

## The Year in 2007

29 Dec 07

**By Sherman Tan**

2007 was marred by many events from the sub-prime mortgage crisis in Jul, escalating oil prices that hit US\$99.29 a barrel on 21 Oct, continuous weakening of the Dollar (US\$1 to S\$1.449 on 28 Dec) and gold reaching its 28-year high of US\$845 per ounce on 7 Nov. For this review, I picked 10 major events (mostly sourced from Reuters) that shaped the world in 2007. Now, let's examine them in chronological order.

### 1 - The pain from a popular pain killer

The beginning of 2007 saw Merck & Co agreeing to pay US\$4.85 Billion to settle most of the 27,000 lawsuits that its painkiller Vioxx caused heart attacks and strokes in thousands of users. Although the popular pain killer brought in US\$2.5 Billion in annual sales to the pharmaceutical company, the drug was withdrawn in Sep 2004 after a study showed it doubled the risks of heart attack and stroke in patients that used the drugs for more than 18 months.

Vioxx is a rofecoxib-based drug that is administered orally for the treatment of a wide ranging of pains such as osteoarthritis, rheumatoid arthritis, acute pain, and dysmenorrhea and is well used in the US and many parts of the world. The implication of the court decision sets precedence for large pharmaceutical companies such as Merck & Co to fight claims on an individual basis instead of reaching a global settlement. This legal model could set a bench mark for the drug industry and leaving individual claimants to fight against the various pharmaceutical giants on their own when drugs these companies produced go wrong.

### 2 - A revolutionary mobile phone

On 9 Jan 07, Chief Executive Steve Jobs kicked off his highly anticipated Macworld keynote speech by telling the crowd, "We are going to make some history together today". The iPhone which was introduced about a year ago on this event saw sales hitting more than 1.4 M for the fiscal year 2007 for Apple (sale figures of the iPhone in North America and Europe are difficult to be validated).

Apple's iPhone has been widely praised for how its innovative design makes data services such as web browsing a user-friendly experience, but it has one big flaw: it runs on second-generation mobile networks. Those networks offer slow web browsing speeds compared to those that rely on 3G mobile technology. However, a 3G version of the iPhone is due to be launched by Apple next year. With iPhone, the already competitive smart phone market has now a major competitor to tussle with. Consumers on the other hand will have one more product to choose from but mobile phone users in Asia will have to wait a while longer before iPhone can be legally used in their countries.

However, as I wrote in my previous article "Disruptive Innovation", only those business models or strategies that embrace the use of the mobile phone that focus on delivering choices and control to the consumers will create the disruptive impact.

### 3 - YouTube and its woes

In Mar 07, Media conglomerate Viacom Inc. sues Google and YouTube for more than US\$1 Billion for massive intentional copyright infringement. YouTube as we all know allows any user with an internet connection to upload personal video or even downloaded TV shows or movies on YouTube various websites.

The legal suit from Viacom which is home to the MTV and Comedy Central channels suggest that with YouTube's ambition to be a major entertainment and advertising giant, there is a wider battle between traditional and Internet/mobile media companies that compete for audiences and advertising dollars.

#### **4 - Shooting rampage**

On 16 Apr 07, 32 people; mostly students attending classes in Virginia Tech, were shot dead by a lone gunman who then shot himself dead in the deadliest shooting rampage in US history. This incident has sparked off copy-cat versions in other parts of the world – a teenage killed 8 students in a Finland school in Nov 07. While the shooting in Virginia Tech has led to major changes in legislative controls surrounding the issuance and possession of fire arms by US citizens; a larger social issue on managing alienated youth has not been addressed.

#### **5 - Formula One Grand Prix**

11 May 07 may not be a major event in the world by most counts but I included Singapore's success in its bid to host a leg of the Formula One Grand Prix circuit from 2008 as a significant event for two reasons. Firstly, it demonstrated the Singapore government's willingness to partner with local entrepreneurs to host major events that will boost tourism activities in Singapore. The deal will require the Singapore government through the Singapore Tourism Board to invest some 60% of the estimated total bill of US\$103 M for staging the race. Secondly, this is the first time in F1 history that it will be a night race.

#### **6 - Revitalising the Labour Party**

On 26 Jun 07, Gordon Brown succeeds Tony Blair as British Prime Minister; inheriting a Labour government trailing in many polls because of the Iraq war. Brown, who served as the Finance Minister throughout Blair's premiership had waited 10 years for this post. While he vowed to revitalize the ruling Labour Party and learned from what he called the divisive Iraq war, Brown faced many challenges from the home front to the demands from the new European Union treaty.

#### **7 - Monks against the Junta**

Without warning, diesel prices were doubled and the cost of compressed natural gas was raised five-fold in Yangon from mid-Aug 07. The arrest of 13 prominent dissidents for organizing protests against the fuel price rises sparked off numerous chains of events from mid-Aug to end-Sep 07 that led to the numerous protest marches by thousands of monks joined by tens of thousands of people through central Yangon and other parts of Myanmar. This was the biggest demonstration against the ruling junta since the military generals crushed the 1988 uprising.

Democracy comes with a heavy price and very often a dearly one. On 27 Dec 07, Benazir Bhutto, two times Prime Minister of Pakistan fell victim to an apparent suicidal bomb attack. Her father and two brothers also suffered violent death in the highly politically unstable country. Many of us Singaporeans have taken democracy, social, economic and political stability for granted.

#### **8 – Credit crisis 101**

In early Aug 07, the US Federal Reserves maintained that inflation not growth was its main concern. Ten days later, in an abrupt about face, the central bank cut key interest rate by a hefty half-percentage point to 5.75% and signaled its willingness to take more dramatic action to cushion the economy from tightening credit.

Many of us learned a new acronym, CDO or collateralized debt obligation very quickly, which is new spin on the repackaging, refining and remixing of sub-quality and top-end debt which was sold and passed on among the banks and to their customers worldwide. The party ended when confidence vaporized over CDOs as the US housing market fell.

In mid-Jul 07, Ben Bernanke, US Federal Reserve Chairman informed the Senate Banking Committee that the estimated losses associated with the sub-prime credit products were between US\$50 Billion to US\$100 Billion but these figures were far too low. As the situation deteriorated over the days, central banks around the world acted quickly and intervened to the tune of US\$120 Billion to shore up confidence in the global financial system as concerns over the liquidity crunch in the credit market spreads afar. Let's look at the aftermath of the crisis under item 10 later.

## **9 - Planetary emergency to take priorities**

With incensed rain, flooding, and erratic weather occurring in many parts of the world, global warming and climate change appeared in the news frequently this year. While topics on global warming were raised frequently in the past, there appeared to be more talks than actions and developed countries of the like of US are reluctant to make more commitments in alleviating carbon emission.

With the former US Vice President Al Gore being awarded the Nobel Peace Prize in Oct 07 together with the UN climate panel for their work in helping galvanise international action against global warming, hopefully the global warming issue become a top priority on his agenda. Provided of course, Al Gore doesn't get distracted by the US presidential campaign in Nov 2008 election.

Even if more countries, governments and business communities are prepared to invest more resources to take on this issue, some quarters felt that media reports and governmental talks often portrayed the benefits of climate control are for the future generation. There should be priority towards the present generation.

## **10 - The aftermath of sub-prime mortgage crisis**

Yes, I devoted two items on this topic but unlike item 8 which briefly describe the event and the reaction by the US Federal Reserves and other central banks, we now look at some of the casualties from this crisis.

The first casualty was Stan O'Neal, the ousted Chairman and Chief Executive of Merrill Lynch after reporting the biggest quarterly loss in the company's history. The company wrote-down US\$ 7.9 Billion in 3<sup>rd</sup> Quarter and analysts expected another US\$ 8 Billion for this quarter. Citigroup on the other hand, wrote down US\$6.4 Billion with another US\$8 Billion to US\$11 Billion estimated for 4<sup>th</sup> Quarter. Citigroup also planned to shed or shut down several of its mid-size units. Other major banks such as HSBC and Morgan Stanley wrote down US\$3.4 Billion and US\$9.4 Billion respectively for the 3<sup>rd</sup> and 4<sup>th</sup> Quarters.

With such massive write-offs, these banks are hungry for capital and interesting, several of them turned to Asia for help. In early Dec 07, UBS turned to Singapore's GIC which pumped nearly US\$10 Billion to buy a 9% stake in UBS, one of the world's leading bank. Temasek injected US\$ 5 Billion into Merrill Lynch and discussions are underway for possible infusion by Temasek Holdings into HSBC. China's new sovereign wealth fund – the China Investment Corporation (CIC), which is modeled after Temasek Holdings, made cash injection of US\$ 5 Billion into Morgan Stanley for an equity stake of as much as 10%. The credit crunch crisis provided small but reserve rich countries such as Singapore the opportunity to take significant stake in some of the top banks in the world.

On 20 Dec 07, US President George W Bush was reported as saying he was "fine" with foreign investors snapping up hefty shareholdings in top US banks and financial institutions but things were not the same going by Temasek's past experience in Thailand and Indonesia. Considering that the sub-prime debacle may not be the only problem; it seems inevitable that more drama is to come. Let's hope the situation may not lead to a world-wide recession next year.

*The writer is the Principal Consultant & Director at Innovar Pte Ltd  
([www.innovar.com.sg](http://www.innovar.com.sg)).*