International Business News

EU leaders seek united front amid 'new iron curtain' fears

AFP, *Brussels*

EU leaders were hoping to present a united front Sunday at a summit dedicated to the economic crisis, after weeks of wrangling over protectionism which has led to fears of "a new iron curtain".

The deepening recession has forced some western nations to bail out their ailing banks and industries, the auto sector in particular, leading to the protectionism uproar among their eastern partners.

"We should not allow a new iron curtain to be set up and divide Europe in two parts," stressed Hungarian Prime Minister Ferenc Gyurcsany, whose country is among the worst hit.

Czech Prime Minister Mirek Topolanek, in a pre-summit message, urged his fellow EU leaders not to divide Europe again through "beggar thy neighbour" protectionist policies as recession bites.

"We do not want any new dividing lines; we do not want a Europe divided along a North-South or an East-West line; pursuing a beggar-thy-neighbour policy is unacceptable," asserted Topolanek, whose country holds the EU's rotating presidency.

ECB to pioneer record low rates

AFP, *Frankfurt*

The European Central Bank is set to cut its interest rates to all-time lows Thursday after eurozone economic activity hit its own record low in February and the bloc shed a quarter of a million jobs.

The ECB also faces tough choices on how to help protect vulnerable eastern European economies from being swept up in the global financial crisis.

"There is every reason to expect the ECB to cut interest rates by 50 basis points to 1.5 percent this month," Capital Economics economist Jennifer McKeown said.

Spanish central bank governor Miguel Ordonez, a member of the ECB governing council, said last week: "You know that we never pre-commit, but we generally do not take the markets by surprise."

The ECB has slashed its benchmark rate from 4.25 percent to 2.0 percent since October, but markets look for record levels now as the eurozone economy wallows in its first recession.

AFP

Pedestrians walk past a branch of banking giant HSBC in Hong Kong. HSBC has weathered the financial crisis better than many of its rivals, but the banking giant is still expected to announce that it needs more capital when it unveils its annual results today.

HSBC results seen as test of global downturn

AFP, *Hong Kong*

HSBC has weathered the financial crisis better than many of its rivals, but the banking giant is still expected to announce it needs more capital when it unveils its annual results Monday.

HSBC was one of the first banks to warn about the subprime crisis and one of the few not to beg for government hand-outs, but any fund-raising move would provide a telling sign of the ferocity of the global slowdown.

A string of analyst and newspaper reports in recent months have said the bank needs extra capital.

In the most recent, the Financial Times cited unnamed sources that said the London-based bank would announce a 17-billion-US-dollar share offer when it unveils its annual figures.

The report also said the bank would cut its usually-strong dividend payment, which has kept the stock as a solid bet for both retail and institutional investors. An HSBC spokesman Saturday declined to comment on the report.

South Korea swings to $3.29b surplus

AFP, *Seoul*

South Korea's trade balance swung to a surplus of 3.29 billion dollars in February from a deficit of 3.35 billion dollars a month earlier, customs data showed Sunday.

The turnaround for Asia's fourth largest economy resulted from a slower decrease in exports and a still sharp fall in imports, the data showed.

Exports fell 17.1 percent year-on-year to 25.85 billion dollars in February while imports plunged 30.9 percent to 22.56 billion dollars, according to data on the Korea Customs Service website.

In January, exports fell by a record 33.8 percent year-on-year to 21.37 billion dollars and imports dropped 31.9 percent to 24.72 billion.

Minister of Knowledge Economy Lee Youn-Ho last week said the country was likely to register a trade surplus in March as well if the effect of the won's fall against the dollar continued.

ECONOMIC SLOWDOWN

Indian retail revolution on hold

AFP, *New Delhi*

AFP

An Indian customer shops for groceries at a neighbourhood shop in New Delhi. It was hailed as the "great Indian retail revolution," but a slowing economy and over-ambitious expansion have left many retailers struggling with what analysts now say were hyped expectations.

It was hailed as the "great Indian retail revolution," but a slowing economy and over-ambitious expansion have left many retailers struggling with what analysts now say were hyped expectations.

When India's economy was booming, large domestic and foreign companies raced to tap its growing middle class and introduce Western-style chain-store shopping.

The companies hoped to exploit what was seen as one of the last virgin retail frontiers, which is dominated by small shops, but the outlook for "Big Retail" has soured as the global downturn has deepened.

"There's belt-tightening. The country is going through a realignment of consumption patterns -- we're not immune to the rest of the world," said Retailers' Association of India chief executive Kumar Rajagopalan.

The group has slashed its revenue growth forecast for the chain retail sector to 15-20 percent, down from 30-35 percent, for this fiscal year to March but an official, who asked not to be identified, said the figure now was "anyone's guess".

Customer numbers are down, sales are falling and the construction of glitzy shopping malls has been put on hold.

"Everyone was being far too bullish about India," Bryan Roberts, global research director at London-based Planet Retail, told AFP.

"Long term there's massive potential but a lot of economic development has to take place before India can sustain this surge in retail development," he said, adding: "There was a lot of hype."

The latest sign of trouble came this month when 600 outlets of leading Indian discount food and pharmacy retailer Subhiksha Trading Services were looted by disgruntled staff after it failed to pay wages.

The retailer, which had grown at a blistering pace -- expanding 10-fold to 1,655 outlets since 2006 -- announced business was at a virtual standstill.

The sector has been "doing too much, too soon," R. Subramanian, managing director of the ailing Subhiksha chain, told Business Standard newspaper.

"The kind of investments and expansion that Indian retail was attempting is unprecedented."

Foodland Fresh, a smaller Mumbai-based retail chain, recently shut 39 of its 42 outlets.

Kishore Biyani, called the "King of Retail" for pioneering chain stores in the country of 1.1 billion in the mid-1980s, has slowed his expansion plans.

Many stores are offering up to 70 percent discounts unload merchandise.

"Consumers are definitely pulling back from spending on discretionary items," said Hemant Patel, retail analyst at Enam Securities.

Other retailers are renegotiating sky-high rents -- which in Mumbai and Delhi are among the world's highest -- to stay in business.

"When we're talking about revival of the retail scene, people are going to be working first on their balance sheets and making sure they're profitable," said Patel. "They're rationalising their rollout plans and capital expenditures."

India's biggest private company, Reliance Industries, has been consolidating -- seeking to relocate some food stores, shut down inefficient ones and launch specialty outlets for footwear and electronics.

Reliance made headlines when it announced plans in 2006 to invest five billion dollars to set up an Indian version of Wal-Mart, the world's largest retail chain. The aim was to blanket India with a mix of neighbourhood convenience stores, supermarkets, specialty stores and hypermarkets.

But in 2007 it had to freeze plans to open its Reliance Fresh flagship food stores in the nation's most populous state of Uttar Pradesh, amid bitter opposition from family-run corner stores backed by politicians.

Reliance says it has launched some 750 stores nationwide and insists it has gained "critical mass" in the market.

Analysts estimate corner stores still account for 95 percent of the retail sector, estimated to be worth an annual 350 billion dollars by global consultancy KPMG.

Analysts say the big stores still have to get their model right in providing an alternative to neighbourhood retailers who offer convenience, credit and personalised service.

The retailers have had "nothing but consultant reports to work on since none of them had any exposure to retail, and consultants could not figure what the issues peculiar to Indian retail were," said Subhiksha's Subramanian.

New Delhi housewife Supriya Soni shopped at a new mini-supermarket in the upmarket neighbourhood of New Friends Colony when it opened near her home.

But she went back to buying food from her local corner stores and the sabzi-wallah, or vegetable seller, who goes by her house with his wheelbarrow piled high with produce.

"It's just more convenient, it's not any more expensive and besides I like doing business with him -- it's more personal," she said.

Retailers also face other hurdles -- poor supply chains that include lack of cold storage facilities, bad transport, and warehouses where rats can eat the produce before consumers.

Spoiled goods can be extremely costly for an industry which operates on wafer-thin margins of two to three percent.

British catalogue chain Argos recently exited an Indian joint venture, saying it had not met performance targets.

Stiff regulation has also been a hurdle.

To protect domestic retailers, India only allows foreign direct investment in the wholesale cash-and-carry business. In single-brand retail stores, foreign ownership is capped at 51 percent. Multi-brand international retailers are allowed but only through via franchise.

Lately, however, the government has said it might relax those rules.

The retail association's Rajagopalan said the downturn could prove a blessing in disguise.

"It's going to allow people to look at their business models, to take things a little slower, to be able to take their time about investing," he said.

Asia's export-reliant economies in pain

AFP, *Hong Kong*

AFP

Filipino cannery workers process sardines at the Mega Fishing Corporation in southern Zamboanga City. Sardine manufacturers are optimistic with growth both for domestic and export this year as millions of people continue to consume the cheap canned sardine amid the global economic slump. The Philippine government cut its economic growth forecast for 2009 and warned the budget deficit would soar as President Gloria Arroyo increases government spending to help shield the Philippines from the full effects of the global financial turmoil.

When times were booming, Asia's factories would sometimes struggle to keep pace with the global demand for cars, semiconductors and electronics goods.

But as the worldwide recession has taken hold, the region's export-dependent economies have been hit especially hard -- and they are now finding that domestic demand cannot possibly make up for the decline in sales overseas.

"This is a very unhealthy economic growth pattern that developed in the last more than 10 years," said Chen Xingdong, an economist with BNP Paribas bank in China.

"Asia's economies all are quite heavily dependent on exports," Chen said. "They must turn to domestic demand."

Analysts say that is easier said than done.

In places like Japan, where manufacturers cut production by a record 10 percent in January and exports plunged more than 45 percent, the health of the economy at home is still inextricably linked to overseas markets.

"It is hardly possible for Japan to boost domestic demand now and pull the economy up," said Hideyuki Araki, an economist at the Resona Research Institute in Osaka.

"After all, corporate spending on plants and equipment is linked to exports," Araki said. "Japan needs to wait for a recovery in foreign demand."

Across much of Asia the story has been the same.

Hong Kong exports are down almost 22 percent. Singapore's exports fell 35 percent in January -- the biggest drop since the government began keeping year-on-year records more than 30 years ago.

In South Korea, where they account for more than one-third of GDP, exports are down 34 percent.

"South Korea is now suffering from a double whammy -- sluggish domestic demand and sinking overseas demand," said analyst Yu Byoung-Gyu of the Hyundai Research Institute in Seoul.

As the global crisis started to take hold, some suggested Asian economies might be able to "de-couple" from the West and be able to keep going strong even while the United States and others started to suffer.

"The de-coupling theory has been disproved," according to Sherman Chan, an analyst with Moody's Economy.com.

"Even China is counting on demand from the US and Europe to restore growth," she said in a recent report. "All eyes will remain focused on when the US will recover."

In Taiwan, a leading semiconductor maker, exports fell 44 percent in January while GDP contracted by 8.4 percent in the last quarter of 2008 -- the kinds of steep declines that cannot be compensated for by domestic demand.

"This is the very fear of export-dependent economies like Taiwan," said Lucas Lee, an analyst on the island with brokerage firm Mega Securities. "Few can be sure whether or when global demand will pick up."

Even in Asia's smaller economies, the drop in exports has had a powerful impact. Thai exports suffered their biggest decline in January in a decade.

Malaysia, which is heavily dependent on exports -- in particular electronics, accounting for about 40 percent of overseas sales -- has also been hit hard.

"The impact is now global and Malaysia is no exception," Malaysian Trade Minister Muhyiddin Yassin said last week. He said the government was looking at a "worst-case scenario" of exports falling as much as 3-4 percent this year.

Chan, of Moody's Economy.com, said Indonesia and the Philippines looked to be two of the region's bright spots for the year ahead -- and that both would be resisting external drags on their economies from "solid" domestic demand.