

UK support for China-backed Asia bank prompts US concern

BBC NEWS

The US has expressed concern over the UK's bid to become a founding member of a Chinese-backed development bank.

The UK is the first big Western economy to apply for membership of the Asian Infrastructure Investment Bank (AIIB).

The US has raised questions over the bank's commitment to international standards on governance.

"There will be times when we take a different approach," a spokesperson for Prime Minister David Cameron said about the rare rebuke from the US. The AIIB, which was created in October by 21 countries, led by China, will fund Asian energy, transport and infrastructure projects.

The UK insisted it would demand the bank adhere to strict banking and oversight procedures.

"We think that it's in the UK's national interest," said Cameron's spokesperson.

Pippa Malmgren, a former economic advisor to US President George W Bush, told the BBC that the public chastisement from the US indicates the move might have come as a surprise.

"It's not normal for the United States to be publicly scolding the British," she said, adding that the US's focus on domestic affairs at the moment could have led to the oversight.

However, Cameron's spokesperson said UK Chancellor George Osborne did discuss the measure with his US counterpart before announcing the move.

In a statement announcing the UK's intention to join the bank, Mr Osborne said that joining the AIIB at the founding stage would create "an unrivalled opportunity for the UK and Asia to invest and grow together".

The hope is that investment in the bank will give British companies an opportunity to invest in the world's fastest growing markets.

But the US sees the Chinese effort as a ploy to dilute US control of the banking system, and has persuaded regional allies such as Australia, South Korea and Japan to stay out of the bank.



The Asian Infrastructure Investment Bank deal was signed last year by 21 countries, including China.

In response to the move, US National Security Council spokesman Patrick Ventrell said: "We believe any new multilateral institution should incorporate the high standards of the World Bank and the regional development banks."

"Based on many discussions, we have concerns about whether the AIIB will meet these high standards, particularly related to governance, and environmental and social safeguards," he added.

It's a tricky task to align oneself with both China and the US. The Americans are apparently unhappy with the UK, while China has welcomed the British application. It may be a pragmatic move, but it's hard not to offend one side or another.

I suspect this will be the first of many decisions to be taken by countries such as the UK to position themselves between the new economic superpower and the existing one.

The trick will be to come away with economic advantage at minimal political cost. We'll find out

if this one will pay off for the UK.

Why does the UK want to join a China-led bank? Some 21 nations came together last year to sign a memorandum for the bank's establishment, including Singapore, India and Thailand.

But in November last year, Australia's Prime Minister Tony Abbott offered lukewarm support to the AIIB and said its actions must be transparent.

US President Barack Obama, who met Abbott on the sidelines of a Beijing summit last year, agreed the bank had to be transparent, accountable and truly multilateral.

"Those are the same rules by which the World Bank or IMF (International Monetary Fund) or Asian Development Bank or any other international institution needs to abide by," Obama said at the time.

The Financial Times (FT) newspaper reported on Thursday that US officials had complained about the British move.

The report cited an unnamed senior US admin-

istration official as saying the British decision was taken after "virtually no consultation with the US".

"We are wary about a trend toward constant accommodation of China," the newspaper quoted the US official as saying.

However, in response to the UK announcement, World Bank president Jim Yong Kim told a news conference he supported the goals of the AIIB.

"From the perspective simply of the need for more infrastructure spending, there's no doubt that from our perspective, we welcome the entry of the Asian Infrastructure Investment Bank," he said.

The founding member countries of the AIIB have agreed the basic parameters that would determine the capital structure of the new bank would be relative gross domestic product.

Banking experts have estimated that, if taken at face value, this would give China a 67% shareholding in the new bank. That's significantly different than the Asia Development Bank, which has a similar structure to the World Bank and has been in existence 1966. There, the majority stakes are controlled by Japan and the US.

When asked if Britain would seek assurances before it signed on as a member that no one country would be able to unilaterally control the AIIB, economist David Kuo told the BBC that the UK "wouldn't have a great deal of say in the matter".

"He who pays the piper calls the tune," he said. "The UK could try and negotiate a power to veto projects but it is unlikely to get it," Kuo, who is from investment advisers The Motley Fool, said.

The UK was caught between the US on the West and China in the East, he added.

"It hopes that it can exert force from within, rather than put pressure from the outside - but [the UK] is only one voice in a crowd of many."

With regard to the competition the AIIB would give the ADB or World Bank, Kuo said there were plenty of infrastructure projects in Asia that needed funding.

"The existing sources of money can't do everything. So every little helps."

Weak euro to help European firms, force US rivals to adapt

REUTERS, London

The euro's slide towards parity with the dollar will provide a much-needed boost for European companies this year and force US rivals to adapt their businesses or risk losing market share.

While currency hedging arrangements mean the benefits may not be seen straight away, the currency's weakness has already cheered European chief executives by making their products cheaper overseas and lifting the value of dollar-based sales.

"We have been handicapped by the strength of the euro, but now it seems that the wind is turning and we intend to make the most of this very positive currency effect that will help us deliver a nice increase of our sales and our profits in 2015," Jean-Paul Agon, CEO of French cosmetics group L'Oreal told investors last month.

Other companies predicting a tail wind from the around 20 percent drop in the value of the euro over the past six months to \$1.06 on Friday include jet manufacturer Airbus, German car and truck maker Daimler and French engineering groups Schneider Electric and Alstom.

Some US companies also see positives from the weaker euro, including lower borrowing costs, better performance at European units which export, stronger demand from Euro zone-based customers and, for the leisure sector, increased travel into the continent.

However, most US groups that discussed the currency in recent weeks including Apple, Dupont, Priceline, Caterpillar and General Electric, have warned they may face headwinds in Europe and elsewhere, and some, including Xerox, have cut earnings

guidance as a result.

These companies have said they are now looking to cut costs, increase the portion of inputs they source from inside the euro zone and adopt new pricing policies, to try and maintain market share and margins.

"US companies exporting goods to Europe could face margin pressure from price adjustments or promotions in Europe," said James Targett, analyst at Berenberg.

With euro weakness likely to persist due to the European Central Bank's quantitative easing programme and a likely hike in US interest rates on the back of a stronger US economy, longer term planning is a must.

"You have to think about where your revenues are, where your manufacturing is and where you're buying your raw materials from," he added.

Many companies said hedging contracts would mean the impact of the lower euro would take time to feed through. Paris-based Alstom and Swiss-headquartered engineer ABB, which has manufacturing plants in the euro zone, said it may not be felt until the second half of the year.

Airbus said it was fully hedged for 2015, 2016 and "largely" for 2017, leading analysts to predict it could be 2018 before the group experienced any meaningful uplift.

In the meantime, the weaker euro may actually weigh on some European companies' earnings because companies must report drops in the values of hedging instruments, which move in the opposite direction to companies' revenues.

"In itself, the drop in the euro is some good news. It should have a positive impact on our revenues, and our operating income. But, of course, in the short term it will have -- it will

be a drag on our profitability rate," Francois-Henri Pinault, CEO of Gucci and Puma owner Kering, said on an analyst call last month.

Kering said it was switching to the use of options, paying a premium to hedge against currency moves, rather than entering swap contracts which must be revalued each quarter with the changes in value put through the user's profit and loss account.

US companies like Google and PepsiCo. said hedging would mitigate their losses in the short term. However, businesses are also looking at how they can reconfigure their operations to limit the hit from a weaker euro and capitalise on any opportunities.

A number of companies said they would look at cutting costs. Others said they would try and push through euro price rises in Europe to try and compensate for the fact the euro is now worth less, although deflationary pressures across the continent means companies have little pricing power.

US conglomerate 3M said it was looking at pegging some prices to the dollar and even renegotiating the prices at which it purchases goods.

Many companies said they were considering locking the benefits of the euro into their supply chain. ABB CEO Uli Spiesshofer said his company was looking at "taking further advantage of euro-based suppliers". Nick Gangestad, CFO of 3M said his company was aiming for more "regional self-sufficiency". This strategy may reduce costs in the short term but it poses risks.

"The downside to this, however, is that local sourcing fails to leverage global scale and could make procurement less efficient. Scale is great for pricing power," said Morningstar analyst Philip Gorham.



Muhammad Aziz Khan, chairman of Summit Alliance Port, presides over the 11th annual general meeting of the company at Police Convention Hall in Ramna, Dhaka on Saturday. The company announced 5 percent stock and 10 percent cash dividends for financial year 2014.

China has plenty of room to manoeuvre policy: Chinese premier

REUTERS, Beijing

China has a lot of room to manoeuvre its policy and boost its economy having avoided using strong, short-term stimulus in recent years, Premier Li Keqiang said on Sunday, in a rare suggestion that authorities can do much more to stoke growth.

Li, addressing a news conference at the end of China's annual session of parliament, tried to allay fears about a stumbling economy by vowing to keep it growing at a reasonable speed, even as he acknowledged the job is not easy.

He assured his audience that policymakers would prop up the economy if growth was at risk of breaching a "lower limit", or hurt employment and income gains.

"In recent years, we have not taken any strong, short-term stimulus policies, so we can say our room for policy manoeuvre is relatively big, the tools in our toolbox comparatively many," Li said.

"If the slowdown in growth affects employment and incomes, and

approaches the lower-limit of a reasonable range, we will stabilise policies and the market's long-term expectations for China," he said at a two-hour briefing.

"And at the same time, (we will) increase the intensity of targeted (policy) control," he said.

Turning to his government's plans to deliver economic growth of around 7 percent this year, Li said: "It looks like economic growth has been adjusted lower, but in reality achieving this target will not be easy."

A 7 percent growth target is China's lowest in 11 years, and would mark the slowest expansion in a quarter of a century if it came to pass.

He said it was a challenge for the government to deliver economic growth of about 7 percent this year because the economy was already worth more than \$10 trillion.

However, Li reiterated that authorities would do what they could to keep growth "within a reasonable range", and denied any assertion that China was exporting deflation.

Weighed by a property downturn, hefty debt burdens, and lethargic foreign and domestic demand, China's economy has struggled in the last 15 months or so, as growth in exports, investment, manufacturing and retail sales all waned.

That dented growth to a 24-year low of 7.4 percent last year, and analysts widely assume that the entrenched cool down would deepen this year.

When asked if he was worried about rising financial risks as the economy struggles, Li acknowledged the dangers but said China could prevent systemic risks from surfacing.

He said his government would minimise moral hazards by allowing flare-ups in financial risks on a "case-by-case" basis, but did not elaborate.

Many economists have criticised the government for its reluctance to let big state-owned or flagship private firms fail for fear of increasing unemployment. They say the government's willingness to support badly run businesses encourages waste and fuels credit danger.



Md Eunusur Rahman, chairman of Hortex Foundation, chairs the foundation's ninth annual general meeting at its conference room in Dhaka recently. Md Abdul Jalil Bhuyan, managing director, was also present.



Nurul Haq Majumder, chief executive officer of FinExcel, poses with the participants of a two-day training on trade risk management organised by Finexcel recently. Mirza Aminur Rahman, director, was also present.



N Samad Chowdhury, director of Duncan Products, and Hasnat Sadruddin Roomi, chief financial officer of the Palace Resort and Spa, attend the signing of an agreement at a ceremony recently. The resort in Hobiganj will use Duncan mineral water.