International Business News

Nobel laureate says worst of economic crisis is over

AFP, *Seoul*

Nobel economics laureate Robert Mundell said Thursday the worst of the world economic crisis is over and the US economy is in the recovery phase.

The winner of the 1999 Nobel Prize in economics also said there was a need to consider the possibilities of an Asian currency or an Asian Monetary Fund.

"The world economy is not in as bad shape as it appears from the news," he said in his keynote presentation at the World Leaders Forum held here to commemorate the 60th anniversary of the founding of South Korea.

"The real economy has not collapsed. The worst is behind us," he was quoted as saying by Yonhap news agency.

"The US growth was superb in the first three quarters of 2007. Then there were two quarters of nearly zero growth -- a severe growth recession," said the professor of economics at Columbia University in New York.

Then during second quarter of 2008, the US growth rate shot up to 3.3 percent, he said, adding growth in the third quarter to September this year will "probably turn out to be about two percent."

Mundell pointed out that the pattern of the recent economic slowdowns in the US and European economies was similar to that in 2002.

Japan unveils stimulus package, stocks soar after US rate cut

AFP, *Tokyo*

Japan's Prime Minister Taro Aso on Thursday unveiled a 277 billion dollar package to stimulate the world's second largest economy as stock markets soared off the back of an interest rate cut in the US.

As a slew of disappointing company results attested to the impact of the global financial crisis, the French government said that economic growth had slowed dramatically while house prices in Britain slumped by record levels.

There was better news however in Europe's largest economy, with Germany's unemployment rate dropping below three million for the first time in 16 years.

As he announced his 26.9 trillion yen (277 billion dollar/208 billion euro) package, Aso said it was designed to cope with a "once-in-a-century event."

The measures included tax cuts, benefits sent directly to households and loans for small businesses, he told a news conference.

"In this kind of situation, we need to relieve people's insecurities. We should not be fearful of the violent storm, nor should we just stand and let the typhoon blow us away."

AFP

The Westfield London shopping centre is pictured on its official opening day in west London yesterday. An enormous shopping complex -- dubbed the biggest in-town retail centre in Europe -- opened its doors in London even as shoppers here struggle with the credit crunch and a tanking economy.

IMF to put five-point financial reform plan to G20

AFP, *Paris*

The head of the International Monetary Fund said Thursday he would propose five avenues to reform the global financial system, with the fund reasserting a regulating role, when G20 countries meet in two weeks' time.

IMF Managing Director Dominique Strauss-Kahn told the newspaper Le Monde he expected the meeting of Group of 20 leading economic countries on November 15 in Washington to take full acount of "the historic situation we are living through."

The meeting should therefore give "a decisive impulse on the basis of the document which we will submit on the lessons of the crisis, for reform of world governance."

The IMF's role as "coordinator of global regulation must be reaffirmed," he told the paper, adding that such a move had been advocated by French President Nicholas Sarkozy.

"I will therefore propose to the G20 a new governance plan ... a global regulation strategy" based on five approaches, he said.

Forbes rich list: Financial turmoil hits China's super-wealthy

AFP, *Shanghai*

The credit crunch and financial crisis have more than halved the combined wealth of China's richest people, Forbes magazine said Thursday as it released its annual Chinese billionaires list.

The ranking illustrates how fortunes have risen and fallen over the past tumultuous year as the net worth of mainland China's 40 richest people fell 57 percent to 52 billion dollars from 120 billion dollars, Forbes Asia said.

Coming out on top was Shanghai-based agricultural feed tycoon Liu Yongxin with a net worth of three billion dollars while 20 billionaires including paper recycling queen Yan Cheung, who was once ranked as China's richest person, have dropped off the list entirely.

Cheung's company, Nine Dragons Paper, has lost 95 percent of its peak value and her net worth is now estimated at 295 million, the magazine said.

FINANCIAL CRISIS

Shift from West to East

STEPHEN GREEN

Our industry is going through a crisis the like of which none of us has experienced before. Many people are asking if this is the worst financial crisis since 1929. It probably is. Is it the most complex financial crisis the world has seen? Certainly, it is. Will it usher in a recession? I'm afraid this seems inevitable. Indeed, although the economic data lags the facts on the ground, it seems likely that the UK and a number of other economies are already contracting. These risks are creating a further phase in which conventional credit impairments rise as a result of recession.

As the crisis has intensified, so has the analysis of the causes behind it, which are complex.

Many factors have contributed to the financial crisis. Some of the most significant ... but this is by no means an exhaustive list... include:

The explosive growth of subprime lending, notably in the US. Eighteen months ago, subprime was the main villain; today it has been subsumed by the wider crisis, and appears half-forgotten. Yet it was the downturn in the US housing market, and the pressure that put on less well-off homeowners that triggered the start of this crisis.

Stephen Green

Subprime is, however, far from the only villain in town. The complexity and opacity of certain financial instruments reached a point where even senior and experienced bankers had trouble understanding them, let alone investors. This meant that people were selling and buying assets whose risks they had not properly assessed.

On top of that, these assets were created on the back of ever-higher leverage, both direct and indirect. And when the securitisation market began to collapse, banks found themselves with assets that they could neither sell nor fund, so creating large losses on the asset side and a funding stretch on the liability side for which they were entirely unprepared.

In several markets there was an over-dependence on wholesale funding, based on the assumption that funding would never dry up -- an assumption that has proved fatal to some once distinguished names in banking.

Finally, weakening economies and declining asset values, particularly housing, risk feeding back into lower asset quality more generally, giving rise to further impairment charges.

Each of these factors has undoubtedly contributed to the breadth and depth of this financial crisis.

However, something even more fundamental is underway in the world economy, of which this crisis is a manifestation and on which we need to focus if we are to understand its real significance. And to understand this, we need to take a step back and consider the global macroeconomic context.

The principal feature of the global economy in recent years is that it has become something of a perpetuum mobile. In the post-war period there has been an increasing interdependence between national economies, on the back of falling trade barriers and freer capital flows.

The post-war recovery of Germany and the rise of Japan foreshadowed the rise of dynamic Asian economies such as Hong Kong, Korea and Taiwan, the so-called newly industrialised countries. And of course, in the last 20 years, the economic renaissance of the world's two largest nations -- China and India -- has changed the landscape still further.

We have also seen the rapid rise of resource-rich nations, primarily energy-producers, thanks to the growing demand for oil and other minerals.

Meanwhile, in mature economies the consumer has become king. Consumption in western markets has been the main driver of economic growth over the last few years, funded by exceptionally cheap borrowing, made possible by savings surpluses built up in the developing world.

These changes to the economic landscape have effectively created an economic triangle. On one side, those economies that are the workshops of the world, most of which are relatively resource-poor. On another side are the resource suppliers, notably the Middle East, which produces almost a third of the world's oil and will produce an increasingly significant proportion of the world's gas as well.

And on the third side, you have consuming nations with low savings ratios particularly, of course, the US, which has become what you might call the "spender of last resort".

This triangle has sustained high rates of world economic growth, but it has also helped create huge, and growing financial imbalances. The newly industrialised countries -- the workshops of the world -- with their high savings rates and low exchange rates have built up massive currency reserves.

So have the resource-rich exporters, where in many cases a combination of small populations, and until recently strong global demand for oil and high energy prices, has created surplus liquidity which is available for investment in international markets in one form or another.

Meanwhile, counterbalancing these surpluses have been the consumers of the developed world, where debt has grown exponentially among consumers. In the UK, for example, the ratio of debt to income reached 173 percent this year, up from 129 percent five years ago, and higher than any other G7 economies.

These factors have been accompanied by increased financial market leverage. Why? Again, there are multiple reasons.

Primary among them, the search for yield among investors. The equity collapse at the beginning of the decade prompted institutional investors to move out of equities and into fixed income investments. But the bond markets were drawing in surplus liquidity from emerging markets -- over 50 per cent of US treasury debt is now owned by foreign investors -- significantly reducing bond yields. Mortgage backed securities seemed to fit the bill of higher yields with limited risk that was sought by investors. This in turn stimulated huge growth in these securities, and also changed the funding model for banks. In 1990, just 10 percent of mortgages in the United States were securitised, compared with 70 percent in 2007.

And in general, the liquidity build-up served to artificially compress risk spreads, fuelling asset price inflation, especially in real estate, that eventually became a bubble.

Even at zero growth rates, the imbalances in the real economy would have led to an increase in assets and liabilities. And at high growth rates, the after-burners were well and truly on.

The combination of a tidal wave of liquidity and the search for yield produced rising risk or reward ratios, with investors moving up the scale, even as the scale itself was rising.

So the effect of this macroeconomic triangle was to make the financial markets intrinsically and increasingly unstable. And on top of this, global monetary conditions contributed further to instability.

The period of loose monetary policy between 2002 and 2004 offset the corporate deleveraging that had followed the dot com bust and 9/11 by encouraging increased consumer leverage.

The tendency for emerging markets to run monetary policies explicitly or implicitly tied to US policy, because of their foreign exchange policies, created the scope for loose monetary conditions to spread globally.

This reduced the cost and the risk of investing surplus liquidity in the US dollar, thus feeding what would become a spiral of cheap credit, rising asset prices and high consumer borrowing.

The blow-up was inevitable and has been very painful.

And as in previous crises, the specific trigger for today's crisis, subprime, has become relatively less important as the crisis unfolds.

Now the principal concerns are about the massive breakdown in confidence and trust that has led to market failure, manifested by the system-wide "wholesale bank-run" which has clogged the inter-bank markets and turned the bursting of an asset price bubble into a full-blown liquidity crisis. And so we arrive at today's situation where governments have been forced to guarantee term lending, to inject huge volumes of liquidity into the system, and to recapitalise many financial institutions, becoming potential or actual "owners of last resort".

"This too shall pass," as the saying goes. But there will be no return to the status quo ante. There are many lessons for banks, regulators, investors, monetary authorities, accountants and consumers to learn from this crisis.

The high-leverage model of finance is bankrupt. But securitisation will survive. You cannot bring the whole of the world's capital markets back on to banks' balance sheets.

Stephen Green is the group chairman of HSBC Holdings. The article (part-one) is adapted from his October 20 speech at the FT/DIFC World Financial Centres Summit. The second part comes in our next edition.

Group of Seven

The G7 club of rich nations pledged Monday to cooperate to bring stability to the global financial system

	CANADA	BRITAIN	FRANCE	GERMANY
Area (sq km):	9,971,000	243,000	547,000	357,000
Population (million):	33.0	61.0	61.7	82.3
GDP (US$ billion):	1,326.4	2,727.8	2,562.3	3,297.2

	USA	ITALY	JAPAN
Area (sq km):	9,628,000	301,000	378,000
Population (million):	301.6	59.4	127.8
GDP (US$ billion):	13,811.2	2,107.5	4,376.7

Source: World Bank/G8 271008 AFP

Luxury market takes hit from credit crunch

AFP, *Washington*

Even the wealthiest consumers are cutting spending in the face of the global economic turmoil, which will likely push the worldwide luxury retail market into recession in 2009, a survey showed Wednesday.

The high-end market, once thought immune to economic trends, has begun to feel the impact of the worldwide economic slowdown, according to the survey by Bain & Co. commissioned by Altagamma, the Italian association of Italian luxury goods companies.

The study finds that the growth of global luxury goods sales will slow sharply, to grow 3.0 percent in 2008 to 175 billion euros (220 billion dollars).

The slower growth rate stands in stark contrast to the 9.0 percent growth in 2006 and the 6.5 percent advance in 2007.

For 2009, luxury faces its first recession in six years, with a decline in overall sales of as much as 7.0 percent based on a constant exchange rate, the report showed.

But the report authors said currency fluctuations may have a positive impact on luxury market growth.

"The impact of the financial crisis will bring some sectors into a recession," said Claudia D'Arpizio, a Bain partner based in Milan and lead author of the study.

"How much and how long depends in part on how companies react. The most resilient will be those with strong international and diversified brands."

AFP

Bottles of perfume are displayed during the luxury goods packaging fair LUXEPACK in Monaco.

According to the report, rising spending by wealthy consumers in emerging markets like Brazil, Russia, China and India will help offset weakness in the major industrialized countries.

It projects a jump of 20 to 35 percent in luxury spending in the big emerging economies in the next five years.

But so-called "mature markets" still account for nearly 80 percent of worldwide luxury sales, according to Bain, and these are showing signs of stress.

According to the report, Japan's luxury market, which accounts for 12 percent of the global total, is already in a luxury goods recession, decreasing by two percent in 2007 and by seven percent in 2008, with the drop in the yen against the euro hurting sales.

Europe remains the leading market with 38 percent of the total after 10 percent growth in 2007. Growth is expected to slow to 5.0 eprcent in 2008, with much of that coming from Eastern Europe.

In the Americas, which saw 4.0 percent growth in luxury sales in 2007, no growth is expected in 2008, the first year of stagnation since spending retreated after the September 11, 2001, terror attacks in the United States.

The US luxury market has been hurt by the subprime real estate meltdown and the surge in the euro earlier this year.