International Business News

Output dives at Japan factories, car plants

AFP, *Tokyo*

Japan's factory output and auto production have plunged for a fifth straight month, data showed Monday, as the government pledged to revive the recession-hit economy with more stimulus spending.

As demand for Japanese goods dried up at home and abroad, industrial output from the world's number-two economy fell more than nine percent in February from a month earlier.

The auto industry later released figures showing production had more than halved year on year.

The data added to the gloom over Japan's economy, which shrank at an annualised pace of 12.1 percent in the last quarter of 2008 and is widely believed to be headed for its worst recession since World War II.

Corporate giants such as Toyota and Sony, as well as a host of smaller firms, have slashed tens of thousands of jobs, and analysts predict the unemployment rate, due to be announced Tuesday, rose to 4.3 percent in February.

And with consumer prices flat, Japan is bracing for another bout of deflation that would hit already struggling businesses harder.

OECD fears 4.3pc contraction in 2009, urges 'quick action'

AFP, *Rome*

The Organisation for Economic Cooperation and Development on Monday urged "quick and decisive action" to restore global growth while warning that the OECD economies may shrink 4.3 percent this year.

OECD chief Angel Gurria made the new negative growth prediction for industrialised nations at a Group of Eight "social summit" on the human cost of the world financial crisis, Italy's ANSA and Radiocor news agencies reported.

Warning of a "fully-blown social crisis with scarring effects on vulnerable workers and low-income households," Gurria urged "quick and decisive action" in his speech to the G8 labour ministers plus those of six emerging nations.

He added: "Restoring global growth is an economic and political priority, but also an ethical, moral, social and human imperative."

The three-day Rome meeting comes amid dire warnings of social unrest and follows protests in several European cities ahead of a summit of the Group of 20 developed and developing nations on the financial crisis, set for Thursday in London.

AFP

A gardener tends flowers in the Tulip Garden, which is claimed to be Asia's largest, in Srinagar yesterday. Over 1.2 million tulip bulbs have been planted in the garden to woo back tourists to the region, which was one of Asia's top tourist draws before the revolt erupted. The insurgency has left more than 43,000 people dead by official count.

Bahraini businessmen protest expat tax

AFP, *Manama*

Hundreds of owners of small businesses in Bahrain demonstrated on Sunday in protest against a monthly tax they have to pay for each expatriate worker they hire.

The businessmen, many of them construction contractors, are unhappy with the ten dinars (26.5 dollars) per person monthly fee imposed on them by the Market Regulatory Authority, a government body, for their expatriate employees.

More than 1,000 business leaders took part in Sunday's protest, Ali Marhoun, head of the contractors' association, told AFP.

"Our main demand is the abolition of this monthly fee of ten dinars for every foreign worker we have, and the expulsion of the workers who are not tied to an employer," Marhoun said.

Some workers meet their own entry tariffs and avoid being tied to one job, which spares their subsequent employers from paying any fees.

Meanwhile the small business owners pay 533 dollars per work permit for each tied employee they hire.

The new tax was introduced in July to encourage business owners to hire Bahrainis instead of foreigners.

Russian economy to shrink 4.5pc in 2009: World Bank

AFP, *Moscow*

Russia's economy will contract 4.5 percent in 2009 due to the global financial crisis, the World Bank said on Monday, calling on the country to lessen its dependence on oil exports.

"With a much worse global financial outlook and oil prices in the 45 dollars a barrel range, Russia's economy is likely to contract by 4.5 percent in 2009, with further downside risks," the Bank said in its latest report on Russia.

The World Bank blamed the acceleration of the slowdown in Russia in 2009 on the decline in global demand, the fall in commodity prices and the tightening of credit available to companies.

The forecast is considerably more pessimistic than that of the Russian government, which is predicting a contraction of 2.2 percent in GDP in 2009.

The World Bank had in November predicted growth in Russia in 2009 of three percent and the slash in its forecast underlined how the medium term outlook has darkened over the last quarter.

FINANCIAL SYSTEM

Looking to G20

JASPAL BINDRA

Asia has come of age. In a few days, the region's rising powers -- China, India, Korea and Indonesia -- will be sitting at the global high table to decide on ways to reshape the world's financial and economic order.

As leaders from the Group of 20 nations converge in London at the start of April, there are expectations that the outcome will include concrete steps to revive economic growth, a boost in funding for the International Monetary Fund, and an understanding on the new financial architecture to restore trust in the financial system.

Asian policymakers are looking for two other critical assurances from the meeting: the developed countries will keep their markets open; and global capital flows needed to finance trade and investment will remain unchecked.

No-one doubts the difficulty of reaching a consensus. But the stakes have never been higher.

Amid the frenetic attempts by individual governments to tackle the biggest economic crisis since the Great Depression, it is easy to forget that the progressive dismantling of barriers against international trade and investment contributed to the biggest economic boom the world has seen.

More than 200 million jobs were created worldwide between 2000 and 2007, according to the Institute of International Finance, and millions of people in the developing world were lifted out of poverty, as a result of a free flow of capital, goods and services.

Yet, as the crisis continues, governments and businesses in Asia are increasingly worried that the world's biggest and most developed economies will explicitly or implicitly legislate to encourage manufacturers to keep production onshore and, banks and insurance companies to keep money within their borders.

Any such protectionism comes at a dark time. Although Asia remains fundamentally robust, thanks to high private savings, conservative balance sheets of companies and financial institutions and mammoth foreign reserves, the ongoing financial turmoil has caused consumers and lenders in developed countries to tighten their purse strings.

Exports from Asia have declined sharply, bringing down economic growth. Meanwhile, many borrowers are struggling to refinance their debts or to access trade finance at reasonable costs.

In addition, the International Institute of Finance estimates that net private capital flows to emerging markets could drop to $165 billion this year, from over $925 billion in 2007.

Steps to ensure that trade and capital keep flowing ought to be at the top of the agenda for the G20 leaders.

Getting developing nations to the table with the Group of Seven developed countries is a good start. The G20 was born as a response to the Asian financial crisis of the late 1990s and, although a G20 group of finance ministers and central bank governors has been meeting since 1999, it is in this financial crisis that its role has taken centre stage.

The G20, whose member countries account for over 80 percent of the world's output and two-thirds of the world's population, is a forum which truly represents the global economy. But will it produce real benefits for Asia?

The London meeting will be only the second time that the leaders of the G20 nations have held a summit meeting. The first was just recently, in November 2008 in Washington, as a direct response to the economic crisis.

At this second summit, the emerging Asian powerhouses are expected to assert more leverage due to the relative strength of their position. Though weakened, the economies of China, India and Indonesia are still expected to show reasonable GDP growth this year of 6.8 percent, 5 percent and 4 percent respectively, according to Standard Chartered economists' forecasts.

The emerging powers have already notched up some gains. The G20 finance ministers, meeting in London in March, agreed to expand the Financial Stability Forum -- a body which will set new standards for global financial institutions -- to include developing country members. These countries will also join global forums that will set new international accounting and risk regulatory frameworks.

Greater participation of the rising powers in such key decision-making bodies should help resolve potential conflicts and go a long way in helping to rebalance the world economic order.

Ironically, it is the financial upheaval in the West which has brought the systemic importance of the emerging markets to the forefront. It is now clear that the imbalances between the high-saving nations in the East and overspending economies of the West led to the asset bubbles in the US and Europe.

To correct the imbalances, the big savers, particularly in Asia, will have to find ways to spend more to boost domestic economies. Higher local consumption will help the economies reduce their dependence on exports. Domestic spending will also help ameliorate the slowdown in investments from the West.

China has made a decisive move on this front, with its stimulus plan to spend almost $600 billion, largely in infrastructure projects. It has also pulled out all the stops to make foreign direct investments easier for domestic companies.

Asian members of G20 are also looking to the international financial institutions such as the International Monetary Fund (IMF) and the World Bank to revive investments into the region's developing economies. But the IMF is cash-strapped after having provided bailouts to several East European economies. It is hardly in any position to rescue another medium-sized economy in Asia, Africa or Latin America should the need arise.

The meeting of G20 finance ministers in London this month made some headway on this issue. The ministers agreed to substantially expand the IMF's resources, possibly increasing the Fund's emergency borrowing programme by $500 billion, so that the institution can once again play its role as a lender of last resort in times of international crisis.

The Asian Development Bank also plans to triple its capital base to $165 billion, enabling it serve the poorest and most vulnerable sections of population in the region.

Emerging Asian powerhouses such as China and Korea, apart from the established members like Japan, are now expected to provide a significant part of the funding required to recapitalise these global financial institutions.

However, greater monetary contribution from the rising powers would have to be accompanied by giving them a greater say in the running of these institutions. For instance, today, Korea has more than twice the economic output of Belgium, but Belgium's representation in the IMF is 50 percent greater than Korea's. This is where the developed countries will have to give up some more ground.

At the upcoming meeting, G20 leaders must accelerate the process of revising the quota allotted to IMF member countries so that the emerging markets can get voting rights in the Fund, which reflect their financial weight.

Progress has been made since the G20 leaders first met in Washington in November with the aim to restore normalcy to the global economy and markets. But risks remain.

It was the progressively free movement of capital, goods, people and services across borders that fuelled the economic rise of the emerging markets and raised affluence in the developed world. The risk is that this could unravel if the current financial turmoil leads to heightened protectionism, curbed capital flows and fragmentation of the global economy. The G20 has the duty to ensure this does not happen.

Jaspal Bindra is the chief executive (Asia) for Standard Chartered Bank.

AFP

The sun sets on London's financial district. London is bracing for angry protests before and during Thursday's G20 summit, which will see fortress-like security for world leaders.

Internalising external concerns

HASANUZZAMAN

The Group of 20, comprising the world's most powerful countries and representing 85 percent of the world economy, is scheduled to meet for a one-day summit in London tomorrow to help revive the world economy.

The G20 was formed following the Asian financial crisis in 1999 to discuss concerns tied to the then financial crisis. It sought international cooperation among finance ministers and central bankers to take their downbeat financial systems out of the crisis.

In the backdrop of the global financial crisis, the gathering of the G20 leaders is meant to boost confidence of global leaders and ensure that they stand united in tackling the economic crisis.

So what are the issues and concerns dominating the agenda for the G20 meeting? Many multidimensional issues are likely to be discussed. Five key issues need immediate attention and a prescription for revival. Firstly, it is imperative, just like in any aftermath of financial crises to revive the nearly stagnated world economy (some may even say that the world economy is at stagnation, but I do not have sufficient evidence to support such a claim).

Though there are 'automatic fiscal stabilisers' in European countries -- in other words whenever there is an economic slowdown some European countries get a programmed boost form of government's cash injections -- the IMF has predicted despite such mechanisms in place, by 2010 there will only be a weak global stimulus.

A huge amount of money has already been committed in financial support for bailing out banks and the governments of the US and the UK have pledged to provide about $11 trillion in this regard. With regard to fiscal packages, governments around the globe are spending billions of dollars to encourage economic growth and till date, nearly $2 trillion have been spent to stimulate economic activities.

Secondly, the summit will seek to restore confidence in lending. In spite of the huge amounts of cash flows in many developed and developing countries, banks are still holding many 'toxic' assets and the G20 meeting is likely to stress the importance of solving this situation by the respective members' governments. Thirdly, the G20 summit will dig in the root causes of this economic tornado and it can be safely assumed that it will recommend regulating all financial institutions that pose a risk to the macroeconomic system.

AFP

Chinese artist Yu Chengsong's portraits of world leaders, with the latest one of US President Barack Obama, who will be attending the G20 Summit in London, are being set up at a gallery in Beijing. Obama will meet for the first time with President Hu Jintao of China, which is putting the new US leader on notice it sees itself as a power to be reckoned with.

There will also be plans for global oversight of the various risks that the financial system is surfacing as a whole, so-called 'macro-prudential regulation'.

The IMF has already bailed out seven countries (to the tune of $46 billion) between September 2008 and February 2009. It will be strategically vital to enhance its role in monitoring risks within national banking systems.

The IMF still has about $150 billion left that it could lend this year to countries facing a choked financial system. The World Bank has already forecasted that an extra 50 million people will fall into poverty because of the enduring global recession. The ODI has estimated that at least $50 billion will be required to help sub-Saharan African countries battle the effects of the crisis.

Taking this background, one is compelled to inquire how far Bangladesh has been able to cope with the financial crisis. Has the crisis had an impact on the country's economic performance? Will the G20 summit shed some rays of hope that would really help a developing country like ours which is treading on the development path and, whose economic growth in recent times has been attributed to the amiable nature of the global market, to survive the economic tornado?

Professor Mustafizur Rahman, the executive director of Centre for Policy Dialogue (CPD), has categorised the impacts of global financial crisis in three forms -- starting with the financial predicament in the US mortgage market, which turned into a credit crisis and the latter's impacts subsequently transmitted through the consumer economy. This latter wave of the financial crisis may be starting taking its toll on the Bangladesh economy. While the overall export of Bangladesh during the first half of fiscal 2008-09 was still maintaining the recently achieved levels, some slowdown can be discerned when export performance in recent months is taken into account. In December 2008, overall exports declined by 10.1 percent when compared to the same month of the previous year though it started gaining momentum once again by January, on the account of export growth in apparels.

The October-December data of FY2008-09 reveals that while exports of primary products declined on the one hand (excluding raw jute and tobacco), manufactured exports posted a positive growth, though slower when compared to recent years (woven 6.4 per cent, and knit 4.7 per cent).

The leather sector was particularly hit by the crisis which saw a negative growth decrease of more than 50.0 percent in the quarter under review.

Although Bangladeshi exports (of goods) are not yet fully feeling the pinch of the global economic tornado (perhaps due to the inelastic nature of demand for the country's products), services exports may come under severe pressure in the immediate outlook. Even though Bangladesh ranked one of the top ten countries, which the highest amount remitted in 2008, evidence suggests a daunting year ahead. Bangladeshi workers in affected countries are experiencing retrenchment.

For example, 55 Bangladeshi workers employed in the Tunnel & Shaft construction company in Singapore have returned home after working there for only seven months. Some Middle East employers are becoming reluctant to issue new job permits. Malaysia has announced retrenchment of about 45,000 workers. According to the figures from the Bureau of Manpower Export and Training, 13,530 workers have returned home in the last three months.

The G20 summit represents a symbol of hope for the developing countries in general. It will probably provide the impetus for reviving the world economy and making financial systems more transparent and the authorities more accountable. It can also be hoped that the Doha Round of trade negotiations, which was launched in 2001 under auspices of the WTO, may be revitalised which has been stalled as a result of this group of countries' concerns with the agriculture text.

If the G20 is not able to tackle the problem and rushes in the opposite direction, many authors have apprehended a reincarnation of protectionism and even, the Great Depression. For now, it is hoped that our country's policymakers make an attempt to craft policies that aspire to accommodate the rapidly changing economic landscape in which the advancement of technology, establishment of effective infrastructure, and in general galvanising the economic status quo of the country, ought to be given due priority.

To carry out such a task especially in the backdrop of Bangladesh's increasingly globally integrated economy, internalising the external concerns (worldwide increase of fiscal stimulus packages and plausible protectionist policies) will be the first step forward.

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