

International Business News

Key Russian bank seeks \$34b

AFP, Moscow
Russian state bank VEB has asked the government for an additional 950 billion rubles (34 billion dollars) to shore up its cash reserves, Vedomosti business daily reported on Wednesday.

The request was made in a letter from VEB chief executive Vladimir Dmitriyev to Prime Minister Vladimir Putin, who also chairs the VEB board, on November 6, the paper said, citing two government sources who were not identified by name.

A decision on the request was expected by the end of this week, the paper said.

VEB is a state vehicle charged by the Kremlin with distributing a portion of the more than 200-billion-dollar rescue package approved by the Russian parliament earlier this autumn.

Vedomosti separately reported that industrial production in Russia would shrink by 2.4 percent next year, dropping to levels not seen since the 1998 Russian financial crisis.

It was expected however to pick up again in 2010 and would grow by more than two percent by 2011, the paper said, citing data from a recent forecast prepared by the economy ministry.

Separately, the unemployment level in Russia has risen to 6.1 percent and was expected to climb further, the daily Kommersant reported, quoting figures from the state statistics agency Rosstat.

Telecom Italia to cut 4,000 more jobs in Italy

AFP, Milan
Italian telecommunications group Telecom Italia said on Wednesday it would cut a further 4,000 jobs in Italy under its new business plan covering 2009 to 2011.

Telecom Italia, saddled with debt of 35 billion euros (44 billion dollars), had already planned 5,000 job cuts in Italy under the 2008-2011 plan focused on cutting costs.

The group has also announced its intention to sell non-strategic operations in deals that could be worth up to 3.0 billion euros.

Telecom Italia, which had a turnover of 31.3 billion euros in 2007 for a net profit of 2.5 billion euros, employs about 66,000 people in Italy and is also present in Brazil, Argentina and Germany.

Unions agreed in September to the first batch of 5,000 job cuts, by normal departures through the end of 2010, and new negotiations will be needed on the second batch.

The new business plan along with other measures aims to achieve savings of two billion euros by 2011 and a sharp reduction of the debt, the group said in a statement.

It now forecasts that its turnover and margins over the next three years will be in line with those of 2008, with more than 2.0 percent growth in revenues and margins of more than 39 percent.



AFP
Britain's Queen Elizabeth II leaves Buckingham Palace en route to The Palace of Westminster for the State Opening of Parliament, in London. Queen Elizabeth II unveiled the government's legislative programme for the next year Wednesday, with the emphasis on bolstering the economy against further mayhem.

Queen's speech stresses British focus on economy

AFP, London
Queen Elizabeth II unveiled the British government's legislative programme for the next year Wednesday, stressing its "overriding priority" was to bolster the economy against looming recession.

The lavish ceremony surrounding the Queen's Speech -- when she speaks from a gold throne in the House of Lords, wearing an ermine robe and a crown studded with nearly 3,000 diamonds -- contrasted with her message of economic caution.

In a 10-minute address written by Prime Minister Gordon Brown's government, the queen said ministers would introduce a banking bill to boost protection for depositors after a year of turbulence in the sector in Britain.

This saw the near-collapse of Northern Rock, which was nationalised in February; last week's de facto nationalisation of the Royal Bank of Scotland; and the impending takeover of HBOS by Lloyds TSB.

"My government's overriding priority is to secure the stability of the British economy during the global economic downturn," she told lawmakers and peers crammed into the House of Lords.

Petronas cuts chemicals output as downturn hits

AFP, Kuala Lumpur
Malaysian state energy firm Petronas said Wednesday it has cut production at its petrochemical plants due to lack of demand as the global economic crisis hits.

"A lot of petrochemical facilities (worldwide) are being shut down because of lack of demand," Petronas president and chief executive Mohamad Hassan Marican told reporters.

"We have brought our plants down in Kertih (in eastern Terengganu state)," he said. "When there is no market, there is no point to produce the polymers."

Petrochemical plants produce polymers and resins that are used to manufacture plastic consumer items.

With crude oil prices below 50 dollars a barrel, Hassan said the industry would have to firm alliances to weather the economic storm during "this challenging environment."

ANALYSIS

A year for Tata to forget

AFP, New Delhi
It has been the year India's House of Tata would rather forget, capped by the militant attack on the iconic Taj Mahal Palace hotel, the symbolic jewel in their corporate empire.

In January, the family-led conglomerate was on top of the world after unveiling to global acclaim the prototype for what it said would be the cheapest-ever car, the jelly-bean-shaped Nano, costing 2,500 dollars.

Two months later, the Tatas sealed a 2.3-billion-dollar deal to buy two of Britain's proudest car emblems, Jaguar and Land Rover, vaulting its flagship Tata Motors into the luxury car league and pursuing a dream of chairman Ratan Tata to spread the group's wings "far beyond India."

The acquisition came a year after the group paid 13.7 billion dollars for Anglo-Dutch steelmaker Corus in what was India's biggest foreign takeover and put Tata among the ranks of the world's top six-steel makers.

But since the Jaguar-Land Rover purchase, it has been downhill for the group amid a slowing domestic economy, a credit crunch and a deepening world economic crisis that has caused a slump in demand for vehicles produced by Tata Motors.

The final straw in what India's media has dubbed the Tatas' "annus horribilis" -- meaning "horrible year" -- was the attack on the group's century-old Taj, one of two prestigious hotels targeted by the gunmen.

"This has been a terrible blow," said Ratan Tata, one of India's most respected corporate chieftains, after surveying the damage.

The red-domed hotel was damaged by bullets, grenades and fires during the three-night battle between the military and the

militants that left 188 people dead. The group has vowed to "re-build every inch" of the hotel, which stands opposite the British colonial era Gateway of India monument.

But restoring the sumptuous 565-room hotel is only one of the group's worries.

Flagging vehicle demand has pushed Tata Motors' shares down 82 percent this year and last Friday, ratings agency Moody's cut its debt rating by two notches to B1 -- four ranks below investment grade -- deep into "junk" territory.

On Monday, Tata Motors said vehicle sales slid 30 percent in November and it has announced a slew of temporary shutdowns at its plants around India to cope with declining demand.

Declining sales at home and abroad mean Tata Motors is facing "pressure on profitability," said Elizabeth Allen, a vice-president at Moody's.

"The key European and US markets of Jaguar-Land Rover have deteriorated materially," she said.

"It was a good acquisition but poorly timed, nobody knew a slowdown of such magnitude would happen, it's a great weight," said a Mumbai car analyst who asked not to be named.

This week, in a move underlining its difficult straits and tough global credit environment, Tata Motors appealed to the public through newspaper ads to raise cash.

The call comes as it tries to refinance debt from its purchase of Jaguar and Land Rover. It offered a fixed-deposit scheme paying up to 11 percent annual interest -- nearly double the amount of a government bond.

"Tata Motors invites deposits from the public," the company said, the first time in 13 years it has turned to the public for cash.



Chairman of Indian industrial Tata Group Ratan Tata (L) talks with an unidentified person at The Taj Mahal Hotel in Mumbai on November 29.

Meanwhile, the Nano, aimed at making cars affordable to millions more Indians, is slated to roll out by next March.

Its debut was delayed by several months when violent protests over the acquisition of farmland for the project forced Tata to shift the plant from West Bengal state to

Gujarat, known for its pro-business climate.

The Tatas' other big-league purchase Corus has also hit rough weather with steel prices collapsing and has sharply cut output.

Still, analysts say it would be wrong to underestimate the ability of the group -- a domestic colossus

with annual revenues of 62.5 billion dollars -- to rebound.

"These are definitely rough times but they've enough resources to sustain them, they've weathered other crises," said D.H. Pai Panandiker, president of the economic think-tank RPG Foundation.

COLUMN

SADIQ AHMED

Productivity crucial to food security

The recent food and fuel prices inflation has created enormous hardship for the poor families in the South Asian region. Bangladesh, a net food importer, is considered to be amongst the most vulnerable to the food crisis over the medium to long-term. South Asia suffered an income loss of 9.6 percent of GDP, between January 2003 and April 2008, because of the resulting trade shock. Although much of the loss resulted from the hike in petroleum prices, the surge in food prices (especially of staple food - wheat and rice) between January 2007 and April 2008, created tremendous adverse social impact in South Asia.

In Bangladesh, the food price shock has increased Bangladesh's poverty rate by around 3 percentage points. A World Bank survey finds nearly 8 percent of the surveyed households pulled their children out of schools to get jobs to assist their families to cope with the crisis.

All the countries within the region have witnessed unprecedented surge in food prices. Since 2005, global food prices have been on an upward trend. Prices accelerated in 2007. Rice prices increased nearly five-fold between 2002 and May 2008. Countries dependent on food imports, such as Afghanistan, Sri Lanka and Bangladesh, have suffered the most from the food price crisis.

On a net basis, the consequences of poverty reduction are substantially negative. This is because the share of food consumption in total consumption for the poor is extremely high in South Asia and the number of poor households who are net buyers of staple food are much more than the number of those who are net sellers.

The short-term prices of food are coming down, but the long term challenges still remain. Prices have come down since August, yet they are substantially higher than levels in 2004. The emerging global financial crisis is making the situation worse for the macroeconomic balance and growth. While, much of the immediate policy focus had been on food price stabilisation, the implications of the various short-term policies in the long-term have not always been analysed enough.

Factors that have been contrib-

Annual growth rates in production and consumption of food in South Asia 2000-2008

Country	Production growth			Consumption growth			Population growth
	Wheat	Rice	Total	Wheat	Rice	Total	
Bangladesh	-8.8	2.0	1.5	0.0	2.6	2.3	1.6
India	0.3	1.5	1.0	1.9	2.6	2.3	1.7
Nepal	2.1	0.2	0.8	2.2	0.4	0.9	2.3
Pakistan	0.3	1.8	0.8	1.2	-1.0	1.0	2.6
Sri Lanka	0.0	2.2	n.a.	2.0	0.0	1.6	0.9
South Asia	1.6	0.2	1.0	2.2	2.4	2.3	1.9
World	1.8	1.0	1.5	1.3	1.0	1.2	1.1

Source: World Bank

uting to the global food price inflation:

- Rising population
- Rapid economic growth in emerging markets
- Increased use of food crops for bio-fuels,
- Hedge fund
- Declining global stocks of food grains due to changes to buffer stock policies in the US and the European Union (EU)
- Droughts in Australia
- High energy and fertiliser prices
- Depreciation of the US dollar

The world faced a global production shortfall of food, especially of staple food. Between 1999 and 2008 world food consumption has grown faster than production. Demand exceeded supply and caused a rapid depletion in food stocks putting pressure on prices. Trade bans worsened the situation. On the other hand, the cost of production rose sharply fueled by a surge in fertiliser, diesel, electricity and transport costs.

This situation has been mirrored in South Asia. An increased cost of production led to sluggish growth in food supply. However rising population figures have ensured robust demand. Total food production (rice and wheat) grew at a slow pace of 1 percent per annum as compared with consumption growth of 2.3 percent. Consequently, stocks were run down for both wheat and rice. The result: a food price crisis.

Now, let's see how has the food and fuel crisis affected South Asia? Firstly there has been macroeconomic effects and loss of income. Trade loss was equivalent to 8 percent of GDP between 2003-

2008 for Bangladesh. However Bangladesh benefited tremendously from the growth in foreign remittances in spite of losing on the trade account. Secondly, the global food price inflation has led to deterioration of fiscal and external balances, leading to fiscal deficits of South Asian countries. Rising food and fuel prices have been a major source of inflationary pressure in South Asian countries. Thirdly, the impact on poverty has been substantially negative. This is because, South Asian poor on average spend between 25-60 percent of their total income on staple food; this share rises as income. There are many poorer households who are net buyers of staple food than net sellers and access to official safety net programmes is hugely limited by inadequate fiscal space and many ineffective programmes. The bottom quintile suffered most in Bangladesh, where average income declines by 10.5 percent as compared with less than 2.5 percent for the top two quintiles. On a net basis South has suffered the most loss of income as a percent of GDP among all developing regions.

So what has been South Asia's response to the food crisis? Much of the immediate actions were focused on stabilising prices and not on supply response or other dimensions of policy management. The types of policy actions fall in four broad categories: trade policy measures; stock management to augment domestic availability; pricing policy measures; and safety net measures. Almost all countries reduced import

duties on food items. Most South Asian countries also reacted to the situation by imposing export taxes or other levies. Export bans simply worsened the price situation for food importing neighbors. For example, India's ban on rice hurt prices in Bangladesh.

A system of subsidies, production controls, public procurement and distribution have been adopted to keep the production prices down while also providing incentives to farmers through input subsidies and price support based on public procurement.

All South Asian countries provided some kind of safety net protection to its most vulnerable citizens. These safety net interventions include generalised public food distribution, targeted food distribution including food for works, school meals, conditional and non-conditional cash transfers, and employment guarantee schemes. However, the lack of a central strategic body, which coordinates the myriad of safety net programmes currently in place is a serious weakness given large unmet needs and finite resources.

Though the short-term policies of the government were aimed at stabilising food prices, some policies as trade bans, price controls may have adverse implications for efficiency and resource allocation over the longer term. Longer-term policy attention now needs to shift towards efforts to increase farm productivity, improve rural infrastructure, and lower the vulnerability of the poor.

Policies for raising productivity
Issues relating to technology, the timely availability of key inputs

(especially water, fertiliser and energy), pest control and farmer incentives has to be addressed. The range of policies includes better incentive policies for farmers. The rising cost of energy, the emerging water shortages, and the frequency of natural disasters especially from flooding and drought, suggest the need to pay attention to climate change, cross-boundary water sharing arrangements and regional energy trade. South Asia's agriculture trade policy can be improved.

On average trade policies for agriculture are more restrictive in South Asia than in other regions, suggesting the scope for lower protection. Trade cooperation with neighbors would appear to be a more potent way of managing food security than trade bans because such bans simply fuel high-cost informal trade at the expense of both farmers and consumers.

Food stock and public distribution

There is a need to rethink the right balance between food stocks and trade. Maintaining some level of stocks to meet emergency situations and global crises is a sound policy decision. Working out that prudent level while keeping an eye on fiscal cost and stock wastage is important. Healthy trade between nations is a better policy option than trade bans or prohibitive tariffs.

Input-output pricing policies
Food security concerns on the supply side are possibly best addressed by focusing on farm productivity rather than through subsidised inputs. Areas include: (a) spending on rural infrastructure (roads, irrigation, rural electricity), (b) farm technology, (c) research and extension.

Safety nets
The root cause for poverty must not be overlooked in designing safety net schemes. The most sustainable way of reducing poverty is to ensure that policies protect economic growth and promote employment. Reduction of various vulnerabilities emerging from natural disasters and lack of access to credit would be a key component of an effective safety net strategy such as micro credit schemes on Bangladesh.

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