International Business News

GM talks with Europe break down in anger

AFP, *Berlin*

Talks over the sale of General Motors' European operations acrimoniously collapsed Thursday throwing up a new obstacle to the US auto giant's efforts to avoid bankruptcy.

A New York court was also to hold new hearings Thursday on Chrysler's bankruptcy application to lay on a rescue operation by Fiat of Italy as the world auto industry remained deep in torment.

The German government angrily accused GM of using "scandalous" negotiating tactics during all night talks on the sale of European affiliates Opel and Vauxhall.

Fiat and Canadian auto parts maker Magna International remained in the race for Opel after a third bidder, investment firm RHJ International pulled out. Beijing Automotive Industry Holding of China has also made a late bid.

Germany has offered billions of euros in soft loans to whoever takes over Opel. German officials blamed the talks breakdown on a last-minute request from GM for an extra 300 million euros (415 million dollars) of funds for Opel.

German Finance Minister Peer Steinbrueck said: "We were unpleasantly surprised when this new demand came out of the blue at 8:00pm local time. We found that pretty scandalous."

Surprise drop in German unemployment an anomaly

AFP, *Frankfurt*

Germany's unemployment rate declined to 8.2 percent of the work force in May, owing to a change in accounting methods, but analysts warned that an increase in joblessness lies ahead in Europe's biggest economy.

According to data released Thursday by the national labour agency, the number of jobless rose rose on a seasonally adjusted basis by a meagre 1,000 in May after jumping by 58,000 in April.

Analysts had forecast a rise of up to 69,000 this month.

Germany's worst recession since World War II has slammed the labour market, with the number of unemployed rising by an average of 50,000 per month from December through April.

The labour agency said the total number of people registered as unemployed in unadjusted terms had decreased by 126,770 to about 3.458 million.

In May however, the figures were distorted downwards by around 20,000, reflecting a new rule that instructed the agency not to count people undergoing job training by private firms as unemployed.

A typical post-winter improvement in unemployment also appeared to show up in the May figures, somewhat later than usual, analysts said.

AFP

A clothes vendor prepares for business at Jatinegara wholesaler market in Jakarta yesterday. Indonesia expects its economy to expand five to six percent next year as the country prepares a budget that will "focus on economic recovery," Finance Minister Sri Mulyani Indrawati said. Full-year inflation for Southeast Asia's biggest economy would likely average 4.5 to 5.5 percent.

Costco Q3 profit drops on charge, stronger dollar

AP, *Issaquah, Wash*

Costco Wholesale Corp. said Thursday that its fiscal third-quarter profit fell 29 percent, partly because of a charge, as sales of bigger-ticket discretionary items continued to soften.

The Issaquah, Wash.-based warehouse club operator earned $209.6 million, or 48 cents per share, for the period ended May 10. That's down from $295.1 million, or 67 cents per share, a year earlier.

The retailer's results were partly hurt by a $34 million charge related to a lawsuit settlement involving its membership renewal policy as well as the stronger dollar. Increased employee benefits costs also weighed on its quarterly performance.

Revenue dropped 5 percent to $15.81 billion from $16.61 billion. Costco has seen its sales slip recently as consumers have limited spending during the recession and gas prices have fallen.

Analysts polled by Thomson Reuters expected profit of 53 cents per share on revenue of $16.16 billion. Analysts' estimates generally exclude one-time items.

Japan's Sumitomo Mitsui to raise up to $8.3b

AFP, *Tokyo*

Japan's number three banking group Sumitomo Mitsui Financial Group said Thursday that it plans to raise up to 8.3 billion dollars from investors to shore up its finances amid the economic crisis.

Sumitomo Mitsui said it would sell common securities worth up to 800 billion yen to domestic and overseas investors.

"The business and financial environment is expected to remain in a state of heightened uncertainty," the banking group said.

"Amid such circumstances, SMFG considers it necessary to enhance its capital base both in terms of quantity and quality in order to maintain its competitiveness," it said in a statement.

Japan's top banks were initially seen as relatively immune to the US-born credit crunch, but they have been badly burned by the financial crisis, partly because they have a large exposure to the stock market.

CAPITAL MARKET

An instrument to raise PPP funds

RUN-UP TO BUDGET

SARWAR A CHOWDHURY

The utilisation of capital market, through government's budgetary measures, can mobilise funds to execute Public-Private Partnership (PPP) projects, experts have recommended.

The government may earmark around Tk 3,500 crore in the 2009-10 fiscal year budget for such projects. The projects will cover education and health services and infrastructure development such as power, energy, ports, roads, highways, expressways and elevated expressways.

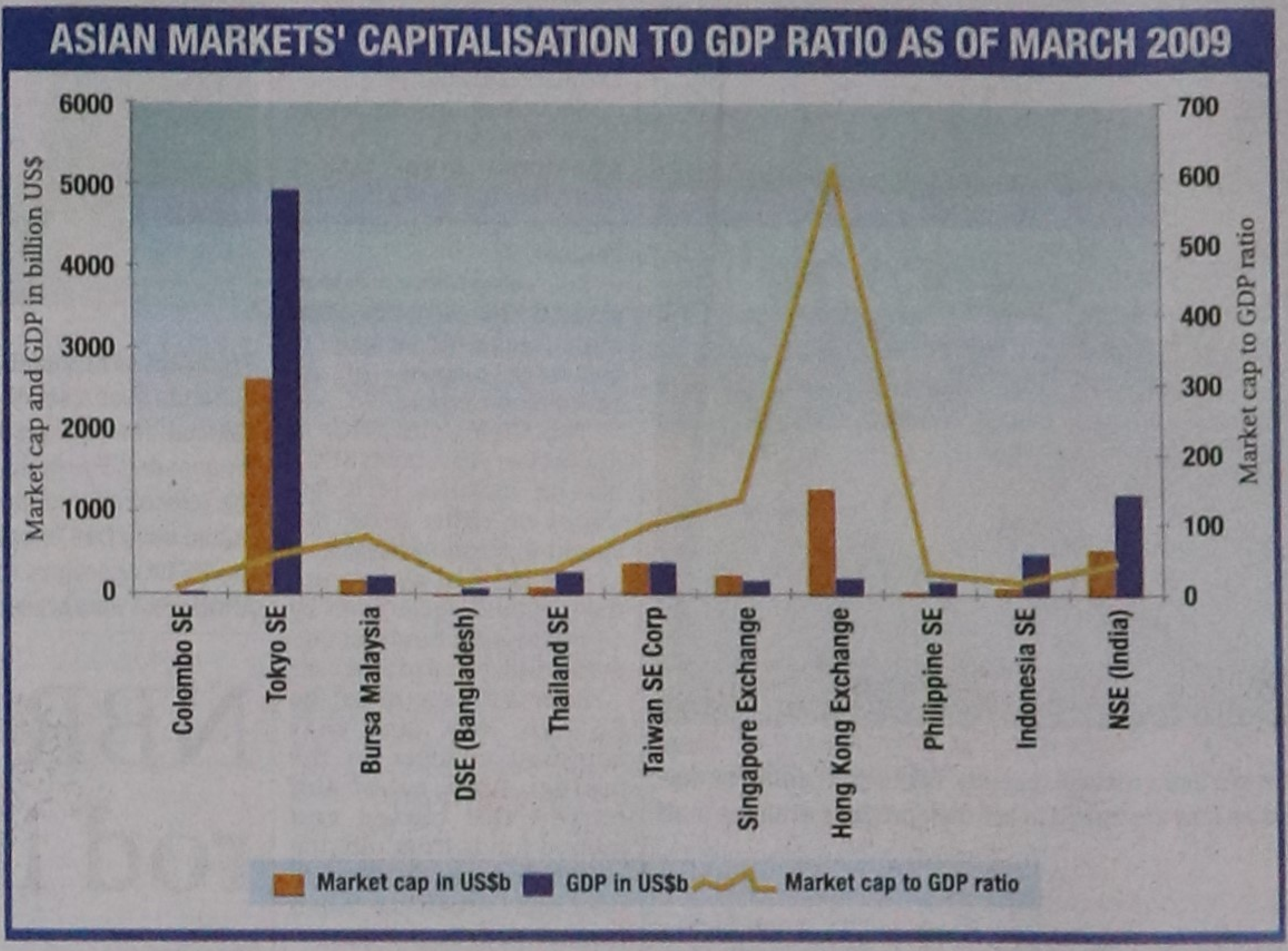
The PPP, which will be introduced from the next financial year, aims at ensuring more participation of people in project implementation.

According to market operators, share offloading of PPP projects will help make the stock market vibrant.

Such a move will also lessen government's dependency on foreign aid or bank borrowing, they said.

The suggestion also came from the premier bourse, Dhaka Stock Exchange.

"The government should involve the stock market in raising funds for the projects to be implemented under PPP. Stock market is the best place to mobilise funds, instead of foreign aids," Rakibur Rahman, DSE president, told journalists recently.



He strongly advocated that the government should give up its tendency of bank-based financing.

However, some are opposed to any stock market fund raising before implementation of any uplift projects by the government. Dhaka University finance professor Salahuddin Ahmed Khan said, "The government should layout some terms and conditions in the PPP guidelines so that the projects offload shares in the market after a certain period."

This should be directed in the national budget, Khan added.

Yawer Sayeed, managing director of AIMS of Bangladesh, an asset management company, echoed Khan's views.

He said the PPP is a welcoming move by the government and any involvement of PPP projects with the stock market will not only meet the demand for quality shares but also put a long-term impact on the market.

"But there should be some conditions that after a certain period the projects under the PPP will offload a portion of shares on to the market," he said.

As per a common practice, banks and non-banking financial institutions (NBFIs) have to list on bourses after a certain period.

"Because of the prevalence of no such conditions, profitable mobile phone operators are yet to be listed on bourses," Sayeed said.

Meanwhile, the Dhaka and Chittagong bourses suggested a number of other fiscal measures to revitalise and stabilise the stock market.

Their proposals include among others lowering income tax for listed bank, insurance and NBFIs to 35 percent from the existing 45 percent. This step will increase the capacity of the listed companies to offer cash dividends, the two stock exchanges opined.

They also sought a cut in tax on dividends offered by the listed companies from 20 percent to 15 percent.

The withdrawal of double taxation policy and raising tax-free investment ceiling from the existing Tk 0.5 million to Tk 1 million are their other demands.

The bourses also suggested the government allow investment of undisclosed money, bringing a huge amount of such money in the formal economy.

The Securities and Exchange Commission condition that bars mobile phone operators from offloading shares should also be lifted, they said. The SEC condition says that these companies are not entitled to tax rebate after such offloading, if those do not offload 10 percent of their paid up capital.

The DSE and CSE also proposed the government raise a portion of funds from the capital market for its large projects, including Padma Bridge and Jamuna Multipurpose Bridge.

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TRADE

South Asia shows glimmer of hope

ASJADUL KIBRIA

Many believe that economic integration in South Asia is a myth. How can we expect greater regional integration when we are yet to increase the intra-regional trade, which is less than 5 percent, compared to 24 percent in ASEAN (Association of South East Asian Nation) or 48 percent in NAFTA (North Atlantic Free Trade Agreement), let alone 66 percent in European Union? This is a strong argument generally forwarded by many experts as well as other people discussing the future of South Asian trade flow.

The mistrust among nations, old rivalry between India and Pakistan and India's hegemonic attitude to smaller neighbours, backed the proposition that the myth can't be a reality. Acknowledging these problems, however, doesn't make anyone pessimistic.

In fact, a three-day brainstorming session organised by the South Asia Watch on Trade, Economics and Environment (SAWTEE) in Kathmandu on April 24-26, 2009, posed that optimism needs to be upheld. Experts and journalists from South Asia engaged in debates over the matter. But fueling optimism would be an important achievement for the workshop when the whole of South Asia is crossing a critical time.

In fact, Sri Lanka has just finished the long fight against the LTTE with blood sheds and causalities. Upsurge of extremist and encounters with the army in Pakistan is the most critical events. The outcome will dominate the future direction of the region. Nepal again entered a political crisis when elected Prime Minister Pushpa Kamal Dahal (Prachanda) resigned due to the country army chief's disobedience in the early of the month. New government in India has just formed. Bangladesh is struggling to overcome the post-BDR carnage crisis.

AFP

Sri Lankans relax along the beach area against the twin world trade centre buildings (background at right) in Colombo.

In this backdrop, it may sound odd to talk of enhancing South Asian trade. A review of the different initiatives taken by the non-state actors over the decades clearly shows that it is a long way but the opportunities will be great. Dr Saman Kelegama, executive director of Colombo-based Institute of Policy Studies, mentioned that the initiatives of the non-state actors, a jargon used as alternative to civil society and NGOs, is remarkable. In technical language, the track two approaches are moving faster than track one (the government and policymakers). In his view, academics, chambers, research institutes, NGOs, and journalists are trying to integrate the region. He, however, mentioned that in the official SAARC process, such unofficial efforts not properly recognised.

Dr Posh Raj Pandey, president of SAWTEE, revealed that different studies show opposite outcomes of the benefit of full implementation of the South Asian Free Trade Area (SAFTA) agreement. This creates confusion among the members.

Dr Atiur Rahman, now the governor of the Bangladesh Bank, emphasised regional cooperation to address the food and financial crisis, as he believes people are coming closer across the region.

And to make interaction between people easier and effective, Mythili Bhusnurmath, consulting editor of Economic Times, stressed an easy visa processes and political willingness of the countries.

Dr Safdar Sohail, director general of the Foreign Trade Institute of Pakistan, cautioned that if SAFTA does not go forward, all the regional countries would move to other regions. In fact, there is no unlimited time to settle the regional disputes, he added.

But Dr Ram Upendra Das, from Delhi-based Research and Information System for Developing Countries (RIS), argued that South Asia is a late starter of regional trade arrangements but it moves faster despite the region's backwardness in the international trade arena. So, the frustration over the slow implementation of the SAFTA agreement is actually misleading. There is no doubt that SAFTA is yet to gain momentum, as expected. But it needs to be considered in the regional context. In my view, Das's arguments need to be taken care of, as it gives a different dimension to the whole debate. Late me paraphrase his arguments, with some additions.

Firstly, the EU is cited as the best example of successful regional trade arrangements. But, it also takes a long time (around 60 years) to make the integration process make a success. In Asia, ASEAN is so far the only successful regional arrangement, which started its journey in 1967.

Secondly, South Asia is one of the poorest regions in the world. About two-thirds of the region's population lives below the poverty line. India, the regional leader who constitutes about two-thirds of the region, has around 50 crore poor people. India's growth story is not very old and inequality casts shadows on higher growth. In fact farmers are committing suicide in India while the rich are enjoying a colorful life.

In Bangladesh, 40 percent of the people are still poor and the resource gap is widening. In this agro-oriented country, the service sector has been contributing about half of the GDP, reflecting a distorted transformation of the economy. The poverty situation in Nepal is also not encouraging. A shortage of energy and the poor living condition of people forces the nation to continue its struggle against poverty with limited resources.

Thirdly, political turmoil in the region is never-ending. Sri Lanka is in trouble with LTTE. Nepal has made a democratic transition from monarchy but has a long way to consolidation. Bangladesh's democratic journey was severely hampered for the past two years, due to the army-backed caretaker government. Trouble in Pakistan is the highest within the region.

Fourthly, businesspeople in the regional countries have high expectations among themselves. They are ready to export to Europe and America, as it would bring higher returns. But, they have not sufficiently explored regional opportunities. The higher flow of informal trade among Bangladesh, India and Pakistan is also a reflection of the opportunities.

Das also mentioned that the opportunity cost of region's inability to reduce the differences has surged. He revealed an estimation that the excess cost of importing from outside the region, when the same goods could have been sourced from within, was (in the mid '90s) $600 million for Pakistan, $425 million for Sri Lanka and about $250 million for India.

Thus it is not disappointing at all, rather to some extent, it is encouraging. Prior to the full implementation of SAFTA, active discussions on including the service sector in the agreement is present. The South Asian regional investment framework has also been drafted. Talks on a South Asian economic union is also there, no matter how long it takes to make it a reality. So, all these are signs of progress, not backwardness, and disappointment is not as large as publicised.

The writer is a journalist.