India needs solution to $1.5 trillion puzzle

REUTERS, *Hong Kong/london*

India needs a solution to a $1.5 trillion-plus puzzle. That's what it will need to invest in infrastructure over the next decade if it is to have any hope of achieving its aspiration of 10 percent GDP growth.

The government and banks, India's traditional sources of infrastructure funding, won't be able to carry that load on their own. Financial liberalisation, something the country has hitherto shied away from, could help fill the gap.

Poor infrastructure is one of the main things holding India back. Poor logistics cause waste equivalent to 5 percent of GDP, according to McKinsey. Roads such as the "golden quadrilateral" -- joining the country's biggest four conurbations -- are being laid down, but not rapidly enough.

No wonder the roads minister was shifted in a cabinet reshuffle earlier this month. An estimated one-third of all fresh produce spoils before it reaches the market, and most of the country's railways predate independence in 1947. There are chronic electricity shortages in most states. And then there are the heaving cities, suffering from poor sanitation and virtually bereft of mass public transport.

The government and its planners see the problem. The ongoing five-year plan called for $500 billion of infrastructure investment. The next, which runs until 2017, will argue for $1 trillion. With India's public debt at over 60 percent of GDP, and a current account deficit touching 4 percent, plans to put up half of that from public finances seem less than ideal.

Foreign direct investment can play only a small role. FDI was $24 billion in 2010, according to the International Monetary Fund, only a quarter the amount China attracted, and not all of India's inflows went to infrastructure. Foreign investors are still largely deterred from building projects because of uncertainty over policy logjams and ever-present corruption.

REUTERS

A bank employee counts bundles of Indian currency at a cash counter in Agartala, capital of Tripura.

Meanwhile, India's banks are also financially constrained. Part of the problem is that the banking industry -- much of which is state-controlled -- needs more capital to keep up with India's rapid growth. To finance real GDP growth of 10 percent, given inflation of say 5 percent (which is less than India currently experiences), loans probably need to increase by something over 20 percent a year.

Of course, the banks can go to the market and raise the necessary capital -- indeed, a rash of equity issues is expected this year. But if the state wishes to maintain its stakes in the banks, it will need to dig into its own, bare pockets. Even if it can find the cash this year, it may need to see itself diluted in the longer term -- and that will require changes to the law, a tricky proposition given that India's corrupt politicians see state banks as their playthings.

It would also be easier to finance lending growth if the banking industry was opened up to more new entrants. Foreign banks want a bigger slice of the cake, but they have to beg to get every single extra branch. India's non-banks are also lobbying to be allowed to get into the market. Liberalisation may happen -- the authorities are examining the issue -- but the existing players have a strong vested interest in preventing more competition.

Even if these issues are dealt with, banking is not the ideal solution for infrastructure financing. Loans need to be long-term, say 15-20 years. Yet banks' liabilities, such as deposits, are short term. If they engage in too much infrastructure lending, they will suffer from an increasingly unstable maturity mismatch.

Capital markets, by contrast, are much better suited for infrastructure financing. Unfortunately, although India's stock markets are thriving, its debt markets are in their infancy.

There are a host of reasons for this. One is that there is no real interbank rate off which to price loans, since banks are reluctant to lend to each other for more than the briefest durations. Another is that witholding tax on coupons deters foreign buyers. Nor are there many domestic buyers of long-term debt, since insurance companies and pension funds, who would normally snap up long-dated securities that match their liabilities, are not well developed.

China sports brand tries to break into US market

AP, *Beijing*

Chinese athletic shoemaker Li-Ning knew it couldn't "out-Nike" Nike, especially in the sporting giant's own backyard. So the company is going low-budget edgy in its expansion to the US, using an irreverent YouTube video to play up its heritage while taking a lighthearted dig at the company name shared with its high-profile founder.

Li-Ning is among the first Chinese consumer product brands trying to build a following in the US, seeking to grab a slice of its saturated but highly coveted market. As China's economic might increases - it last year overtook Japan as the second-biggest economy after the US - its companies are increasingly confident about expansion overseas. But corporate China has yet to produce a brand with the global name recognition of the likes of Apple, Sony or Google.

"It's a process of finding out - while staying true to our heritage, our brand - what side of our DNA is going to resonate with the American consumer," said Jay Li, general manager for Li-Ning International. "We're still searching, to be perfectly honest with you. And we're not in a hurry."

Americans might remember Li Ning (pronounced lee-NING) as the final torchbearer during the opening ceremony of the 2008 Beijing Olympics - the former gymnastics gold medalist who "ran" along the opening in the stadium roof while suspended by wires.

His namesake company is a top domestic brand in China's lucrative athletic shoe and apparel industry, with more than 7,900 stores across the country. Though it has forecast slumping sales and a one percentage point decline in gross profit margin in 2011, CEO Zhang Zhiyong recently told the Wall Street Journal that Li-Ning plans to invest $10 million in US operations this year.

"Our founder Mr. Li Ning has always said his vision was never about building China's Nike, it's about building the world's Li-Ning," Li said. "You can't be global without having a legitimate claim of market share in the most mature sporting goods market."

There are significant hurdles to overcome: Americans are still smarting from the recession and spending less. Chinese goods are widely regarded as shoddily made, knockoffs or even dangerous. Li-Ning's logo recently underwent a redesign, but many consumers may still see a strong resemblance with the Nike "swoosh."

"The way to fight the perception is to continue rolling out your own world-class products and that perception will go away," Li said.

Toyota beats GM to end 2010 as biggest automaker

AFP

Newly assembled Toyota Prius hybrid vehicles are seen at the company's plant in the city of Toyota, Aichi Prefecture, central Japan.

AP, *Tokyo*

Toyota sold 8.42 million vehicles globally in 2010, narrowly remaining the world's top automaker ahead of General Motors amid recall woes in the key North American market.

GM also released a new tally Monday for its global 2010 sales, at 8.39 million vehicles, slightly fewer than Toyota's number, but a dramatic 12 percent rebound from 7.48 million vehicles the year before.

The race between the two giants appears to be getting close, with the chance the tables could be turned, seeing GM once again rising to the top.

"General Motors is going strong, and it's a sure sign of its re-emergence," said Yasuaki Iwamoto, auto analyst with Okasan Securities Co. in Tokyo.

Meanwhile, Toyota wasn't showing much growth in North America - and growing slower in China than GM - partly because it lacks the US automaker's extensive model lineup such as large-size sedans, he said.

Toyota's global sales, including truckmaker Hino Motors Ltd. and Daihatsu Motor Co., which makes small cars, rose 8 percent from 2009, driven by solid sales growth in China and other Asian nations, the Japanese manufacturer said.

Toyota Motor Corp. dethroned General Motors as the world's No. 1 automaker in worldwide vehicle sales in 2008 - a position GM held for nearly eight decades. Since then, General Motors, now called General Motors Co., was bailed out by the US government and underwent restructuring after a brief period in bankruptcy protection.

George Hansen, a GM spokesman in Tokyo, played down the importance of Toyota's bigger sales numbers.

"We don't focus on who is No. 1," he said of the so-called "new GM."

Still, General Motors achieved double-digit jumps in five of its top 10 markets, including a 28.8 percent increase in China, where it sold 2.35 million vehicles, more than it sold in the US.

Toyota, in contrast, sold just 846,000 vehicles in China.

GM also marked a 12.4 percent sales rise in Russia and a 10.4 percent rise in Brazil. GM's sales in the US grew 6.3 percent to 2.21 million vehicles.

Toyota said it was not concerned with beating GM.

"Our objective is to become No. 1 with the customers," said Toyota spokesman Paul Nolasco.

He said company was doing its utmost to beef up quality. "We want to be their favorite car manufacturer."

Toyota, which had thrived on the back of its reputation for quality manufacturing, has suffered a serious image problem since announcing massive recalls in 2009.

The recalls spanned more than 10 million vehicles around the world for faulty floor mats, sticky gas pedals, software glitches and other defects, but mostly in North America.

Toyota was the only major automaker to see its North American vehicle sales drop last year compared to the previous year. Other automakers staged a recovery from the global financial crisis.

Toyota's North American sales last year totaled 1.94 million vehicles, down 2 percent from 2009, with 1.76 million of that total in the US.

Toyota fared better in its home Japanese market, where tax breaks and government incentives for green vehicles kept its Prius gas-electric hybrid sales booming.

Google CEO to get $100m

REUTERS, *New York*

Google Inc is set to give Eric Schmidt a $100 million equity award as he hands over the chief executive officer job to co-founder Larry Page.

The award, which will include stock units and options will vest over four years and is Schmidt's first such award since joining the company in 2001, a spokesperson said.

News of Schmidt's equity award was first reported by Bloomberg.

In a surprise announcement last week, Google said Schmidt will take on the role of executive chairman in April and will be replaced as CEO by Google co-founder Larry Page.

The news came on the same day that Google reported earnings and revenue that blew past expectations.

But while Google has dominated Internet search, it has struggled with social networking and is facing stiff competition from companies like Facebook and Twitter, which are stealing Web traffic and engineering talent.

Schmidt said in an interview with Reuters that his move was not a reaction to competitors but an effort to speed up decision-making at the Internet giant.

In a regulatory filing last week, Google said that Schmidt in December drew up a plan to sell some of his stock in the company.

"The pre-arranged trading plan was adopted in order to allow Eric to sell a portion of his Google stock as part of his long-term strategy for individual asset diversification and liquidity," the filing said.

As of December 31, Schmidt had about 9.2 million shares of Google stock and controlled 9.6 percent of the company's voting power. Schmidt plans to sell about 534,000 shares of Class A common stock -- meaning he would continue to hold 8.7 million shares of Google stock and control 9.1 percent of the company's voting power.

AFP

A worker stands in front of billboard advertising a real estate project in Xintiandi, a traditional stone-style luxury development in Shanghai yesterday. The chairman of mainland property developer Shui On Group, Vincent Lo, who has replicated Shanghai's Xintiandi in cities across China, said there was no property bubble in China and government curbs on bank lending were making financing more difficult for his industry.