

# Cautious CEOs count on BRICs

REUTERS, Davos

Global business leaders pinned their hopes on roaring growth in emerging markets at the start of the annual Davos forum on Wednesday but rising inflation and political risks cast a long shadow.

Executives and political leaders at the World Economic Forum (WEF) said surging food prices could spark fresh social unrest and pointed to geopolitical tensions on the Korean peninsula and over Iran's nuclear programme, as well as unrest in Egypt.

"The gap between rich and poor is growing ceaselessly," Swiss President Micheline Calmy-Rey said in an opening address, lamenting that poor countries were not benefiting enough from globalisation.

The captains of industry and money mostly sounded upbeat after two years in which global financial and economic turmoil curbed their swagger and made the annual talkfest of the rich and powerful almost contrite in tone.

"This meeting shall be a meeting of constructive optimism," WEF founder and president Klaus Schwab told the inaugural session of the 41st forum, urging global leaders to shift from fire-fighting to innovation.

But several CEOs were more cautious, pointing to numerous risks which could yet derail the fragile global revival.

"Interest rates are zero today but they can only go up and higher interest rates will drive financing costs up as well," John Krennick, chairman and chief executive of GE Energy and vice chairman of GE told Reuters.

"It's not just inflation in energy but steel, copper and general commodities."

The four-day Forum in the Swiss Alps brings together at least 35 national leaders, including the presidents of Russia and France, and over 1,400 business chiefs. The number of participants from India and China is bigger than ever.

Nobel prize-winning economist Joseph Stiglitz said Western economies were more likely entering a period of malaise than recovery and voiced concern about some of the hubris at Davos.

"The euphoria that you hear from some quarters is because part of the world is doing very well and most of the multinationals are involved in that part of the world that's doing very well," Stiglitz told reporters.

"But Europe and the United States are



Participants have lunch on the opening day of the World Economic Forum annual meeting on Wednesday in Davos. Business leaders, politicians and academics gathered in Davos remain in awe of China's economic miracle, but see clouds on the eastern horizon as Beijing adapts to life as a global power.

not out of the woods. Unemployment remains intolerably high," he said.

Resurgent inflation is stalking many developing economies.

Reports in China suggested new bank lending has surged in January, prompting fresh government measures to contain property price rises. India raised interest rates on Tuesday, warning that higher food prices could become entrenched if steps to boost output are not taken.

Nor is the threat confined to the emerging world. Euro zone inflation exceeded the European Central Bank's two percent target for the first time in two years last month and Bank of England Governor Mervyn King warned on Tuesday that UK inflation could hit five percent soon.

Martin Sorrell, head of the world's biggest advertising group WPP (WPP), put global economies into four divisions

in terms of growth prospects: The BRICs - Brazil, Russia, India and China -- in the top category, followed by the United States and Germany, then the rest of Western Europe, with Japan last.

"Net-net I think corporates are still uncertain," he said. "Boards are terrified of making mistakes."

Unprecedented protests in Egypt against President Hosni Mubarak's 30-year rule in the wake of this month's "Jasmine Revolution" that ousted Tunisian president Zine al-Abidine Ben Ali were a hot topic in the corridors of Davos.

Arab League Secretary-General Amr Moussa, a former Egyptian foreign minister, said reform was the only way to meet Arabs' aspirations to a better life.

"The Arab citizen is angry and we feel broken as citizens. Reform is the name of the game, and reform has to happen now all over the Arab world," he told Reuters.

In the coffee area, a group of Gulf Arabs jabbed their fingers excitedly at a stream of news pictures of the unrest on an iPad tablet computer -- the Davos gadget of the year.

Before delivering his keynote speech to the Forum, a sombre-looking Russian President Dmitry Medvedev held a minute's silence in memory of the 35 people killed and 100 injured in Monday's suicide bombing at Moscow's busiest airport.

"Those who committed this atrocity...were hoping to bring Russia to its knees, to force us into a defensive position," Medvedev said. "They just hoped that the President of Russia would not come to this forum."

"They miscalculated. Russia knows its place in the world."

Flaunting his iPad on the platform, Medvedev said he was often tempted to respond immediately to misperceptions about Russia that he read on the Internet.

He also called for the inclusion of the BRIC currencies in the International Monetary Fund's special drawing rights, a global unit based on a basket of developed nation currencies.

With emerging economies accounting for almost 40 percent of global consumption, a slowdown in these economies "would deal a serious blow to the global recovery", the IMF said in an updated World Economic Outlook released on Tuesday.

Europe's festering debt crisis was another nagging worry for policymakers but also for otherwise chipper CEOs in Davos.

## Microsoft to report lower profit on stale PC growth

REUTERS, Seattle

Microsoft Corp is set to report a dip in earnings on Thursday, a year after the launch of its Windows 7 operating system blew away Wall Street estimates, as sales of personal computers lag expectations and Apple Inc's iPad eats away at the fringes of its core market.

The world's largest software maker, which powers more than 90 percent of the world's computers, is still a money-making machine, but its fortunes are tied to vulnerable PC sales and investors have doubts it can replicate its dominance in the fast-growing mobile and tablet markets.

Its stock is down 2.4 percent in the last 12 months, compared with a 24 percent rise in the tech-heavy Nasdaq.

"Microsoft is still a juggernaut in the PC business, Windows-based machines are still selling over 300 million a year," Tim Bajarin, president of tech research firm Creative Strategies, said earlier this week.

"But they missed the smartphone revolution, and even though they were the first to really push the tablet, Apple basically redesigned it and left Microsoft in the dust."

Sales of Windows 7 are still going strong, but likely won't match the year-ago figure, which was boosted by a one-time deferral of revenue from pre-sales of the operating system, which was launched in October 2009.

Microsoft is expected to report second-quarter profit of 68 cents per share, according to Thomson Reuters, lower than the 74 cents it reported a year ago.

Overall sales are expected to inch up to \$19.15 billion from \$19 billion a year ago, helped by the unexpectedly strong sales of the Kinect hands-free gaming system, which sold 8 million units over the holiday shopping season, above Microsoft's own target of 5 million.

PC sales, the surest guide to Microsoft's overall health, rose only 3.1 percent in the last three months of last year, according to research firm Gartner, well below earlier estimates.

The good news for Microsoft is that business customers -- the core market for its software -- are buying new computers more readily than cash-strapped consumers, who are holding off on purchases or buying iPads instead.

That resilience of business customers helped tech bellwethers IBM and Intel Corp post positive results and outlooks over the past two weeks, helping their stocks higher.

One uncomfortable fact for Microsoft: unless it posts blowout numbers, it will have a lower quarterly profit than Apple for the first time in recent

## Canon net profit nearly doubles

AFP, Tokyo

Japanese high-tech giant Canon said Thursday its net profit nearly doubled to \$3.0 billion last year on stronger office equipment and consumer product sales.

With the launch of new products and cost-reduction efforts offsetting the impact of a strong yen, Canon said its net profit rose to 246.6 billion yen in 2010 from 131.6 billion yen a year earlier.

The maker of PowerShot cameras said operating profit jumped 78.6 percent to 387.6 billion yen on sales of 3.7 trillion yen, up 15.5 percent.

"Sales in each sector for the business year were affected by the sizable appreciation of the yen," Canon said in a statement.

"But office equipment sales rose, with a

considerable recovery in laser printers, while sales of consumer electronics goods such as digital single-lens reflex cameras rose steadily," it said.

Canon also said the launch of a series of new products and "thorough" measures to reduce costs contributed to the sales and profit gains.

The strength of the Japanese currency has put many of the nation's growth-driving exporters at a disadvantage by making their products more expensive overseas and eroding their repatriated earnings.

Canon forecast higher profit and revenue in 2011, predicting a net profit of 310 billion yen, operating profit of 470 billion yen and sales at 4.1 trillion yen.

Canon shares closed up 2.19 percent in Tokyo ahead of the earnings announcement.

## Japan's export growth accelerates

AP, Tokyo

Japan's export growth accelerated for the second straight month in December, indicating a revival of overseas demand critical to the country's recovery.

Exports from the world's third-largest economy rose 13 percent from a year earlier on greater shipments of machinery and motor vehicles, the finance ministry said Thursday. North American demand was especially strong, reflecting an improving U.S. economy.

The export growth beat market expectations and is an improvement from the 9.1 percent year-on-year growth recorded in November. The news boosted the Japanese stock market, with the Nikkei 225 stock average rising 0.8 percent to 10,488.06.

Exports have been a key driver of Japan's economy - home to major manufacturers like Toyota Motor Corp. and Panasonic Corp. - which has relied on the rest of the world to offset lackluster demand at home. A steady slowdown in export growth between February and October last year, as well as a strong yen, had triggered concerns that the economy was faltering.

Economists are more optimistic about 2011. A strengthening global economy usually translates to more orders for Japanese goods.

## Booming India looms large at Davos, challenges remain

AFP, Davos

India has a huge presence at this year's Davos meeting, with bullish bosses hailing a booming economy but warning that creaking infrastructure and wealth gaps could yet stifle its stellar rise.

A massive poster trumpeting investment in "Inclusive India" greeted the 2,500 members of the global business, political and media elite at the annual meeting of the World Economic Forum at this Swiss ski resort.

India's own power elite is out in force too, with dozens of chief executives making the trip to the snowy peaks, including Sunil Mittal, head of Bharti Enterprises and Azim Premji, chairman of Indian software major Wipro.

Speaking at the forum's opening panel, Premji hailed a "complete shift in the balance of power" from the traditionally advanced economies in Europe and the United States to the new powerhouses in China, India and Latin America.

"In 10 years, the economy of the emerging world will be ... equal to or slightly larger than the US economy," he said.

Mittal crowed: "In the past few months, India has had visits from all the leading lights of the world, the top five countries have visited India in the past months. 20 billion dollars in deals have been signed."

Despite the worldwide slowdown, India has continued to surprise. The economy grew a forecast-breaking 8.9 percent year-on-year in the July-September 2010 quarter and the Delhi government forecasts an expansion of 9.0 percent in the current fiscal year to



The chairman and chief executive of Bharti Enterprises, Sunil Mittal, laughs on Wednesday during the opening of the World Economic Forum (WEF) annual meeting in Davos.

March 2011.

This rapid growth has forced the central bank to hike interest rates to their highest levels since early 2008 amid concerns about spiralling food prices fuelling inflation, a worry evoked by several Davos analysts.

Another persistent threat to India's rise to global economic powerhouse status is the challenge of modernising its creaking infrastructure.

According to a survey of some 1,200 business leaders conducted by financial services firm PricewaterhouseCoopers, nearly nine in 10 said the inadequacy of India's infrastructure was a threat to growth.

"You must remember that you are operating in an extremely diverse democracy, a successful democracy," B.G.Srinivas, European head of Indian tech giant Infosys told AFP in an interview.

"Things do not necessarily go at

the pace you might wish for."

India's biggest challenge, according to many Davos participants, is bridging a growing gap between the haves and the have-nots, as it struggles with the world's second-largest population and crippling rural and urban poverty.

While acknowledging the challenges, the president of the Confederation of Indian Industry, Hari Bhartia, said that wealth was beginning to trickle down to the less fortunate in society.

"With growth of nine percent you have a huge amount of resources available which were not available in the early nineties. That is starting to get through into the social sector, education, health care, food security," he said.

"All the investment is starting to have an effect, in terms of money in the hands of the bottom third, which also gets spent creating demand for products and services. It's creating a virtuous circle."



A bank teller counts 10,000 yen bank notes in Tokyo. The yen fell sharply against the US dollar yesterday after Standard & Poor's downgraded Japan's credit rating, tumbling to 83.20 yen from around 82.12 yen earlier.