International Business News

Cathay Pacific expects to almost triple profit this year

AFP, *Hong Kong*

Cathay Pacific said Monday that it expects to nearly triple its full-year profit as the carrier bounces back from the global financial crisis.

The Hong Kong-based airline said strong demand for passenger and cargo services meant that its 2010 earnings "will not be less" than 12.5 billion Hong Kong dollars (1.6 billion US) this year.

The airline booked a 4.69 billion Hong Kong dollar profit in 2009.

Cathay's forecast includes a 2.16 billion Hong Kong dollar profit from two asset sales and a fine of 57.1 million euros (78 million US dollars) imposed on the airline last week by Europe's competition watchdog.

The European Commission ruled that 11 carriers including Cathay had operated a global cargo business cartel and slapped them with a total fine of almost 800 million euros.

"We are expecting an outstanding financial result following a very difficult period brought about by the global financial crisis," chief executive Tony Tyler said in a statement posted to the Hong Kong stock exchange Monday.

"We are of course delighted to be so handsomely in the black, but the dramatic turnaround in our fortunes serves to illustrate yet again the volatile and cyclical nature of our business."

AFP

Indian models display outfits designed by students of the International Institute of Fashion Design during a fashion event entitled "Incredible India" part of their annual graduation show in Siliguri on Sunday.

Yum! Brands sees 35-40pc sales growth in India in 2011

REUTERS, *New Delhi*

Yum! Brands, parent of the KFC, Pizza Hut and Taco Bell chains, expects to grow its revenue in India by 35 to 40 percent in 2011, while sales at stores open at least a year will rise in the mid-teens, the chief of its Indian subcontinent operations said on Monday.

Speaking to Reuters in an interview at the World Economic Forum's India summit, Niren Chaudhary also said the restaurant company's Indian unit will likely break even in 2011.

"We feel that we have laid the foundation in terms of our business strategy, people capability, in terms of our processes and so on," Chaudhary said.

"So 2011 is going to be a transformational year in which I personally expect that we will beat all of the metrics of 2010. So we will grow faster, we will build more stores and hopefully get more recognition for the brand," he said.

BP sells southern African marketing operations

AFP, *London*

British energy company BP on Monday said it had agreed to sell group refining and marketing operations in southern Africa for 296 million dollars (217 million euros) to Switzerland-based Puma Energy.

"Puma Energy has agreed to pay BP a total of 296 million dollars in cash, subject to certain post-completion price adjustments, for all of BP's interests in" Botswana, Malawi, Namibia, Tanzania and Zambia, according to a statement.

"The decision to divest these businesses, which was first announced by BP in March 2010, followed a strategic review of BP's southern African refining and marketing businesses.

"The sales do not include BP's refining and marketing businesses in Mozambique or South Africa," the statement added.

GE India CEO scouting for acquisitions

REUTERS, *New Delhi*

General Electric Co's Indian unit is looking to buy companies to grow its businesses in the rapidly expanding economy, its chief executive for India said on Monday.

"Mergers and acquisitions, we are always looking for that," John Flannery told Reuters in an interview on the sidelines of the World Economic Forum's India summit in New Delhi. "We would like to do that. That could be a sizeable number as well."

GE, which makes goods ranging from jet engines to medical diagnostic equipment, generated sales in India of $2.6 billion in 2008 and employs about 13,000 people in the country. It expects its India revenue to grow 30 percent a year for the next several years.

"The (acquisition) opportunity for us is across the board. We have hired a team just for that specific activity," he said, adding the company could do more than one acquisition in India and was looking at "small to medium" sized companies.

"There is always something in the harbour," he said when asked if they are currently in talks for acquisitions.

GE is also looking to set up a new manufacturing plant in India in 2011. The plant would need investments of "tens of million dollars," Flannery said, adding they would finalise the location of the plant in the next two months.

COLUMN

Innovations, finance and banking

ATIUR RAHMAN

After an eventful week of hectic negotiations, informal exchanges, policy-oriented presentations in both the World Bank and John Hopkins University during recently concluded Bank-Fund-Commonwealth conference in Washington DC, the head of the Bangladesh Bank (BB) flew to Boston and gave a well-received talk on innovations in the financial and banking sector in Bangladesh at the Legatum Centre for Development and Entrepreneurship, Massachusetts Institute of Technology (MIT) on October 12, 2010. Legatum is an exceptional hub of excellence that promotes innovative practices. The Centre regularly publishes Innovations, a flagship journal on technology, governance and globalisation. One of its editors and also director of the centre, Professor Iqbal Quadir introduced Rahman to about 60 academics as well as a number of journalists and entrepreneurs. He gave a very succinct perspective on how Bangladesh is marching forward in terms of fascinating innovations in the banking and financial sector as a whole under the creative leadership of BB, the country's central bank. Rahman took the floor and thanked the organisers for the opportunity to share his experiences as a central bank governor at a time when the financial world, particularly in the West, has almost come to an impasse. Rahman has offered to share with readers what he said in the MIT workshop.

I see the role of a central bank as a developmental and promotional one, in addition to its mainstream regulatory functions of controlling inflation and stabilising financial architecture. In particular, I highlight the strategic role of BB in promoting financial inclusion to generate domestic demand, the key towards enhancing sustainable and equitable growth process; and in providing confidence to small unbanked entrepreneurs through many innovative financial products. I juxtapose this creative role of the central bank within the broad perspective of Bangladesh's fascinating but untold story of unprecedented turnaround in its journey towards participatory development. Starting with a conceptual introduction of 'innovations', I will cover these sub-themes: major social and financial innovations in Bangladesh; major breakthroughs and attainments; financial inclusion and its contribution towards inclusive economic growth; use of technology including mobile phone in expanding the scope of financial services; and how to make monetary policy more participatory and entrepreneur-friendly.

The path of social and economic progress is strewn with numerous constraints and barriers (e.g. resource scarcity, cultural attitudes, technical limitations, regulatory obstacles and so forth). Innovations are creative steps in getting around such constraints and barriers. The long colonial past of Bangladesh stifled the spirit of innovative initiatives in the population. The age groups attaining adulthood in the post-liberation decades have, however, displayed considerable ingenuity and creativity in innovating (mostly low-cost) solutions to many seemingly crippling constraints that caused Bangladesh at her birth to be labelled a hopeless international basket-case. As in the developed and fast-growing emerging economies, it is important for Bangladesh to stimulate, support and carefully nurture the spirit of creativity and innovation. And in my humble capacity as a central bank governor, I have been promoting innovative financial products and processes for enhancing financial inclusion. Of course, Bangladesh is a social laboratory where innovations abound. Hopefully, the challenge is how to take appropriate lessons from these innovative developments and take the nation forward with appropriate policies and actions.

FOCUS BANGLA

A fisherman with bamboo fish-traps in Madaripur. Microcredit that creates self-employment for the poor is an innovation pioneered by Bangladesh and being replicated worldwide as a tool for combating poverty.

Major post-liberation social and financial innovations in Bangladesh have greatly helped maintain growth and smooth the path of further progress. A few of those are:

Governance innovation: The caretaker government, despite many limitations, is a Bangladeshi innovation in safeguarding democratic governance, with parliamentary elections conducted by interim non-party transitional governments. One day this will not be necessary if we can continue to remain on-course in democratic governance. At this moment, although opposition parliament members are not attending the parliament sessions, they are participating actively in democratic discourses in parliamentary standing committees of various ministries. Through these committees, the members of parliament from the opposition are also engaged in law-making and oversight of governance. If we can continue this mutual engagement, Bangladesh will move into the higher trajectory of democracy, which is bound to give us all better dividends in sustainable and inclusive economic growth.

Back-to-back import LCs: To overcome foreign exchange scarcity constraints in apparels exports, the imported input-based apparel required innovation. Exports began in Bangladesh in early 1980s, when foreign exchange for import was scarce. The innovation of back-to-back import LCs got around this problem, spawning a globally competitive export industry. The arrangement pays for input imports out of export earnings received. This innovation alone helped Bangladesh emerge as one of the top performers in apparel exports in the world.

Microcredit: Microcredit for self-employment of the poor pioneered by Bangladesh is an innovation now being replicated worldwide as a tool for combating poverty. Moreover, Bangladesh is the only country in the world that has a full-blown regulatory authority for microfinance.

Women empowerment: Self-employment and wage employment based on microcredit and apparels exports for millions of women in Bangladesh has meant huge strides in women entrepreneurship.

Synergies from clustering and networking: Clusters of small light engineering enterprises in Dhaka, Bogra and elsewhere in Bangladesh have spawned a vibrant light engineering sector. We are fabricating spare parts -- and in many cases entire plants -- for agricultural, irrigation, construction and other industrial machinery and equipment at a fraction of import costs. These enterprises have also innovated low-cost light transportation vehicles for rural roads and waterways, powered by engines for irrigation pumps/power tillers.

TO BE CONTINUED

The writer is the governor of Bangladesh Bank and can be reached at governor@bb.org.bd. The article is part of a lecture presented at the Legatum Centre for Development and Entrepreneurship, Massachusetts Institute of Technology in Cambridge, USA, on October 12.

EUROPEAN ECONOMY

Haircut talk hastens next euro zone crisis

REUTERS, *Paris*

Talking about death doesn't make you die, an old French saying goes. But Europe is learning the hard way that talking about the possibility of default can hasten precisely that outcome.

When the history of the euro zone is written, last month's German-driven EU summit agreement to devise a crisis resolution mechanism for countries unable to service their debts may well be cited as the event that pushed Ireland over a cliff.

German Chancellor Angela Merkel's insistence that private sector bond holders be made to share with taxpayers the cost of future euro zone bailouts helped send Dublin's borrowing costs into the stratosphere in the last two weeks.

"Those who warned that this could become a self-fulfilling prophecy are being vindicated," said a senior European Union official in the thick of financial fire-fighting.

The deal struck by Merkel and French President Nicolas Sarkozy in Deauville, then thrust on reluctant European Union partners, was not the only factor driving Ireland to the brink.

Deepening political uncertainty in Dublin, with opposition parties refusing to back a jaded and unpopular government's austerity plans, and growing concern about the ever rising liabilities of state-guaranteed Irish banks also played a role.

But Prime Minister Brian Cowen was clear about where the main responsibility lay in his eyes, telling an Irish newspaper that loose talk by the German and French leaders had complicated his efforts to overcome the crisis.

"It hasn't been helpful," Cowen told the Irish Independent of Merkel's intervention. "What has been said there has had, I think, an unforeseen consequence, perhaps."

"The consequence that the market has taken from it is to question the commitment to the repayment of debt," he said.

Even though Ireland is fully funded until mid-2011 and does not need to return to the bond market for now, the huge rise in Irish bond yields on the secondary market has ratcheted up pressure on the country's already battered banks.

They are now largely shut out of the inter-bank lending market and ever more dependent on the European Central Bank for funding. Meanwhile, the borrowing costs of other peripheral euro zone governments have also shot up.

This was almost exactly the sequence that preceded the emergency bailout of heavily indebted Greece in May by euro zone countries and the International Monetary Fund.

Seeking to douse down a fire that some of their own leaders ignited, the big five EU finance ministers attending last week's G20 summit rushed out a statement stressing any burden-sharing imposed on bond holders of a euro zone state unable to meet its debts would not be retroactive.

"Whatever the debate within the euro area about the future permanent crisis resolution mechanism and the potential private sector involvement in that mechanism, we are clear that this does not apply to any outstanding debt and any programme under current instruments," the ministers said.

But much damage has already been done and investors weighing the risk of a "haircut" may find that statement less than reassuring.

AFP

Italy's President Silvio Berlusconi (top L) looks on as Germany's Chancellor Angela Merkel shakes hands with Indonesia's President Susilo Bambang Yudhoyono (R) as they prepare to pose together for the "family photo" following the plenary sessions at the G20 Summit in Seoul on Friday.

First, the whole debate about a resolution mechanism has turned market perceptions of the risk that one or more euro zone states may be unable to honour their debts from a possibility to more of a probability.

"The discussion of 'orderly defaults' opened Pandora's box," Lloyds TSB strategists said in a note to clients. "The sharp rise in yields is now all about expectations of future default -- restructuring -- and not difficulties in financing."

Second, the assurance that any new terms would only apply to debt issued after May 2013, when the current temporary European Financial Stability Facility expires, and that all existing bonds are hence safe, may not convince market sceptics.

After all, the problem facing Greece is that when its 110 billion euro emergency loan programme expires in 2013, it may not be able to service an existing debt mountain forecast to reach 149 percent of gross domestic product by then.

Thirdly, investors trying to price euro zone sovereign risk face a prolonged period of uncertainty while the EU haggles over a permanent crisis mechanism, then tries to turn it into a treaty amendment and have it ratified by 27 countries by 2013.

Merkel is unlikely to back of because German voters outraged by having to rescue Greece demand that banks share any future pain. Moreover, without some such guarantee against future "moral hazard", the German Constitutional Court may strike down Berlin's participation in the existing euro zone safety net when it rules in mid-2011, German officials say.

Ireland has not yet fallen off the cliff, but it is clinging on by its fingernails. It said on Sunday it did not rule out turning to Europe but that no application for aid had been made for yet.

Meanwhile, pressure continues to mount on Portugal, the next high-deficit euro zone weakling in the crosshairs.