

# Global crisis leads to coming Asian storm

By CONN HALLINAN

According to a lot of mainstream thinking Asia is weathering the current economic meltdown. "Asians are taking the economic collapse far more calmly than many in the west," writes David Pilling, Asian editor for the Financial Times. The region he says, "brims with confidence that its time has come" and is operating under the assumption that "when the dust settles, wealth and power will have edged decisively east."

Pilling may be right about the rise of the east, but things are not nearly as rosy as he paints them, and there are restless clouds on the horizon.

"As goods pile up on wharves from Bangkok to Shanghai, and workers are laid off in record numbers, people in East Asia are beginning to realize they aren't only experiencing an economic downturn but living through the end of an era," says Walden Bello, a senior analyst at the Bangkok-based Focus on the Global South, president of the Freedom from Debt Coalition, and professor of sociology at the University of the Philippines.

The current crisis is due to the global crisis of capitalism, but most Asian economies are being particularly hard hit because they bought into a scheme by the World Bank



**GROWING UNEMPLOYMENT:** Job seekers crowd outside a job fair in Beijing on Feb. 7. At least 20 million Chinese have lost their jobs in the past few months. LIU JIN/AFP/GETTY IMAGES

back in the 1970s. The plan was to raise living standards without redistributing wealth—thus challenging local elites—by turning countries like South Korea and Taiwan into exporting machines, where economic growth would lift the poor out of poverty.

At the same time, the United States was pressuring Japan to revalue its currency to make Tokyo's products more costly in order to cut the trade gap between the two nations. Japan complied, but its domestic labor costs increased as a result. To keep its status as the world's

top exporter, Tokyo began pouring tens of billions into the rest of Asia to take advantage of low wages in places like China and Vietnam. The strategy was to produce low cost goods, ship them to Japan, and then Europe and the United States. "This was industrial policy

and planning on a grand scale," says Bello, "managed jointly by the Japanese government and the corporations."

The export machine did indeed raise living standards all over Asia, but it ran on the endless appetite of U.S. and European consumers. As long as Americans could get easy credit—and they could as long as China and Japan bought up hundreds of billions of U.S. Treasury bonds—everything was hunky dory. Until the housing bubble popped and the bottom fell out of the credit market. The fallout has been catastrophic.

"China's growth in 2008 fell to 9 percent, from 11 percent a year earlier. Japan is now in deep recession. ... South Korea, the hardest hit of Asia's economies so far, has seen its currency collapse by some 30 percent relative to the dollar. Southeast Asia's growth in 2009 will likely be half of that in 2008," says Bello.

Although economic growth did alleviate some poverty, the gap between haves and have-nots actually expanded over the last decade. Between 2000 and 2006, Asia grew at more than twice the rate of the rest of the world, but as the Financial Times points out, that hardly meant the end of penury.

"Many of the people in the region were still suffering from serious poverty. More than 1 billion

people, representing almost 62 percent of the region's labor force, were still working in the 'informal economy.' Some 900 million were living on less than \$2 a day. The International Labor Organization found that 308 million of these people were living in extreme poverty—less than \$1 per day.

According to Bello, some 20 million Chinese have lost their jobs in just the last few months, and there are no industries to soak up the growing army of the unemployed. The economic crisis has also forced millions of Indonesian and Filipino migrant workers to return home to markets that high unemployment drove them to flee.

Rising poverty rates and joblessness is already leading to protests in Vietnam, and "Korea, with its tradition of militant labor and peasant protest, is a ticking time bomb," says Bello.

The Financial Times' Pilling writes, "Asians are stoical ... nor have the people yet turned with a vengeance on incompetent politicians or negligent regulators."

You wouldn't want to put a lot of money on that stoicism to endure.

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## Porsche to merge with Volkswagen

By ILYA RZHEVSKIY  
Epoch Times Staff

Porsche AG, the German sports car manufacturer, announced plans earlier this month to merge with Volkswagen Group.

Last Wednesday, the Porsche and Piech families, the owners of Porsche and Volkswagen respectively, met in Salzburg, Austria, to work on a merger plan. The two car companies will work out the structure of the new company during the next four weeks.

The decision to merge was not a big surprise to the auto industry. Porsche has been following its long-term strategy of taking over Volkswagen for almost four years now.

It started in 2005, when Porsche acquired an 18 percent stake in Volkswagen. Until today, Porsche has been steadily increasing its stake in Volkswagen, announcing in January 2009 that it had acquired 51 percent of Volkswagen's shares.

This has allowed Porsche to win the majority of votes at Volkswagen, thereby earning a strategic advantage of a hostile takeover over Volkswagen. However, due to European Union regulatory restrictions, Porsche was barred from pursuing a hostile takeover; and, therefore, the only other option left was a friendly merger.

In addition to EU laws, the German Lower Saxony government has a stake of just over 20 percent in Volkswagen and holds a block-

ing minority in company's decisions. It was against any hostile takeover by Porsche but decided to approve the merger.

During the years of pursuing the accumulation of Volkswagen's expensive shares, the Porsche family has gone into debt nearing \$12 billion. To relieve the debt, Porsche has announced its plan to increase its capital by \$6.7 billion by means of selling additional shares.

These two companies go back in history since the 1930s. The first Volkswagen car was actually developed by Ferdinand Porsche, the founder of Porsche. Throughout the years, both companies have been each other's biggest business partners, literally using each other's auto parts to assemble their models. For example, the Porsche Cayenne SUV shares the entire chassis with the Volkswagen Touareg.

Besides being business partners, they are also common stakeholders. The Porsche family owns 51 percent of Volkswagen, while the Piech family—the Volkswagen owners—also have a portion of Porsche's shares. On top of that, Porsche and Piech family members share cousins.

It's even more complicated. During the meeting between the two families to discuss the merger, Ferdinand Piech had to sit at both sides of the table because he is a shareholder of Porsche and at the same time chair of the Volkswagen supervisory board—almost like playing chess alone by switching



**MERGE:** A Porsche races into the mist at the Verizon Wireless 250 on May 3, 2009, in Millville, New Jersey. Earlier this month, Porsche announced plans to merge with Volkswagen Group. BRIAN CLEARVIGGETTY IMAGES

sides after every turn.

Porsche is a much smaller company than Volkswagen in terms of revenues. Last year, Porsche earned \$9.3 billion in annual sales while Volkswagen brought in \$151 billion. This seemingly glaring size difference, however, plays no role in the merger—Porsche controls Volkswagen due to its ownership stake.

The CEO of Porsche told reporters that the merger is "not a marriage made in heaven, but a marriage of convenience," reflecting that it was absolutely necessary to make this move to avoid further losses due to the economic crisis.

If the merger is successful, then Porsche will be the 10th brand in Volkswagen's stable. The company already owns Audi, Bentley, Skoda, Scania, and other brands. The new company will become one of the biggest auto manufacturers in the world, shooting Volkswagen to the level of Toyota, GM, and Daimler.

"What is decisive is that the new construct makes good economic sense. It will strengthen Volkswagen's position in its bid to be the world's biggest carmaker. And the necessary compromises with Porsche will make this position even stronger," writes German newspaper Handelsblatt.

## Your personal finance advisor: Fixed annuities

By ELAINE RACHLIN

**Retirement risk and uncertainty: A fixed strategy**

Within the next five years, 46 million Americans are expected to retire, according to data from the National Institute of Aging at the University of Michigan. The transition to retirement results in a major shift in financial priorities—from asset accumulation to income management and wealth preservation.

In the midst of this, people now face the powerful headwinds of a deep, prolonged recession and unprecedented market volatility. With the majority of retirement savings now residing in 401(k) and IRA accounts, the market downturn has had a profound impact on the retirement security of many, causing them to re-evaluate their retirement savings and investment strategy.

**Retirement risks beyond the turbulent market**

While a more risk-averse investment posture may be warranted for those approaching or in retirement, there are other retirement risks that cash-oriented solutions don't help address.

For instance, employers continue to eliminate traditional pensions and retiree benefits such as healthcare. This means that more Americans must increasingly rely on personal savings and investments to fund the bulk of their retirement income. Plus, Americans are living longer than ever before. While this is great news, longer life expectancies mean that more dollars must be available for longer retirements—bad news for those who haven't planned for such a reality. The challenges of having sufficient income in retirement are compounded by escalating health care costs.

With these non-market related retirement risks in mind, more people are taking a fresh look at how to provide balance to their retirement portfolio while they are actively saving for the future. One option for your retirement strategy is a fixed annuity since it has a combination of safety, tax-deferral, and the option of guaranteed lifetime income.

**A balanced response to retirement risks**

Fixed annuities help mitigate the risk of outliving one's retirement assets by providing an option for a steady stream of income for life, which is an important consideration for people who do not have a retirement or pension plan to rely on. A lifetime income stream from a fixed annuity can help defray the costs of Medicare Supplement or Long Term Care insurance, or even college education expenses for a grandchild.

The principal and interest are guaranteed in a fixed annuity, and all guarantees are based on continued claims paying ability of the issuing company. In to-

day's market environment, this provides protection for your hard-earned retirement nest egg. In addition, fixed annuities provide guaranteed returns. With the comfort of a guaranteed minimum interest rate, no matter what's happening in the market, your annuity is guaranteed to grow. Bear in mind that fixed annuities are not a bank deposit nor bank guaranteed. Also, fixed annuities are not FDIC insured, nor insured by any government agency.

The money in a fixed annuity grows tax deferred, so retirement savings have the potential to grow faster. Most annuities have a tax-deferred feature, as do many retirement plans under the Internal Revenue code. As a result, when you use an annuity to fund a retirement plan that is tax-deferred, your annuity will not provide any necessary or additional deferral for that retirement plan. But annuities do have features other than tax deferral that may help you reach your retirement goals. You should consult your tax advisor prior to making a purchase for an explanation of the tax implications for you.

Another feature of fixed annuities is payout flexibility. Annuities offer a broad range of payout options, including a lump sum, payments for a certain period of time, or payments for life. This provides the flexibility to choose a payout plan that best meets your needs when you retire. Together with other income sources, such as investments and social security, annuitization can help provide a consistent level of ongoing retirement income. Withdrawals from fixed annuities may be subject to surrender charges and penalties. Furthermore, withdrawals will be taxed and may be subject to a ten percent IRS tax penalty for withdrawals before age 59.5.

Fixed annuities also can help avoid the costs and delays of probate and estate settlement in the event of the contract holder's death. Money distributed to named beneficiaries is paid directly to them and does not go through probate.

**Take a strategic approach**

Staying on track to achieve your retirement goals, even in volatile markets, depends on striking the right balance in your financial plan in order to address all types of retirement risk. Talk to a financial advisor to determine the right retirement strategy for you.

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## Dear Deb—work place advice



By DEB WHEATMAN

Dear Deb,

I was recently downsized from my company after having been there for 10

years. I have not had to look for a job since that time and feel out of touch with the current market. Is there some advice you can give me for commencing my job search?

Mark W—New York

This is the time for you to think about the next step in your career and how you want to position yourself. For starters, dust off your résumé; either write it yourself or seek help from a professional résumé writer.

Make sure that you capture results of your efforts so that the document is positioned to showcase your abilities. Join some local networking groups, and get yourself a LinkedIn account wherein you can begin to connect with other professionals.

I also recommend joining relevant groups on LinkedIn to help you identify opportunities and converse with your peers. Use

**Make sure you do research regarding companies and industries you are interested in exploring**

Facebook to interact and connect with people you know as well as those outside of your immediate network.

Make sure you do research regarding companies and industries you are interested in exploring. Keep notes about the process, including when you wrote to a company, to whom you wrote, and what response you received, if any. This will allow you to remain focused and organized while conducting your search.

With these preliminary steps, you will be on your way to a productive search.

Additional questions or comments? Deb can be reached at [dvwheatman@resumesdonewrite.com](mailto:dvwheatman@resumesdonewrite.com). Her blog provides valuable career related information at [resumesdonewrite.blogspot.com](http://resumesdonewrite.blogspot.com).

## Buffett's Berkshire Hathaway reports first loss since 2001

By ANTONIO PEREZ  
Epoch Times Staff

Even the "Oracle of Omaha" couldn't escape the financial maelstrom of 2008.

Billionaire investor Warren Buffett's holding company Berkshire Hathaway swung to a first quarter loss of \$1.53 billion in 2009, its first loss since the third quarter of 2001 when Berkshire suffered large insurance losses due to the Sep. 11 terrorist attacks.

The company had almost \$1 billion in profit during the same period last year. However, the value of the company's assets fell only 2.6 percent during the first quarter—and 10 percent in all of 2008—despite severe dips in global stock market prices.

Berkshire is a major player in the insurance and reinsurance industries, and the company also has stakes in almost 80 companies from retail to manufacturing. Many of its holdings suffered due to the global economic recession and tighter consumer spending patterns.

To illustrate, the S&P 500 index had declined around 12 percent year to date as of Mar. 31.

"Prices for equity securities also experienced significant declines over the first quarter of 2009, which negatively impacted the fair value of Berkshire's equity investments (particularly in financial institutions)," the company said in an SEC filing.

The company's losses were mainly tied to its derivative bets—financial instruments previously decry by Buffett. \$986 million were attributable to payouts related to Berkshire-insured bonds that had defaulted.

Berkshire's biggest mistake last year was his \$7 billion investment in oil giant ConocoPhillips ahead of the global oil price drop last fall. This resulted in a \$2 billion writedown related to its investment in ConocoPhillips as Buffett sold a portion of his holdings as crude oil prices bottomed during first quarter 2009.

"The market price of ConocoPhillips shares declined sharply over the last half of 2008. In the first quarter of 2009, Berkshire sold approximately 13.7 million shares of ConocoPhillips and sold additional shares in April," the SEC filing said.

Two credit rating agencies stripped Berkshire of its "AAA" credit rating this year.



WARREN BUFFETT  
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