Anil Ambani faces parliament panel in telecom probe

REUTERS, *New Delhi*

Anil Ambani, the billionaire chairman of Reliance ADA group, appeared on Tuesday before a parliamentary panel investigating a multi-billion dollar telecoms graft scandal that has rocked the country's political and business establishment.

Ambani's testimony comes days after the Central Bureau of Investigation (CBI) indicted officials and a unit of his group for conspiracy, cheating and other offences during a flawed 2008 telecoms licence grant process that may have lost India up to $39 billion in revenue.

The scandal is the largest of several corruption cases to have emerged in Prime Minister Manmohan Singh's second term. It has badly damaged the government's credibility and set off worries about regulatory risk in Asia's third largest economy.

The CBI accuse Reliance Telecom, a unit of Reliance Communications, and three Reliance ADA officials, of conspiring to set up Swan Telecom as a front company to gain valuable radio spectrum. Indian rules bar an existing licence holder from owning more than 10 percent in another operator in the same market.

Ambani, one of India's highest profile businessmen, arrived at the parliament building on Tuesday in a white Honda Accord car and entered through a side gate, a day after tycoon Ratan Tata appeared before the same Public Accounts Committee.

AFP

Anil Ambani, chairman of Reliance ADA Group, speaks during a news conference in Mumbai.

While the committee's recommendations are not binding on the government, the spectacle of some of India's biggest business names being questioned is almost unheard of in a country where leading tycoons have long been seen as untouchable.

"This investigation has caused corporate India to sit up and take notice of the fact that there are law enforcement agencies in the country who are minded to ask tough questions if things get out of hand," said Saurabh Mukherjea, head of equities at Mumbai-based Ambit Capital.

"Even if the investigation comes to nothing from this point in, just the fact that we've seen our authorities being willing to ask India Inc tough questions will exert a degree of discipline on corporate behaviour going forward."

The parliamentary committee, which scrutinises government accounts, is headed by lawmaker Murli Manohar Joshi, a member of the main opposition Bharatiya Janata Party (BJP).

The panel was also due to hear testimony on Tuesday from Sigve Brekke, the head of Telenor in Asia who is also in charge of the Indian unit; Sanjay Chandra, managing director of Telenor's partner Unitech; and Atul Jhamb, the chief executive of Etisalat's Indian joint venture.

The CBI on Saturday charged former telecoms minister Andimuthu Raja, Chandra, three officials and a unit of Reliance ADA group, and the Indian joint venture partners of Norway's Telenor and of UAE's Etisalat in the case.

All the accused have denied any wrongdoing. Etisalat and Telenor have said the events described in the charges occurred before they made entered India.

The telecoms ministry is considering whether to cancel several licences issued during that period, potentially jeopardising billions of dollars in investment that operators have made in the world's second-largest mobile market by users.

Such worries prompted the Norwegian prime minister write to Singh seeking "fair treatment" for Telenor.

The corruption charges have weighed on the stock market, with the BSE Sensex ending the March quarter as the world's worst performer.

The scandal saw the main opposition Bharatiya Janata Party (BJP) all but shut down an entire session of parliament demanding a special cross-party panel investigate the charges. The government agreed to the demand, and that panel is carrying out parallel hearings.

The Supreme Court, which is monitoring the CBI investigation, had reprimanded Singh for not acting quickly enough against the telecoms minister and had ordered CBI to go after the rich and powerful involved in the case.

"We have a large number of people who think themselves to be above the law. You must catch all of them. Merely because a person is in the Forbes list of millionaires and billionaires does not matter," the court said in February.

Japan seen heading into recession

AFP, *Tokyo*

The economic fallout from Japan's biggest ever recorded earthquake, a tsunami and a nuclear crisis will push the nation into recession in the coming months, a survey of economists said Tuesday.

The triple disaster has lanced business confidence, reduced exports and discouraged consumer spending, the Nikkei business newspaper said after reviewing analysis from 11 major private economic institutions.

Recovery is not expected until the July-September quarter, the Nikkei said.

On average, the world's number three economy was seen shrinking 0.6 percent in the January-March quarter from the previous three months, it said.

For the following three months to June, the economy was seen contracting 2.6 percent on average, with the most pessimistic economist expecting a 7.1 percent drop, the daily said.

"Most believe that personal consumption and exports will fall (in April-June) from the previous quarter," the Nikkei said.

The Japanese economy shrank 0.3 percent in October-December 2010, according to the Cabinet Office. A recession is commonly defined as two consecutive quarters of contraction.

Exports of automobiles and IT products are seen falling especially sharply due to decreased production, according to SMBC Nikko Securities Inc., the Nikkei said. Power shortages and supply chain disruptions have hit production.

Before the March natural disaster, economists believed the Japanese economy was going to enjoy a moderate upswing in the January-March quarter, as exports were likely to be lifted by a gradual rebound of the global economy.

Almost all of the economists said the economy will start to grow again in the July-September quarter on public works spending in response to reconstruction demand and a recovery in exports.

They project that the economy will expand 1.2 percent in the July-September quarter and 5.6 percent the following quarter, the Nikkei said.

South China's new paradigm

AP, *Guangzhou, China*

When millions of workers didn't return to their southern Chinese factory jobs after Lunar New Year holidays, a turning point was reached for foreign manufacturers scraping by with slim profit margins.

Companies were already under pressure from rising raw material costs, restive workers and lower payments for exports because of a stronger Chinese currency. Despite hiking wages, labor shortages kept getting worse as workers increasingly spurned the often repetitive and unskilled jobs that helped earn China its reputation as the world's low-cost factory floor.

At one of those factories in an industrial suburb of the southern Chinese city of Guangzhou, a worker uses a sewing machine to stitch together black padding for an orthopedic foot brace. Across the aisle from her, others snip loose threads off disposable cushions for operating tables.

At the end of the shop floor, a young woman glues velcro squares to an elastic strip used to hold an ice bag over an injured leg, churning one out every few seconds using a large machine press.

Later this year, these jobs will be gone as Guangzhou Fortunique's American owner, Charles Hubbs, moves a large chunk of production to Southeast Asia.

"I don't know of any factory in China that can absorb both the raw material prices we have, the labor issues we've been looking at and the renminbi," China's strengthening currency, said Hubbs. The currency is also known as the yuan.

He's joining a wave of export manufacturers, big and small, that are moving from China's coastal manufacturing regions to cheaper inland provinces or out of the country altogether, in a clear sign that southern China's days as a low-cost manufacturing powerhouse are numbered.

Andy Lin, a sales export manager at a small Guangzhou clothing maker, said the owner has opened another factory in Jiangxi province to the north to cope with rising fabric costs and staff shortages. Workers spend grueling 14-hour shifts, with a 90-minute break, sewing casual shirts destined for Japan, Israel, South Korea and Mexico.

Foxconn Technology Group - the world's biggest contract electronics manufacturer with customers including Apple Inc., Sony Corp. and Hewlett-Packard Co. - is planning to gradually cut its workforce of 400,000 in the southern Chinese city of Shenzhen by a quarter and move the bulk of manufacturing inland. Its activities in Shenzhen, which borders Hong Kong, will increasingly turn to research and development with a plan to hire more engineers and designers.

China watchers at Credit Suisse, an investment bank, call the shift an "historical turning point" for China's economy and perhaps the world as the country's role in keeping global inflation low by supplying cheap goods is set to end.

The ripple effects of rising costs in China are already being felt around the globe. U.S. clothing retailers are raising prices for shirts and other garments by 10 percent on average after a decade of price falls, partly due to higher labor costs in China.

AFP

Workers make toys and games at a factory in Jinjiang, southeast China's Fujian province on April 2.

"It may take a decade for China to see its export competitiveness erode, but we have seen the beginning of this happening," the Credit Suisse report said, predicting that salaries for China's estimated 150 million migrant workers would rise 20 to 30 percent a year for the next three to five years.

That's partly because China's traditional advantage - its vast, cheap pool of workers - is drying up. Economists say it's the result of a rapidly aging population after 40 years of the one-child policy. Economic growth is "creating more jobs faster than the population is creating new workers," said Stephen Green, an economist at Standard Chartered, in a report titled "Wanted: 25 million workers."

China's blistering growth has also lifted incomes and created more opportunities in poorer inland provinces, which means fewer people leaving for jobs in the richer coastal cities.

Some 30 to 40 percent of migrant workers didn't return to their factory jobs in Guangdong province's Pearl River Delta manufacturing heartland after the annual Lunar New Year holiday in February, said Stanley Lau, deputy chairman of the Hong Kong Federation of Industries. Typically the proportion is 10 to 15 percent.

That was despite Guangdong authorities raising minimum wages by up to 20 percent in March. They're trying to prevent the kind of high-profile labor problems that flared up last year, including a spate of suicides at Foxconn and a series of strikes that disrupted production at factories owned by Honda Motor Co. and Toyota Motor Corp.

Eurozone economic activity survey gives mixed signals

AFP, *Brussels*

A closely-watched survey indicating the pace of growth across the eurozone logged a 43-month high for the services sector in March, upwardly-revised EU data showed on Tuesday.

The composite eurozone index for manufacturing and services output compiled by the London-based Markit research firm fell 0.6 points from February to 57.6 points in March, a slight improvement from a previous estimate of 57.5 points.

Any reading above 50 indicates activity is expanding.

Markit said the latest reading signalled an expansion in economic activity for the 20th consecutive month and emphasised that the acceleration in services sector activity was the strongest since August 2007.

Manufacturing output growth, however, eased to a three-month low and once again sharp divergences in economic performance could be seen between France and Germany, and the rest.

"Signs of weakness remained very much in evidence" outside the big two, with Spain falling back into a "services-led contraction and the downturn in Greek manufacturing continued," the survey said.

"Although the debt crisis in the periphery was affecting confidence, there was no evidence that the crisis in Japan had affected business materially," said Markit chief economist Chris Williamson.

Merkel stops $12.8b India-Iran payment

AFP, *Berlin*

Chancellor Angela Merkel has put a stop to plans that have irked Washington and Israel for India to channel oil payments to Iran through the German central bank, a press report said Tuesday.

According to the Handelsblatt business daily, India, under US pressure to break direct commercial links with the Islamic republic, intended to place money for its Iranian oil imports in an account with the Bundesbank.

The Bundesbank would then transfer the money -- around nine billion euros ($12.8 billion) annually -- to the European-Iranian Trade Bank AG (EIH), based in the northern German city of Hamburg, the paper had said.

The German government had said it was powerless to stop the deal because EIH, also known as EIHB, was not subject to sanctions because the bank was not involved in financing Iran's controversial nuclear activities.

The New York Times last week quoted an unnamed US Treasury official as saying the United States was "concerned" and that Washington wanted "to work with all our allies to isolate EIH."

Israel and Jewish groups were also reported to be annoyed.

But now, Berlin has stepped in, the Handelsblatt cited high-ranking German government officials as saying on Tuesday. Payments for oil already delivered can go ahead, but no new transactions will take place, the paper said.

Contacted by AFP, neither the Bundesbank nor the German economy ministry were immediately available for comment.

Germany has long been under fire for its close business ties with Iran, with the country's exports there totalling 3.8 billion euros in 2010, according to official figures.

A worker extracts sap from rubber trees at a plantation in Galang district in North Sumatra province. According to Indonesian Rubber Association, production will rise by 8 percent to 3.08 million tons this year from around 2.85 million tons last year. Indonesia is the world's second-largest rubber producer, annually contributing 30 percent of the world demands. Indonesian rubber is exported mainly to US, Japan, China, Singapore, South Korea, Germany and Canada.

AFP