Quite a lot of people think that the next six months is the right time to enter into the market."