

International Business News

BNP Paribas profits rise amid bank sector hopes

AFP, Paris

French bank BNP Paribas posted a 6.6-percent rise in second-quarter net profit on Tuesday -- the latest lender to report a pick-up as signs mount that the worst of the economic crisis may be over.

"In an environment characterised by a continued deterioration in the economy and a gradual normalisation of the markets, BNP Paribas Group again had a solid performance," the bank said in its earnings statement.

BNP Paribas chief executive Baudouin Prot said the bank was now "well positioned to take on the challenges of the current economic environment."

Prot told reporters after the results were announced that the bank would "continue to have a good activity" in the coming months.

Emerging markets bank Standard Chartered posted record first-half profits on Tuesday and leading British banks Barclays and HSBC raised hopes for the crisis-hit financial strong sector when they posted strong profits on Monday.

Bank of America, Citigroup, JPMorgan Chase and Goldman Sachs beat market expectations with strong results last month although most of the gains from the institutional side of operations with consumer segments still struggling.

Toyota cuts loss forecast on better sales

AFP, Tokyo

Toyota Motor announced Tuesday a smaller than expected first-quarter loss and upgraded its outlook for the rest of the year, offering another glimmer of hope for the battered industry.

Toyota, the world's biggest automaker, announced a net loss of 77.82 billion yen (817 million dollars) for the April-June quarter, marking a dramatic turnaround from a year-earlier profit of 353.66 billion yen.

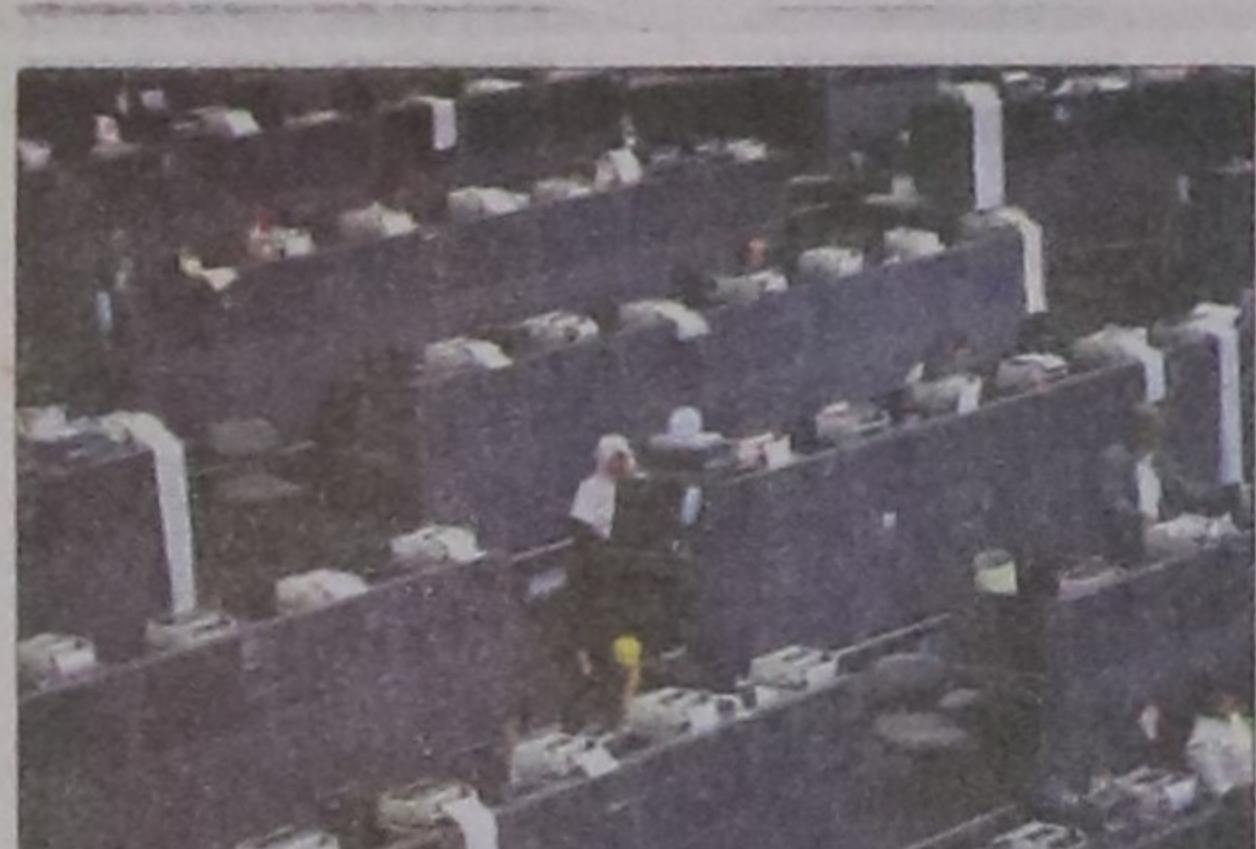
But the company slashed its losses drastically compared with January-March when it had plunged 765.8 billion yen into the red. It also easily beat market forecasts for a shortfall of more than 200 billion yen in the first quarter.

Toyota posted an operating loss of 194.86 billion yen for April-June, against a year-earlier profit of 412.59 billion yen. Revenue fell 38.3 percent to 3.84 trillion yen.

The Japanese giant painted a less gloomy picture of prospects for the rest of the business year to March 2010 thanks to a brighter outlook for car sales.

Toyota, which last year suffered its first annual loss, now expects to sell 6.6 million vehicles in the year, up from a previous goal of 6.5 million.

It narrowed its net loss forecast to 450 billion yen from 550 billion and revised its operating loss projection to 750 billion yen from 850 billion.



Brokers work during trade at Indonesia's stock exchange in Jakarta yesterday. Indonesia's economy will grow at 5 percent next year after another round of stimulus spending worth more than six billion dollars.

Offshoring by US companies surges

AFP, Washington

US companies are increasingly turning to offshoring their functions to achieve cost savings, and few plan to bring those jobs back to the United States, the Conference Board said Monday.

The number of US companies with a corporate offshoring strategy in place more than doubled in the past three years, according to the fifth annual report on offshoring trends, published by Duke University in collaboration with the Conference Board.

Of the companies surveyed, 53 percent had a corporate offshoring strategy in place, up from 22 percent in 2005, said the Conference Board, a nonprofit business research organization.

"Sixty percent of companies that had already offshored say they have aggressive plans to expand existing activities, and very few plan to relocate activities back to the United States," it said.

The report also said the globalization of innovation -- defined as engineering, research and development (R&D), R&D support functions, product design, and software development, is accelerating.

China warns of 'grave' jobs situation

AFP, Beijing

China Tuesday warned of a "grave" situation in the jobs market with millions of graduates and migrant workers yet to find work as companies continue to struggle with the effects of the global slump.

The comments come as Beijing struggles to keep a lid on joblessness, which it sees as necessary to stop social unrest.

"China's current employment situation is still grave and the pressure for job creation remains large," said Wang Yadong, a senior official at the Ministry of Human Resources and Social Security's employment section.

"To make things worse, the impact of the international financial crisis has not yet bottomed out and a lot of companies are still facing business difficulties, posing big unemployment risks," he told reporters.

Wang said around 147 million migrant workers had moved to cities for jobs by June but more than four million had yet to find one.

COLUMN

Diaspora bonds: Lessons from India

IFTY ISLAM and AIHSAN MANSUR

In previous columns we have written about the untapped potential of our diaspora, the technical term for non-resident Bangladeshis (NRBs). As a former long-term NRB, it is certainly a subject we feel strongly about.

At a World Bank conference on Diaspora and Remittances on July 12-13 in Washington DC presented a paper on "A Strategy to Leverage the Bangladeshi Diaspora". Listening to speakers and attendees share their experiences from different diaspora programmes around the world certainly gave plenty of food for thought.

In this write-up, we wanted to focus on the attractions of launching a new diaspora or NRB bond to help finance the expanding budget deficit and bolster our foreign exchange reserves.

Diaspora Bonds are debt instruments offered by sovereign governments to raise capital principally or exclusively from their diasporas. They arise through the convergence of the globalisation of capital and people. Diaspora Bonds have a rich history, going back as far as Japan and the Republic of China offered these in the 1930s, Israel Bonds offered in 1951, to the recent success of India offering Resurgent India Bonds in the wake of the international sanctions following the country's 1998 nuclear tests.

Bangladesh started issuing such instruments in 1986 with foreign currency Wage Earner Development Bonds specifically designed for migrant workers. These are still available now. Bangladesh Bank has also issued a US Dollar Investment Bond that pays attractive rates of interest.

In assessing the best strategy for Bangladesh, it is worth focusing on the prominent offering of Diaspora Bonds, the Resurgent India Bonds. I draw heavily from an excellent article "Diaspora Bonds" by Prof Anupam Chander of UC Davis, published in the September 2001 issue of NYU Law



Review.

The backdrop to the India Diaspora bond issuance is also interesting, given that it occurred at a time of crisis for both India and the global financial system.

In May 1998, India exploded five nuclear bombs in the northern desert of Pokhran for testing purposes. The explosions and the international sanctions they drew reverberated through the financial markets, leading to a decline in the Indian stock markets, the rupee exchange rate, and the sovereign credit rating.

The sale was overwhelmingly successful, raising \$4.2 billion, more than double the initial goal. This infusion of capital came at a crucial time and helped India withstand the shock of economic sanctions, which continue as of this writing.

The success of the Resurgent India Bonds is even more remarkable in light of the fact that the interest rates on the instruments, 7.75 percent for the US dollar-denominated instruments, 8.00 percent for British pound instruments, and 6.25 percent for deutsche mark instruments, were lower than what India's credit rating would suggest they should have been. A sovereign with a below-investment-grade credit rating would have found it difficult or impossible to obtain funding in

the international debt markets at these rates without securing the debt.

The first lesson for Bangladesh is the importance of having a focused, systematic and well thought marketing campaign. The Resurgent India Bonds were promoted heavily through the media of the Indian diaspora, including through the internet (thereby demonstrating its power as a tool to bring together the diaspora and its homeland).

The instruments were marketed explicitly to appeal to the nationalist sentiments of Indian expatriates, whether they were Indian citizens or not. The India government named the instruments to evoke a mythic glorious past when India had been "surging". India did not file a registration statement with the Securities and Exchange Commission (SEC), nor did it receive no-action letter relief from the SEC recognising the probable availability of an exemption from registration. Instead, it sought and obtained clearance from banking authorities in the specific states in which it planned to market the instruments. It sold the instruments in Europe, the Middle East, and the US through Indian and foreign commercial banks that specialised in providing services.

Why does the diaspora invest

when the interest rate does not reflect the country's international credit rating? It may be that it assesses risks better than the rating agencies. They may be more likely to distinguish the economic situation in its home country from those of other emerging markets.

As Chandra notes, a more compelling explanation as to why diasporas invest despite the non-market interest rate is altruism. A desire to help the homeland may motivate the diaspora to invest in instruments that raise capital for development.

The State of Israel Bonds clearly demonstrates this altruistic motivation. Altruism explains why the purchases of Israeli Bonds increased, not declined, during the Gulf War. Furthermore, many people who purchase State of Israel Bonds never intend to redeem them, sometimes keeping the Bonds for use only in a personal financial emergency in which redemption becomes necessary. Certain series of the State of Israel Bonds also offer a lower rate of return than would be indicated by the country's sovereign rating. From 1981 to 1997, some State of Israel Bonds were sold with a fixed coupon of 4 percent for a fifteen-year term lower even than US treasury bills, long considered one of the safest investments in the world.

On a more technical note, India's offering in 1998 to its expatriates had three novel features: India asserted that these instruments offered by the state bank are certificates of deposit rather than debt securities, the instruments specify that suits under them can be brought only in Indian court under Indian law and lastly, they are available only to its diaspora. Through the first two features, India sought to avoid the application of strict and often expensive United States security regulatory regime.

So what is a potential strategy for the Bangladesh government? Firstly, they should appoint a lead co-ordinator and syndicate of financial institutions, including local commercial banks with sizeable remittance and diaspora business. This could be extended to money transfer companies such as Western Union.

It is critical that the government offers commissions to institutions that market the bond so they are effectively incentivised to maximise sale proceeds. The lead co-ordinator should also work with local Bangladesh embassies in key target investor markets in UK, Europe and the Middle East, to ensure the economic counsellors are well informed and can help market the bond.

The government should issue dollar, pound and euro denominated bonds. The Indian model or what is most practical may be followed to issue in a highly legal or regulated market, like the US. Given the pressures on government finances as a result of the global financial crisis and the need to mobilise substantial resources for public private partnership and infrastructure investment, the opportunity to raise substantial new capital, perhaps in excess of \$1 billion, from the Bangladeshi Diaspora, looks ever more compelling.

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UBS posts four-fold increase in quarterly loss

AFP, Zurich

Swiss banking giant UBS reported on Tuesday an almost quadrupled net loss of 1.4 billion Swiss francs during the second quarter and warned that it needed more time to return to profitability.

The Zurich-based bank, one of the biggest losers in the global financial crisis, also failed to stem a haemorrhage of funds as customers withdrew assets amounting to 39.5 billion francs over the three months ending June 30.

"The outflow ... will continue in the America business," said the group's chief executive Oswald Gruebel, adding that it was "unlikely to see a quick reversal of the trend."

He also warned that "it will be a while" before the Swiss bank could return to profitability, although he said that it was "taking big steps in the right direction."

Unlike several international banks, which posted sharp gains in profits for the period, UBS on Tuesday posted its third quarterly loss in a row.

It said second-quarter net losses reached an equivalent of 916 million euros or 1.32 billion dollars, a substantial deepening of a loss of 358 million francs reported during the same period last year.

That net loss for the second quarter of 2008 has since been restated at 395 million francs, according to UBS's latest income statement.

The latest results contrasted starkly with those of fellow Swiss banking giant Credit Suisse, which posted a 29-percent leap in second quarter profits of 1.57 billion francs.

UBS said its earnings had been hit by a credit charge of 1.2 billion francs, restructuring charges of 582 million francs and impairment of 492 million francs in relation to the sale of UBS Pactual.

Switzerland's flagship bank was also unable to arrest an outflow of assets during the second quarter.

Its wealth management and Swiss bank division posted net new money inflows of 16.5 billion francs.

The bank's wealth management Americas division posted outflows of 5.8 billion francs and its global asset management division recorded an outflow of 17.1 billion francs.



Chief Operating Officer of Switzerland's UBS bank Oswald Gruebel speaks during a announcement of the bank's results for the first-half of 2009 in Zurich yesterday. UBS reported an almost quadrupled net loss of 1.4 billion Swiss francs in the second quarter.

John Cryan, the bank's chief financial officer, told journalists that outflows from Swiss clients was "much more stable" than the previous quarters, but that the "large majority" of the outflow was related to international clients.

The bank had been struggling to regain clients' confidence after losing almost 20 billion francs in 2008 on the US subprime crisis and its financial and economic fallout.

It is also beset by a lawsuit filed by US authorities seeking to ferret out Americans holding offshore bank accounts to evade taxes, a case which the bank said was hurting its bid to regain the trust of clients.

On Friday, both parties reached an agreement in principle to resolve the issue.

In a letter to shareholders outlining its second-quarter results, UBS looked forward to a "definitive resolution" of the case.

Pointing to the agreement in principle, it added: "This is a positive development in a matter that has adversely affected our efforts to regain the trust of our clients and to restore momentum to our businesses."

Cryan would not give further details of the case.

Analysts at Bank Wegelin noted that the outflows at the bank were still "problematic" but that the deal with the United States should be helpful.

"More appears to be needed for a sustainable recovery, and the bank must prove that it can substantially improve its situation in the coming quarters, stop the outflow of clients' funds and make a profit," they said.

The bank's stock opened up 0.75 percent at 16.12 francs, but later turned negative. At 1010 GMT, it was trading down 4.75 percent at 15.24 francs while the Swiss Market Index was down 0.82 percent.

Global trade revival key to economic recovery: WTO chief

AFP, New Delhi

A swift conclusion to a new world trade pact could serve as a powerful stimulus for recovery from the global financial crisis, WTO chief Pascal Lamy said in an interview published Tuesday.

"Waiting for the crisis to disappear to conclude the Doha Round would mean depriving the world economy of a powerful engine for recovery," Pascal Lamy, head of the World Trade Organisation, told India's Business Standard newspaper.

The Doha Round of trade liberalisation talks were launched in the Qatari capital in late 2001 but have been repeatedly stalled by disputes between rich and developing nations on agricultural and industrial products.

Reviving international trade can "act as a stimulus for global recovery," Lamy said, adding governments must fight rising protectionism that has come about as a result of the global crisis.

The WTO director general said he would use global trade talks to be held in New Delhi on September 3-4 as a platform to "make the case that concluding this round by the end of next year will be in the interest of all."

The meeting in India is being held as a precursor for a G20 summit of rich and developing nations to be held in the United States on September 24-25.

Last month, the leaders agreed to wrap up the Doha talks by 2010.

Lamy added that he detected a new will among countries to achieve a Doha deal after talks collapsed a year ago.

"Crucially, the political support is far greater now than it has been in the past 12 months," he said in the email interview, adding progress has been made in such areas as anti-dumping, fisheries and subsidies.

Lamy also said newly elected governments in India and the United States could revitalise the talks, even though the two countries have not changed their positions.

"Since the US and Indian elections, there seems to be a different atmosphere surrounding the talks, a willingness on both sides to look at different ways of tackling the outstanding differences," he said.

Negotiators almost clinched a deal last year but the talks fell apart in a row between the United States and emerging nations led by India over efforts to assist poor farmers.