International Business News

Britain sceptical on US banking reform

AFP, *London*

Britain's finance minister expressed scepticism Sunday at proposed US banking reforms, saying they would not have prevented the financial crisis and warning they risk undermining the global consensus.

President Barack Obama announced plans last week to limit the size and scope of US banks and financial firms, saying they would "never again" get so big that taxpayers have to bail them out or risk the economy.

The plans aim to limit "excessive" risk taking and to "protect" taxpayers by preventing banks or financial institutions from owning, investing in or sponsoring hedge fund or private equity funds.

But Chancellor of the Exchequer Alistair Darling told the Sunday Times: "It is always difficult to say ex ante that you would never intervene to save a particular sort of bank.

"In Lehman (Brothers), for example, there wasn't a single retail deposit, but the then American administration allowed it to go down and that brought the rest of the system down on the back of it."

He said dividing up institutions to make them separate legal entities "isn't the point. The point is the connectivity between them in relation to their financial transactions".

Saudis urge spending in 2010 to avoid recession

AFP, *Riyadh*

Saudi Finance Minister Ibrahim al-Assaf said on Sunday that world governments need to keep up their stimulus spending through 2010 to avoid a double-dip recession.

"At this time I don't think it's the time to curb spending. It could lead to another dip in the world economy," Assaf told the Global Competitiveness Conference, an annual gathering of Saudi and world businessmen in Riyadh.

"2010 is a year in which we need continuous stimulus spending," he said.

World governments pumped hundreds of billions of dollars in stimulus packages in the wake of the global financial crisis in late 2008 and many maintained higher spending levels last year.

However, Assaf, who represents his country at the G20 group of leading economies, cautioned that after this year the world needs to be cautious about the possible negative effects of over-spending, such as unleashing inflation and sparking new sovereign debt problems.

"At some time we will need to cut back," he said.

Assaf also suggested that the International Monetary Fund's 4.0 percent growth forecast for the Saudi economy this year could be slightly low, though he declined to offer his own projection.

AFP

Pedestrians pass giant advertisements promoting fashion goods in Beijing yesterday. China is expected to further clamp down on rampant lending in the months ahead and possibly even raise interest rates to prevent its blistering economy from overheating, analysts said.

Kraft promises investment in Cadbury after takeover

AFP, *London*

The strategy director of US giant Kraft Foods vowed Sunday to invest in British chocolate maker Cadbury and create more jobs in the business here as it seeks to head off concern about its takeover.

Michael Osanloo told The Sunday Telegraph newspaper that Kraft would respect the "history of Cadbury and the integrity of the brands" after it agreed to buy the British firm in a deal worth 11.5 billion pounds (18.9 billion dollars).

"As far as Cadbury in the UK goes it is our hope, desire and our plan to invest in Cadbury," he said.

"I would fully expect that once we can actually look at what is going on and have a more informed perspective that this should, down the road, increase manufacturing jobs in the UK.

"I genuinely believe that we can create a tremendous amount of savings in things like procurement, on how we source cocoa, dairy, sugar, packaging and advertising.

Taiwan aims to create 100,000 jobs

AFP, *Taipei*

Taiwan's President Ma Ying-jeou said Sunday his government aimed to create 100,000 jobs this year in a bid to cut the island's unemployment rate significantly.

Taiwan's Council for Economic Planning and Development has set a target for lowering the island's jobless rate from just under six percent in 2009 to 4.9 percent this year, a goal that Ma said would be "no easy task."

To help achieve that target, "the government will try to create up to 100,000 jobs this year," Ma said during a trip to Hualien, in eastern Taiwan, without providing details of the job-creation scheme.

He said there were encouraging signs for employment, including a gradual recovery in the high-tech and electronic sectors and a consecutive decline in the unemployment rate for the last four months of 2009.

INTERVIEW

Taking LDC tag off Bangladesh

UN official speaks to The Daily Star

REFAYET ULLAH MIRDHA

Bangladesh needs to form thematic and commodity stabilisation funds to exploit its immense potential to come out of the LDC (least developed country) status.

Other areas that the country should prioritise include green deals and funds for technology adoption from development partners according to needs.

Formation of these funds will ensure that the country is immune to external shocks such as the financial crisis and climate change, said Lakshmi Puri, director of OHRLLS, New York, in an interview with The Daily Star at Sonargaon Hotel recently.

OHRLLS, a UN organisation, provides support to group consultations of least developed countries, and landlocked and small island states.

An expert on trade in goods, services and commodities, Puri had come to Dhaka to attend as a discussant at the High-Level Asia-Pacific Dialogue on the Brussels Programme of Action for the Least Developed Countries.

Among the 49 LDCs, Bangladesh has great potential and is also performing comparatively well, as the major macroeconomic indicators are positive, she said.

She recounted Bangladesh's success stories: a revolution in microcredit, a decrease in the number of girls dropping out of school, decreased child mortality, controlled population growth, consistently good economic and trade growth.

At the same time, the investment ratio is going up, which is a positive indicator for a country, she added.

Puri emphasised the need to build trade-related hard infrastructure, like better road and port connections, and to ensure an adequate supply of energy.

She termed the population of Bangladesh a boon, not bane, as people here have continuously been proving resilience on different fronts, like exports, industrial production, tackling recession and natural disasters.

"But generating employment for such a vast number of youths is a challenge for the government. If the youth could be employed in productive sectors with income security, the country could elevate itself from the LDC status to a developing country," Puri said.

Lakshmi Puri

According to her, the government has to play a vital role to bring industrial revolution, with a pro-private sector mindset.

Diversification in the manufacturing sector is essential for Bangladesh to capture a greater share of global trade, as the country should not depend solely on apparels to sustain in global business, she said.

Bangladesh has immense potential in the manufacture and export of automobile parts, medicine and jute and jute goods, as demand for such items will not fall globally and the country has a lot of talented people. "All that is needed in training -- to engage the local talent in productive sectors."

Puri suggested the government offer different facilities such as tax-breaks, incentives and risk assurance to the private sector, so that entrepreneurs invest in productive sectors.

Being a member of the LDCs, Bangladesh will have to integrate and reinforce synergistic policies to enhance trade and increase the flow of official development assistance (ODA) from the development partners, Puri said.

Majority of the LDCs are highly dependent on trade, export of low-value added items, low capacity and small and medium enterprises. As a result, such countries cannot concentrate on domestic infrastructure development, technological upgrade and integrated policy formulation, she added.

Puri, also a development expert, said the government should enhance market access and entry to developed countries; supply capacity to ensure cost and quality competitiveness; and build trade related infrastructures.

The LDCs should always continue negotiations with the developed nations to remove non-tariff barriers (NTBs) to increase trade volume, Puri said.

At the same time, the development partners should also scale up their qualitative funds, not only proportionately but also in progressive target, helping remittance inflow and giving crisis mitigation and stimulus packages to the LDCs to vent development challenges, Puri said.

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ECONOMIC RECOVERY

Pressure for bank reforms to rise at Davos meet

AFP, *Zurich*

Pressure for bank reforms is set to grow at a gathering of the world's elite at Davos this week, shortly after US President Barack Obama set the stage with an offensive against Wall Street excesses.

However, emboldened by a growing economic recovery, bankers -- who were conspicuously missing from last year's World Economic Forum meeting in the Swiss mountain resort -- are set to fight back in vocal fashion, experts said.

Excessive risk taking by the banking industry has been cited as one of the causes of the recent financial and economic crises and regulators have been tasked by top politicians to draw up new rules to rein the banks in.

But as the world slowly emerges from recession -- the worst since the Great Depression -- opposing voices from banks on these new rules are growing louder.

"The lobbying is getting very strong and the political will can be diluted quickly," warned Cedric Tille, professor of economics at the Graduate Institute for International and Development Studies in Geneva.

"It's urgent to put these reforms in place," said Tille, a former economist at the Federal Reserve Bank of New York.

Proponents of the reform would find an ally in Obama, who announced plans on Thursday to prevent banks or financial institutions in the United States from owning, investing in or sponsoring hedge fund or private equity funds.

The new rules would force firms to choose between activities such as trading in stocks and sometimes risky financial instruments for their own benefit -- and traditional activities, like making loans and collecting deposits.

The Group of 20 (G20) leading developed and emerging economies has also asked for new rules to clean up the sector, with more stringent requirements on capitalisation and debt ratios due to be introduced by the end of 2012.

AFP

Demonstrators protest on Saturday in Lucerne during a rally against the January 27 -31 annual World Economic Forum (WEF) meeting in Davos. The elite meetings at the Swiss mountain-top resort started nearly four decades ago and aim to bring leaders together to discuss the most pressing issues facing the world.

Rainer Skierka, an analyst at Bank Sarasin, noted that the new rules were unpopular since they could generate costs and cut the profit margins of banks.

In addition, banks would be required to set aside more money as capital -- reducing the funds they could use for investment to generate better returns.

"Banks are doing intense lobbying as the new demands on capital reduces their profits," said Tille.

Bankers are likely to be more vocal in their lobbying against the reforms, said Nariman Behravesh, chief economist at IHS Global Insight.

"A lot of bankers can't wait to get out of the control of governments. Some feel so stifled," he said.

"They are going to do everything they can to resist the reforms. They will be more vocal this year," he added.

Bankers and finance ministers are to sit together on Wednesday to discuss "structural deficiencies (that) persist in the regulation of systemic financial risk," according to a programme of the Davos meeting circulated by organisers.

On Saturday, the focus will be on how the largest financial institutions in the world should be regulated.

Central bankers like the European Central Bank's Jean-Claude Trichet as well as Egypt's Finance Minister Youssef Boutros-Ghali and French Economy Minister Christine Lagarde, are expected to pile on the pressure, analysts said.

Regulators have cautioned that reining in banks is becoming a key issue, particularly now that governments have shown that they were willing to bail out ailing banks in a financial crisis.

"Before the crisis, you didn't know how states were going to behave in the event of a crisis," Switzerland's central bank chief Jean-Pierre Roth observed recently before he retired.

"After the crisis, the head of a major bank knows that in case of a major crisis in the future he can count on state backing, and that's the parameter that has changed fundamentally."

The pre-crisis ambiguity had broadly encouraged greater prudence, he added. Roth cautioned that its loss now posed a "fundamental problem," hence the need for regulation to take over.