

International Business News

Recession storm sinks Europe

AFP, Paris

The global recession stormed into Europe with a vengeance in the first quarter, data showed Friday, pushing the economy deeper into the mire and casting a shadow over predictions the worst may soon be over.

The 16-nation eurozone economy contracted a record 2.5 percent in the first three months of the year, the deepest slump ever going back to 1995, after shrinking 1.6 percent in the last quarter of 2008, the Eurostat agency said.

Compared with a year earlier, the eurozone was down 4.6 percent while the wider 27-nation European Union economy shrank 4.4 percent.

Analysts had been expecting a contraction of 2.2 percent on the quarter and 4.1 percent on the year.

Eurostat figures also showed that the worst global slump since the 1930s Great Depression was now hitting Europe harder than the United States, the epicentre of the storm, whose economy shrank 1.6 percent in the first quarter and 2.6 percent over one year.

National data showed that Germany, Europe's biggest economy, registered its worst performance since modern records began in 1970 with a contraction of 3.8 percent in the first quarter.

The quarterly contraction in Germany, the world's biggest exporter, was even steeper than the 2.2 percent fall recorded in the final three months of 2008 and topped analyst forecasts for a drop of 3.2 percent.

World Economic Forum kicks off in Jordan

AFP, Amman

Jordan's King Abdullah II on Friday called for the Middle East to become an economic "powerhouse" that could help reshape the global economy after the credit crunch.

Speaking on the opening day of the World Economic Forum by the Dead Sea, the king said: "At this year's forum, you will be addressing the most critical issues of our time. Let your answers be just as bold."

He urged "answers that do not simply help our countries get through the global economic downturn but ensure the region emerges as a powerhouse: the go-to place for opportunity and wealth-building and a determining factor in reshaping the global economy."

The process should begin with "a region-wide consensus on action - a home-grown, home-based approach to unity, progress and peace," Abdullah said, urging Middle Eastern countries to work together.

"To succeed, we must build regional multi-sector, multi-skill partnerships. No single entity owns the region's most pressing challenges - or their solution," the king said.

Up-to-date education systems, management of water and other scarce resources, health or environmental matters and urban development are among priorities that can be addressed most effectively at regional level, he told the forum.



AFP

Tap dancers perform on Bourbon Street in the French Quarter in New Orleans, Louisiana on Friday. Tourism is the number one industry in New Orleans. Over 400,000 people attended this year's JazzFest, the largest crowd since hurricane Katrina. New Orleans continues to be revitalised with \$19 billion in federal rebuilding money yet to be spent along with \$3.8 billion in federal stimulus funds in the pipeline.

IMF in talks with Sri Lanka on bailout package

AFP, Vienna

The International Monetary Fund said Friday it was pursuing talks with Sri Lanka over a 1.9 billion dollar bailout package, despite US criticism because of the conflict in the Asian nation.

"We are discussing with Sri Lanka," IMF chief Dominique Strauss-Kahn told a press conference in Vienna.

"I don't know whether we will reach an agreement. We have to take into account two things: first, the international community is much concerned about how the war is handled; and secondly, the needs of the Sri Lankan economy that obviously needs the help of the IMF," he said.

Colombo has said it needs IMF help to get through the global financial crisis.

But US Secretary of State Hillary Clinton criticised the move Thursday at a time when Washington was "trying to convince both sides," the Sri Lankan government and the Tamil Tiger guerrillas, to stop fighting.

US insurer Ameriprise rejects Treasury bailout offer

AFP, New York

US insurer Ameriprise Financial said Friday that it would not accept Treasury bailout funding, explaining its capital position was "more than adequate" in the face of recession.

Ameriprise was among the six major US insurers the Treasury Department announced late Thursday as winning preliminary approval for the rescue funds, part of the 700-billion-dollar Troubled Asset Relief Program (TARP).

"While we appreciate Treasury's approval of our application, we have elected not to accept funding," Jim Cracchiolo, chairman and chief executive, said in a statement.

"We have carefully evaluated our current position and expectations for the future, and we are confident that our current capital position and access to potential additional funding sources are more than adequate."

ASIAN ECONOMIES

Raising domestic demand a way

ASIA NEWS NETWORK

(CONTINUED FROM MAY 15)

Over the long horizon, Asian economies are at a risk of a structural decline in demand from advanced economies, and so the countries must rely more heavily on domestic consumption to keep their economies afloat.

Japan's Prime Minister Taro Aso and predecessor Yasuo Fukuda have compiled three stimulus packages with a combined headline figure of 75 trillion yen, including fresh spending and other measures such as loan guarantees.

Most of the Laos government's measures are aimed at facilitating investment and business growth to boost economic development, create employment and raise income levels.

Malaysian GDP is expected to contract due to a drastic drop in external demand since late last year, which became worse in the first two months of 2009 and also caused industrial output to fall, according to a poll.

Bangladesh's overall export growth has slowed considerably to a monthly decline of 3 percent by February 2009. Exports of ready-made garments have fallen significantly from 59 percent at the beginning of 2009 to 19 percent in February 2009. Orders have declined since December 2008. Exports of some of the major items like frozen food, leather and pharmaceuticals have declined by 11 percent, 33 percent and 15.5 percent.

JAPAN

The government expects the economy to contract a record 3.3 percent in the fiscal year that started in April, as plunges in overseas demand are hurting the export-reliant economy much more than it initially thought.

"The global economic crisis and economic downturn is increasing in severity, and Japan's export market is rapidly shrinking," the Cabinet Office said in a statement released late April.

The government previously predicted the GDP for 2009 would be flat and is likely to have shrunk 3.1 percent in 2008, worse than the previous estimate of a 0.8 percent contraction.

With the latest estimates, Japan expects the two-year period to be the worst for the economy in the country's post-war history.

"Exports have plunged much harder than our expectation," economy and finance minister Kaoru Yosano said. "The economic growth this year so far has been much lower than our initial estimate made in December."

Prime Minister Taro Aso and predecessor Yasuo Fukuda have compiled three stimulus packages with a combined headline figure of 75 trillion yen, including fresh spending and other measures such as loan guarantees.

On this headline basis, the fourth package, announced in April, is worth 56.8 trillion yen. Of the 15.4 trillion yen spending, 14.7 trillion yen will be paid out of the extra budget and 700 billion yen will come from the government's special account funds.

Without the stimulus, the economy could contract by 5.2 percent in 2009, the government said. The IMF said last week the Japanese economy may contract by 6.2 percent in 2009, the sharpest contraction among industrialised nations.

Japan's GDP contracted at an annualised pace of 12.1 percent during the October-December period, and the Cabinet Office said it may shrink by about 14 percent - the worst pace on record - during the January-March period.

If the January-March forecast is correct, the economy will have contracted by 3.1 percent in fiscal 2008 that ended in March, the first contraction since 2001. And if the economy also contracts this fiscal year, it will be the first time since fiscal 1997 and 1998 that the economy has contracted for two years in a row.

The revised forecast also showed that Japan's exports may fall by 27.6 percent on year, and imports by 9.7 percent. Industrial production is expected to plunge by 23.4 percent and capital expenditure by 14.1 percent. All these figures are the worst on record, the Cabinet Office said.

Japan's unemployment rate may rise to 5.2 percent, it also said. The highest jobless rate on record is 5.4 percent logged in 2002.

LAOS

The Lao economy struggled to perform well in the first half of the 2008-09 fiscal year as a result of the global financial crisis, according to a report from the planning and investment ministry.

The report shows that over the first six months of the year, the value of Lao exports reached \$533 million, about 5 percent lower than over the same period last year. The decline in exports is primarily due to lower global prices for major commodities such as copper.

Mining products are a major export of Laos, covering more than 40 percent of the total value of exports in the 2007-08 financial year. The value of sweetcorn and processed furniture exports also dropped in the first half of this year as demand for these products in Thailand fell.

According to the report, the value of imports was \$572 million, about 8 percent lower than the same period of the previous



Pedestrians walk past before a branch of Sumitomo Mitsui bank in Tokyo on Friday. Sumitomo Mitsui Financial Group Inc said it fell into the red in fiscal 2008 for the first time in four years with a group net loss of 373.46 billion yen, hit hard by the global financial crisis, and projected a net profit of 220 billion yen for fiscal year 2009.

year, primarily due to the postponement of some major international investments in Laos.

At least three major power plant projects, including the \$3.9-billion Hongsa lignite power plant in Xayaboury province, were postponed earlier in the year.

The global financial crisis has also hit the tourism industry. The Lao National Tourism Administration predicts the number of tourists arriving in 2009 will reach 1.9 million, 90 percent of the initial target.

The decline of tourist numbers in Laos is also due to the political turmoil in Thailand which most tourists use as a gateway for entering Laos.

The government has forecast the Lao economy will grow by 7.5 percent in the 2008-09 fiscal year, 0.5 percent lower than its earlier prediction.

To address the negative impacts of the global economic recession, the government has introduced a number of measures including the suspension of valued added tax, which would require customers to pay an additional 10 percent on the price of some products.

Most of the government's measures are aimed at facilitating investment and busi-

ness growth to boost economic development, create employment and raise income levels. The government also plans to provide low interest rate loans to selected businesses, which are struggling as a result of the global economic crisis to help them survive the difficult times.

MALAYSIA

Malaysia's economy is seen to have contracted above 3.5 percent year-on-year in the first quarter based on figures released in January and February that showed year-on-year drops in external trade and industrial output.

According to a poll conducted by StarBiz, GDP is expected to contract due to a drastic drop in external demand since late last year, which became worse in the first two months of 2009 and also caused industrial output to fall.

Malaysian Institute of Economic Research (MIER) Executive Director Datuk Mohamed Arif Abdul Kareem said the first half of the year would be challenging for the economy.



Containers at Chittagong Port in Bangladesh. The country's overall export growth has slowed considerably to a monthly decline of 3 percent by February 2009. Exports of ready-made garments have fallen significantly from 59 percent at the beginning of 2009 to 19 percent in February 2009.

He forecasts the economy to contract 2.2 percent this year. MIER does not give out quarterly forecasts.

"As for external trade, we've seen signs that it is moderating but (it) will still see a contraction in the teens," Ariff said.

"There will be significant contraction based on the economic figures already released in the first two months of the year," CIMB Investment Bank Bhd economic research head Lee Heng Guie said.

For January and February, external trade contracted 27.8 percent and 15.9 percent respectively year-on-year while industrial output fell 20.2 percent in January and declined 14.7 percent in February.

Lee forecasts first quarter GDP to contract by between 5.5 percent and 6 percent while for this year as a whole, it could contract 3 percent. He said this would be in tandem with regional economic performance.

The economists pointed to the manufacturing sector as the biggest drag on the economy, with export-reliant segments of the sector being the most affected.

"The construction sector will not see much of an impact from the pump-priming activities that the government has instituted until at least the end of the second quarter," Lee said.

RHB Research Institute Sdn Bhd economist Peck Boon Soon said the manufacturing sector could contract 17 percent year-on-year based on the figures for industrial output released in January and February.

He expects the economy to contract 5.3 percent year-on-year in the first quarter and 3.5 percent for the full year.

"We believe the services sector may only see a 0.5 percent growth as private consumption falls due to rising unemployment in manufacturing," Peck said.

For the construction sector, he said the drop in property development activity would likely drag the sector down to -2 percent.

BANGLADESH

Despite the recession, Bangladesh economy remains surprisingly resilient with the government projecting growth at 5.88 percent, slightly down from last year's 6.1 percent.

A strong agriculture output and a matching industrial performance helped the buoyant outlook. Although exports and remittance inflow continue to be strong, along with a comfortable \$6 billion foreign exchange reserves (equivalent to 2.9 months of import cover), there are signs that the recession has started having its impact.

Overall export growth has slowed considerably to a monthly decline of 3 percent by February 2009. Exports of ready-made garments have fallen significantly from 59 percent at the beginning of 2009 to 19 percent in February 2009. Orders have declined since December 2008. Exports of some of the major items like frozen food, leather and pharmaceuticals have declined by 11 percent, 33 percent and 15.5 percent.

At the same time, monthly growth rates of remittances are on a continuous decline and manpower exports have slowed.

One saving grace has been the low inflation rate of 6.1 percent in January.

In April, the government announced a \$480 million stimulus package that aims at giving 2.5 percentage points higher cash incentives to some key sectors except garments. It also covers the agriculture, safety net and power development.