# Arab revolution could trigger foreign investment boom

REUTERS, *London*

Unnerving as it is, the tide of political change sweeping the Arab world may also end up drawing in a fresh wave of foreign capital for the region.

As entrenched monopolies and patronage give way in the Middle East and North Africa, governments in the region could open their markets further and divest some state assets.

Wealthy Gulf states such Kuwait and Qatar have little cause to sell, but post-revolutionary states in the region such as Tunisia will likely lower protectionist barriers as they seek to accelerate income redistribution for their restive citizenry.

The triumph of free market-oriented democracy is far from certain however. After decades of autocratic rule, political parties are only just reforming in Egypt and Tunisia while an uprising in Libya is proving bloody and protracted.

But greater access to markets in an oil-rich region with a youthful population is a tantalising prospect for investors.

"It's too early to work out how these revolutions will pan out. But this crisis is going to reveal some opportunities as structures linked to old regimes will be unwound," said Julian Mayo, investment director at Charlemagne Capital.

Large-scale privatisation will be off the agenda, with the oil and gas sector especially taboo. Instead, sectors such as financial services, telecoms and tourism could be liberalised.

"Foreign investment has been high in the region but what was lacking was conviction that change was happening fast enough. Market liquidity was low as stocks were tightly held," said Luca de Conte, Director Capital Markets at GMP Europe.

REUTERS

**Anti-government demonstrators walking away after teargas was released to disperse them in downtown Cairo on January 26.**

Cashing in on state-held equity in publicly traded companies is an obvious way to boost foreign investment.

Thomson Reuters Ownership data show regional governments holding stakes worth $320 billion in publicly traded firms, either directly or through rulers and sovereign funds.

The figures exclude Tunisia, where many companies were privately held by the extended family of former President Zine al-Abidine Ben Ali.

Tunisia's interim government have said these assets, which include firms in key sectors such as mining and tourism, will be recovered.

Many are likely by disposed through direct sales or stock market listings, said Tunis-based broker Issam Ayari.

"The government isn't keen on nationalisation. Transparency will be important as well as gaining technical expertise."

To tackle unemployment, the next government will also want to redouble efforts to attract foreign investment, which contributed to a mere 6 percent of Tunisia's gross domestic product in 2008 before the onset of the financial crisis.

Foreign investors in the region have had a mixed reception.

High profile successes include Toronto-based PotashCorp's 2003 purchase of a 28-percent stake in Arab Potash Co, which is still majority owned by the Jordanian ruler.

On the other extreme end is Algeria, where the economy remains dominated by the state. A local mobile phone unit is being nationalised after a tax dispute between its Egyptian owner Orascom Telecom and the government.

Egypt has been one of North Africa's more open economies.

But even there, it remains to be seen if the army -- the only pillar of the establishment to survive the popular revolt against President Hosni Mubarak -- will willingly relinquish control of a swathe of businesses that range from olive-oil production to vehicle manufacturing.

"Prospects of these firms being privatised are very low as they are huge money-makers for the military," notes Byran Plamondon, senior MENA economist at IHS Global Insight.

For incoming leaders, maintaining social cohesion while attracting foreign investment will be a careful balancing act.

State-owned Tunisie Telecom last month cancelled plans for a joint listing on the Paris and Tunis stock exchanges amid the threat of industrial action by the company's workers.

"State-owned companies are an important source of employment. Privatisations and other economic reforms often involve laying off people," said Okan Akin, an RBS strategist.

Ironically, Libya -- scene of the most violent of the regional upheavals so far -- is also seen as the most promising.

Until recent disruptions, it was the world's 12th largest oil exporter. Analysts say its economy could take off if stability returns without substantial damage to the oil and gas infrastructure that generates the bulk of national revenues.

"The economy is not as advanced as the rest of North Africa, so from an investment standpoint, it could be the most attractive due to the low-base effect," said David Damiba, who heads Renaissance Asset Management's Africa investment team.

Libya attracted strong investor interest when decades of Western sanctions were lifted in 2004.

## Banks facing over-regulation

AFP, *New Delhi*

Banks face a period of over-regulation caused by public outrage over lax supervision that led to the global financial crisis, OECD chief Jose Angel Gurria said on Friday.

Ever since the 2007-2008 slump, regulators worldwide have moved to strengthen supervision of large banks and other financial institutions.

"We blew it so badly that right now there is a pendular movement toward too much regulation," Gurria told 600 senior financiers attending the spring meeting of the Institute of International Finance.

"Don't fight it -- it is going to happen no matter what. People are too scared, too angry, the consequences have been too massive," Gurria told the bankers' forum in New Delhi.

Financial institutions in mature economies are being blamed for irresponsible lending and risk-taking that led to the worst global downturn since the 1930s Great Depression.

"We share the responsibility" for the events leading up to the crisis, said Gurria, who heads the Paris-based Organisation for Economic Development and Cooperation.

"The banks are a very good villain and maybe we will have a period when we have too much regulation as an inevitable political result of the crisis and then maybe we

# Reining in prices China's top priority

AFP, *Beijing*

Reining in prices is China's "top priority" in 2011, as it strives for more balanced eight percent economic growth, Premier Wen Jiabao said in a speech Saturday to open the annual session of parliament.

Wen laid out China's economic and fiscal priorities for both the coming year and the next five years in his "state of the nation" speech, cautioning that the country's situation would be complicated due to a slow global recovery.

The premier also said Beijing would work to curb an influx of cross-border capital flows that have fanned inflation and increased the likelihood of asset bubbles, especially in the red-hot property sector.

"Recent prices have risen fairly quickly and inflation expectations have increased," Wen told the nearly 3,000 delegates to the National People's Congress, which convened at the Great Hall of the People in central Beijing.

"This problem concerns the people's well-being, bears on overall interests and affects social stability. We must therefore make it our top priority in macroeconomic control to keep overall price levels stable."

Wen said the government was aiming for eight percent growth in 2011 -- a figure seen as key to staving off social unrest -- and for slower-paced seven percent growth over the 2011-2015 period, but warned the task was difficult.

"This year, our country still faces an extremely complex situation for development. The world economy will continue to recover slowly, but the foundation for recovery is not solid," the premier said.

"Economic growth in developed economies is weak, their unemployment rates are and will remain high, and some countries are still under the threat of their sovereign debt crises."

China's economy grew 10.3 percent in 2010, marking the fastest annual pace since the onset of the global crisis.

Unlike other countries struggling to spur growth, Beijing has been trying to slow its economy amid fears of overheating and stem a flood of liquidity that is fanning inflation and driving up property prices.

Soaring prices of food, housing and other essentials have become the top public concern in China and Wen pledged new efforts to contain the problem in his address to the rubber-stamp parliament, which will meet for 10 days.

"We will resolutely regulate the housing market," the premier said, vowing to "firmly curb the excessively rapid rise of housing prices in some cities" and crack down on property speculators.

China aims to "generally stabilise housing prices and meet the reasonable demands of residents for housing," he said, adding that $15.7 billion had been earmarked in the 2011 budget for low-income home subsidies.

China announced last month that January inflation remained stubbornly high at 4.9 percent despite a series of measures taken to dampen price rises, including three interest rate hikes in the past four months.

The consumer price index, the main inflation gauge, had hit a more than two-year high of 5.1 in November.

AFP

**Chinese President Hu Jintao (L) claps as Premier Wen Jiabao walks for his work report during the opening session of National People's Congress at the Great Hall of the People in Beijing yesterday.**

The urgency of addressing key social issues has been underlined in the past two weeks by mysterious Internet calls for weekly Sunday "strolling" rallies in major cities, which have largely fizzled under a smothering security presence.

# India plans law to curb microfinance lending rates

AFP, *New Delhi*

India's government plans legislation to crack down on microfinance institutions to stop them charging exorbitant interest rates, a finance ministry official says.

Legislation, sparked by a a string of suicides by impoverished borrowers, is expected to come before lawmakers this year, the finance ministry official said late Friday, asking not to be named.

"There will be a cap on interest rates," the official said.

Microlenders, such as India's largest SKS Microfinance, give loans as low as $20 to small business and farmers but have been accused of charging excessively high rates and using aggressive tactics to recover money from borrowers.

The new legislation is expected to be modelled on recommendations of a central bank panel which said its proposed changes would bring a "new dawn" to the troubled sector.

The bank panel proposed capping interest rates at 24 percent.

It also said microlenders should remain eligible for "priority sector lending" in which they would enjoy "privileged access to commercial bank credit" that has fuelled the industry's explosive growth.

"The source of funds for microfinance should be banks and private equity," the finance official said.

The microfinance sector was -- until recently -- hailed as a saviour of India's poor for providing to millions of borrowers -- often small entrepreneurs -- unable to get credit from mainstream banks.

But the microfinanciers' surging profits, accusations of coercion and interest charges that can exceed 30 percent have led to mounting controversy with some critics accusing them of becoming grasping moneylenders.

India's southern state of Andhra Pradesh, where SKS Microfinance and many other major microlenders are headquartered, passed legislation last year to cap lending rates and prevent strong-arm recovery practices.

Andhra Pradesh, which accounts for $2.5 billion of microloans outstanding out of $7 billion nationwide, reined in microfinanciers after claims that high rates and arm-twisting debt collectors had caused 85 suicides.

The sector admits there are "rogue" elements that must be checked but it says it has contributed hugely to poverty alleviation and says its steep rates reflect the cost of administering loans in India's vast hinterland.

AFP

**Japan's new bullet train "Hayabusa" or Falcon runs through Saitama city, suburban Tokyo yesterday. The thin and long nosed Hayabusa will make its 300 kilometre per hour (186 mph) debut between Tokyo and Aomori, northern Japan, boasting a luxury carriage modelled on airline business class.**

# Japan launches 'Hayabusa' bullet train

AFP, *Tokyo*

Japan's latest bullet train, the thin-nosed "Hayabusa" or Falcon, made its 300 kilometre per hour (186 mph) debut Saturday, boasting a luxury carriage modelled on airline business class.

Japan has built up a network of cutting-edge Shinkansen train lines since the 1960s that criss-cross the island nation and now hopes to sell the infrastructure technology abroad, including to the United States.

The latest ultra-fast tech-marvel will make two trips a day from Tokyo to Aomori, a scenic rural backwater on the northern tip of the main Honshu island that has until now been off Japan's bullet train map. It will also make one more trip a day to Sendai, located between Tokyo and Aomori.

Mutsutake Otsuka, chairman of East Japan Railway Co. (JR East), stressed the engineering sophistication of the new ride.

"To the best of our ability, we will strive to improve Hayabusa's passenger comfort, safety and environmental friendliness, not just its speed," he told hundreds of people who came to Tokyo station to see the futuristic train.