BPM Report # 144

BUSINESS AND POLITICS IN THE MUSLIM WORLD

Weekly Report on General Economic and Business Developments in the World

Period: Oct 31 – Nov 06, 2010

Submitted By: Muhammad Ibrahim

Presentation: November 10, 2010

Report Outline

GENERAL ECONOMIC AND BUSINESS DEVELOPMENTS IN THE WORLD

Climate change ups political heat

American and foreign energy firms send campaign donations to candidates who oppose limiting greenhouse gas emissions

Monday, Nov 01, 2010

In the run-up to US elections set to take place on November 2, the amount of money being spent and eccentricities on display have reached record levels. This has been particularly obvious in debates over energy and climate change.

The US will vote on candidates for the Senate and House of Representatives, as well as on numerous state governorships and other issues next week. With a new court decision allowing unrestricted – and unprecedented – spending by corporations and unions in this year's election, one emerging trend has been the huge amounts of money flowing from corporate interests – both domestic and foreign – to candidates who deny climate change or oppose legislation to combat it.

The stakes are high. The US failed to pass to pass legislation to limit its industrial greenhouse gas emissions prior to the climate conference in Copenhagen last December, and most expect strong legislative action to be months or years away.

Meanwhile, the issue of climate change is being used by conservative candidates to rally support from right-wing voters, such as those affiliated with the Tea Party movement.

No Republican running for a Senate seat openly supports limiting greenhouse gas emissions, as the proposal for a cap-and-trade system approved by the House but rejected by the Senate in 2009 would have done. Many candidates even actively deny the validity of climate change and the science behind it.

In Virginia, for example, incumbent Congressman Tom Perriello, a Democrat, has faced a tough battle from his challenger, Republican Robert Hurt, who has used Perriello's "yes" vote for the cap and trade bill in the House to woo voters who buy the argument that the bill would have cost hundreds of thousands of jobs.

The issue of climate change action has been used in a similar way in races around the country.

In California, which has the country's toughest emissions restrictions, the picture is slightly different, since those very restrictions are themselves on the ballot. Next Tuesday, voters in California will decide whether or not to overturn the emissions limits that, if left in place, are expected to be used as a model for emissions legislation in other states and even at the national level.

The implications of that vote have not been lost on US corporate interests, which have poured in money from other states. Texas-based oil and gas companies Valero and Tesoro have combined to contribute about $7.5m dollars to getting California's climate change law suspended.

With the stakes even higher for the many nascent but fast-growing clean energy companies in the state, though, this pro-suspension spending has been dwarfed by campaign money spent in support of it by about a three to one margin.

Overall, this year's election season – called a midterm election since there is no presidential campaign – have far outstripped previous midterm elections in the amount of money raised and spent. The Center for Responsive Politics (CRP), which tracks these figures on its website OpenSecrets.org, predicts the current election's campaigns will end up costing $3.7bn dollars or more, surpassing the record 2006 spending by about $1bn.

The fundraising and spending figures are fairly close between Democrats and Republicans, CRP notes, but "identifiably conservative" organisations are spending twice as much on advertisements and communications than liberal ones. These funds largely come from corporations which are able to avoid public scrutiny for their endorsements through setting up and funding these organisations' work.

"Tens of millions of dollars of is now coming from organisations who, by law, need not disclose their donors," says CRP's executive director, Sheila Krumholz. "It's now more difficult than ever for voters to determine whether the outside groups flooding their television and radio airwaves with political messages are doing so for any reason other than promoting their own, narrow set of special interests."

Climate change regulation is one area where those groups are certainly interested in promoting their special interests, and a recent report by Climate Action Network Europe (CANE) shows that even foreign companies are interested in the implications of these domestic elections.

The report says some of Europe's top greenhouse gas-emitting companies – the same ones, it says, that argue additional emission reductions in Europe must wait for the US to limit its emissions – have been funding some of the most notorious climate deniers in the US Senate races.

Nearly 80 per cent of the $306,100 contributed by European corporations Bayer, BASF, Solvay, Lafarge, BP, GDF-SUEZ, Arcelor-Mittal and EON has gone to those who oppose US action on climate change, CANE says, amounting to what it calls a hijacking of US elections by foreign corporate interests and a hypocrisy in that these companies often tout their green credentials.

"It's disturbing that these European polluters fund anti-climate crusaders in the US while simultaneously fighting against strong climate legislation in Europe," Tomas Wyns, senior policy officer at CANE, said.

The effect of all this spending is still unclear. While California's climate regulations are expected to survive, Republicans are widely expected to earn a majority of seats in the US House – and maybe even in the Senate.

If that happens, US climate legislation – already a distant hope – becomes more distant still.

Citing the still poor economy and hostile political environment, Eileen Claussen, president of the Pew Center on Global Climate Change, sees the outcome of the elections as "likely to make advancing climate policy an even tougher fight than we experienced over the last two years".

"I think I speak for most of those working on this issue in Washington when I say the chances of passing a major climate bill in the next two years are nearly zero," Claussen told an energy and business convention in Tel Aviv last week.

Al Jazeera

http://english.aljazeera.net/indepth/spotlight/usmidtermelections2010/2010/10/20101030143614533811.html

---

Yemen's biggest threat

Yemen is being flooded with counterterrorism dollars, but is its faltering economy a greater danger than terrorism?

Monday, Nov 01, 2010

As the international community floods Yemen with millions of counterterrorism dollars, analysts fear the crux of the problem - Yemen's struggling economy - is not receiving the attention it deserves.

Almost a year ago, Nigerian Umar Farouk Abdulmutallab attempted to blow up a plane flying to the US city of Detroit by concealing a bomb in his underwear. Having admitted that he trained under the local arm of al-Qaeda in Yemen, al-Qaeda in the Arabian Peninsula (AQAP), Abdulmutallab turned the eyes of the US and its allies squarely on this south Arabian state. And just last week, the UK and United Arab Emirates intercepted two packages containing explosive materials that were being shipped by air from Yemen to targets in the US.

This year, Washington bumped up military aid to Yemen to $155mn, and in September the Pentagon proposed a five-year package of $1.2bn for Yemen's security forces. When compared to only $5mn in military aid to Yemen during 2006, the focus is quite clear - Washington is petrified that Yemen is becoming al-Qaeda's new launching pad for attacks on the West.

But observers say it is Yemen's worsening economic situation that will turn the country into a terror haven, and any amount of military spending is destined to fail and might even exacerbate the terror threat.

The UK-based think tank Chatham House has released a report saying Western policies in Yemen risk "drawing [Yemenis] towards radicalisation and militancy".

"The priority attached to security-sector interventions undermines the balance of political and economic actions needed for this approach to succeed," the report said. Instead, analysts say, the focus should be switched to the economy of the Arab world's poorest state.

Economic woes

"Yemen's failing economy will destroy the country, and it is not receiving the attention that counterterrorism and security gets," says Yemen specialist Christopher Boucek of the Carnegie Middle East programme in Washington. "All you have to do is leave the airport and you realise that it is unemployment, subsidies, the failure to plan for a post-oil economy and corruption that are the biggest challenges."

With the oil and gas industries accounting for 75 per cent of government revenues and 90 per cent of exports, the government of President Ali Abdullah Saleh has kept power through a system of political patronage to tribal sheikhs, fuel subsidies and paying public sector wages. But oil is dwindling - predicted to run out completely later this decade - and widespread corruption and security concerns have prevented the private sector from any beneficial growth.

Princeton University Yemen expert Gregory Johnsen says the economy should be the number one priority. "The way President Saleh has traditionally attempted to govern in Yemen means that a cash crisis sparks a political one," he told Al Jazeera by email. "The economy is the foundation on which everything in Yemen is built, and as it continues to crack and crumble it exacerbates every other problem in the country."

Now Sanaa faces its biggest challenge - what to do when it cannot pay off tribal sheikhs and state employees?

Fertile breeding ground

"Unemployment is the radicalisation problem," explained a high-level official working in economic development who spoke on condition of anonymity. "The economy is highly mismanaged due to the ineffectiveness of the government. You can clearly attribute the security problems in Yemen to the economy."

Unemployment stands at 35 per cent and half of university graduates are jobless, creating widespread discontent.

Many Yemenis have resorted to violence. In addition to al-Qaeda, Sanaa is also facing escalating violence from the Southern Movement, a loose coalition of groups demanding independence for the former South Yemen. North and South Yemen united in 1990 and fought a brief civil war in 1994. But separatists say that after unification, the north sucked all the wealth from the south to fill the pockets of corrupt officials in the northern capital.

President Saleh is also battling Shia Houthi rebels in the north, who complain of economic and social marginalization - a six-year-long conflict that flared up again in July, sparking fears of an all-out war.

And with up to half of Yemenis living on $2 a day, many of them jaded by the central government, there is no shortage of recruits for the myriad militant groups.

Sheikh Abdullah al Jamili, from the northern province of al Jowf, says al-Qaeda targets poor, disgruntled people from his region. "Members of al-Qaeda prowl the streets looking for the poor. They provide them with food and shelter and ask them to come and discuss ideology at their homes."

'Lost in the desert'

Development assistance to Yemen pales in comparison to military aid. The Pentagon's proposed five-year $1.2bn security package overshadows a three-year state department commitment of a mere $120mn in development aid.

The Friends of Yemen, an assembly of states that seeks to foster economic and political reform, met last September in New York. With a focus on development aid and better coordination of foreign aid, the group has been welcomed but there is still little in the way of firm commitments.

Alan Duncan, Britain's minister of state for international development, told reporters after the meeting that it is difficult to pledge development aid to Yemen as "the country has not been able to show the capacity to use the funds".

Some $3bn pledged at a 2006 donors' conference has not yet been spent. Aid agency workers in the impoverished republic say corruption diverts foreign aid away from the needy to those with power.

"I have seen no evidence that would lead me to believe the international community or regional actors ... have any vision for any sort of a strategy in Yemen," says Yemen expert Johnsen.

"[Since] the attempted attack on an airliner over Detroit, the US is still lost in the desert in Yemen. The easy, almost reflexive answer has been to carry out air strikes, but this won't solve anything."

Al Jazeera

http://english.aljazeera.net/indepth/features/2010/10/2010103115938686464.html

Obama renews Sudan sanctions

US president's decision keeps pressure on Khartoum to hold referendum that could split the country in two, on time

Monday, Nov 01, 2010

Barack Obama has renewed sanctions against Sudan's government, keeping pressure on Khartoum to stick to the timetable for holding a referendum on southern independence. However, the US president also held out for the prospect for reconsidering Monday's decision if Sudanese leaders made progress in resolving the country's north-south dispute and improved the situation in the troubled Darfur region. Sudan is 10 weeks away from the scheduled start of a referendum that could lead to independence for its oil-producing south. If mishandled, the referendum could destabilise the region.

The White House issued a letter from Obama to congress saying he was extending long-standing economic sanctions, a notice required by law each year to keep them in place. The measures restrict trade and investment in Sudan and also block the assets of the Sudanese government and certain officials, among other things.

With trust low as both sides in the referendum exchange recriminations, progress has slowed on resolving disputes such as the status of the oil-producing Abyei region, determining citizenship and forging an oil-sharing accord.

Tommy Vietor, the White House spokesman, said the US hoped Sudan's leaders "will make the urgent and difficult choices necessary to secure peace for the Sudanese people".

"As we work to support these choices, the United States will review the Sudanese government's progress on resolving outstanding [peace agreement] implementation issues as well as other relevant circumstances, to include improving security and humanitarian access in Darfur," he said.

"If the government of Sudan acts to improve the situation on the ground and advance peace, we stand ready to work with Sudan to ensure its rightful place in the international community."

Obama last week stressed the need to go ahead with the vote as scheduled when he spoke to Thabo Mbeki, the former South African president, who has tried to overcome obstacles in the north-south peace process as head of an African Union panel.

South Sudan is struggling to recover from Africa's longest civil conflict, which was triggered by ethnicity, ideology, religion and resources such as oil and left an estimated two million people dead.

Al Jazeera

http://english.aljazeera.net/news/africa/2010/11/20101111911358168881.html

Australia Wheat Crop, Exports May Rise This Year, USDA Unit Says

Tuesday, Nov 02, 2010

Australia may produce 23.118 million metric tons of wheat in the marketing year that began Oct. 1, up from 22.5 million tons a year earlier, the U.S. Department of Agriculture's Foreign Agricultural Service said today in a report on its website. The FAS forecast was unchanged from its previous estimate and compares with an official USDA estimate of 23 million tons, according to the report. Exports will rise to 16 million tons in the marketing year, from 15.249 million, the FAS said.

Australia's New South Wales also raised its forecast for the state's wheat crop to 9.2 million metric tons following rainfall, Primary Industries Minister Steve Whan said in a statement e-mailed today. That compares with a forecast in mid September of 8.95 million tons.

The outlook for the total winter crop production in the state was increased by 2 percent to 14.32 million tons, according to the statement.

Bloomberg

http://www.businessweek.com/news/2010-11-02/australia-wheat-crop-exports-may-rise-this-year-usda-unit-says.html

---

EU Said to Plan Anti-Dumping Duties on Chinese Paper

Wednesday, Nov 03, 2010

The European Union plans to impose tariffs on Chinese paper to counter below-cost imports that have hurt producers in Europe including Sappi Ltd., according to three people familiar with a trade case that is unprecedented.

The European Commission in Brussels intends to introduce "anti-dumping" duties as high as 39.1 percent on Chinese coated fine paper by Nov. 18 in a case that may also lead to the EU's first anti-subsidy levies against China, two of the people said on the condition of anonymity because the plan is still confidential. The paper is used for books and brochures.

Europe's 6 billion-euro ($8.4 billion) market for coated fine paper is the latest focal point of trade tensions after Chinese Premier Wen Jiabao snubbed European pleas last month to let the yuan's exchange rate rise faster. To bolster European exporters and narrow its trade deficit with China, the EU says the Chinese government should follow up more ambitiously on its June pledge to ease the yuan off a two-year peg to the dollar.

EU taxes on Chinese coated fine paper would follow similar U.S. measures and be the preliminary outcome of a probe opened in February into whether manufacturers in China including Asia Pulp & Paper unfairly undercut European producers. A second inquiry begun in April into alleged trade-distorting Chinese government aid to domestic paper makers may result in the EU's first anti-subsidy duties against the country, a step that would open a new front in Europe's battle to slow imports from China.

Anti-Dumping Duties

Europe already imposes anti-dumping duties on Chinese goods ranging from textiles and chemicals to shoes and bicycles. China faces such EU measures on about 50 products, more than any other nation.

The call for European anti-dumping and anti-subsidy duties against China comes from a group that includes South Africa- based Sappi, which makes coated fine paper in EU countries including Germany and the Netherlands. Germany's Papierfabrik Scheufelen GmbH, Spain's Lecta SA and Italy's Burgo Group SpA are also in the alliance seeking trade measures.

The group says Chinese competitors increased their combined share of the EU market for coated fine paper to almost 5 percent in 2009 from less than 1 percent in 2005. The anti-dumping duties to be introduced by the commission will amount to 39.1 percent against all producers in China except Asia Pulp & Paper, which faces a 19.7 percent levy, said the two people.

Two other producers of coated fine paper in the EU are Finland's Stora Enso Oyj and UPM-Kymmene Oyj, both of which declined to give their views on the trade cases when contacted by Bloomberg News today. Stora Enso makes coated fine paper in China as well, while UPM-Kymmene doesn't, the companies said.

The commission, the EU's trade authority, has nine months from the start of a trade investigation to decide on provisional measures. The EU's 27 governments, acting on a commission proposal, have 13 months from the beginning of a probe to impose "definitive" five-year anti-subsidy duties and 15 months to apply definitive anti-dumping measures.

Bloomberg

http://www.businessweek.com/news/2010-11-03/eu-said-to-plan-anti-dumping-duties-on-chinese-paper.html

ECB Buys Irish Debt as Bonds Slide a Seventh Day, Traders Say

Wednesday, Nov 03, 2010

The European Central Bank bought Irish government bonds today, according to two traders with knowledge of the transactions. The ECB purchased short-dated maturities, said the traders, who asked for anonymity because the deals are confidential. A central bank spokesman declined to comment when contacted by telephone in Frankfurt.

Irish 10-year bonds slid for a seventh day, driving the extra yield investors demand to hold the debt instead of German bunds to a record. The cost of insuring the country's sovereign debt also rose to an all-time high as credit-default swaps on Allied Irish Banks Plc subordinated debt signaled a 63 percent probability of default within five years.

The difference in yield, or spread, between the Irish securities and benchmark bunds widened 23 basis points to 506 basis points. Ireland's government will decide the size of the 2011 budget cuts and tax-raising measures at a meeting later today. The figure will be published by Nov. 5.

The ECB's bond buying program differs from so-called quantitative easing policies pursued by the Federal Reserve and Bank of England because the central bank mops up the liquidity created by the purchases, meaning the net effect on the money supply is neutral.

The ECB began the program on May 10 to stabilize markets rocked by the region's sovereign-debt crisis. The purchases were part of a European Union-led push to rescue the euro, which fell to a four-year low on June 7 after Greece's near default raised concern that some nations in the region would struggle to finance their budget deficits.

Bloomberg

http://www.businessweek.com/news/2010-11-03/ecb-buys-irish-debt-as-bonds-slide-a-seventh-day-traders-say.html

---

Republicans to Take on Health Law's Taxes, Rules; Bloomberg Report
Health insurers' stocks are already seeing a bounce from Republican promises to go after Obama's healthcare overhaul

Wednesday, Nov 03, 2010

Congressional Republicans pledged to repeal the health-care overhaul President Barack Obama signed into law in March. Once they consolidate power, the strategy will more likely resemble death by a thousand cuts. House and Senate Republicans already have written at least 30 bills to roll back provisions in the law.

The success of some efforts would mean WellPoint Inc. and competing health insurers may escape regulations to set their patient-care spending, while Boston Scientific Corp. and other medical-device makers dodge $20 billion in tax increases in the next decade. With networks projecting that Republicans have won the seats needed for control of the House, the party also plans to target budgets of agencies implementing the health-care law.

"You can literally open the bill and point your finger to a page and say, 'Here's something we should go after,'" said Representative Michael C. Burgess of Texas, a Republican on the House Energy and Commerce health subcommittee. "It's all bad." The party's drive will force Democrats to vote on whether to defend unpopular parts of the law, said Tom Scully, the former chief of the Medicare program under President George W. Bush. Democratic control of the Senate and Obama's veto pen assures there won't be an outright repeal of the law or big changes, he said.

DEMOCRAT LOSSES

Bloomberg's Managed Health Services stock index slid less than 1 percent at 10:08 a.m. as WellPoint declined 4 cents, or less than 1 percent, to $55.72 in New York Stock Exchange composite trading. The Standard & Poor's 500 Pharmaceutical Index gained 50 cents, or less than 1 percent. The S&P Biotechnology Index lost $1.33, or less than 1 percent.

"This outcome seems to be positive for the group in general," Les Funtleyder, a health-care portfolio manager for Miller Tabak & Co. in New York, said in a note to clients. Health insurers have the most to gain, while biotechnology and pharmaceutical companies are less likely to see positive effects from the political contests, he said. Republicans gained at least 60 House seats yesterday across the U.S. They picked up six in the Senate, winning in Illinois, Indiana, Arkansas, Pennsylvania, North Dakota and Wisconsin. They won't get the 10-seat gain needed to control the Senate as races in Alaska and Washington are yet to be decided, and the Denver Post projected Democrats will hold the seat in Colorado.

'POLITICAL BATTLE'

"Very little will happen in the next two years, but it will be a big political battle," said Scully, senior counsel at the law office of Alston and Bird LLP of Washington. Aetna Inc. Chief Executive Officer Ron Williams said today that the Hartford, Connecticut-based company "would welcome a renewed willingness to discuss market-based solutions" to improving the health-care system and controlling medical costs, without specifically commenting on the election.

Most of the action may be in the courts, where 21 states are challenging the law's requirement that all Americans buy health insurance. Successful challenges could accomplish what Republican lawmakers can't, by eliminating an important component of the overhaul. If congressional Republicans strike some requirements of the law, health-care groups may pressure Congress to make other changes and set off a domino effect, said John Fortier, a congressional scholar at the American Enterprise Institute. "It's not that the entire thing unravels if one piece fails, but the rationale for some of the things and the reason for some of the deals fails and potentially, some of the support."

CHANGES FROM HOUSE

Efforts to change the law will originate in the House, where Republicans will decide which bills go to the floor and can hold oversight hearings on how the law is evolving. Democrats still control the Senate's agenda. It will take a two- thirds majority of both chambers to override any Obama veto.

Congressional Republicans can "embarrass" Democrats with votes on the health overhaul, including during debate over a fiscal 2012 budget plan early in the next session, said Senator Orrin Hatch of Utah. Hatch in January will become top Republican on the Finance Committee. House Republican leaders will begin with a January vote to repeal and replace it with a scaled-back measure patterned after legislation by Republican Leader John Boehner of Ohio, said John Murray, a spokesman for House Republican Whip Eric Cantor of Virginia.

BOEHNER'S ALTERNATIVE

The approach by Boehner — who is expected to become speaker — would expand coverage to 3 million Americans by 2019 without requiring Americans to have insurance. It would let businesses pool resources to buy coverage and allow insurance purchases across state lines. Boehner's proposal would leave about 52 million people without insurance, meaning the proportion of Americans with coverage would remain unchanged in 2019 at 83 percent, according to the Congressional Budget Office. The health law would expand coverage to a projected 32 million Americans who currently lack insurance, largely through an expansion of the federal-state Medicaid program and new online health-purchasing exchanges.

The overhaul is projected to cost $938 billion over 10 years while resulting in a reduction in the annual budget deficit by slowing the growth in spending on health care, according to CBO. Its more contentious elements include a first-ever mandate that most Americans obtain health coverage — the provision being challenged in court, largely by Republican state attorneys general — and new taxes on the wealthy and on high-end insurance plans.

COVERAGE MANDATE

Health insurers say the mandate requiring all Americans to have coverage is a necessity because otherwise people will only buy insurance when they get sick. The industry says removing the mandate would jeopardize consumer protections in the law, such as a requirement that insurers accept people with preexisting conditions. Robert Zirkelbach, a spokesman for America's Health Insurance Plans, the industry's Washington trade group, declined to discuss how a Republican victory would affect the mandate. Republicans don't necessarily oppose regulations on excluding people with pre-existing conditions, or other protections that have won support in polls. Their push to undo the individual mandate may make it harder to realize these rules, by burdening insurers with the new requirements without bringing in healthy new customers.

'DELAY AND DISMANTLE'

In the event Boehner's proposal gets stopped in the Senate, Republicans will embark on an approach they call "delay and dismantle" that targets individual provisions in the law, said Murray. Some of the proposals may result in lower payments to health-care providers and states. Republicans said they want to go after a requirement in the law mandating that businesses of all sizes report to the IRS any expenditures exceeding $600.

The Senate on Sept. 14 narrowly failed to repeal the provision after seven Democratic senators joined all of the chamber's Republicans. Burgess, a doctor first elected to Congress in 2002, has legislation requiring congressional and executive branch aides to get their health coverage from the insurance exchanges. Representative Brian Bilbray of California wants to repeal $20 billion in taxes in a decade on medical device makers including Minneapolis, Minnesota-based Medtronic Inc. and Boston Scientific.

MEDICAL DEVICES

Representative Charles Boustany, a Louisiana Republican, has a bill that would force Congress to reconsider the "CLASS Act," a long-term disability insurance program, and end it should it require more funding than it generates from premiums. Other legislation would deny agencies funds they need to implement the law. Bills introduced by Fred Upton, the Michigan representative who may head the Energy and Commerce Committee next year, and Virginia's J. Randy Forbes would bar the Internal Revenue Service from hiring workers to review incomes that would help determine which Americans qualify for subsidies.

Congress should revoke a rule requiring insurers to spend at least 80 percent of the premiums they take in on patient care, Boustany and Burgess say. The measure will force some insurers to pull out of markets where they don't meet the threshold, insurers and Republican lawmakers say. "That will potentially be very disruptive to insurance coverage," Boustany said.

BIPARTISAN SUPPORT

Some Senate Democrats will apply pressure on their leaders for changes, Hatch predicted. He's seeking bipartisan support for legislation that would scrap the individual mandate and a requirement that most employers provide coverage to workers. "We've got to have two, three, four, five Democrats who will work with us on this bill, because they've been getting killed at home," Hatch said in an interview. The Republican strategy may negatively affect segments of the health-care industry. The expansion of coverage to 32 million newly insured people may deliver more than $500 billion in added revenue for insurers, hospitals and other providers from 2014 to 2019, according to CBO projections.

Bloomberg

http://www.businessweek.com/bwdaily/dnflash/content/nov2010/db2010113_480351.htm

---

France wins $20bn China contracts

Chinese president signs several deals, including for French aircraft and nuclear fuel, during state visit to Paris

Thursday, Nov 04, 2010

Hu Jintao, the Chinese president, has signed multi-billion-dollar aircraft and nuclear fuel contracts with French companies during a state visit to Paris. The contracts, which totalled $20bn, included an agreement to buy 102 Airbus jets and deals with Areva to build a nuclear-fuel treatment factory in China and supply uranium over 10 years.

Fu Ying, the Chinese deputy foreign minister, said Hu had also given his backing to France's agenda for the G20 presidency, which the French government will take up in the new year. She said Beijing would double its annual trade with France to $80bn over the next five years.

Hu's three-day state visit to France, after which he travels to Portugal, comes at a time when EU leaders have closed ranks with Washington in urging China to allow its yuan currency to appreciate more quickly, unsettling relations between Beijing and Brussels. China hopes the trip will ease those strains ahead of a G20 leaders summit in South Korea next week which will focus on global economic imbalances. In turn, the government of Nicolas Sarkozy, the French president, wants to build common ground for its ambitious agenda of reforming the global monetary system, while avoiding alienating China by harping on about the yuan.

"Under the current international situation that is undergoing profound and complicated changes, China and France share broad common interests and huge potential for co-operation," Hu said in a written statement on his arrival.

Paris has said its G20 agenda of diversifying global currency reserves away from the dollar and stabilising volatile commodity markets hinges on the support of China.

Sarkozy and his wife, Carla Bruni, received Hu with full military honours at Paris's Orly airport. Hu's cavalcade, escorded by a formation of motorcycle escorts and the Republican guard on horseback, then swept down the historic Champs Elysees en route to the exclusive George V hotel.

Liu controversy

Hu's trip caps a rehabilitation of Sino-French ties since Sarkozy outraged Beijing in 2008 by meeting the exiled Dalai Lama, prompting some Chinese citizens to boycott French goods. France, one of the first Western nations to open ties with Communist China in 1964, has carefully avoided antagonising Beijing ahead of the visit, scarcely reacting to last month's award of the Nobel Peace Prize to dissident Liu Xiaobo.

"China should not be seen as a risk but an opportunity," Sarkozy said on the eve of Hu's arrival.

"It's not by reproaching people for things that you make progress. ... We're going to sign very important contracts and start very important talks on the eve of France's G20 presidency."

Fu said on Thursday that the fate of Liu was "not a subject to be addressed between China and France" during a state visit. "It's not a subject for discussion between China and France. Liu broke the law and was convicted," she told reporters at the Elysee Palace.

Human-rights activists have criticised Sarkozy for not taking advantage of Hu's state visit to call on the Chinese leader to free Liu. "We have the feeling the objective of this visit is to sell Airbus planes and nuclear reactors to China, which is good, but it is a detriment to human rights," said Jean-Francois Julliard, secretary-general of Reporters Without Borders, one of several groups that protested in Paris against Hu's arrival.

On Friday, Hu will travel to Nice, where talks are expected to centre on foreign affairs, including Iran's nuclear programme, the situation in Afghanistan and Pakistan, and the development of Africa, where resource-hungry Chinese companies are investing heavily.

On Saturday, China's leader flies to Portugal where Anibal Cavaco Silva, the president of the financially struggling nation, will hope for a repeat of a Chinese performance in Greece that boosted the ailing Greek economy with promises of investment and debt purchases.

Al Jazeera

http://english.aljazeera.net/news/europe/2010/11/20101141932407637 04.html

Asia Trounces the World in IPOs

The U.S. share sinks to an all-time-low of 11 percent while India, China, and Malaysia roll out myriad initial public offerings

Thursday, Nov 04, 2010

Initial public offerings in Asia have reached record levels as companies flood the market with equity, reducing the global share of U.S. IPOs to an all-time low. And Asia's total is set to climb as Jiangsu Rongsheng Heavy Industry Group of China, Petronas Chemicals Group of Malaysia, and Australian coal train operator QR National prepare to sell more than $10 billion of shares as soon as this month, adding to the $134 billion raised in Asia in 2010 as of Oct. 25, data compiled by Bloomberg show.

The world's fastest economic growth and record low bond yields will likely boost demand for Asian IPOs as American companies recover from the longest recession since the Great Depression, according to Deltec Asset Management. Asia's share of initial offerings has increased to 66 percent from 12 percent in 1999. Chinese IPOs led the increase, attracting $76 billion this year. The amount raised by U.S. IPOs has declined 75 percent in the same span and now accounts for 11 percent of money raised globally, according to data compiled by Bloomberg. Agricultural Bank of China sold $22.1 billion of shares in Shanghai and Hong Kong last quarter in the world's biggest IPO on record. Six other Chinese offerings have already raised $1 billion this year. In the U.S. in 2010, no company has raised more than $700 million, and at least 54 companies have postponed or withdrawn IPOs.

IPOs in India are on pace to eclipse the country's all-time high of $8.2 billion in 2007, led by Coal India's record sale in October. The government raised $3.4 billion selling a 10 percent stake in the company after investors bid for more than 15 times the shares available. Coal India was the first of eight sales the government plans by March, Disinvestment Secretary Sumit Bose said on Oct. 19.

Asia "is an environment ripe for raising capital and ripe for investing," says Joseph G. Carson, a New York-based economist who helps oversees AllianceBernstein's (AB) $1.2 billion Global Thematic Growth Fund (ALTFX). "It's based on expectations of strong growth." SKS Microfinance, the Hyderabad (India)-based lender backed by billionaire George Soros that raised $353 million in an IPO in August, may increase revenue 52 percent next year. That's almost four times the average growth rate for the 30 companies in the Sensitive Index, the benchmark gauge for Indian equity, and about nine times faster than the average 6 percent increase for U.S. companies.

People who invest in new Asian issues have seen impressive gains so far this year. The newly public Asian companies climbed 36 percent on average as of Oct. 25, data compiled by Bloomberg show. Companies from China and India account for 6 of the 10 best-performing IPOs on U.S. exchanges this year. MakeMyTrip, India's largest online travel company, has increased 173 percent, while JinkoSolar Holding (JKS), a maker of silicon wafers in China's Jiangxi province, gained 155 percent. The Standard & Poor's 500-stock index and the MSCI Asia-Pacific Index have both advanced less than 7 percent this year.

"What the market needs and wants is a lot more IPOs coming out of China," says Jeffrey A. Urbina, who oversees emerging-market strategy at Chicago-based William Blair. "That's where the growth is."

The bottom line: Companies in China, India, and other fast-growing Asian nations are completing IPOs as investors clamor for their shares.

Bloomberg

http://www.businessweek.com/magazine/content/10_46/b4203052848358.htm

---

Corporate India Finds Greener Pastures—in Africa; BLOOMBERG REPORT
To avoid stiff competition and red tape at home, companies are looking across the Indian Ocean

Thursday, Nov 04, 2010

Indian billionaire Ravi Ruia has flown to Africa at least once a month for the past year and a half. He's invested in coal mines in Mozambique, an oil refinery in Kenya, and a call center in South Africa. Soon, he may also have a power plant in Nigeria. "Africa looks remarkably similar to what India was 15 years ago," says Firdhose Coovadia, director of African operations at Essar Group, the $15 billion conglomerate headed by Ruia and his brother, Shashi. "We can't lose this opportunity."

Faced with increasing competition and a welter of bureaucratic obstacles at home, Indian companies are looking to Africa for growth. Since 2005 they have spent some $16 billion on the continent, vs. at least $31 billion for the Chinese, according to data compiled by Bloomberg and the Heritage Foundation, respectively. Bharti Airtel, India's largest mobile-phone provider, in

June paid $9 billion for the African cellular operations of Kuwait's Zain. In 2008, India's Videocon Industries paid $330 million for two coal mines in Mozambique, and India's state-run fertilizer maker bought an idled Senegalase phosphorus producer for $721 million.

Beyond those big deals are dozens of smaller acquisitions and investments by Indian companies. "Compared to India, valuations [in Africa] are quite attractive," says Anuj Chande, who heads the South Asia Group at accounting firm Grant Thornton in London. "We're expecting to see a lot of midsize deals across a variety of sectors."

The Indians view Africa as a place where they can replicate the low-cost, high-efficiency business model they have honed at home. Like India, Africa has hundreds of millions of underserved consumers eager to buy products tailored to their needs. Consumer spending in Africa may double, to as much as $1.8 trillion, by 2020, McKinsey & Co. predicts, an increase that would be the equivalent of adding a consumer market the size of Brazil. As a pioneer in sales of single-use sachets of soap and shampoo (along with Unilever (UL) and Procter & Gamble) for lower-income Indians, Mumbai-based Godrej Consumer Products understands "low-cost, value-for-money products," Chairman Adi Godrej said in a May interview. In June his company acquired Nigerian cosmetics maker Tura, and in 2008 it bought South African hair-care company Kinky. "We want growth. Whether it's from inside or outside India, we are agnostic," Godrej said.

Indian companies also see Africa as a hedge against a possible slowdown at home. "If tomorrow the Indian economy was to take a U-turn, then at least you have other markets which are growing," says Neeraj Kanwar, managing director of Apollo Tyres, India's No. 2 tiremaker. His company bought South Africa's Dunlop Tyres for $62 million in 2006, giving Apollo two manufacturing plants on the continent and brand rights in 32 African countries. Apollo aims to triple sales, to $6 billion, by 2015, with 60 percent of revenue from abroad, vs. 38 percent today. "Africa is going to give me growth," says Kanwar.

Essar has endured endless squabbles with Indian landowners who refuse to make way for steel mills. Like other Indian companies tired of regulatory headaches at home, it moved into Africa and now has 2,000 employees there. Bangalore-based Karuturi Global, the world's largest rose producer, couldn't get enough land in India to compete with European and African rivals. Many times flowers wilted on the tarmac as cargo flights were delayed or canceled, including a big Valentine's Day shipment. So in 2004, Karuturi bought a small plot in Ethiopia, and sales have since grown eleven fold, to $113 million in the year ended Mar. 31. Karuturi now leases 1,200 square miles of land—larger than the state of Rhode Island—in Ethiopia and sells more than half a billion roses a year. "Africa offered us a scale we could never reach in India," says Managing Director Sai Ramakrishna Karuturi. "I'd love to do more in India, but getting even 1,000 acres near Bangalore took years."

The bottom line: Indian companies, faced with increasing competition and bureaucratic obstacles at home, are looking to Africa for growth.

Bloomberg

http://www.businessweek.com/globalbiz/content/nov2010/gb2010113_753060.htm?campaign_id=asia_related

---

Brazil's Prospects for Growth

Paulo Leme, Goldman Sachs' emerging markets chief, says his native Brazil should seize a historic opportunity for growth as a new President takes over

Thursday, Nov 04, 2010

The Brazilian economy is growing at almost twice the rate that it has in the last 10 years. Brazil is experiencing a fairly healthy increase in employment and wages, and an improvement in income distribution, so there is a feel-good factor. I would say this is a once-in-a-century kind of opportunity to accelerate growth to 6 or 6.5 percent and unleash all of this upward mobility.

The key is structural reform—for example, a reduction in the tax burden, which would make exports more competitive. Also things that would boost productivity, like better education and a better health system.

Domestic demand is outstripping supply. The appreciation of the real also makes it cheaper to import from the rest of the world. Brazil would benefit enormously from some containment in fiscal spending and public credit growth and moderation in public-sector wage hikes.

President-elect Dilma Rousseff has the awareness and possibly the inclination to do some rebalancing of macroeconomic policies. We are on the eve of another significant monetary easing by central banks in advanced economies.

However, at some point they will tighten significantly. The question is, will that lead to a sudden stop of capital flows or even a reversal? Brazil's macro policy should be prepared for that eventuality.

Bloomberg

http://www.businessweek.com/globalbiz/content/nov2010/gb2010113_752021.htm?chan=globalbiz_special+report+--++focus+on+emerging+markets_special+report+--+focus+on+emerging+markets

---

EU deal threatens HIV drug supplies

How a trade deal being brokered between Europe and India could cut off the developing world's supply of cheap medicines

Thursday, Nov 04, 2010

Until recently, Loon Gangte thought the days of watching his friends die of Aids because they couldn't get access to medicine were firmly in the past.

In a decade and a half since being diagnosed with HIV, Gangte, a 43 year-old living in New Delhi, has seen his illness transform from a death sentence into a manageable condition, thanks largely to the availability of cheap medicines produced in India.

"When I was diagnosed in 1997 there was medicine, but I could not afford it," he says. "Only rich people from the West could pay for it, so I had no treatment. All I could do was eat healthily, sleep regularly and hope."

But with no access to essential anti-retroviral treatment, his condition deteriorated. "According to the books, I was in the final stage of HIV - I had Aids," he explains. But as he prepared for the worst, he was given a lifeline: Indian-made generic medicines became available at a fraction of the price charged by Western drug companies.

"My life changed totally. I'd lost 99.9 per cent of my best friends to Aids," he says. "Why did I live and they die? It's simple- I had access to these drugs."

Gangte's story should have ended there, another human life prolonged by the steady march of medical progress. Instead, seven years later, he says he is coming to terms with a new threat to his health: an international trade agreement being brokered between the European Union and India that medical experts warn could leave millions of HIV sufferers in developing world without the drugs they need to stay alive.

Dirty legal tricks

The charity Medicins sans Frontieres (MSF) says that hidden clauses in the free trade agreeement (FTA) currently being negotiated between Europe and India will prevent the manufacture and distribution of crucial generic medicines produced in the country.

"There are dirty legal tricks being used," says Dr. Tido von Schoenangerer, who runs the MSF campaign for essential medicines. "Any person living with HIV in the developing world is facing a future scenario in which the medicines they need will be under threat."

Meanwhile the World Health Organisation, the UN's public health body, has echoed MSF's concerns, saying that if the trade deal does indeed include clauses governing the production of cheap generic medicines, the ramifications for the public health could be serious.

The issue hinges on a so-called "data exclusivity" provision in the free trade agreement, which campaigners say would effectively copyright information gathered in the clinical trials that prove the effectiveness and safety of medicines.

At present, generic manufacturers rely on the results of the original clinical trials carried out by the drug developer to get their cheap version registered. If this information were to become exclusive, Indian companies would be left without the data they need to register their drugs.

"It means companies will have to repeat the trials, which not only would be very costly, but raises ethical issues because it is basically doing research to find out something that is already known," says von Schoenangerer.

Dr. Hans Hogerzeil, director of the essential medicines and pharmaceutical policies department of the World Health Organisation (WHO), agrees that data exclusivity could pose a real threat to access to medicines.

"If data exclusivity clauses are indeed included that go beyond the patent period, then we have real public health and ethical concerns about this," he says. "First, it would delay the market entry of generics; and secondly if generic manufacturers are forced to repeat clinical trials, it is ethically unjust to conduct such trials on patients when the data are already available."

The European Union says that data exclusivity clauses are included in the FTA, but insists they will not affect India's ability to produce generic medicines. "Data exclusivity is an issue we are discussing with India but taking fully into account India's specific needs and interests," says John Clancy, the EU's Trade spokesman.

Developing world's pharmacy

The debate over generic drugs goes to the heart of the way medicines are produced and distributed around the world. India's pharmaceutical industry makes most of its money producing cheap generic versions of drugs patented by its Western counterparts, bypassing a system designed to ensure drug developers are rewarded with a period of exclusive sales rights for new medicines.

The patent system is supposed to incentivise the production of new treatments and ensure that research costs are recouped. But it also creates a monopoly, allowing drug companies to charge whatever they see fit for their products, which are often desperately needed by the sick. As a result, prices for patented drugs are high, beyond the reach of the world's poorest people. In market terms, high demand and limited supply mean healthy profits for pharmaceutical companies. But Indian rivals eat away at this profit. Competition amongst drug producers can prompt massive falls in the cost - HIV treatment, for example, has come down from around $10,000 dollars a year in 2000 to just $70 a year today.

India's unique laws governing medicine production have helped provide affordable healthcare to its huge population, and exports of these drugs have cemented the country's reputation as the "pharmacy of the developing world".

"India is a well known supplier of generic medicine," say Hogerzeil. "For example, at least half of the five million Aids patients in Africa already on treatment rely on Indian generic medicines for their treatment."

In the first half of this decade, India came under intense pressure from the World Trade Organisation (WTO) to issue patents on drugs. It agreed to do so in 2005, but ensured certain loopholes remained open that would allow the continued generic manufacture of medicines deemed essential by authorities.

But essential medicines are among the most profitable, and pharmaceutical companies turned their lobbying from the WTO to individual governments, pushing them to broker bilateral restrictions with India on generic drug production.

One of these governments was the supra-national European Union, whose powerful member states are home to many multi-national drug companies. The EU has held meetings and other exchanges with a range of stakeholders, including representatives of the pharmaceutical industry. Campaigners fear that the EU is now effectively negotiating with India on behalf of its pharmaceutical industry.

Counterfeit confusion

Health experts have also become increasingly concerned about a separate treaty being negotiated by rich countries aimed at tackling the international counterfeiting trade. The anti-counterfeiting trade agreement (ACTA) negotiations are reportedly nearing their end and could have a big impact on generic drug production. The treaty is supposed to block the production of fake medicines, but activists say that counterfeit medicines are deliberately being conflated with generic medicines to interfere with their production and distribution.

"There's a real threat from the FTA and ACTA in the way counterfeit medicines will be defined," says MSF's von Schoenangerer. "Everyone agrees we need to fight against fake medicines, but counterfeiting rules are being used to protect trade interests."

The Indian generic pharmaceutical industry is predicting a global health crisis if restrictions are introduced as a result of the trade agreements. "Outside India, the cost of medicines will go up or they will not be available at all," says DG Shah, secretary general of the Indian Pharmaceutical Alliance. "In India, the effects of this drop in supply will be felt- the cost of medicine will go up, because production scales have, until now, been a factor in keeping process low."

Human rights issue

The European Commission has flatly denied that its negotiations will have a negative impact on India's generic medicine industry. "We are not trying to limit the capacity of key Indian generic producers to export to other developing countries," Clancy, the bloc's trade spokesman, says. But World Health Organisation says until a draft of the agreement is released, concerns over its contents will persist.

"The department of essential medicines of WHO has never been given a copy of the draft of the free trade agreement, so we are reacting to rumours, not to what we have seen," says Hogerzeil.

"That said, the rumours are persistent that there are certain provisions that could possibly delay the production of generic medicines. That would be a very serious threat to public health."

Hogerzeil says that access to essential medicine is a "human rights issue" and insists that both the European Commission and the Indian government should "fully consider the global public health interest when finalising the new trade agreement."

Fighting for life

Meanwhile, as the final details of the FTA and ACTA are hammered out, many of those who rely on essential medicines produced in India have no idea that the supply of medicines that keep them alive could be under threat.

Those who are aware, like Loon Gangte, are doing what they can to ensure their voices are heard. "These negotiations are a threat to my life," says Gangte, who now campaigns on behalf of HIV patients in India. Generic drugs have allowed him to turn his life around - his HIV virus is now undetectable and he has even been able to have a child with his HIV-negative wife. But without his medicines, he knows his illness would quickly take hold again. "My virus keeps working, 24 hours a day, 365 days a year. It doesn't take a holiday," he says. "We are doing all that is possible to stop this from happening. We are fighting for our lives."

Al Jazeera

http://english.aljazeera.net/indepth/2010/10/2010102920031160477.html

Pace of hiring picks up in US

Jobs data bring cheer to world markets but fail to make a dent in US unemployment rate, stuck at 9.6 per cent**.**

Friday, Nov 05, 2010

Better than expected US jobs data have helped prop up stocks following huge gains in the wake of the Federal Reserve's decision to pump $600bn in newly created money into the economy.

Europe's main markets and Wall Street futures had been trading lower before the US labour department reported on Friday that the economy generated 151,000 jobs in October, way more than the 60,000 consensus in the markets.

The report also showed that private hiring rose 159,000 - double market expectations.

Economists had expected payrolls to increase a modest 60,000 last month, with private employment rising 75,000.

Furthermore, data for August and September were revised to show 110,000 fewer jobs were lost than previously thought.

The dollar surged following the publication of the labour data while bond prices retreated. However, stocks slipped as investors pocketed profits after markets hit a two-year high on Thursday.

"That's not good enough, the unemployment rate is still unacceptably high and we've got a lot of work to do," Barack Obama, the US president, said in a White House reaction to the jobs figures.

European rally

In Europe, the FTSE 100 index of leading British shares was up 3.30 points, or 0.1 per cent, at 5,866.18 on Friday, a day after it had closed at its highest level since June 2008.

France's CAC-40 rose 9.04 points, or 0.2 per cent, at 3,925.82. Germany's DAX was 16.03 points, or 0.2 per cent, higher at 6,750.72, a day after it joined the FTSE to close at a 28-month high.

In the US, the Dow Jones industrial average was down 11.20 points, or 0.1 per cent, at 11,423.64 soon after the open while the broader Standard & Poor's 500 index was up a little less than a point at 1,221.85.

On Thursday, the Dow closed at its highest level since just before US investment bank Lehman Brothers collapsed in September 2008 and the S&P hit a 2010 high.

Overall, the jobs-growth figures of Friday failed to make a dent in the US unemployment rate, which remained at 9.6 per cent for a third straight month, in line with market expectations.

Concern over the lifeless job market was a factor behind the Federal Reserve's decision this week to pump an additional $600bn into the economy through government bond purchases to push interest rates down further and stimulate demand.

The US central bank, which cut overnight interest rates to near zero in December 2008, had already bought about $1.7tn in government debt and mortgage-linked bonds.

Analysts said the data was not strong enough to knock the Fed off its new policy course, but it tempered speculation the central bank might have to step up its bond buying.

Political fallout

The economy would need to create at least 125,000 jobs a month on a sustained basis to make a noticeable dent in unemployment. Still, private hiring has come in above 100,000 in each of the past four months - an encouraging sign.

Anger over joblessness helped the Republican Party wrest control of the House of Representatives from Democrats in elections on Tuesday, which were viewed as a referendum on Obama's economic policies.

In his remarks, Obama renewed a call for small business tax breaks, new infrastructure spending, aid for the jobless and an extension of soon-to-expire tax cuts for the middle class.

John Boehner, the House Republican leader, said tax cuts for wealthier Americans also needed to be extended.

"Stagnant and stubbornly high unemployment makes clear why permanently stopping all the looming tax hikes should top Washington's to-do list this month," he said.

Al Jazeera

http://english.aljazeera.net/business/2010/11/201011514565697457.html

---

Wheat Futures Rise on Outlook for Shrinking Global Grain Supply

Friday, Nov 05, 2010

Wheat futures rose to the highest level in almost four weeks on speculation that a government report next week will show shrinking U.S. and world grain supplies.

The U.S. Department of Agriculture may lower its forecast for global wheat supplies to 173.53 million metric tons from last month’s estimate of 174.66 million, according to a Bloomberg

News survey of analysts before the Nov. 9 report. The agency also may cut its estimate for U.S. corn for the third straight month after adverse weather curbed yields.

“It feels like the bullish side has the momentum, because of the combination of the crop report on Tuesday” and recent declines in the dollar, said Jason Britt, an analyst at Central States Commodities Inc., a brokerage in Kansas City, Missouri.

Wheat futures for December delivery rose 15 cents, or 2.1 percent, to settle at $7.2875 a bushel at 1:15 p.m. on the Chicago Board of Trade. Earlier, the price reached $7.315, the highest level since Oct. 11. This week, the commodity climbed 1.6 percent, the second straight weekly gain.

Wheat has surged 52 percent since the end of June as drought hurt crops in Russia and Eastern Europe. Yesterday, the price jumped 3.4 percent after the dollar plunged to an 11-month low against a basket of major currencies.

U.S. corn production may drop to 12.542 billion bushels, compared with a government estimate of 12.664 billion last month, according to the average estimate of 34 analysts surveyed by Bloomberg. Corn competes with wheat as a livestock feed and for acreage.

Dry Weather

Wheat also rose on speculation that rain in the forecast for the U.S. Great Plains next week may not be enough to improve prospects for winter crops. The central Plains may get about 0.4 inch (1 centimeter) in the next six to 10 days, according to Weather Derivatives. Much of the region got half of the normal amount of rain this month, National Weather Service data show.

“Rain is in the forecast for late next week, but the latest I heard was the tendency was to push moisture to the north, and that still leaves a dry pocket,” said Paul Georgy, the president of Allendale Inc. in McHenry, Illinois. The rain may be “not as significant” as traders expected, he said.

Wheat is the fourth-biggest U.S. crop, valued at $10.6 billion in 2009, behind corn, soybeans and hay, government data show.

Bloomberg

http://www.businessweek.com/news/2010-11-05/wheat-futures-rise-on-outlook-for-shrinking-global-grain-supply.html

Obama seeks expanded India-US trade

US president calls for easing of barriers to investment in key economic sectors as he announces deals worth $10bn**.**

Saturday, Nov 06, 2010

Barack Obama, the US president, has urged India to relax trade and investment barriers in order to boost economic relations between the two countries. Obama, who is on a three-day visit to India, said the growing economic power must make "a steady reduction in barriers to trade and investment" in sectors from retail to telecommunications.

"New jobs and growth flow to countries that lower barriers to trade and investment," Obama said on Saturday at a business meeting in India's financial capital, Mumbai.

"As we look to India today, the United States sees an opportunity to sell our exports in one of the fastest growing markets in the world. For America this is a jobs strategy".

Deals worth billions

Obama said that US companies were finalising deals worth around $10bn.

"Today's deals will lead to more than 50,000 jobs in the United States," he said.

US has called on India to ease restrictions to foreign investment in sectors such as retail, defence, agriculture and insurance.

In particular, the business lobby has been pushing the country of 1.2 billion people to open up its giant consumer market to foreign store chains.

Foreign groups such as the US retailer Walmart can only operate as wholesalers and must partner with domestic firms to sell in India, amid fears that big Western retail chains could swamp small family-run stores.

"I have no doubt we can do much better, there is no reason why this nation can't be one of our top trading partners," Obama said.

Deals include previously announced transactions involving General Electric for aircraft engines and gas turbines, and Boeing for 737 passenger jets. But details on a key $4.5bn sale by Boeing of C-17 military transport aircraft were still being ironed out.

Michael Froman, a White House aide, said Obama would ease export controls imposed after India's 1998 nuclear tests, and support Indian membership of four crucial global nuclear nonproliferation regimes.

"This really includes India as a major player in a non-proliferation world ... and it recognises the nature of the strategic relationship we now have with India," Froman said.

The four regimes are the Nuclear Suppliers Group; the Missile Technology Control Regime; the Australian Group, which aims to reduce the spread of chemical and biological weapons; and the Wassenaar Arrangement, a multinational effort to control the transfer of conventional arms and dual-use
technology.

Dual-use rules

Obama will remove almost all of the remaining Indian defence and space organisations from a list of entities maintained by the US government to curb proliferation, and relax so called dual-use rules for Indian firms that regulate technology with both civil and defence applications.

"We will end up treating India similar to other close allies and partners other than as a country of concern," Froman said.

Prerna Suri, Al Jazeera's India correspondent, said the speech was a very positive signal from Obama.

"He is reaching out to Indian businesses. The technology which was previously barred for India is now being given to them," she said.

"However, the deals are going to give a lot more jobs to Americans than to Indians. Indians would like to see a shift in American policy towards them in terms of protectionism.

"We know that outsourcing cuts have hit the Indian IT industry quite badly. Sixty per cent of Indian IT projects have come from the US and that ban is quite likely to hurt them even more."

Obama is to spend three days in India, as part of a 10-day tour of Asia. He will travel to the Indian capital, New Delhi, on Sunday to meet with the Indian prime minister.

During his stay in Mumbai, Obama is staying at the Taj Mahal Palace and Tower hotel, the scene of deadly fighting when a group of armed men attacked several landmarks across the city in 2008, claiming 166 lives. He made his speech on Saturday at the Trident Hotel, another of the sites of the deadly attacks.

After arriving in Mumbai, Obama met survivors of the attack and paid tribute to those who died, hailing the hotel as a symbol of India's "strength" and "resilience" and said the US and India "stand united" against such attacks.

Al Jazeera's Rosiland Jordan, reporting from Mumbai, said it was an opportunity for Obama to bring to the forefront the issue of dealing with "insurgent groups around the world".

But Indian commentators quickly seized on his failure to mention Pakistan - the home of the 10 assailants, the place where they trained and the base they used to launch the attack. Pakistan is India's traditional foe, but a crucial partner for Washington and its allies in the war in Afghanistan.

Al Jazeera

http://english.aljazeera.net/news/asia/2010/11/2010116132349390763.html

---

China and India win more IMF rights

World financial body extends voting rights of emerging powers to reflect "changes in global economy"

Saturday, Nov 06, 2010

The International Monetary Fund (IMF) has agreed to give greater voting rights to the large emerging economies, giving China and India long-sought recognition within the financial body.

The move, announced on Friday, makes China the third leading voice of the global lender, ahead of Germany, France and Britain.

Dominique Strauss-Kahn, director of the IMF, called the agreement "historic", saying it marked a recognition of the "growing role in the global economy" played by emerging markets.

A number of smaller European nations and oil-producing countries such as Saudi Arabia lost votes so that "new changes in the global economy will now be reflected in changes in the fund", according to Strauss-Kahn.

As well as benefiting China, the move will lift other large emerging powers India, Brazil and Russia into the top 10 of the 187-member institution.

The IMF's member countries will vote on the plan in the coming weeks, after which some legislatures will need to ratify the changes.

The shift represents the most significant overhaul at the IMF since the body was set up after World War Two.

Al Jazeera

http://english.aljazeera.net/business/2010/11/2010116259367399957.html

---

Protests precede Seoul G20 summit

Union members and civic groups begin rally as South Korea prepares to receive 32 heads of government

Sunday, Nov 07, 2010

US President Barack Obama and other world leaders are due to arrive in the South Korean capital on Thursday for the opening of the G20 summit.

But as Al Jazeera's Steve Chao reports from Seoul, union workers and civic groups have already begun one of the largest rallies in the run-up to the Thursday-Friday meeting.

The protesters are opposed to a long-delayed free-trade deal between South Korea and the US, which Lee Myung-bak and Barack Obama, respectively the two countries' presidents, want to finalise before the summit.

The demonstrators also want the South Korean government to improve labour rights.

For their part, authorities have tightened security in preparation for the arrival of 10,000 participants, including 32 heads of government and leaders of international organisations.

South Korea is concerned about the risk of violent anti-capitalist protests - a common feature of summits involving the world's leading economies - and also worried that North Korea may try to stage an incident to embarrass it.

Security forces have been put on high alert, anti-aircraft missiles are at the ready, shipping and air routes are under heightened surveillance, and airport screening has increased.

Al Jazeera

http://english.aljazeera.net/video/asia-pacific/2010/11/201011715519656626.html

---

World Bank Says Asia May Need Some Capital Controls

November 08, 2010

Asian economies may need to turn to capital controls as quantitative easing by the U.S. threatens to spur asset bubbles in the region’s stock, currency and property markets, the World Bank said. Any curbs should be “targeted,” temporary and tailored to address specific problems, Sri Mulyani Indrawati, a World Bank managing director, said in an interview. This could include countries tying up funds for as long as a year to help limit hot-money, she said.

The U.S. Federal Reserve last week announced plans to buy $600 billion of long-term government bonds in its second effort at so-called quantitative easing, or QE2, aiming to stoke

U.S. economic growth. Policy makers from Asia to South America have responded by warning it could have the side-effect of depressing the dollar and sparking capital flight to emerging markets.

“Certain assets will become, potentially, bubbles,” Sri Mulyani said in Kuala Lumpur late yesterday. “The quantitative easing will create a lot of liquidity flooding to the East Asia Pacific region, because it is the most dynamic and attractive with a higher return on investment.”

Real-estate prices are a concern in China, Australia and parts of Southeast Asia, she said. Japan, Thailand and Malaysia have seen their currencies surge more than 10 percent against the dollar this year, while some of the region’s stock markets have jumped more than 50 percent, Sri Mulyani said. Sri Lanka’s benchmark stock index is up more than 90 percent this year, while the measures for Thailand and Indonesia have exceeded 40 percent, according to Bloomberg data.

Job Threat

Manufacturers in Malaysia and Thailand on Oct. 14 called on policy makers to curb “speculative” capital inflows, saying currency gains pose a threat to output, trade and jobs. During the Asian financial crisis between 1997 and 1998, the then Malaysian Prime Minister Mahathir Mohamad drew international criticism and alienated foreign investors when he imposed capital and currency controls to block speculators betting against the ringgit. Mahathir called George Soros a “moron” and accused him of attacking the country. The billionaire investor responded by describing Mahathir as a “menace to his own country.”

“In 1997-98, the words ‘capital controls’ were forbidden and stigmatized,” said Sri Mulyani, 48, who joined the World Bank in June and oversees the Asia-Pacific and Latin America areas. “Now the problem of capital is so systematic and huge globally, it has now become universally acceptable to have a certain type of temporary capital controls.”

Temporary Steps

South Korea’s won fell to a one-week low today amid speculation local regulators will tighten curbs on the use of derivatives to help damp exchange-rate volatility. Heightened concern that some European governments will struggle to pay debt also bolstered demand for dollars and pushed currencies lower.

Thailand last imposed limits on fund inflows in December 2006 to slow baht gains and protect exporters, a measure that led foreign investors to flee the country's financial markets and spurred the benchmark index's biggest slide in 16 years.

"We may see some capital controls, particularly on debt, but they won't be disruptive," said Chetan Ahya, an economist at Morgan Stanley in Singapore. "Having learnt from what had happened in Thailand in the previous cycle, controlling equity flows won't be top on the agenda."

Productive Investment

Sri Mulyani said that "a more narrow, targeted and less permanent sort of control is going to be better in this case," adding that governments may also want to consider policy measures to help turn capital inflows into more productive long- term foreign investment.

China's Vice Foreign Minister Cui Tiankai said Nov. 5 the Fed's decision to pump liquidity into the U.S. may hurt global confidence. Vice Finance Minister Wang Jun said the next day after Asia-Pacific Economic Cooperation forum finance chiefs met in Kyoto, Japan, that the U.S. move could contribute "tremendously" to global growth.

Nations from Brazil to Thailand and South Korea have tried to restrain their currencies and protect exporters as investors seek higher-yielding emerging market assets amid near-zero U.S. borrowing costs. Capital flooding into Asia could lead to asset bubbles and financial instability, International Monetary Fund head Dominique Strauss-Kahn said Oct. 18.

Taxes on Bonds

Thailand said Oct. 12 it will remove a 15 percent tax exemption for foreigners on income from domestic bonds, joining South Korea and Brazil in seeking to hold back currency gains as investors pour a record amount of money into emerging markets. Korean regulators started an audit of banks handling foreign- currency derivatives last month, and Brazil raised a tax it charges foreigners on investments in fixed-income securities.

China has kept its currency's advance against the dollar to less than 3 percent since mid-June, a strategy that's contributed to other currencies rising and nations taking steps to prevent an "unfair disadvantage," U.S. Treasury Secretary Timothy F. Geithner said last month. As the dollar weakens, China is likely to maintain the value of the yuan within its targeted band by accumulating reserves, Sri Mulyani said.

While short-term capital controls may be sometimes necessary, the World Bank managing director said she was against currency intervention, except to restrain short-term volatility.

Southeast Asian countries that are manufacturing-based are likely to face balance-of-payments challenges due to stronger currencies, the former Indonesian finance minister said. Imports will become cheaper and exports less competitive, she said.

Bloomberg

http://www.businessweek.com/news/2010-11-08/world-bank-says-asia-may-need-some-capital-controls.html?campaign_id=asia_related

---

Kazakh Fund May Cut U.S. Treasuries, Add Brazil Debt

Kazakhstan's National Oil Fund may reduce holdings of U.S. Treasuries and invest in Brazilian and South Korean debt, central bank Chairman Grigori Marchenko said.

"There won't be a radical cut in the share of National Oil Fund assets invested in U.S. debt," Marchenko said during a Nov. 2 interview in the financial capital, Almaty. "In theory, the share could be cut to 35 percent from 40 percent, but this must be a considered, step-by-step decision."

The fund, managed by the central bank, may gradually reduce holdings of U.S. and euro-member assets while increasing emerging-market investments to as much as 10 percent, Marchenko said. It should explore the possibility of buying the debt of highly rated countries such as Brazil and South Korea, he said.

Kazakhstan, which holds about 3 percent of the world's oil reserves according to BP Plc, created the National Oil Fund in 2000 to guard against declines in the price of crude. Assets rose about 10 percent to 5 trillion tenge ($33.9 billion) in the first 10 months of this year as revenue from oil industry taxes overshadowed investment losses of 161.4 billion tenge, accounts posted on the Finance Ministry's website show.

Greek, Spanish Debt

Marchenko said the fund holds 80 percent of its assets in bonds and 20 percent in stocks. Its benchmark portfolio for bonds comprises 40 percent U.S. Treasuries with maturities of one to five years, 35 percent Eurozone debt rated AA or AAA with maturities of one to 10 years, 10 percent each of 1- to 10-year U.K. gilts and Japanese bonds, and 5 percent 1- to 10-year Australian bonds, according to the central bank.

The fund sold its positions in Greek, Spanish and Portuguese sovereign bonds, though it didn't suffer "particular losses," Marchenko said.

"We closed them ourselves and alerted our external managers, who backed up the decision," he said. "Certain managers proposed leaving only German, French and Scandinavian debt. We adopted an intermediate position and cut off the extremes."

Representatives of some European countries contacted Kazakh government advisers working on the restructuring of commercial bank debt, Marchenko said without elaborating.

Chinese, Indian Securities

The Kazakh government took control of BTA Bank, the nation's largest lender at the time, and acquired stakes in the three next-largest banks in early 2009 after credit markets froze and the country's property bubble burst. Three of four defaulted Kazakh lenders -- BTA, Temirbank and Alliance Bank -- reached restructuring deals with creditors, allowing them to write down debt of about $11 billion.

The fund may invest in Chinese and Indian securities, "but here the question of the convertibility of these currencies arises," Marchenko said. "The trend is that we need to look more at developing markets in countries that aren't as strongly tied to commodities production as we are."

Marchenko said the central bank will look at the fund's second-half results before making any strategic investment decisions after losses in the first half.

"Stock indexes rose 8 percent at best, while income from sovereign securities is close to zero," he said. "But this isn't a reason to move into new, high-income instruments, since risks are higher and we could potentially increase our losses. Our task is not to lose our heads and to make no abrupt moves."

Norwegian Fund

Kazakhstan's fund was based on the example of Norway's sovereign wealth fund, Marchenko said. At the start, as much of 35 percent of its portfolio could be actively invested in stocks, he said.

The government decided in 2009 to invest the fund's resources only in stock indexes, "since from a long-term perspective -- more than 10 years -- there's no big difference in income from investments in stocks or indexes, but commissions are 10 times higher" for active investing, he said.

At the start of the global economic crisis, the fund held 75 percent of its investments in bonds and 25 percent in stocks, Marchenko said. "So when stock indexes fell 40 percent in 2008, this influenced the income from our portfolio."

Kazakhstan used $10 billion from the oil fund in October 2008 to support domestic banks and companies after credit markets froze and the country's property bubble burst. The government said in January the fund will spend $8 billion a year on industrial development.

The government plans to increase the fund's assets to $90 billion by 2020, according to an order signed by President Nursultan Nazarbayev in April.

Bloomberg

http://www.businessweek.com/news/2010-11-09/kazakh-fund-may-cut-u-s-treasuries-add-brazil-debt.html

---

Japan Weakness Draws China, Russia Claims as U.S. Pact Invoked

Japanese border disputes with China and Russia are thwarting the goals of Prime Minister Naoto Kan's ruling party to improve ties with its neighbors and reduce dependence on the U.S. security umbrella.

The September collision of a Chinese fishing boat with two Japanese Coast Guard vessels near islands claimed by both sides increased friction between Asia's biggest economies. Last week's visit by Russian President Dmitry Medvedev to an island also claimed by Japan hurt ties as well.

The incidents underscored Japan's weakness relative to its largest neighbors and its dependence on the U.S., said Bhubhindar Singh, a professor at the S. Rajaratnam School of International Studies in Singapore who specializes in Japanese security policy. Former Prime Minister Yukio Hatoyama in February 2009 called for a "more equal" relationship with Japan's biggest ally.

Japan's economic and political vulnerability "definitely played a part in terms of facilitating or motivating China and Russia to play up these issues right now," Singh said. "What these territorial issues have shown is that the U.S. will continue to be the primary security partner for Japan."

The disputes have sent Kan’s popularity plunging while he struggles to boost an economy threatened by more than a decade of deflation and a surging yen.

China and Japan are likely to gradually mend fences, given the importance of trade ties and the fact that greater tensions with Japan would increase U.S.-Chinese friction, said Robert Dujarric, director of the Institute of Contemporary Asian Studies at Temple University’s Tokyo campus.

China-U.S. Fundamentals

“The fundamental strategic issue as far as China is concerned is between China and the United States,” Dujarric said.

Kan, 64, will attend the Nov. 11-12 Group of 20 summit in Seoul, then host the Asia-Pacific Economic Cooperation forum in Yokohama, where he is seeking talks with Medvedev and Chinese President Hu Jintao. He is also set to meet with President Barack Obama.

China is Japan’s biggest trading partner. Two-way trade rose 31 percent in the first nine months of the year, to $216 billion, compared with the same period a year ago, according to the Japan External Trade Organization. Trade with Russia in the same period was $17.3 billion.

Japanese-U.S. relations soured during an eight-month disagreement over whether to move a U.S. Marine base off the island of Okinawa, which contributed to Hatoyama’s June resignation.

Island Sovereignty

Now, the Obama administration is supporting Japan regarding the Sept. 7 maritime collision in the East China Sea near uninhabited islands controlled by Japan and also claimed by China. The U.S. is using a two-pronged approach that emphasizes American security commitments without specifically backing the territorial claim.

Secretary of State Hillary Clinton said at an Oct. 30 speech in Hanoi that while the U.S. doesn’t take a position on the sovereignty of the islands, they fall under the U.S.-Japan security alliance, protecting them from attack. She also said she was willing to host the foreign ministers of China and Japan to help resolve the situation.

Chinese Ministry of Foreign Affairs spokesman Ma Zhaoxu on Nov. 2 rejected Clinton’s mediation offer and called her position “extremely wrong.”

Rare Earth

China responded to the 17-day detention of the captain of the fishing trawler by cutting ministerial ties and blocking exports to Japan of rare-earth minerals used in hybrid cars and batteries. Japanese prosecutors released the captain, citing the need to improve relations with China.

The territorial dispute with Russia has prevented the two countries from signing a World War II peace treaty. Kan recalled his ambassador to Moscow after Medvedev on Nov. 1 became the first Russian leader to visit one of four islands seized by the Soviet Union after World War II."

Kan in effect "threw down the gauntlet" to Medvedev, perhaps motivated by recent Russian agreements with China to cede territory claimed by both nations, said Fyodor Lukyanov, an analyst at the Council on Foreign Defense Policy in Moscow.

Russia is unlikely to make concessions to Japan, Lukyanov said. While refusing to negotiate with China would have damaged relations with the region's dominant economy, "Japan doesn't have the same potential for growth," he said.

Backing Japan

State Department spokesman Philip Crowley on Nov. 1 said "we do back Japan" over the islands claimed by Russia, while declining to say whether they also fall under U.S. obligations to defend Japan from attack.

Since Kan took office four months ago, his Democratic Party of Japan lost its majority in the upper house of parliament and he had to fend off a leadership challenge. Government reports last week showed factory production falling and deflation deepening.

Equities have been largely unaffected by the diplomatic rows, with the Nikkei 225 Stock Average reaching its highest level in more than three months.

Kan's popularity dropped to 35 percent from 53 percent a month ago, the Yomiuri newspaper said on Nov. 8. Four in five respondents disapproved of his handling of the dispute with China. The paper polled 1,052 people on Nov. 5-Nov. 7 and provided no margin of error.

Japanese opposition politicians have criticized Kan for his diplomatic moves and as many as 3,000 people rallied against China last month in Tokyo.

“The Japanese government can’t blame anyone but themselves,” said Tsuneo Watanabe, director of foreign and security policy research at the Tokyo Foundation policy institute. “It points to a real lack of experience.”

Bloomberg

http://www.businessweek.com/news/2010-11-09/japan-weakness-draws-china-russia-claims-as-u-s-pact-invoked.html

---

ARTICLES/COMMENTARIES

Shadow Economies on the Rise around the World
A report identifies countries with the largest shadow economies, many of which are half as large as official GDP—a huge loss in tax revenue

By: Chris Prentice

It turns out that countries have two economies: the official one and a shadow version. The official economy is the one that governments and banking institutions measure with gross domestic product, tax receipts, social security contributions, employment identification numbers, and the like. The shadow economy is all the money and jobs generated outside the official economy, whether legally or illegally. In more than 50 countries around the world, the shadow economy is at least 40 percent the size of documented GDP.

In percentage terms, the biggest shadow economy relative to official economic activity is in the former Soviet republic of Georgia. In 2007, the last year for which data were available, revenue from all Georgia's goods and services generated off the books amounted to 72.5 percent of official GDP. In other words, the government is losing out on billions of taxable dollars it could use to improve the national infrastructure, service debt, build schools and roads, even hire better tax collectors. At the other end of the scale, the U.S. shadow economy equaled only 9 percent of the country's official economy. Given U.S. GDP of $14.26 trillion, the world's largest, that could still be as much as $1.2 trillion in taxable income that slips through Uncle Sam's fingers each year.

The size of a shadow economy can be vitally important. As became painfully clear during the Greek economic crisis, one of the factors that nearly drove the country into bankruptcy was that Greek workers and companies skirted more than 31 billion euros in taxes, which is more than 10 percent of GDP.

In an updated report, *Shadow Economies All over the World: New Estimates for 162 Countries from 1999 to 2007*, Greece comes across as a model of fiscal responsibility when compared with dozens of other nations. In the report's ranking from least to most shadowy, Greece is No. 57, with a shadow economy equal to 31 percent of GDP in 2007.

WIDE MARGIN OF ERROR

Nailing down shadowy numbers is difficult, of course. According to Friedrich Schneider, an economics professor at Austria's Johannes Kepler University of Linz who co-authored the study, the margin of error baked into the results is about 15 percent. Therefore, while the report says Georgia's shadow GDP in 2007 was 72.5 percent, that number could be less—or even more. What we do know is that Georgia's official GDP, according to the CIA's World Factbook, is approximately $20.3 billion, but if the shadow economy were added, it could potentially be as much as $30 billion or so.

Schneider points out that for the purposes of his study, he and his colleagues, Andreas Buehn of Technische Univerität Dresden, and Claudio E. Montenegro of the World Bank and the Universidad de Chile, excluded what they call "typical underground, classical economic crime activities," such as burglary and drug-dealing. They also did not focus on tax evasion. What they did focus on was what "all market-based legal production of goods and services that are deliberately concealed from public authorities" to avoid payment of taxes, social security obligations, and labor laws. That means basically small and large businesses, doctors, contractors, nannies, grocers, and others from a broad swathe of the economy who choose not to report income and transactions.

One notable finding is that from 1999 to 2007, shadow economies appear to be on the rise in nearly every country the study ranked. For example, America's shadow economy in 1999 was 8.6 percent and climbed to 9.0 percent in 2007. (The number was higher for developing countries, where shadow economies increased from an average of 36.6 percent in 1999 to 38.6 percent in 2007, as opposed to an increase of 16.8 percent to 18.7 percent for the 25 high-income OECD countries.) What’s the reason behind the rising numbers? "Taxation and regulation increased in most countries" over the past 10 years, says Schneider. As he writes in his report: "reducing the tax burden is the best policy measure to reduce the shadow economy, followed by a lessening of fiscal and business regulation."

WHEN THE SHADOW IS REAL

But for many developing nations like Peru, the huge shadow economy results from growing urbanization and more commerce, says Daniel Córdova, dean of the graduate school at Universidad del Pacífico and director of the Invertir Institute, an NGO that promotes entrepreneurship.

"What you call the shadow economy is the real economy" in Peru and other countries in Latin America, says Córdova. In the study, Peru has the fourth-largest shadow economy.

Many Peruvians do not have social security numbers and are not on a formal payroll, says Córdova. With a labor-intensive bureaucracy, it can be difficult to start a formal business. In Peru, the poor population's assets amount to $90 billion, according to the website of the Instituto Libertad y Democracia, a think tank in Lima.

What is clear is that regardless of what taxpayers believe, the countries with the most efficient tax collection and enforcement systems are the ones that tend to have the smallest shadow economies.

Schneider goes even further. He and his co-authors suggest that the solution is not just more efficient tax collecting and lighter regulation, but also to find a way to make work in the official economy more attractive and reduce the incentives to participate in the shadow world. At a time when official economies around the globe are dealing with high unemployment, it might be some time before shadow economies lose their appeal.

Prentice is an intern for Bloomberg News.

Bloomberg

http://www.businessweek.com/globalbiz/content/jul2010/gb20100728_303459.htm

India Can Give the U.S. a Big Export Boost

Obama's visit will highlight opportunities for U.S. businesses to export to India

By: Gunjan Bagla

November 2, 2010

On Nov. 5, Air Force One will take off for Mumbai with President Barack Obama, First Lady Michelle Obama, and a retinue of top officials at about the same time Indians are celebrating their most important holiday, Diwali. In a testament to India's ability to accommodate guests at any time, the delegation will descend on the country's financial capital on the day that many traditional Indian businesses begin their fiscal new year.

You have to give the proposed trip an A-plus for symbolism. The President will spend more time in India than in any other foreign country since he took office. The First Lady will accompany the President, even though daughters Sasha and Malia are at school. (Michelle Obama won't travel with her husband to the G-20 summit following the India trip.) Obama will stay at the Taj Mahal Hotel, the target of deadly attacks on Thanksgiving weekend in 2008. Obama admires India's independence leader Mahatma Gandhi, whose nonviolent resistance teachings influenced Martin Luther King; the President will visit the Gandhi Museum in Mumbai and lay a wreath two days later at the Raj Ghat memorial to the Mahatma in New Delhi.

Symbolism by itself creates neither peace nor prosperity, so let's examine substantive issues in which progress might benefit citizens of both countries. Ben Rhodes, Obama's deputy national security adviser for strategic communications, has echoed my comments in Businessweek.com on the importance of India as an export market for U.S. business. Speaking to reporters in Washington on Oct. 27, Rhodes said "India is fundamental" to the National Export Initiative, which seeks to double exports from $1 trillion to $2 trillion in five years. The initiative would generate two million new jobs and Obama's team hopes India will be a significant contributor.

BIG MILITARY EXPORT PROSPECTS

In the same White House briefing, Mike Froman, Obama's Advisor for International Economic Affairs, pointed out that U.S. exports of goods to India have quadrupled in the last seven years and services exports have tripled. American architects have designed some of Mumbai's most iconic buildings, such as billionaire Mukesh Ambani's home and the upcoming tallest office building in the city. U.S. engineers helped design the Jamngar refinery on the coast of Gujarat and U.S. companies participated in modernizing the Mumbai airport.

India is on the verge of placing an order for 10 Boeing (BA) C-17 Globemaster military transport aircraft and is increasing its $2.1 billion order for P-8i Poseidon naval surveillance aircraft by 50 percent. A stream of top U.S. defense contractors is starting to submit quotations and information packets to India's Ministry of Defense. While Russia remains India's top supplier, U.S. companies have an unprecedented opportunity to win tens of billions of dollars of new orders for defense products they are forbidden to ship to China. If Obama's trip can serve to loosen America's own outdated export-control regime, companies such as Raytheon (RTN), General Dynamics (GD), L-3 Communications (LLL), Northrop Grumman (NOC), and ITT (ITT) can start to participate fully in India's ambitious defense-modernization plans. Most imminently, two U.S. players are competing against Russian and French rivals for the $10.5 billion medium multi-role aircraft (MMRCA) order.

As if to underscore the importance of Obama's trip, on Oct. 27 India signed the Convention on Supplemental Compensation (CSC), a key international standard encouraged by the U.S. to enable consistent global processes in the event of a civil nuclear accident. In the wake of the nuclear agreement signed by the U.S. and India in 2008, this is one of the final steps to enable U.S.-based companies such as GE-Hitachi Nuclear Energy and Westinghouse Nuclear to begin bidding on India's expansion of uranium-based electrical capacity, which will grow from 4,000 megawatts to 30,000 Mw over the next 20 years.

GENERAL AWAKENING TO INDIA MARKET?

Barriers remain. India continues to limit foreign direct investment in sectors such as insurance, media, defense production, and retailing. Large U.S. companies would love to see Obama pressure Prime Minister Manmohan Singh to ease these limits so that, for example, Wal-Mart (WMT) can hang its retail banner in India, New York Life can function without joint-venture partners, and Boeing can own a aircraft fabrication shop.

There is a bigger barrier that the Obama trip could eradicate. Thousands of U.S. companies have not looked beyond China and Europe to India. In part, this is because of distance and complexity. I think, though, that decades of media portrayal of India as a poor country known mostly for famines, floods, and wars with its neighbors have left little enthusiasm among many Americans to consider India seriously. In my public speaking, I often find otherwise sophisticated executives surprised that India is a $1 trillion dollar economy that has produced 25 billionaires. They are not aware that India's satellites have explored the Moon and that the world's largest metal forging facility is located not in Germany or China, but in India. They don't know that the Pew Center reported that 66 percent of Indians feel positively about the U.S. (compared to 51 percent who rate Russia positively and only 36 percent who feel good about the European Union). The fanfare around the Obama visit could awaken U.S. companies to the possibilities that India's market offers.

My company is a member of the U.S.-India Business Council, which includes some of the largest American corporations. Leaders such as Terry McGraw of McGraw Hill (MHP), Indra Nooyi of PepsiCo (PEP), David Cote of Honeywell International (HON), Louis Chenevert of United Technologies (UTX), and Ellen Kullman of DuPont (DD) are expected to be in India during the Obama visit. These companies already know and taste the potential of India. Thousands of others may be awakened by the publicity of a Presidential visit.

AMERICAN CULTURE HOLDS BROAD APPEAL

As Froman pointed out in the White House briefing, Indian companies are the second-fastest-growing investors in the U.S. They now create or sustain 57,000 American jobs. When Indian companies invest in the U.S., they are not met with the kind of popular hostility sometimes meted out to Dubai- or China-based investors. Reliance Industries (RIL:IN) has made two major investments this year in shale gas projects in the U.S. During Obama's trip the two governments may sign an agreement facilitating technical collaboration as India seeks to explore its own reserves of shale gas.

India will never be an easy place for Americans to do business. It will never glide into the U.S. orbit and it will continue to assert its independence. Shortly after visiting Washington in September, Indian Defense Minister A.K. Antony announced progress on two new partnerships with Russia. Russian and French leaders are to visit India shortly after Obama leaves and India will want to offer them something to make it worth their time.

Still, the allure of the American way of life and the accessibility of everyday Americans is appreciated by India. This why 100, 000 Indian students choose to study in U.S. This is why many upper-middle-class Indian families have at least one close relative who lives in U.S.

Some Indians are hopeful that Obama will announce support for India's permanent membership in the United Nations Security Council. Some Americans are hopeful that Obama will convince the Indians to allow Wal-Mart and Best Buy (BBY) to operate freely in India. My hope is that someone will start talking about a U.S.-India Free Trade Agreement. (India is in discussions with the European Union about such an understanding.) I would be delighted if Obama removed several Indian organizations from the U.S. Commerce Dept.'s Entity List, which makes it practically impossible for them to collaborate with their American counterparts; these include the

Indian Space Research Organization's Vikram Sarabhai Space Center, the Defense Research and Development Organization, and the Bhabha Atomic Research Center.

Even if none of these goals are achieved by Nov. 9, the Obama trip will be a success if it captures the minds of U.S. executives and leads more of them to engage with India.

Bagla is managing director at Amritt, a business consultancy based in Cerritos, Calif.

Bloomberg

http://www.businessweek.com/globalbiz/content/nov2010/gb2010112_833673.htm

---

After Decades of War, Sri Lanka Bounces Back

Billions in foreign money, especially from China, are pouring in

Thursday, Nov 04, 2010

As recently as a year and a half ago, life in Colombo was tense. Residents were under constant threat of suicide bombs, and armed guards at checkpoints made crossing the city a hassle. "You went out every day not knowing what would happen," recalls Richard Vokes, Asian Development Bank (ADB) country director. Since Sri Lankan government forces defeated the Tamil Tigers rebel group in May 2009, though, the sandbags and checkpoints are mostly gone, tourists stroll the palm-fringed seaside promenade, and locals fly kites in front of the majestic colonial-era Galle Face Hotel. Living in Colombo is now "a very pleasant experience," Vokes says.

The ADB expects Sri Lanka's economy to grow as much as 8 percent this year and next. Colombo's stock market is the world's second-best performer (after Mongolia) in 2010, more than doubling in value even as many investors wait to see whether the stability holds. Visits from foreigners have increased 40 percent so far this year and are expected to top 600,000 for 2010. The government hopes that number will hit 2.5 million by 2016 as word spreads about the white sand beaches, rainforests teeming with wildlife, and ancient temples nestled in the lush hillsides of the newly peaceful island nation. "Sri Lanka has been a closed shop for 30 years," says Joseph Michael Suresh Brito, chief executive officer of Colombo-based Aitken Spence Hotel Holdings, which is working with a Thai company on a $40 million community of luxury villas on the south coast. "People will come with no fear."

Tourism is one of three sectors the government is counting on to help reduce Sri Lanka's reliance on the garment trade and low-end manufacturing. At least a half-dozen resorts and hotels are in the works, including a $150 million property that Hong Kong-based Shangri-La is planning for Colombo's waterfront. IT outsourcing, another preferred sector, already employs 60,000 and is on track to bring in revenues of $350 million this year. By 2015 the government hopes outsourcing revenues will hit $1 billion. Agricultural exports, the government's third priority, grew 21 percent in the first eight months of the year, as farms that lay fallow during the conflict now yield rich crops of rice, lentils, and beans.

After decades of neglect and sabotage, Sri Lanka's roads, railways, and ports are ill-prepared for the growth. The government is planning billions of dollars in investment to upgrade dilapidated infrastructure, with much of the work going to multinationals. Korea's Hyundai Engineering and Construction is building a four-mile breakwater for a new container port in Colombo. Indian utility NTPC (NTPC) is close to a deal to build a $900 million coal-fired power plant on the east coast. And Swiss cement maker Holcim's Sri Lankan business is up 22 percent this year. "Being here at this moment is fantastic," says Stefan Huber, Sri Lanka CEO for Holcim. As in many other developing countries, China's influence is growing. A $455 million loan from China Eximbank paid for a 300-megawatt power plant scheduled to open next year, and an additional $560 million in loans from China will go toward new roads, including a 20-mile expressway to Colombo's airport. In the south, Chinese workers are wrapping up the first phase of a $1.4 billion port in the town of Hambantota. Nearby, a Chinese construction company is building Sri Lanka's second international airport at a cost of $210 million.

Many foreigners, though, have been slow to put their money on the line. In the first six months of 2010, Sri Lanka saw $208 million in foreign direct investment, down from $253 million in the first half last year. "There is a lot of renewed interest, but most of it is yet to be realized," says Nick Nicolaou, Sri Lanka chief for London-based bank HSBC (HBC). Some investors grouse that the Board of Investment, a government agency that must approve foreign-funded projects, makes it difficult to do business in the country. Says the board's chairman, Jayampathi Bandaranayake: "It's fair to say we could improve our services." He argues that as the board focuses on priority sectors, it will simplify the approval process and offer incentives to investors. "There's an expectation of big investments in tailor-made areas," says Bandaranayake.

One big worry is red tape and graft. Watchdog group Transparency International on Oct. 26 ranked Sri Lanka 91st out of 178 countries in terms of corruption. (No. 1 Denmark is the least corrupt country.) That put Sri Lanka one spot behind India, though well ahead of Vietnam (ranked 116). In July the European Union rescinded Sri Lanka's preferential trade access because of the country's human rights record.

Foreigners and Sri Lankans grumble privately about the growing power of President Mahinda Rajapaksa. After Rajapaksa was elected to a second term in January and his party swept parliamentary elections in April, Parliament lifted a two-term limit for the presidency. Three of Rajapaksa's brothers hold top government posts, and his 24-year-old son is in Parliament. "We haven't seen evidence of it yet, but if the family's power is used in the wrong way, then we have a big problem," says Mark Mobius, who has invested in Sri Lankan stocks and bonds as part of the $33 billion he manages for Franklin Templeton Investments.

Government officials say human rights issues are a top priority that Parliament is addressing. While they acknowledge that corruption is a problem, they insist it's no worse than in neighboring countries. The government, says presidential spokesman Lucien Rajakarunanayake, has "a commitment to minimize" corruption. Officials acknowledge that corruption is a problem, but businesspeople say it's no worse than in neighboring countries. And Rajapaksa's family, many people in business and government say, provides the stable leadership needed in the recovering country. "The Rajapaksa brothers seem powerful, but this issue didn't happen overnight," says Nirupama Rajapaksa, the president's cousin and a member of Parliament. "Our family has been in politics since 1931."

The bottom line: Sri Lanka is poised for rapid growth as its economy bounces back from decades of civil war.

Bloomberg

http://www.businessweek.com/globalbiz/content/nov2010/gb2010113_352751.htm?chan=globalbiz_special+report+--++focus+on+emerging+markets_special+report+--+focus+on+emerging+markets

---

Global MBA Job Market Turns Positive

Nunzio Quacquarelli explains why the real growth in MBA jobs is in Asia and salaries are strongest in Europe

MBA hiring improved around the world in 2010, and it has a good chance of continuing to grow, says Nunzio Quacquarelli, managing director of QS Quacquarelli Symonds, a London company that organizes the annual QS World MBA Tour. QS recently released several reports, including the TopMBA.com Jobs and Salary Trends Report and the Global 200 Top Business Schools

Report, based on its survey of 2,145 recruiters involved with MBA hiring in more than 50 countries.

Quacquarelli recently shared the results of these reports and his thoughts on what recruiters are looking for in employees in a post-crisis economy, as well as the relevance of the MBA degree, with *Bloomberg Businessweek*. Here are some of the interesting points, which also shed light on the current global economic and business trends;

Most surprising result of the 2010 employer survey

The MBA job market is actually quite robust and picking up substantially in most major OECD [Organization for Economic Cooperation and Development] markets. Despite having had a pretty shocking credit crunch, the downward impact on MBA hiring was short-lived, with less than two years of cutbacks. Russia reported a 22 percent increase in MBA hiring year-over-year. And Latin America was also quite buoyant. This compares with the mature market in the U.S., which had a steep drop in MBA hiring in 2009 and showed a 9 percent increase in hiring in 2010. Hiring is still lagging compared with 2007 or 2008 levels. Still, we have seen a bounce back in the U.S., whereas Western Europe is showing just a 3 percent increase compared with 2009, which is quite an insignificant change.

MBA hiring is particularly picking up in the Asia Pacific region. We're seeing more than 30 percent growth in MBA jobs year-over-year in the Asia Pacific region, particularly in markets such as India, China, Australia, and Singapore.

Why is MBAs hiring flourishing in emerging markets?

Emerging markets have traditionally had few companies geared toward hiring MBAs. As they are expanding outside their home markets, they see MBAs as a human resource [employed by] American and European companies, and they're following suit. The salaries in these markets are still less than at global employers, although a lot of [employers] are beginning to recruit MBA candidates for more international roles. The rapid GDP growth in many of these emerging markets means a lot of multinational companies are expanding their operations in these markets, and they are bringing MBAs in to do the job. When you have a critical mass of alumni in a country, and they rise to a position of seniority, they start to look for other MBAs to join their companies. That creates the network effect, and it starts to create momentum.

Industries-wise demand for MBAs

IT and computer services are showing a strong increase in demand, which is quite driven by the Asia Pacific region. Many MBAs have an IT background and go back into that sector in managerial roles. There's also a huge outsourcing industry in Asia, which is employing many

MBAs today. Consulting and professional services are showing a 19 percent increase from 2009, which is very encouraging. Financial service firms are also showing a strong lift. Banks moved back into profitability, so they're catching up with hiring, considering the people they laid off and the MBAs they didn't hire in the previous two years. Manufacturing is showing quite a strong lift.

Why is Europe the leader in salaries?

European students typically have six to seven years of work experience, whereas U.S. students average between four and five years. There is an extra three years, on average, of work experience, which results in Europeans commanding slightly higher salaries. Work experience is more important today than ever before. In a market where companies really want candidates to prove they are going to add value, they will look more and more at previous work experience. Although salaries are significantly higher among European schools, the bonuses payable to candidates from top-tier U.S. schools, on average, tend to be higher.

Geographies most promising for MBAs

There's no doubt that the Asia Pacific region is most dynamic in terms of the number of MBA jobs. Still, salaries are lower there. The U.S. market remains a huge market in terms of the total number of MBA job opportunities. Salaries have not dropped meaningfully during the credit crunch, and they are probably going to start to increase again as the economy recovers.

U.S. schools represented in the survey

We produce a report, the Global 200 Top Business Schools, which reflects the business schools that are most referenced by employers [taking the survey]. There are 80 North American business schools featured among those 200. Harvard Business School (Harvard Full-Time MBA Profile) and University of Pennsylvania's Wharton School(Wharton Full-Time MBA Profile) are the most referenced among employers in the U.S. London Business School (LBS Full-Time MBA Profile) and INSEAD (INSEAD Full-Time MBA Profile) are the most often referenced schools in Europe.In Asia Pacific, the most often referenced schools are INSEAD's Singapore campus and Melbourne Business School in Australia.In Latin America, the most referenced business school was IPADE (IPADE Full-Time MBA Profile) in Mexico. The list is not dominated by U.S. schools. There are 67 schools from Europe, 36 schools from Asia Pacific, seven schools from Africa and the Middle East, and 10 schools from Latin America.

Will business schools in other countries surpass U.S. schools in the future?

There's no doubt that U.S. business schools have amazing strength and depth in their faculty and resources, and that's not going to change. The European business schools have been playing catch-up for the past 20 years. Asia Pacific and other regions are a long way behind, and it will take many years for those schools to catch up in overall strengths and depth. The point is that employers are becoming active in other regions, and they're not just recruiting from top international schools. They're also recruiting from local business schools.

What are recruiters looking for in employees, and has that changed at all in the years of the crisis?

Recruiters are looking for more years of work experience now. Before the crisis, the majority of recruiters were looking for three to five years of work experience, whereas now they'd like to see between five and eight years. We're seeing less significance given to two-year vs. one-year MBA programs. Recruiters increasingly have just been looking at the candidate profile and not necessarily concerned by the lengths of the course.

Employers consistently say they are generally satisfied with the technical skills MBAs have when they graduate from business school. There's an ongoing feeling that interpersonal and leadership skills of MBAs are not up to scratch. Employers have consistently said they'd like MBAs to have really good soft skills, but they're not as satisfied with those skills in their hires.

Is the MBA still a relevant and viable degree?

There's a real gap between journalistic perception of the crisis on the MBA market and the reality. The reality is [that] with globalization and companies looking to expand their businesses overseas, the MBA remains the natural qualification for management-level roles. More companies are looking to expand internationally than ever before. That's fueling growth in MBA demand. The only thing I see that would fundamentally curtail MBA demand would be if we entered into any trade wars and global trade was severely curtailed. As long as borders are open and you have global trade in a buoyant state, I think companies are going to hire MBAs.

Bloomberg

http://www.businessweek.com/bschools/content/oct2010/bs20101022_863855.htm