

International Business News

Ericsson reports profit drop, to cut 5,000 jobs

AP, Stockholm, Sweden

Wireless equipment maker LM Ericsson on Wednesday reported profits dropped 31 percent in the fourth quarter, citing restructuring charges and weaker handset sales, and said it would slash 5,000 jobs.

Still, Ericsson said its core infrastructure business was not yet feeling the effects of the global economic downturn, and its better-than-expected report sent shares up more than 10 percent to 62 kronor in Stockholm.

Net profit in the quarter fell to 3.9 billion kronor (\$465 million) from 5.6 billion a year earlier.

Ericsson said the results included about 3 billion kronor in restructuring charges and "a dramatic drop" in the contribution from its handset unit, Sony Ericsson. The joint venture with Japan's Sony last week said it had swung to a fourth-quarter loss of euro187 million (\$243 million).

Sales received a boost from a weaker krona, rising 23 percent to 67 billion kronor, from 54.5 billion kronor a year earlier. SEB Enskilda analyst Mats Nystrom said the strong sales were the biggest surprise in what he called a "really good quarter" for Ericsson.

The world's leading maker of mobile broadband infrastructure said it released the fourth-quarter report a week ahead of schedule because it exceeded market expectations.

British unemployment rate jumps above six percent

AFP, London

Britain's unemployment rate jumped to a decade-high 6.1 percent in the three months to November, with nearly two million out of work, official data showed on Wednesday.

Under the International Labour Organization (ILO) measure of unemployment, the rate had stood at 6.0 percent for the three months to October, the Office for National Statistics (ONS) said in a statement.

According to the British government's own measure, the unemployment rate advanced to 3.6 percent in December, the highest point since mid-2000 and compared with 3.3 percent in November.

The 6.1-percent rate was the highest since 1999.

"The bad news on the labour market is absolutely relentless now as the deepening recession, slumping business confidence and persistent very tight credit conditions exact a heavy toll," said IHS Global Insight analyst Howard Archer.

"Reports of companies laying off workers are becoming more and more prevalent, while an increasing number of companies are folding."

The number of people claiming jobless benefits in Britain leapt by 131,000 in the three months to November to 1.92 million -- the highest figure in more than a decade -- the ONS added on Wednesday.



AFP

People relax along the pavement during their lunch break in the financial district of Singapore yesterday. Singapore's economy will shrink this year, the government said, meaning the trade-dependent city-state's economy is likely on course for its worst performance in more than four decades.

German government forecasts historic recession

AFP, Berlin

Berlin forecast on Wednesday that Germany will suffer its deepest post-war recession this year, as Chancellor Angela Merkel's cabinet chewed over a historic rescue package aimed at easing the pain.

Germany's economy, which accounts for about a third of eurozone output, will contract by around 2.25 percent in 2009, the government said, as the sharp global slowdown hits demand for the country's all-important exports.

And by the end of the year there will be another half a million Germans out of work -- something certain to add spice to campaigning ahead of general elections on September 27 when Merkel hopes to secure a second term.

"This economic downturn that we are unfortunately having to predict is without precedent in the postwar period, it is the biggest slump in Germany's recent history," Economy Minister Michael Glos told a news conference.

Hong Kong Exchange Fund reveals heavy loss in 2008

AFP, Hong Kong

Hong Kong's Exchange Fund recorded a net loss of 74.9 billion dollars (9.6 billion US) in 2008, as turmoil on global stock markets battered its investments, the central bank said Wednesday.

The fund, which is partly used to back the Hong Kong dollar's link to the greenback, last year recorded a negative investment return of 5.6 percent, the Hong Kong Monetary Authority said in a statement.

It is the fund's first negative annual return since records began in 1994. The fund had made a record return of 142.2 billion dollars in 2007, figures released by the HKMA showed.

HKMA chief executive Joseph Yam said the loss was due to exceptional turbulence in equity markets during 2008.

"The world financial crisis weighed heavily on global business sentiment and investor confidence," he said.

ANALYSIS

Bleak economy

ARUN DEVNATH

The inaugural speech by Barack Obama probably raised hope around the world, but struck a note of fear on the economic front. It was not a laundry list of policy issues, nor a glimpse into a rosy world. It pointed to a deeper crisis facing the US economy and beyond. It showed a newfound resolve to brave the "icy currents" and to batten down the hatches in the face of brewing "storms".

The 44th president of the United States vowed to restore the nation's leadership in the world and urged Americans to take responsibility for rebuilding the faltering economy together.

Obama sent out a message to the global audience that America aspires to lead the way "once more". For sure, the US, battered by the financial crisis, will pick up the pieces on Obama's watch. At least, that is the New Year's resolution.

"Starting today, we must pick ourselves up, dust ourselves off and begin again the work of remaking America."

The speech has spawned a deluge of reactions around the world. Many taped and played the speech back and forth to make better sense of it. Many kept surfing the web for most part of the night in Bangladesh and other parts of Asia for insights or answers to some questions after the installation of Obama as the first black president for the US.

Among the series of issues -- some pretty obvious and some hidden in the colourful, masterly speech, the economy and market emerged prominent.

The opening part of the speech that shines the spotlight on the US economy in tatters came, however indirectly, as a grim reminder of the global economy hurtling into an abyss.

"Our economy is badly weakened, a consequence of greed and irresponsibility on the part of some, but also our collective failure to make hard choices and prepare the nation for a new age," Obama says.

The speech not only set the tone for future, but also laid bare a string of troubles the new president will have to deal with.

Instead of patting his retreating predecessor, George W. Bush, on the back, the new president spoke of America's "collective failure."

"Today I say to you that the challenges we face are real. They are serious and they are many. They will not be met easily or in a short span of time."

Silence falls on the audience. But he is not without hope: "But know this, America -- they will be met."

Obama inherited America as well as its mess. The financial crisis has now wiped out over \$6 trillion of Americans' savings.

While the president takes control of the financial mess, Wall Street is about to turn topsy-turvy.

Americans are about to witness the big-

gest changes they have ever seen in their lifetime.

When Obama says the market can spin out of control without a "watchful eye", it raises the possibility of further regulatory control in the financial system.

"Regulatory supervision is a must for the financial market," says MA Taslim, chief executive officer of Bangladesh Foreign Trade Institute, in his reactions to Obama's speech.

The government has a major role to play in bolstering the economy and monitoring the markets.

An "entirely unregulated" market has a grave risk, he believes. "Without regulatory supervision, we may have short-term profit, but it can't be good for a long-term," Prof Taslim says.

Similar views were expressed by Peter Hofflich, associate editor of The Asian Banker in Singapore, in an early interview with The Daily Star.

"Loose regulation of these products has been a huge concern, since markets that are 'self-regulated' tend to be open to abuse and other problems," he says.

One example of this was the audit industry: when it was self-regulated it caused the problems of Enron and World.com. This will probably happen in financial services too, but in the meantime governments and regulators will have their hands full solving the crisis of confidence and returning liquidity to the system and the trust to financial institutions.

Markets that are more heavily regulated, such as Spain and Canada, have in some ways, been seen as models to follow in this crisis, while Iceland's model of severe deregulation coupled with a lack of transparency is in disgrace.

Mamun Rashid, head of Citibank NA Bangladesh, says: "The regulatory bodies will no doubt be strengthened further to make sure there are less or no surprises."

"We may also see exemplary penalties for regulatory breaches."

"We will of course see a more balance being driven between Wall Street and the main street with proactive management of the financial institutions," Rashid says.

The nationwide revelry accompanying Obama's inauguration is tempered by the monumental tasks he faces. The country's economy invites comparisons to the Great Depression; programmes such as Medicare and Social Security face funding crises; and soaring costs for health care, energy and education have no easy solutions.

Obama asked Americans to "set aside childish things" like political partisanship and adherence to ideology, and adopt a spirit of service.

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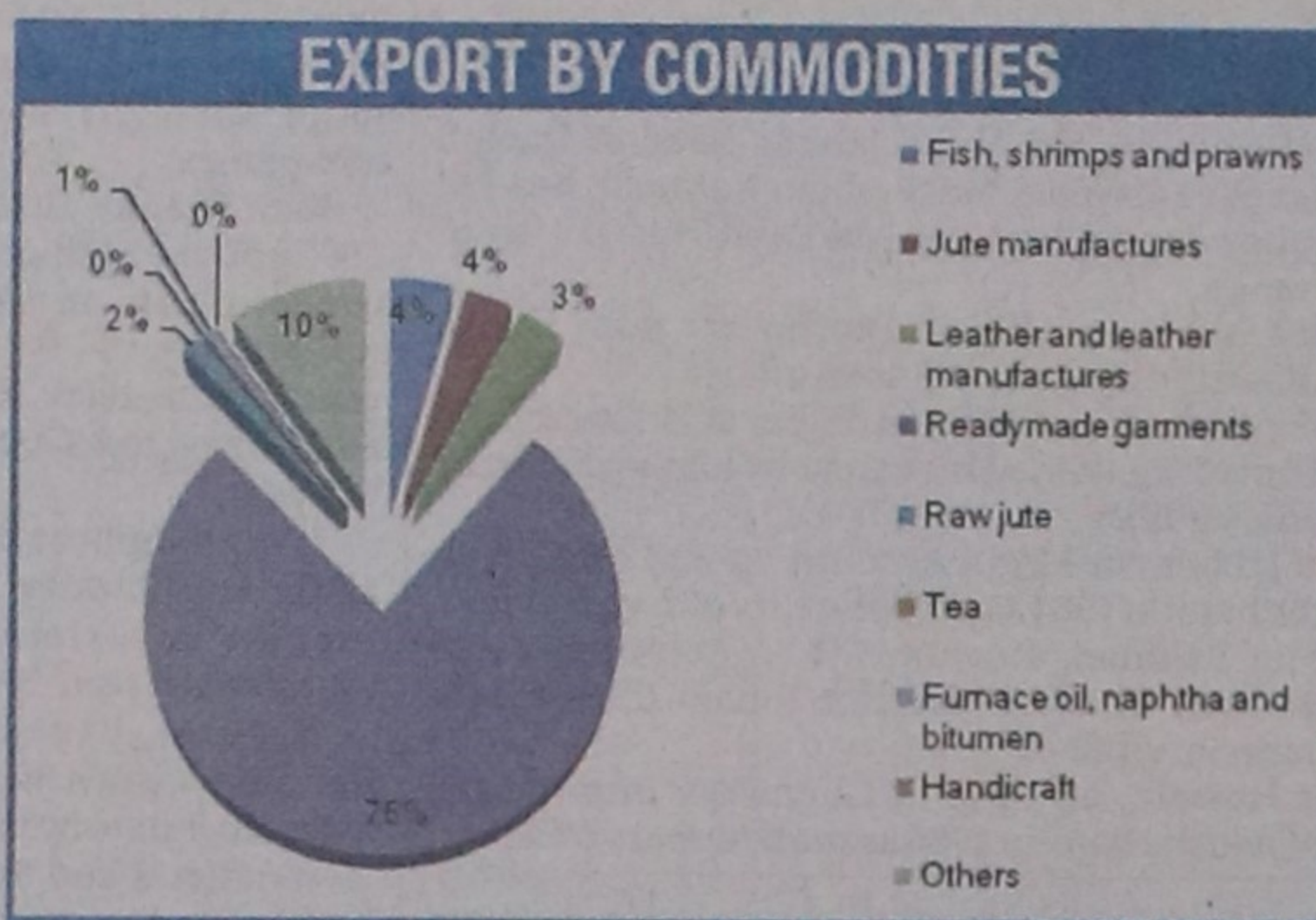
Strategy to diversify exports

There has been a great deal of justifiable national pride in the resilience of Bangladesh's twin \$10 billion plus export sectors, the ready made garments (RMG) and manpower, to the global financial crisis of 2008. But, it has been evident for most policymakers that it will be difficult for us to move on to the next phase of Bangladesh's economic development without developing new industries. However, the next major export sectors, footwear/leather goods and frozen foods/aquaculture, are barely worth \$500 million. There has been much talk over developing strategies for export diversification, but the question is how we can translate the rhetoric into policy reality.

January 17, 2009

AT Capital hosted the pharmaceutical sector strategy meeting 'Challenges and Opportunities for the Pharmaceutical Sector in Bangladesh'. This was the start of an important initiative to explore how Bangladesh can take advantage of the globally changing pharmaceutical environment. The CEOs and management teams of the 10 to 12 most important pharmaceutical companies, who constitute a \$600 million industry, attended the meeting. But pharmaceutical exports are relatively small at only \$50 million. There seemed to be an inconsistency between the evident quality of management and companies and their export performance.

Space constrains me from going into the specifics from the seminar, which I hope to cover in a future column. However, if pharmaceuticals are to replicate the Indian experience and become a \$500 million plus export sector, then they need to overcome the constraints of financial capital, strategic capital, regulatory capital, and reputational



capital. The challenge is not only about getting resources to build world-class facilities that can meet the US or European regulatory standards, but also about building strategic alliances with global, and indeed Indian pharmaceutical companies, to gain access to markets and intellectual property.

Another interesting issue raised by a number of pharmaceutical CEOs was their conviction that the industry needs the ability to acquire overseas companies if they are to be able to fast track regulatory approvals and market access. These are not the mega \$100 million acquisitions seen by India in recent years but the more modest \$5 to \$10 million deals.

The Bangladesh Bank might argue that with only \$5.3 billion of foreign reserves, we cannot afford to do this yet. But what one can reasonably argue is that we allow a selective, focused and strategic use of a small proportion of our foreign currency reserves to help accelerate growth in industries with significant export potential. One cannot justify a wholesale dismantling of capital controls. But I believe that as the 2008 global financial crisis has seen asset

prices decline and hence the cost of acquisitions plummet, Bangladesh should allow some modest overseas investment. Using a few hundred million dollars of reserves to allow our leading corporates to globalise will likely be the source of future billions of dollars of exports and hence foreign currency reserves.

My participation in the pharmaceutical seminar also got me thinking about how we can turbocharge our export diversification policy. I was reading a paper surveying export promotion agencies (EPA) in 104 developed and developing countries (Export Promotion Agencies: What works and doesn't work, Lederman, Olereaga and Payton), which offered valuable insight that is relevant for Bangladesh.

One can divide the services offered by EPAs into four broad categories:

1) country image building (advertising, promotional events, but also advocacy);

2) export support services (exporter training, technical assistance, capacity building, including regulatory compliance, information on trade finance, logistics,

customs, packaging, pricing);

3) marketing (trade fairs, exporter and importer missions, follow-up services offered by representatives abroad); and

4) market research and publications (general, sector, and firm level information, such as market surveys, on-line information on export markets, publications encouraging firms to export, importer and exporter contact databases).

Other instruments that developing countries have used to support exporters (and at times, domestic suppliers to exporters) are the provision of credit at favourable interest rates, preferential prices for inputs like electricity and transport, lower tax rates, tariff exemptions, and preferential access to foreign currency. For each \$1 of export promotion, the authors estimated a \$40 increase in exports for the median EPA.

In terms of what type of institutional arrangements, objectives and activities lead to a stronger impact on exports, their results suggest the following: EPAs should have a large share of the executive board in the hands of the private sector, but a large share of their budget should be publicly funded. The proliferation of small agencies within a country leads to an overall less effective programme. EPAs are more effective when focusing on non-traditional exports, or have some broad sector focus (For example, agriculture, manufacturing, tourism, high-tech). They should also focus their activities on large firms, which can take advantage of EPAs services, but which are not yet exporters. The use of office representation abroad has a positive impact on exports in the full sample, but a negative impact in a sub-sample of developing countries, suggesting that in poorer countries EPAs efforts should focus on on-shore

crux of economic growth.

"The success of our economy has always depended not just on the size of our gross domestic product, but on the reach of our prosperity; on the ability to extend opportunity to every willing heart -- not out of charity, but because it is the surest route to our common good."

Ify Islam thinks a key challenge for Obama will be a co-ordinated economic plan.

"Obama will need to develop cooperation with the other G7 countries plus China to ensure a co-ordinated fiscal and monetary stimulus package given the breadth and global nature of the downturn," Islam says.

IFTY ISLAM

activities. This means that in poor countries, overseas export promotion through trade fairs is often a poor use of money. There should be greater focus on helping companies and sectors domestically develop their export strategies.

The International Trade Council (ITC), a UN agency, noted, "In an ideal trade support network, the national trade promotion agency would act as a 'first-stop shop' for the business community and, through its referral system, coordinate the trade support network's overall response to the individual exporter."

Another export promotion specialist, M Czinkota in 'National Export Promotion: A Statement of Issues, Changes, and Opportunities' noted, "The key determinant of export performance is the increased competitiveness of firms. Export promotion must have a decidedly inward looking component, which makes the production of goods and services cheaper, faster, and better."

The new government appears to be committed to a policy of change with the immediate economic priorities being the energy sector and bringing down the price of essentials. However, Bangladesh has significant potential in several export-oriented industries, including pharmaceuticals, leather goods, frozen foods, shipbuilding, and information technology-enabled services (ITES). But a more effective policy of export promotion and diversification coupled with economic diplomacy will be critical if Bangladesh is to follow other Asian Tigers like Malaysia, and more recently Vietnam, into developing dynamic new export sectors and concurrently attracting substantial FDI.

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