

International Business News

Germany's European Commissioner slams banks

Germany's representative in the European Commission launched a sharp attack on his own country's banks on Monday, saying they had been "world champions" in investing in risky financial products.

Guenter Verheugen, the EU's Industry Commissioner, told the *Sueddeutsche Zeitung* daily in an interview: "Nowhere in the world, not even in America, were banks so ready to take incalculable risks, especially the regional banks."

"Germany was world champion in risky banking," the 65-year-old commissioner added.

He also said that financial oversight in Germany had been insufficient and inadequate compared to other countries in the EU.

"In Germany and in other countries the regulators just let things run their course. Other countries dealt better with their banks. Italy for example. There is no toxic paper there," said Verheugen.

In the future, regulators must examine new financial products very carefully, he insisted.

"I would have nothing against the idea of needing permission for highly risky assets," he said.

Germany's banking system -- especially the Landesbanken, regional banks that play a vital role in Europe's largest economy -- has been hit hard by the global crisis, caught with billions of euros of toxic assets on their books.

Vietnam approves Taiwan's China Steel joint venture

Taiwan's China Steel said Monday authorities in Vietnam approved its application to set up a joint venture there with Japan's Sumitomo Metal Industries.

In a statement, China Steel said it received approval from the Vietnam government on May 12 to establish the joint venture, to be capitalised at 1.15 billion US dollars with Sumitomo Metal Industries and Taiwanese partners.

China Steel will take a 51 percent stake in the new venture, China Steel Sumikin Vietnam Joint Stock Co, which is expected to produce 1.6 million metric tonnes of cold rolled steel products annually for auto and home appliance use.

While the global economy has been hard hit by financial woes, "the partners of the joint venture will go ahead with the project based on our long term investment strategies," China Steel said in the statement.



A Chinese farmer harvests a crop of rape in Hefei, eastern China's Anhui province, on Saturday. The Chinese countryside, home to an estimated 800 million people, has fallen behind the cities in recent years. The government aims to roll out social security schemes and strengthen the protection of farmers' land rights and migrant rural workers' employment rights.

China begins building oil pipeline to Russia

China began work Monday on an oil pipeline to connect its northeastern border with crude-rich Russia, state press said, as the Asian giant looks to supply its energy hungry economy.

China's Vice Premier Wang Qishan launched the project, which will link the Siberian border town of Mohe with refineries in China's Daqing city over 900 kilometres (558 miles) away, Xinhua news agency said.

The construction is part of a 20-year deal signed in April between the two nations that will pump 15 million tonnes of Russian crude annually into China when the pipeline is completed in 2010.

As part of the agreement, China will help finance Russian oil firms Rosneft and Transneft with a total of 25 billion dollars in loans.

The pipeline is a spur of the East Siberian-Pacific Ocean pipeline that is currently under construction and will transport Russian crude from Siberia to a terminal on its eastern coast.

Singapore exports down 19.2pc in April

Singapore's main exports fell 19.2 percent year on year in April, government data released Monday showed, as the city-state struggles to find a way out of its worst recession in decades.

Shipments of electronics extended their sharp fall from March and petrochemicals accelerated their decline to weigh down a strong showing by pharmaceuticals, the figures showed.

Non-oil domestic exports (NODX) totalled 11.32 billion Singapore dollars (7.7 billion US) in April, the trade development agency International Enterprise Singapore (IE Singapore) said.

It was the 12th straight month of slippage for the NODX, a closely watched barometer of the health of the trade-driven economy, with the pace of decline in April accelerating from the 17.3 percent recorded in March.

COLUMN

Unlocking potential

IFTY ISLAM

The strong rally in both developed stock markets (the S&P500 with gains of +30 percent from the lows is the best performance over 2 months since the 1930s) and even more so for emerging markets has seen renewed optimism that the global economic recovery will be imminent.

Oil has crept above \$60 a barrel again on expectations for stronger global growth. My own view is that we have likely hit the bottom in the cycle, but that any recovery, especially in the US and Europe, will be relatively weak. With trillions of asset destruction, consumption growth will remain slow for a while, as will the process of finding another engine of growth to replace finance.

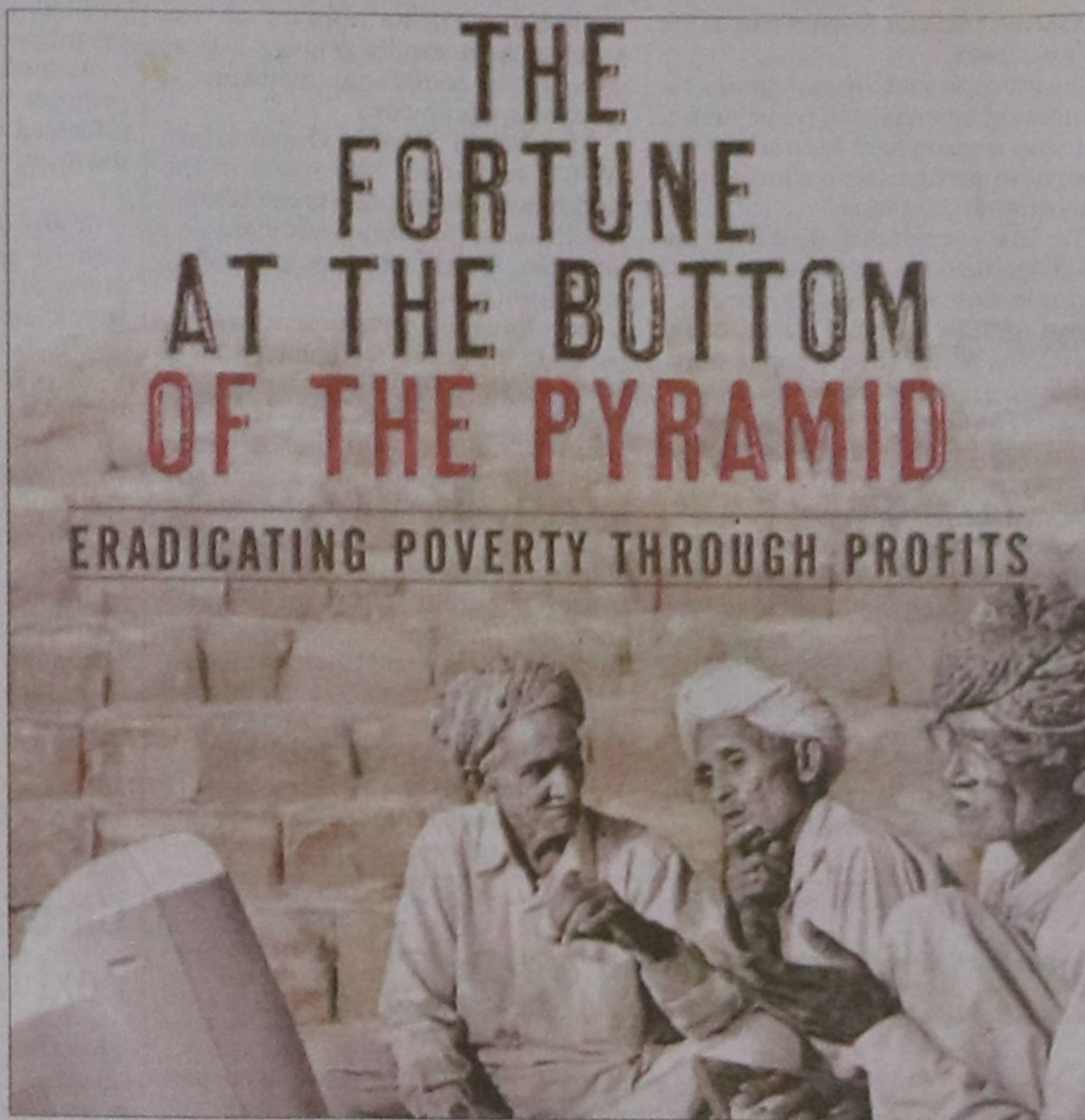
However, as Harvard Prof Dani Rodrik has noted, as far as the developing nations are concerned, this need not be a tragedy. After all, "their growth depends on their ability to import and deploy the stock of knowledge that already exists in the rich world -- a stock that will not disappear or dissipate just because growth there has slowed down".

In a previous column, I highlighted the opportunities for countries like Bangladesh and India to target growth rates of 8 percent + by a greater focus on unleashing the potential at the "bottom of the pyramid" (BOP) paraphrasing the title from the seminal book by University of Michigan Prof CK Prahalad. This was defined as people living on \$2 per day and increasing the productivity and income generation opportunities could in turn see not only rapid GDP rates being maintained but also a significant reduction in poverty rates.

Moreover, while the recent announcements of support for industries most affected by the global financial crisis such as jute, leather goods and seafood/frozen food is to be welcomed, to some extent, we need to balance our targeting of traditional export industries with a focus on increasing agricultural productivity and supporting new entrepreneurial activities that can generate new market opportunities both domestically and overseas.

In contrast to Prof Prahalad, Prof Aneel Karnani, also of the University of Michigan, criticises the thinking that the BOP can make vast fortunes for multinationals (MNCs) given the limited incomes and purchasing power there.

He argues, "Not only is there no fortune, there is not even glory at the bottom of the pyramid. It is a fallacy to claim that there is much 'untapped' purchasing power at the BOP. The poor, in fact, obviously consume



A seminal book by University of Michigan Prof CK Prahalad.

most of what they earn, and as a consequence have a low savings rate. Contrary to the BOP argument, getting the poor to consume more will not solve their problem. Their problem is that they cannot afford to consume more. The only way to help the poor and alleviate poverty is to raise the real income of the poor. There are only two ways to do this: 1) lower prices of the goods that the poor buy, which will in effect raise their income, and 2) raise the income that the poor earn.

Prof Karnani argues for the need to view the poor primarily as producers, not as consumers. By far the best way to alleviate poverty is to raise the income of the poor, and to emphasise buying from the poor rather than selling to the poor. The BOP proposition focuses on the poor primarily as consumers; it does however sometimes cite examples of organisations that treat the poor as producers.

Free market advocates argue that the best antidote to poverty is economic

growth. There is much evidence linking poverty reduction to economic growth, the so-called 'trickle down' effect. But, the trickle down effect may be too little and too slow. We need to target programmes specifically at poverty reduction rather than just wait for the general growth effect to kick in.

Another interesting observation from Prof Karnani is in asking why is microcredit not more effective? He argues the problem lies not with microcredit but rather with micro enterprises. The United Nations' declaration that micro entrepreneurs use loans to grow thriving businesses leading to flourishing economies is hype. A client of microcredit is an entrepreneur in the literal sense: she raises the capital, manages the business and is the residual claimant of the earnings. But, the current usage of the word 'entrepreneur' requires more than the literal definition.

Entrepreneurship is the engine of Joseph Schumpeter's dynamism of 'creative destruction.' An entrepreneur is a person of

vision and creativity who converts a new idea into a successful innovation, into a new business model. Some clients of microcredit are certainly true entrepreneurs, and have created thriving businesses these are the heart-warming anecdotes. But the vast majority of microcredit clients are caught in subsistence activities with no prospect of competitive advantage. The self-employed poor usually have no specialised skills and often practice multiple occupations.

Creating opportunities for steady employment at reasonable wages is the best way to eradicate poverty. There is much empirical evidence showing that creating decent employment opportunities is the best way to take people out of poverty.

One suggestion that Prof Karnani has that I agree with is as follows: rather than lending \$200 to 500 women so that each can buy a sewing machine and set up a micro enterprise manufacturing garments, it might be much better to lend \$100,000 to an entrepreneur with managerial capabilities and business acumen and help her to set up a garment manufacturing business employing 500 people. Now the business can exploit economies of scale, deploy specialised assets, and use modern business processes to generate value for both its owners and employees.

Governments need to facilitate the creation and growth of private (small, medium and large) enterprises in labour-intensive sectors of the economy, through appropriate policies (such as de-regulation), infrastructure (such as transportation), and institutions (such as capital markets). Small and medium sized enterprises need financing options -- both debt and equity -- in the range of \$10,000 to \$1 million that are almost non-existent in developing countries.

Hathay Bunano is a great example of a company that started with \$5000 of capital in 2005 and has grown to create employment for 3000 rural women making hand knitted toys in the villages. Its CEO, Samantha Morshed, rightly was awarded an MBE in this year's honours list. We need to think of innovative venture capital financing to create more Hathay Bunanos and more effectively unlock the productive potential of the bottom of the pyramid in Bangladesh. This would lay the foundations for an 8 percent growth rate that would also be inclusive in sharing the rewards of growth with the poor.

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ECONOMIC MELTDOWN

Crisis bad news for Russia's shrinking population

AFP, Moscow

In the face of financial trouble, it's a bad time for having babies. And babies are what Russia badly wants.

State-sponsored posters call for Russians to do their duty and have big families. One lining the Moscow metro shows a woman juggling three stout babies, another preaches "love for your nation, starts with the family."

Only in January, President Dmitry Medvedev touted the success of the government's drive to boost the population, saying births were up over eight percent in 2007 and six percent in 2008 -- the highest birth rates in 25 years.

But the demographic outlook is bleak. According to a recent UN report entitled "Russia Facing Demographic Challenges," the country's population has shrunk by 12 million people in the last 16 years.

And the population of the world's largest country could further dwindle from 142 million in 2008 to 116 million by 2050, the report predicted.

Now the financial crisis has added to Russia's pernicious mix of ill-health and low birth rates, heralding an early reversal of the cheerier birth rates of the last three years, statisticians and sociologists said.

Russia's state statistics agency Rosstat recorded 270,800 births in January and February, down by 3,700 from last year.

Rosstat head Vladimir Sokolin last month said the economically active population was shrinking by one million people per year and the country could face labour shortages as it emerges from the global financial crisis.

"At this rate, the crisis could reduce to nothing all the government's efforts of the last years to stimulate births," said Valentina Petrenko, the head of Russian upper house's committee for social policy and health.

"The risk of losing employment is in a big way linked to pregnancy and caring for young children. Expectant mothers and women, as a rule, are the first to be laid off," she said.

Experts say that in the face of financial uncertainty more women plan against pregnancy and are opting for abortions.

Only five percent of women surveyed by state pollster VtsIOM as the first economic stress was felt in November said they planned pregnancies in the next two years.

Outside a city-run maternity hospital in northern Moscow, two women stood apart



This file photo taken on May 24, 2006 shows pregnant women taking part in a lesson at the Maternity Hospital in Saint Petersburg. In the face of financial trouble, it is a bad time for having babies. And babies are what Russia badly wants. Only in January 2009, President Dmitry Medvedev touted the success of the government's drive to boost the population, saying births were up over 8 percent in 2007 and 6 percent in 2008.

from the knots of chatty families waiting in the spring sun with flowers and bottles of sparkling wine to celebrate a new addition to the family.

The two sat heads together, smoking and looking almost under dressed in jeans and sneakers.

Irina, who preferred not to give her last name and nervously grasped her friend's hand, had come for the free abortion services offered at such clinics.

"I am still paying down my apartment each month, I can't imagine being without a job much less anything else right now," she confided, adding she was not living with her boyfriend.

"A friend of mine lost her job, but she said it would give her time to raise her child, but I don't know... I think it's a bit crazy," she said.

Andrei Akopyan, the head doctor at one of the Moscow's reproduction and family planning clinics, predicted the number of abortions would increase by 10 to 12 percent due to the economic instability.

"It may be some families planned to have children, but they then found themselves forced to turn back on that decision," he said.

"There are, of course, already more women who want to have abortions," Khazem Alsoabi, a doctor at one private clinic, MedClinica, said. "The reasons I hear are financial, there's no question of that."

Searches for "abortion" on the Russian Internet portal Yandex have more than doubled since the onset of the financial crisis. The number of people who keyed in the search jumped from 94,526 in October to 151,471 in November.

According to the United Nations, Russia has the highest rate of abortions in the world, in a hold over from Soviet times when the operation replaced traditional forms of contraception.

Last year was the first since the fall of the Soviet Union when the number of births narrowly outstripped the number of abortions in the country.

"There is even a new social category of women who say they are having abortions because they can't pay back their loans," said Svetlana Rudneva, who heads the Family and Childhood fund, offering counselling for unplanned pregnancies.

She said the charity fund had seen a hike in calls to its crisis line and more inquiries from women seeking late-term abortions. The operation is legal up to the 12th week in Russia.