International Business News

IMF urges action on stimulus, bank clean-up

AFP, *Kuala Lumpur*

The roll-out of stimulus packages and the clean-up of banks must be accelerated, the head of the International Monetary Fund said Saturday, urging action to avert "a repeat of the Great Depression".

IMF managing director Dominique Strauss-Kahn said stimulus measures announced so far were nearing the IMF's goal of about 2.0 percent of global GDP.

"But the reason I'm worried is that implementation takes time," he said, citing delays in the United States caused by the political transition, and in Europe because of the EU's political processes.

"On top of that I'm worried that all this will work if, and only if, the different countries are likely to do what they have to do in terms of restructuring the banking sector," he told a press conference.

Strauss-Kahn said there were still losses in the banking sector that remained undisclosed, and that until the balance sheets are cleaned up confidence in the financial markets will not return.

"Loss of confidence is now the central problem. Governments and central banks should credibly commit to measures sufficient to eliminate the risk of a repeat of the Great Depression," he said.

The IMF boss endorsed Washington's stimulus package -- which aims to pump at least 780 billion dollars into the ailing US economy -- saying it was the "correct size" and mix.

Economic crisis hits China's toy exports: state media

AFP, *Beijing*

Growth in Chinese toy exports slowed sharply last year as the global economic crisis hit demand, state media said Saturday, citing customs figures.

Exports rose by 1.8 percent to reach 8.63 billion dollars in 2008, well down from the 20.3 percent growth recorded in 2007, the Xinhua news agency said.

China accounts for 60 percent of the world's toy production but has been hard hit by the slowdown in its main markets in the West, and almost half its toy companies have been forced to close, the customs department said.

"Toys are not a life necessity, so people's demand for that kind of product declined in the face of a grim economic situation," it said in a report.

The slowdown has been exacerbated by a series of safety scandals that have hit China's toy industry in recent years, the report said.

The United States and European Union countries buy two-thirds of all exported Chinese toys.

Chinese toy exports to the United States rose 3.1 percent last year, well down on 2007's 14.2 percent, while sales to EU countries increased 9.3 percent, against 21.1 percent.

AFP

Visitors browse brochures at "Sharia Finance Exhibition" in Jakarta on Friday. President Susilo Bambang Yudhoyono said sharia finance was "more crisis-proof" than the Western model of free-market capitalism. He urged local sharia banks, which do most of their business with small- and medium-sized enterprises, to play a bigger role in the economy this year and "respond to the national development agenda".

US unemployment hits 7.6pc, 598,000 jobs lost

AFP, *Washington*

US unemployment surged in January to 7.6 percent, the highest since 1992, as 598,000 jobes were cut, the Labour Department reported Friday.

The number of job losses for the recession-hobbled economy was the worst since 1974, according to the monthly Labour Department report on nonfarm payrolls, seen as one of the best indicators of economic momentum.

The department also revised up its estimate of December job losses to 577,000 from 524,000.

Payroll employment has declined by 3.6 million since the start of the recession in December 2007, with around one-half of the decline in the past three months.

"The expectations were for a disastrous January for the labour market, and the preliminary numbers exceeded these expectations," said Sophia Koropeckyj at Economy.com.

Ian Shepherdson, chief US economist at High Frequency Economics, called the data "another horrific report, showing job losses across the economy."

Weyerhaeuser Q4 loss balloons to $1.2b

AP, *New York*

Weyerhaeuser Co said Friday its fourth-quarter loss ballooned to more than $1 billion as the rapidly deteriorating U.S. housing market forced the timber and wood products company to book a massive charge and write down other assets.

The Federal Way, Wash.-based company, which builds houses and makes pulp and wood panels from trees it grows on more than 6 million acres, is facing its most challenging environment in a generation.

New home sales plummeted 14.7 percent in December to the slowest pace since 1963, the Commerce Department said late last month.

The moribund US housing market has pushed down lumber prices to their worst levels in more than 20 years, with homebuilding at its weakest since 1959. On top of that, construction slows during the cold months of the fourth quarter.

BILATERAL TRADE

Study Indian market before FTA

Sri Lankan economist speaks to The Daily Star

SAJJADUR RAHMAN

Bangladesh should go for a comprehensive approach, including through research on Indian market, before striking a bilateral free trade agreement (FTA) with India, the biggest economy in South Asia, says a Sri Lankan economist.

"How will it benefit if we get duty-free access for thousands of products to Indian market without readymade garment?" questions Subhashini Abeysinghe, an economist at the economic intelligence unit of Ceylon Chamber of Commerce.

Readymade garment accounts for nearly 60 percent of Sri Lanka's total exports, she said.

There are more contentious issues, including non-tariff barriers and the federal and provincial issues that need to be discussed thoroughly before inking a deal, Subhashini says.

"Now Sri Lankan companies are scared of losing business to Indian companies," she told The Daily Star last week as she came to Bangladesh to attend a regional discussion.

Big companies may be optimistic about business with India, but Sri Lanka's economy is based on small and medium companies similar to that of Bangladesh.

She said: "Sri Lanka's food and agriculture companies and the services sectors including IT, telecom and banking are fearing losses to the growing Indian presence."

India has long been pressing Bangladesh to sign an FTA between the two countries. But Bangladesh always regrets the issue. Once again the issue has come to the limelight soon after the Awami League-led government took over last month.

An FTA is not always bad, at least from the global perspective. Different countries, including developed ones, also prefer FTAs in the absence of a breakthrough in multilateral talks at the World Trade Organisation (WTO).

Since the signing of the FTA between India and Sri Lanka in March 2000, trade grew rapidly. Bilateral trade exceeded $1.7 billion in 2004 and rose to $2.025 billion in 2005. Exports from India to Sri Lanka in 2004 amounted to $1.35 billion, while exports from Sri Lanka to India in the same year were worth $382 million. Those rose to further $1.437 billion and $588 million respectively in 2005. The FTA prompted a 257 percent increase in bilateral trade between 2001 and 2004.

Subhashini Abeysinghe

Under the FTA, Indian companies invest in Sri Lanka, produce and export those products to their country.

Subhashini says a lot of Indian companies are coming to Sri Lanka to exploit the tariff anomalies, not to do fair bilateral trade.

For example, she says: "Palm oil import to Sri Lanka enjoys zero duty facility, while the duty is 100 percent in case of import to India." Copper is another product that is being exported to India, she said.

According to the economist, palm oil and copper exports account for 60 percent of Sri Lanka's total export to India.

"It's not a sustainable and competitive business," she remarks.

Now Sri Lankan entrepreneurs are questioning the viability of the FTA.

She said there are other problems that include rules of origin, standard and sanitary, federal and provincial systems of business operations, and of course bureaucratic issues.

If the federal government in India gives a product duty-free access, not necessarily that a state government will do so, Subhashini says. "We don't have that type of problem in Sri Lanka," she says.

Then there is the port issue, she says, as India is a big country and has a lot of ports to operate business.

"Our products have to wait at ports for long time for clearance on standard issues," the economist said.

Often Sri Lankan exporters face problems at Indian customs points. "We are not recognised by the Indian customs," she said.

However, she admits that there is no alternative to doing business with India, the third largest Asian economy. India is thriving, no doubt, she says, but it is a difficult market also.

The economist suggested that Bangladesh should conduct detail studies on Indian markets before going for an FTA.

"A lot of researches on the Indian economy and its trend are needed while negotiating a deal," she said. India's commercial section does it consistently.

Bureaucrats, especially of the commercial section, have to do continuous studies on Indian markets and changes.

"Otherwise, Bangladesh will face the same situation as the Sri Lankan companies do," she says.

Subhashini says failure in multilateral South Asian Free Trade Area (Safta) has prompted countries to go for bilateral agreement.

"Safta has become uncertain, especially after the Mumbai attacks," she thinks.

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COLUMN

HABIBULLAH N KARIM

Trade: The case with India

The government last week approved a bilateral trade pact with India that has received a lot of media attention and which also has been at the centre of tea storms around the country.

Our relationship with our biggest neighbour has always been complex. From memories of the fateful partition of the sub-continent into a predominantly Hindu India and a predominantly Muslim Pakistan to India's decisive intervention in our war of liberation to subsequent lack of trust at the state level have not helped put at ease mutual suspicions and differences in perceptions from both sides of the border.

Having said that we must recognize that India shares borders with us on three sides west, north and east and the arteries of trade and commerce crisscrossed Bangladesh and many parts of India for centuries until they were rudely snapped in the sixties mainly due to political considerations. The situation is further exacerbated by the great social strain imposed on the Bangalee ethnic community of the sub-continent due to the political division of the then Bengal even before the sub-continent was parcelled out along religious lines in 1947.

The ethnic trauma of those epochal events have left such deep social scars that even the smallest religious slight often leads to tragedies involving loss of precious human lives.

In this backdrop, any engagement with our large neighbour is always seen with a pinch of salt. Based on what we see in the media it is a common perception that India (and sometimes less mighty neighbours) trample on our sovereign rights with impunity. The offshore oil surveys in recent months by India and Myanmar in our territorial waters is a case in point. It was also reported prominently in the media when the UN-Escap brokered Trans-Asian highway and railway projects did not accommodate Bangladesh's position primarily due to India's objections.

It is common knowledge that India has so far been inflexible in accommodating repeated pleas from Nepal to allow transit of goods to and from the ports of Bangladesh even though the UN charter mandates such provisions to land-locked countries such as Nepal.

Despite all these differences I highly commend the initiative of the present government to renew the trade pact with India. After all, economic and trade considerations have always been the prime mover of international relations, human goodwill and peace. Only when ideological considerations took precedence over economic ones that we saw a breakdown in trust between nations with tragic consequences of epic proportions. The twentieth century is full of such examples in all corners of the earth. However, negotiating trade pacts is a highly skillful and knowledge-intensive affair and should not be taken lightly. We must be fully prepared with facts and figures and position papers so that we do not find ourselves at the mercy of those we negotiate with. This is especially true when we deal with nations that are bigger, mightier and richer than us. Even being at the top of a rich and mighty nation, President John F Kennedy of the USA had this to say in his inaugural address on 20 January 1961: "Let us never negotiate out of fear. But let us never fear to negotiate".

Trade between India and Bangladesh has consistently risen over the last twenty years with clear advantage to India. While Bangladesh has followed an open-door policy on imports from any country (the only exception being Israel which we do not yet recognize as a country), traders here often complain of draconian measures by India to stifle our exports to them. On the other hand, India seemed to have always seen Bangladesh's open-door import policy and liberal trade regime as a risk to its domestic producers.

The fact that Indian street corners are flooded with Chinese knick-knacks proves that such protectionist approaches are counter-productive and useless in this age of globlisation. In recent years India's gradual accommodation of RMG exports from Bangladesh is a step in the right direction though it will not have a big impact on mitigating the trade imbalance. One sector that has the potential to narrow and even eliminate the trade gap is IT services.

India today exports more than 60 billion US dollars worth of IT services (software and IT enabled services), a substantial chunk of which is being delivered by Indian sub-contractors and off-shore service centres in far flung countries as far away as Romania and Mexico. The two governments can encourage and invite IT services entrepreneurs of their respective countries to form joint-ventures or consortiums to cater to a burgeoning world market for outsourced IT services. The current slowdown in the advanced economies of the world means that exporters to those countries have to look for ways to lower costs by tapping into larger IT labour pools, something Bangladesh can offer to such a partnership.

In the Saarc summit held in Dhaka in 2007, the Indian Prime Minister Dr Manmohon Singh declared that India would provide unilateral trade concessions to its Saarc neighbours and hoped that the other Saarc nations will follow suit. With Manmohon Singh still at the helm of the Indian government and our present government's gesture of goodwill towards our biggest neighbour, let us hope that increased trade relations with India and other neighbours will help heal the social strains bedeviling the ethnic bonds that were built over centuries.

The writer is the founder CEO of Technohaven Company Ltd and is the current president of Bangladesh Association of Software and Information Services (BASIS). He welcomes feedback at hnkarim@gmail.com.

A view of Benapole land port, a gateway to bilateral trade with India.

India defends ban on Chinese toys

AFP, *New Delhi*

India on Friday defended its ban on Chinese toy imports, saying it acted out of safety fears, following a report that Beijing might challenge the move before the World Trade Organisation.

India prohibited the import of Chinese toys such as dolls, cars, trains and puzzles on January 23 for six months, triggering trade tensions between the world's two biggest emerging economies.

The ban was implemented on the grounds of "public health and safety", Commerce and Industry Minister Kamal Nath told reporters in the Indian capital, adding the action was "compliant" with WTO rules.

"India is a responsible country and before we take any action we make sure that it should be WTO-compatible," Nath said.

His statements came after the state-run China Daily earlier in the week reported Beijing would likely ask the WTO Dispute Settlement Body if the Indian ban violated the trade body's rules.

The case, affecting at least a quarter-of-a-billion dollars' worth of toys, is a sign that China will use WTO rules more often to fight new trade barriers as the global credit crisis makes nations more protectionist, the paper said.

The ban comes as countries around the world hit by economic slowdowns have begun the rush to protect domestic industries.

India's toy industry, which employs two million people, has long protested about the flood of cheaper Chinese toy imports. Chinese products have grabbed 60 percent of India's toy market.

But a major Indian industry body denied the Chinese ban was for any reason except for safety.

"India is WTO-compliant if it bans Chinese toys on health grounds," said Anjan Roy, economic advisor to the Federation of Indian Chambers of Commerce and Industry.

"This ban is to protect children's safety, we're not being protectionist," he told AFP.

He noted there was already a consumer case filed before a Mumbai court questioning the safety of Chinese toys and that China's toy industry has come under close scrutiny since millions of goods were recalled globally last year amid fears they were made with toxic lead paints or had design flaws.

Under WTO rules, China will have to seek "consultations" with India before taking it to the top global trade law enforcement body, Indian Commerce Secretary G.K. Pillai said.

India's ban comes as China's toy exports have taken a beating from the global financial crisis with demand shrinking in its key US and European markets.

Meanwhile, plugging potential loopholes in the ban, India's Commerce Ministry said it had alerted customs authorities to make sure Chinese toys did not enter Indian ports through a third country.

"The prohibition shall be applicable on all such toys which have originated from China, irrespective of the country of import," the ministry said.

Commerce Minister Nath insisted the toy ban would not sour expanding trade and economic ties between the neighbours, who fought a brief, bitter border war in the 1960s, because "this (ban) is a matter of public... rather than commercial concern."