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GENERAL ECONOMIC AND BUSINESS DEVELOPMENTS IN THE WORLD

EU fines airlines for cargo cartel
The European Commission has fined 11 carriers for coordinated surcharges for fuel and security between 1999 and 2006.
Wednesday, Nov 10, 2010

Europe's competition watchdog has hit 11 airlines with over a billion dollars in fines for running a global cargo cartel that included Air France-KLM, British Airways and Japan Airlines.

"It is deplorable that so many major airlines coordinated their pricing to the detriment of European businesses and European consumers," said European competition commissioner Joaquin Almunia on Tuesday.

The fines, totalling $1.1 bn, were slapped on airlines that span the globe, from Air Canada and LAN Chile in the Americas to Cathay Pacific Airways and Singapore Airlines in Asia and Qantas in Australia.

The 11 cargo carriers coordinated their action on surcharges for fuel and security without discounts over a six-year period, between December 1999 and February 2006, the European Commission said.

The cartel covered flights from, to and within the European Economic Area.

The Air France-KLM group was hit with the biggest fine, $432m , of which $255m was for Air France and $177m for KLM.

Air France-KLM said it plans to appeal the fine.

"The group will file an appeal against the decision in the EU General Court," it said in statement.

Five airlines applied for a reduction in the fine, claiming they were unable to pay it, but the commission said none of them met the conditions.

Lufthansa and its subsidiary Swiss International Air Lines escaped a fine under the commission's leniency programme for being the first to provide information about the cartel.

The commission said it dropped charges against another 11 carriers and one consultancy firm which it did not name.

The cartel initially began with contacts between airlines to ensure that worldwide air freight carriers imposed a "flat rate surcharge per kilo for all shipments," the commission said.

The cooperation expanded with the introduction of a security surcharge. The companies refused to pay a commission on such surcharges to their clients, the regulator said.

"By refusing to pay a commission, the airlines ensured that surcharges did not become subject to competition through the granting of discounts to customers," the commission said.

SAS also said it would appeal the fine.

"We adamantly maintain that these isolated incidents do not mean that SAS Cargo has been involved in a global cartel," the airline's chief legal officer, Mats Loennkvist, said in a statement.

"We are highly disappointed and strongly contest the considerable level of the fines, which we believe to be disproportionate to SAS Cargo's actions."

Al Jazeera

UK students anger at fee 'betrayal'

Many students marching against rises in tuition fees are angry over a broken pre-election pledge by Liberal Democrats.

Thursday, Nov 11, 2010

Thousands of students have attended a rally in central London against a proposed rise in university tuition fees.

Between 30,000 and 50,000 people were reported to have attended the march on Wednesday, which also saw scenes of violence as some protesters attempted to force their way into the headquarters of the ruling Conservative Party.

At the heart of many of the students' anger is the breaking of a pre-election promise made by the Liberal Democrats, who formed a coalition government with the Conservatives in May, who had said they would oppose any rise in tuition fees.

The demonstration has also raised the question as to whether the UK, which has witnessed relatively little in the way of protests against recent austerity measures, is about to experience wider action against the government.

Lib Dems targeted

The National Union of Students (NUS) has said it will try to recall legislators from the Liberal Democrats currently in parliament who vote in favour of the fee increase.

Tony Travers, a political analyst and academic at the London School of Economics, told Al Jazeera the protesters were attempting to target Liberal Democrat MPs, who have traditionally fought for improved welfare, as opposed to Conservatives, their centre-right coalition partners.

"I can see that they are trying to target Liberal Democrat MPs so that they may go against the changes when it comes to enacting them," Travers said.

"But there are enough Liberal Democrat MPs that will go with them for the changes to be put into effect."

On Thursday, Nick Clegg, deputy prime minister and leader of the Liberal Democrats, admitted he "should have been more careful" when he signed the pre-election pledge to oppose any rise in tuition fees.

He was singled out for strong personal criticism for his reversal in policy during the march, with hundreds of students chanting his name in anger.

Clegg says when his party, who traditionally poll well among students, made the pledge before the election it had not realised just how bad the country's economic situation was.

Protest 'mishandled'

A total of 14 people, including seven police officers, were injured in Wednesday's protests.

Nick Herbert, the police minister, blamed the violence on a "hardcore" minority, while their have been claims that anarchist groups were mainly behind the events.

The NUS, who organised the demonstration along with the UCU (the lecturers' union), said they deplored the violence, although some Conservative supporters asserted that the opposite was true.

David Cameron, the British prime minister, said that the Metropolitan Police, Greater London's police force, had mishandled the demonstration.

However, he also condemned those protesters that entered his party's HQ, stating that that they must be punished.

Fifty-one people were arrested due to the unrest.

The coalition government is aiming to slash $128bn from runaway public expenditure over the next four years and Travers said that the protests were unlikely to stop the government's deficit-cutting zeal.

"I would be surprised if they changed anything," Travers said. "But then again nothing is certain in politics."

Tuition fees are set to rise from the current level of about $5,000 to up to $14,000 annually for undergraduates, while at the same time university budgets are to be slashed by 40 per cent.

This has left many students and potential students asking why they should pay more if they get less funding and resources in return.

Humanities and arts are likely to be hit hardest, lacking the protection that other disciplines such as science and medicine, will receive.

Fears have thus been stoked that only the rich will be able to access more expensive courses.

More activism?

The Conservative-Liberal Democrat coalition government has said that the current system of taxing to pay for tertiary education is elitist, while scholarships will pick up the shortfall of poorer students' entering universities once the fees change.

The government has said it is increasing tuition fees to stave off a worsening budget deficit, with, they say, more than half of young people in the population expected to go to university in the next few years.

The previous Labour government introduced the first fees for students soon after it was elected in 1997, while Scotland abolished tuition fees in 2000.

Whether or not Wednesday's protest is the beginning of greater activism against large and wide-ranging public sector cuts, the most severe drop in spending since the Second World War, remains to be seen.

Before Wednesday's protests there had been little public display of opposition to the measures that will see tax hikes, reductions in welfare payments, and layoffs in the public sector.

This is in stark comparison to France, where strikes and demonstrations against austerity measures have caused fuel shortages and the halting of public services.

Travers said: "Student dissent is not new in this country or elsewhere. And in some ways the demonstration yesterday [Wednesday] highlights the strongly muted or lack of response so far from the rest of the UK public sector.

"I'm not saying that there won't be further protests but ... this is not France."

Al Jazeera

G20 leaders claim 'big progress'

Tighter financial regulations backed to guard against past excesses in final statement that reveals unresolved issues.
Friday, Nov 12, 2010

Leaders at the Group of 20 summit meeting in South Korea have claimed "big progress" in negotiations after agreeing to tackle global "tensions and vulnerabilities".

The leaders reportedly disagreed on the wording of the final communique but decided to gloss over the ongoing debate about their economic policies.

Trade imbalances and protectionism have been the major sticking points at the meeting of the world's biggest rich and emerging economies - the group's fifth since the financial crisis exploded in 2008 - in Seoul.

In the communique issued on Friday, the G20 leaders endorsed tighter financial regulations, including bank capital and liquidity standards, to guard against what they called past excesses.

"This new framework ... will ensure a more resilient financial system by reining in the past excesses of the financial sector and better serving the needs of our economies," the statement said.

The G20 members agreed to set vague "indicative guidelines" to reorient trade between surplus and deficit economies but left the details to be discussed in the first half of next year.

They were unable to reach a consensus on how to identify when global imbalances pose a threat to economic stability, merely committing themselves to a discussion of a range of indicators in first half of 2011.

Window of opportunity

The G20 leaders further pledged moves "toward more market-determined exchange rate systems, enhancing exchange rate flexibility to reflect underlying economic fundamentals, and refraining from competitive devaluation of currencies".

They also agreed that there was a critical, but narrow, window of opportunity to conclude the long-elusive Doha round of trade liberalisation launched in 2001.

"Risks remain," the communique said. "Some of us are experiencing strong growth, while others face high levels of unemployment and sluggish recovery. Uneven growth and widening imbalances are fuelling the temptation to diverge from global solutions into uncoordinated actions."

Slow-growing advanced economies have kept interest rates at record lows to try to kickstart growth, while big emerging markets have come roaring back so fast that many are worried about overheating.

Barack Obama, the US president, and Hu Jintao, the Chinese president, were among the leaders who cautioned that "risks remain" to the global economy and that "uncoordinated policy actions will only lead to worse outcomes for all".

Hu demanded global resistance to trade barriers saying the international financial markets "are volatile, the fluctuation in the major currencies is large, prices of commodities are high, and there is a clear rise in protectionism".

Fixing imbalances

Obama said there should be no controversy about fixing imbalances "that helped to contribute to the crisis that we just went through".

The US plan to curtail trade imbalances was a backdoor way of forcing China to realign its currency, which critics say is kept deliberately cheap to support Chinese exporters.

But the proposal ran into trouble not just from China but from several other nations including Germany, Europe's export champion, which insists that its own trading strengths have nothing to do with any currency manipulation.

Nicolas Sarkozy, the French president and incoming chairman of the G20, vowed on Friday to guide the grouping with "responsibility and realism", and pledged to work "hand in hand" with the International Monetary Fund on global reforms.

A day earlier tempers had flared over the US Federal Reserve's latest bond-buying programme, while Ireland's worsening debt troubles served as a reminder that the financial system is far from fully healed.

Al Jazeera's Rosiland Jordan, at the G20 summit venue, reported quoting a senior US government official that there had been a lot of concerted negotiations before the agreement was reached.

Needs of the poor

Our correspondent said the leaders made a point of trying to pay attention not just to the needs of the 19 largest industrial nations and the European Union, "but also to look at the needs of the poorer nations that were not officially represented at the G20 meeting".

Ben Phillips, of Save the Children, said it was a real achievement by the South Koreans and civil society groups, who managed to put development on the meeting's agenda.

"You cannot have a meeting that talks about the world economy and does not talk about the poorest people. It is now on the agenda and the G20 have acknowledged that the people who have suffered the most from the economic crisis are the poorest in the world," he told Al Jazeera.

"We also know that 250,000 children will die because of the crisis, so any recovery package has to include the world's poorest people."

As part of the move to remove protectionist actions, Philips said rich countries "should open up their markets to the very, very poorest of countries to help them develop economically.

"They need aid and trade, both".

Al Jazeera

Obama warns against export reliance
US president tells Asia-Pacific summit of business leaders that surplus economies must focus on currency reform.
Saturday, Nov 13, 2010

Barack Obama, the US president, has urged big surplus economies such as China, the world's second largest, to end reliance on exports for economic growth, while his Chinese counterpart vowed to step up efforts to depend more on domestic demand.

Obama and Hu Jintao, China's president, issued the statements during Asia-Pacific Economic Co-operation (Apec) meeting of business leaders on Saturday in the Japanese city of Yokohama.

At the summit, which will carry on throughout the weekend, world leaders will discuss policies aimed at ensuring balanced global economic growth and the establishment of a vast free trade area.

It follows a two-day summit in Seoul, South Korea's capital, of the Group of 20 major economies, which was dominated by talks on global economic recovery.

"One of the important lessons the economic crisis taught us is the limits of depending primarily on American consumers and Asian exports to drive economic growth," Obama said in Yokohoma on the final leg of a 10-day tour that also took him to India, Indonesia and South Korea.

"Going forward, no nation should assume that their path to prosperity is simply paved with exports to America."

Hu told the business forum that China wanted to boost domestic demand growth and remained committed to reforming its exchange rate "on the basis of retaining initiative, controllability and gradualness".

'Durable recovery'

The G20 countries are trying to find ways of bringing down overly large account surpluses and deficits among major economies to prevent them from increasing protectionism to a degree that could hurt international trade.

The United States and China have been debating over who is doing more damage to international trade with their economic policies.

Washington contends the yuan is undervalued, giving it an export advantage.

On the other hand, Beijing has criticised the recent US federal reserves' purchase of $600bn of government bonds, which aims to boost the country's economy by injecting more money into it, saying the excessive spending will weaken the dollar to the detriment to other nations that trade with it.

Obama has argued that a strong US economy, the largest in the world, is pivotal to a strong global economy.

"A strong recovery that creates jobs, income and spending is the most important contribution the United States can make to the global recovery," Obama said.

"We all recognise that the value of a foundation for a strong a durable recovery will not materialise if American households stop saving and go back to spending based on borrowing."

Al Jazeera

Rifts remain after APEC summit

US-China currency battles unsettle Asia-Pacific leaders' summit meant to push for vast regional free-trade zone.

Sunday, Nov 14, 2010

Leaders from the world's top three economies and some of its fastest-growing have pledged to start work on a vast regional free trade area linking commerce in the Asia-Pacific region.

The US, China and Japan - the world's three largest economies - joined with the rest of the 21-member Asia-Pacific Economic Co-operation (Apec) in embracing free trade and renouncing competitive currency devaluations during a four-day meeting of the group in Yokohama, Japan, that came to an end on Sunday.

But the grouping's members appeared to have failed to reach consensus on the details of how to achieve their principal goals, such as establishing a Free Trade Area of the Asia-Pacific (FTAAP).

Indeed, as the nations' leaders began to make their way home, signs of discord over how best to ensure global recovery were already becoming apparent.

Hu Jintao, the Chinese president, said during a speech on Sunday on the sidelines of the summit that uncertainties remain about the global recovery and that "trade protectionism" has recently risen noticeably.

China and the US also continue to disagree over the factors exacerbating a massive trade imbalance between the two countries.

Both sides argue the other has an undervalued currency.

The US says this gives Chinese exporters an artificial advantage in overseas markets and drives up the US trade deficit, while China criticises the US Federal Reserve's stimulus policy of creating money to buy up assets and unfreeze the US economy, which the Chinese say has flooded their markets with cash and driven up inflation.

But Ma Zhaoxu, the spokesman for the Chinese Apec delegation, said on Sunday that China was satisfied with the forum, according to the Xinhua news agency.

For his part, Naoto Kan, the Japanese prime minister, gave warning during a speech on Sunday that removing trade barriers from his country's economy would mean "pain and suffering," even as he promised that "Japan will be opening up".

Japanese farmers, especially those in the country's treasured rice industry, fear the expansion of the regional free-trade treaty known as the Trans-Pacific Partnership - an expansion favoured by the US and others - because new rules could provide Japanese buyers with access to cheaper agricultural products from abroad.

"The average age of Japanese farmers is nearly 66 years old," Kan said.

He said he was seeking to "engage younger generations in helping more people consider careers in agriculture".

Japan has placed a nearly 800 per cent tariff on rice imports and a 250 per cent tariff on wheat imports, according to the AFP news agency. Those would disappear under an expanded free-trade agreement.

Disjointed approach

In a declaration released on Sunday, Apec pledged to take "concrete steps" toward establishing the FTAAP, but did not describe what steps they might be.

The statement praised its members' economic development. Between 1994 and 2009, total trade grew 7.1 per cent, while the "simple average applied tariff" fell from 10.8 per cent in 1996 to 6.6 per cent in 2008, it said.

The statement noted that Apec economies, like many others, are still recovering from the three-year-old global financial crisis. It also raised environmental issues and said that Apec members need to address the "urgent priority" of climate change.

The statement also emphasised improving supply chains across the Pacific. It called for a 10 per cent improvement by 2015 in terms of a reduction in the time, cost and "uncertainty" in moving goods.

Apec, founded in 1989, accounts for more than half of the world's total commerce. It includes fast-growing economies in Latin America, including Chile and Mexico.

The Yokohama meeting came on the heels of the summit of G20 advanced and emerging countries in Seoul, South Korea, which produced a vague agreement that gave little sense of a united approach to preventing further economic crises.

Regional strains

Though Apec's mandate does not specifically include security issues, the final statement also included a reference to the need to implement counterterrorism financing. Territorial tensions between China and Japan were also visible.

Kan met Jintao and Dimitry Medvedev, their Russian counterpart, in a bid to soothe ties frayed by territorial rows.

Russia and Japan both claim the four islands that Russia calls the Southern Kuriles and Japan has named the Northern Territories, and Medvedev upset Japan when he visited the islands for four hours on November 1. Earlier, a China-Japan feud flared up in September

over islands in the East China Sea that are claimed by both countries and are near potentially vast maritime oil and gas reserves.

The Japanese and Russian foreign ministers agreed to improve ties, but in a sign strains remained, Medvedev urged Japan to abandon its "emotional stance" on the issue and talk business instead.

China-Japan ties have soured since Japan detained the captain of a Chinese fishing boat that collided with Japanese patrol boats near the disputed islands, risking fallout for trade and investment links between Asia's two biggest economies.

A Japan official called the 22-minute meeting a "big step towards improvement", but domestic media were less enthusiastic.

The *Yomiuri* newspaper said the chat had simply avoided the "worst-case scenario" of yet another snub by China.

Al Jazeera

China: Inflation Returns

Striking a balance between economic prosperity and inflation remains a problem for China

Monday, Nov 15, 2010

Before being able to catch its breath following two strenuous years of policy implementation following the global slowdown, the Chinese economy finds itself up against another challenge: inflation. Just as it did three years ago, consumer inflation, on everything from garlic and food to diapers and non-perishables, is plaguing the Chinese mainland.

The consumer price index (CPI), a barometer for inflation, soared 4.4 percent year on year in October, the highest in almost two years, mostly driven by increases in food prices. The inflation rate is expected to increase further in the last two months of this year due to a low comparison base in 2009.

The prices of daily necessities have been rising since China's 4-trillion-yuan ($586-billion) stimulus plan was put in place in November 2008. Some goods, pushed up by massive cash injection and possible speculation, have seen their prices surge above pre-crisis levels.

As usual, food is being singled out as the culprit for the rising prices. In Xinfadi, Beijing's largest vegetable, fruit and grain transaction center, rice was sold at 1.6 yuan ($0.24) per kg last winter. This year, the price has almost doubled to 3 yuan ($0.45) per kg.

Some families are even missing the months following the financial crisis, when the prices of food, housing and autos had settled at relatively affordable levels after months of increasing. The previous round of inflation started in early 2007 and continued until the outbreak of the financial crisis in 2008.

Already, some people in Shenzhen, Guangdong Province, are traveling to nearby Hong Kong to buy soy sauce, eggs and other daily necessities since Hong Kong food prices are noticeably cheaper.

The price of staple food, such as wheat and rice, jumped more than 10 percent in October from the previous few months. News of a food crunch—in mung beans, garlic and sugar—has dominated Chinese newspaper headlines this year. And reports of food smuggling, hoarding and profiteering have stoked public anger and caught the attention of the Central Government.

The Chinese central bank raised both the benchmark loan and deposit interest rates by 0.25 percentage points on October 20, the first increase in three years. In spite of the hike, the real interest rate in China is still in negative territory, diminishing the value of citizens' savings in commercial banks.

The latest China Quarterly Update issued by the World Bank China Office on November 3 said inflation, pushed up by higher food prices, may stay above the 3-percent target for a while and is unlikely to escalate as core inflation remains in check. However, the update contended raw commodity prices might rise further. Sustained high wage growth, while unlikely, also cannot be ruled out. Given the fundamental drivers of property prices—rampant liquidity and people's desire for better living conditions—the property sector is unlikely to be contained for long. On current trends and policies, the external surplus is on course to rise in 2011 and in the medium term.

The cause

There's simply too much cash in the market, said Xie Guozhong, an independent economist and a director at Rosetta Stone Capital Ltd. Xie argued the market supply has always remained stable, so the root cause for surging prices is oversupply of money.

At a government work meeting earlier this year, Chinese Premier Wen Jiabao pledged to stick to a "moderately loose" monetary policy throughout 2010 for fear the then-fragile recovery would come to an abrupt end if the stimulus measures were pulled.

"The central bank has adopted an extremely loose monetary policy," said Wu Xiaoling, Vice Chairman of the Financial and Economic Committee of the Standing Committee of

the National People's Congress. "Our seemingly robust economic growth in the past three decades was actually built upon excess money supply."

The quantitative easing monetary policies adopted by some major economies add pressure to China's efforts in battling inflation, according to the 2010 Third Quarter China Macro-Economic Situation Analysis published by the central bank on October 27. The U.S. Federal Reserve said on November 3 that it would buy up an additional $600 billion in long-term Treasury bonds by the end of June 2011 as part of its quantitative easing strategy to support a sustained economic recovery.

The greenbacks produced by the United States have flooded the global market, pushing up international commodity prices, as most are valued in the U.S. dollar.

Chinese Minister of Commerce Chen Deming condemned the United States for the out-of-control dollar printing, which puts U.S. problems onto the shoulders of other countries, including China.

The Chinese central bank report warned of rising price surges in the near future and cited several other reasons.

The domestic monetary and credit environment is still loose and might continue to be so for the rest of the year, the report said. The growth of the broad money supply was close to or above 30 percent for nine consecutive months from September 2009 to May 2010, a major reason for the runaway liquidity in the market.

A foreseeable surge in grain prices next year will rub salt in the inflation wound. The rising costs of planting and increasing demand of grains for industrial use will inevitably lead to escalating grain prices.

In addition, the ongoing reforms of income distribution and the resource price system should also be taken into account, said the central bank report.

No worries

Louis Kuijs, senior economist of the World Bank China office, believes inflation will not escalate in China. He argues that in an emerging market like China where the economy undergoes rapid changes, "it's OK for there to be inflation. And a 3- or 4- or 5-percent inflation rate is not necessarily that alarming," Kuijs said in an interview with *Beijing Review*.

He said the changes in the economy demand relative price changes.

Kuijs contends that it is not good to try to suppress the inflation, especially if wages start to increase at the lower end of the labor market.

"If you look at the prospects for inflation, two key channels can give you a lot of inflation. One is a very rapid increase in raw commodities," Kuijs said, adding that he expects the supply of commodities to remain higher than demand for a few more years. There is also little room for rapid increases in commodity prices in the medium term, notwithstanding sharp volatility in the short term.

"The second key channel is core inflation, which is determined by the wage pressure in the manufacturing sector," Kuijs said, adding that the manufacturing sector is expected to absorb these increases.

The domestic economy has cooled through 2010 as the stimulus impact fades and the monetary stance normalizes. Investment and urban consumption have decelerated, and so have imports.

In spite of the food price surge, residents in major cities with above average salaries have not been as affected as those with smaller incomes. "Who cares about one or two yuan increases in cabbage prices?" exclaimed Xiao Wei, a 22-year-old Shenzhen resident at an exhibition company.

But one thing does upset her—the unbelievably high housing price. After two years of working in Shenzhen, Xiao earns approximately 5,000 yuan ($751) a month. "But rent alone costs me 2,000 yuan ($300), and I do not even dare to look at the price of buying a small apartment."

In Shenzhen, the average price per square meter is about 16,000 yuan ($2,388). "With my current salary, I would have to work 20 years without any personal consumption for a small two-bedroom apartment!"

At an economic development forum held in Tsinghua University on October 29, economists reached a consensus that inflation in China would come from the sizzling property market instead of the food or energy sector.

In the last 12 months, the average housing price within Beijing's Fourth Ring Road and Shanghai's Outer Ring Road exceeded 30,000 yuan ($4,510) per square meter, 30 percent higher than a year earlier. In September this year, housing prices in 70 large and medium-sized cities rose 9.1 percent from the same month in 2009, reaching a historical level.

The World Bank's China Quarterly Update said the most important macro-economic risks are non-performing loans and prices of housing, equity and possibly other assets.

Moreover, while the inflation outlook does not seem worrisome, the risks to inflation call for vigilance, managing inflation expectations, and monetary policy leeway. With the economy operating close to full capacity and the growth outlook robust, further consolidation of the monetary stance is needed.

Beijing Review
http://www.bjreview.com.cn/business/txt/2010-11/15/content_312382.htm

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Eurozone crisis 'threatens EU'
Herman van Rompuy, the EU president, says 27-nation bloc will not survive if it fails to overcome the debt crisis.
Tuesday, Nov 16, 2010

The European Union will not survive if it fails to overcome a debt crisis plaguing the euro single currency area, the bloc's president Herman Van Rompuy has said.

Van Rompuy said that the EU and eurozone were in danger from alarm in the financial markets, just hours before finance ministers met in Brussels, the Belgian capital, on Tuesday.

The meeting, expected to continue late into the night, was called to grapple with an exploding debt crisis that has already brought Greece to its knees, and now threatens Ireland and Portugal.

"We all have to work together in order to survive with the eurozone, because if we don't survive with the eurozone we will not survive with the European Union," Van Rompuy said in a speech.

He said he was "very confident" the EU would overcome the crisis, thanks to "courageous measures" taken by states "to reduce expenses at a time of populism, despite massive protests on the street and knowing they risk electoral defeat."

Stark warning

Van Rompuy's stark warning raises the stakes after an admission by Ireland that it was holding talks about a possible rescue, six months after international partners had to rush to aid Greece with a $150bn bailout.

Ireland said it was discussing stabilisation measures with its European partners on Tuesday and ways to cut its heavily indebted banks' funding costs.

Brian Cowen, the country's prime minister, sought to reassure the public, saying the government was fully funded until mid-2011, and that it was only the banks may need help.

"What we are doing is discussing with our European partners as to what stabilization [measures are] ... necessary," he told parliament on Tuesday.

Olli Rehn, the European Economic Affairs Commissioner, said that leaders were all working on ways "to resolve the problems of the Irish banking sector".

He added that the shared euro currency wasn't itself at stake.

"This is not a matter of the survival of the euro, this is a very serious problem in the banking sector of Ireland," Rehn said.

Nazanine Moshiri, Al Jazeera's reporter in Brussels, said euro zone ministers appeared to be "waiting for a signal from Ireland".

"I spoke to the Belgian finance minister and he said they are expecting that Ireland will ask for a cash injection.

"He said it's absolutely necessary to shore up confidence. He, like many euro zone ministers is concerned, about the impact this could have on other countries."

There are fears that Ireland's market turmoil could trigger a domino effect that could topple other vulnerable nations like Portugal.

Portugal has warned that it is at "high" risk of needing financial support, unable to borrow money on open markets other than at prohibitive rates, partly because tension over Ireland is increasing pressure on other weak eurozone members.

George Papandreou, the Greek prime minister, also facing new problems over conditions attached to the rescue for Greece, has said he has support from Nicolas Sarkozy, the French president, to re-schedule bailout repayments.

The three countries are only the weakest links in a chain of debt coursing through the 16 nations that share the euro currency, with almost every other member of the European Union bursting at fiscal seams.

Steps to normalisation

Analysts expect the ECB to announce "further steps towards normalisation of its money market operations" at the start of December, Callow added.

Ireland's public deficit this year is set to pass 30 per cent of GDP, 10 times the permitted EU limit and double last year's Greek deficit.

Its plight - which stems from Irish banks' massive over-exposure to busted property markets - is causing consternation among those who would have to guarantee rescue loans.

While drawing up massive new spending cuts to be announced within weeks, Ireland has sought desperately to resist the onslaught from euro doubters.

Experts say Dublin will need about $95bn, and Jean-Claude Juncker, the Eurogroup head, along with the ECB, the European Commission and the International Monetary Fund each say they are ready to act "as soon as possible" if asked.

Others are feeling the heat - with Spain also under pressure going into a bond sale on Tuesday.

Twenty-four of the EU's 27 states are currently running deficits way above EU limits. Bond yields for Ireland, Portugal and Greece all remain high.

The speculation is hurting the euro, which may be a minor blessing in disguise for exporters, and markets will again be watched closely over the course of the day.

Europe's top stock markets fell at the start of trading on Tuesday, with London's benchmark FTSE 100 index, Frankfurt's DAX 30 and the Paris CAC 40 each shedding value.

Al Jazeera

EU-IMF to visit Ireland over debts
Officials to discuss what measures could be taken to ease debt crisis, but Dublin denies it needs a bailout.
Wednesday, Nov 17, 2010

Ireland could become the second euro zone member to be granted a bailout after the bloc's ministers decided to send a joint European-International Monetary Fund (IMF) mission to the country to try tackle its debt crisis.

The team, that includes members of the European Commission and European Central Bank (ECB), will travel to Ireland on Thursday to examine what measures may be needed if Dublin decides to seek aid, euro zone finance ministers said.

The decision, which came as the ministers met on Wednesday in Brussels, the Belgian capital, is intended to prevent the crisis from spreading to other countries - months after Greece was bailed out by euro zone members and the International Monetary Fund (IMF) with a $146.2bn package.

"The Irish authorities are committed to working" with the EU, the ECB and the IMF to "determine the best way to provide any necessary support to address market risks, especially as regards the troubled banking sector," Olli Rehn, the head of EU monetary affairs, said.

"This can be regarded as an intensification of preparations of a potential programme in case it is requested and deemed necessary."

'No bailout negotiation'

The government in Dublin, the Irish capital, maintains it does not need a bailout even though there has been discussion of help for its banks.

Brian Cowen, the Irish prime minister, emphasised that the mission would look at what assistance Ireland might require, and rejected suggestions his government was discussing a bailout.

"What we want to concentrate on now is ... to sit down and see in what way can assistance be provided to ensure that these issues can be dealt with properly and appropriately," he told parliament.

"There has been no question of the government ... [being] in a negotiation for a bailout," he said.

Economists said a state bailout was a distinct possibility.

"There is an air of inevitability that there will be some sort of bailout," Alan McQuaid, chief economist at Bloxham Stockbrokers, said. "Why come to Dublin if you are not going to give a bailout?"

Before the decision to dispatch the European-IMF mission, Brian Lenihan, Ireland's finance minister who was attending the Brussels meeting, said the team would determine what to do about the banks, which he admitted needed help.

Ireland has said the bill for bailing out its banks could top $68bn but investors fear the final figure could be even higher given rising residential mortgage arrears, deposit outflows and higher funding costs.

Concerns that Ireland will be unable to pay the cost of rescuing its banks - which ran into trouble when the country's real estate boom collapsed - has worsened Europe's government debt crisis.

Higher borrowing costs

Markets have pushed up borrowing costs for other vulnerable nations such as Portugal and Spain and threatened to destabilise the common euro currency.

However, Lenihan added that members of the euro zone had welcomed his four-year, $20bn budget-cutting project which he is hoping to publish next week, suggesting he sees no need for further fiscal tightening.

He also denied that the country's super-low corporation tax of 12.5 per cent needed to be raised to ease the debt.

Alan Fisher, Al Jazeera's correspondent in Dublin, said that the Irish government has said that their forthcoming meeting with the European-IMF team was only a technical meeting.

"The group will make recommendations to the Irish government, then leave and then the Irish government will decide what it wants to do next.

"It will make clear what the euro zone in particular wants from the Irish government, but in the end if the Irish government decides that it doesn't want to have a bailout ... then it doesn't have to take one."

Wednesday's decision by the euro zone finance ministers echoed an earlier one to send an EU-IMF-ECB team to Greece as part of Athens' rescue.

Nazanine Moshiri, Al Jazeera's correspondent in Brussels, said: "The fear here is that if something isn't done there could be a ripple effect that would be devastating for the euro zone."

Portugal has warned that it is at "high" risk of needing financial support, unable to borrow money on open markets other than at prohibitive rates, partly because tension over Ireland is increasing pressure on other weak euro zone members.

Al Jazeera

GM automaker makes market return

US president hails end of government's role as majority shareholder in car manufacturer as it raises $20.1bn.

Thursday, Nov 18, 2010

General Motors returned to Wall Street on Thursday with a dramatic stock offering, ending the US government's stint as the beleaguered auto giant's biggest shareholder.

Including an option that would allow underwriters to sell more shares, expected to be exercised in coming days, GM looks set to raise $23.1bn, making it the biggest initial public offering in US history.

"Going public is an important milestone on our way to being a new and different and better GM," Dan Akerson, the GM chief executive, said.

Akerson, who rang the opening bell on the New York Stock Exchange to the sound of a revving engine on Thursday, said he was optimistic the initial public offering (IPO), initially priced at $33 per share, would be a success.

GM sold 478 million common shares, raising $15.77bn, as well as $4.35bn in preferred shares, more than the initially planned $4bn.

Shares rose nearly seven per cent in midday trade after a sale that could slash the government's stake in the company from 61 per cent to as little as 33 per cent, recouping $11.7bn for taxpayers.

But Washington would need to sell the remainder of its shares at upwards of $50 per share - well above current market value - to recoup taxpayers money in full.

'Tough decisions'

The company was forced to delist after filing for bankruptcy protection on June 1, 2009, amid plummeting sales, high debt and recession-hit consumers unable to secure loans.

GM's stock then traded for less than a dollar.

The strong response to Thursday's stock sale reflects investor confidence that GM is moving beyond its unpopular, taxpayer-funded bankruptcy with sharply lower costs and higher profit potential.

Barack Obama, the US president, pointed to GM's rise from the ashes as proof his policies could work across the broader US economy, which is still struggling under the weight of high unemployment and tepid growth.

"We are finally beginning to see some of these tough decisions that we made in the midst of crisis to pay off and I'm absolutely confident that we're going to keep on making progress," he said.

"Last year we told GM's management and workers that if they made the tough decisions necessary to make themselves more competitive ... then we would stand by them."

"And because they did, the American auto industry, an industry that's been the proud symbol of America's manufacturing might for a century, an industry that helped to build our middle class, is once again on the rise."

Detroit cautious

However, Al Jazeera's Imtiaz Tyab, reporting from Detroit where the automaker is based, said that the city's residents were less upbeat about the chances that the company would completely recover.

"The jubilation and excitement that we saw on Wall Street certainly hasn't translated here to Main Street," he said.

"People are very happy that GM has returned to the stock market ... but on the other side, you have many people saying, while investors have shown confidence in GM, will that translate into consumers showing confidence?"

Automobile industry executives and analysts said the reversal in Wall Street sentiment towards GM pointed to revitalized hopes in an industry that was hard hit by the 2008 credit crisis.

That is a positive sign for a range of companies, including Chrysler, that are looking to tap the credit and equity markets in coming months, analysts said.

Bob King, United Auto Workers president, whose union stood to earn $3bn from the IPO for an affiliated trust fund for retiree healthcare, said GM factory workers had an interest in seeing shares perform well.

"The higher that stock price is, the more money General Motors has got to invest in products, new facilities," King said.

The sale is already on target to beat the $19.7bn listing of Visa in 2008, which is the current US record.

The return of GM to the New York Stock Exchange after a near 18-month hiatus is expected to make it easier for the company to raise capital as it continues to address pension under funding and shifts away from gas-guzzling sport utility vehicles (SUVs) toward greener, electric and fuel-efficient vehicles.

Whether bankruptcy fixed the company also remains a question, but it is far healthier in its new form.

The company closed 14 of its 47 plants, closed or sold off its Hummer, Saturn, Saab and Pontiac
brands, and slashed its debt from about $46bn to about $8bn.

Individual investors

More than 20 per cent of the IPO - or more than $3bn worth of stock - went to individual investors, making it the largest retail placement ever in value terms, a source said.

The IPO has been backed by a host of large US and international banks, including Morgan Stanley, Bank of America, JPMorgan, Deutsche Bank and two Brazilian banks.

Yet two banks - the Industrial and Commercial Bank of China [ICBC] and China International Capital Corporation [CICC] - stand out as they signal the first time Chinese government-owned banks taking part in a major US IPO, the IPO tracking firm Dealogic said.

Chinese state media said Shanghai Automotive Industries Corp [SAIC], GM's partner in China, bought a one per cent stake in GM, to the tune of $500m.

Al Jazeera

The Aussie Dollar Soars, Central Bank Shrugs
Australia is luring investors who like the country's high interest rates and strong dollar
Thursday, Nov 18, 2010

At a time when nations from Japan to Brazil are struggling to keep currency gains from damaging their economies, Glenn Stevens, governor of the Reserve Bank of Australia, the central bank, is taking the road less traveled. He's welcoming a stronger exchange rate.

Australia's dollar (nickname: the Aussie) has advanced 17 percent against the greenback since the end of June, the biggest gain of the 16 major currencies tracked by Bloomberg. It recently reached parity with the U.S. dollar for the first time since July 1982. Stevens figures a combination of a stronger currency and higher interest rates—he's hiked rates seven times in the last 14 months—will quell the country's inflation and keep growth steady.

Prospects for the Aussie, as well as the central bank's hands-off attitude, are tempting some of the world's biggest bond investors to pile into the nation's debt, even though Stevens has signaled more rate increases may come. "The Australian dollar is among what we're calling the world's new safe havens," says Jonathan E. Lewis, founding principal of New York-based Samson Capital Advisors, which manages $6.9 billion and specializes in bonds and currencies. Lewis has twice the percentage of Australian dollars in client accounts than what's contained in the benchmark index Samson uses to gauge its performance. Tokyo-based Kokusai Global Sovereign Open, Asia's biggest bond fund, boosted its investment in Australia to a record 15 percent of assets this year. The Australian government's Nov. 10 auction of debt maturing in July 2022 attracted bid volume four and a half times greater than the amount of available securities.

Investors love the appreciating currency and the benchmark rate of 4.75 percent, especially when compared with rates near zero in Japan and the U.S. They don't seem too concerned about the problems forcing Stevens to hike those rates. China's appetite for Australian iron ore, coal, and other commodities has created a red-hot mining sector that is luring workers away from other parts of the economy and driving up wages.

The Aussie has dipped recently on fears that the Chinese government would try to cool off its own economy. Yet the International Monetary Fund predicts China's economy will grow 9.6 percent next year, which should be enough to keep Australian mines humming. The IMF expects that Australia's economy will expand 3.5 percent next year from 3 percent in 2010. What's more, when Australia sells its ore and coal, the deals are priced in U.S. dollars, so the value of Australia's currency does not affect the price for foreign

buyers. Chinese imports of iron averaged 51.5 million tons a month this year and last, compared with 37 million tons monthly in 2008.

Could the central bank forsake its neutral stance and intervene if the Aussie gets too strong? Ken Leech, head of the global investment strategy committee for Western Asset Management, Legg Mason's bond unit, says he doesn't think the Australians will intervene. Since letting their currency first float freely in 1983, the Australians have been generally reluctant to jump into the markets to prop up or restrain the Aussie dollar.

The Australian currency may also be too hot not to cool off. Its advance has already made it the world's most expensive currency based on purchasing power parity, a measure of the cost of goods relative to other countries. The gauge shows the Aussie is trading at a 30 percent premium to the greenback, according to data compiled by Bloomberg. "It's very overvalued, and it's unlikely to remain that way for a substantial period," says Lee Hardman, a foreign exchange strategist in London at Bank of Tokyo-Mitsubishi UFJ. For investors tired of meager yields elsewhere, it's a good ride while it lasts.

The bottom line: Australia is luring investors, who like the country's high interest rates and strong dollar. The central bank needs to keep inflation in check.

Bloomberg
http://www.businessweek.com/magazine/content/10_48/b4205022086975.htm?chan=magazine+channel_news+-+global+economics

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Cotton Prices Rise as Chinese Output Falls Short
A shortfall in China's cotton production could mean U.S. retailers will have to pay their Chinese suppliers as much as 30 percent more for apparel
Thursday, Nov 18, 2010

Gap (GPS), J.C. Penney (JCP), and other U.S. retailers have long benefited from low costs in China to hold down prices in their American stores. A cotton shortage may help change that equation.

China's farms produce about 26 percent of the world's cotton, yet that's not enough to satisfy the needs of the Chinese companies that make shirts, pants, dresses, and more for U.S. store chains. Cotton futures in China have surged more than 70 percent this year as the global economy emerged from recession and consumers worldwide started spending more on clothes. Production in China, the world's biggest user of cotton, is forecast to lag behind demand for a 12th year, cutting the country's stockpile to the smallest level since 1995, according to the U.S. Agriculture Dept. The shortfall gives local makers of cotton fabrics a lot of leverage in negotiating prices with apparel manufacturers. "It's a little terrifying to deal with cotton suppliers now," says Vicky Wu, a sales manager at Suzhou Unitedtex Enterprise, a closely held clothes maker based in Jiangsu province that counts Gap and Penney's among its clients.

Chinese suppliers to the big U.S. retailers have to figure out if they can pass on their increased costs. Unitedtex, which sells $24 million worth of shirts and jackets annually to Gap, plans to raise prices by 5 percent to 30 percent for products available in April, Wu says. Shandong Zaozhuang Tianlong Knitting, which makes Polo Ralph Lauren (RL) T-shirts and track suits for Le Coq Sportif Holding, has raised prices as much as 70 percent from a year earlier. "If cotton keeps rising like this, we will need to lift prices by 30 percent by Chinese New Year or we lose money," says sales manager Fred Hu.

"American consumers better get used to rising prices on the shelves of Wal-Mart (WMT) and other retailers," says Jessica Lo, Shanghai-based managing director at China Market Research Group. "China's manufacturers are getting squeezed not only by rising cotton costs but also soaring real estate and labor costs." John Ermatinger, Gap's Asia president, declines to say whether Gap will raise prices. "We are going to be mindful of our competition," he says. "We are going to be mindful of our consumer. That's how we'll ultimately establish our prices."

The bottom line: Chinese apparel producers are being squeezed by a shortfall in the cotton supply. The result could be higher prices in U.S. stores.

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http://www.businessweek.com/magazine/content/10_48/b4205026157483.htm?chan=magazine+channel_news+-+global+economics

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Bond Investors Detect a Whiff of Inflation
Bond options are anticipating a rise in prices. That would lower the risk of deflation settling in
Saturday, Nov 20, 2010

Federal Reserve Chairman Ben Bernanke's $600 billion plan to slay deflation, and perhaps spark some modest inflation, has a chance of working if the market for bond options is any indication. The question is whether his grand plan will engineer a recovery as well.

As the central bank starts a second round of Treasury purchases through its quantitative easing policy, investors are paying eight times more than they did in April for options on interest rate swaps that protect against rising yields, relative to options on swaps that bet on yields falling, according to Barclays (BCS) data. The difference between these options, which in traders' parlance is called the payer skew, has widened by 23 basis points since early April. When a bond's price declines, its yield goes up. Bond yields often go up when investors expect inflation to accelerate. Conversely, when investors bid up bond prices, yields drop, a sign that more inflation is not expected.

In a quarterly Bloomberg Global Poll of 1,030 investors, analysts, and traders, 56 percent said the Bernanke plan won't boost growth. Half of them, however, did say quantitative easing will help avoid deflation. Defanging deflation may be more important to Bernanke, since a decline in prices makes consumers and businesses less willing to

invest. Moderate inflation makes it easier for companies to make higher profits, which encourages them to spend more. A little inflation also encourages consumers: Everyone likes to see the value of their home rise.

Bernanke and other members of the Federal Open Market Committee, who have kept the central bank's target for overnight interest rates between banks near zero since 2008, "are happy to see that inflation expectations have moved up," says Stuart Spodek, a managing director at New York-based BlackRock (BLK), the world's biggest money manager.

Pushing inflation seems to contradict the Fed's dual goals of keeping rates low enough to spur growth while still promoting stable prices. The idea is to brew up enough inflation to help the economy while still keeping inflation-adjusted rates affordable. "Bernanke will be successful," says Fabrizio Fiorini, who manages $8 billion as head of fixed income at Aletti Gestielle SGR in Milan. "A rise in yields will create a virtuous circle that will be helpful for housing, consumer confidence, and probably employment."

Others disagree. On Nov. 15, 23 economists and former Republican policymakers asked Bernanke to drop his strategy. "The planned asset purchases risk currency debasement and inflation, and we do not think they will achieve the Fed's objective of promoting employment," said the group's letter. Its publication helped spark a Treasury selloff. Yields on 10-year Treasuries recently surged to 2.85 percent.

While the markets anticipate prices will pick up in a year, there's little inflation now. On Nov. 17 the government said the cost of goods and services excluding food and energy rose 0.6 percent in October from a year earlier—the smallest year-over-year gain since 1961.

The bottom line: Despite few signs of inflation now, bond options are anticipating a rise in prices. That would lower the risk of deflation settling in.

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China, Russia Pledge Broader Cooperation
Saturday, Nov 20, 2010

Chinese Premier Wen Jiabao and his Russian counterpart, Vladimir Putin, agreed to shore up reciprocal and practical cooperation to further consolidate bilateral relations. Following the 15th regular meeting between the Chinese and Russian heads of government, Wen told a press conference that the latest gathering reinforced the political mutual trust between the two sides and significantly pushed forward bilateral cooperation. The two premiers reached important consensus on bilateral ties and important global affairs, and were confident that the positive results of the meeting would help inject new energy into the comprehensive development of the China-Russia strategic partnership of coordination, Wen said.

China's modernization poses no harm to the interests of any other country, Wen said, adding that stronger China-Russia collaboration will not only benefit the two countries, but also contribute to regional peace and stability.

The two sides have maintained close coordination on such multilateral platforms as the UN and the Group of 20 major economies, and their cooperation is all-around, Wen said.

China is ready to take part in Russia's efforts to build infrastructure and establish special economic zones, and is delighted to invite more Russian youths to learn the Chinese language or study in China, he added.

Noting that the latest international financial crisis has left a far-reaching fallout, the Chinese premier said that both Beijing and Moscow are now facing a variety of challenges, and that both sides have the responsibility to defend their interests.

As 2011 marks the 10th anniversary of the signing of the Treaty of Good-neighborliness and Friendly Cooperation between China and Russia, the two sides should further fortify the idea that the two nations should be friends instead of enemies from generation to generation, Wen added.

Putin, for his part, said the Russia-China trade could return to the pre-crisis level this year. Both countries agreed to expand local currency settlement, and the Chinese yuan will be traded on the Russian foreign exchange market soon. Russia and China have deepened their cooperation in the fields of banking, investment and energy, said the Russian prime minister.

The two countries launched the language year programs as part of their cultural exchange activities, and will hold tourism year in each other's countries, Putin said.

With the establishment of a youth cooperation mechanism, both sides will further boost exchanges between their young people, he added.

Before the press conference, the two premiers witnessed the signing of 12 cooperation agreements on customs, railway, civil aviation and cultural exchanges.

Later in the day, Wen flew to Moscow to meet with Russian President Dmitry Medvedev.

Xinhua News Agency
http://www.bjreview.com.cn/headline/txt/2010-11/24/content_314267.htm

Russian-Chinese trade relations emerge from crisis stronger

St. Petersburg: Trade and economic relations between Russia and China have not only withstood the challenges of the economic crisis, but have actually even strengthened, Russian Prime Minister Vladimir Putin announced during a meeting with his Chinese counterpart Wen Jiabao. According to Putin, trade between the two countries surged 56 percent to $42bn in the first nine months of this year. "In some products, trade demonstrated a significant increase, specifically, in timber (up 83 percent) and electric power (up 40 percent)," Putin stated.

The Russian PM also stressed that the Russian-Chinese strategic partnership was a key factor for promoting stability and security in the world and the Asia-Pacific region. As he went on to point out, relations between the two countries "do not depend on market conditions and are dynamically developing in various areas."

RBC News - RosBusinessConsulting (Provides breaking news on Russian stock and financial markets, and daily commentary.)
http://www.rbcnews.com/free/20101123131251.shtml

Russia registers net capital outflow in 10 months

Moscow: Russia's net capital outflow amounted to $21bn in the first 10 months of 2010, Chairman of the Bank of Russia Sergei Ignatyev announced at a press briefing today. "We saw a capital outflow of about $21bn in January-October, with the trend gaining momentum in September and October," he stated.

As reported earlier, Ignatyev put capital outflow at $12bn for the first eight months of this year. He also indicated that the highest private capital outflow was registered in January, while the inflow and outflow of capital alternated in other months.

Meanwhile, First Deputy Chairman of the Bank of Russia Alexei Ulyukayev does not rule out the possibility of a small net capital outflow in 2010.

RBC News - RosBusinessConsulting
http://www.rbcnews.com/free/20101123133111.shtml

Ruble unlikely to continue falling, Central Bank chief says

Moscow: The ruble current downward trend is not likely to last, Chairman of the Bank of Russia Sergei Ignatyev assured journalists today. He reiterated that the ruble climbed against foreign currencies in the beginning of the year, which resulted in a decrease in the cost of the basket of two currencies. "The trend changed in May, and we have been seeing a large current account surplus since then. Considering the current oil prices, I do not believe the ruble's decline will last," Ignatyev stated.

RBC News - RosBusinessConsulting
http://www.rbcnews.com/free/20101123140249.shtml

UKRAINE, IMF YET TO AGREE ON SIZE OF LOAN

Saturday, Nov 20, 2010
Ukraine has not as yet agreed with the International Monetary Fund (IMF) on the size of a loan to patch up its economy under a new partnership program, the country's finance minister said on Wednesday.

Fedir Yaroshenko said an IMF mission, which was expected to visit Ukraine later this month, would "elaborate a legal framework for the agreement."

"The amount has not as yet been determined - negotiations are ongoing," he said.

Ukrainian Vice-Premier Serhiy Tihipko earlier said that Ukraine might obtain a $19-20 billion loan from the IMF under a new partnership program for two and a half years. The former Soviet republic had initially sought $12 billion.

Ukrainian authorities have said they expect to the first tranche to be disbursed as early as June 2010.

In 2008, the IMF granted a $16.4-billion loan to Ukraine, of which the government has so far received $10.6 billion.

Further payments were frozen in late 2009 after Ukraine raised minimum wages and pensions contrary to IMF recommendations and amid political instability.

Russian Finance Minister Alexei Kudrin has said Russia will back the new loan program for Ukraine.

The IMF mission last visited Ukraine between March 24 and April 2 to discuss the resumption of cooperation.

Eurasian Home (Russian Analytical resource covering economic and political issues)

http://www.eurasianhome.org/xml/t/news.xml?lang=en&nic=news&pid=43373&qday=0&qmonth=0&qyear=0#43373

Booming Africa: An Opportunity for Europe

Africa is one of the world's fastest-growing economic regions. European executives and investors shouldn't ignore its immense business potential
By: Charles Roxburgh and Susan Lund

With the 2010 FIFA World Cup well over, the international sports spotlight has moved on, from South Africa to other tournaments in other lands. Still, European companies and investors should keep their eyes on Africa because competition in commerce is heating up across the continent.

A new report from the McKinsey Global Institute shows that Africa is now among the fastest-growing economic regions in the world, creating significant business opportunities in a wide range of industries. Early entrants onto the field can seize the advantage.

Africa's collective gross domestic product rose at a 4.9 percent annual rate from 2000 through 2008, twice the pace of the preceding two decades. In our report, Lions on the Move: The Progress and Potential of African Economies, we show that this growth surge was broadly based, with roots extending far beyond the global commodities boom.

Looking ahead, we project that at least four groups of industries on the continent could together generate as much as $2.6 trillion in annual revenue by 2020, or $1 trillion more than today, measured in 2010 dollars. The biggest business opportunity of the four lies in consumer goods and services, followed by natural resources, agriculture, and infrastructure.

These projections reflect Africa's recent economic advances and strong long-term prospects. The continent's combined economic output, valued at $1.6 trillion in 2008, is now roughly equal to Brazil's or Russia's. Several factors suggest that this economic momentum can be sustained.

A SURGE OF PEACE AND ECONOMIC REFORM
To start, Africa's growth acceleration was widespread, with GDP rising more rapidly in 27 of its 30 largest economies—both in countries with significant resource exports and those without. Rising revenues from oil, minerals, and other natural resources accounted for just 24 percent of growth from 2000 through 2008. All the other sectors contributed as well, including finance, retail, agriculture, and telecommunications.

Key to the growth surge were government reforms that created greater political stability, improved the macroeconomic environment, and energized the business environment. For example, several countries halted their deadly conflicts. Policymakers also reduced inflation, cut budget deficits, lowered trade barriers, cut taxes, privatized companies, and liberalized many sectors, such as banking.

As a result, a dynamic African business sector is emerging. The continent now has more than 1,400 publicly listed companies. It boasts more than 100 companies with revenue greater than $1 billion. Telecom firms have signed up more than 316 million new mobile-phone subscribers in Africa since 2000—more than the total U.S. population. Banking and retail are flourishing as household incomes climb. Construction is booming as new cities rise.

Africa's future economic growth likely will be supported by several long-term trends. Among these is the rising global demand for oil, gold, diamonds, and other commodities. This demand is growing fastest in the world's emerging economies, particularly in Asia and the Middle East. Despite historic ties with Europe, Africa now conducts half its total trade with developing economic regions—so-called south-south exchanges. Asia's economies altogether accounted for 28 percent of Africa's total trade in 2008, more than double their share in 1990. Western Europe's share shrank during the same period, from 51 percent to 28 percent.

GROWING URBANIZATION, SOLAR ENERGY

There is great potential for Europe to revitalize its old links to Africa and forge new ones. One place to start is by looking beyond Africa's raw materials to a bigger source of future economic growth: the rise of the urban African consumer. Today, 40 percent of Africans live in cities, a proportion that is close to China's and continuing to expand. The continent already has 52 cities with populations greater than 1 million—equal to Western Europe—and is projected to add 32 by 2030. As in other developing economies, urbanization in Africa is creating jobs, boosting productivity, and lifting incomes. The number of households with discretionary income is projected to grow by 50 percent over the next 10 years, reaching 128 million.

Africa's household spending totaled $860 billion in 2008, more than that of India or Russia. The continent's consumer markets are already growing two to three times faster than those in OECD countries and could be worth $1.4 trillion in annual revenue by 2020. With their eyes on this prize, many European companies are already expanding in Africa: Unilever (UL), Standard Chartered (SCBFF), and SABMiller (SBMRY) each operate in a dozen or more of the continent's 50-plus countries.

Urbanization also is increasing demand for investment in new roads, rail systems, clean water, power generation, and other infrastructure in Africa. Some companies see additional opportunities for Africa to become an exporter of clean energy. Consider the Desertec Industrial Initiative, launched by a consortium of European companies including Siemens (SI), which aims to transmit power to Europe from a network of solar plants and wind farms to be built across the deserts of North Africa and the Middle East. The project still faces technical hurdles and will take years to realize, but the effort could yield an estimated $400 billion in local investment.

RIPE FOR A "GREEN REVOLUTION?"

Many companies also are finding opportunities to serve European customers from Africa. In North Africa, several countries are using their proximity and linguistic ties to Europe

to attract more foreign investment in tourism, offshore business services, and low-cost manufacturing for export.

Africa's new commercial vibrancy also holds many other possibilities. With 60 percent of the world's uncultivated arable land and low crop yields, Africa is ripe for a "green revolution" like those that have increased agricultural production in Asia and Brazil. We estimate that the total value of Africa's resource sectors' production could grow steadily, at from 2 percent to 4 percent a year, over the next decade.

To be sure, there remain serious challenges and risks to growth in any individual country. But if recent trends continue, Africa will play an increasingly important role in the global economy. By 2040, the continent will be home to one in five of the planet's young people and will have the world's largest working-age population. If Africa can give its young people sufficient education and skills, they could be a substantial source of consumption and production in years ahead.

European executives and investors cannot afford to ignore Africa's immense economic potential. Nor can they assume that traditional ties will guarantee them an advantage in the competition. There are many new players, but also many new chances to get in the game and gain some ground.

Charles Roxburgh is the London-based director of the McKinsey Global Institute (MGI), McKinsey & Co.'s business and economics research arm. Susan Lund is MGI's director of research, based in Washington.

Bloomberg
http://www.businessweek.com/globalbiz/content/aug2010/gb20100825_474125.htm

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The Russian Labor Market in 2010: Major Trends and Development Prospects

In fall 2010 and winter 2011, the labor market will continue to recover from the aftermath of the financial crisis and will enter a stabilization phase. This is the conclusion drawn by the company CASE following a survey of wages and salaries, benefits and compensations conducted in spring 2010 in 17 cities across Russia.

The 2008 crisis had a serious negative impact on the economy of this country. The adverse consequences of the crisis are still felt on the market — inter alia, the labor market. The labor market is always very responsive to any economic changes because general economic trends are clearly reflected in tendencies for remuneration of labor, compensation packages and benefits granted. The latest of the regular surveys of wages and salaries, benefits and compensations conducted by CASE fully confirms this.

Wages and Salaries

The 2008 crisis made many companies view business from a different angle. Now it is clear that in addition to adverse consequences, the crisis has produced a tangible positive effect. Before the crisis the pay market was definitely overheated, and in our surveys we recorded a steady growth of wages and salaries for practically all personnel categories, from manual labor to top managers. Now most companies are changing or have already changed their compensation policy approaches. This has resulted in companies' attitudes toward bonus policy being changed, as well as the relationship between fixed (base pay) and variable payroll components. In our payroll surveys we have often pointed out that for employees entitled to both base pay and a bonus, the aggregate income has basically not changed during the crisis period. This being the case, the base pay portion has decreased (often considerably — by 20 percent to 30 percent), whereas the bonus part has increased. As for bonuses, they have also changed: Employers are increasingly using a non-fixed bonus based on payment by results, whereas a fixed bonus is put on the back burner. Yearly bonuses are gaining importance in the labor remuneration system, especially for those employees whose performance cannot be appraised over a short-term period.

Social Packages

The crisis has also influenced social package policy, with business now taking a more sound approach to its activities.

Whereas previously compensation packages were constantly inflated by extra perks, many of which were introduced merely to keep up with fashion, today benefits are granted solely on the basis of business needs. Employers carefully analyze benefit costs, and in a number of cases these have been cut down, for instance, if statistically employees spend about 1,000 rubles ($33) on mobile telephones in connection with operational needs, the cap may be brought down to this level. What is more, employers have been optimizing the package scope. For example, as regards voluntary medical insurance, employers have mostly retained polyclinic services, whereas the dentistry package has been significantly curtailed, and certain options, such as supervision of pregnancy and childbirth are now to be paid by employees, although based on corporate rates.

Wages and Salaries Dynamics

During the crisis, wages and salaries dropped in most industries and in most positions, with fall 2008 and winter 2009 being the most acute periods. It was by fall 2009 that some companies again began to increase wages and salaries for their employees amid a slight improvement in the economic situation. The trend persisted in spring to fall 2010. A spring survey showed some increase in wages and salaries in most of the surveyed regions. However, the size of this growth in absolute magnitude is too small, so we believe it is premature to say wages and salaries are steadily growing and reaching pre-

crisis levels. What we have is an adjustment of crisis curtailments that were uneven in different industries. We saw a 40 percent pay increase in the retail sales sector, yet in 2009 salaries of the same group of employees were reduced commensurably.

The pay change dynamic over the surveyed period of September 2009 to April 2010 in Moscow was a 1.84 percent increase. The survey results basically confirm the forecast made in late 2009 about a slow, yet positive pay increase throughout 2010.

We forecast that the slow upward trend for wages and salaries will persist and that they may reach pre-crisis levels in the nearest six to 12 months. That said, it is unlikely that the overall growth of wages and salaries in 2010 will exceed 5 percent to 7 percent.

This notwithstanding, the surveyed companies view the situation more optimistically. For instance, 82 percent plan to increase wages and salaries for their employees in the short term by 10 percent for the first time after the acute phase of the crisis. We, however, believe that the market will make adjustments. Whereas before the crisis the average percent of planned pay increases was 10 percent and the actual percentage was 13 percent to 15 percent, now against the backdrop of the market situation the actual percentage of pay increase in the following year will be slightly lower than the one planned.

It looks like the labor market is gradually overcoming the crisis, which is also evidenced by the fact that most companies have again begun to hire personnel. The percentage of companies that do not plan to alter their personnel strength remains stable, the number of companies that intend to increase personnel strength grew nearly twofold, and the number of companies that are going to reduce their staff went down nearly fivefold over the last year.

Labor Market Development Prospects

The labor market will be the first to respond to economic growth and hence develop. In 2005-08, pay increase rates were higher than the economic growth rate, which, of course, was a negative factor. Under the new post-crisis conditions, the pace of employee income increases and the rate of economic growth should correlate with each other, with business efficiency being the cornerstone of a new economic reality. Companies that managed to organize their activities most efficiently did survive the crisis. They stay afloat, taking the market share of their competitors that withdrew from the race.

Obviously, the crisis has helped most companies realize that their businesses are becoming increasingly streamlined and efficient, which results in this country's economy becoming more efficient as well.

http://www.themoscowtimes.com/business/business_for_business/article/the-labor-market-in-2010-major-trends-and-development-prospects/421047.html

Chinese acquisitions: China buys up the world

And the world should stay open for business

IN THEORY, the ownership of a business in a capitalist economy is irrelevant. In practice, it is often controversial. From Japanese firms' wave of purchases in America in the 1980s and Vodafone's takeover of Germany's Mannesmann in 2000 to the more recent antics of private-equity firms, acquisitions have often prompted bouts of national angst.

Such concerns are likely to intensify over the next few years, for China's state-owned firms are on a shopping spree. Chinese buyers—mostly opaque, often run by the Communist Party and sometimes driven by politics as well as profit—have accounted for a tenth of cross-border deals by value this year, bidding for everything from American gas and Brazilian electricity grids to a Swedish car company, Volvo.

There is, understandably, rising opposition to this trend. The notion that capitalists should allow communists to buy their companies is, some argue, taking economic liberalism to an absurd extreme. But that is just what they should do, for the spread of Chinese capital should bring benefits to its recipients, and the world as a whole.

Why China is different

Not so long ago, government-controlled companies were regarded as half-formed creatures destined for full privatization. But a combination of factors—huge savings in the emerging world, oil wealth and a loss of confidence in the free-market model—has led to a resurgence of state capitalism. About a fifth of global stock market value now sits in such firms, more than twice the level ten years ago.

The rich world has tolerated the rise of mercantilist economies before: think of South Korea's state-led development or Singapore's state-controlled firms, which are active acquirers abroad. Yet China is different. It is already the world's second-biggest economy, and in time is likely to overtake America. Its firms are giants that until now have been inward-looking but are starting to use their vast resources abroad.

Chinese firms own just 6% of global investment in international business. Historically, top dogs have had a far bigger share than that. Both Britain and America peaked with a share of about 50%, in 1914 and 1967 respectively. China's natural rise could be turbocharged by its vast pool of savings. Today this is largely invested in rich countries' government bonds; tomorrow it could be used to buy companies and protect China against rich countries' devaluations and possible defaults.

Chinese firms are going global for the usual reasons: to acquire raw materials, get technical know-how and gain access to foreign markets. But they are under the guidance of a state that many countries consider a strategic competitor, not an ally. It often appoints executives, directs deals and finances them through state banks. Once bought,

natural-resource firms can become captive suppliers of the Middle Kingdom. Some believe China Inc can be more sinister than that: for example, America thinks that Chinese telecoms-equipment firms pose a threat to its national security.
Private companies have played a big part in delivering the benefits of globalisation. They span the planet, allocating resources as they see fit and competing to win customers. The idea that an opaque government might come to dominate global capitalism is unappealing. Resources would be allocated by officials, not the market. Politics, not profit, might drive decisions. Such concerns are being voiced with increasing fervour. Australia and Canada, once open markets for takeovers, are creating hurdles for China's state-backed firms, particularly in natural resources, and it is easy to see other countries becoming less welcoming too.

That would be a mistake. China is miles away from posing this kind of threat: most of its firms are only just finding their feet abroad. Even in natural resources, where it has been most active in deal making, it is not close to controlling enough supply to rig the market for most commodities.

Nor is China's system as monolithic as foreigners often assume. State companies compete at home and their decision-making is consensual rather than dictatorial. When abroad they may have mixed motives, and some sectors—defence and strategic infrastructure, for instance—are too sensitive to allow them in. But such areas are relatively few.

What if Chinese state-owned companies run their acquisitions for politics, not profit? So long as other firms could satisfy consumers' needs, it would not matter. Chinese companies could safely be allowed to own energy firms, for instance, in a competitive market where customers could turn to other suppliers. And if Chinese firms throw subsidised capital around the world, that's fine. America and Europe could use the money. The danger that cheap Chinese capital might undermine rivals can be better dealt with by beefing up competition law than by keeping investment out.

Not all Chinese companies are state-directed. Some are largely independent and mainly interested in profits. Often these firms are making the running abroad. Take Volvo's new owner, Geely. Volvo should now be able to sell more cars in China; without the deal its future was bleak.

Show a little confidence

Chinese firms can bring new energy and capital to flagging companies around the world; but influence will not just flow one way. To succeed abroad, Chinese companies will have to adapt. That means hiring local managers, investing in local research and placating local concerns—for example by listing subsidiaries locally. Indian and Brazilian firms have an advantage abroad thanks to their private-sector DNA and more open cultures. That has not been lost on Chinese managers.

China's advance may bring benefits beyond the narrowly commercial. As it invests in the global economy, so its interests will become increasingly aligned with the rest of the world's; and as that happens its enthusiasm for international co-operation may grow. To reject China's advances would thus be a disservice to future generations, as well as a deeply pessimistic statement about capitalism's confidence in itself.

http://www.economist.com/node/17463473

European bond markets: Even if Europe's bond markets calm again, they will be profoundly changed

GROUCHO MARX memorably said that he did not wish to belong to any club that would have him as a member. Some of Europe's more embattled economies may now feel the same about the euro. More esteemed countries continue to drink their fill of the funds still flowing into European government debt. Other members have seen their privileges revoked, as fear of first a Greek default and now an Irish one has rippled through bond markets. Even if the Irish crisis passes, they are unlikely to get their old entitlements back.

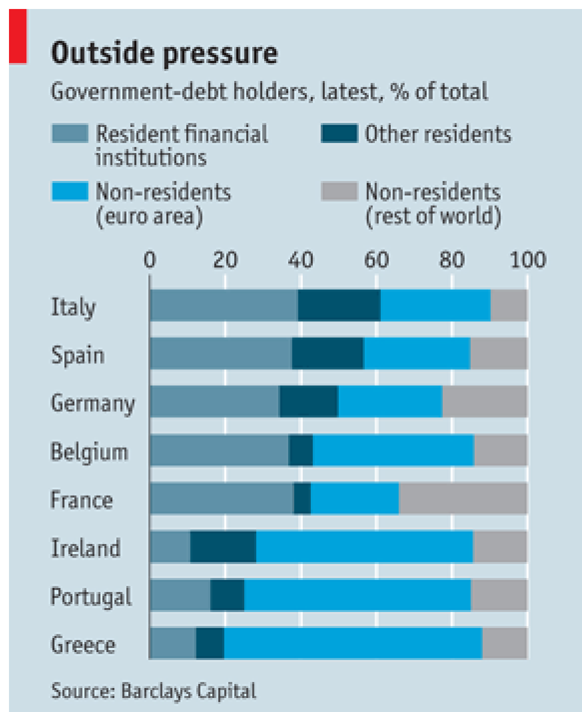
Investor confidence had begun to return in the months following Greece's rescue in May. Big institutional investors had begun to tiptoe back into government-bond markets in countries such as Portugal, Spain and Italy. Pension funds as well as Asian and Middle Eastern central banks had been spotted among the buyers.

Banks also noted a thaw in credit markets, with many reducing their dependence on the European Central Bank (ECB). Borrowing from the ECB by Spanish banks declined to about €75 billion ($98 billion) in September, from €119 billion a month earlier, according to Barclays Capital. Even Greek banks were managing to borrow elsewhere against good collateral. Admittedly, there were caveats: the loans were short-term and due to be repaid before the expiry of the country's bail-out; the banks were still unable to get unsecured loans; and many of their depositors kept on stealing away. Yet that they were able to borrow at all was significant.

Things have changed. A statement by Germany that if borrowers are unable to repay their debts then it is their creditors who ought to bear the losses looks wholly uncontentious on the surface. Yet it came as a nasty surprise to markets that thought they had been given a blanket guarantee in May, after the formation of a European bail-out fund, and now fretted that it was being pulled away. "The German statement removed some uncertainty, but not in a good way," says an investor.

Distinctions that had begun to be made between the vulnerable euro-zone countries have been forgotten again. In the past few weeks the bonds of countries such as Spain and Italy have moved in step with (although not by as much as) those of Portugal and Ireland.

“Historically you’ve never had such high correlations,” says Laurent Fransolet of Barclays Capital. “There’s been indiscriminate contagion.”



But if the surface story in bond markets has been one of confidence ebbing and flowing, there is another, more consistent narrative of structural change at work. Investors are now paying far closer attention to the proportion of a country’s debt that is held by domestic institutions. On this scoreboard, having a high proportion of foreign investors gets you marked down. Big institutions that are keen to match domestic liabilities with domestic assets have shown themselves willing to buy their home governments’ bonds whenever prices fall in countries such as Italy, Spain and even France (see chart). “There are a lot of [hedge funds that] hate France and have been trying to short it, but the domestic base tends to buy whenever spreads widen,” says one banker.

Foreign investors are more choosy. International investors have been net sellers of Irish government debt over the past few months, for instance. Much of this selling was because of concerns over the health of the country’s banking industry, but it also appears to have been driven by changing perceptions of the risks posed by investing in small and illiquid markets. Because these markets are difficult to leave in a hurry, investors seem to be demanding a higher reward for investing in them. LCH. Clearnet, a clearing house, has twice increased the margin it requires from its members on holdings of Irish government debt, in no small part because its market is so thinly traded that prices can easily swing wildly.

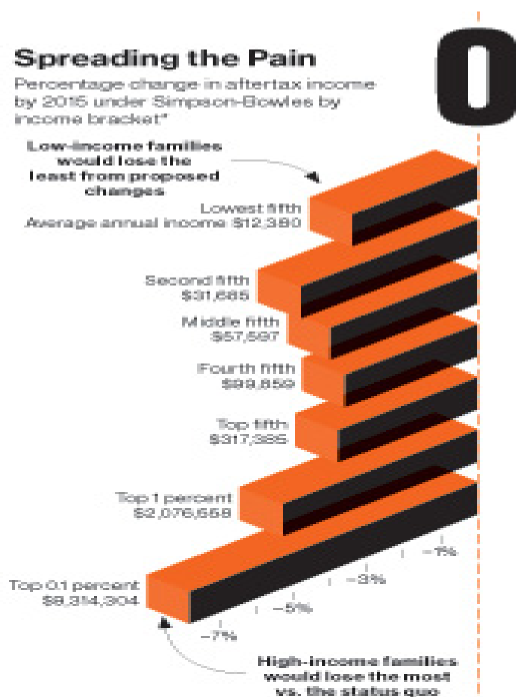
Another feature of the market in recent months is that banks have been consistent sellers of peripheral-country debt. This seems to have been an unintended consequence of efforts to restore faith in Europe’s banking system by requiring more transparency about what

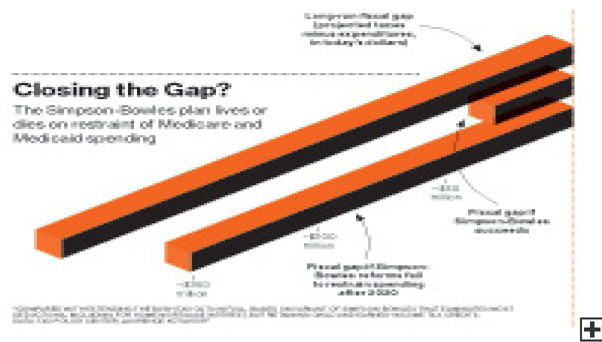
government debt banks own. Sales have mounted since the stress tests in July. “It’s just easier to sell than to spend the whole day explaining why you are holding the position,” says one banker.

Europe’s determination to support Ireland and halt contagion will probably cause bond yields on its debt and that of other peripheral countries to fall back again in time. If they bear fruit, efforts to sort out their public finances should lead to further reductions in their cost of borrowing. But it seems unlikely that the spread paid by Europe’s periphery over German government bonds will ever narrow to pre-crisis levels. The smallest euro-area countries can retain their membership but not a seat at the top table.

http://www.economist.com/node/17522338

Debt and Taxes: Will Washington Ever Grow Up?
Two new proposals to get serious about the U.S. budget deficit are colliding with the same old dysfunctional politics
By: Peter Coy and Heidi Przybyla





In the space of a week, the chiefs of two blue-ribbon panels in Washington have put forth tough-minded proposals for reining in federal budget deficits. The ugly reality that they emphasized—no less true for being so often described or so reliably ignored—is that Americans have under-saved, overspent, and made unaffordable commitments for the future, particularly on retiree health care. The IOUs are accumulating, and if nothing is done soon, the chits will hit the fan: Creditors will stop lending money or at least demand much higher interest rates for it, as they already have in Greece, Ireland, and Iceland.

Each deficit-reduction proposal was full of serious ideas, and each was greeted by immediate and deadly sniper fire from both sides of the aisle. Postponing action is irresistible because the political blowback from doing anything meaningful is scorching. Every interest group is passionately committed to defending its own sacred cow, trampling the concept of sharing the pain for the common good. Washington, it appears, still isn't ready to grow up.

Those ringing the deficit alarm tend to be old and indignant. Peter G. Peterson, the 84-year-old retired banker, invested $1 billion in a foundation focused on fixing budget deficits, foreign debt, and entitlement spending. He ruminates about the morality of a society that leaves a legacy of debt. "I have nine grandchildren," Peterson says. "I think a lot about them." Alan K. Simpson is 79. The former Republican senator from Wyoming, who is co-chairman of President Obama's bipartisan National Commission on Fiscal Responsibility and Reform, told Bloomberg Television's Charlie Rose on Nov. 16 that he was too old to play budgetary politics anymore. "We're not going to sign our names at this stage of life to a bunch of pap," Simpson says he told his co-chairman, Democrat Erskine Bowles, 65, the North Carolina businessman who served as White House Chief of Staff for Bill Clinton. Says Simpson: "We call it the cruelty of making promises you can't keep."

Simpson and Bowles issued the first deficit-reduction proposal on Nov. 10, one week before former White House budget director Alice M. Rivlin, a 79-year-old Democrat, and Pete V. Domenici, 78, the former Republican senator from New Mexico, unveiled the recommendations of the Bipartisan Policy Center commission that they co-chair. With old-timely affection, she calls him "Senator Pete"; he calls her "Doctor Alice." But their admonitions are grim. Letting deficits continue to run out of control, they warn, would "make us increasingly vulnerable to the dictates of our creditors, including nations whose interests may differ from ours."

PROPOSED TARGETS
Simpson and Bowles proposed to shrink or kill the sacrosanct income-tax deduction for home mortgage interest; slash $100 billion in defense spending, in part by closing bases; freeze the pay of federal workers, excluding combat forces, for three years; raise the gasoline tax by 15¢ a gallon; cut Medicare reimbursements to doctors, hospitals, and drug companies; shore up Social Security with tax hikes and benefit cuts; and sharply curtail the growth of federal health expenditures. Rivlin and Domenici rely more on increasing revenue to balance the budget. They call for a 6.5 percent national sales tax, which they package for public consumption as a "Debt Reduction Sales Tax."

Among Democrats, House Speaker Nancy Pelosi almost instantly labeled the plan of the Obama commission co-chairmen "simply unacceptable." On the Republican side, Americans for Tax Reform gravely warned that "support for the commission chair plan would be a violation of the Taxpayer Protection Pledge which over 235 congressmen and 41 senators have made to their constituents."

The fact is, it's impossible to balance the budget without infuriating the followers of both Pelosi, who will lose the Speaker's chair in January, and Grover Norquist, the single-minded president of Americans for Tax Reform. The U.S. can't put its house in order without deep spending cuts and revenue increases.

Consider first the case of the anti-tax purists: To meet the commission's goal of reducing the deficit to 2.2 percent of gross domestic product by 2015 yet not raise taxes, lawmakers would have to find $98 billion in spending cuts beyond those in the Simpson-Bowles plan. Getting all the action on the spending side would be painful, especially if it's from discretionary spending rather than entitlements. Defense cuts in the plan are already steep. Defense Secretary Robert Gates on Nov. 16 said he's willing to take some reductions but called the Simpson-Bowles plan "math, not strategy." Wiping out the entire Justice Dept., including all federal prosecutors, the FBI, and the U.S. Drug Enforcement Administration (projected 2015 budget: $32 billion), would get the GOP less than a third of the way to the Simpson-Bowles target. Eliminating the entire food stamp program in addition ($66 billion) would pretty much close the gap, but at the expense of an epidemic of malnutrition. Another option would be to eliminate the Energy Dept. ($28 billion), Interior ($12 billion), and unemployment insurance ($48 billion).

Paul Ryan, the Wisconsin Republican who is the next House Budget Committee chairman, says the GOP has no intention of stopping critical government functions, adding, "there are a lot of ways for government to be cut." True, but how deeply? "If you want to do it all on the spending side under current law you'd have to constrain spending so it doesn't grow at all for the entire decade," says Gene Steuerle, a senior fellow at the Urban Institute in Washington.

ENTITLEMENT PUZZLE
The Democrats are equally unrealistic in attempting to shield completely the entitlement programs such as Medicare, Medicaid, and Social Security that represent about 40

percent of federal spending. The task quickly becomes impossible as the baby boomer generation retires. Representative Jan Schakowsky, an Illinois Democrat who sits on Obama's deficit-reduction panel, on Nov. 16 released a plan for the short term that includes an increase in taxes of $275 billion by 2015. Even a tax hike that large doesn't suffice past 2015, when boomer retirements start to kick in. "We haven't figured that all out yet," Schakowsky acknowledges.

One fat revenue target for the Democrats would be ending most income-tax deductions. The Simpson-Bowles plan offers three options on taxes, including a "zero option" that would fully wipe away the more than 300 tax deductions, credits, exclusions, and other breaks subsidizing everything from health care to housing. But those deductions and credits are immensely popular. The elimination of mortgage-interest deductions alone "would be a huge capital loss for anybody currently owning a home because people would not be willing to pay as much for houses," says Roberton Williams, a senior fellow at the Washington-based Urban Institute. The change "would drive prices down substantially," Williams says.

O.K., but if Democrats leave the deductions and credits alone, where will the money come from? Raising income tax rates on the wealthy is a Democratic favorite. But the Democrats would have to hike taxes on more than just the wealthy. Even if lawmakers ratcheted up the top two tax rates to an unthinkable 91 percent and 86 percent, from the current 35 percent and 33 percent, the government would still show a deficit totaling roughly $500 billion by 2019, according to researchers at the Washington-based Tax Policy Center, a project of the Urban Institute and Brookings Institution think tanks. "You end up with ridiculous marginal tax rates," said Donald Marron, the center's director. "It's just not feasible."

Balancing the budget isn't just an accounting exercise. It's about setting national priorities, weighing competing concepts of fairness, and creating incentives to promote growth. Cutting the budget in a way that simply off-loads costs onto states, localities, businesses, or families doesn't do Americans as a group any good. It's taking money out of one pocket and putting it in another. The benefits come when spending and taxation policies induce greater efficiency, and when they stimulate investment for future prosperity as opposed to consumption.

TAX-CODE "MISINCENTIVES"

To its credit, the Simpson-Bowles plan would fix some of the "misincentives" buried in the nightmarish Internal Revenue code. All three of the proposal's tax options would subject more of Americans' income to taxation. That would make it possible to raise the same amount of money with lower rates, or raise more money without raising rates. That's a good thing. Lower rates on the last dollar of income earned encourage people to work and save more money, which in the long run is the least painful way to balance the budget. The knee-jerk rejection of the Simpson-Bowles tax ideas by some GOP activists is hard to understand: Cutting marginal tax rates is precisely the type of reform that free-market economists favor.

Democrats who howled that the Simpson-Bowles plan was stacked against the poor were also mistaken, according to a preliminary analysis by the Tax Policy Center. The center studied a variant of the plan that gets rid of the home mortgage deduction but keeps the child credit and the earned income tax credit for low-income workers. That variant is worse for the rich than extending the Bush tax cuts in their entirety. The top 1 in 1,000 families by income would see aftertax income fall by 7.8 percent, more than any other income tier, according to the group's analysis.

What's really scary is that as painful as their prescriptions are, neither Simpson-Bowles nor Rivlin-Domenici is assured of bringing the budget into long-term balance. What's causing the long-term numbers to go kerflooey: Medicare and Medicaid. Both panels assert that the government will reduce the annual growth of its health-care spending to one percentage point above the growth of economic output, vs. predicted growth of GDP plus 1.7 percent. Vaguely, Simpson and Bowles say that will happen "by establishing a process to regularly evaluate cost growth, and tak[ing] additional steps as needed if projected savings do not materialize." That's more an aspiration than a plan, sounding like Steve Martin's joke about how to become a millionaire and not pay taxes: First, get a million dollars. Then, don't pay taxes. The Rivlin-Domenici plan would convert Medicare from a defined-benefit plan into a defined-contribution plan, like a health-care 401(k), but there's no guarantee that doing so would slow its cost growth.

Here's the depressing math. Boston University economist Laurence Kotlikoff, an expert in generational accounting, calculates using Congressional Budget Office data that the U.S. faces a fiscal gap of about $200 trillion. That's the shortfall between the expected inflows and expected outflows of the federal government in perpetuity, based on current policy and discounted back into today's dollars. (The ideal fiscal gap is zero dollars, by the way, so we're more than a little off.) By Kotlikoff's back-of-the-envelope calculation, which he presented in a column for Bloomberg News on Nov. 15, the Simpson-Bowles plan would reduce the fiscal gap to about $30 trillion. Still huge, but much better. However, if the deficit cutters' hand-waving over health-care costs fails and noninterest spending continues to rise after 2020 at the rates projected by the Congressional Budget Office, Kotlikoff estimates a fiscal gap of about $150 trillion under the plan—too high for even the world's biggest economy to sustain. Says Kotlikoff: "It's miles short of what's needed."

POLITICAL POLARIZATION

The political deadlock in Washington is making matters worse. In their willingness to reach across the aisle, "Doctor Alice" Rivlin and "Senator Pete" Domenici are anachronisms. From the 1950s through the 1970s, the ideologies of the Democratic and Republican parties overlapped—each was a big tent sheltering politicians with a wide range of viewpoints. Bipartisanship didn't always promote budget discipline: Democrats went along with Republicans' big defense budgets, for example, while Republicans acquiesced to Democrats' social spending. Today's political polarization doesn't seem to be good for budget-balancing, either. The latest election drove the parties further apart by casting out many Blue Dogs, the centrist Democrats who sometimes bridged the two parties' differences.

Is there any hope? Peterson is staking a billion dollars that the answer is yes. His foundation's latest public-awareness campaign features a Presidential candidate, Hugh Jidette ("huge debt"), whose motto is "borrow like there's no tomorrow." Corny, yes. But as Peterson observes: "Someone once said that the job of the public is often to make it safe for the politicians to do the right thing." In other words, Washington won't grow up until America does.

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http://www.businessweek.com/magazine/content/10_48/b4205014507554.htm?campaign_id=magazine_related

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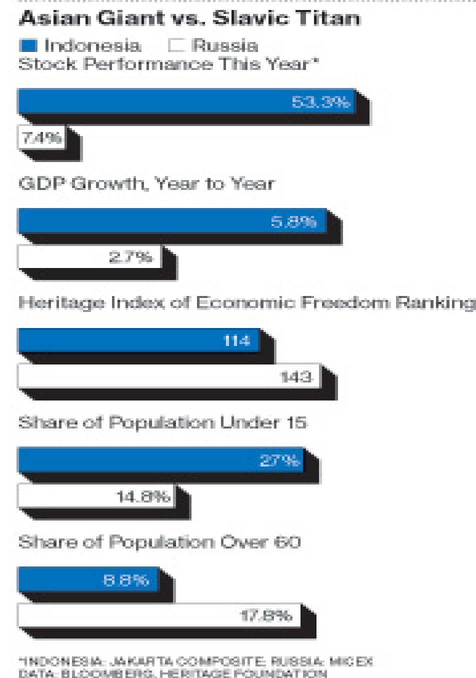
The BRIC Debate: Drop Russia, Add Indonesia?
Detractors say Russia's inability to develop into a mature economy merits the country's removal from the BRIC group
By: Roben Farzad



Goodbye BRIC, hello BIIC?
In 2001, three years after Russia's ruble collapsed, Goldman Sachs (GS) named the country a member of the BRICs—Brazil, Russia, India, and China—the emerging markets it said would be four of the most dominant economies by 2050. Over the next several years, BRIC-fixated investors piled into Russia as its resource economy thrived in the era of fast-rising oil prices. The BRIC concept still asserts its power. Investors in the $48 billion iShares MSCI Emerging Markets Index Fund (EEM), for example, have nearly half their money weighted in BRIC stocks.

For plenty of money managers and economists, however, the Russo euphoria is all but gone. From Nouriel Roubini to Morgan Stanley, they are calling either for Russia to be ousted from the BRICs altogether in favor of Indonesia or, at the least, for Indonesia to join the other four. They are put off by the policymaking drift in the Kremlin, Russia's demographic atrophy, and endemic corruption. Indonesia's fiscal prudence, economic growth—6 percent this year, according to the International Monetary Fund—and strengthening social and political institutions have far more appeal. Twice-elected President Susilo Bambang Yudhoyono has directed funding toward schools and health care, and Indonesia's coffers are full enough to put the onetime IMF bailout case on the brink of an investment-grade credit rating.

Russia, for its part, cannot seem to escape the investor-unfriendly headlines. Sweden's Ikea has leased diesel generators to circumvent Russian bureaucrats who allegedly demanded bribes to provide electricity to the chain's stores. Then the Swedish retailer revealed that the Ikea executives in charge of leasing the generators were taking bribes, too. Petro oligarch Mikhail Khodorkovsky has been in jail on fraud charges since 2003: His supporters say the charges were trumped up to give the Kremlin an excuse to seize his company. (The government denies this; Khodorkovsky is on trial for fresh charges.) William Browder, chief executive officer of Hermitage Capital Management, once Russia's top foreign investor, was banned from the country in 2006 for tax evasion: He says his company was grabbed by criminals who pulled off the tax scam. "Russia is just not a good place to put your money," says Richard Shaw, managing principal of QVM Group, a South Glastonbury (Conn.) investment advisory.

Shaw says he avoids putting clients in Russian stocks and funds, and steers clear of BRIC-linked investments because of their Russia exposure. He would rather own Indonesian exchange-traded funds: "While Indonesia isn't a paragon of virtue, it's better, especially to participate in the Asian boom." Although some investors want BIIC to replace BRIC, Shaw votes for BICI (pronounced BEE-chee): "It's catchy—kind of sounds like an Italian purse."

Indonesia, the world's fourth-most-populous country and largest Muslim democracy, has corruption, too. In part, that's a legacy of the Suharto dictatorship that ended in 1998. Yet Tom Lydon, president of Global Trends Investments, says the Asian nation has more going for it than Russia. "Beyond natural resources, it is supported by improving domestic consumption, and anticorruption efforts appear to be working." Indonesia has sentenced several politicians and former ministers for corruption. In its latest Global Competitiveness Report, the World Economic Forum ranked Indonesia 44th out of 139 countries—up from No. 54 the prior year. (Russia came in at No. 63.)

While Morgan Stanley (MS) has called for Indonesia to join the BRICs—Goldman has called the country a "Next-11" nation, in a runner-up list of sorts—economist Nouriel Roubini of New York University has argued that Indonesia should replace Russia in the bloc. "From an American perspective," he wrote last year in a column, "Indonesia is an attractive alternative to Russia, which has vied with Venezuela for leadership of the 'America in decline' cheering section."

The iShares ETF allocates just 2.6 percent of its money to Indonesia. That will change, say Indonesia backers; 12 years after its financial crisis the archipelago is China's third-largest trading partner, foreign investment has more than tripled since 2004, and gross domestic product is growing faster than Russia's. While Russia's Micex index has fallen 22 percent from its December 2007 peak, the Jakarta Composite Index is approaching an all-time high. Russia's market fortunes have fallen so low that some investors are taking a second look, especially since Russian corporate profits have been robust. "Russia really stands out as being cheap and attractive," says Maarten-Jan Bakkum, an emerging-market equity strategist at ING Investment Management in The Hague.

Indonesia's supporters say that over the long haul the Asia nation has the edge. More than half of the population is under 30, while aging Russia faces a paucity of productive labor. The Kremlin may have to commit increasing sums to care for the elderly, says Wijayanto, managing director of the Paramadina Public Policy Institute in Jakarta. "Indonesia," he says, "has the potential to become a key global player."

The bottom line: Russia's inability to develop into a mature economy has prompted investors to call for the country's removal from the BRIC group.

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