

Iran to inaugurate 23 SEZs by Friday

TEHRAN — Iran president's advisor for free and special economic zones stated here on Saturday that 23 new special economic zones will be established by Friday this week.

"The parliament approved the establishment of the zones last month," Mahmoud Salahi said, adding, "The zones will be established in underprivileged regions across the country in order to create jobs for the local population and prevent them from emigration," IRIB reported on Saturday.

Sixteen special economic zones have been established in Iran so far, including the ones in Assaluyeh, Salafchegan, and Mahshahr. Several free trade zones have also been created in Qeshm and Kish islands, as well as in Chabahar, Aras, Arvand, and Anzali.

Mahathir: Plan to open up economy won't help

KUALA LUMPUR (Straits Times) — Former Malaysian Prime Minister and economic wizard Dr. Mahathir Mohamed has dismissed the efforts of Prime Minister Datuk Seri Najib Razak to liberalize the economy, saying they were "not going to help anybody".

The plan seemed designed to make Najib popular, said Dr. Mahathir, adding: "It will not help the Chinese, Malays or Indians."

Dr. Mahathir was asked to comment on Najib's steps to open up the economy to make it more attractive for foreign investors.

The steps included relaxing a host of restrictions on foreign investment, including a rule requiring businesses to be partly owned by Malays.

Listed companies will no longer be required to allocate 30 percent of their stake to Malays as part of an affirmative action program for the



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country's Malays.

Among other measures were allowing stock brokers and unit trust management companies 70 percent

foreign ownership, up from the current level of 49 percent.

Najib also announced a government private equity fund to invest in

high-growth industries and promote Bumiputera ownership of Malaysian businesses.

Najib said the Bumiputera rule for

companies was neither benefiting poor Malays nor sustainable amid the global economic slowdown, which would force Malaysia into its first recession in a decade.

But Dr. Mahathir was not impressed.

"I think it's a kind of move more designed towards becoming popular. I don't know if it will help the economy, because Malaysia has been growing since independence," The Star newspaper on its website quoted Dr. Mahathir as saying.

"Now that there is a lack of growth, this is due more to external reasons. It's not about internal things," he told reporters.

He also said Malaysia should be cautious of foreign investors keen on total ownership of fund management companies as they "owed no loyalty to the country".

"They are here to make money. When they can't make money, they go out and we pay the price," he was quoted as saying.

He asserted the potential hazard of capital flight should investors no longer find the Malaysian market lucrative saying: "In some instances, they come to build factories and produce things for export. Well, that's fine. But when they can openly go into the market, well, that's not good," he said.

Sri Lanka no more needs IMF loan: Central Bank

COLOMBO (AFP) — Sri Lanka's central bank chief said that the island could live without a major IMF bailout that had been maliciously delayed by IMF during the final stages of the government's fight with Tamil Tiger rebels.

The government had requested the 1.9-billion-dollar loan in March to help stave off its first balance of payments deficit in four years after foreign currency reserves fell to around six weeks' worth of imports.

The loan was delayed under political pressure from the United States, Britain and other countries who felt the government was not doing enough to avoid civilian casualties as it closed in on the remnants of the once-powerful Tamil Tiger army.

Central Bank of Sri Lanka Governor Nivard Cabraal said the final defeat of the Tigers had helped alleviate the island's balance of payments concerns.

"Things are looking good after the war. The urgency for an IMF loan is not there anymore," Cabraal told AFP.

"We have over 1.6 billion dollars in reserves, enough to pay for over two months of imports. And the figures are steadily climbing," Cabraal said.

Foreign reserves, which fell by more than two thirds when the central bank sold dollars to defend the local rupee last year, had climbed to 1.3 billion dollars by the end of April, according to central bank figures.

Cabraal said inflows had come from higher remittances, donor funds and foreign investors buying rupee-denominated treasury bills and bonds. The bank has also raised cash by selling dollar debt.

But he said some investors would still be more comfortable with an IMF loan.

"If the IMF funds come, it will give us a comfortable buffer stock. I hope we get it. But we are otherwise in a comfortable position right now," he said.

The IMF on Thursday said Sri Lanka's loan was still pending before the executive board which has yet to set a date to consider the application.

"Discussions are continuing," IMF spokesperson Caroline Atkinson told reporters in Washington, adding: "We don't have a date for an executive board meeting at present on Sri Lanka."

Dollar status unlikely to be in G8 communiqué

The dollar's status as the top global reserve currency is unlikely to be mentioned explicitly in the final communiqué at next week's Group of Eight summit, a European G8 source involved in preparations for the meeting said on Friday.

"It is expected to be mentioned and discussed remotely. But the discussions have not yet reached the level of putting it in writing in the communiqués," the source, who asked not to be identified, told Reuters.

G8 sources said earlier this week that China had asked for discussion of proposals for a new global reserve currency at next week's G8 meeting in Italy.

One source said Beijing made the request during preparatory talks about a joint statement to be issued on the second day of the summit in L'Aquila by the G8 plus the G5 (Brazil, India, China, Mexico and South Africa) and also Egypt.

This forum, the so-called "G14," meets on July 9 to discuss the financial crisis,



trade and climate change and for the first time a G8 summit will also produce a joint G14 statement.

"China can bring this up and they have said they would like to mention it," the European G8 source told Reuters on Friday.

"There may be some vague or ambiguous wording in the statement on the general issue of reserve currencies and SDRs (special drawing rights). But this (China's request) will be something more for the G20," he added.

The source was referring to the meeting of the world's Group of 20 industrialized and developing countries in the U.S.

city of Pittsburgh in September.

Canadian Finance Minister Jim Flaherty told reporters on Friday that he did not know whether the dollar's role as the top global reserve currency would be included in the final G8 communiqué.

He also defended the U.S. dollar's role as the global reserve currency of choice, and said it had been a stabilizing force during the current financial crisis.

The reserve currency debate centers on proposals by some emerging powers that an alternative should be found to the dollar as the main global reserve currency, to reflect the shifting balance of power in the globalized economy.

China has been particularly vocal. It holds more U.S. Treasury debt than any other country and has expressed fears that Washington's huge spending on economic stimulus programs could spark inflation, hurting the value of China's dollar-denominated reserves.

(Source: Reuters)

China needs consumption for recovery: researcher

SHANGHAI (Bloomberg) — China needs to promote domestic consumption to make up for weak global demand because its economic recovery isn't firm, a government researcher said.

"Global demand won't recover to the pre-crisis levels within two to three years," Xia Bin, head of the financial institute at the State Council Development and Research Center, said today at a forum in the southern Chinese city of Shenzhen. "The rebound we've seen in China's economy in the first half has been driven by increased investment to make up for the slump in external demand."

China has to boost domestic consumption by increasing household income and not just through gains from property and stocks, Xia said. The central bank should



send a signal for stable money supply in the second half or "early next year" to guard against the risks of asset-price inflation, Xia said.

"Wealth effects from stock and property investments can help consumption in the short term but it won't last," Liang Futao, a research manager at Changjiang Pension Insurance Co. in Shanghai, said by phone. "Rising asset prices can form

a bubble, which will hurt the economy when it bursts."

China's central bank Governor Zhou Xiaochuan said yesterday that boosting the nation's consumer spending to redress global imbalances is "easier said than done."

The People's Bank of China scrapped lending quotas in November and has kept interest rates at a four-year low, triggering an explosion in credit to support Premier Wen Jiabao's 4 trillion yuan (\$585 billion) stimulus package.

Manufacturing in the world's third-largest economy expanded for a fourth month in June. The official Purchasing Managers' Index rose to a seasonally adjusted 53.2 from 53.1 in May, the Federation of Logistics and Purchasing said July 1. A reading above 50 indicates an expansion.

Job seekers seek solace with fellow faithful

BEVERLY, Mass. (AP) — Her fellow job seekers offer knowing groans as Diane Castro recalls the day she was laid off. The fear of being summoned to the front office. The phones in nearby cubicles going off like grenades. Finally, a ring at her desk.

Every member of the unemployment support group meeting has their own story to share and encouragement to give. In twice monthly gatherings, they exchange tips on writing resumes, developing new contacts and making ends meet. They also pray.

"Father, we pray you would strengthen our faith and help us to wait on you," Castro says as heads bow around her. "It can be so hard sometimes to be patient."

Castro's group is one of several church-related unemployment support groups that have formed around the country as the jobless rate reaches heights not seen for decades. On Thursday, the government reported a 9.5 percent unemployment rate for June, the worst in 26 years.

Job seekers can't use God as a refer-

ence, and studying Scripture might seem unrelated to grabbing a prospective employer's attention. But church support group members say the meetings aren't just about helping people find the next job; they're also about refining and strengthening their faith along the way.

"The help available and the assistance on a spiritual level is amazing," said Walter Baker, a retired human resources executive who leads a four-month-old group at Grace Community Church in Auburn, Wash.

Baker and Castro welcome the non-religious to their groups, though very few people without faith have attended.

Baker offers group members resume reviews and mock interviews. He asks them to craft an "elevator speech" — a pitch of their qualifications they can deliver quickly. And he urges them to "draw close to God."

Faith communities have particular relevance to the unemployed, said Doug Hicks, author of "Religion and the Workplace" and a professor of religion and leadership studies at the University of Richmond.

"When a person loses his or her job

it's not just the income that's lost, but it's a kind of sense of meaning, sense of fitting in, a sense of contribution," Hicks said. "And many of those things have spiritual dimensions."

The Rev. Duane Jesse of Prince of Peace Lutheran Church in Cortland, Ohio, said the group he started six weeks ago is almost entirely about job seekers' spiritual needs. He started the group after a man, devastated by unemployment, confessed he thought suicide might be easier.

"At the end of the day we've got to keep families together, marriages together. We've got to keep people sane, we've got to keep people from losing faith," Jesse said.

Still, the practical benefits of such groups can't be overlooked, said Rick Lytle, dean of the College of Business at Abilene Christian University in Texas. Faith-based groups provide rich networking opportunities because members may trust each other more, and go the extra mile for them, because they share a church or a faith, he said.

PERSPECTIVE

Tightening capital rules could increase risk-taking

By Takafumi Sato

Regulators around the world are working to put banks under much stricter capital adequacy rules. If banks hold more capital, it is argued, the banking system can withstand bigger future losses, and the world will enjoy greater financial stability.

I share the determination to prevent a repeat of the financial crisis. I also believe capital adequacy regulations have a key role in our prevention efforts. Medicine, however, should be prescribed properly, as any effective medicine has side-effects as well. Suppose stronger regulations make banks issue more equity. Then the capital market will expect greater profits in return, and bank management may be tempted to meet such profit pressure by taking more risks. Was this, however, not the cause of the catastrophe?

Also, bigger capital requirements may induce complex risk-taking. If bankers add simple risks, regulators will notice and request more capital. In order to satisfy both regulators' demand for a high capital-to-risk ratio and investors' demand for return on equity, bankers may want to take risks in a sophisticated manner, inventing exotic products and creating a darker shadow banking system. It would be too optimistic to presume that we can stop this completely.

The most elaborate shadow banking system flourished in the U.S., the jurisdiction with the world's most demanding capital requirement — 5 percent of so-called "tier 1" capital over total assets. "Excess is as bad as shortfall," said Confucius. Shortfall in bank capital indeed destabilizes the financial system. Many banks' capital bases need to be strengthened and we should fortify capital adequacy regulations. However, excessive capital requirements can result in a big banking system making big profits by taking big complex risks, defeating the whole purpose.

Business models in banking are diverse, ranging from global conglomerates to community banks and microfinance. Some banks find their competitive edge in financial engineering and some excel in their relationship with retail customers. Some rely on proprietary trading and principal investments for profits, while others provide simple, reliable, low-cost utility services. Some are funded by money markets and some have a stable retail deposit base. If we design a single set of rules focusing on risky models and mechanically apply them to all, the effect of the regulations combined with the power of the capital market might compel all banks to adopt aggressive business models.

Just asking for more capital will not cure the disease of capitalism. To avoid a recurrence of crises, we need a paradigm change. A global community adopting a uniform platform is vulnerable to a virus, as we have witnessed during the current financial pandemic. Capital adequacy regulations should be designed to foster diversity in business models, demanding the right level of capital for the business type of the bank in question.

Some say it is the market, not regulators, who demand banks hold more capital, and say regulators have to reflect market reality in their regulations. The credit default swap market, however, seems to be focusing more on business models than on capital ratios. By assigning credit spreads several percentage points lower, the market has been saying that banks focusing on classical commercial banking with stable large deposit bases are much more creditworthy than complex firms with significantly higher capital ratios.

(Contd. on p.15)