International Business News

Vimpelcom close to acquiring Orascom

AFP, *Moscow*

Russian-Norwegian mobile operator Vimpelcom is close to a deal with Egyptian billionaire Naguib Sawiris to buy his stakes in Italian operator Wind and Egypt's Orascom Telecom, Vedomosti daily said Monday.

Vimpelcom's board of directors voted for the first time on Sunday on the deal to purchase 100 percent of Wind and 51 percent of Orascom, Vedomosti said, citing unnamed sources. The assets would be merged into one single company.

In exchange, Sawiris will receive 20 percent in the resulting company and a cash amount. Orascom is one of the largest mobile providers in the Middle East.

The deal is valued at some 6.4 billion dollars and the merger could form the world's fifth largest operator with about 200 million subscribers.

Sawiris officially confirmed in August that he was in talks with Vimpelcom to sell his stakes in the operators, adding that he was also considering other buyers.

AFP

Japanese electronics company Toshiba unveils the world's first 3D television that does not require viewers to wear special glasses, called the "Regza GL1 Series", at a preview at Ceatec, Asia's largest electronics trade show in Chiba, suburban Tokyo yesterday. The new 12- and 14-inch 3D TVs combine image-processing technology with a double convex sheet to render depth-filled images from any angle using parallax.

Sanofi-Aventis launches bid for Genzyme

AFP, *Paris*

French pharmaceutical giant Sanofi-Aventis said Monday it had launched an 18.5-billion-dollar (13.4-billion-euro) bid for US biotechnology group and rare disease specialist Genzyme, a proposal Genzyme management spurned in late August.

"Genzyme's refusal to take part in constructive discussions has led Sanofi-Aventis to put forward its offer directly to shareholders," Sanofi said in a statement.

The company said its bid, at 69 dollars per share, would remain open until December 10.

"It's a substantial price that well reflects the value of the company," Sanofi chief executive Christopher Viehbacher said during a telephone press briefing.

He said Genzyme shareholders representing 50 percent of the capital wanted to sell their shares.

"They want to sell and do not understand the attitude of management and the board of directors who do not want to sit at the table and negotiate with us."

Allianz filling piggybank to shop for insurance firms

AFP, *Frankfurt*

German insurer Allianz has set aside a billion euros (1.37 billion dollars) for future acquisitions but will take its time and shop carefully, chief executive Michael Diekmann said in an interview published on Monday.

One of the world's biggest insurers wants to wait until the effects of new European capital rules for insurance companies, known as Solvency II, have become clearer, Diekmann told the Financial Times.

Allianz is looking meanwhile at property and casualty insurance companies that would help fund the development of its life insurance activities, he said.

"What I would like to do is find cash-producing entities from the P&C side to fund growth on the life side," Diekmann explained.

"Life needs a lot of capital to fund growth and you need to have a balancing mechanism within the portfolio," he added.

Rhodia aims for 40pc surge in operating earnings

AFP, *Paris*

French chemicals group Rhodia said Monday it aimed to boost its operating earnings by 40 percent in the next three to five years through acquisitions and operations in emerging market countries.

"Our ambition is to turn Rhodia into a champion of profitable and responsible growth," chairman Jean-Pierre Clamadieu said in a statement.

He said the company wanted to achieve a yearly operating profit, excluding the sale of its carbon credits, of more than one billion euros (1.36 billion dollars) in the 2013-2015 period.

"This represents growth of around 40 percent compared to 2010 expectations."

COLUMN

The hidden cost of unfree unions

BRENDAN WESTON

Set-up for conflict? RMG workers protested around Dhaka for days after the government-set wage rate sparked their fury.

In Bangladesh, the government sets garment workers' wage scales after consulting with the factory owners, "representatives" of the workers hand-picked by bosses, and a few from outside the industry. How well is that working for us?

On August 30, the government and factory bosses had no clear idea what these workers thought, no idea that the streets were about to explode with their anger. Politicians' initial attempts to label garment protests as sparked by anything other than work-related frustrations seemed callow, then callous. Factory owners estimated business losses from the days of protest at Tk 775 crore -- not counting the injuries, extra policing costs or traffic delays and smashed glass in wealthy areas.

On the workers' side, the costs were physical and emotional bruises, and lost pay. Many were arrested and countless others were beaten. There was also scant no hope that the widely reported abuse of power by shop-floor managers, particularly of women, would be taken more seriously. A minimum wage after four years that merely caught them up with past inflation was at first infuriating, then dispiriting.

There was a soft cost -- a hit to the image of a country making progress despite its rock-bottom wages among Asian RMG exporters -- that may lead to future compliance checking costs or lost orders and jobs. But perhaps our naïveté was lost, too. The idea that a government committee with no freely elected unions can balance expectations two or four months in the future -- let alone four years -- now looks as fusty as the now-embalmed central planners of the USSR. So why cling to the idea that a secrecy-bound conclave can acceptably draw up a four-year plan?

The concept is deaf to the roar of global economic shifts and spits in the face of current money-making dynamism. To be sure, Bangladesh is not alone in its garment worker unrest. China has had its share, and Cambodia had tens of thousands in the sector out on strike. All but the cruellest nations that try to control unions and set low wages face such troubles.

As our violent garment wage protests sink into the muck of Dhaka-area crises, it is worth asking whether this approach actually provokes violent pushback by workers. Freely elected unions are widely seen as the alternative; flawed, perhaps, but a good starting point. Private-sector unions in rich countries normally strike only peacefully and legally when they believe they can get a better deal from owners with deep pockets or closed books.

If workers feel their company does its best honour its promises, they can be amazingly accommodating. In Japan, for example, retired workers agreed to huge cuts to their pension cheques to help Japan Air Lines out of bankruptcy -- though they could have retained their full benefits had they declined.

If a factory instead snubs a freely elected union and high-handedly tries to grab the lion's share of rises in productivity, a single-factory strike is likely. Such strikes are preferable to the mess here. When free unions are repressed, it corrupts many unions, creating extortion, business distortion and sector-wide eruptions. Still, I think Bangladesh could do better than the West. Here's how.

Let's elect union leaders freely in each factory -- with all management personnel forced to leave, and with state electoral staff supervising the vote. Then let each factory owner and his (or her) union might bargain freely for up to nine months. If both sides still do not have a deal on factory wages and working conditions a month prior to the contract's end, they each submit a plain-language written proposal to an independent government-appointed arbitrator.

To keep the roles corruption-free, the factory's books, the family finances of all arbitrators and those of all union leaders would, by law, be open to inspection by all sides. The arbitrator should appreciate both perspectives, and be given only a month to pick either the union's proposal or the owner's -- whichever seems more reasonable. The either-or option is key. Western mediators hired to avoid strikes are slow because they seek compromise on many tiny issues. They also accord workers slightly more than unmediated negotiations, and thus discourage freely bargained deals.

This system has no such bias. The arbitrator's job is simple, avoids the lawyerly words used to impress professional mediators, and -- vitally -- makes it in the best interests of both sides to be very reasonable, rather than the posturing, intimidate, make misleading claims, or otherwise create irk one another. And that bad blood is the greatest labour tragedy -- bitter strikes in which both sides starve one another because they can't fairly share a growing surplus.

The system is compatible with keeping other issues permanently off the table, such as individual worker's promotion and staffing levels. (In the unionised West, these issues calcify workplaces.) It even allows the banning of industry-wide strikes -- or even union and corporate -- contributions to political parties. Wages would be more responsive to changing rates of inflation, yet factories could remain adaptable to sudden losses or gains of customers.

It would assuage the International Labour Organisation while keeping wages within the means of factory owners. Most of all, it would push top staff and owners to see factory workers as partners, not peons or mere factor of production, and give workers a reason to want their own productivity to rise. As the head of the Centre for Policy Dialogue noted, rising jobs in garments and other labour-intensive industries are destined to fall as mechanisation increases productivity. Western-style unions foolishly fought such cuts tooth and nail; these would not.

The idea is neither purely market-based nor "nanny state". It's untested, yet appears elegant and viable -- friendly to growth as well as labour. If management mediates week-to-week disputes fairly and moderates its expectations about sharing profits, labour peace is possible. Labour, free and clean, could learn to see global economic patterns as we see the weather -- something to prepare for; not cause to wring hands, point fingers and ask for government intervention.

Brendan Weston is a Canadian economics teacher and consultant for an NGO in Dhaka.

ANALYSIS

Gold as the ultimate bubble

JOHN KEMP

Billionaire financier George Soros this month repeated his warning gold is locked in the "ultimate bubble", and told investors bluntly it was "certainly not safe" in troubled times.

Soros was simply repeating a warning he issued at the World Economic Forum (WEF) back in February. At the time gold was trading at less than $1,150 per ounce. It has since risen to touch $1,300 this week, and is up more than 400 percent from its low of $252 in 1999. There is no end in sight for the bull run. Anyone who shorted gold back in February would be sitting on huge losses.

But while Soros himself warned gold was in a bubble, his hedge fund, Soros Fund Management LLC was one of the biggest gold bulls of the year, doubling its holding of shares in the SPDR Gold Trust at about the same time he was issuing his warning at the WEF in Davos. Soros is no longer involved in the management of the fund. But the apparent disconnect between the bubble warning and the bullishness of his fund will strike many observers as strange. In reality it illustrates the fascinating investment philosophy of one of the most successful financiers of the last 50 years and is the best way to understand what is really going on in the precious metal market.

AFP

A promoter from South Korean metal refiner LS-Nikko shows a 12.5kg gold bar in Seoul.

REFLEXIVITY AND BUBBLES

Soros outlined his theory of price formation, and how bubbles inflate and collapse, in a brilliant book on The Alchemy of Finance, first published in 1987, but updated in 2003. It remains one of the clearest, most incisive explanations of how and why bubbles occur, and shows how profiting from the "madness of crowds" has been pivotal to his success.

In particular, Soros rejected the prevailing idea that "market prices are ... passive reflections of the underlying fundamentals", a dogma he dismissed as market fundamentalism, or that there were stabilising forces which would automatically drive prices back towards equilibrium.

Instead, Soros propounded a theory of "reflexivity", in which fundamentals shape perceptions and prices, but prices and perceptions also shape fundamentals. Instead of a one-way, linear relationship in which causality flows from fundamentals to prices and perceptions, Soros developed the theory of a loop in which prices, fundamentals and perceptions all act on one another.

"I contend that financial markets are always wrong in the sense that they operate with a prevailing bias, but that the bias can actually validate itself by influencing not only market prices but also the fundamentals that market prices are supposed to reflect".

Later he writes more bluntly: "[The efficient market hypothesis and theory of rational expectations] claims that the markets are always right; my proposition is that markets are almost always wrong but often they can validate themselves".

Beyond a certain point, self-reinforcing feedback loops become unsustainable. But in the meantime positive feedback causes bubbles to inflate further and for longer than anyone could have foreseen at the outset.

Soros cites numerous examples of self-validating behaviour -- ranging from the conglomerate boom of the 1960s and real estate investment trusts (REITs) in the 1970s to the technology boom and the rise and spectacular fall of Enron and WorldCom at the end of the 1990s and start of the 2000s. Each was heralded at the time as a "new paradigm".

But none is more fascinating than his explanation of the dynamics of the REITs bubble in the early 1970s. Because Soros recognised the potential for a bubble early and published a research note advocating investors should get aboard the trend.

In the debate about whether markets are a "weighing machine" for discovering true fundamental value or a "voting machine" which records the popularity of certain theories and the mass of the crowd, Soros came down firmly on the side of the voting machine.

Crucially, the successful speculator responds to bubbles not by shorting them and waiting for stabilising forces to drive the market quickly back to some fundamental value, but by identifying them early and riding the wave, hoping to get out before the whole edifice finally comes crashing down.

Reading people is as important -- if not more important -- as understanding the fundamentals of an asset itself.

In this world, gold is the ultimate bubble because apart from the cost of actually digging it out of the ground it has almost no real fundamentals other than price itself.

John Kemp is a Reuters market analyst. The views expressed are his own.