International Business News

IMF head says world economy highly vulnerable

AFP, *London*

The head of the IMF Dominique Strauss-Kahn said here on Monday that although the worst of the global financial storm had passed, the world economy remains "highly vulnerable."

"Today the storm has passed. The worst has been averted thanks to a bold and rapid policy response and thanks to cooperation," he told delegates at the annual conference of the Confederation of British Industry (CBI) -- Britain's biggest employers group.

"We can say that the recovery has started but everyone understand that it is very fragile and still dependent on policy support. The financial conditions have improved but are still far from normal."

Strauss-Kahn, who is managing director of the International Monetary Fund, added: "The economy ... (is) getting better, but (is) still highly vulnerable."

"During the crisis, everyone was united by a common purpose. Going forward, this might dissolve. So the road ahead will be less clear cut."

Strauss-Kahn added that nations needed to cooperate more to build on signs of worldwide economic recovery.

US economy will bounce back: Indian PM

AFP, *Washington*

Indian Prime Minister Manmohan Singh has voiced confidence that the US economy will make a strong recovery and poured cold water on talk of dropping the dollar as the key global currency.

In an interview ahead of his arrival Sunday on a state visit to the United States, the 77-year-old trained economist said he had grown accustomed to predictions of US economic decline over the decades.

The US economy "has shown a remarkable capacity to bounce back," Singh told CNN, hailing "the entrepreneurial spirit which is the hallmark of the American enterprise system."

"I have no doubt that these things are not permanent, irreversible shifts, but that the American economy has the capacity to bounce back to its normal growth mark," he said of recent US economic woes.

Singh holds a doctorate in economics from Oxford University and spearheaded India's market reform drive in the 1990s that ended decades of state economic planning.

AFP

Indian labourers sort oranges for packaging at a regulated fruit market in Siliguri yesterday. West Bengal oranges are exported to neighbouring countries such as Bangladesh and Bhutan as well as nearby states, strengthening the local economy.

Taiwan to curb China investment in key sectors

AFP, *Taipei*

Taiwan plans to restrict Chinese stock investment in strategic sectors, as it seeks to keep control of its economy amid rapidly growing ties with the mainland, local media said Monday.

Chinese institutional investors will be allowed to hold no more than a total of 10 percent in listed companies in the telecommunications, aviation and finance industries, the Commercial Times reported, citing unnamed sources.

The paper also said the Financial Supervisory Commission will meet with relevant agencies soon to discuss what cap should be set on Chinese investments in less-vital sectors, according to the paper.

The report was published a week after Taiwan and China signed three landmark memorandums paving the way for growing cooperation in banking, insurance and securities.

The agreements, which will go into effect in January, will enable Chinese institutional investors to buy shares in Taiwan's stock market for the first time.

Thai economy shrinks 2.8pc in Q3

AFP, *Bangkok*

Thailand's economy shrank by 2.8 percent year-on-year in the third quarter, signalling improvement on the previous quarter as export and tourism revenues pick up, official figures showed Monday.

It was the fourth consecutive quarter in which gross domestic product (GDP) dropped, but was less severe than the 7.1 percent and 4.9 percent falls seen in the first and second quarters respectively.

"GDP was better because of good export and tourism figures and government policies to stimulate investments," said Ampon Kittiampon, secretary general of the National Economic and Social Development Board that released the data.

The government has this year rolled out a 116.7 billion baht (3.35 billion dollar) supplementary budget focused on improving consumer spending and in late October began parcelling out a second stimulus package worth 1.4 trillion baht.

COLUMN

Maximising value addition

MA TASLIM

Several misconceptions mar economic research in Bangladesh. These arise due primarily to a reliance on the simplicity and the superficial plausibility of the proffered explanations, which do not tax the intellectual capacity of the audience and are favourable to influential groups. Consequently, they gain wide acceptance over explanations that are more complex or unpleasant.

It is difficult to establish an alternative (correct) explanation when such misconceptions are entrenched. As long as a majority of the people held the comfortable view that dirigisme was the right economic policy, the case for free market did not attract much support. Similarly, if a large number of people hold the view that the pursuit of maximisation of value addition in every line of production is a desirable policy, economists will be hard-pressed to convince them otherwise. The situation is very damaging to the economy when policy makers are also taken by such facile explanations.

Value addition is an important term in national income accounting. It is defined to be the creation of new value, or what amounts to the same thing, income earned in the process of production of a particular commodity. In general, value addition in the production of a commodity is equal to its sale price less the value of all purchased material inputs from other industries.

The definition is fairly unambiguous and there is little scope for misinterpretation. However, in non-professional (and occasionally even in professional) economics discourse, the term is often endowed with an added implication that it does not have. Economics and business commentators and policy makers frequently suggest that a higher value addition in the production of a commodity is in some sense better or more desirable than lower value addition.

While this may be the case for certain industries depending on the market conditions, the deduction is in general not correct. The maximisation of value addition was a very persuasive argument in favour of import substitution industrialisation policy, which did significant damage to economic growth of many developing countries that adopted it as a development strategy during the post-World War II decades.

STAR

Cutting and making of readymade garments, the most important export item of Bangladesh, are the last, simplest and least expensive stage of operations. More vital stages are fabric production and spinning, which are far more complex, capital intensive and expensive. The earliest stage is cotton production.

Several production processes may be required to support the production of a single commodity. Consider the most important export product of Bangladesh -- the ready-made garments. The cutting and making (CM) operations are the last stage of the conversion process of some raw materials into garments and perhaps the simplest and least expensive stage. The stage prior to CM is fabric production and the one before that is spinning. Both these stages are much more complex, capital-intensive and expensive. The earliest production stage in this chain is of course the production of cotton, which is an agricultural operation.

If the economy wishes to have close to hundred percent value addition in the production of garments, then it must engage in cotton cultivation, spin yarn from the home-grown cotton, manufacture fabric from the yarn and finally cut and make garments from the fabric. Each of these stages or processes has unique requirements, uses very different technology, requires very different skills and produces different outputs. There is no guarantee that a nation can attain economic efficiency in the production of all these goods.

Indeed, there are few countries in the world that can efficiently produce all these goods. Of the top ten textile exporters of the world, only four -- USA, China, India and Pakistan -- are also major cotton producers (China is also the largest importer of cotton).

Of the top ten textile exporters of the world, Hong Kong, Korea and Taipei had their clothing exports severely reduced in recent years while Japan has ceased to be a significant exporter. The EU and USA, two of the top textile exporters, are also likely to have problems with their clothing industry in the near future. On the other hand, some developing countries that are not noted for their textile industries have emerged as successful garment exporters. These include Bangladesh, Cambodia, Sri Lanka, and Vietnam.

The availability of primary inputs locally certainly gives an advantage to the domestic production of a good, such as garments. Lead-time can be cut significantly and transport and import transaction costs can also be reduced substantially.

However, these advantages may not be enough to give a competitive edge to domestic production if the country does not in the first place have a comparative advantage in the production of these inputs. Higher production costs will outweigh the benefits of availability of the inputs locally.

Similarly, if the country does not have a comparative advantage in the production of the final good, the local availability of the cheap inputs will not suffice to make the manufacturing of the output profitable. This is precisely the reason why despite being some of the most efficient producers of textiles (an essential input for apparels), countries such as Japan, Hong Kong and Korea have been forced to cede their apparel market share to the emerging developing countries such as China, India, Bangladesh and Vietnam.

These facts should suggest that it is incorrect to assume that a country must maximise value addition in the production of a single commodity or produce all the necessary inputs to excel in the export of that commodity. Each stage of production, being a different operation from the rest, has its own business rationale. It must survive on its own merit and not on the largesse of other operations. It is bad economics to tie up the fortunes of one stage of production with another; it may stunt the growth of both and reduce the potential output of the economy.

The development of any sector (such as garments) provides a powerful boost to the growth of backward and forward linkage industries (such as textiles and accessories). If the economy has, or build up, a comparative advantage in any of these industries, they will flourish. The unassisted rapid growth of the accessories industries in Bangladesh is evidence of this fact. The government may wish to support the growth of the backward and forward linkage industries through its various industry support programmes, but these must not hobble the primary industry lest its comparative advantage is reduced or lost. The goose should not be killed to retrieve the golden eggs!

The maximisation of value addition in the production of a single commodity cannot possibly be either a business objective or a national economic goal. The overriding motive for running a business is to make money or profit; this is true of both garments and textile manufacturers as of any other business.

Note that each stage of production is a separate business run by separate entities. The profits earned at any stage have no definable correlation with the profits at any other stage. Hence, maximising value addition in the production of a commodity has no bearing on the profit calculus of the business entities at each stage and imposing such a requirement serves no useful purpose. Indeed, it can be harmful to all as all industries may suffer from stunted growth or decline.

The national economic goal in just about all countries of the world is the maximisation of national welfare. This is usually taken to mean the maximisation of national income (distributional issues aside). The maximisation of value addition in each industry does not necessarily guarantee the maximisation of national income; indeed income could be reduced because of such a misguided attempt. If all stages of production are not economically efficient, which is likely, maximising value addition will actually reduce potential national output by diverting scarce resources into less efficient activities. Simplistic views about national welfare do not always translate into rational economic policies.

The writer is the CEO of Bangladesh Foreign Trade Institute.

TRADE

Mosques, China goods rebuild Silk Road

AFP, *Yiwu, China*

Smoke from hookah pipes and the aroma of lamb skewers on the grill mix in the chilly autumn air as men talk loudly in Arabic over pulsating music beneath the neon glow of restaurant signs.

The scene could be unfolding in any number of cities in the Middle East -- but this is eastern China.

Yiwu, a city of two million people 300 kilometres (190 miles) south of Shanghai, has become a crossroads on what has been dubbed a "New Silk Road" between China and the Middle East, attracting more than 200,000 Arab traders each year.

AFP

In this picture taken on October 21 two men talk in front of restaurants beneath the glow of swirling neon signs in Yiwu, China. Yiwu, a city of two million people and 300 kilometres (190 miles) south of Shanghai, has been dubbed a "New Silk Road" between China and the Middle East, attracting more than 200,000 Arab traders each year.

"China is becoming easy -- people who cannot speak Chinese or English can come here now," Ashraf Shahabi, 29, said between greeting customers at his Al-Arabi restaurant, one of a dozen Arab eateries lining Yiwu's Exotic Street.

As the United States and Europe tightened visa rules after the 9/11 attacks, China made it easier for Arabs to obtain visas, said Ben Simpfendorfer, Royal Bank of Scotland's chief China economist, who has studied Chinese-Arab ties.

Yiwu officials went further. To promote their massive wholesale market, they helped set up a mosque, encouraged Arabic language schools and allowed the city to become home to an estimated 3,000 Arab permanent residents, officials said.

Shahabi witnessed the city's transformation. He left Jordan in 2002 to work in his uncle's restaurant, then one of Yiwu's few Arab establishments.

He learned Mandarin, started a trading business and married a Chinese woman, who converted to Islam.

Events in the post-9/11 world shaped the flow of traders. Afghans were the first to stream into Yiwu, fleeing the horrors of war, followed by even more Iraqis, also escaping the violence of insurgency and a US-led invasion.

The number of traders from the Arab world then started to rise alongside surging world oil prices and growing spending power in the Middle East, he said.

"It's all because of Futian," Shahabi said, using the local name for Yiwu's sprawling small goods wholesale market.

"It's the biggest market in the world. The quality's not so good, but the price is very good."

The market covers four million square metres (43 million square feet) -- and is growing. Yiwu officials boast it would take a year to visit all of the more than 62,000 booths, even if you spent just three minutes at each one.

On a mural welcoming visitors to Futian, bearded men with scimitars on their belts trade pelts to Chinese for embroidered silk, but an enormous range of modern goods awaits today's traders.

The halls are a catalogue of everything "Made in China" -- more than 1.7 million products are sold here, from ukeleles to bunny backpacks, fake iPods to fake eyelashes, netbooks to non-stick frying pans, women's pumps to power tools.

"It's really a country," said Lebanese trader Bashar Wehebe, surveying the shopping mall-like atmosphere while waiting for a sample of a spoon.

Yiwu caters to traders like Wehebe, who buy in quantities of tens instead of tens of thousands like Carrefour or Wal-Mart.

The 28-year-old first came to Yiwu five months ago -- this is now his third trip, with the range and quantity of goods he buys increasing with each visit.

He planned to fill three containers with up to 500 different items to sell back home.

Traders rely on Chinese guides and translators -- many of them Arabic speakers -- to help navigate and negotiate.

More than 60 percent of Yiwu businesses look for Arabic language skills when hiring, according to a labour survey reported by a state newspaper in November 2008.

"Many of the local schools offer Arabic classes," said Ma Chunzhen, the Beijing-appointed imam at Yiwu's mosque.

The mosque, a converted factory, was donated by the municipal government in 2004, and foreign and Chinese Muslims paid to renovate it, he said.

"We started with one hundred Muslims coming for Friday prayers. Then we had one thousand, two thousand and now it's six thousand. It grew very quickly," Ma said.

"Yiwu emphasises the fact that relations between China and the Middle East are very much the result of individuals," said Simpfendorfer, who has documented China's growing ties to the Arab world in his book "The New Silk Road".

"There is a tendency to assume commercial relations between China and the Middle East are all about oil ... that's not the case."