International Business News

Indonesian president vows 7pc growth

AFP, *Jakarta*

Indonesian President Susilo Bambang Yudhoyono pledged Wednesday to return the country to strong growth of seven percent by 2014 if he is re-elected in July.

The president known simply as SBY said domestic demand would fuel a recovery next year, as he addressed business leaders ahead of the July 8 polls.

"We have the objective within the next five years that, with the right growth sources and the best policies, economic growth can reach seven percent," Yudhoyono said.

"I prefer inclusive growth, sustainable growth and protection for the citizens rather than economic growth levels that won't be sustainable," he added.

The government has embarked on a 7.1-billion-dollar stimulus spending plan but Yudhoyono said fiscal policy had to be balanced with a "social safety net" to ensure stable rather than simply high economic growth.

His government would improve resource management in a country which is home to some of the world's largest reserves of minerals, coal, oil and gas.

"We have abundant resources, but they have not been managed efficiently," he said.

Indonesia became a net oil importer several years ago due to a lack of investment in new fields, while regulatory problems have stymied investment in the mining sector.

Boediono, an economist with no experience in politics, separately promised to fight corruption and strengthen the domestic market if elected as vice president.

China to tighten control on fixed-asset investment loans

AFP, *Beijing*

China is to tighten up supervision of lending for fixed asset investment projects after bank loans surged this year and auditors warned of fund misuse.

Loans of more than five percent of a project's total investment, or greater than 500 million yuan (73.3 million dollars), should be paid to whoever is contracted to do the work, not the borrower, new draft regulations state.

Loan applicants must also show equal or greater investment in the projects and their funds should already be invested, the draft rules, issued Tuesday by the China Banking Regulatory Commission, said.

It was not immediately clear when they would come into force.

The new regulations come as the National Audit Office published a report this week warning of fund misuse related to China's 580-billion-dollar stimulus package, unveiled in November to boost the crisis-battered economy.

Some companies were found placing funds obtained through bill financing into deposits to profit from the interest rate spread, said the report.

AFP

Pakistani labourers work on an under construction fly-over in Karachi yesterday. Pakistan's economic growth for the fiscal year ending on June 30 will be the slowest in more than a decade beset by the global recession and a manufacturing slump, officials and analysts say. Gross domestic product (GDP) will slow to 2.37 percent, Pakistan's National Accounts Committee recently estimated, revising downwards the year's target growth of 2.5 percent.

Exports fall to cut developing Asia's growth: ADB

AFP, *Manila*

Plunging western demand for developing Asia's exports would trim the region's potential economic output this year by 2.8 percent, the Asian Development Bank said Wednesday.

It said that as the global slump in 2009 hits gross domestic product growth for countries in the Organisation for Economic Cooperation and Development (OECD), Asian economies that rely on exports to these nations will be hit.

It said in a study that it saw a 2.8 percent cut in developing Asia's GDP, including a 3.9 percent drop in China and a 4.1 percent fall in India.

Had the crisis not taken hold, exports to OECD countries "would have generated annual GDP growth in Asia (of) between 2.3 percent and 4.0 percent" in 2009 and 2010, it added.

Trade with OECD countries would raise developing Asia's GDP next year, "but still significantly below" its potential.

Iraq to slap foreign oil firms with 35pc corporate tax

AFP, *Baghdad*

Iraq's cabinet has approved a bill that will slap foreign oil firms with a minimum 35 percent corporate tax in a bid to boost government revenues, government spokesman Ali al-Dabbagh said Wednesday.

"The Council of Ministers decided to approve the draft law on income tax on foreign oil companies based on the provisions of two constitutional articles," Dabbagh said in a statement.

"It takes into account the recommendation of the State Consultative Council to add an article for the income tax law of 1982 of not less than 35 percent.

"This agreement on the draft law will guarantee Iraq's rights in imposing taxes on companies contracted to extract oil and it will ensure that these taxes will be used for the national income," Dabbagh said.

"The oil ministry presented this draft law in order to be approved, because this will support to the national economy," he added.

AVIATION

Asian carriers face rough weather

AFP, *Singapore*

Asia's leading airlines are bracing themselves for more rough weather after earnings nosedived in the first quarter with no signs of a global economic recovery in sight, industry analysts said.

Compounding the airlines' woes is the outbreak of swine flu and growing popularity and longer reach of budget airlines in the region, they said.

Singapore Airlines (SIA), the latest Asian carrier to release its results, said net profit in its fourth quarter ending March tumbled 92 percent on the year to 41.9 million Singapore dollars (28.5 million US).

During the quarter, revenues sank an annual 19.1 percent to 3.32 billion dollars while in the fiscal year to March, net profit fell 48.20 percent to 1.06 billion dollars, SIA said.

SIA chief executive Chew Choon Seng said the air travel slump appeared to have levelled off but there was still no evidence to suggest that the situation was starting to improve.

"So we are seeing a flattening out," he said, but added that while the situation was more encouraging, a real recovery "is still not visible yet".

SIA earns about 40 percent of its revenues from premium traffic, or business and first-class travel, and it has been hit hard by the drop in corporate travel, along with Cathay Pacific of Hong Kong and Australia's Qantas.

All three airlines have announced measures to contain costs such as unpaid leave and reducing capacity but there is only so much that they can do on the expenditure front, analysts said.

"I don't see anything at the moment that can help the airlines... They are doing everything they can to cut their costs," said Jim Eckes, managing director of the Hong Kong-based consultancy Indoswiss Aviation.

"They will need an economic recovery which so far we just don't see."

Premium traffic has declined on average 30-40 percent from a year ago, said Eckes.

"Nobody is flying these days in first class or business class... The high-yield business has disappeared," he said.

Eckes said the swine flu outbreak, which has infected over 8,000 people and claimed 72 lives, only adds to the airline sector's woes.

"It's hard to tell how the virus is affecting travel but it certainly isn't helping the airlines when they are down and they are really down right now," he said.

Derek Sadubin, chief operating officer of the Sydney-based Centre for Asia Pacific Aviation (CAPA), said the region's leading full-service carriers were facing additional pressure from discount airlines.

"We are seeing a squeeze from both ends," Sadubin said. "The only hope is that the US economy can start to regain some traction and stimulate the world economy back into gear."

Cathay Pacific said in April that revenues plunged 22 percent in the quarter to March, just weeks after announcing it lost more than a billion US dollars in 2008. It was the company's first full-year loss in a decade.

Australia's Qantas announced last month plans to further cut jobs to cope with the slump and more than halved its profit forecast for the financial year to June while deferring plane orders.

Asia's biggest carrier, Japan Airlines, reported in May a net loss of 63.2 billion yen (664.30 million US) for the 12 months to March, against a profit of 16.9 billion yen the previous year.

It predicted a similar loss for the year to March 2010 and announced 1,200 job cuts to weather the air travel downturn.

Despite the crisis, SIA said it would still go ahead with plans to take delivery of five Airbus A380 super jumbo jets this year but analysts are skeptical if this is the right move amid the global slump.

"They have to seriously review whether they should take the additional A380s," analyst Shukor Yusof of Standard and Poor's Asian Equity Research told AFP.

"This is quite severe," he said of the 92 percent plunge in fourth quarter net profit.

SIA currently has six A380s in operation.

AFP

A Qantas airline plane taxiing past the air traffic control tower at Sydney Airport recently. Asia's leading airlines are bracing themselves for more rough weather after earnings nosedived in the first quarter with no signs of a global economic recovery in sight.

ANALYSIS

Japan's slump may mark trough in recession

AFP, *Tokyo*

The Japanese economy's nosedive in the first quarter may mark the low point in its worst post-war recession, but a swift recovery seems unlikely given its reliance on exports, analysts said Wednesday.

Japan has "hit bottom with a bang," said Macquarie Securities economist Richard Jerram, noting that economic output is now the lowest since 1992.

Although a rebound is expected to begin in the second quarter of 2009, "it is going to be a long, hard slog," he warned.

The world's second largest economy logged its worst performance on record in the first quarter of 2009, contracting 4.0 percent from the previous quarter -- and 15.2 percent on an annualised basis.

Japan, which still bears the scars from its 1990s "lost decade" of economic stagnation, posted an unprecedented fourth straight quarter of negative growth.

Gross domestic product has shrunk 9.1 percent from its peak in the first quarter of 2008, noted JP Morgan economist Masamichi Adachi.

The good news, say experts, is that it surely cannot get any worse. The bad news is that a meaningful recovery is unlikely for some time yet.

"The sharp contraction has now ended but we're not going to easily move to a sustainable recovery path," said Hiroshi Shiraishi, economist at BNP Paribas.

"There will be a bit of a bounce in GDP in the next couple of quarters but then probably the economy will return to negative growth," he predicted.

Morgan Stanley economist Takehiro Sato said the economic slump had climaxed and the economy looked set to enter a recovery phase in the April-June quarter.

Corporate capital spending could rise for the first time in five quarters while consumer spending should get a boost from the government's cash handouts, part of a series of stimulus spending packages, he said.

Japan suffered a sharper contraction than the United States or the eurozone in the first quarter as its export engine went into reverse.

Japan's exporters were hit particularly hard because of the type of goods they produce: big ticket items such as cars and televisions that are often bought on credit by consumers in the United States and Europe.

As exports slumped, companies slashed production to reduce their stockpiles of unsold goods. With that inventory adjustment winding down, they are gradually ratcheting up output again to bring it in line with demand.

Recovery hopes were boosted by rises in both exports and factory output in March from the previous month.

At worst, the economy will shrink at a slower pace in the second quarter, said RBS Securities analyst Junko Nishioka.

"It may be possible that GDP will post slight positive growth. In light of the weakness of domestic demand in the first quarter, however, we think it will not be sustainable growth," Nishioka added.

Rising unemployment is one major worry. Japanese manufacturers have announced massive job cuts in recent months in response to huge losses.

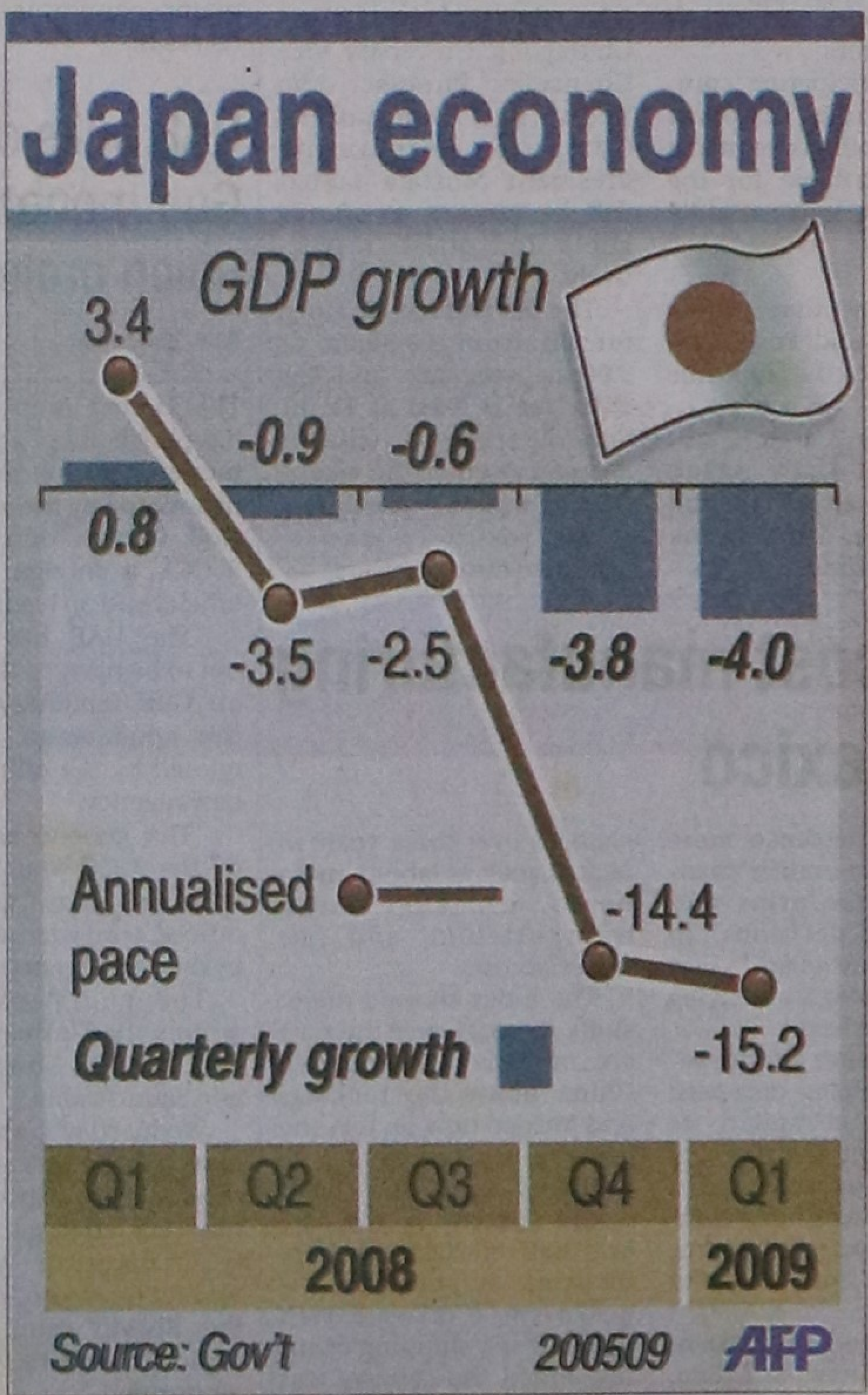
The country's manufacturing sector is still too bloated given the current weak demand and will need further streamlining, experts said.

Rising job losses are expected to weigh on household spending, although there have been some signs of an improvement in consumer sentiment, helped by a recovery in the stock market.

The jobless rate hit a more than four-year high of 4.8 percent in March and analysts predict that it will top its post-war peak of 5.5 percent -- last seen in April 2003 -- before the shockwaves from the current recession subside.

That could pile pressure on Tokyo to take further action.

"We believe the government is likely to face pressure to implement additional fiscal measures before the end of this year to shore up economic activity," analysts at Daiwa Securities SMBC wrote in a note.



AFP

A shopper picks up a small bag in a luggage shop in Tokyo yesterday. Japan's economy shrank at the fastest pace on record in the first quarter as demand for its cars, electronics and other goods slumped amid a deepening global recession.