International Business News

AFP

A participant throws balls in the mouths of pictures of (L-R) Hong Kong Chief Executive Donald, catering sector legislator Tommy Cheung Yu-yan and leading businessman Li Ka-shing, during a minimum wage demonstration in Hong Kong yesterday. The rally, organised by the Hong Kong Confederation of Trade Unions and the People's Alliance for Minimum Wage, was to promote the introduction of a universal minimum wage in Hong Kong of 33 HKD (&4.25) per hour. Cheung has become a hate figure among low paid workers and other unionists for suggesting last month that the minimum wage, to be implemented in 2011, should be set at an hourly rate of just 20 HKD.

S Korea tightens rules on foreign currency

AFP, *Seoul*

South Korea's finance ministry yesterday announced tightened regulations on foreign exchange transactions to stabilise its volatile finances.

The new measures, which take effect from July, are the latest of Seoul's efforts to regulate foreign capital flows and the fluctuating won.

The ministry said in a statement it would limit South Korean financial institutions' forward currency positions to 50 percent of their equity capital and that of foreign banks operating here to 250 percent.

Banks in South Korea, Asia's fourth largest economy, can now take almost limitless positions in the forward market if they take offsetting positions in spot, according to the ministry.

France unveils plan for 45b euros in spending cuts

AFP, *Paris*

France joined other European nations in announcing Saturday an austerity plan that would involve 45 billion euros (54.5 billion dollars) in spending cuts over the next three years.

Prime Minister Francois Fillon said the cuts were aimed at bringing France's public deficit back down to the European Union's limit of three percent of gross domestic product by 2013.

"We've made a commitment to bring down our deficit from eight to three percent by 2013 and we will concentrate all of our efforts on it," Fillon said at a meeting of new members of his UMP party.

France's first announcement of austerity measures came as bond markets have mounted pressure on eurozone nations to get their public finances under control in the wake of the devastating Greek debt crisis.

China signs trade deals with Sri Lanka

AFP, *Colombo*

Chinese Vice-Premier Zhang Dejiang held talks with Sri Lanka's president Saturday after signing six trade and economic deals, the president's office said in a statement.

Zhang had a breakfast meeting with President Mahinda Rajapakse and the two reviewed ongoing Chinese-assisted infrastructure projects.

"Today's meeting followed the signing of agreements between China and Sri Lanka for economic and technical cooperation, highways development... IT and the development of maritime ports," the statement said without giving details.

Zhang arrived in Colombo on Thursday with a 30-member delegation.

Sri Lanka maintains close ties with China, a key supplier of small arms to the island's armed forces during the height of fighting between troops and Tamil Tiger rebels.

Government forces crushed the rebels in May last year and Sri Lanka has publicly thanked China for its generous military support. Colombo has been buying naval craft, jet aircraft as well as tanks and small weapons from China.

Japan finance minister pledges spending review

AFP, *Tokyo*

Japanese Finance Minister Yoshihiko Noda on Sunday renewed the government's pledge to review fiscal policy to reduce the country's mounting debts amid lingering worries over sovereign risks.

After decades of stimulus spending and low tax receipts, Japan's public debt is now nearly double its gross domestic product, forcing the government to issue more bonds to pay for hefty outlays.

"It's in the national interest to draw a blueprint for fiscal restoration. Let's discuss it together," Noda told opposition leader Sadakazu Tanigaki during a television programme.

Prime Minister Naoto Kan on Friday pledged a fiscal policy overhaul to reduce the massive public debt mountain in the world's second biggest economy, warning of a Greece-style meltdown.

Renho, the minister in charge of government revitalisation, who goes by one name, said Sunday that Japan's government "finance is said to be nearly (in) default. It's my role to overhaul the budget which has long relied on debts."

REAL ESTATE

The plight of the developer

ARSHI HAIDER

In the last two decades, the population of Dhaka has grown exponentially.

Since 1991, the city's population grew from 5.8 million to 10 million now. There has been and still is an exodus of people from all over Bangladesh coming into Dhaka, looking for a better livelihood. Accommodating the ever burgeoning population of Dhaka has been an impossible task, given the limited financial resources of our poor country.

As a result, almost half of the population of Dhaka lives in slums today. While the urban population of Dhaka is increasing at 5 percent a year, the slum population of Dhaka is increasing at 10 percent a year.

To meet the insatiable housing demands of this mega city, private real estate developers started taking up housing development projects in the mid eighties. From 1991 to date, it is estimated that these private initiatives have collectively developed no more than 75,000 apartments, which is a mere fraction of the actual needs of the city.

Despite the insignificant progress made with relation to our national dream of "housing for all", the fact remains that the real estate sector is the largest industry of our national economy. Directly and indirectly, it employs about a million workers and thousands of engineers, architects and other professionals. It is estimated to contribute about 18 percent to gross domestic product and many allied industries, like cement, bricks, sanitary ware, ceramic tiles, steel reinforcement, aluminium extrusion and fabrication, have flourished due to the success of the real estate sector.

Given the above facts, one would assume that the government would recognise this industry as a thrust sector and enact policies for further growth. And one would also assume that the entrepreneurs, who have worked diligently against all odds to develop this sector, would be given some recognition by the society. But we come short on both counts.

While administration has made efforts to create an obstacle course in the path of any real estate development project, the media and society, in general, have made the sector a scapegoat for virtually every urban malice.

If we are suffocating in an unlivable urban nightmare, why blame the developer? The government authorities are responsible for enacting the building codes and ensuring that these are followed.

Let us take Dhanmondi and Gulshan as examples. These were planned model towns and the original lease deeds for these areas did not permit the plots to be divided and sold. These legal clauses were subsequently modified and hence, we now have the present rules, which permit construction of high-rises. Literally, any number of flats can be built and the land sold in undivided undemarcated shares to flat owners.

Thus, suddenly we have up to 40 families living on a bigha of land where originally, stood a one or two storied building that housed a single family. The greatest beneficiary of this ill-conceived policy were the landowners who have seen the value of their land increase by up to 100 times in the last two decades.

The fact of the matter however is that the developer is merely a turnkey contractor for the landowner.

AMRAN HOSSAIN

High-rises are now common to Dhaka's landscape. Housing for the ever burgeoning population of the capital has been a difficult task.

In every industry, there are rouge operators. When a fire kills workers in a garment factory or a garment factory building collapses in Savar, do we brand all garment factory owners as "exploiters of the workers"? Or if a particular pharmaceutical industry produces toxic medicine that kills scores of children, do we classify all pharmaceutical factory owners as "murderers"?

Obviously, in the real estate sector too, there are unscrupulous operators. But to brand the entire industry as "land grabbers" or "enemies of the environment" are unfair clichés.

In May, an unfortunate fire in a city residential building took the lives of seven. The probe report found that the fire hoses were not connected to the water reservoirs. It is established that the developer did provide the fire hoses.

So the question arises as to why, having provided the fire hoses and hence having incurred the expense, the developer would not connect the fire hoses to the reservoirs? The project in question was completed and handed over to the owners about five years ago. Could it be that in the mean time, for whatever reason, the inhabitants disconnected the fire hoses from the reservoirs and then did not reconnect?

And even if it is assumed that the developer failed to connect the hoses to the water reservoir, what prevented the inhabitants from carrying out this simple task? Similarly, the probe found that there was no dedicated generator to draw water from the tanks. It is to be noted that there is no requirement, as per the building codes, for the developer to provide a dedicated generator to draw water from the tanks.

The probe also found that the date on the fire extinguishers had expired. This means that the fire extinguishers were actually provided by the developer, but subsequently not maintained or regularly checked by the inhabitants.

And finally, it was found that the fire exit to the roof was kept locked. After five years of occupancy, surely, the developer cannot be held accountable for a locked fire exit.

All the above questions are valid from a logical point of view. But without dwelling on these, the news media condemned the developer and a prominent barrister even went so far as to give the verdict of manslaughter against the developer.

The writer is the managing director of Building Technology and Ideas Ltd.

ANALYSIS

Ambani brothers to compete in India telecoms

Mukesh Ambani

AFP

Anil Ambani

AFP, *Mumbai*

India's richest man Mukesh Ambani will return to the country's telecom sector in a move that puts him in direct competition with his younger brother Anil with whom he had a long and bitter feud.

Mukesh's Reliance Industries said in a statement it would buy out Infotel Broadband, the only company to win a nationwide licence in India's auction of its broadband wireless spectrum which ended Friday.

With this move, Reliance re-enters India's telecom sector after a gap of five years.

The Ambanis, who were at loggerheads since their family empire was split in 2005, made up last month, bringing an end to their acrimonious and highly public feud.

In the asset split, Mukesh kept the oil, gas and petrochemical businesses of the group's flagship Reliance Industries, while Anil got the telecom business, its power utility division and financial services arm.

Anil's Reliance Communications is India's second largest mobile phone firm. It was run by the Ambani brothers jointly before their late father's business empire was divided between them.

Mukesh was barred from entering the telecom sector due to a family pact signed earlier with Anil when the empire was carved up.

Last month, the two Reliance groups agreed to scrap the contentious business pact signed in 2006, which had fuelled the acrimonious row between the brothers, giving them freedom to operate in several sectors.

Reliance said it would pay 48 billion rupees (nearly one billion dollars) for a 95-percent stake in Punjab-based Infotel, giving it a strong foothold in India's expanding wireless revolution.

On Friday, the Indian said it had government raised more than eight billion dollars through an auction of licences for wireless broadband services, after companies fought for access to the fast-growing market.

The 16-day auction brought a windfall of 383 billion rupees (8.2 billion dollars), official figures showed, weeks after nearly 15 billion dollars were raised through the sale of 3G bandwidth for mobile telephone services.

"We see this as the next wave of value creation. It will pole-vault India's economy into a digital world at an accelerated pace," Mukesh said in a statement issued late Friday.

The Reliance ADA group has welcomed Reliance's entry into telecoms, saying it would offer services to them and other broadband players.

Infotel becomes a Reliance subsidiary after the deal is complete.

Through the fog of volatility

REUTERS, *London*

For long-term investors, financial volatility is like the weather; the storms are temporary, leaving attractive opportunities when the skies clear.

The recent resurgence of financial uncertainty -- seen most clearly in a doubling of the Vix .VIX index of Wall St equity volatility in the first three weeks of May alone -- plays havoc with short-term trading and for many leveraged hedge funds.

Stoked by euro sovereign debt fears and sabre-rattling from financial regulators, this latest surge in the so-called "fear gauge" -- a key proxy for global risk appetite at large -- saw emerging market hedge funds indices, for example, drop some 6 percent during May.

But for investors with longer-term horizons and valuation convictions, history suggests this is not the time to head for the bunkers.

Remarkably, data on US money market or cash funds shows that while there was some renewed demand for these safe havens during the past six weeks, net outflows from these boltholes since the start of May was still a hefty $40 billion and the net exit this year in excess of a whopping $350 billion.

"You normally make most of your money when the Vix is high, and not when it's low -- which is exactly what we saw in 2009 when the Vix peaked and rolled over," said Guy Monson, Chief Investment Officer at asset manager Sarasin and Partners.

"Instinctively, it should start to whet the strategist's appetite when the Vix starts to rise."

Monson cited research on equity performance at different levels of the Vix that showed over the past 20 years when the index is above 28.5 percent -- which has been 17 percent of the time -- the underlying S&P 500 equity index has gained an average of 36 percent per annum.

Conversely, when the Vix is at 21.5 percent or below, which is more than half the time, the market has fallen by 4.3 percent per annum.

On Friday, the Vix was still hovering about 30 percent, having peaked at almost 50 percent on May 21 from as low as 16 percent a month earlier.

Of course, to see high volatility as a time to buy now requires a firm belief that underlying fundamental valuations remain sound and that the cause of the volatility is temporary and not structural.

But many analysts feel that volatility spiked this time around in large part because markets are finding it difficult to price the vagaries of political decision making, which are dominating the resolution of the euro crisis and the global regulatory backlash to the credit crunch.

Markets are typically adept at discounting economic and earnings trends but are less confident second-guessing the risk of random political actions like Germany's recent unilateral naked short-selling ban or Australia's mining tax plan.

"Big government is back and the market is having difficulty accurately pricing political risk -- it's really not had to do it for 20 years. It's broadly been a Thatcherite, Reaganomic laissez-faire environment for that time," said Monson.