International Business News

Russian carmaker idles 15,000 workers

AFP, *Moscow*

Russia largest automaker Avtovaz, producer of the Lada car, has told up to 15,000 employees to stay at home in March on two thirds pay amid slackening demand due to the economic crisis, a report said Wednesday.

Business daily Vedomosti quoted Avtovaz sources as saying between 10,000 and 15,000 workers would not need to come to work in March for the carmaker, which is part owned by French auto giant Renault.

The Russian car industry has been hit hard by the sudden halt to economic growth in Russia which has forced Russians to cut back on purchases in the once booming auto market.

Avtovaz issued a statement on Tuesday detailing reduced shift plans for March which it said had been forced by the need to take "tough economizing measures to keep jobs."

The statement said that a number of workers would be put out to furlough in March on two thirds pay but did not say how many workers would be affected by the measure.

Vedomosti said the directive applied to 10-14 percent of the carmaker's workforce.

Hong Kong economy to shrink 2-3pc in 2009

AFP, *Hong Kong*

Hong Kong's economy will shrink by two to three percent in 2009, the first annual contraction since the city was battered a decade ago by the Asian crisis, the financial secretary said Wednesday.

John Tsang offered a gloomy economic outlook for the southern Chinese financial hub in his annual budget speech, saying consumer spending, exports and the property sector had also been badly hit by the global financial crisis.

"This once-in-a-century financial turmoil has spread from the financial markets to the real economy, leading to a synchronised global recession," Tsang told lawmakers.

"Being a small, open economy, Hong Kong will inevitably be hit by the turmoil."

Hong Kong tumbled into recession in the third quarter of 2008, but the situation worsened in the fourth quarter, with gross domestic product shrinking 2.5 percent year-on-year, Tsang said.

The fourth quarter drop was even worse than that seen when the deadly SARS epidemic spread fear throughout the city of seven million people in 2003.

Thomson Reuters profit jumps 19pc despite recession

AFP, *London*

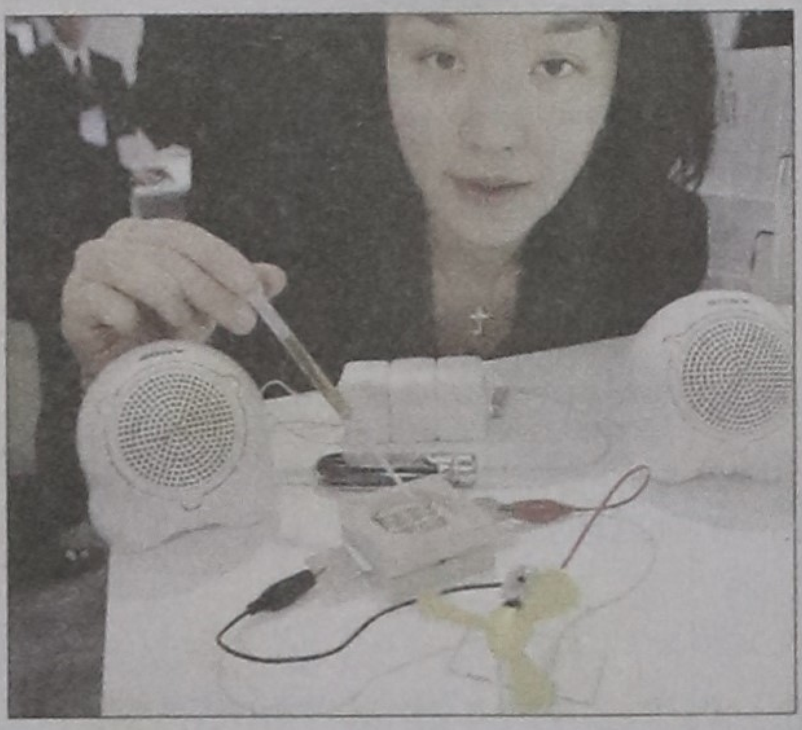
Financial information provider Thomson Reuters said Tuesday that operating profits soared by about a fifth to 2.8 billion dollars (2.19 billion euros) in 2008 despite global markets turmoil.

Thomson Reuters, created in April 2008 after Canada's Thomson Corp bought Britain-based news agency company Reuters, added in a results statement that revenues increased eight percent to 13.4 billion dollars last year.

The results were calculated on a pro-forma basis as if Thomson Corp and Reuters had already been trading as a combined group.

"I am very pleased with the operating performance of Thomson Reuters in 2008, as well as the significant progress we achieved in integrating the acquired Reuters business," said Chief Executive Officer Thomas H. Glocer.

"As major economies slid into recession in 2008, we nonetheless continued to perform well, thanks to our proven business model of providing must-have content and services to professionals and our well-balanced set of businesses, both by market and geography."



AFP

Masayo Endo, an employee for Japanese electronics giant Sony, displays a new bio battery (in background), including three cubic cells that generate enough electricity to drive a Walkman digital music player, and a bio battery (C) powering a fan (bottom) at the International Hydrogen and Fuel Cell Expo in Tokyo yesterday. Sony exhibited various eco-friendly power sources, including fuel cell batteries and bio batteries at the exhibition.

Clothing manufacturer cuts 1,850 jobs in Australia

AFP, *Sydney*

Clothing manufacturer Pacific Brands said Wednesday it would cut 1,850 jobs in Australia after reporting a first-half loss of 150 million Australian dollars (98 million US).

The company, whose brands include Bonds, Jockey, Clarks and Dunlop, said it would close most of its Australian clothing and manufacturing operations, making about 21 percent of some 8,800 employees redundant.

The announcement sent its share price tumbling 37 percent to 22 cents on the Australian stock market.

"We will discontinue some of our smaller labels and brands to reduce complexity and cost and divest some non-core businesses and facilities, some as going concerns," chief executive Sue Morphet said in a statement.

"Unfortunately these changes will necessitate 1,850 job losses in Australia over an 18-month period, including 1,200 in clothing manufacturing."

The economic climate remained challenging and uncertain, with consumer confidence at low levels, she said.

ANALYSIS

An Indian icon stumbles

AP, *New Delhi*

When Tata, India's oldest and largest conglomerate, bought the fabled Jaguar auto brand last year, the country celebrated the gleaming trophy as affirmation of its new role as a global superpower.

What a difference a year makes.

Today, a string of blows has left the Tata group drowning in condolence calls, not international applause. Many see Tata's woes as especially alarming because, as has been the case for over a century, where Tata goes, India goes.

"There's a sense of foreboding and fear," said Ramachandra Guha, a prominent historian and author of "India after Gandhi." "If it happens to the Tatas, it means something much more than if it was happening to other companies."

The past year, which has seen the stock price of Tata's listed companies fall nearly 60 percent, has been perhaps the most difficult in the group's history. Tata faces a global meltdown that is eating into some of its most high-profile brands, terrorism that scarred its landmark hotel, and political demonstrations that have crippled business plans.

Tata Motors revenues' fell more than 34 percent in the most recent quarter, its first loss in seven years. And Tata Steel reported its first drop in quarterly profits in nearly three years.

In India, Tata is everywhere -- tea, salt, steel, cars, chemicals, hotels, housing and telecommunications. The Tata group is a sprawling collection of nearly 100 companies that includes the country's largest automaker, the largest private steel company, and a leading outsourcing firm. The companies employ more than 350,000 people around the world.

From the current chairman, Ratan Tata, to his great-grandfather, Jamsetji N Tata, the Tata men are famously philanthropic and civic-minded. They are seen as something like national uncles: kindly, wise and dependable.

The 141-year-old company's story is intertwined with that of modern India. The company's founder, Jamsetji N Tata, a young trader from India's Parsi minority, helped usher in the industrial era when he established India's first textile mill, its first shipping line, and its first cement factory.

Despite the racism of the British Raj, Tata expanded into steel, power distribution and hotels. Tata founded Mumbai's grand Taj Mahal hotel after a doorman refused to let him into one of the city's elegant hotels because he was Indian, according to the company's own history.

After independence in 1947, Tata limped along during decades of stifling socialist-style rule that saw the government fix prices, impose strict tax laws and severely limit what a company could produce. Tata's rivals prospered thanks to better access to officials -- and, some say, fewer scruples about bribes. Many predicted the bloated Tata Group would succumb to executive squabbles and sluggish sales and splinter apart.

The photo shows a fabled Jaguar car. When Tata Group bought the auto brand last year, India celebrated the gleaming trophy as affirmation of its new role as a global superpower. Now a question mark surfaces over the claim after one year.

But then in the early 1990s, India shifted to a market economy and Tata's fortunes took off. The country saw explosive growth, led by outsourcing companies like Tata Consulting Services. Tata led the charge with a spree of overseas acquisitions.

Tata's purchase of Jaguar and Land Rover last March was an opportunity to strut. "The Empire Strikes Back!" was one of many headlines at the time that reveled in talk of the Indian century.

Tata "got swept up in the general mood," said Guha. "There was this arrogance that we can go buy the world."

Today, in the sobering light of the global recession, a harsh reality has set in. With car sales everywhere plummeting, the Jaguar and Land Rover brands have been a drag on Tata Motors, forcing the company to approach British authorities for a bailout and take the extraordinary step of appealing directly to the public for funds.

Tata Group still makes enormous profits -- $5.4 billion in 2007-08. But the value of the 28 publicly listed Tata companies has tumbled from $59.7 billion last March to $24.29 billion as of Feb. 5. That does not include Corus Group, the British steel giant Tata acquired in 2007.

Tata declined several requests for an interview.

India's economy is also shining less brightly. The International Monetary Fund predicts India's economy will grow by 5.1 percent, a sharp drop from average growth of 8.8 percent over the last five years. The Sensex, the country's leading stock market index, has fallen from a peak of more than 21,000 in January 2008 to around 9,100 a year later. And inflation hit a 13-year high of 12.9 percent in August.

In November, Ratan Tata issued a letter to executives across the company warning them to "drastically reduce operating expenditures" because of widening economic problems.

Tata's most dramatic setback came on Nov. 26 when 10 gunmen launched a coordinated attack against Mumbai landmarks, the Taj Mahal hotel chief among them.

The siege exposed glaring vulnerabilities that belied India's superpower status. Officials missed warnings that militants were planning to attack Mumbai hotels.

Ratan Tata harshly criticised the government response as "woefully poor" and said he would hire private security firms rather than rely on state forces. "Everyone is doing their best but it's not coming together fast enough," Tata said.

The attacks could also damage India's aspirations of becoming a financial power, according to business leaders.

"At some point you may say, 'Enough is enough. I'm not going to bother with doing business in India,'" said Kris Gopalakrishnan, chief executive of Infosys Technologies Ltd., one of the largest outsourcing companies.

Meanwhile, Tata was in the middle of another Indian drama, a land rights dispute that shows the challenges of development in the world's largest democracy.

Tata Motor's introduction of the world's cheapest car, a $2,000 engineering triumph called the Nano, sparked global excitement. However, the ambitious project was upended by protests among the rural poor who felt they had been unfairly compensated when their land was purchased for Tata's factory.

For almost two years, farmers and local populist politicians protested until Tata was forced to shutter its factory in the communist-ruled state of West Bengal. The company had to move to a more business-friendly state, delaying the much-hyped project by up to a year.

The dispute tarnished what was supposed to be the shining star of Indian manufacturing ingenuity and could scare off potential investors, analysts say.

"It affects India's image as not an easy place to do business in," said Ashutosh Goel, an auto analyst at Mumbai's Edelweiss Capital.

It was hardly the first time that the tug-of-war over land scuttled a major project, and in a country with nearly four times the population of the United States crowded onto one-third the space, it's not likely to be the last. Rural Indians see land as a sacred link to previous generations and a guarantee of security for future ones. For industry, those traditions -- combined with rising land prices -- have made for big problems.

COLUMN

JASPAL BINDRA

Asia to emerge stronger world player

Exit the year of the unpredictable Rat; enter the year of the earthy Ox, hopefully bringing with it its characteristic stability, conservatism and harmony.

The changeover in the lunar almanac aptly reflects the mood in the world economy. For the first time since the Second World War the US, Europe and Japan are simultaneously in recession. After the turmoil of 2008, the world is now yearning for a period of relative calm, trying to avoid a drastic downturn.

Yet, amid all the gloom, the dourest estimates for China and India indicate that the two fastest growing major economies of the 21st century expanded by more than 7 percent last year and are expected to grow by 5-7 percent in 2009. While a shock that will present challenges for these high-flying economies, its still good growth.

This is instructive because, while investors have focused on the sharp global downturn following the bursting of the housing bubbles in the West and the resulting financial upheaval, they have largely overlooked the relative resilience of the growth engines of recent years in the East.

The year of the Ox could well turn out to be the year when the world wakes up to the changing balance of economic power between West and East.

Without doubt China, India and other developing markets of Asia, Africa and the Middle East are witnessing a marked slowdown. Exports of manufactured goods, raw materials and services, major drivers for these economies, are slowing significantly as western consumers cut down their debt levels and start saving again. By the end of 2008, every country in Asia had seen its exports contract. Unlike previous financial setbacks, Asia can't rely this time on exports to the West.

The abrupt reversal in the growth momentum, which will particularly impact Asia's more open economies such as Hong Kong, Singapore, Taiwan and Malaysia, is a reminder that the region has not decoupled from the West. How could it when almost a third of developing Asia's $3.3 trillion of export orders originated from the US and the European Union in 2007?

Capital markets from Mumbai to Seoul depend significantly -- sometimes up to 40 percent of their total capitalisation -- on western institutional investors for continued liquidity. No wonder then that stocks and currencies across Asia plummeted through the second half of last year -- with the South Korean won and Indian rupee suffering some of the biggest reversals -- as US and European portfolio investors pulled out from the region.

AFP

A handful of shoppers are seen at one of Beijing's newest shopping malls, opened last summer ahead of the Olympic Games. China's fiscal deficit is set to hit a record high this year, as the global crisis shrinks revenues while forcing the government to spend more on pump-priming.

The sudden contraction in US dollar liquidity, together with the freezing of trade finance and heightened risk aversion among local banks, has caused severe distress among many small and medium-sized enterprises.

But the best way to describe the reversal in fortunes would be by using the economists' lexicon and term it as a cyclical downturn as opposed to the West's ongoing structural slowdown which is likely to last for several quarters if not years.

Calculations by Standard Chartered's economist Nicholas Kwan show that even if developing Asia's exports to the US, Europe and Japan drop by 30 percent in 2009, a bigger decline than that seen during the 2001-2002 downturn, it would shave off about 1.5 percent from the region's combined GDP. That is nowhere near the GDP slide seen in the Asian financial crisis of 1997-98.

Then there are the variations within the region in terms of exposure to overseas demand -- inward looking economies such as India and Indonesia and even export powerhouses, South Korea and China, are much more dependent on domestic demand for their growth than their export-oriented neighbours such as Taiwan, Hong Kong and Singapore.

The middle class in Asia, excluding Japan, comprise more than 250 million people. This is the segment which is increasingly willing to pare down savings and take on debt to go on overseas holidays, buy homes and cars, eat out at restaurants and continue to buy luxury goods.

Add to that some one billion Chinese and Indians who are increasingly getting wealthy enough to buy motorcycles, televisions and refrigerators, and you have an emerging consumer base that could soon surpass that in the US, the European Union and Japan put together. And this base has been growing faster than any other region in the world for the past two decades.

Because of the high savings history of this group, the consumption-to-GDP ratio in Asia has traditionally been much lower than those in the West. In China, for instance, private consumption-to-GDP ratio is a mere 35 per cent, compared with more than 70 per cent in the US. Governments and central banks in the region are now trying to stoke consumption by cutting taxes and interest rates, encouraging these savers to spend more.

Asian governments are in better shape than those in the West to provide these incentives because of their strong fiscal positions, low debt levels, large foreign exchange reserves, resilient financial systems and falling inflation. Asian financial institutions' negligible exposure to the West's toxic assets also means that governments are not under duress to shore up their banking systems.

China's recent announcement that it will spend almost $600 billion on public works programmes and similar, though less ambitious, public spending plans announced by South Korea, India and the governments across Southeast Asia, are reminders of the ammunition Asian authorities have in store to counter the emerging downturn. They are boosting expenditure on roads, bridges, schools and hospitals to create jobs and so put money in the hands of the consumers.

Here again there will be regional variations in spending. India, for instance, has among Asia's highest fiscal deficit and government debt ratios which will constrain the government's response to the slowdown and stymie infrastructure spending.

There is, of course, a long way to go before the region achieves its aspiration of becoming one common market of more than three billion consumers. Much more can and should be done across the region in terms of increasing access to finance to a wider range of consumers, streamlining property rights, speeding up labour reforms and cleaning up the legal system.

Many people wonder whether Asia will turn back the clock on financial reforms in the wake of the current turmoil. In fact, Asia has brought in greater sophistication, transparency and depth to its stock, bond and currency markets since the 1997/98 financial crisis. It is unlikely to proceed differently this time round.

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