International Business News

India enters deflation as economy slows

AFP, *New Delhi*

India's annual inflation rate slipped into negative territory for the first time in 30 years, official data showed Thursday, with the country's slowing economy cutting into demand.

Inflation stood at minus 1.61 percent for the week ended June 6, down from 0.13 percent the previous week, according to the Wholesale Price Index, India's most watched cost-of-living measure.

The index in August touched a 13-year high of 12.9 percent but a period of deflation had been expected as rates tumbled, reflecting weak growth in Asia's third-largest economy.

The price crash was also a result of diving commodities costs, analysts said.

"To a great extent, inflation has fallen due to industrial activity slowing down in India and lower global metal and oil prices (compared to last year)," said Siddhartha Sanyal, an economist with Edelweiss Securities.

The negative rate was a "phenomenon that could end quickly," added D K Joshi, from rating agency CRISIL. "We are seeing oil, commodity and metal prices beginning to move up."

Spiralling deflation -- in which falling prices prompt consumers to delay buying, deepening a downturn -- has become a concern across the globe as demand for goods has dried up.

BoE chief demands financial sector shake-up

AFP, *London*

The governor of the Bank of England (BoE) has proposed a radical overhaul of the banking system, saying the BoE should be given new powers and banks should be made to draw up wills in case of a crisis.

BoE head Mervyn King, addressing business leaders in London late on Wednesday, said change to the structure, regulation and culture of the banking system was necessary to rebuild trust in the financial sector.

British finance minister Alistair Darling, also speaking at the same event, urged big changes to banking boardrooms, blaming their poor judgement for the financial crisis that dragged the world into a downturn.

King said methods to help ensure financial stability needed "sharpening and refining," adding: "We have a real opportunity now to put that right and regain the trust that's been lost."

King suggested that every regulated bank should be required to produce a plan for the "orderly wind-down of activities."

The BoE governor added: "Making a will should be as much a part of good housekeeping for banks as it is for the rest of us."

AFP

President of Hewlett Packard (HP) India Sales Ravi Swaminathan (R), Vice President HP Asia Pacific and Japan, Chua Hwee Koon (C) and Director HP Mobility Business, Rajiv Grover (L) pose with the newly unveiled range of notebooks in New Delhi yesterday. Hewlett Packard India unveiled a range of six new notebooks with a starting price of Indian Rupees 22990 (476 dollars).

China may buy more US Treasuries

AFP, *Beijing*

China may buy more US Treasury bonds but Washington must take action to ensure the safety of foreign countries' assets, a former Chinese central bank governor said.

"In the short term, if our foreign exchange reserves rise and the US dollar remains stable, China will probably increase investment in the US Treasury bonds at appropriate times," said Dai Xianglong in an essay.

"However, the US government should adopt practical measures to live up to its commitment to ensuring the safety of foreign assets," the essay, published by the China Finance magazine Wednesday, said.

Dai is currently chairman of the Social Security Fund, China's national pension fund, which had a total asset value of 563 billion yuan (82.3 billion dollars) by the end of 2008.

Dai, 64, was governor of the central bank from 1995 to 2002, helping to steer the Chinese economy through the Asian financial crisis in the late 1990s.

His comments came after China reduced its US Treasury holdings in April for the first time in nearly a year.

Germany recession could bottom out in H2 of 2009

AFP, *Frankfurt*

The German economy ministry expressed cautious optimism Thursday for the prospects of a recovery in Europe's biggest economy but warned that risks remained "unusually high."

Following a first-quarter collapse in activity, "signs of a stabilization are increasing," the ministry said in its monthly report for June.

The economy would probably contract further in the April-June period but the decline will probably be markedly weaker, it added.

The economy shrank 3.8 percent in the first three months of the year compared with the previous quarter but economists believe that should mark the steepest decline in the country's worst recession in six decades.

The ministry said a partial easing of financial market tensions and a global economic slump had raised the chances that the German economy would bottom out in the second half of this year.

US ECONOMY

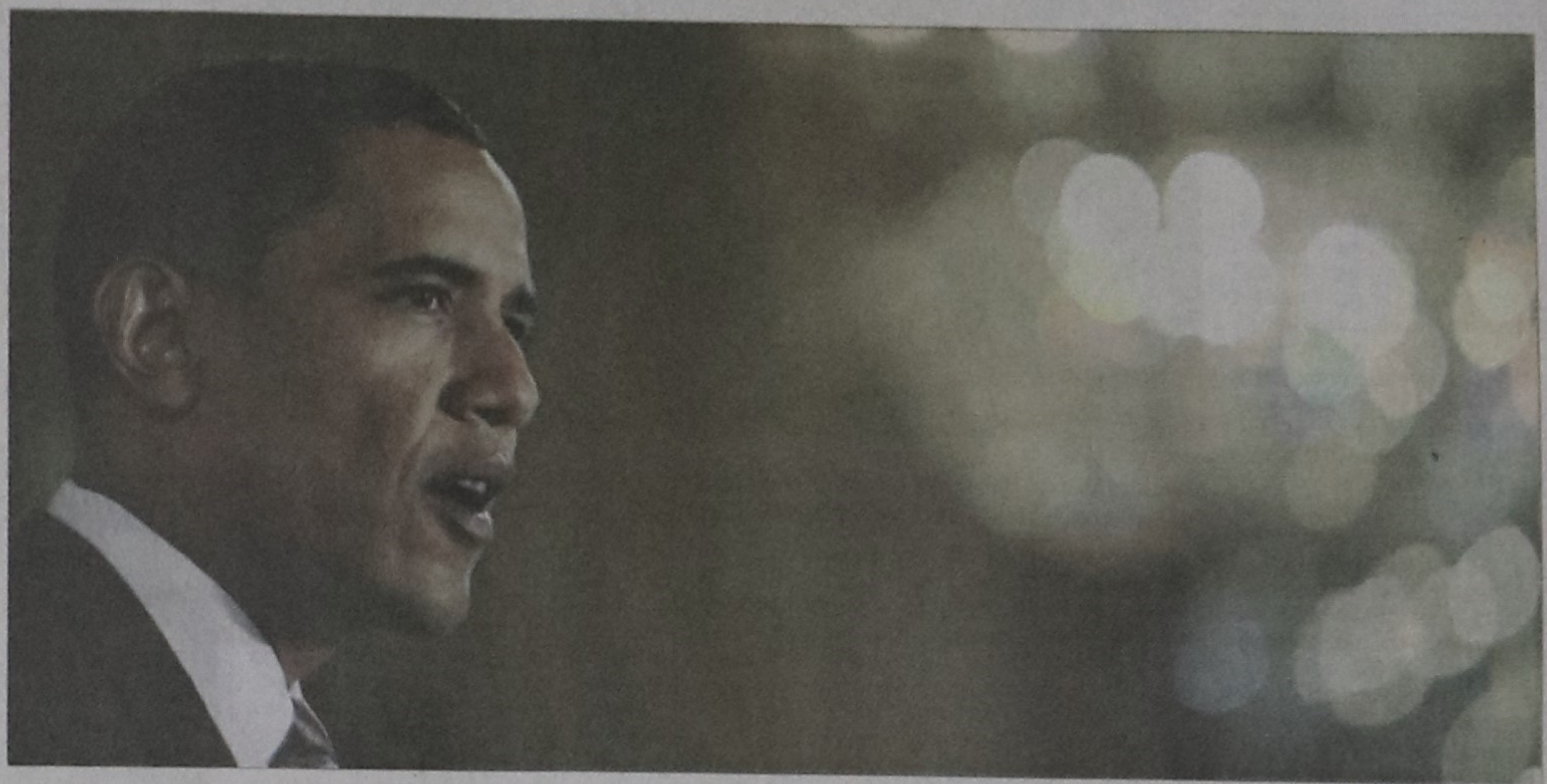
Financial reform in early innings

JOHN W SCHOEN
msnbc.com

The Obama administration's broad plan to overhaul financial regulations offers dozens of new ideas about how to keep the markets safe, maintain a sound banking system and protect consumers and investors.

But the 88-page plan now faces the same scrutiny, backlash and political infighting that has hampered reforms of the financial system since the earliest signs that a decade of deregulation went too far.

Initial efforts to consolidate the sprawling system of dozens of financial regulators fell short. Instead, the Obama administration has opted for the more politically expedient course of updating the rules and responsibilities for existing agencies already charged with maintaining the safety and soundness of the markets and banking industry.



AFP

US President Barack Obama speaks on the economy and comprehensive plan for financial regulations in the East Room at the White House in Washington, DC, yesterday.

"As the debate played out, they realised it would be near impossible to get wide, sweeping reform enacted," said former SEC Commissioner Laura Unger. "I think they wisely chose the safer path."

That leaves the existing patchwork of regulators -- and the potential for gaps and loopholes -- largely intact. Banks will still be regulated by, among others, the Federal Reserve, the Federal Deposit Insurance Corp, the Office of the Controller of the Currency, the National Credit Union Administration and 50 separate state banking regulators. (The Office of Thrift Supervision will be eliminated and its functions folded into other bank regulators.)

Financial markets will continue to be regulated by the Securities Exchange Commission, the Commodities Futures Trading Commission, the Treasury and the so-called "self-regulatory organisations" of the major stock exchanges. Each of these players has fiercely defended its turf in the discussions leading up to Wednesday's proposal.

One of the major changes in the new regulations is a sharper focus on protecting consumers and investors. To that end, the Obama administration wants to create new agency with the single mission of protecting consumers. Supporters of the idea say that the job is very different than the mandate to protect the safety and soundness of banks and financial markets.

"You can't go back to the regulatory agencies that didn't act because we know that doesn't work and didn't work," said John Taylor, president of the National Community Reinvestment Coalition, who worked with the administration in drafting the new rules. "We need an independent agency whose mission is this and only this, who are really worrying about whether the consumer, the taxpayer is being tricked, cajoled, cheated, hoodwinked and is being treated fairly enough."

The new consumer sheriff could bring dramatic changes to the way the financial services industry deals with its retail customers. But it remains to be seen how much support Congress will give this new regulator when it tries to overrule the well-funded lobbies that have blocked tougher measures to protect consumers.

The idea of a separate consumer protection agency has already drawn opposition from the Financial Services Roundtable, an industry lobbying group.

Recent legislation to provide mortgage relief and put restrictions on credit card lenders, for example, have produced mixed results.

"I think there will be some debate as to whether (consumer protection) should be embedded within the agencies that oversee these organisations or whether there should be a totally separate entity that could, in fact, stifle innovation," said Sen. Bob Corker, R-Tenn., a member of the Senate Banking Committee.

There's little debate that regulatory failures played a critical role in the collapse of the housing bubble and the global financial system. Mortgages were written for buyers with no proof of income, backed by fraudulent appraisals. They were packaged by Wall Street firms that paid agencies for AAA safety ratings based on promises that investors would be protected by trillions of dollars of unregulated risk insurance called credit default swaps.

Banks were allowed to cut their reserves against loan losses to razor-thin margins. Consumer protections against predatory lending weren't beefed up until 2008, after the market had already collapsed and foreclosures had begun to soar. Despite multiple warnings, regulators at the SEC failed to take action against rogue fund manager Bernard Madoff before he cut a multibillion-dollar path of destruction through the accounts of thousands of investors.

But defenders of financial deregulation maintain that an overreaction to those excesses could do more harm than good by hampering the recovery of an industry that is reeling from its worst contraction since the Great Depression.

"I think (the proposed regulations are) just going to be too big of a foot on an industry that already is having financial problems," House Minority Leader John Boehner told ABC's "Good Morning America" Wednesday.

Some of Obama's proposals enjoy widespread support and are already under way. Banks have already raised over $100 billion in fresh capital; the new rules would make permanent requirements for a bigger capital cushion.

A more controversial proposal would expand regulation to financial institutions and products not currently covered by banking and market regulations. The rapid expansion of the so-called "shadow" banking system -- where risky mortgages and other loans were pooled, chopped into pieces and sold off with AAA safety ratings to investors -- lay at the heart of the financial collapse. Proposed new regulations would govern that market, including a rule that bankers would have to share the risk of these products by holding a percentage of these assets on their books.

The new rules also would apply to products like financial derivatives and companies like hedge funds that aren't currently regulated. One of the biggest road blocks regulators faced when they tried to stem the Panic of 2008 was the lack of basic information about how much risky paper was clogging up the financial system and who was holding it.

The plan also gives the government broader powers to step in and take over a bank or other financial firm that is endangering the broader financial system by taking on too much risk.

Even if enacted in full, the new package of regulations may have only limited impact on the effort to repair the damage done by the collapse of the financial system. The banking system and financial markets are global entities, and regulators in Washington have limited reach beyond the US borders.

The new effort to overhaul financial regulations is also an acknowledgement that existing rules became outdated by rapid innovation on Wall Street, which created risks that were not fully understood even by the creators of some financial products. If history is any guide, the pace of innovation will continue to move more quickly than the regulatory process.

Finally, while changes in the financial markets have created the need for updated regulations, some critics of the process argue that existing regulations simply weren't applied forcefully enough. Just changing the rulebook won't ensure that regulatory agencies remain vigilant in heading off the next crisis.

"The bottom line is the regulators failed; it wasn't the regulation," said Dean Baker, co-director of the Centre for Economic and Policy Research. "We could have had better regulation, should have had better regulation. But the regulators failed, and I would say if we want to prevent the next bubble, we have to hold the people accountable for this bubble. So fire them."

RECESSION

Tens of millions trapped in poverty

AFP, *Seoul*

The global economic crisis is also a social crisis in Asia, with an estimated 60 million people remaining mired in poverty due to falling growth rates, an Asian Development Bank executive said Thursday.

"The social consequences of the economic crisis are very severe," Rajat M. Nag, ADB managing director general, said in an interview. "That is our biggest concern."

Nag said the estimated three percent drop in GDP between 2008-9 in developing Asia -- excluding Japan, Australia and New Zealand -- meant 60 million would fail to emerge from poverty.

An extra 10 million people would be undernourished and around 56,000 more children aged under five would die.

He made his comments on the sidelines of the World Economic Forum on East Asia, where speakers agreed the region must rebalance its export-led growth model to cope with shrinking Western markets.

"Asia will need to sell its products to itself more than it has," Nag said in the interview with AFP and other agencies.

Developing Asia at present exports 60 percent of its production to Japan, the Eurozone and the United States and "that cannot continue forever."

Asia must boost consumption - - an important part of poverty reduction -- by saving less and

AFP

Rajat M Nag, Asian Development Bank managing director general, smiles during the World Economic Forum on East Asia in Seoul. Nag said that the global economic crisis is also a social crisis in Asia, with an estimated 60 million people remaining mired in poverty due to falling growth rates.

spending more, he said.

He said the regional savings rate was very high, largely to compensate for the lack of welfare programmes.

"People save for old age, people save for ill health, people save for education," Nag added. "Is it more efficient for people to save individually for what is essentially a social protection network, or is it more efficient to save collectively as a nation?

"If we want to increase consumption, we've got to decrease savings."

Service industries should also be encouraged. At present, Nag said, services in Asia are difficult to access because of protectionist or other measures.

"The development model for the last 50 years of export-oriented growth which has served Asia well, which we believe was the right one, now needs to be rethought."

Nag also called for greater Asian integration on environmental and infrastructure matters.

"The centre of gravity of economic power is shifting to Asia... Asia needs to cooperate and integrate within itself," he said.

"It does not mean tomorrow we will have an Asian common market or an Asian common currency but I think the trend is to have greater integration."

Average growth in developing Asia was 6.3 percent in 2008 and the ADB forecasts 3.4 percent this year, rising to six per cent next year. "We think we have seen the worst of it," Nag said.

But he cautioned that the biggest threat to recovery was "to think of green shoots as more than green shoots" and slow down on reforms and stimulus measures.

"The economic recovery is still very fragile," Nag said.

In earlier comments to the economic forum, the ADB executive expanded on what he called the most worrying aspect of the economic crisis.

"There are two faces of Asia: one shining, which has done very well... and the other 900 million people who live below one dollar and 25 cents a day and that face is not shining at all," Nag said.

"And that gap is actually diverging rather than converging."

Peter Sands, chief executive officer for the Standard Chartered Bank group, told the forum that Asia would play a critical role in leading the world out of the economic crisis.

But he said the old model "of Asia overproducing and the West overconsuming has proved to be unsustainable."