

International Business News

World Bank praises China anti-inflation steps

AFP, Beijing

The World Bank said Monday recent moves by China to clamp down on rampant lending were the "best way" to tackle the problem of rising inflation and the threat of asset bubbles.

"It is very tricky once you are in this situation of heavy credit growth to try to come off that. It is a very fine line between doing it too quickly and not doing enough," Ardo Hansson, lead economist of the World Bank in Beijing, said at a news conference.

"Trying small steps and seeing how the market reacts -- and hoping that the market reacts in a reasonable way -- is the best way to start."

Beijing moved this month to calm growing inflationary pressures and soaring stock and property prices caused by runaway bank lending, which last year nearly doubled from 2008.

The People's Bank of China last Thursday raised the interest rate on its benchmark three-month treasury bills for the second time in two weeks in a bid to deter new lending.

It followed an earlier move on its benchmark one-year treasury bills and official data that showed the world's third-largest economy grew by 8.7 percent in 2009 and 10.7 percent in the fourth quarter.

Philips Electronics reports profit in Q4

AP, Amsterdam

Royal Philips Electronics NV, the world's largest maker of lights, reported a net profit of 251 million euros (\$355 million) for the fourth quarter on Monday, helped by lower one-time charges and by job cuts.

The net profit reverses a loss of euro1.18 billion in the same period a year ago, which included 629 million euros in impairment charges on assets. Fourth quarter sales fell 3.4 percent to euro7.26 billion.

Philips has shed 5,474 jobs in the past year and now employs around 116,000.

Chief Executive Gerard Kleisterlee said operating profit margins, excluding restructuring charges, were above 12 percent, their highest level in a decade.

Shares rose 4.7 percent in early Amsterdam trading to 21.285 euros.

The results "were better than expected on most counts," analyst Eric de Graaf of Petercam Bank wrote in a note on the earnings.

Though sales declined at Philips' consumer products and lighting divisions, De Graaf said they were still better than expected, and "margins were better...all across the board."



Indian street vendors sell toy birds during the Maghela festival at Sangam in the confluence of the Ganges, Yamuna and Saraswati rivers in Allahabad yesterday. Sangam is one of Hinduism's most important centres where thousands of people take holy dips at the confluence of the rivers during the month-long fair.

South Korea to hold FTA talks with Japan and China

AFP, Seoul

South Korea, Japan and China will hold talks this week to launch a joint research project into a possible free trade pact, officials said Monday.

The meeting involving government officials, scholars and business representatives will be held in Seoul on Tuesday, the South's trade ministry said.

"This will be a preliminary meeting to launch joint research on a trilateral free trade accord," a ministry official told AFP.

The three countries agreed at their summit in October 2009 to push for the joint research.

South Korea has been actively pushing for free trade agreements worldwide to bolster its export-dominated economy.

It already has free trade agreements with Chile, Singapore, India, the European Free Trade Association and the Association of Southeast Asian Nations.

A free trade pact was signed with the European Union in October 2009 and awaits ratification. A deal signed with the United States in 2007 also needs ratification.

Vietnam approves largest thermal power project

AFP, Hanoi

Authorities in energy-hungry Vietnam have approved development of the country's largest thermal power project, worth at least 2.5 billion dollars, the developer said.

In a statement Monday, the Vinh Tan 3 Energy Joint Stock Company (VTEC) said its 2,000 megawatt project, to be built in southern Binh Thuan province under a build-operate-transfer framework, will use imported coal.

The consortium aims to start construction late next year for operation in 2014-15.

VTEC is a consortium of CLP Holdings of Hong Kong, Mitsubishi Corp, Electricity of Vietnam and Pacific Corporation of Vietnam.

FINANCIAL CRISIS

China heats up Davos debate



World Economic Forum (WEF) founder and Executive Chairman Klaus Schwab gestures on January 20, during a news conference on the upcoming WEF annual meeting at Forum headquarters in Cologny near Geneva.

AFP, Davos, Switzerland

Global leaders and bankers will be looking for firm signs at the Davos forum this week of China's determination to control the hot money pouring into its economy.

A year after China's Premier Wen Jiabao sternly lectured the United States and other western nations at the World Economic Forum for causing the international financial crisis, markets are now jittery over "asset bubble" warnings around his country.

With China and India two of the hottest economies around, comments by Chinese First Vice Premier Li Keqiang and top Indian cabinet member Kamal Nath will be seized upon at this year's forum which starts in the Swiss resort on Wednesday.

Chinese officials have already indicated that the focus of the speech by Li, a senior member of the Communist Party's ruling politburo, will be the financial crisis and reforms.

The world's major emerging economies, China and India have survived the storms of the past two years better than their Western rivals.

But the state of China's property and stock markets and its soar away growth -- 10.7 percent in the fourth quarter -- has heightened inflation fears which has already forced the Beijing government to cut back on bank lending to deter a consumer splurge on cars and property.

Inflation is also rising in India where increased manufacturing has spurred a new growth surge in recent months. India's central bank, the Reserve Bank of India, meets on Friday and is expected to drain some of the liquidity pumped into the financial system last year to encourage lending, analysts said.

Many institutions see the frantic activity in the two economies producing storm clouds, with China by far the bigger risk.

"The potential formation of a 'new' financial market bubble in the region is an increasing cause for concern," the World Bank said referring to Asia in its annual report released last week. International Monetary Fund chief Dominique Strauss-Kahn made the same warning.

Davos hosts, the WEF, said in its annual report said that China's economy is on a "very unbalanced growth trajectory."

Economists say China runs the risk of a sharp recessionary correction, which could hit recovery around the world, particularly the United States, its main trade partner.

But many also praise China's course in steering the through the crisis with its 580 billion dollar stimulus plan, and there are divisions over how likely a new crisis is.

"A crash landing is a worry but not a high probability at the moment," Nariman Behraves, chief economist for IHS Global Insight, who will be speaking at Davos, told AFP.

Behraves predicted more credit controls to control the hot property and stock markets. "They have to be a little careful, China's growth is uni-dimensional as it comes from the government's capital spending. They need policies to encourage consumer spending."

But Peter Morici, a professor of international economy at the University of Maryland in the United States, said: "You never really know when a bubble is going to burst."

"As long as they can keep up 10-11 percent growth they can maintain that bubble. Its when the growth comes down that the trouble starts."

Morici has been an outspoken critic of China's economic tactics including the impact on the United States of keeping China's currency artificially low to keep its exports flowing to the West.

"In China, the fixed exchange rate for the yuan against the dollar requires Beijing to print lots of yuan to sweep dollars off foreign exchange markets and return to China as payment for exports."

"This causes inflation, too easy credit and an asset bubble. Instead of fixing the problem by steady and significant revaluation of the yuan-dollar peg, the Chinese government is pulling back on credit and that could cause a second crisis on both sides of the Pacific. Chinese asset crash could be the next big thing, and that won't be a good thing."

COLUMN

The positives of a negative list

JAVEED AHSAN

Although the cabinet gave the green light to the draft Economic Zone Act (EZ Act) 2009 on March 5 last year, the act is yet to be approved and implemented.

There have been numerous calls for an effective and practical regulatory regime for Bangladesh's economic zones to ease procedures and attract more investment in the zones.

The fate of the zones in our country will largely depend on the proposed laws and regulations and their competitiveness vis-à-vis the laws of other countries. There are a number of issues in the proposed act that experts believe are contrary to global best practices and may hamper the act from achieving its objectives.

A strong and helpful zones act typically features a list of only industries or businesses that are 'not allowed' to set up in the zones. This list, called the 'negative list', is generally very brief and includes items that run counter to a country's strategic direction, are controversial, extremely hazardous or are viewed as culturally sensitive.

A 'negative list' may state that all industries and services are allowed in a zone except weapons, alcohol and nuclear wastes -- hence, all other industries, sectors, sub-sectors, products, services and components are allowed.

Although its name, negative list, may sound restrictive, it is in fact much broader than a 'positive list'. A 'positive list' is one that lists the types of businesses that are allowed to invest in the zones.

In spite of its seemingly inclusive nature, a 'positive list' demonstrates an outdated approach to zones as it inevitably precludes various forms of business in the future. A positive list might specify that garments, textiles, electronics, plastics, cell phone manufacturing, footwear, camping equipment, paper products and metal products can be produced in the country's zones. That is a good positive list for Bangladesh, right?

Wrong. What happens when a large fishing equipment manufacturer is interested in producing in one of the country's zones? That manufacturer will not be able to locate



Cheap labour should not continue to be Bangladesh's main selling proposition. The fast pace of automation shows that low-cost labour will not be an issue to most investors in the days to come.

in a zone in Bangladesh. We have to wait another year until the existing legislation can be amended. By then, that investment will have gone elsewhere.

What happens with technologies that do not even exist at the moment? While neighbouring countries respond quickly to these new technologies and are able to include them in their countries' zones, a country with a 'positive list' of industries will lose out.

A positive list cannot begin to cover all types of 'allowed' business given that there are thousands of industries that exist. And why limit Bangladesh to a few proven industries when our country has a vast productive potential for several industries.

In highly bureaucratic government institutions in Bangladesh, where a cabinet approved bill lies more than nine months to be enacted, how frequently can we expect to see a positive list reviewed and revised? A positive list will soon be obsolete if not revised on a regular basis and even then, who will decide which new technologies and products should be included in the list?

Chances are it will be a government bureaucrat with little or no knowledge of the industries under consideration.

How does the Bangladesh EZ Act stack up? The proposed EZ Act has both a negative list as well as a positive list. This is really a unique case that makes no sense. One will naturally wonder why we need both the lists -- they effectively cancel each other out.

If we want the proposed zone act to effectively boost investment as other successful zone acts have done in Indonesia, the Philippines and other countries, we should scrap the positive list from the proposed act and concentrate on a practical negative list.

Our zone regulations must be well thought out, taking current and future developments and trends in industries worldwide into consideration, if we are to compete. Our zone authorities need to be creative and dynamic, or we will continue to lag behind and miss out on opportunities. Cheap labour should not continue to be our main selling proposition in the future. In fact, looking at the rate at which automation

MySpace bids to pay 'lost' royalties to musicians

AFP, Cannes, France

Social networking site MySpace, which has enabled many artists to launch their careers, is now helping to pay them back millions of dollars in "lost" royalties for songs and performances.

MySpace CEO Owen van Natta said Sunday the company had signed a groundbreaking deal with performance rights group SoundExchange to track down some 25,000 major, independent and unsigned artists owed more than 14 million dollars in unpaid royalties.

"The money will be put into escrow as we search for the acts," he said at the opening of the MIDEM industry trade fair, his first speech outside the United States.

Van Natta said he planned to use the MySpace platform to put the artists in touch with SoundExchange, a non-profit-making performance rights organisation that collects royalties for the streaming of music on Internet/satellite radio on behalf of sound recording copyright owners.

The deal with MySpace opens up a new and effective way of contacting artists who are registered with MySpace but not with SoundExchange, the companies said in a press release.

"It can be a challenge notifying and convincing artists to register with SoundExchange because they don't know they're entitled to these royalties, or believe it's too good to be true," said SoundExchange senior executive Bryan Calhoun.

MySpace, which is part of Rupert Murdoch's News Corp. group, has grown into a music power house under the guidance of van Natta, who talked at MIDEM about how he and his team have worked to make it easier for users to find new music and share tracks.

The writer is an analyst, Advisory Services in South Asia, International Finance Corporation.