International Business News

Kuwait income hit by oil price plunge

AFP, *Kuwait City*

Opec member Kuwait earned 1.255 billion dinars (4.65 billion dollars) in November, its lowest monthly income this year due to the sharp decline in oil prices, the finance ministry said on Sunday.

The oil-rich emirate's revenues have been declining since peaking at 12.9 billion dollars in August as the price of Kuwaiti oil, which makes up 95 percent of public income, dived to 35 dollars a barrel from around 140 in July.

Nevertheless, the Gulf state still posted a healthy income of 17.7 billion dinars (64.4 billion dollars) in the first eight months of the 2008/2009 fiscal year, up 40 percent on the budget target for the year ending on March 31.

Oil revenues came in at 16.8 billion dinars (61.2 billion dollars), 44 percent above budget projections of 42.4 billion dollars based on a price of 50 dollars a barrel.

Kuwait, which says it sits on 10 percent of global oil reserves, was pumping about 2.6 million barrels per day but recent Opec cuts have reduced its output quota to around 2.2 million barrels per day.

Spending in the first eight months was 7.9 billion dinars (28.7 billion dollars), less than half of the 18.966 billion dinars (69 billion dollars) in budget outlays forecast for the entire year.

Japan watchdog to police lending to small firms

AFP, *Tokyo*

Japan's financial watchdog may punish banks which it finds guilty of unfairly withholding loans to smaller businesses, in order to avert a credit crunch among such firms, a report said Sunday.

Toward the ends of the calendar and fiscal years when corporate funding needs increase, the Financial Services Agency (FSA) will interview bank officials over how they have responded to loan requests from small and midsize firms, the business daily Nikkei reported, citing unnamed government sources.

The agency will carry out unannounced inspections and other measures to check whether banks have unfairly rejected loan requests or acted inappropriately when collecting money, the report said.

In serious cases, it may impose administrative penalties, it said.

The government in October launched a credit guarantee programme which fully guarantees loans taken out by smaller businesses.

Despite the onset of the programme, the government has received many complaints from firms about reluctance to lend and unreasonable collection practices among financial institutions, the report said.

AFP

A pedicab driver rides through an intersection at twilight on a cold winter's night in Beijing yesterday. China urged local authorities to help find jobs for hundreds of thousands of migrant workers reported to be flooding home after being forced out of work by the global financial crisis. There are about 210 million migrant workers in China, according to official figures.

Swiss govt may unveil third aid package

AFP, *Geneva*

The Swiss government will unveil new measures to boost the economy should the country plunge into a deeper recession than expected, Finance Minister Hans-Rudolf Merz said in remarks published Sunday.

The economics ministry had earlier projected that the economy here would shrink by 0.8 percent in 2009, with a recovery not seen until 2010.

"Should these forecasts fail to materialise, we would under those circumstances put in place a third aid package," he said in an interview with Swiss Sunday newspaper Sonntag.

Without giving details, he said the measures could be put in place "relatively quickly."

The Swiss government in mid-October announced an aid package worth almost 60 billion dollars to restore confidence in the country's biggest bank UBS which has lost billions on the United States home loan crisis and the ensuing financial turmoil.

Merz said that together with Economics Minister Doris Leuthard, he was working on a second aid package worth "a few hundred million" which would target the construction industry as well as the export industry.

South Korea to streamline state-run firms

AFP, *Seoul*

South Korea on Sunday announced a plan to streamline state-run companies by slashing jobs, selling properties and saving other costs to alleviate its fiscal deficit.

The strategy and finance ministry said that 69 state-run firms would cut some 19,000 jobs, or 13 percent of the total, in the next three to four years through retirement and early retirement programmes.

It said the job cuts, along with other cost-saving plans, would save 1.7 trillion won (1.33 billion dollars) in the state budget.

The state-run companies also plan to sell their own land or other assets to raise 8.5 trillion won, the ministry said.

The South Korean parliament last week approved a 284.5 trillion won budget for 2009, up almost 11 percent from this year.

ANALYSIS

Obama's new deal sparks debate

AFP, *Washington*

The vast public works spending plan proposed by President-elect Barack Obama has stirred fresh debate on the 1930s New Deal and whether such Great Depression programs would be useful today.

Some economists see a desperate need for a big stimulus program investing in infrastructure such as roads and bridges along the lines of Obama's plan, estimated at 500 billion to 850 billion dollars.

Obama promised a "bold" stimulus plan to pull the US economy out of recession when he takes office in January but declined to provide a dollar amount for the package.

"To pull us out of this downward spiral, the federal government will have to provide economic stimulus in the form of higher spending and greater aid to those in distress -- and the stimulus plan won't come soon enough," says Nobel laureate economist Paul Krugman in a recent blog.

"It's much better to err on the side of doing too much than on the side of doing too little."

Robert Reich, a former US labor secretary and professor at the University of California, says comparisons to the Depression are not a big stretch.

"We are falling off a cliff," Reich says.

"I'd estimate that the percentage of Americans who need work right now is approaching 11 percent of the workforce. And that percent is likely to rise. When FDR (Franklin D. Roosevelt) took office in 1933, one out of four American workers was jobless. We're not there yet, but we're trending in that direction."

Reich argues that "a stimulus package must be enacted right away" of at least 600 billion dollars, including infrastructure investment, to fill the gap in economic activity caused by falling consumer and business spending.

Others say the 1930s was a completely different situation and that myths about the Depression may be skewing the public's views.

Despite nostalgia over 1930s work relief programs such as the Works Progress Administration and the Civilian Conservation Corps, most economic historians say these had only a modest impact in alleviating the Depression, which did not end until the ramp-up in spending for World War II.

"The original New Deal programs were in response to a situation with 25 percent unemployment, so things that could have worked in that period might not work now," says Price Fishback, a University of Arizona professor of labor and economic history who is studying the New Deal.

Fishback said Roosevelt had to jolt the federal government into playing a bigger role in the economy, but that government spending under FDR was still far less than it is today.

"If people think this (stimulus) is a panacea they are going to be disappointed," he said.

"When government spends this money it may be taking away from private investment and private production."

Additionally, says Fishback, "one of the big problems in treating this as a stimulus is that by the time they spend most of the money, the recession would be over."

Fishback says investing in public works may still be worthwhile but that "we should spend the money on things we know have long-term value."

Peter Morici, a University of Maryland economist, says the critical problems for the economy are fixing a dysfunctional banking system and correcting huge trade imbalances that sap growth.

"A stimulus will make you feel better but you're going to need one after another," Morici said.

"The banks are broken and we have this huge trade deficit that continues with or without a recession."

Still others say using the New Deal is the wrong approach to the current economic maelstrom.

"It is my view that the New Deal didn't end the Great Depression. Instead, it probably worsened it," said Ed Yardeni at Yardeni Research.

Yardeni said FDR's actions were "less important than his willingness to be aggressive and to experiment -- in short, to do whatever was necessary to get the country moving again. Many of his policies did not work as intended, but in the end FDR deserves great credit for having the courage to abandon failed paradigms and to do what needed to be done."

Margaret Rung, director of the Center for New Deal Studies at Roosevelt University in Chicago, pointed out that the impact of Roosevelt and the New Deal was as much psychological as economic.

"What was so significant about the '100 days' (at the start of his administration) was the speed, the broad vision and the flexibility in which he addressed the problems of the nation," she told AFP.

Rung said people are looking to the New Deal for inspiration due to disappointment over deregulation and "Reagonomics" from Ronald Reagan's presidency.

Today, Rung said, "the solutions will be different but the spirit of Roosevelt might be useful."

AFP

US President-elect Barack Obama and daughter Sasha arrive in Honolulu, Hawaii, on Saturday.

FINANCIAL CRISIS

Second-hand luxury goods defy slowdown

AFP, *Hong Kong*

Tsutomu Yasuyama is doing something that few retail entrepreneurs across Asia would contemplate in the current economic slowdown -- expanding.

While the shopping sector from Taiwan to Australia is suffering, the Japanese retailer has chosen the crisis to open two new branches of his chain Brand Off in his home country, and one in Hong Kong.

His apparently recession-proof business? Second-hand luxury goods.

"This is the best moment for me to expand my business empire," said Yasuyama, who runs 43 second-hand luxury goods stores in Japan.

As many of the city's top earners are suffering from pay cuts, slashed bonuses or redundancy, companies that provide value-for-money -- from fast-food joints to cheap electronics -- have been thriving.

But while Louis Vuitton has been forced to cancel plans for a new flagship store in Tokyo because of the economic situation, the demand for luxury has not gone away.

Milan Station, a Hong Kong-based second-hand luxury handbag chain, said its stores have benefited from belt-tightening, getting nearly 10 percent more customers in recent months.

"Women's desire for brand-name goods will not disappear because of the financial crisis," Tony Chan, senior manager of Milan Station, told AFP.

"The moment a woman buys her first luxury handbag, there is no return."

Chan said most of the customers who came to trade in their handbags were not bargaining as hard as they used to because they wanted, or needed, quick cash.

This allows Milan Station to acquire and sell their handbags at lower prices to attract a wider range of customers, and the savings are significant.

A second-hand, jumbo-sized "Channel 2.55" quilted flap bag cost 23,000 Hong Kong dollars now (2,950 US), compared to its first-hand price of 32,000 dollars.

In addition, in the topsy-turvy market some bags gain value second-hand as they become collectors' items.

Chan said one second-hand Hermes handbag which sold at retail for 60-70,000 HK dollars had been on sale for 90,000 dollars because of its rarity. However, the downturn has seen its second-hand price drop by 10,000.

Yasuyama, 46, said he is aiming to open 15 second-hand luxury goods shops in Hong Kong and China in the next five years, including nine in Beijing, Shanghai, and Guangzhou.

Eventually, he hopes to expand his business to Singapore, Taiwan and Macau.

Yasuyama said the crashes in the stock markets and surging unemployment rates have forced even those who are used to leading extravagant lifestyle to tighten their purse strings.

"I am receiving more new customers who used to use only first-hand goods. They want to trade in their handbags and jewellery so that they can buy new ones and save some money at the same time," he said.

And the notorious desire of Hong Kong for luxury goods is showing no sign of slowing down, Yasuyama said.

"Hong Kong people love brand-name products and care more about their appearance than even Japanese or any other nationalities I can think of," he said, adding he has also taken advantage of the struggling property market by taking prime retail locations at reduced prices.

Sundy Chen, a consumer expert at research firm TNS China, expected the luxury goods market to be severely hit by the financial crisis as well-off consumers looked for ways to trim their spending.

"Given the economic situation, luxury goods will be amongst the first expenditure they want to cut. The same will happen for the middle class consumers, who are the occasional purchasers of luxury goods," she said.

Chen said it made sense that some consumers would turn to the second-hand market, but she warned there was some social stigma attached to used goods.

"In mainland China, second-hand luxury goods is still something quite new. Face is important to the customers there, and they tend to prefer using genuine and first-hand products."

AFP

Second hand branded Louis Vuitton purses and goods are seen for sale at the second "Brand Off" shop during its opening ceremony in Hong Kong. Despite weakness of the retail market and incessant talks about the economic downturn, secondhand branded goods including authentic handbags, jewelleries and timepieces are seeing growing demand.