International Law in News

South-East Asian Summitry Distant dreams

http://www.economist.com/world/asia/displayStory.cfm?story_id=14745120&source=hptextfeature

The summit of ten leaders of the Association of Southeast Asian Nations (ASEAN) as well as China, Japan and South Korea was held in Thailand from October 23rd to October 25th 2009. The gathering at the beachside town south of Bangkok also included meetings with the leaders from Australia, India and New Zealand. Leaders focused in large part on the nuts and bolts of expanding trade.

Buoyed by signs of recovery in recession-bound countries, and unbroken expansion in China, India and Indonesia, leaders spoke of a free-trade zone that would link the world’s most dynamic economies. As for example, according to Prime Minister of Japan, Yukio Hatoyama, the region’s largest economy is, if one of its worst-performing said such a zone should have a common currency and aspire to “lead the world”. Not to be outdone, Australia’s Prime Minister, Kevin Rudd, proposed a pan-Pacific economic community that would include America and collaborate on security.

Government officials were on hand to caution that such grand plans would not happen overnight. Mr Hatoyama, who is trying to give Japan a more prominent role in Asia without jeopardizing its security guarantee from America, described his proposal as a “medium-term objective”. Indeed, talk of an East Asian community, with perhaps even a single currency, is nothing new. However, the chatter has grown louder since America blundered into a financial crisis that sapped its ability to act as the motor for global growth. As Thailand's Prime Minister, Abhisit Vejjajiva, put it, the old model of satisfying Western consumers will no longer serve the region.

There is tremendous scope for Asian countries to boost intra-regional trade and investment. On trade it is already happening: intra-East Asian trade flows rose to 42% of total trade in 2008, up from 32% in 1990, according to the Asian Development Bank (ADB). But much of this is in commodities and semi-finished goods, with America, Japan or Europe as the final destination. China is the source of much of this growth, but it is rarely the end-consumer. Instead, it remains a competitor to other developing Asian countries for rich-world markets.

The ten-member Association of South-East Asian Nations (ASEAN), which played host to the summit, likes to push its own efforts to build a European-style single market of over 500m people. The first phase of a free-trade zone is due to take full effect on 1st of January. Six members countries have already cut tariffs on manufactured goods, though not on farm produce. ASEAN has also been busy signing free-trade pacts with regional powerhouses such as China and India. These could become the basis of a pan-Asian trade bloc, reckons, Thailand's chief trade negotiator, Kiat Sittheeamorn. On the other hand, these agreements rarely add up to much, as they must satisfy all ASEAN members, some of which already have their own bilateral deals with the third party. The end result is yet another set of rules for importers to work out, according to an economist for the ADB, Jayant Menon. He says ASEAN countries deserve praise for cutting tariffs in a non-discriminatory way (i.e. on goods produced both inside and outside ASEAN). Executives complain, though, that red tape and other non-tariff barriers is a far bigger obstacle. ASEAN's emerging free-trade zone also excludes services, and tiptoes around labor mobility.

A deeper problem for ASEAN is its cohesion and credibility. It at last has a legal charter, but is bound by a strict policy of non-interference that prevents any version of Europe's mutual sovereignty. It began as a cold-war security alliance without a common vision. Four decades on, it has yet to find one. Political, cultural and economic disparities emerge large. Even leaving aside the constant distraction of Myanmar, a repressive military dictatorship that Western allies find hard to sit down with, mutual mistrust and outright hostility between countries make a mockery of ASEAN's encomiums on unity. They also bode poorly for the resolution of disputes in a closer economic union.

The latest argument is between Thailand and Cambodia, whose prime minister, Hun Sen, went out of his way to antagonize the summit's host, Mr. Abhisit. Over the past year, the two countries' armies have clashed several times over a disputed border temple.

Naturally, this is never discussed by ASEAN, in case it upset either side. A new row is over Thailand's former Prime Minister, Thaksin Shinawatra, who lives in exile and is wanted at home on a criminal conviction. Hun Sen told reporters at the summit that his "old friend" Mr. Thaksin was welcome to seek asylum in Cambodia and to be his economic adviser.

Thai diplomats opined that arrest and extradition would be the right way to treat a fugitive. Nonetheless, it seems unlikely after Hun Sen's extraordinary show of support. By taking sides in Thailand's politics, Cambodia's leader "went for the jugular", according, a Thai political scientist, Thitinan Pongsudhirak. Sensibly, Mr. Abhisit has not risen to the temptation, though the anti-Thaksin People's Alliance for Democracy this week staged a small protest outside Cambodia's embassy in Bangkok. The group has previously stirred trouble at the border, where Hun Sen has threatened to shoot any Thai trespassers. In 2003 anti-

Thai riots swept Cambodia's capital over a rumored nationalist slight by a Thai actress. Relations today are hardly much better for the sake of ASEAN brotherhood.

None of which need end South-East Asian countries from trying to promote cross-border economic co-operation. After more than a decade in the works, a currency-swap scheme among Asian central banks is beginning to look like a facility that might conceivably be used. Nevertheless, ASEAN looks too weak and divided to manage faster and deeper regional integration. Indeed, four leaders skipped the summit's opening ceremony. No doubt, then, that ASEAN's biggest member, Indonesia, which also happens to be its most vibrant democracy, seems to set greater store by its seat at the G20 table**. (Jeska Daslita)**

Doing Business 2010: Indonesia the Most Active Business Regulatory Reformer in East Asia and the Pacific in 2008/2009

http://go.worldbank.org/PPVHPLDW10

Indonesia is Asia's most active reformer of business regulations in 2008/2009, making its rules more efficient to help increase opportunities for local firms. Indonesia cut the time required to start a business by sixteen days and the time to transfer a property by seventeen days. In a record year for regulatory reform worldwide, most other economies in East Asia and the Pacific also strengthened business regulations. Singapore, New Zealand, and Hong Kong, in that order, led the world in the ease of doing business.

Between June 2008 and May 2009, a record 131 of 183 economies around the globe reformed business regulation, according to *Doing Business 2010: Reforming through Difficult Times*, the seventh in a series of annual reports published by IFC and the World Bank and released today in Washington DC. In

East Asia and the Pacific, seventeen of twenty four economies made reforms against the conditions of the global economic crisis.

Former Chairman of Indonesia's Investment Coordinating Board (BKPM), Muhammad Lutfi, said that the achievements of the Indonesian Government as captured in this report is an excellent demonstration of team work and leadership from the economic ministers, based on the policies set out by the Minister of Finance, Minister of Trade, Minister of Industry, and the Coordinating Ministry of Economic Affairs. In the future BKPM will continue to work to address our three main challenges: improving public service that includes investment approval and licensing, capacity building especially front liners and back office capability, and investment promotion.

In 2008/2009, Indonesia also strengthened disclosure requirements for transactions between company insiders and other companies they control to protect investors. International Finance Corporation (IFC), the member of the World Bank Group focused on private sector development, is working through its Investment Climate Advisory Services with the national and local governments of Indonesia to reform policies on starting a business. IFC also supports the national government's initiative to establish licensing offices in all cities and districts (National One-Stop-Shop).

World Bank Country Director for Indonesia, Joachim von Amsberg, said that in the extent of just a decade Indonesia has attained remarkable achievements with democratization, decentralization, and economic and financial stability, even in the face of the global financial crisis. Furthermore, he opined that Indonesia still has the opportunity to grow rapidly over the next years. With even more drastic regulatory reforms to cut red-tape and bureaucracy, Indonesia can improve the environment for the private sector and especially for small and medium-size enterprises that generate most jobs.

Singapore, a consistent reformer, is the top-ranked economy on the ease of doing business for the fourth year in a row, with New Zealand in the second place. Singapore introduced online and computer-based services to ease business start-up, construction permits, and property transfers. Doing Business ranks 183 economies based on 10 indicators of business regulations that track the time and cost needed by domestic companies to meet business regulations such as starting and operating a business, trading across borders, paying taxes, or closing a business. In the report of this year, Indonesia moved up to 122 from 129 in the global ease of doing business ranking as a result of its reforms. Doing Business does not measure all aspects of the business environment that matter to firms and investors. For example, it does not measure security, macroeconomic stability, corruption, skill level, or the strength of financial systems. (**Jeska Daslita**)

China, ASEAN to Have Full FTA by 2010

http://www.chinadaily.com.cn/world/2009-08/11/content_8557197.htm
http://www.chinapost.com.tw/asia/regional-news/2009/08/16/220713/China-ASEAN.htm
http://thejakartaglobe.com/home/china-asean-sign-free-trade-pact-to-promote-investment/324317

In the Fourth Pan Beibu Gulf Economic Cooperation Forum, both China and ASEAN (Association of Southeast Asian Nations) agree Free Trade Area will be completely effective on 1 Januari 2010 as scheduled. Pan Beibu Gulf Economic Cooperation is a platform for China's economic cooperation with Southeast Asian nations that held for the first time in Hanoi, Vietnam in July 2006. This year, this Forum took place in Nanning, China from 6 to 7 August. As a new sub-region cooperation scheme under the framework of China-ASEAN, Pan-Beibu Gulf economic cooperation is expected to attract increasing global attention. The Pan-Beibu Gulf economic cooperation zone comprises seven countries, namely, China, Vietnam, Malaysia, Singapore, Indonesia, Brunei and the Philippines.

China-ASEAN bilateral trade reached $231.12 billion in 2008, up to 13.9 percent despite an impact from the ongoing global financial crisis. China and the ASEAN became each other's fourth largest trade partners, and China's trade with the Pan Beibu Gulf countries amounted to $226.96 billion, accounting for 98.2 percent of the total trade volume between China and ASEAN. The first half of 2009 was the toughest time for the whole world due to declining demands from overseas markets. Nevertheless, Ma Biao, the chairman of the Guangxi Zhuang Autonomous Region, said in his speech at the forum that the Guangxi's cross-border trade with Vietnam and other neighboring Southeast Asian countries rose

8.7 percent in the first half of the year. In April 2009, Chinese Prime Minister Wen Jiabao announced China will set up a $10 billion "China-ASEAN Fund on Investment Cooperation" to support infrastructure development in the region. Over the next three to five years,

China planned to offer credit of $15 billion to ASEAN countries, including loans with preferential terms of $1.7 billion in aid for cooperative projects. China also considers providing a total of 270 million Yuan this year in special aid to the less developed ASEAN countries, including Cambodia, Laos and Myanmar, to help them meet urgent needs and get through the most difficult time. Moreover, China has proposed speeding up the multi-lateralization process of the Chiang Mai initiative and called for a common foreign reserve pool. Meanwhile, ASEAN Finance Ministers in late February agreed to increase joint currency pool to $120 billion from $80 billion, to expand their system of bilateral currency swaps under the Chiang Mai Initiative to a more multilateral system, and to accelerate the development of the Asian bond market.

With most Western economies facing a severe downturn since 2008 due to the global financial crisis, China has this year emerged as the biggest buyer of products from ASEAN members such as Thailand.

Furthermore, for the implementation of FTAs, China and the Association of South East Asian Nations (ASEAN) signed an agreement to promote investment on 15 August 2009. The investment pact is the third free-trade agreement concluded between China and the 10-member Asian regional group following separate FTAs on trade in goods that took effect from mid-2005, and on services two years later. In the investment area, China is the eighth biggest investor in ASEAN with outstanding two-way investment in total US$11.7 billion at the end of 2008. The investment FTA requires host countries to provide protection for foreign direct and portfolio investments, and compensation against damages caused by riots and political disturbances. It also eases restrictions on equity ownership and land acquisition. The pact, signed by Chinese Commerce Minister Chen Deming and his ASEAN counterparts, requires their governments to facilitate speedy settlement of business and labor disputes, and repatriation of corporate earnings. **(Jenny Maria Doan)**

IMF Raises Forecasts for Asia's Economic Growth

http://www.gmanews.tv/story/175863/imf-raises-forecasts-for-asias-economic-growth

The International Monetary Fund (IMF) said that Asian economies from China to India will grow faster rather than expected through next year, far surpassing recoveries in the Western Countries. This economic growth is the result of aggressive government stimulus spending and an improvement in global trade. But the region's rapid expansion will remain below the levels seen in the decade before the economic crisis as consumers in the U.S. and other large industrialized nations curtail their spending on Asian-made electronics, cars and other goods in the face of rising unemployment and other legacies of the downturn, the fund said in a report.

Director of Asia and Pacific Department, International Monetary Fund (IMF), Anoop Singh, said during a Regional Economic Outlook forum that Asia has not decoupled from the rest of the world. In fact, Asia's fortunes remain closely tied to that of the global economy. The report shows that the economic growth would also reach broader regional economy that cross countries from New Zealand to India at 2.75 percent in 2009 and 5.75 percent in 2010. That is still below the average of 6.7 percent over the past decade. Both projections were about 1.5 percentage points stronger than those estimated by the fund in May. Economies in the seven leading developed countries, meanwhile, were seen as shrinking by about 2.5 percent this year and growing only 1.25 percent next year.

An IMF researcher, Roberto Cardalli, said that the main risk is that the global recovery stalls, despite the recent improvements in the pace of recovery, it is going to be slow. Asian countries have been leading a recovery in the world economy, with growth accelerating since governments across the region loosened monetary policies and unleashed a torrent of spending to help shelter their companies and consumers from the drop-off in global trade and finance. China's economy, the world's third largest, expanded at an 8.9 percent pace in the third quarter on the back of lavish government stimulus and bank lending. In South Korea, the economy grew last quarter at its fastest rate in over seven years. China was expected to continue outperforming, its economy growing 8.5 percent in 2009 and 9 percent in 2010, the IMF said. But Japan, as the second economy of the world, would wait behind, contracting 5.5 percent this year before turning around next year with 1.75 percent growth.

IMF said that with only about half the region's stimulus carried out so far, government measures will buy local economies over the next several quarters. Unwinding those measures will require Asian governments to walk a fine line between supporting economic activity and fighting inflation. Except for China, India and Australia, whose economies are performance quicker recoveries than most, Asian countries should ensure government policies continue to support their economies next year, the fund said. Steps to restrain the easy flow of money, through interest rate hikes and other monetary tightening, will not be necessary anytime soon because recoveries are still fragile and risks of inflation low.

Investors have been watching closely for clues to when governments will start to remove the unprecedented measures put in place to support their economies after the beginning of the crisis. Now, Norway hiked its interest rates; just weeks after Australia became the first major economy to lift rates since last year's meltdown. India's central bank also reversed this week several special measures aimed at boosting liquidity. Once the effects of stimulus programs fade, Asia will ultimately need to find ways to make up for weak demand in the West by increasing its local private consumption with the help of a broader social safety net and other reforms, the IMF said.

Asia's history of high savings and low consumption reflects a lack of state pension systems and affordable health insurance. Knowing there is no safety net, Asia's workers save more than they otherwise would while also using part of their incomes to support their parents.

Over the longer run, IMF said Asian countries will have to let their currencies appreciate. China, for example, has long held down its currency, a policy that's boosted demand for exports but which analysts say has contributed to economic imbalances that delay broader and sustainable growth in the region. The IMF also warned against raising interest rates too soon. Doing so might not only weaken the tentative rebound in most countries but aggravate this year's surge in prices of equities, real estate and other assets in Asia. That is because investors would be encouraged to borrow money from countries with the lowest interest rates, such as the United States. and Japan, and direct it toward nations with higher interest rates, a practice known as the carry trade. **(Jenny Maria Doan)**

Economic Power Shift to East Asia

http://www.thejakartapost.com/news/2009/12/21/economic-power-shift-east-asia.html

It has been widely accepted that recently economic power has been gradually shifting toward East Asia. The global economic crisis has only quickened this process. It began with the excesses at the centers of international finance happened in US and Europe. East Asia has been more resilient to impacts of this crisis. Therefore, this region has been able to overcome the crisis sooner. This situation has come about (in part) because of lessons East Asia learned from the crisis of 1997-1998, which resulted in all East Asian states retaining greater financial reserves.

In addition, they also became more willing to adopt pro-active stances in counter-cyclical spending to get their economies moving again. Furthermore, they worked to establish new development paradigms that were less dependent on exports. Currently the region is better prepared and has been more willing to carry out necessary structural reforms. This needs to be undertaken to achieve a certain levels of national resilience and to allow countries to face future crises more effectively.

This requires more domestic-oriented structural reforms, providing better safety nets; more attention to healthcare, education and green policies; and ensuring adequate funding for these. Even as these changes and shifts are happening in East Asia, the region should understand that the processes of change have global implications, and need time to fully develop. The most important among these processes is of course the relative decline of the United States (US). It is a fact that the US will remain the biggest economy for two to three decades to come, and it is expected that the recovery of its economy will take place next year, although unemployment will be the limiting factor in this recovery.

However, the US does recognize that it can no longer walk alone in trying to solve the many global problems and challenges. President Barack Obama is now reaching out to the East Asia region, in trying to get the US to look again at the most dynamic region in terms of the recovery of the world economy, including the US economy. In this regard, China, as the center of East Asia, has a crucial role to play. President Obama understands. for solving world problems — such as the recovery of the global economy; climate change; energy security; and the proliferation of Weapon Mass Destruction (WMD) — China' s role will be crucial.

It will not be a G2 arrangement or an agreement on every global issue, and in fact the strength and weight of both are not completely equal, but China, as a huge emerging economy, has the size and the growth potential that will be decisive in solving common challenges. China remains reluctant to take up obligations and to share the duties of a great power in delivering public goods — a responsibility the US, as the superpower, has had to carry since World War II.

The reason is because China still has many domestic problems that naturally must remain its first priority. In addition China, which never has had allies before (except for the USSR during the first decade after the PRC was established), this type of obligation is something new. In some cases, such as Iran or Darfur, China's national interest in securing energy or resources is clearly at stake, and therefore become a priority.

However, expectations are high that China will be more willing to provide public goods in the future in accordance with its growing power. While China's situation and developments are still below those of the US at all levels and in all fields of interest, in the economic field it has some advantages. This has been demonstrated in the recent crisis, and its role is therefore important in overcoming the global crisis. And if one adopts a long-term prospective, that role will be even more important, especially if China is going to grow at around 8 percent per year for the next two decades.

In several political security issues, especially on nuclear proliferation in North Korea and Iran, China has a critical role in helping resolve those issues. In the North

Korean issue for instance, China may be the only power that the DPRK is willing to listen to, because of its dependence on food and energy from China. In the case of Iran, China is a member of the Perm-5 of the UNSC that plays an important role, especially in employing sanctions for proliferators. One could argue whether in the long term China will be able to sustain its economic growth in view of its weaknesses in political development.

However, China should be able to overcome this issue because it is willing to learn about the necessity for political development. One can argue whether its strategy on political development will be adequate or quick enough to keep stability in the future.

However, the leadership does understand this need and they are trying hard to calibrate it, because above all they want to maintain stability, to be able to develop economically as soon as they need, which will strengthen the legitimacy of the leadership. **(Jenny Maria Doan)**

G-20 Designs for Global Economic

http://www.thenewamerican.com/index.php/economy/commentary-mainmenu-43/1970-g-20-summit-designs-for-global-economy

The G-20 Pittsburgh summit, held on September 24–25, 2009, has ended. The latest gathering of leaders of the world's 20 strongest economic powers is likely to mark a turning point towards more comprehensive international regulation and control over finance and banking. The conferees agreed to implement substantial new controls on the banking and financial sector by the end of 2010, measures that include rules aimed at improving 'quantity and quality' of bank capital and discouraging excessive risk-taking, in the words of CNN's Jennifer Liberto, measures which will be enforced beginning in 2012. Left unstated is precisely how the new rules will be enforced, but some kind of new international

regulatory agency will presumably be required.
It should be noted that international implementation of new layers of banking regulations has been a particular conceit of the Europeans, who enjoy a peculiar dominance of the G-20 owing to the fact that the European Union (EU), in addition to France, Germany, Italy, and the UK, enjoys full membership, whereas in the old G-8, the EU enjoyed little more than observer status. The political implication is clear: the EU, with its web of transnational controls over trade, commerce, and finance, is being upheld as a model for global economic micromanagement.

According to the President of the United States, Barack Obama, the world's major economies agreed to continue the effort to encourage global demand to put people back to work. The conferees committed themselves to economic growth that is balanced and sustained — so that the world avoids the booms and busts of the past. The summit reached historic agreements to reform the global financial system — to promote responsibility and prevent abuse so that the world would never face a crisis like this again. In addition the leaders agreed to reform their international economic architecture, so that they can better coordinate the effort to meet the challenges of the 21st century. In another potentially significant development in Pittsburgh, the G-20 announced the phasing out of $300 billion worth of fossil fuel subsidies, in an effort to promote "greener" energy and to combat the global warming.

The G-20 was formed to encourage the notion that international cooperation and global financial management are responsible for bringing the world economy back from the brink, as President Obama stated at his post-summit press conference. In fact, the global economy, still encumbered by trillions of dollars in new debt run up by governments from Washington to Beijing, is far from being out of the woods. However, regardless of the approach the international economy may take in the months ahead, the song will remain the same from the globalist set: any downturn will necessitate further international controls, while any increase will be complacently attributed to their gentle oversight. **(Jenny Maria Doan)**

Indonesia Looks Inward to Develop Top-Performing Stock Market

http://www.voanews.com/english/2009-10-29-voa25.cfm

The Indonesian Stock Exchange President Director, Ito Warsito says that Indonesia's stock market has gained more than 50 percent this year. This achievement made Indonesia as one of Southeast Asia's best performer, and the fifth-best worldwide. But, the Director also says more work remains if Indonesia is to seize with its more wealthy neighbors, Singapore and Malaysia.

Moreover, Ito Warsito says the market has a history of volatility. In the year of 2006-2007 Indonesia has gained high growth, which both years index grew by more than 50%. Nonetheless, in the year of 2008, it also tumbled more than 50% because of the world financial crisis. Further, Warsito says that the rise is due in part to strong prices for Indonesia's natural resources and to increased confidence in the country's political system. Indonesia's Stock Exchange is small compared with Asia's heavy hitter, such as India therefore it is a need for a political stability and new regulations to be easier for the company to go public could expand rapidly.

Indonesia has made its target for the year 2012. The Director says that by the end of 2012 Indonesia should have 2.3-million investors. Today, Indonesia has 350,000 investors. In order to reach this target, Indonesia's Stock Market focuses its development in internet technology as well as hard work. About two-thirds of Indonesia's stocks are held by foreign investors, which concern the market since dollar has dragged down regional markets. Warsito opined his goal of doubling the stock market's value will depend on a stronger domestic presence. He does not think Indonesia can balance the foreign investors because when the domestic investor base is developing; there will be more foreign investors also. So in terms of composition, foreign investors will still dominate the ownership of free flow stocks, but at least this country can achieve a widespread investor base, not only in Java, but also in the whole part of Indonesia.

Warsito hopes to have state-owned companies listed on the exchange, as well as the Indonesian units of mining giants Freeport McMoRan Copper and Gold and Newmont Mining Corporation. He also opined by improving risk management, market transparency and law enforcement, Indonesia can convince domestic investors that it is a safe place to put their funds. **(Jenny Maria Doan)**

G-20 Summit: Assessing the Global Recovery

http://www.thejakartapost.com/news/2009/11/06/g20-officials-wrestle-over-economic-imbalances.html
http://thejakartaglobe.com/home/g20-including-indonesia-to-take-leading-role-in-coordinating-global-economy-us-official/331709
http://www.pittsburghsummit.gov/mediacenter/129639.htm

The Group of 20 nations, comprising developed and emerging economies including Indonesia, is set to take a leading role in coordinating the world economy that began a two-day summit in Pittsburgh focusing on ways to prevent a repeat of the global financial crisis. The G-20 is comprised of Argentina, Australia, Brazil, Britain, Canada, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the United States and the rotating EU presidency.

The move suggests a shift from the major industrialized powers that comprise the Group of Eight to a broader forum that includes rising economic powers like China, Indonesia and Brazil. The move reflects a long-running push by countries such as China to have more of a say in world economic affairs. The financial crisis that ripped into the US economy last year and quickly spread worldwide has elevated the status of the G20 as emerging economies proved more resilient in the downturn.

The G20 summit held from September 24-25 was the third gathering since the collapse of investment bank Lehmann Brothers sent shock waves through the world financial system one year ago. The G20 was formed in 1999 for Finance Ministers and Chief of Central Bank following the Asian financial crisis. The idea was to help the G7 — the United States, Japan, Germany, Britain, France, Italy and Canada — talk with the wider world. The G8 is the G7 plus Russia. It meets at the level of leaders but has been forced since the latest crisis to share the world stage with the G20. Britain had earlier pushed for the promotion of the G20 as the steering committee for the global economy, but faced concern from some European countries that this would be at their expense.

Italian Prime Minister Silvio Berlusconi, currently chairman of the G8, urged the two forums be kept separate and made a coded call to maintain the dominance of the smaller group. Berlusconi wrote in his letter to the G20 summit host, US President Barack Obama regarding the essentiality for the closest coordination between G8 and G20 also for clearing the differences among them. Berlusconi's letter was made public soon after British Prime Minister Gordon Brown said in New York that leaders would institutionalize the G20 as the key economic steering committee.

Australian Prime Minister Kevin Rudd said earlier this week that he supported the G20 having a greater role. Prime Minister Kevin Rudd said on Tuesday at the Clinton Global Initiative, a philanthropic summit organized by former US President Bill Clinton. Rudd said that the G20, despite of its imperfections, still have a degree of representational legitimacy since it consist of world leading economic and also it has Indonesia as the largest Muslim country in the world.

On 25 September 2009, the Forum had concluded its outcome:

1. To launch a framework that lays out the policies and the way we act together to generate strong, sustainable and balanced global growth.
2. To certain our regulatory system for banks and other financial firms reins in the excesses that led to the crisis.
3. To reform the global architecture to meet the needs of the 21st century.
4. To take new steps to increase access to food, fuel and finance among the world's poorest while clamping down on illicit outflows.
5. To phase out and rationalize over the medium term inefficient fossil fuel subsidies while providing targeted support for the poorest.
6. To maintain our openness and move toward greener and more sustainable growth. **(Jenny Maria Doan)**

Recovering Global Economy Still Scarred by Crisis

http://economictimes.indiatimes.com/news/international-business/Recovering-global-economy-still-scarred-by-crisis/articleshow/5390806.cms
http://www.channelnewsasia.com/stories/afp_world_business/view/1024621/1/.html

The global economy that was headed for an abyss at the start of 2009 now appears to be in recovery, but remains fragile and scarred by the worst crisis in decades. The year began with major economies on the brink of disaster in what turned into the steepest global slump since the Great Depression, before a modest second-half comeback in most of the world.

US gross domestic product (GDP) declined to 6.4 annual per cent pace in the first quarter, dragged down by a housing market collapse that pushed down the financial sector and the rest of the economy. Jobs were being lost at a pace of 700,000 per month. The Euro zone saw a 2.5 per cent GDP slide -- a potential 10 per cent annualized drop -- in the first quarter that was the worst on record and offered the prospect of economic meltdown. Japan's economy was falling at a 14.2 percent rate.

The International Monetary Fund (IMF) warned in January that the world economy is facing a deep recession. A study by economists at the University of California and Trinity College of Dublin found that world trade fell faster and stock markets plunged further in the first year of this crisis than in 1929-30, and that the decline in manufacturing was as severe as the start of the Great Depression.

Governments launched stimulus programs of hundreds of billions of dollars, and central bank cuts rates to record lows -- near zero in the United States and Japan -- while bailing out trillions into the banking system to help restore credit flows. Slowly, the efforts seem to have borne fruit. The main economies are growing, even if the pace is less than spectacular. Director of the Washington-based Peterson Institute for International Economics, C. Fred Bergsten, said in a recent speech that the result of this program is still mixed, has not been accomplished yet.

Bergsten said the interventions appear to have arrested the precipitous downward slide and, in most cases, restored at least some positive momentum. Chief economist at research firm IHS Global Insight, Nariman Behravesh, also says central banks led by the Federal Reserve deserve credit for "unorthodox monetary policy" including so-called quantitative easing, or bailing out more money into the financial system, averting a global depression.

Moreover, Behravesh said that the difference between now and the Great Depression was that in the 1930s, the Fed allowed the money supply to shrink and was not aggressive enough. The US economy expanded at a 2.2 percent pace in the third quarter after four quarters of contraction. Japan grew at a more moderate 1.3 per cent pace in July-September. The 16-nation euro zone saw 0.4 per cent growth over the quarter, a slow annual pace, after five quarters of contraction.

China, which saw a slowdown but avoided recession, had third-quarter growth accelerating to 8.9 per cent in an expansion built on stimulus cash and bank lending. Globally, the IMF projected in October that growth would be 3.1 per cent in 2010, after an estimated 1.1 per cent global contraction in 2009, the worst since World War II. Morgan Stanley economist, Joachim Fels and associates, project 4.0 percent global growth for 2010, but just 2.0 percent in the advanced economies of the Group of ten (10).

Fels said the economies will see "creditless recoveries" where banks are reluctant to lend and predicted "a jobless G10 recovery" with unemployment still high in the United States, Europe and Japan. Chief economist of High Frequency Economics, Carl Weinberg, was less optimistic, saying an ongoing credit crunch particularly gave him grave doubts about the capacity of any of (the top industrialized nations) to grow much in 2010, if at all.

Weinberg said that we still uncertain whether a single G7 economy that will be able to grow next year without substantial incremental fiscal stimulus. Others argue that the global economic problems, instead of being solved, have been shifted by the government rescues, with the exit strategy unclear. **(Jenny Maria Doan)**

Sharia Banking Comes to Germany

http://www.businessweek.com/globalbiz/content/oct2009/gb20091026_154613.htm
http://www.businessweek.com/globalbiz/content/oct2009/gb20091026_154613_page_2.htm

Financial services compatible with Islamic rules, which have been available in Britain, will be launched in Germany in short terms. There are four million Muslims living in Germany. Nevertheless when it comes to monetary transactions, the principles of Koran have played hardly any role in Germany.

Early next year, the first Islamic bank in Germany shall offer products that are in compliance with Sharia law. The Bank, *Kuveyt Turk Beteiligungsbank*, will open a branch in the downtown area of Manheim, a city of western Germany and branches in other cities are also planned. The regulators with Germany's Federal Financial Services Authority, known as BaFin, issued a limited license to the subsidiary of a Turkish-Kuwaiti bank recently. It is only permitted to collect funds that are transferred to accounts in Turkey that conform to Islamic rules.

In other countries, the banking industry initially catered to Muslims on an equally small scale. Nevertheless in less than ten years after first entering the market, all major banks in Great Britain now posses Islamic divisions, and there are also five Islamic banks in the country. In worldwide scale, assets that are worth over $700 billion (€470 billion) are now being managed in accordance with Islamic principles. On the other hand, virtually no banks have so far addressed this market in Germany.

The underlying concept of the Islamic banking business is the Prophet Muhammad's prohibition of interest. Muhammad took action against the usurers of his time, who exploited their contemporaries by charging them excessive interest, sometimes over 100 percent. Summarily, Muhammad prohibited charging interest unless something was prohibited in return. Since the 1970s, Islamic banks have sought to satisfy this requirement by offering their costumers financial services on the basis of interest-free transactions.

Instead of interest, customers are promised a share in the profits of the banks. However, commercial activities can also be finances in which the Islamic investor collects a surcharge at a level similar to conventional interest. For example, instead of taking out a loan to build a new factory, a company would offer its investors a share of its profits. The important aspect of all of these transactions conducted in the name of Allah is that they are in fact based on a real exchange of goods or services.

The stock indexes that contain companies selected according to Islamic principles have sometimes outperformed comparable indexes without the religious association. The President of the world's most populous Islamic country, Indonesia, Susilo Bambang Yudhoyono, said that Sharia-compliant banking transactions are in a position to assume a global leadership role.

The German financial regulators plan to host a major international conference next week in Frankfurt and Mainz to address the issue in Germany. To attract more business to German markets, BaFin, inspired by the success of the British model, is now eager to approve more financial institutions that offer Islamic products. Although the Islamic banks were originally established for wealthy Arabs from the Gulf region, British Muslims are now among their most devoted costumers. There is also political support for the development of Islamic financial centers in Paris, Zurich and Geneva.

So far the boom has bypassed Germany, despite the results of new studies showing that no other country in Western Europe has such a large Muslim population. The official explanation is that the Turks living in Germany are not particularly interested.

Nonetheless German official professional also fear that they could lose more of their existing costumers than gain new costumers by introducing Sharia-compliant products.

Zaid el-Mogaddedi from the Frankfurt-based Institute for Islamic Banking, said that the argument is pretty arrogant. He cited surveys which conclude that 75 percent of all Muslims in Germany would like to avail of Islamic financial products. According to Mogaddedi, between the year of 1995 and 2002 Turks has lost many billions of Euros with Islamic shares in companies that had been floated by swindlers, and they now have a strong interest in products from established banks.

Islam-compliant real estate financing arrangements are considered promising. In these situations, banks and costumers purchase real estate together, with the costumer contributing a share corresponding to his equity. The bank pays rent for the rest, gradually acquiring the remaining shares. As a result, no interest accrues, but the property acquisition tax is charged twice. The same problem used to exist in the UK. Furthermore, Prime Minister Gordon Brown, who was finance minister at the time, insightfully abolished the double tax obligation. The Central Council for Muslims is now calling for similar measures to be taken in Germany.

A second stumbling block can also be removed with a bit of good will. Under Sharia law, Muslims who deposit money with a bank must also participate in the bank’s risk. However, for the deposit insurance, which is set by the government, will come into effect when the bank becomes insolvent. In fact, consumer advocates across the board have welcomed a recent increase in the deposit insurance limit to €50,000.

In Great Britain, a Muslim costumer can expressly waive the insurance of his deposits in an individual agreement. The fact that the British government, in the course of the financial crisis, has nationalized entire banks is probably something like an Act of God under Islamic law. At any rate, there are no signs so far that a significant number of Sharia supports have legally challenged the Governments bailout of their bank**. (Ni Putu Anggraeni)**