International Business News

US eyes free trade pact with Asean

AFP, *Washington*

The United States is beginning to lay the initial groundwork for talks to forge a free trade agreement with Southeast Asia, ahead of President Barack Obama's maiden trip to the region.

A senior US senator will propose a resolution on Tuesday encouraging Obama administration officials to initiate the negotiations, warning about competition from China and other powers who have already sealed pacts with the Association of Southeast Asian Nations (Asean).

"The United States should proceed to develop a comprehensive strategy toward engaging Asean in serious FTA discussions," said Senator Dick Lugar, the Republican party leader in the powerful Senate foreign relations committee.

Lugar admitted that the free trade endeavor would be "complex and have possible challenges to negotiation given the varying levels of economic development and open markets among Asean countries."

But he pointed out that "China, India, Australia, New Zealand and South Korea have already finalized FTAs with Asean and are sharpening a competitive edge over the US in Southeast Asia."

Ongoing trade sanctions with military-ruled Myanmar, one of 10 Asean member states, should not deter US efforts to reach an FTA with the rest of the grouping, which also include Brunei, Cambodia, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand and Vietnam, Lugar said.

China exceeds 8pc growth

AFP, *Hong Kong*

China's economic growth rate exceeded eight percent by the end of September, the chairman of the country's banking regulatory commission was quoted as saying Friday.

But Liu Mingkang said the global crisis "isn't behind us yet" and it was too soon to start talking about an exit strategy from the government's massive stimulus measures, Dow Jones Newswires reported.

Liu was speaking at a banking conference in Hong Kong. His comments referred to Beijing's four-trillion-yuan (585-billion-dollar) stimulus package unveiled last year and loose monetary policy.

China, the world's number three economy, is due to announce third quarter gross domestic product data on or about October 22.

The Chinese economy expanded 7.1 percent in the first half from a year earlier, after growing 6.1 percent in the first quarter and 7.9 percent in the second.

Beijing sees eight percent growth as essential for job creation and keeping a lid on social unrest.

AFP

Two pedestrians walk past the roof of a commercial building housing retail outlets, reflecting the mid afternoon sun in Hong Kong yesterday. Hong Kong said on September 29 that retail sales volume fell 1.0 percent year-on-year in August, narrowing markedly from previous declines, due to the back of an improved job market. Total retail sales in August were $2.91 billion.

US trade gap registers surprise drop

AFP, *Washington*

The US trade deficit narrowed for the first time in four months in August on higher exports driven by a weak dollar and lower imports amid lacklustre domestic demand, the government said Friday.

The goods and services trade gap fell 3.6 percent to 30.7 billion dollars from a revised 31.9 billion dollars in July, the Commerce Department reported. Most analysts had expected the gap to widen with a 33 billion dollar deficit on the back of a higher bill for imported oil, due to higher prices, but oil import volume plunged.

In percentage terms, the August deficit dip was the largest recorded since May, figures showed.

Exports rose 0.2 percent to 128.2 billion dollars while imports fell 0.6 percent to 158.9 billion dollars.

Trade has for the past year helped cushion the contraction of the US economy, which plunged into recession in December 2007.

The trade deficit in the goods sector narrowed by two percent to 41.9 billion dollars in August, while the surplus in services widened by 2.7 percent to 11.2 billion dollars.

Brown sets optimistic forecast for Britain

AFP, *London*

Prime Minister Gordon Brown said the British economy would emerge from recession with stronger growth than expected as he drew the battle lines for the general election, in an interview out Saturday.

Brown told The Daily Telegraph newspaper that Britain would return to growth next year, as he spelt out the differences between his governing Labour Party and the main opposition Conservatives, who are 14 percent ahead in the opinion polls with an election due by June.

Brown tried to portray himself as an optimist on the coming years in Britain, saying the Conservatives had painted a pessimistic view of tough times ahead that were "simply not true".

"Britain is capable of coming back to growth at a higher rate next year than people were expecting, and higher rates in the future," the 58-year-old said.

COLUMN

Remittance and liquidity

MA TASLIM

The governor of Bangladesh Bank seems to have come out of the early euphoria over the central bank's rapidly increasing international reserves caused largely by remittances.

Like most other people he was convinced of the virtues of an ever-increasing flow of remittances and large reserves. But the balance sheet of his bank, and that of the rest of the financial system that he supervises, seem to have nudged him to the realisation that it is not an unmixed blessings.

In his speech to the Small States Forum 2009 at Istanbul, he hinted at the emerging macroeconomic problems caused by rising remittances.

Most economic variables have flow-on effects, some of which go beyond what was originally intended or anticipated. The toughest dilemma of macroeconomic management is that most good things happen together with some undesirable outcomes.

For example, an increase in employment (or investment) often comes at the expense of rising inflation. Remittances are no exception; they too have flow-on effects that are neither immediately apparent nor always beneficial.

Remittances are inflows of foreign exchange into the country from our workers overseas. If the central bank does not interfere with the operations of the commercial banks then the foreign exchange received from overseas remains as foreign exchange in the balance sheets of the commercial banks. However, our central bank, Bangladesh Bank (BB), requires commercial banks to surrender most of their foreign exchange receipts to it in exchange of local money. When such a requirement is in force, any remittance shows up in the balance sheet of Bangladesh Bank as an increase in international reserves, which has immediate implications for the supply of domestic money.

This may be explained with the help of two basic monetary equations. Total high-powered money (or reserve money) is equal to domestic credit (or assets) plus international reserves held by Bangladesh Bank. The money that we use in our daily transactions derives from the quantity of high-powered money. The total supply of money is equal to money multiplier times the high-powered money.

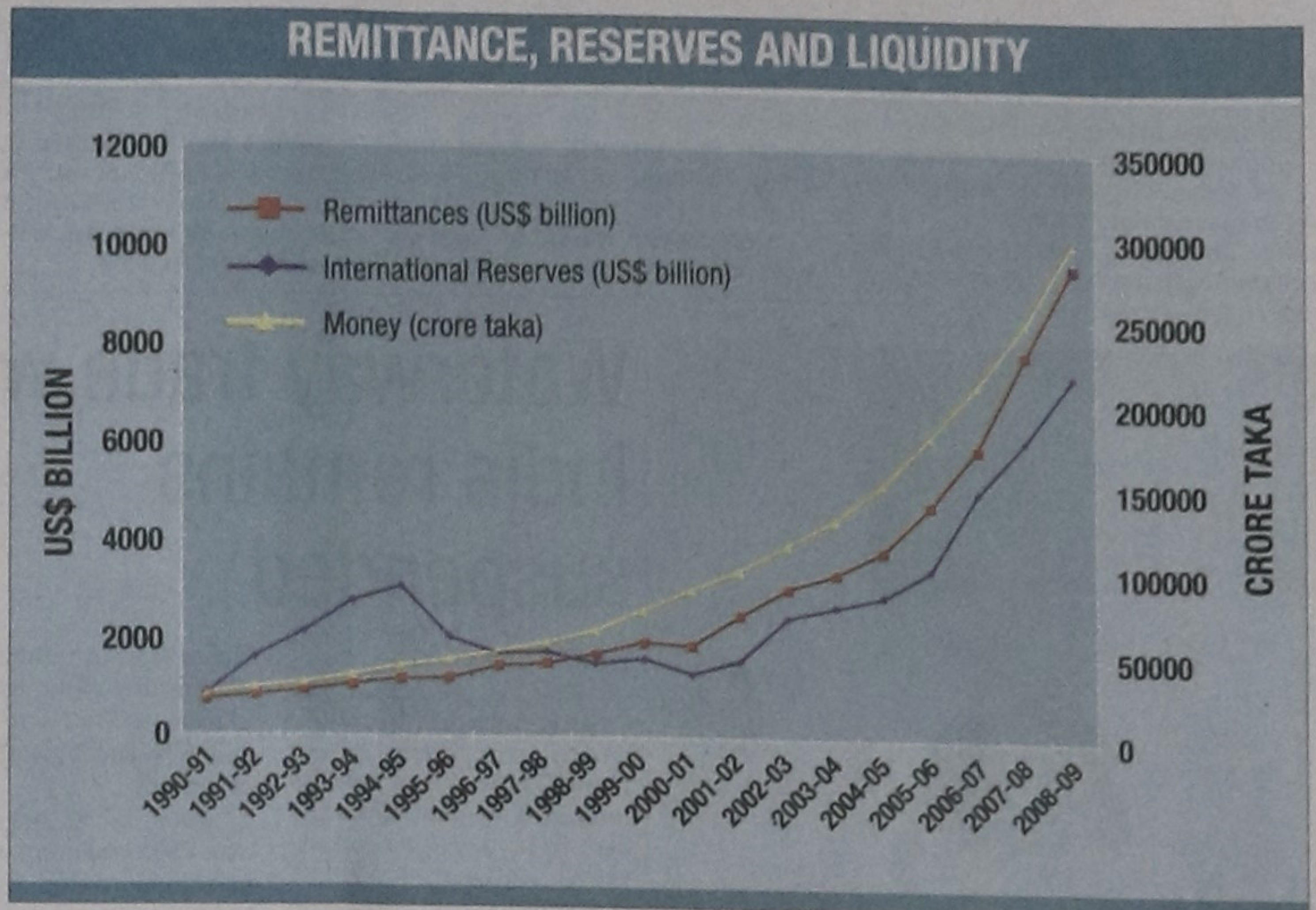
The value of the money multiplier in Bangladesh during recent months has been about 4.3. This means that a $100 inward remittance will raise reserves by about Tk7000 ($100×Tk70/$), which will finally translate into an increase in money supply of Tk7000×4.3=Tk30100. A large increase in remittances thus translates into a correspondingly large increase in money supply or liquidity.

The central bank has instruments to prevent money supply from increasing. One of these is sterilisation, i.e. sale of credit (government bonds/bills) to the public or, what is called in BB parlance, 'reverse repo' operations. This allows the BB to mop up excess liquidity from the market.

The other effect of remittances is on the foreign exchange rate (in Bangladesh this usually means taka-US dollar rate). When there is a large inflow of foreign exchange, the supply of foreign exchange increases, and the value of the foreign currency tends to depreciate; or what is the same thing, the local currency, taka, appreciates.

If the central bank does not want this to happen, it has to purchase from whatever foreign currency stock the commercial banks hold. In the recent past Bangladesh Bank aggressively intervened in the foreign exchange market to mop up excess foreign currency from the market. While this shores up the demand for the foreign currency (US dollar), and hence, the value of the dollar, it also increases the reserves held by Bangladesh Bank.

It is believed that if BB had not engaged in these operations, the value of the US dollar could have fallen to the low 60s. The mayhem it could have caused to our export sector, and thereby the entire economy, is obvious. This suggests what forces the BB hands when it engages in such market interventions.



However, this is not the end of the story. The increase in international reserves increases the money supply of the economy by the money multiplier as given by the equation above. If BB had mopped up, say, one billion dollar, it would have increased reserve money by Tk 7,000 crore, and therefore added to the money supply by Tk 30,100 crore.

The BB could in theory sterilise this by engaging in reverse repo; but the fact that the governor has publicly complained about rising liquidity is an indication that the central bank is fast approaching the limits of its use. The economy is probably not able to absorb more government bonds/bills at the existing terms and conditions.

Fortunately for the country the rising liquidity has not shown up in rising inflation mainly because of the current recession. Commercial banks are unable to lend the excess liquidity since investment demand has dried up and import costs have fallen. The growth rate of private credit has fallen precipitously from 24.9 percent to 14.6 percent. This has significantly dampened aggregate demand of the economy, which put a lid on the prices (as well as on growth).

When the world economy emerges out of the current recessionary spell, the domestic economy is expected to pick up momentum. If remittances maintain their bullish tendency and the government implements its promised infrastructure and other projects, the major problem will be managing aggregate demand. A large increase in demand will most likely stoke the fire of inflation. The current lull is the right time to prepare for the contingent outcomes.

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MEDIA

Pay up, News Corp boss says

AP, *Beijing*

The leaders of two of the world's major news organisations said Friday that it is time for search engines and others who use news content for free to pay up.

The comments from The Associated Press' Tom Curley and Rupert Murdoch of News Corp come as the media industry struggles in the Internet age. Many news companies contend that sites such as Google have reaped a fortune off their articles, photos and video without fairly compensating the news organisations producing the material.

"We content creators have been too slow to react to the free exploitation of news by third parties without input or permission," Curley, the AP's chief executive, told a meeting of 300 media leaders in Beijing.

"Crowd-sourcing Web services such as Wikipedia, YouTube and Facebook, have become preferred customer destinations for breaking news, displacing Web sites of traditional news publishers," Curley said. "We content creators must quickly and decisively act to take back control of our content."

He said content aggregators, such as search engines and bloggers, were also directing audiences and revenue away from content creators.

"We will no longer tolerate the disconnect between people who devote themselves -- at great human and economic cost -- to gathering news of public interest and those who profit from it without supporting it," Curley said.

Murdoch also told the opening session of the World Media Summit in Beijing's Great Hall of the People that content providers would be demanding that they be paid.

AFP

Chinese President Hu Jintao (R) and media mogul Rupert Murdoch (L) arrive for the opening ceremony of the World Media Summit in the Great Hall of the People in Beijing on Friday. Three hundred representatives from more than 100 overseas media and 40 Chinese media groups are attending the three-day summit.

"The aggregators and plagiarists will soon have to pay a price for the co-opting of our content. But if we do not take advantage of the current movement toward paid content, it will be the content creators -- the people in this hall -- who will pay the ultimate price and the content kleptomaniacs who triumph," the News Corp chief executive said.

Curley said in a speech earlier this week in Hong Kong that the AP was considering selling news stories to some online customers exclusively for a certain period, perhaps half an hour.

The AP licenses its stories and photographs to many of the Internet's main hubs, including Google, Yahoo and Microsoft's MSN, and its work is also used by hundreds of Web sites owned by newspapers and broadcasters. Currently, they all get the material at the same time.

Curley did not clarify how a product that provided some news earlier would work or specify the target customers for the potential new service.

The AP already plans to roll out a system, called a news registry, that will track its content online and detect unlicensed uses in ways that could help boost revenue for the not-for-profit news cooperative, which was founded in 1846, and its member newspapers. The system will be tested in six weeks by nine newspapers as well as a sports statistics provider run jointly by AP and News Corp.

The AP and its member newspapers contend that unauthorised use of their material is costing them tens of millions of dollars in potential advertising revenue at a time when they can least afford it.

The AP's revenue is expected to be around $700 million this year, down from $748 million in 2008, in part because of reductions in the fees it charges newspapers and broadcasters, whose advertising revenue has been dwindling as more marketers shift to less-expensive or better-targeted options online.

Murdoch has been a strong advocate of charging for online content. News Corp already owns the newspaper industry's most successful Internet subscription model in The Wall Street Journal, with more than 1 million customers who pay for online access.

Murdoch had said in the past he hopes to make online fees pay off for his other publications, which include the New York Post and The Times of London. He hasn't provided specifics about his plans.

Last month, The Wall Street Journal said it plans to start charging as much as $2 per week to read its stories on BlackBerrys, iPhones and other mobile devices, expanding the newspaper's effort to become less dependent on its print edition.

The mobile fees will be imposed in the next month or two, Murdoch said at the time.

Murdoch and Curley were speaking to 300 representatives from more than 170 media outlets from 80 countries at a meeting that will look at the challenges and opportunities the media face from the Internet, technology changes and the world economic crisis.