

International Business News

British inflation hits 17-month high

AFP, London

British annual inflation hit a 17-month high in April, official data showed on Tuesday, but Bank of England governor Mervyn King blamed temporary factors and forecast the figure would drop this year.

Consumer Price Index (CPI) annual inflation, the government's target measure, hit 3.7 percent last month for the highest level since November 2008, according to the Office for National Statistics (ONS).

April's rate compared with 3.4 percent in March, while market expectations had been for a rise to 3.5 percent.

Inflation jumped as clothing and food costs rose last month at a faster pace compared with a year earlier, according to the ONS.

The spike means that King was required to write a letter to new British finance minister George Osborne, explaining why annual inflation remains above the government's 2.0-percent target.

King wrote that inflation was also impacted by high oil and petrol prices, and the reversal earlier this year of a cut in the value added tax (VAT) levied on goods and services.

"The change in VAT and higher petrol prices will continue to be reflected in the overall price level," he said.

"But, unless they increase further, that should affect the twelve-month CPI measure of inflation for no more than a year."

He added that the depreciation of sterling was also pushing up consumer prices but noted that "the effects on inflation can be expected to wane over time".

Spain trade deficit rises 17.4pc in March

AFP, Madrid

Spain's trade balance deficit rose by 17.4 percent in March on an annual basis, the industry ministry said on Tuesday.

The deficit amounted to 4.29 billion euros (5.3 billion dollars), the data showed.

In recent months, the deficit had fallen because of recession in Spain.

Trade data is an important medium-term indicator of the competitiveness of goods and services produced in a country and of the ability of the country to pay its way in the world, earning money abroad to match money spent on imports.

A fundamental factor behind the crisis of divergence in the European Union and eurozone is that many members have weak trade balances in contrast to a strong surplus by Germany.



German Finance Minister Wolfgang Schaeuble arrives prior to the economic and financial affairs meeting yesterday at the EU headquarters in Brussels. Ministers from the 16 countries that share the currency would meet for fresh talks before the package could become operational.

EU, Central America reach free trade deal

AFP, Madrid

Central American countries and the European Union have reached a free trade agreement in talks in the Spanish capital, an EU official told AFP on Tuesday.

A Central American delegate earlier said there was an agreement in principle and "we are in the final details," putting them down on paper.

"I am sure the deal is going to be closed ... in the next few hours," he said, adding that both sides had taken a flexible position.

European Commissioner for Trade Karel de Gucht and several Central American ministers called a press conference for 9:00 am (0700 GMT).

A little earlier, El Salvador television carried comments from the Salvadorean chief of cabinet Alexander Segovia, in Madrid, who said that talks had closed successfully.

"There was a show of flexibility by the European Union and with that we managed to get to an agreement," he said.

Europe must be about more than cash transfers: Merkel

AFP, Paris

German Chancellor Angela Merkel said yesterday that the European Union must be about more than just a system for transferring wealth from richer members to their struggling partners.

In an interview with three major European newspapers, Merkel said: "Joining the eurozone isn't about creating a union made up of financial transfers."

Merkel's warning came as she faced strong domestic opposition to Germany's participation in the IMF-led bail-out of debt-ridden Greece and the creation of the eurozone's trillion-dollar emergency stabilisation fund.

European leaders have tried to sell both measures to voters as essential tools to protect national economies from speculative attacks and reassure banks that eurozone states will not default on their debts.

But there is resentment in relatively wealthy states such as Germany that strugglers such as Greece and eventually Portugal or Spain might get bail-outs after years of overspending on generous welfare and pension systems.

OPINION

Responsible finance

VIKRAM PANDIT

The following is the abridged version of a speech by the writer to the graduation ceremony of the School of International and Public Affairs (SIPA), Columbia University.

You may be surprised, but bankers don't often get invited to speak. That is, unless they are in front of Congress.

I know the invitation for me to speak here today stirred up some controversy. That's a healthy sign. I would be surprised -- even disappointed -- if some of the most intense debate and criticism of the financial industry were not coming from this university. The Columbia I experienced was always that way.

Let me start by acknowledging that Americans have the right to be angry about the financial crisis. People should question the financial system and those who run it. The severe impact of the financial crisis demonstrates that, even in the 21st century, we have not learned how to achieve a healthy balance between private economic power and the public interest.

We need significant change. We need to hit the reset button and get society working once again for the common interest. We cannot live without the financial system. But we do not have to accept its excesses.

With 10 percent unemployment, there are questions about where jobs and growth are going to come from. With a \$1.3 trillion deficit, there are significant questions on the sustainability of current fiscal and monetary policies.

From where I sit, however, I cannot help but be optimistic. The 200-year history of my bank has stretched through every financial crisis in America since the War of 1812. Entrepreneurship and creativity have propelled America for over 200 years. If you look at US economic history, every time there is a crisis, there is a breakthrough -- of new businesses, new models and new growth.

In the US, capital finds its way to the right places fast. We make capital work, quickly and efficiently. The public and private sectors have repeatedly been able to work together to connect talented people with opportunities and to connect capital with entrepreneurs to drive economic regeneration. Time and time again, that is what has given birth to the 'Googles' of the world and improved life for millions.

This has been America's magic formula. But keep in mind, it is no longer America's secret.

We need to remember, too, that the US generates approximately 23 percent of global economic activity, and therefore, addressing US growth is necessary to promote growth around the world.

Whether you go to an NGO, the public sector or private enterprise, we have a common goal: to preserve and enhance the creativity of American economic ingenuity while controlling its excesses -- in effect, letting America's magic formula work once again, but with full incorporation of the expensive lessons learned from this crisis.

As we debate public policy, and as we reinvent the structure and governance of our economy, we must preserve and re-energise our model of growth. That is in society's common interest.

So, what does it take? I believe there are 3 critical dynamics that must operate together.

First, the financial system

We need a financial system that works, a financial system that returns to its basic role of supporting and driving the economy. America's growth and vitality -- plus its capacity to improve people's lives -- depend on it. A healthy financial system is absolutely indispensable to generate capital and move it efficiently to entrepreneurs who create jobs and growth that benefits everyone.

Think about this: in our age of Facebook and Twitter, you can easily learn the details of your neighbour's personal life, but virtually nothing about a \$100 million, market-moving trade in Triple AAA corporate bonds!

There's something fundamentally out of whack in that picture. Technology is a great equaliser. We should be using it to make crucial financial information available, not hidden behind firewalls.

GLOBAL ASSETS

Hedge funds flock to Asia

REUTERS, Singapore/hong Kong

As regulators in developed markets step up oversight of hedge funds, these free pools of capital are increasingly set to make their home in Singapore and Hong Kong.

That will accelerate the flow of talent and foreign funds into Asia's top two financial centres, at a time when asset managers are already eyeing the region's rising wealth and strong economic growth.

Assets of Asia (ex-Japan) funds are seen rising 70 percent over the next two years, outpacing the 50 percent growth in global assets, according to industry estimates.

"Asia, and Singapore in particular, could definitely benefit from the stupid regulatory environment in Europe," said Lionel Martellini, director of France's EDHEC Risk and Asset Management Research Centre.

Scrutiny of hedge funds has heightened in Europe as politicians in Germany and France blamed the industry for causing the financial crisis -- though the crisis was caused more by regulated banks in the United States, Martellini said.

The G20 nations want greater supervision of hedge funds, with the European Union debating more contentious rules that could make it harder to offer non-EU funds to European investors. London has objected to the proposed EU rules.

Tim Rainsford, managing director Asia Pacific at hedge fund manager Man Investments, which manages \$39 billion globally, said the increasing focus on emerging markets was also playing a key role in encouraging hedge funds to move to Asia.

"Certainly regulation always has some influence on where hedge funds choose to start or establish themselves. But I actually think that



Citigroup Chief Executive Officer Vikram S Pandit says America must remain the world's best place for the world's best talent to be.

Second, America's need to compete in a new global order

Thinking about America's role in the global economy requires simple first steps. For instance, we can no longer define "common interest" in national terms alone. In fact, we cannot afford not to define it in global terms. Economic cycles and systemic failures have profound, fast-moving global consequences. The US is both a transmitter and a receptor of those consequences.

To act in accordance with global realities also means we have to ensure US global competitiveness and promote our export economy. This implies globally competitive industrial policies, tax policies, and energy policies. The growing urban middle class in the emerging economies represents an important export market for our companies.

And of course, America must remain the world's best place for the world's best talent to be. Our universities and borders must remain open to -- and attract -- the world's best minds.

This need is a very special one to me. I came to the United States almost four decades ago. I received a great education, was able to pursue professional success, and most importantly, my children now have those same opportunities. That's only because our nation's policies have reflected what America has long stood for. Now is not the time to retrench in this vital area.

And, third, a culture of responsibility

America came to believe in the existence of a bottomless pool of credit. We developed an addiction to consumption and debt. Both were intoxicating, even to some of our country's best financial minds. Together, consumption and debt became a foundation of quicksand for the American success story.

As we can see with 20/20 hindsight, neither individuals nor institutions behaved responsibly. Entrepreneurship and creativity were distorted to serve selfish ends, with no understanding of -- or regard for -- their impact on society. Self-interest unapologetically trumped public interest.

To promote responsibility, we do need legal and regulatory reform. But the 21st century has once again illustrated that there is no ironclad correlation between the enactment of more regulations and the end of major financial crises. Smart people, with new technologies, can always find a way around the letter of the law.

I'll speak for one institution.



outside of their regulatory environment, much more importantly, is that the hedge funds always have done and will continue to follow very closely the flow of global capital."

He said hedge funds are seeking exposure to Asia, encouraged by the developments in China as a global engine of growth as well as the growing importance of Asian currencies to global trade.

Hedge funds with Asia ex-Japan mandates had assets of \$105 billion at end-2009, or about 7 percent of global hedge fund assets of around \$1.5 trillion, Singapore-based consultancy EurekaHedge estimates.

By end-2012, that will rise to at least \$182 billion, as global hedge fund assets grow to \$2.25 trillion.

A Deutsche Bank survey of the hedge fund industry in March showed 45 percent of inves-

tors wanted to raise allocations to Asia (ex-Japan) funds, compared with 18 percent in 2009.

Singapore, which has not escaped the global pressure to regulate derivatives and hedge funds, recently proposed regulations to license bigger hedge funds and force smaller funds to maintain a minimum capital base.

These rules are set to increase costs, especially for startups, but will not halt the wave of new funds heading to Asia.

New York-based Fortress Investment is planning to return to the region through a Singapore office. Soros Fund Management is eyeing Hong Kong for its Asia office and London-based Algebris Investments plans to operate an Asia office from Singapore.

UK-based hedge fund firm Prana Capital is setting up an office in Singapore and its

We ask ourselves three questions constantly: Do our actions create economic value? Are we working for customers' interests? Are our actions systemically responsible both in the US and globally?

The answers to all three questions must be "yes". I have pledged to hold myself accountable for making sure we ask the questions that lead to the right decisions.

They are the foundation of a changing culture I call "responsible finance".

But cultural change is easier to proclaim than to live up to. Every day there are intense pressures in the financial industry -- from competitors, shareholders and the large sums of money with which we are entrusted. Similarly, in public service there are pressures to enact policies because of political compulsion rather than true concern for common interest.

People have to speak up and act resolutely. That takes courage and leadership. This may be the most difficult requirement of all.

When I left Columbia, I had no idea that training in engineering or economics would lead me to questions of culture or responsible behaviour. I started out not knowing exactly what I would do.

Plato once said, "The direction in which education starts a man will determine his future in life." Like you, I left Columbia with a great education from a great university, knowing what I liked to do, and I plunged into it passionately. Since then, I have always felt I am continuing my education.

From my own experiences with America, Columbia and my industry, I believe your education at SIPA has superbly prepared you to tackle one of our most important priorities: how to unleash all that is creative and good in the American economic model while reigning in its worst impulses.

As I said before, I can't help but be optimistic about the future. I only have to look at all of you to know we have what it takes. I know you have the knowledge, leadership and courage to confront this historic challenge and take advantage of its many opportunities. I expect to come back here in, say, 20 years and hear one of you tell the graduates of SIPA about the great progress your class made in shaping a world where private economic power serves the common good.

The writer is the chief executive officer of Citigroup.

founder, Peregrine Cust, will relocate to the city-state.

"The regulatory arbitrage that Singapore has will be reduced to a certain extent when it moves to the licensing regime which is a bit more stringent," said Lian Chuan Yeoh, an attorney with Allen & Overy in Singapore.

"But the regime is still not heavy touch, it is pretty much similar to what people expect these days. There will be a few more capital requirements, more requirements on compliance, but it's nothing too onerous," Yeoh said.

Tax rates on top earners of 17 percent in Hong Kong and 20 percent in Singapore compare favorably with the UK, especially given a controversial plan to raise the highest British rate to 50 percent from 40 percent.

Start-up costs are also generally lower than in London's expensive West End -- Europe's hedge fund hub -- and boutique funds can therefore get going with smaller asset bases than the \$50 million or \$100 million that many in UK see as critical mass.

But some strategies may struggle in Asia because the region's financial markets do not match the depth seen in the West. Citadel Group, for example, more than a year ago trimmed its special situations team in Hong Kong.

Data from EurekaHedge also shows that about half of hedge fund strategies employed in Hong Kong and Singapore are focused on long or short equities strategies.

"Managers will consider relocating to Asia as long as they know that major institutional investors such as pension funds, endowments, insurance companies and foundations in the region are there to invest in alternative investment schemes," said Aureliano Gentilini, hedge fund research head at Lipper, a unit of Thomson Reuters.