International Business News

Allianz, AmEx sell half of stakes in China's ICBC

AFP, *Shanghai*

American Express Co and German insurer Allianz said Tuesday they had offloaded half of their stakes in Industrial and Commercial Bank of China (ICBC) as soon as a lock-up period expired.

The sales followed similar moves by a number of foreign institutions that have got rid of their holdings in Chinese banks to shore up capital amid the global financial crisis.

Allianz teamed up with American Express and US Wall Street giant Goldman Sachs in 2006 to invest 3.78 billion dollars in ICBC, the world's biggest bank by assets, giving them a total stake of about nine percent.

In joint statements with ICBC, Allianz said it sold 3.22 billion Hong Kong-listed shares and American Express said it sold 638.06 million shares as the stocks became free on Tuesday.

Neither company specified financial details of the sale, only saying the shares had been sold to "a select group of investors through a private sale."

The stake sold by Allianz and American Express could be worth 1.6 billion dollars and 318 million dollars respectively, based on a sale price of 3.86 Hong Kong dollars (0.5 US dollar) each.

Pioneer to get lifeline from Honda

AFP, *Tokyo*

Japan's Pioneer Corp. said Tuesday that it was getting a financial lifeline from Honda Motor Co., which will take a 6.5 percent stake in the electronics maker to help it survive the recession.

Pioneer said it planned to raise 2.5 billion yen (26 million dollars) by issuing shares to Honda, which will become its second-largest shareholder after Sharp Corp.

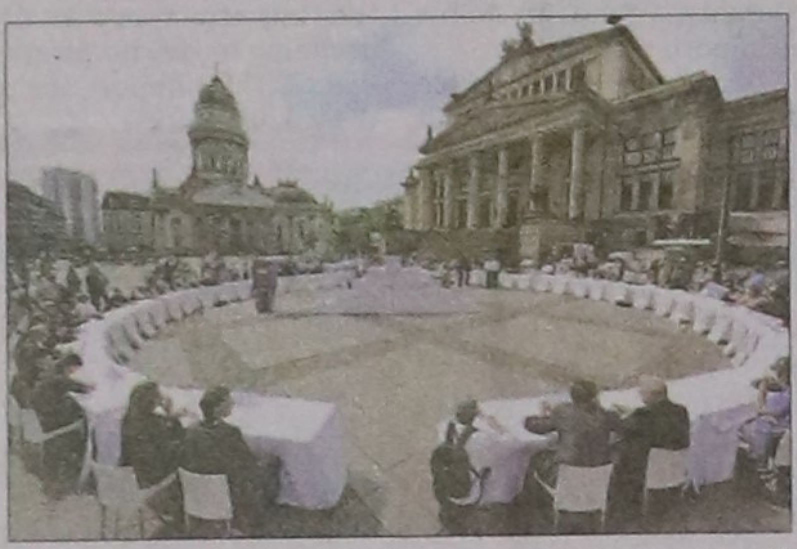
Sharp's own stake will drop to 13.35 percent from 14.28 percent after the new share issue.

Pioneer said it would use the money to boost its position in car navigation systems, in which it has a 30 percent domestic market share.

The firm said it needed to raise a total of about 40 billion yen to achieve its recovery plan and would seek additional financial support. Pioneer is considering applying for public funds to help it through the slump.

The mid-sized electronics maker, reeling from weak sales and a stronger yen, said in February that it would cut 10,000 jobs worldwide and quit the television business as it braces for a record loss in the year to March.

Pioneer on Tuesday tweaked its net loss forecast for the year to 129 billion yen from 130 billion previously.



AFP

Demonstrators from the German Farmers' Association organise a giant roundtable in order for farmers to put forth their problems during a protest at Berlin's Gendarmenmarkt square on Monday on the eve of the "Round Table of the food business sector" called by German Agriculture minister Ilse Aigner. DBV president Gerd Sonnleitner made an appeal to German consumers to buy more local milk product, in order to help the dairy farmers.

Japan, China may jointly develop mobile network

AFP, *Tokyo*

The leaders of Japan and China may this week discuss jointly developing a next-generation mobile telephone network for the Chinese market, a government official said Tuesday.

Japan uses the so-called third-generation (3G) mobile phone standard, which allows smooth transmission of images and music files, while second-generation technology still predominates in China.

Japanese Prime Minister Taro Aso is expected to meet Chinese Premier Wen Jiabao on Wednesday and President Hu Jintao on Thursday in Beijing.

A Japanese industry ministry official said a mobile phone system upgrade "is one of the subjects that they may discuss during the summit" but he added that no agreement was expected yet.

Japan's Nikkei business daily said Aso and Wen were expected to agree that the two Asian giants jointly develop 3G and the more advanced 3.9G services, which could quickly transmit video files, for the Chinese market.

Japanese mobile phone companies in China have lagged behind rivals such as Finnish Nokia Corp. and South Korea's Samsung Electronics Co. due to the incompatibility of standards.

Deutsche Bank becomes latest to post strong results

AFP, *Frankfurt*

Germany's biggest bank, Deutsche Bank, posted surprisingly strong results Tuesday, becoming the latest global bank to offer hope for a reversal of the financial crisis.

Deutsche Bank reported a first quarter net profit of 1.2 billion euros (1.56 billion dollars), well above market expectations.

In the first quarter of 2008, the bank had suffered a loss of 141 million euros, and analysts polled by Dow Jones Newswires had forecast a profit of 764 million euros this time around.

Bank chairman Josef Ackermann said: "This was a key quarter for Deutsche Bank. Once again we demonstrated our strength, as we have consistently throughout this crisis. In this quarter, we also proved our earnings power."

Ackermann told bank shareholders in a letter the bank saw signs of financial market stabilisation, echoing remarks by European Central Bank (ECB) chief Jean-Claude Trichet.

SWINE FLU

Investors, businesses on edge

Two nuns waiting at Mexico City's international airport wear surgical masks on Monday to ward off contagion with the new multi-strain swine flu virus. Days after the deadly virus outbreak in Mexico, tour groups around the Asia-Pacific abandoned more holiday jaunts to the country amid a series of government warnings. Airports from Indonesia to Australia tightened their screening of travellers. With the world economy already seen shrinking 1.3 percent this year by the International Monetary Fund, swine flu could add more stress by further eroding trade.

AFP

AP, *Hong Kong*

The threat of a swine flu pandemic kept global businesses and investors on edge Tuesday, disrupting travel plans and sending stock markets into a tailspin as fears of more economic misery mounted.

Days after the deadly virus outbreak in Mexico, tour groups around the Asia-Pacific abandoned more holiday jaunts to the country amid a series of government warnings. Airports from Indonesia to Australia tightened their screening of travellers.

The disease, while still largely corralled in North America, has spread rapidly in recent days with the World Health Organization raising its global alert level and moving closer to declaring a flu pandemic as infections cropped up in Europe. Asia's first cases were confirmed in New Zealand; another case emerged in Israel. The virus is suspected in about 150 deaths, all in Mexico.

With the world economy already seen shrinking 1.3 percent this year by the International Monetary Fund, swine flu could add more stress by further eroding trade, consumer spending and investment - snuffing out what many say are the glimmers of a recovery.

"This certainly could exacerbate the recession," said Sherman Chan, an economist with Moody's in Australia. "The next couple weeks will be crucial. If this persist it could become a more serious concern and really cripple the economy."

For the U.S. economy, any turnaround could be delayed well into 2010 as gross domestic product contracts more than expected. In a worst-case scenario, the U.S. economy would shrink by an extra 0.3 percent this year, on top of a predicted 3.5 percent decline, says Brian Bethune, economist at IHS Global Insight. That amounts to a roughly $50 billion loss of economic activity, he said. The IMF already has projected the U.S. economy will shrink 2.8 percent this year.

White House spokesman Robert Gibbs said it's a "little too early to determine the economic impact" but the Treasury Department and agencies are "monitoring the situation and looking into it."

Still, most experts don't think a swine-flu outbreak by itself would eliminate many US jobs or severely worsen the economy.

Simon Johnson, former IMF chief economist and a professor at the Massachusetts Institute of Technology's Sloan School of Management, envisions only a "small hit" to economic activity in the United States - just a few tenths of 1 percentage point.

So far, the disease's impact has been felt largely in markets, not the real economy.

On Tuesday, investors continued to buy up drug makers and medical firms. Airlines, hoteliers and other travel-linked stocks took another hit. Markets were down sharply overall, with Japan's benchmark off 2.7 percent and South Korea's shedding 3 percent. London's FTSE and Germany's DAX both slumped 2 percent or more.

For now, many governments weren't taking any chances.

The European Union advised against nonessential travel to the United States and Mexico. Indonesia, the country worst effected by bird flu with 119 human deaths since 2003, advised its citizens against any travel to Mexico, as did the Philippines, Japan and many other countries.

The unease extended to companies and tour groups from China to South Korea, where Samsung Electronics Co told its employees not to travel to Mexico on business.

In Hong Kong, among the cities hardest hit by the SARS epidemic six years ago, one travel agency scrapped trips to Los Angeles because of the city's proximity to Mexico. A second said it was cancelling an 18-day excursion to Mexico, Cuba and Venezuela as a result of swine fu.

"This outbreak looks very serious," said Roger Hong, deputy general manager of Hong Kong-based Goldjoy Travel. "The outbreak has just begun. We don't know how far it has spread."

The flu could also hurt the $5 billion export market for U.S. pork. China, Russia and Ukraine banned imports of pork and pork products from Mexico and three US states that have reported cases of swine flu. Other governments were increasing screening of pork imports.

Even though it's safe to eat pork (swine flu viruses don't spread through food), analysts still expect an impact on the industry.

"Though there is no evidence that swine flu can be obtained by eating pork, the fear generated by a disease named after hogs cannot be good for pork consumption," said JPMorgan analyst Ken Goldman.

Despite the growing alarm, the world is now better equipped to deal with cross-border health crises after being tested by SARS and bird flu.

Vaccines can be rolled out fairly quickly. Many big companies now have contingency plans to keep essential operations going if employees can't make it to work. And compared with previous crises, this time around has witnessed relatively quick responses and transparency from governments -- two factors critical to keeping up public confidence, analysts say.

"On the one hand, it's a terrible and traumatic thing -- a flu pandemic," Johnson said. "On the other hand, it almost certainly will not have a significant effect."

COLUMN

MAMUN RASHID

Middle East in meltdown

The Middle East (ME), although a region better known for political tension and strife, is also known for its opulence. It invokes visions of rich Arab monarchies inhabiting in an enchanted cocoon full of marble-halled villas, luxury hotels, exclusive shopping malls and such frivolous playthings as yachts, private jets and expensive cars. Since time immemorial, the rulers of the six nations -- Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates (UAE) -- that make up the Gulf Cooperation Council (GCC) have pondered not how to tackle economic problems but what new castles, towers and cities to build.

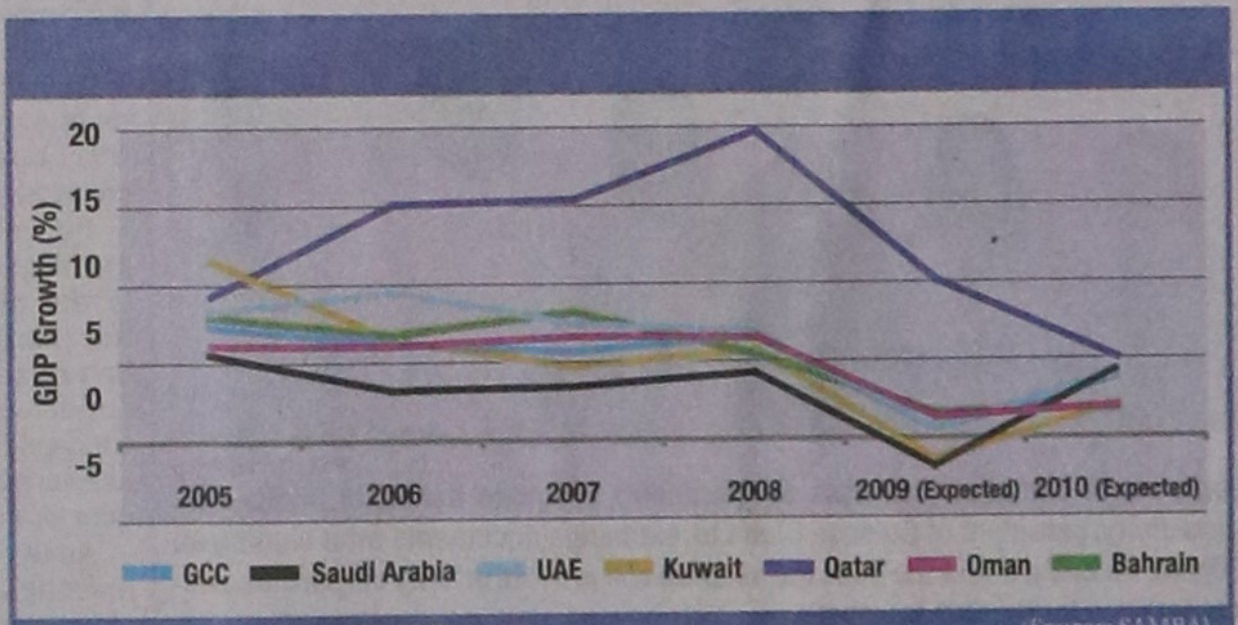


Figure: GCC Real GDP Growth and Forecasts (Source: SAMBA)

However recently that fairy-tale seems to have come to an abrupt end. The extended economic boom in the ME came to a shuddering halt during the third quarter of 2008 as the global financial crisis hit home and oil prices plunged. Capital flows, assets prices and oil revenues fell steeply, severely denting investor confidence and forcing a substantial scaling back of infrastructure projects. Banks have also had to rein in soaring credit growth and rebalance their books. This negative impact can be attributed to the Gulf's over dependence on oil and the chronic mismatch between its real and financial sectors.

Reduced and more costly access to international capital markets, withdrawal of large amounts of foreign speculative funds, and continued rapid increase in loan growth (20-50 percent) ensured that the GCC had suffered from its own credit crunch. The GCC stock markets have also crashed. GCC indices slumped by 28-72 percent in 2008. Market capitalisation has more than halved as it has become clear that the GCC has not 'decoupled' from the rest of the world.

Falling global demand has caused oil prices to slump by over $100 per barrel, prompting Opec to agree on large production cuts (14 percent in 2009), and causing GCC oil exports earnings to plummet. The hydrocarbon sector in the GCC still accounts for around 45 percent of real GDP, 79 percent of exports and 77 percent of budget revenues. The combination of falling prices and production will see GCC oil earnings falling by over half in 2009.

Rough estimates suggest that the overall drop in total GCC foreign assets could be around $350 billion, with sovereign wealth funds such as the Abu Dhabi Investment Authority, (ADIA) suffering the heaviest decline (40 percent). Infrastructure spending is also suffering and currently $330 billion worth of projects have already been cancelled. It is suspected that there will be a dramatic shift from an overall GCC fiscal surplus of nearly 29 percent of GDP in 2008 to a projected deficit of close to 5 percent in 2009.

Real GCC growth is projected to fall sharply from 6.5 percent in 2008 to 0.5 percent in 2009, with a pick-up possible in 2010 assuming that the global economy and oil prices will rebound.

Within a very short period, these highly liquid and rapidly expanding economies have been stopped in their track by the severity of the global crisis. However the extent to which each economy is affected is being dictated by the strength of its fundamentals. Economies that are well diversified with a robust real sector are weathering the storm better.

Saudi Arabia's economy is more diversified than its counterparts. Instead of just depending on oil, it is taking steps to strengthen its agriculture and manufacturing sectors. For example, it boasts of the world's largest integrated dairy farm. The country plans to turn it into an industrial powerhouse in the region.

Qatar is expected to continue to grow strongly as its economy is not entirely oil-dependent. It is one of the world's richest countries with a per capita income of $80,870. At present, Qatar holds 14.4 percent of the world's gas reserves and its export is set to double in the next five years.

The outlook is quite negative for oil-dominated Kuwait, which is overtly dependent on state-owned Kuwait Petroleum Corporation.

The highly leveraged emirate of Dubai with its swollen property bubble has been one of the worst hit by the global recession. It recently required a $10 billion bailout from its more affluent neighbour, Abu Dhabi. Having long ago depleted most of its oil reserves, Dubai has reinvented itself as a "sell-side" emirate, dreaming up ingenious schemes for other people to invest in. Its economy is now entirely dependent on property development and hence its economic base is weak. Some nervous bankers think property prices could fall by 80 percent by 2010.

The global financial turmoil has heralded the end of the superficial economy. The real sectors are the key drivers behind real growth and diversification is crucial for survival. In a recent interview US President Barack Obama shared the following thought on the global recession:

"Over the last 15-20 years about 40 percent of our overall economic growth was in the financial sector. Now we are finding out that a lot of that growth wasn't real. It was paper money, paper profits on the books but it could be easily wiped out. What we need is steady growth, we need young people coming out of school instead of wanting to be an investment banker, to be an engineer, a scientist, a doctor or a teacher. That is going to put our economy on solid footing and we won't have this kind of bubble and bust economy of the last several years."

It is therefore clearly evident that the key to survival is a sound real economy based on solid fundamentals, in other words, "Back to basics".

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