

# China needs Detroit-style bankruptcy as debt problems remain: official

REUTERS, Beijing

**C**HINA needs to let local governments take responsibility for their finances, including allowing bankruptcies, as part of an effort to defuse their debt risks, a central bank official wrote on Monday.

Central government control of the scale of local government bonds should be eliminated, while responsibility to issue and repay bonds should be held by the city or county that will actually use the funds, Xu Zhong, head of the People's Bank of China's research bureau, wrote in an editorial on the financial news website Yicai.

"Eliminate central government control on the scale of local government bond issues, expand the scale of local government debt issues," Xu wrote.

"Whether (bonds) can be issued, and at what price, must be examined and screened by the financial markets. There does not need to be worry about local governments chaotically issuing debt."

China's top leadership decided at a meeting this week to take concrete measures to strengthen the regulation of local government debt next year as policymakers look to rein in a massive debt pile and reduce financial risks facing the economy.

The government needs to clarify responsibility as it explores a bankruptcy system for local governments, Xu wrote, as there is still an expectation that the central government will bail out those that run into fiscal problems.

"China must have an example like the bankruptcy in Detroit. Only if we allow local state-owned firms and governments to go bankrupt will investors believe the central government will



REUTERS/FILE

A woman walks past the headquarters of the People's Bank of China, the central bank, in Beijing.

break the implicit guarantee," Xu wrote, adding that social services should be maintained.

The United States city of Detroit filed the largest-ever municipal bankruptcy in July 2013, with \$18 billion of debt.

Xu also said that China should dismantle the hukou system of internal migration control, as free movement of people promoted equal access to public services and helped resolve imbalances in finances.

In a report published on Saturday, China's

National Audit Office said China should dispel the "illusion" that the central government will pick up the bill for local government debt. But China should also increase the limit for local government debt as general government debt is primarily used for poverty relief spending, while also controlling spending on new projects.

"Financial institutions must not provide financing to projects without a source of stable operating cash flow or that do not have compliant collateral," the office said.

# VW may post excellent 2017 results, CEO says

REUTERS, Berlin

**V**OLKSWAGEN will report excellent group results this year, its chief executive said, helped by expected record vehicle sales and by spending cuts.

The carmaker's popularity with motorists appears to have weathered the storm following the emissions scandal of September 2015, which has cost Volkswagen (VW) billions of euros in fines and penalties.

"It will certainly be quite outstanding in operational terms," VW group CEO Matthias Mueller told Germany's weekly Welt am Sonntag when asked to sum up the 2017 business year. VW is due to publish detailed 2017 results on March 13.

Last month, the CEO predicted that group deliveries would exceed the 2016 record of 10.3 million vehicles.



REUTERS/FILE

Volkswagen CEO Matthias Mueller attends the presentation of the new Volkswagen ID Crozz concept car during the Frankfurt Motor Show in Frankfurt, Germany.

Cost cuts at the core passenger-cars division have caused the world's largest automaker to raise its profit target for the year, and it

has since also upgraded its mid-term profit and sales guidance.

On the other hand, Mueller said proposals by the European

Commission for progressive cuts in carmakers' average carbon dioxide (CO2) emissions by 2025 and 2030 will "cause us real pain."

Wolfsburg-based VW more than two years ago admitted to cheating in diesel emissions tests in the United States. It has set aside about 25 billion euros (\$30 billion) to cover related fines and vehicle repairs and faces thousands of lawsuits worldwide.

Mueller also criticized the prolonged political deadlock in Germany, which has no new government as Chancellor Angela Merkel continues to search for a coalition partner three months after federal elections.

"This is taking too long," the CEO said in the interview published on Sunday. "We must become capable of acting again, for this purpose sometimes also unpopular decisions are necessary."

# Book chains better watch out: Amazon is coming to town

AFP, Bethesda, US

**B**OOKSTORES are a go-to for the procrastinating gift-getter, a one-stop shop that has a little something for everyone.

But there's a new kid on the block this holiday season as online giant Amazon creeps into the physical realm, with 13 brick-and-mortar stores across the United States and counting.

In the upscale Washington suburb of Bethesda, the sector's transformation is playing out in full view: traditional bookstores Barnes & Noble is closing up shop and Amazon is coming to town -- with a gleaming new store soon to open not two minutes' walk away.

"I think the elephant in the room is Amazon," said Donna Paz Kaufman, a Florida-based industry consultant. "Anybody in publishing is concerned about the tremendous market share that Amazon has garnered."

Since it began soaring to e-commerce domination in 1995, Amazon has been a thorn in the side of independent bookstores and big-box chains alike, with Borders shuttered in 2011.

Barnes & Noble's numbers, meanwhile, are dwindling.

The regal, three-level Barnes & Noble in Bethesda feels like more than just a store: coffee drinkers overlook passers-by, while children gather around a story-telling stage, decorated with woodland creatures.

But Barnes & Noble says it was unable to agree on a lease extension, and the shop will close in January after two decades.

Up in arms, over 5,600 people signed a petition urging the Federal Realty Investment Trust -- the property owner --

to "strike a fair leasing deal" and keep Barnes & Noble open.

Sarah Pekkanen, a local author whose first book signing was in the store, dubbed the closure "a loss."

"I bring my kids there all the time, I know some of the people who work there," she told AFP. "It's always sad when a good bookstore closes."

Though itself a big-box store that at its zenith menaced independent sellers, long-time customer Liz Cummings said Barnes & Noble "became a part of the community."

But although she is dismayed by the loss, Cummings, who directs a local writing center, is welcoming Amazon's neighborhood debut.

"There's no concern as far as I can tell, because people want to be able to browse for books," said Cummings. "We'll take it."

Amazon told AFP it will stock only best-selling or highly rated titles and feature local authors in the store, which it said is "all about discovery."

For the industry, which includes an increasing number of independents according to the American Booksellers Association, welcoming Amazon is more of a challenge -- but not something to pout over.

"Our culture is at risk if there isn't diversity in the number of outlets selling books," said analyst Kaufman.

She believes Amazon's move into the brick-and-mortar market -- with stores selling books and technology like the Kindle e-reader and Fire tablet -- is about accessing a certain type of customer.

"We know that their interest in the bookstore world is really a portal," she said. "You have upscale, educated, higher income customers who are early adopters in technology."



The logo of Amazon is seen at the company logistics centre in Lauwin-Planque, northern France.

# Robot growing pains: Two US factories show tensions of going digital

REUTERS, Columbus, US

**W**HEN Sandy Vierling took a job at a new robot-packed factory her company built just a few miles from an older plant where she made automotive exhaust systems, she crossed into the future of manufacturing in the United States.

She didn't like it at all.

Auto supplier Faurecia SA's new plant - dubbed Columbus South to distinguish it from the older operation known as Gladstone - is glistening clean and the physical work is lighter. But the 57-year-old found her new job had long hours and was monotonous - loading parts onto conveyors that fed robots all day. She also missed the interaction with coworkers she had at Gladstone.

Other workers at the new plant complain that they do not get to fix machines when they jam. Technicians swoop in to do that.

"I was stressed all the time," she said.

President Donald Trump has put bringing manufacturing jobs back to the United States at the center of his economic and trade agenda. But when jobs actually come - as they have here in southern Indiana - many factory workers are not prepared for them, and employers are having trouble hiring people with the needed skills.

US manufacturing job openings stand near a 15 year high and factories are hiring workers at the fastest clip since 2014, with many employers saying the hardest-to-fill jobs are those that involve technical skills that command top pay.

In 2000, over half of US manufacturing workers had only high school degrees or less, according to the Bureau of Labor Statistics. Today, 57 percent of manufacturing workers have technical school training, some college or full college degrees, and nearly a third of

workers have bachelors or advanced degrees, up from 22 percent in 2000.

Mark Muro, a senior fellow at the Brookings Institution, said the digitalization sweeping the economy is forcing employers to hunt for a different mix of workers - and pay more in some cases for workers with technical skills.

A new study by Muro found those with the highest digital skills saw average wage growth of 2 percent a year since 2010, while wages for those with medium skills grew by 1.4 percent and those at the bottom by 1.6 percent.

Faurecia invested \$64 million in its new plant, and invited trained workers from the old plant to apply for jobs in the new one.

## SKILLS MISMATCH

The skills mismatch is playing out at Faurecia's factories in Columbus.

The company's older Gladstone plant has 500 production workers and only a handful of robots. The new plant, Columbus South, has about 400 workers and about 100 robots, including 30 automated guided vehicles that move materials instead of human-driven tugs. Both plants make exhaust systems.

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Many workers, including Vierling, were lured by higher wages. She saw her pay jump from \$16.65 an hour to \$18.80 at Columbus South. About 150 made the move, according to the union that represents workers in both facilities, the International Brotherhood of Electrical Workers.

There's no plan to shutter the older plant, but rather to introduce automation there in phases as well.

But some said no to the opportunity.

Christina Teltow says she never even considered it. She is 42 years-old, and has spent



22 years at Gladstone. She was recently promoted, but previously worked as "gap leader," one of the better jobs someone with a high school education can attain at the plant. That job includes overseeing the schedules of workers and monitoring the quality of parts.

The same job at Columbus South requires 16 credit hours from the local technical college in business administration as well as learning to use computers to track production and schedules.

"Here, I get in and work on machinery," she said. "In South, it's totally different — it's much more manual labor."

The company says one reason the new plant needs a lot of robots is because it produces a different kind of product. Gladstone mostly makes exhaust systems for light vehicles, while Columbus South is dedicated to much beefier commercial exhaust systems used mainly on large trucks. One worker can easily lift most of the parts at Gladstone, while some parts at Columbus South weigh up to 260 pounds.

Without robots, the new plant would need many more workers just to move things around, said managers.

Of course, robots have been in factories for decades. The difference now is that the machines are being linked together in networks that allow more oversight and control. At Columbus South, managers and engineers walk around with iPads that allow them to watch production levels in real time and even less-skilled workers have to know the basics of how to use computer drop down screens and entering data.

Leading the way onto the factory floor, manager Mike Galarno points to the front of one of the long production lines dotted with robots to a large video screen that tracks production in real time.

Jobseekers line up to apply during a job fair in Massachusetts, US.