International Business News

Britain unveils second bank rescue package

AFP, *London*

Britain unveiled a second bank rescue package worth tens of billions of pounds Monday aimed at kick-starting lending to homeowners and businesses and curbing an alarmingly deepening recession.

Prime Minister Gordon Brown said the measures, including an insurance scheme to protect banks from so-called toxic assets, were crucial to free up credit to get the economy moving again.

"Good businesses must have access to credit, jobs should not be lost needlessly," he said, presenting the package to reporters along with Chancellor of the Exchequer Alistair Darling.

"The government is clear that meeting lending demand to otherwise creditworthy businesses, home-owners and consumers is essential for supporting economic recovery," added a government statement.

Brown urged other countries to take similar steps, warning that the world risked tumbling into a "damaging spiral" of de-globalisation if they did not co-ordinate their responses to the economic downturn.

The British leader did not put a total price tag on the new measures, which came after a first package last October.

However, press reports suggested it was worth some 200 billion pounds (295 billion dollars, 220 billion euros) overall.

Eurozone economy to contract 1.9pc in 2009: EU

AFP, *Brussels*

The economy of the 16 nations using the euro will contract 1.9 percent this year as unemployment surges and government deficits explode in the midst of a severe recession, the European Commission forecast on Monday.

The forecast marked a dramatic downward revision from the commission's last estimate in November, when it predicted that eurozone economy would eke out growth of 0.1 percent.

The estimate also reveals that the eurozone has rapidly plunged into a deep recession after growing an estimated 0.9 percent in 2008.

The commission said the eurozone would not see the beginning of a recovery before mid-2009 and that the eurozone economy would then manage to grow a meagre 0.5 percent in 2010.

It forecast that the 27-nation EU economy would fare only marginally better, contracting 1.8 percent this year before achieving growth next year of 0.5 percent.

At the same time, unemployment will climb to levels not seen in Europe for over decade as joblessness becomes once again a major headache for workers and politicians.

AFP

Workmen walk past a branch of Northern Rock in Liverpool, northwest England yesterday. Britain on Monday unveiled an insurance scheme to protect banks from so-called toxic assets, in a second multi-billion pound rescue package seeking to boost lending by banks crippled by the credit crisis.

Russia, Ukraine inch towards EU gas supply renewal

AFP, *Moscow*

Russia and Ukraine were set to sign a deal on Monday to get natural gas flowing to Europe, as exasperated EU officials urged a quick resumption of supplies to a gas-deprived continent.

Russian Prime Minister Vladimir Putin and his Ukrainian counterpart Yulia Tymoshenko were expected to attend a signing ceremony in Moscow between the two national gas companies at 1230 GMT, a government spokesman, Alexander Smirnov, told AFP.

The two prime ministers reached the broad outlines of an accord on Sunday after marathon talks but left the details to be worked out by Russia's Gazprom energy company and Ukrainian state company Naftogaz.

In a joint appearance with Tymoshenko on Sunday, Putin said gas flows to Europe would resume "shortly".

Tymoshenko was expected to return to the Russian capital on Monday for the signing, after briefly returning to Kiev.

The European Union said the real test was whether gas would start flowing again.

Citigroup says it's committed to Japanese units

AFP, *Tokyo*

Citigroup said Monday it was "committed" to its Japanese brokerage and asset management businesses, following reports they are up for sale as the troubled US financial giant splits in two.

"With respect to our brokerage and asset management businesses in Japan... Citi remains committed to maximising the companies' value over the next few years," the group said in a statement.

Media reports said the group was looking to sell either one of, or both, Nikko Cordial Securities and Nikko Asset Management as it offloads non-core assets in an effort to return to profitability.

The Wall Street Journal reported citing unnamed sources that Citigroup decided to sell off Nikko Cordial after they agreed that the brokerage arm did not fit into the group's plans.

Citigroup said on Friday that it would split into two businesses as it reported an 8.29 billion dollar loss in the fourth quarter.

COLUMN

Enron, Satyam: A wake-up call

MAMUN RASHID

AFP

The Indian government nominated scandal-hit IT company Satyam Computers board members Deepak Parekh (C), Kiran Karnik (R), and C Achutan (L) host a press conference in Hyderabad on January 12. The three-member board, appointed by authorities in an effort to salvage the country's international business image, met at Satyam's headquarters in the IT-hub.

Most of us are aware of the Enron debacle- the most talked about corporate failure of recent times. Enron, once America's seventh-biggest company, filed for bankruptcy on December 2, 2001.

Only days ago, its bonds were downgraded to junk. The Enron crisis also cast serious doubts on the existence of top rated audit firms, Arthur Andersen, and more to say, generally about the role of the accounting principles followed by audit firms and corporate business houses.

While the Enron story is now somewhat outdated, the lesson learnt from this debacle will stay valid over a long period of time. With Satyam in India posing serious threat on the 'Corporate India brand', this has today become more relevant. 'Satyam' a name that means 'truth' in Sanskrit is now being called India's 'Enron'.

Enron was under tremendous pressure to generate profits, to exceed all peers, to jack up share prices and to upgrade corporate positioning. These however are not unfamiliar practices in the corporate world.

Then, what went wrong? It was running too fast, possibly on a thin rope, without building befitting capacities and fundamentals. Such behaviour made Enron compromise on its accounting principles, hide losses, overstate results to investors and adopt unethical management practices.

For Satyam, the Indian outsourcing giant, people are terming this as 'fraud', also blemishing the account of its auditor, Pricewaterhouse. In his resignation letter, Satyam Chairman B Ramalinga Raju confessed the fictitious build up of a cash balance worth $1 billion.

In case of Enron, investors did not understand Enron's books because the company shifted many debts to off balance sheet vehicles, where accepted market practices necessitated debts to be consolidated into the main accounts. It should have also avoided the practice of investing staff retirement funds in company shares.

In the wake of serious concerns regarding Enron's financial statements, the company revised its financial statements of 1997 to 2000, downward. However, investors desired that the possible merger with the rival company, Dynegy, would have restored confidence and thus halted the unwinding of Enron's book. Dynegy took a closer look at Enron's book and with some surprise to all, decided not to proceed. This made the bankruptcy of Enron inevitable.

It was almost the same case with Satyam, trying to merge with the real estate arm, to draw in confidence. But the corporate adviser, Merrill Lynch, found a big hole in their reported cash balance artificially inflated operating margins and profit figures, posing serious threat to the integrity of their financials as well as management practices despite being a publicly listed company in India and in the US. The balance sheet gap kept building up because of the artificial reported profit figures over the years. Each year's marginal gap ultimately ballooned over time and there was no escape from the burst.

As Satyam's chairman Raju said: "Every attempt made to eliminate the gap failed. As the promoters held a small percentage of equity, the concern was that poor performance would result in a take-over, thereby exposing the gap."

Apart from Enron's tragedy, the whole corporate world was shocked by the shady practices followed by one of the world's top 5 audit firms-Arthur Andersen. It was said that for partners and professionals at Arthur Andersen, there was only one-way to move up: figure out new ways to keep Enron happy. More than 100 Andersen staffers were devoted to managing this relationship, which was worth more than $50 million a year, enough to keep a leading audit firm far from blowing the whistle. Several top Enron executives including its chief accounting officer had come from Andersen. Andersen even cut a deal to handle some of the 'internal' auditing work for Enron along with vetting its public reports for the trading firm's audit committee. All these money-making partnerships made Andersen blind to everything that happened at Enron. I don't know whether history will add the same slurs to Pricewaterhouse, but people are raising eyebrows about the standards being followed by audit firms.

Our readers know that auditors have somehow always been in an uncomfortable position of having to judge the financial integrity of the companies that pay them. However, with the emergence of market economies and intensifying pressure to produce ever-rising earnings and stock prices, the corporate world began to push the accounting boundaries like never before. Auditors were thrown the role of an enabler, more like a business partner and used to 'clear' corporate failures with a 'green pen'.

What did we learn from Enron? - hiding debt or financial fundamentals can be suicidal for any company. Satyam also suffered similar consequences and the repercussions of the breach of trust of the investors are still to follow. The 'Satyam Scam' is indeed an irony, especially after Satyam won the 'Golden Peacock Global Award for Excellence' in corporate governance for the second time in 2008. It was also rated the "Best Corporate Governance Practices", in 2006 and 2007 by Investor Relations Global Rankings (IRGR). Now Pricewaterhouse is telling that its audit report for the last eight years relied on potentially false data provided by the company and should be disregarded.

Questions are being raised about the practices of moving financial obligations to off-book vehicles, inflating profits or jacking up share prices. Investors and bankers may learn not to trust companies that report mysteriously spectacular profit growth; auditors will be warier of bosses' pressure to sign dodgy accounts; rating agencies and regulators may be more nervous about companies that do not come clean with their activities. Besides, regulators will also be cautious before being blown away by the market reputation of a company.

There are perhaps many cases in Bangladesh, which are similar, if not worse, to Enron. Many Satyam may be in the making, who knows? A jailed business tycoon, in his testimony to the law enforcing agency (on his alleged role in tax avoidance, despite his companies being practically profitable) during interim regime said that he did what his accountants told him to do.

Another businessman, on his alleged role in buying government's land or disputed lands at throw away price, blamed his legal counsel for advising him to be able to cover up, in case of need. We came to know of these incidences because they were published in national dailies. But not all such malpractices get reported.

Therefore, it is essential that a proper standard of corporate disclosure be enforced in the country. Non-disclosures may help organisations to understate and overstate profits, to the benefit of certain segments and more importantly, resulting in the deprivation of some segments, including the general public and the government. By adopting malpractices in disclosures, companies also put themselves in high risks. We therefore need to change for the better, make our activities as transparent as possible, share our successes with the community and remain accountable to our regulators, people and most importantly to the future generation.

The writer is a banker and economic analyst and can be reached at, mamun1960@gmail.com.

LIFESTYLE

China's fitness industry booming

AFP, *Beijing*

Aged 35, single and stressed from her hectic job running a restaurant, Qi Quanli is one of China's ambitious class of newly rich who are helping to power the nation's booming fitness industry.

"In the past, I often suffered from insomnia. But now I feel much better. My weight is good too. No more fat," Qi said with a smile after a sweat-drenched workout recently in one of Beijing's most chic and modern gyms.

Qi spends close to 1,000 dollars a year on her gym membership, a huge sum for many in China considering the average annual salary for urban residents is about 2,000 dollars.

But even amid the global economic crisis, Qi and many others who earn far more than the average are happy to pay for what in recent years has become an essential way to relax and socialise, as well as get in shape.

"I feel it's worth it for people to pay one fifth or one tenth of their income on getting fit," she said.

"It gives people good health, it gives people happiness and we can make more friends."

It is this attitude that has seen China's fitness industry become in little more than a decade a multi-billion-dollar extravaganza of high-tech equipment and pulsating workout rooms backed by lifestyle magazines, health products and celebrity endorsements.

Outside of luxury hotels, there were very few modern fitness centres in Beijing or other big Chinese cities in the late 1990s, according to Evolution Fitness managing director Matt Lewis.

Now there are 200-300 catering for the mass market in Beijing alone, said Lewis, a New Zealander who helped set up Evolution Fitness in 2001 and now has two centres in the Chinese capital.

"It's really expanded quite quickly," Lewis said. "The majority going to them are local Beijing people, middle and upper class white collar workers."

Lewis attributed the rise in the popularity of fitness centres to a general increase in wealth and people wanting to get in shape after being locked away in office jobs, but also to other factors making the industry trendy.

He pointed out that a decade ago in what was a more soberly communist China, there were virtually no mass market sports and lifestyle magazines or health products that sold the concept of being slim, strong and cool.

Now they are flourishing.

"Those sorts of things have created a lot of awareness," he said.

Adding to the cool factor, celebrities such as basketball hero Yao Ming and movie star Jackie Chan endorse the Beijing outlet of global chain California Fitness that Qi attends.

California Fitness has opened two centres in China in recent years and is eyeing the world's most populous nation as its biggest potential source of growth, seeing it as more insulated from the global economic turmoil.

"China is going to be the big market in the future for us," said chain vice president Kelvin Goh.

Goh also said the industry in general would likely be cushioned from the global crisis as people sought refuge from stress by working out, citing his firm's experience during the Asian financial crisis of the late 1990s.

"Most people thought at that time that people would spend less money on fitness. It wasn't true. Back then, more people came to work out than during the normal times. Just to de-stress," he said.

Official data also appears to back assertions that China's fitness industry will grow from strength to strength despite the economic crisis.

The results of a first-ever national survey released by the General Administration of Sport last month showed 28.2 percent of the population, or 340 million people, exercised regularly and that number was on the rise.

But, crucially for the fitness industry, just 18 percent of those people exercised at a sports facility, leaving plenty of room for growth.

"I hope to see more and more private gyms and fitness centres, because governments cannot provide enough places to meet the demand," Sheng Zhiguo, head of community sport with the administration, told AFP.

AFP

A resident works out at a gym in Beijing. Many young Chinese are part of China's ambitious class of newly rich who are helping to power the nation's booming fitness industry.