International Business News

Obama defends banking fee

AFP, *Washington*

US President Barack Obama on Saturday defended a fee he had proposed imposing on the country's largest financial firms, saying his administration will not allow Wall Street to "take the money and run."

"Those who oppose this fee say the banks can't afford to pay back the American people without passing on the costs to their shareholders and customers," the president said in his weekly radio address.

"But that's hard to believe when there are reports that Wall Street is going to hand out more money in bonuses and compensation just this year than the cost of this fee over the next ten years," he continued.

"If the big financial firms can afford massive bonuses, they can afford to pay back the American people."

On Thursday, Obama proposed a new fee on risky assets of big financial institutions, saying it would help recoup the cost of a massive bailout of the sector than began in 2008.

The plan, which requires congressional approval, would raise 90 billion dollars over 10 years and could be kept for 12 years to offset the full 117 billion dollar shortfall now estimated for the so-called TARP program.

The fee will be assessed on the largest banks, excluding community banks and other TARP recipients such as automakers General Motors and Chrysler.

Germany, Singapore top World Bank trade logistics survey

AFP, *Washington*

Germany emerged top and Singapore second Friday in a new World Bank logistics survey that measures how efficiently countries trade their goods around the world.

Sweden was adjudged the next most trade-friendly nation in the study hailed by the Washington-based institution as "the most comprehensive world survey of international freight forwarders and express carriers."

"Economic competitiveness is relentlessly driving countries to strengthen performance, and improving trade logistics is a smart way to deliver more efficiencies, lower costs and added economic growth," said bank chief Robert Zoellick.

High income economies dominated the top logistics rankings, with most of them occupying important places in global and regional supply chains, the 155-nation "Logistics Performance Indicators" study showed.

By contrast, the 10 worst performing countries were all from the low and lower income groups.

"Although the study shows a substantial logistics gap between rich countries and most developing countries, it finds positive trends in some areas essential to logistics performance and trade," the World Bank said.

JAL, Delta reach deal over tie-up

AFP, *Tokyo*

Japan Airlines has reached an agreement on a tie-up with Delta Air Lines as the troubled Japanese carrier readies for a court-led rehabilitation, a newspaper said Saturday.

The two companies are likely officially to sign the deal, which will allow them to run code-share flights, as soon as JAL's new management endorses it, the Yomiuri Shimbun said, quoting company sources.

The agreement means Asia's biggest airline will switch from the Oneworld alliance to the SkyTeam group, to which Delta belongs.

JAL and Delta will ask US authorities for antitrust immunity by mid-February, the paper said. If the request is accepted, the two firms will be able to run combined flights over their Pacific routes in what amounts to business integration.

The report came after American Airlines and its partners lifted their proposed investment in JAL to 1.4 billion dollars, from a previous offer of 1.1 billion dollars in a bidding war with rival Delta for a stake in JAL.

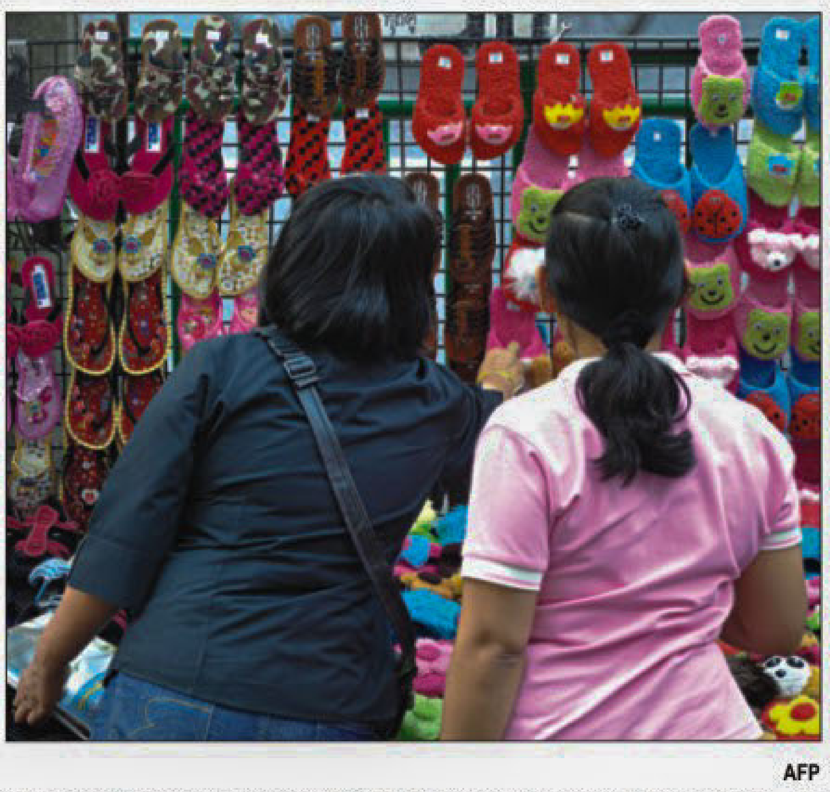
JPMorgan kicks off bank earnings on strong note

AFP, *Washington*

JPMorgan Chase opened the earnings season for banks Friday reporting a hefty jump in profits Friday, highlighting renewed health in a sector under intense scrutiny for its pay practices.

The New York-based financial giant quadrupled its fourth quarter net earnings to 3.27 billion dollars and doubled its profits for the full year to 11.7 billion dollars.

The results reflected new vigor in the industry after more than a year of crisis, but were expected to fuel public resentment over hefty profits and compensation in a sector bailed out by the government and at a time when much of the US economy continues to struggle and unemployment remains high.



AFP

Women choose sandals at a street stall in Bangkok on Friday. Thailand's central bank kept its key interest rate unchanged at a historic low of 1.25 percent as it sought to encourage the country's fledgling economic recovery.

COLUMN

The Bangladesh moment

WAHIDUDDIN MAHMUD

The significance of the four-day official visit of Bangladesh Prime Minister Sheikh Hasina should not be judged merely in terms of the number of agreements and MoUs signed; much more important is the expression of political will for cooperation.

In bilateral relationships all over the world, economic cooperation is seldom initiated significantly without regard to the prevailing political relations. There is no reason to expect an exception in this case. No one doubts the potential "win-win" gains to be reaped from Indo-Bangladesh economic cooperation, but such cooperation is likely to hold out better prospects if they are anchored within a broader framework of political and strategic relations.

The political will for cooperation, which affects countries' mindset and preconceptions, is all the more important in the case of Indo-Bangladesh economic relationships for at least two reasons.

First is the asymmetrical relationship between a small country and a big neighbour, in which the former perceives an unequal bargaining power. India's predominant position is seen not only in terms of its much larger and more advanced economy, but also in terms of its physical advantage as an upper riparian country surrounding Bangladesh's three sides (with the opening to the Bay of Bengal on the remaining side now at the risk of being compromised by an ongoing maritime boundary dispute). It requires a great deal of conscious will and effort for Bangladesh to shake off a feeling of mistrust and develop a sufficiently strong confidence in bilateral relations with India.

Second, also arising from the unequal size of the two countries is the way in which the distribution of possible gains from economic cooperation is evaluated by each side. While India's gain in relation to its economy as a whole will be limited, it attaches high importance to transit facilities through Bangladesh as a means of integrating the north-eastern states with the rest of India -- economically, politically, and strategically.

India thus tends to link, at least implicitly, Indo-Bangladesh trade negotiations with the issue of transit facilities to its north-eastern states. Bangladesh, on the other hand, sees its vital interest in water-sharing arrangements regarding the common rivers and in getting greater access for its exports to the Indian market, given its large trade deficits with India. Such multiple-issue negotiations require a comprehensive framework of give and take, and success depends on the willingness of the political leadership to compromise and take a long-term view in order to find a mutually beneficial arrangement.

Wahiduddin Mahmud

In such multi-faceted economic relationships, both sides need to make genuine gestures to win each other's trust and confidence. However, many in Bangladesh believe that India with its superior and more advantageous position could perhaps be more forthcoming in taking "non-reciprocal" measures, such as reducing tariff and non-tariff barriers on those export items from Bangladesh which have prospects of penetration in the Indian market.

Once the benefit of economic integration with India becomes more evident, public opinion in Bangladesh may be more easily swayed towards, say, opening the Chittagong Port for the use of its natural hinterland that includes the north-eastern Indian states.

Bangladesh should also come to realise that if it has to attract a significant volume of foreign direct investment, it has to bet on Indian investors. Given India's economic ascendancy in the global economy, it will be a pity if Bangladesh cannot take advantage of its geographic proximity with India.

The environment of cooperation can be greatly improved by transparency and exchange of information on all sensitive issues, ranging from the proposed Tipaimukh dam to the alleged illegal inflows of Bangladeshi labourers into India.

In fact, such exchanges of information should be seen as a step towards a more comprehensive framework of cooperation, such as harnessing regional resources through joint planning and management. That will not happen within the straitjacket of traditional diplomacy but will need statesmanship and more straight talk. For example, while there is no point denying the fact that there are illegal Bangladeshi migrant workers in India, it is not helpful to exaggerate their numbers either. The Mexican president at the time of NAFTA negotiations was reported to have said that the US had to accept or import "tomatoes from Mexico or tomato growers." To some extent at least, India has a similar choice between opening markets for labour-intensive goods from Bangladesh, and accepting the flow of migrant workers.

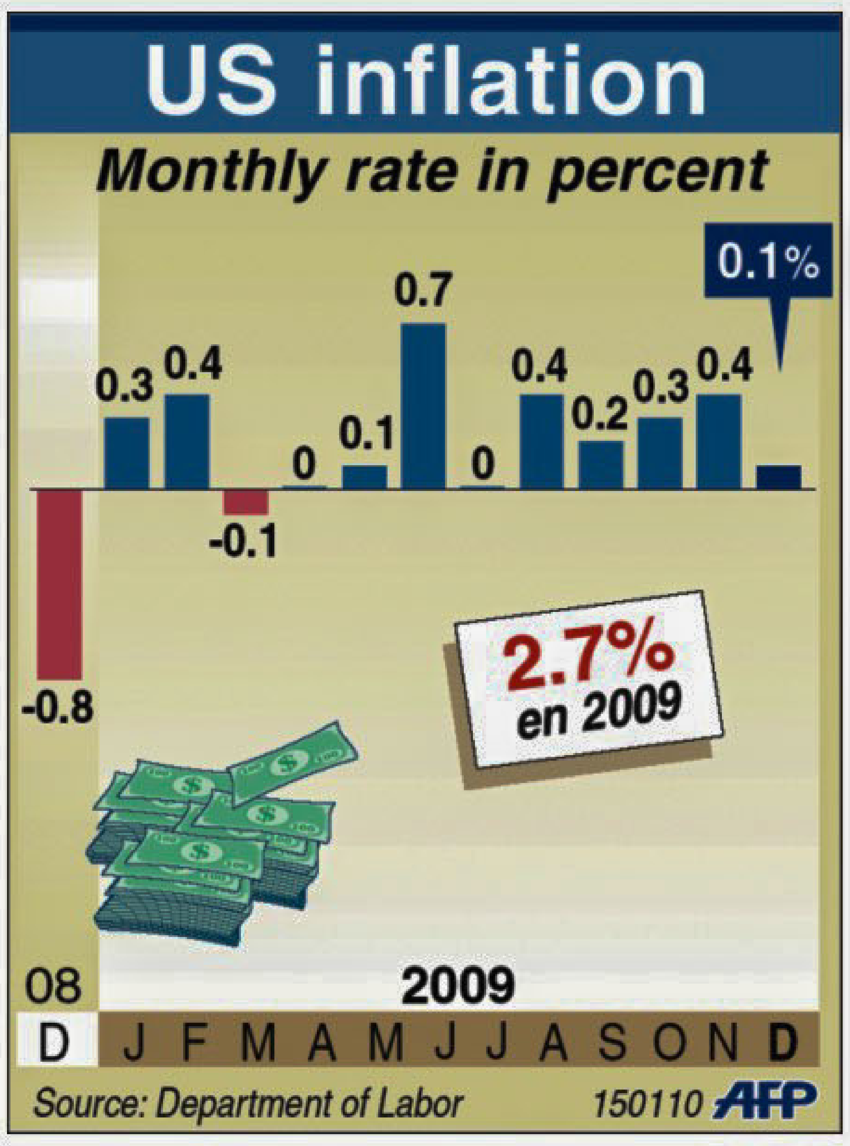
The writer is a professor of economics at the University of Dhaka and a member of the United Nations Committee for Development Policy. The article was published in the Indian Express.

ECONOMIC RECOVERY

US inflation outpaces wages

AFP

Shoppers pictured in downtown San Francisco. US consumer prices barely rose in December amid a sluggish recovery from recession, official data showed Friday, as falling wages pinched spending that drives most of the world's largest economy.



AP, *Washington*

The spending power of families is being squeezed, government data showed Friday, highlighting doubts about consumers' ability to drive the economic rebound.

Workers saw their inflation-adjusted weekly wages fall 1.6 percent last year -- the sharpest drop since 1990 -- even as consumer prices rose only modestly. Slack pay and scarce job growth, along with tight credit and a rising savings rate, are holding back spending. That's hindering the recovery.

For some families, the overall inflation rate last year -- 2.7 percent -- understates their burden. Many are struggling with surging costs for health care and college tuition, both of which have been galloping far above the overall inflation rate.

Energy led consumer prices higher last year, offsetting the biggest drop in food costs in nearly a half century, the Labor Department said Friday. Core inflation, which excludes the volatile food and energy sectors, rose 1.8 percent. That's the second-smallest rise in four decades.

But to middle-class people like Angie and Larry Kimbrel of Birmingham, Ala., inflation feels anything but moderate. With three sons, the Kimbrels say they're just scraping by.

Angie Kimbrel, who works for an insurance underwriter, has gone without raises and bonuses and faces higher health insurance premiums. Work is slow for her husband, a painter, because of the sagging construction and housing markets.

"I haven't seen anything getting cheaper," said Kimbrel, 43. She's facing rising costs for health insurance and gas, in particular.

Economists expect core inflation to remain tame in 2010, giving the Federal Reserve leeway to keep interest rates at record lows to try to invigorate the economy. Inflation and wages remain low because employers can't or won't raise pay in an economy that's shed 7.2 million jobs since the recession began two years ago. The unemployment rate is 10 percent, and the number of jobless has hit 15.3 million, up from 7.7 million when the recession started in at the end of 2007.

The 1.6 percent drop in average weekly earnings for nonsupervisory workers was the worst yearly performance since a 2.5 percent fall in 1990. Inflation-adjusted pay has sunk in five of the past seven years, underscoring the pressures households felt even before the recession. (Unadjusted for inflation, weekly wages rose 1.9 percent last year.)

Over the past 10 years, for example, inflation-adjusted wages grew only about 13 percent -- the slowest pace in five decades, according to calculations made by Scott Hoyt of Moody's Economy.com. And that trend is expected to persist as long as the recovery remains weak and the job market tight.

"When people are unemployed and wages are weak, household spending is depressed and businesses don't have any pricing power," said Mark Zandi, chief economist at Moody's Economy.com. "That is the reason that inflation is not a problem."

The last period of strong wage gains occurred in the 1970s, when the country suffered double-digit inflation triggered by oil shocks. Many unions negotiated cost-of-living wage increases. To fight inflation, the Federal Reserve responded by aggressively raising interest rates, conquering inflation but leading to a severe recession in 1981-82.

Even though the Consumer Price Index rose 2.7 percent from December 2008 to December 2009, more than 50 million Social Security recipients got no cost-of-living benefit increase this year. That's because overall prices fell from July to September 2009 compared with the same months in 2008 -- the period the government uses to determine Social Security adjustments.

Even as wages, on average, have stagnated, Wall Street is one industry that's still handing out lavish pay raises. At JPMorgan Chase, for example, the average compensation per employee rose to $121,124 in 2009 from $101,110 a year earlier, the bank said Friday. The average compensation in the investment banking division was about $380,000.

While the 1.8 percent rise in core inflation was within the Fed's comfort zone, it masked the pain consumers felt in their pocketbooks because of the big jump in energy prices and other key items.

Energy prices for the 12 months ending in December 2009 shot up 18.2 percent. That was the biggest jump since 1979. Energy prices had dropped by 21.3 percent during the same period in 2008. The energy surge was led by higher gasoline costs, which rose 53.5 percent after falling 43.1 percent in 2008.

Food prices swung in the opposite direction. They fell 0.5 percent last year, the biggest drop since 1961.

Another factor that's limiting core inflation is housing costs. They dropped 0.3 percent for the 12 months ending in December. It was the sharpest annual decline on records dating to 1968. A glut of single-family homes on the market and record apartment vacancy rates have weighed down housing prices.

Medical costs rose by 3.4 percent in 2009, the biggest advance since a 5.2 percent increase in 2007. That continued a trend in which the costs of hospital visits, doctors and drugs are outpacing overall inflation. College tuition costs jumped by 6 percent in 2009 following a 5.8 percent rise in 2008. Over the past decade, college tuition and fees have soared 92 percent.

Theresa Bryan was in line Friday morning at Dunkin' Donuts in Haddon Township, N.J., for a cup of coffee. It's about the only indulgence she's allowing herself. She says she's been unable to shop for clothes, shoes or anything for her home for a couple years.

With two kids -- one in high school, one in college -- and a salary as a mortgage processor stalled for the past few years, she's felt no benefit from low inflation.

"I don't notice anything because I'm so broke," said Bryan, 50.

The CPI is calculated monthly, with Labor Department workers checking prices of hundreds of items at stores. The index reflects a market basket of goods such as food, autos and gasoline, which make up about 40 percent of the index. Services, such as hospital visits or haircuts, make up about 60 percent.

Economists caution that the economy can't sustain a strong recovery until wages and job creation strengthen. Business investment and exports driven by a low dollar will help, though.

David Wyss, an economist at Standard & Poor's in New York, said he expected inflation pressures to remain low through the middle of the decade, given the likelihood of a modest recovery with unemployment falling only slowly.

"You have to get back to full employment before inflation becomes a major problem," Wyss said.