International Business News

Uncertainty over South Korean economy: central bank

AFP, Seoul

South Korea's economy faces "considerable" uncertainty next year following North Korea's artillery attack and due to the eurozone's debt problems, the central bank chief said Monday.

Bank of Korea governor Kim Choong-Soo also cited price instability in China and the direction of US monetary policy after the Federal Reserve's second round of quantitative easing.

"To respond to an increase in the level of uncertainty of the external environment, a policy mix should be devised that emphasises the twin growth of domestic demand and exports," Kim said in a statement at a press conference.

The central bank forecasts that next year's growth will ease to 4.5 percent from the 6.1 percent predicted for this year.

Kim said the domestic economy "will stay on a solid growth track" in 2011. But he said great care must be taken to avoid an "enfeebling influence" from eurozone problems, Chinese inflation and the US Fed's monetary policy.

Dubai economy to bounce 4pc in 2011: StanChart

AFP, Dubai

Dubai's economy is expected to bounce 4.0 percent next year as it recovers from a recession that struck in 2009 as a result of the global financial crisis, Standard Chartered bank said Sunday.

"We expect Dubai's economy to grow by 4.0 percent in 2011," said the bank in its report "Global Focus - 2011 - The Year Ahead" which it released in Dubai.

The bank said that despite the crisis in its real estate sector, and the debt piled by government and quasi-government entities, Dubai has been recovering on the back of a growth in trade and hospitality.

"2010 saw a significant rebound in global trade; this, along with rapid growth in the retail and hospitality sectors, drove Dubai's recovery, despite the challenges of a suppressed housing market and debt overhang," it said.

The report pointed out that Dubai is the world's third-largest re-export centre, and that trade makes up 40 percent of its gross domestic product.

AFP

A Sony employee displays the company's digital audio player "Walkman S-series Christmas-box" with a Mickey and Minnie Mouse design, including a stuffed Minnie Mouse doll, in Tokyo yesterday. The set has been brought out as a Christmas promotion.

Grocery chain A&P files for bankruptcy

REUTERS, New York

Grocery store chain Great Atlantic & Pacific Tea Co filed for bankruptcy on Sunday, drained of cash by tough competition and a sluggish economic recovery.

Once the largest US grocer, the owner of about 400 stores under brands such as A&P, Waldbaum's and Super Fresh filed for Chapter 11 bankruptcy in New York with more than $1 billion in assets and more than $1 billion in debt, according to court documents.

As of September 11, A&P had total debt of more than $3.2 billion, but it is unclear how much the company is currently carrying.

JP Morgan Chase & Co will provide $800 million in debtor-in-possession financing, the company said. The U.S. Bankruptcy Court for the Southern District of New York will hold a hearing on Monday to approve a portion of the facility.

The Montvale, New Jersey-based company said its stores will remain fully stocked and open with no interruption of business. It has struggled since it acquired Pathmark Stores in 2007 with a $1.4 billion financing package.

Reckitt Benckiser to buy Paras for 32.6b rupees

REUTERS, New York/Mumbai

British consumer goods firm Reckitt Benckiser agreed to buy privately-held Indian company Paras Pharmaceuticals for about $726 million, to boost its operations in a fast-growing healthcare market.

Big global healthcare firms are fast driving into emerging markets as sales stall in developed countries and as they look to tap into the healthcare needs of billions of new consumers in places such as China, India, Brazil and Russia.

Paras, which clocked sales of more than 4 billion rupees ($89 million) in the financial year ended March, makes several over-the-counter medications, including Moov pain relief ointment, Krack heel care lotion, and D'Cold cold remedy.

"The research base of companies and the market potential in India are the main attractions for foreign players in the Indian healthcare sector," said R.K. Gupta, managing director at Taurus Asset Management Company in New Delhi.

DOHA NEGOTIATIONS

Mixed optimism

ASJADUL KIBRIA

South African Ambassador to WTO Faizel Ismail speaks to journalists at the WTO Secretariat in Geneva.

With the Doha Round multilateral trade negotiations, under the World Trade Organisation, entering its 10th year, stakeholders are pushing hard to conclude the deal within 2011.

There is, however, mixed optimism among them that the deal will be sealed by next year. The US countered that leading developing countries have to play a more responsible role, as advanced developing countries are categorically blaming the US for not agreeing on a fair deal for them.

And in the fight between the developed and developing countries, the expected gains of the least developed countries (LDCs) have become uncertain.

The Doha Round was initiated in the 5th ministerial meeting of the WTO in the capital of Qatar in November 2001. It is a move to turn the multilateral trading regime more rule-based. To do this, the negotiations have focused on dismantling the barriers to trade.

But, over the years, the gap between the developed and developing countries widened due to differences among them. In fact, there have been major disagreements on how much the US and the European Union (EU) should cut support to their farmers and to what extent developing countries, like Brazil, India, China and South Africa, should reduce import tariffs on industrial products.

Under the negotiation, WTO member countries, except the LDCs, have to make a series of commitments on removing the trade barriers for each other by taking several measures, like tariff cuts within a stipulated period of time. Once they all agree to do so, the round will be complete.

WTO Director General Pascal Lamy said on December 7, 2010 that 80 percent of the packages are complete. To complete the rest 20 percent, "political energy is very important".

The WTO chief was speaking to Asian and African journalists in his office in Geneva as a part of a three-day information seminar titled 'World Trade and Sustainable Development'. It was jointly organised by WTO and the Geneva office of Friedrich-Ebert-Stiftung (FES), a Berlin-based international non-government organisation.

It is clear from the speeches of the different speakers that political commitment and support is a must to make a reasonable deal. They also made it clear that no deal to satisfy all the parties in all the areas is possible. But, a reasonable deal is not impossible if the conflicting parties agree to some compromise.

Lamy said the political leaders think about completion, but ratification is more important. When the final lap of the negotiations has arrived, the political leaders have to move, he added.

After the negotiators and representatives of the member countries finally reach consensus on the deal, it will require ratification by the legislative body or parliament of each member country.

And here is what worries everyone -- the US congress.

Lamy makes it clear that as the US congress has constitutional authority on their international trade policy, it is upon the congress to approve any package negotiated by the US government. He also said the US congress is "much more weighty" compared to the legislative body of other member countries.

In an afternoon session, US Ambassador in Geneva and WTO Michael Punke further validated the proposition. He said the trade and tariff policy in the US is under the jurisdiction of the legislative branch, not the executive branch.

He said congress will support any good deal. He also rejected the notion that his country is responsible for the deadlock of the Doha negotiations.

Punke said the poor countries need better market access in developing countries, like India, Brazil and China. He also said the level of responsibility of these countries is greater as these countries are on the forefront of negotiations.

According to Punke, these countries should be more integrated in the global economy and the US is actually asking for this.

On why the US is collecting higher import tariffs on products from LDCs, like Bangladesh, Cambodia and Nepal, the US ambassador said his country is following the Hong Kong declaration of the WTO ministerial meeting. The declaration provides room to the developed countries to allow market access to 97 percent off LDCs products. However, the US is not giving 100 percent access to all the LDCs, while the EU, Canada, Japan and Australia virtually allowed full tariff-free access.

Moreover, tariff discrimination in the US continues as products from Cambodia and Bangladesh are subject to average tariff rates of 16.7 percent and 15.3 percent. But tariff on products from the UK and EU is 0.7 percent and 1.1 percent.

On completion of the Doha Round, Punke said he has "no clue", as it is not just a question of the US. He, however, mentioned that global political signals are there to complete it by 2011, which is very encouraging.

In a morning session, Faizel Ismail, South African ambassador, made it clear that developing countries are not in a position to provide wider market access to the LDCs, as demanded.

"We fully support the demands of the LDCs and are aware of the preference erosion," he said. "But the economic structure of the developing countries is not like the developed ones. So, providing market access to the LDCs will create pressure on the local industries."

Ismail, however, mentioned that China has already extended tariff-free access, India also has, to some extent, and Brazil and Turkey have proposals. He also said that LDCs should keep continue pressure on developing countries for their desired market access.

On prolonging the Doha round discussion, the South African ambassador said in the initial 3-4 years, it was EU who actually blocked the process by disagreeing on farm subsidy cuts. Later, the EU was able to manage and so, the Hong Kong declaration set a timeframe to reduce agriculture subsidies.

"After Hong Kong, the US actually creates the barriers," added Ismail.

The US is yet to make any commitment on cotton subsidy reductions, a major concern of the African countries, and neither has it showed any positive sign to make deeper cuts in industrial tariffs, as demanded by developing countries, he said.

"In fact, the mercantile interests of the developed countries are paramount," the South African ambassador said. "I have no idea when we will conclude the round. But we agreed that a chance is there next year."

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ASIAN ECONOMIES

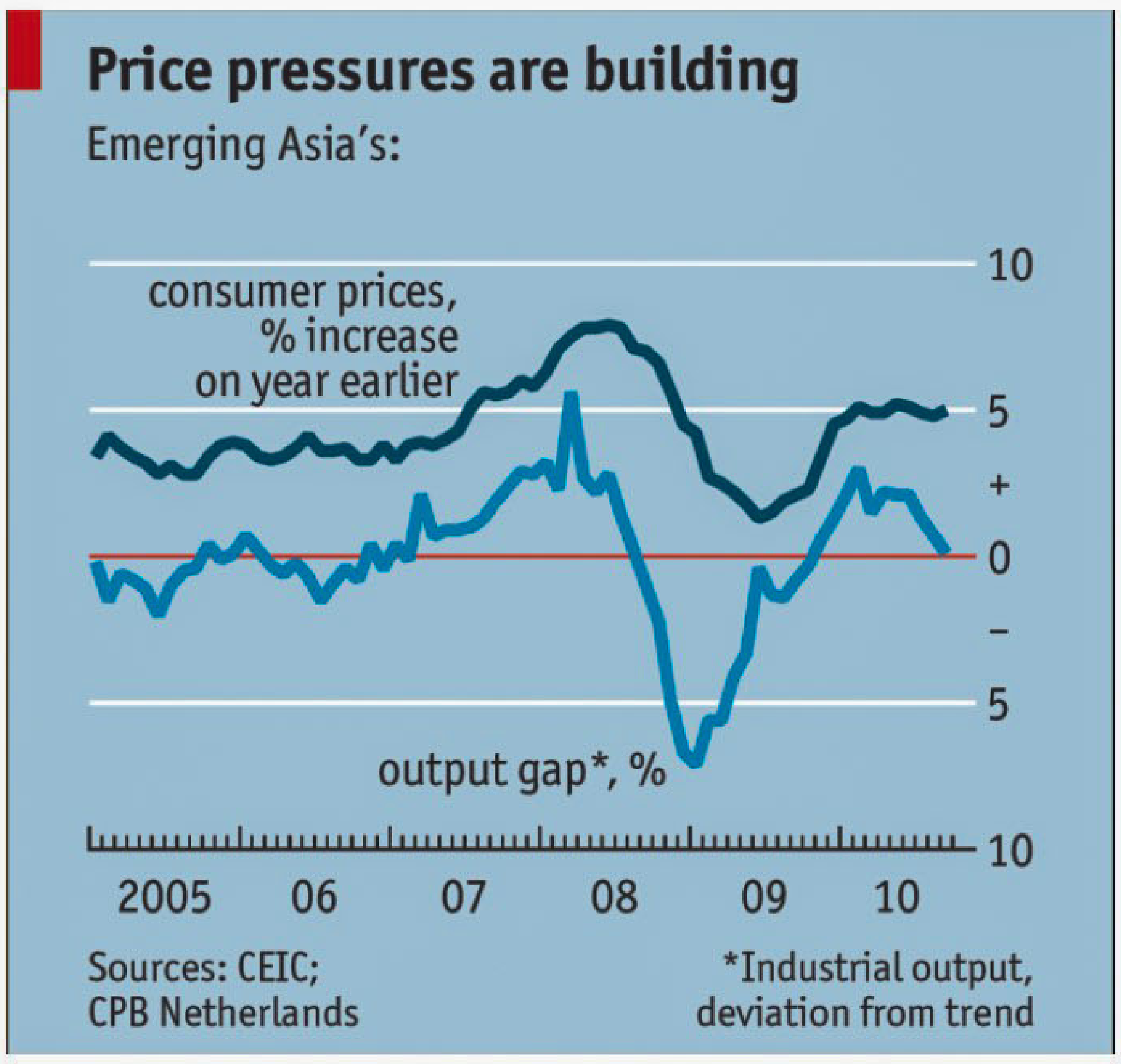
Importing pessimism

Memories of 2008 are influencing Asia's policymakers

THE ECONOMIST

Wal-Mart in China is not quite like Wal-Mart elsewhere. Its stores sell live turtles and toads. It is happy for its staff to join a union. And in Kunming, a southern city in which Wal-Mart has six shops, the company, as well as several of its competitors, must now report and justify any price increases to the government 48 hours in advance.

This policing of prices is part of China's unorthodox fight against inflation, which is running at more than 4 percent a year. Rising prices are also discomfiting Asia's other developing economies (see chart). Policymakers in the region still fret about a repeat of the autumn of 2008, when the financial crisis struck. But a greater threat is a reprise of the spring and summer of that year, when commodity prices soared.



In India (where Wal-Mart is confined to a joint venture in wholesaling), Pakistan, Bangladesh and Vietnam, the battle against inflation has been raging all year. In Indonesia, ground is being quickly ceded, as consumer prices rose by 6.3 percent in the year to November. Elsewhere, inflation is still modest by the standards of emerging economies. But pressure is building. Since June farm prices have risen as fast as they did in 2007 and 2008, although they have not yet risen as far. And HSBC's Asia Business Index, which draws on surveys of purchasing managers in the region, shows price pressures in Asia (excluding Japan) at their highest for at least a decade.

The source of this inflation is much disputed. Some blame bad weather, such as the October floods in China's Hainan province, which damaged crops and helped raise food prices. Others blame deluges of a more metaphorical kind: floods of capital from abroad or floods of lending at home. Indonesia's central bank, for example, has stopped selling three-month notes, which yield-hungry foreigners were eagerly snapping up. It is also thinking about reintroducing a cap on rupiah accounts held by foreigners, the latest in a series of dykes, bunds and culverts designed to control flows of capital. Even as inflation has crept up, the central bank has refrained from raising interest rates (which have not changed for 16 months) for fear of attracting more inflows. In this way the fear of foreign capital may be a bigger economic danger than the foreign capital itself.

This reluctance to tighten monetary policy faster has allowed private credit to grow by more than 20 percent a year in Bangladesh, Vietnam and India. "With benefit of hindsight it would now appear that liquidity support may…at times have been overly generous," the central bank of Bangladesh admitted in its half-yearly statement. In China, banks were supposed to expand their loan books by no more than 18 percent (7.5 trillion yuan, or $1.1 trillion) this year, but they look likely to breach that limit. On December 3rd the Politburo of the Chinese Communist Party said it would pursue a "prudent" monetary policy in 2011, having followed "a moderately loose" policy this year. That has been interpreted to mean credit growth of perhaps only 14 percent in 2011.

Asia's policymakers remain "paranoid about growth scares from the West," argues Sean Darby of Nomura. They do not want to repeat the mistake of 2008, when they were caught tightening even as the financial crisis struck. But Asia's economies have returned to normal rather faster than its monetary policies. In emerging Asia as a whole, industrial production has caught up with its historical trend, almost as if the Great Recession never happened. And even as America and Europe are exporting pessimism to Asia's policymakers, they are importing goods from its factories. America's economy, for example, grew by only 1.7 percent at an annual pace in the second quarter, but its imports grew by 33.5 percent. Goldman Sachs describes this as the "biggest trade drag in US history".

Not only have America's imports bounced back faster than its output, its imports from Asia have recovered faster than its purchases from less fortunate parts of the world, points out Frederic Neumann of HSBC. This may be a new phenomenon, as cash-strapped shoppers turn to more affordable Asian products. Or it may be a cyclical one: Asia's component-makers often prosper in the early stages of the Western business cycle, as companies rebuild their inventories in anticipation of brighter sales to come.

Now that inventories are better stocked, American firms may be less eager buyers. Goldman Sachs is expecting America's growth to remain steady, but its imports to slow. That will take some of the steam out of Asia's exports, which may already be levelling off. Taiwan's November shipments, for example, look impressive in comparison with a year earlier (up by more than a fifth), but they have shrunk a little since the spring. Asia's exports may be peaking, then, even as inflation is gathering strength. With luck, the former problem will help solve the latter.

The Economist Newspaper Ltd, London (Dec 11)