

Business

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Iraq's Iran-US money trade in tatters

Not cashing in: Lockdown curbs inflict economic woes in both countries

SULAMANIYAH, Iraq: In Iraq's Kurdistan region and at the country's Muslim Shiite holy sites, trading US dollars for rials from Iran was once big business. But the money exchange trade has been hard hit by lockdown restrictions to stop the spread of COVID-19, and by deep economic woes in both countries.

Traders in Sulaimaniyah, the second city of Iraqi Kurdistan and close to the border with Iran, have seen dramatic changes. In March, before restrictions to stem the pandemic which has killed more than 5,000 Iraqis and infected more than 130,000 others, one dollar traded for 150,000 Iranian rials.



Traders see fortunes tumble

Today, one dollar fetches 250,000 rials, money changer Amanaj Saleh told AFP.

Tehran and Washington may be at loggerheads—coming close to open war in Iraq at the beginning of the year—but Iraqis have no problem keeping a mix of the rival banknotes in their wallets.

Betting on a rebound in the Iranian currency—and hoping the coronavirus crisis would pass quickly—many Iraqis rushed to snap up rials on the cheap. The dollar-rial trade seemed like a welcome alternative income during the financial turmoil, which has destroyed countless livelihoods. A survey by the International Rescue Committee (IRC) aid organization has found 87 percent of people questioned said they could no longer work because of the disease.

Big losses

Iraq is going through its worst economic crisis in its recent history, hit by a slump in oil prices that account for almost all public revenues. Government austerity cuts are expected to be severe.

"Since the appearance of coronavirus and the economic crisis it has caused, people who can no longer work are investing in Iranian currency to make their capital work," said Saleh. But the trader, a man with a small grey moustache sitting under a huge framed reproduction \$100 bill, warned that not all had found profit in the gamble.

"Those who had bought Iranian rials at the exchange rate of 200,000 rials for one dollar, now resell them at the lower rate: 250,000 rials for a dollar," he said. Many Iraqis use American dollars and their own dinars interchangeably, with the rates stable between the two currencies.

It is the big swings between dollars and Iran's rial that attract those hopeful of winning on the difference. American sanctions have long stifled the Iranian economy, and the closure of official border crossings between Iran and Iraq has added to the woes.

Hazar Rahim, a laborer in Sulaimaniyah, found this out the hard way. "A few days ago, I bought five billion Iranian rials," he told AFP. "I was betting on the market but I was taken by surprise. In a few hours, the rial dropped, and I'd lost 13,000 dollars."

Religious tourism frozen

Two of the most holy sites for Shiites, Karbala and Najaf, are both in southern Iraq. Millions of Shiite pilgrims, the majority from Iran, visit every year. They bring Iranian rials to spend and trade. In past years, the visitors brought in up to five billion dollars—crucial in a country where almost all tourism is to religious sites. It also provided hundreds of thousands of jobs and accounted for around 2.5 percent of GDP,



SULAIMANIYAH: An Iraqi man walks past a money exchange office in Sulaimaniyah city in the Kurdish autonomous region of northern Iraq, on Tuesday. — AFP

according to official figures. But with travel restrictions in place because of the virus, the shops and restaurants once busy with visitors are closed. Iranian arrivals had already slowed amid deep economic woes at home since the United States in 2018 withdrew from the Iranian nuclear agreement and reinstated punishing sanctions. Coronavirus in Iran—the worst in the region with more than 17,000 deaths and 310,000 infections—has only worsened the situation of the country.

The crisis has reduced Iran's exports, causing devaluation and inflation.

According to the International Monetary Fund, Iran's GDP is expected to shrink six percent in 2020, after contracting 7.6 percent last year. In Iraq, meanwhile, tougher times loom as well. The economy is expected to contract almost 10 percent this year. But with few apparent alternatives, dozens of Iraqis keep coming to the money traders in the hope that times will change, the rial will rise, and they can cash in. — AFP



SHENZHEN: This file photo taken on March 10, 1999 shows Microsoft then-chief executive Bill Gates (center) walking among heavy security inside a hotel lobby during a visit to Shenzhen. — AFP

Microsoft could be 'white knight' for TikTok or fall flat

WASHINGTON: A deal allowing Microsoft to buy social media phenomenon TikTok could be transformative for the US tech giant's efforts to become more consumer-focused — if it can overcome the business and political risks. Microsoft appeared to be in position to acquire the Chinese-owned app which is under national security review, after President Donald Trump said he would approve such a tie-up if completed by mid-September.

Buying TikTok could make Microsoft a hipper, more youth-focused company after years of shifting to enterprise services and cloud computing, say analysts.

Microsoft has had limited success in social media, although it did acquire the business-focused network LinkedIn. Debra Aho Williamson, an eMarketer analyst, said Microsoft has long had ambitions for consumer networks and even sought to acquire Facebook at an early stage.

"Getting TikTok would give it another chance to get in on a fast-growing, youth-oriented social media property and be a way to try to get back at Facebook for spurning its advances," she said in a research note. Williamson said TikTok could help Microsoft boost its position in digital advertising while noting that "it's just potential at this point. TikTok is very early in the development of its ad business, and there's no guarantee that it will attract a large share of ad dollars."

'Aggressive bet'

Daniel Ives at Wedbush Securities said TikTok could be a golden opportunity for Microsoft, with the current value appearing to be around \$40 billion but which "could reach a valuation in the \$200 billion area code given the steep user and engagement trajectory of TikTok." Ives said in a research note that Microsoft "would be making an aggressive bet to transform its consumer strategy with a major social media bet."

Analyst Jack Gold of J. Gold Associates said he was skeptical of a Microsoft-TikTok marriage that would put the US firm in unfamiliar territory. "Microsoft frankly has never been all that good at running a consumer-focused social network, they've tried it before," Gold said.

Gold said the monetization outlook for TikTok is still murky and that Microsoft has had difficulties in the digital ad sector. "Most of the (TikTok) users are kids—what does Microsoft want with that group?" Gold said. "I don't understand the synergies."

It is possible that "Microsoft is doing the government a favor by pickup up TikTok," according to Gold, who added that "it's also a defense move against Google or Facebook acquiring TikTok." The talks on splitting TikTok from its Chinese parent ByteDance come amid rising US-China tensions and increasing fears voiced by US officials and lawmakers that the social platform could be used for espionage, despite repeated denials by the company of any links to the Beijing government.

The moves also come with Washington stepping up scrutiny of Big Tech firms for dominating key sectors of the economy, raising the prospect of potential breakups or spinoffs of some of the major companies. — AFP

Virgin Australia closes budget offshoot, fires 3,000 staff

SYDNEY: Pandemic-struck airline Virgin Australia announced yesterday it would close budget subsidiary Tigerair Australia and lay off 3,000 staff as it prepares to relaunch under new owners.

The carrier is attempting to revive its fortunes following its decision to go into voluntary administration in April shortly after Australia closed its international borders and domestic travel plunged.

Virgin Australia said in an announcement to the Australian Securities Exchange yesterday that it would axe its budget Tigerair Australia brand and 3,000 jobs while retaining 6,000 staff. It would also continue the suspension of long-haul international

flights and retire part of its fleet, with the country's borders likely to remain restricted into 2021. "Demand for domestic and short-haul international travel is likely to take at least three years to return to pre-COVID-10 levels, with the real chance it could be longer," Virgin Australia CEO Paul Scurrah said in the statement.

"As a business we must make changes to ensure the Virgin Australia Group is successful in this new world," he added. US private equity giant Bain Capital was successful in its takeover bid for Virgin Australia in late June. The deal is subject to regulatory approval and is due to be completed

Virus may shrink global imbalances further in 2020

WASHINGTON: The International Monetary Fund said on Tuesday that global current account imbalances narrowed in 2019 as trade slowed, and the coronavirus could narrow them further in 2020, but some commodity exporters and tourism-dependent countries will swing to current account deficits. The IMF's External Sector Report on currencies and imbalances for the world's 30 largest economies showed that net current account balances fell by 0.2 percentage point to 2.9 percent of global GDP. The Fund projected a further narrowing by 0.3 percent of global GDP in 2020, partly due to massive fiscal and monetary stimulus by many countries and continued pressure on trade.

"Major commodity exporters should see their current accounts going from significant surpluses to significant deficits," IMF chief economist Gita Gopinath said in a webinar presentation of the report. The IMF projected that Saudi Arabia, which had a 5.9 percent current account surplus in 2019, will see a deficit of 4.9 percent in 2020 due to the collapse of oil prices and demand.

Tourism-dependent Thailand and Malaysia will see their surpluses shrink dramatically in 2020, the report showed. The fund said the US dollar's current account position in 2019, a deficit of 2.3 percent of GDP, was moderately weaker than warranted by economic fundamentals and would likely narrow to 2.0 percent in 2020. But it estimated that the dollar's real effective exchange rate was overvalued by around 11 percent in 2019.

China's current account surplus of 1.0 percent in 2019, projected to grow to 1.3 percent in 2020, was broadly in line with economic fundamentals, the IMF said in the report. It estimated that China's yuan was undervalued by around 2 percent in 2019, largely due to trade tensions with the United States, but said the assessment was "subject to especially high uncertainty."

China's real effective exchange rate had appreciated by 1.8 percent from the 2019 average through May 2020, the report showed. — Reuters

Banks snared by HK sanctions laws as US-China spat spirals

HONG KONG: International banks in Hong Kong are caught in the crossfire of competing laws enacted by the United States and China as the superpowers clash over the city's future, with analysts warning businesses are being forced to pick a side. Lawyers working for the lenders have been busy. Their clients have grown increasingly alarmed by two pieces of legislation that came into effect last month that could radically alter how they do business in the semi-autonomous city.

The first is a bipartisan US bill sanctioning Chinese and Hong Kong officials responsible for the current crackdown on political freedoms in the city. The second is a sweeping security law Beijing imposed on the finance hub that includes a ban on businesses complying with foreign sanctions.

That has left banks scratching their heads—how can they follow one law without breaching the other?

"We are very worried," one banker with a major organization told AFP, asking to remain anonymous to speak freely. The biggest concern was Beijing's track record of punishing businesses deemed to step out of line, with the security law giving it powerful new ammunition.

"Most people in Hong Kong, especially in the banking industry, do worry that the... national security law is very vague and it can easily be interpreted to whatever agenda the government has," he added.

Steve Tsang, director of the China Institute at London's SOAS university, said businesses were only beginning to digest the predicament they face. "It is a real issue and it applies not only to foreign banks but to all banks, companies, and international NGOs in Hong Kong," he said.

"If they are deemed to have violated the national security law they are vulnerable to prosecution by the Chinese authorities."

Beijing's security law targets secession, subversion, terrorism and colluding with foreign forces. The law has chilled political freedoms in Hong Kong, which was promised certain liberties and autonomy until 2047 under Britain's handover deal with China. The legislation bypassed Hong Kong's legislature, its wording kept secret until the moment it became law. — AFP



HONG KONG: A man walks past an HSBC advert outside a branch of the bank in Hong Kong. International banks in Hong Kong are caught in the crossfire of competing laws enacted by the United States and China. — AFP