International Business News

G7 to discuss 'Buy American' stimulus clause: Japan

AFP, *Tokyo*

Finance chiefs from the Group of Seven rich nations are expected to discuss the "Buy American" clause in a US economic package when they meet this week, Japan's finance minister said Tuesday.

Finance ministers and central bankers from the Group of Seven will renew their resolve to fight protectionism when they gather for talks on the global economic crisis in Rome Friday, said Shoichi Nakagawa.

He warned against a return to the protectionism of the 1930s -- seen as a catalyst for the Great Depression.

"We've learnt from the Great Depression that it would lead to disaster" if the same kind of steep import duties were imposed again, he said.

"Previous G7 and G20 meetings have confirmed that we shouldn't get mired in protectionism," Nakagawa told reporters.

The European Union and Canada have fiercely attacked the "Buy American" clause, warning it could start a global round of tit-for-tat trade reprisals and set a bad example for other countries mulling their own stimulus projects.

US Treasury Secretary Timothy Geithner urged G7 finance ministers Monday to act "promptly to restore health to the global economy," the Treasury said in a statement.

WB calls for economic 'Marshall Plan'

AFP, *Washington*

The World Bank's chief economist called Monday for a "Marshall Plan" to help rebuild the global economy in the manner of the massive US aid plan for Europe at the end of World War II.

"Considering the global crisis we are in now, I think we should be more aggressive," World Bank chief economist Justin Yifu Lin told a Washington conference.

"We need to be more imaginative. And I'd like to propose a global recovery fund in the spirit of Marshall Plan."

Lin proposed that high-income countries, with the leadership of the United States and reserve-rich countries like China and oil-exporting countries, pledge two trillion dollars for the five coming years for the effort.

This amount, around one percent of the economic output of the wealthy nations, could be used "to help the low-income countries to participate in this global coordinated fiscal stimulus."

He said the World Bank still sees a recovery in 2010, but noted that "there are many, many uncertainties" and that "the downside risk is really high."

"The economy is likely to be trapped in a kind of vicious circle," he said, with declines in profitability leading to job cuts and reductions in consumer spending.

AFP

A shopper walks through an empty shopping mall in Beijing yesterday. Chinese inflation slowed further in January as activity in the world's third-largest economy weakened with economists warning deflation was imminent as the consumer price index, the main gauge of inflation, was 1.0 percent in January, down from 1.2 percent in December, the National Bureau of Statistics said.

Eurogroup chief urges joint moves to handle toxic assets

AFP, *Brussels*

European finance ministers could on Tuesday agree on broad, coordinated measures to deal with the "toxic assets" weighing down Europe's banks, Eurogroup chairman Jean-Claude Juncker said late Monday.

"We discussed at length all the technical implications of trying to deal with this question of toxic assets," Juncker, who is also Luxembourg's prime minister and finance minister, said after a meeting with his 15 fellow eurozone finance ministers.

"For some banks it is absolutely vital that we find some way of dealing with... toxic assets," he added. Juncker heads the ministers' monthly meetings, known as the Euro Group.

He said that in some countries and for certain banks "the right sort of treatment for toxic assets can help create stability, but we are very aware that the way that you deal with this could have a very serious impact on public finances.

"We are moving towards a final agreement," he added. The initiative will be further discussed by finance ministers from all 27 EU nations in Brussels on Tuesday.

Deflation alarm as prices weaken further in China

AFP, *Beijing*

Chinese inflation slowed further in January as activity in the world's third-largest economy weakened, government data showed Tuesday, with economists warning deflation was imminent.

The consumer price index, the main gauge of inflation, was 1.0 percent in January, down from 1.2 percent in December, the National Bureau of Statistics said Tuesday.

"We're definitely seeing China moving to a deflationary environment in coming months," said Glenn Maguire, chief economist for Asia Pacific with Societe Generale.

Inflation was dropping speedily towards zero on a mixture of precipitous declines in global crude prices and a lack of momentum at home, economists said.

In an ominous sign of things to come, producer prices, which measure trends at the wholesale level, fell by 3.3 percent in January, the state-run Xinhua news agency said.

RECESSION

US readies bailout overhaul

AP, *Washington*

The Obama administration, seeking to deal with the political outrage over the handling of the government's $700 billion financial rescue programme, plans to impose tough new standards on future payments to banks. It is also greatly expanding an effort to unclog credit markets to provide loans to consumers and businesses.

Funding to unfreeze borrowing in such areas as credit card debt, auto loans and student loans, will see a huge increase from $20 billion to $100 billion, according to administration officials who spoke on condition of anonymity because the programme had not yet been publicly announced.

The officials said the increase, combined with a programme operated by the Federal Reserve, would be enough to support an additional $1 trillion of lending in this area. Officials said the programme would also be expanded beyond consumer and small business loans to cover loans for commercial real estate projects.

Treasury Secretary Timothy Geithner said that the new plan was intended to change the "dangerous dynamic" of a financial system that was impeding economic recovery rather than supporting it.

"It is essential for every American to understand that the battle for economic recovery must be fought on two fronts," Geithner said in excerpts of remarks. "We have to both jump-start job creation and private investment and we must get credit flowing again to businesses and families."

Geithner is scheduled to unveil the new plan Tuesday. The major overhaul of the programme begun by the Bush administration seeks to address widespread criticism that banks were getting billions of dollars in taxpayer support with few strings attached and that all the government aid was failing to deal with the worst financial crisis to hit the country in seven decades.

AFP

US President Barack Obama walks down Cross Hall as he arrives for a press conference in the East Room of the White House in Washington on Monday. Obama called on Congress to finally pass his economic stimulus plan "in the coming week" and vowed to do "whatever it takes" to put America back to work.

Under the overhaul, the administration will seek to deal with those issues by more closely monitoring banks to make sure the money they receive is being used to increase lending.

The biggest banks participating in the programme will also have to undergo a stress test of their balance sheets to ensure they are in sound enough condition to receive additional government support.

The administration's new plan, officials said, will include a government-private sector partnership aimed at removing toxic assets from banks' balance sheets, although the details on how this program would operate were still being worked out.

Treasury officials suggested two approaches that the administration is considering, according to congressional staffers who were briefed on the plan Monday night and also spoke on condition of anonymity before the program was unveiled.

These aides said the government might provide guarantees for the bad assets to establish a floor on possible losses, or perhaps provide low-cost financing through the Federal Reserve for investors willing to purchase the bad assets.

President Barack Obama, speaking at a prime-time news conference Monday night, said his overhaul of the financial rescue program would bring "transparency and oversight" to the heavily criticized program.

He said the overhaul would correct previous mistakes such as a "lack of consistency" and what he said was the failure to require banks to show "some restraint" in terms of executive compensation and spending in such areas as corporate jets.

Congress passed the financial rescue bill on October 3 and the first $350 billion in the programme was committed by the Bush administration under the direction of former Treasury Secretary Henry Paulson.

However, that effort generated a huge political backlash with critics charging that the Bush administration failed to impose enough restrictions on banks to make sure they used the billions of dollars they were receiving to boost lending and keep the country from toppling into an even deeper recession.

In part because of the political outrage, the Obama administration decided against seeking any additional money beyond the $350 billion left to be spent as part of its initial overhaul. Many economists believe that $700 billion will not be enough to get the financial system operating normally and that the administration will eventually have to ask for billions more, pushing the ultimate price tag for the rescue to $1 trillion or more.

Asked about the possibility that his administration will ultimately need more money, Obama said Monday that the goal now is to "get this right" because it was important to restore financial market confidence so banks will resume more normal lending.

Officials, speaking on condition of anonymity before the plan's release, said it would include the following major elements:

- Continued government purchases of stock in banks as a way to bolster banks' balance sheets. The new stock purchases will come with tighter oversight to make sure banks are using the government support to increase lending. The new requirements will not apply to banks that have already received support.
- A government-private sector partnership aimed at encouraging private investors to buy banks' bad assets, although details were yet to be fully worked out.
- Provision of at least $50 billion of the remaining $350 billion rescue fund to bolster government efforts to help homeowners deal with rising foreclosures in the current steep housing slump. The actual details on the housing measures were being delayed for an announcement in the coming weeks.

The mortgage support would be a major policy shift from the Bush administration, which relied on voluntary, industry-led measures and did not want to commit taxpayer dollars to foreclosure prevention. The administration was still reviewing various proposals on exactly how the new anti-foreclosure efforts would be implemented.

ALTERNATIVE FINANCE

Islamic bonds to ease Indonesia crisis

AFP, *Jakarta*

Indonesia launched its first retail Islamic bond this month hoping to catch up with its neighbours in the Islamic finance business and help fund a six-billion-dollar economic stimulus package.

It may be the world's most populous Muslim country and Southeast Asia's largest economy but Indonesia has been slow to capitalise on strong demand for Islamic bonds, or sukuk, which follow principles of Islamic sharia law.

The SR-001 sukuk, which have a yield of 12 percent, will mature in three years effective from February 25 this year. The government has not disclosed the amount of the issuance and will decide the size based on total demand.

"I think demand will be strong because the 12 percent coupon is very attractive," PT Mandiri Sekuritas bond analyst Handy Yunianto told Dow Jones Newswires.

President Susilo Bambang Yudhoyono said sharia finance was "more crisis-proof" than the Western model of free-market capitalism, as he opened a "Sharia Economy Festival" in Jakarta earlier this month.

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".

Sukuk conform to Islamic Shariah law in which charging interest is forbidden and speculation is shunned, as is investment in businesses such as gambling and alcohol.

They create returns through profit-sharing agreements or from the lease of securitised assets owned by the seller. Indonesia's sukuk use the assets model, known as ijarah, and are backed by government land and buildings.

Although Muslims form the majority in the country of 234 million people, shariah finance comprises only one to two percent of all finance, said Islamic scholar Azyumardi Azra.

Until now Jakarta had only issued sukuk to institutional investors. Its first rupiah-denominated sukuk was issued last year while a global sukuk planned in October was delayed.

The government has been eager to publicise the retail offering as it tries to catch up with the more sophisticated Islamic finance markets in neighbouring Malaysia and Singapore.

AFP

Indonesian sales promotion girls wait for customers during the Sharia Finance Exhibition in Jakarta on Monday. Indonesia launched its first retail Islamic bond hoping to catch up with its neighbours in the Islamic finance business and help fund a six-billion-dollar economic stimulus package.

Central Bank Governor Boediono told the festival the US-led global economic meltdown was a reminder of the low-risk advantages of Islamic finance.

"The crisis has provided us with a lesson that we should not become too involved in speculative activities, but should be primarily focused on providing a real contribution to the productive sector and society as a whole," he said, according to The Jakarta Globe daily.

"Taking this lesson on board, banks should go back to basics and sharia lenders could serve as a role model."

Finance Minister Sri Mulyani Indrawati said in a speech to kick off the bond sale that the retail sukuk was part of efforts to widen the investor base for government securities and to boost flagging revenues.

The government plans to use the income to finance its widening budget deficit and offset the cost of stimulus spending needed to boost domestic demand.

Indonesia has pared back its 2009 growth forecasts to 4.7 percent from an earlier 6.2 percent due to sharply declining commodity exports and foreign capital flight as investors pull out of emerging markets.

The projected budget deficit has climbed to 2.5 percent of gross domestic product from an earlier one percent.

The national budget for fiscal year 2009 assumes state revenues of roughly 82.8 billion dollars and 87.1 billion dollars in expenditures.

The stimulus package offered to parliament late last month is a mix of spending, tax breaks and business incentives designed to create jobs in an election year and prop up domestic demand -- the engine of Indonesia's economy along with commodity exports such as palm oil.

Parliament has yet to approve the package.