**BPM Report # 148**

**BUSINESS AND POLITICS IN THE MUSLIM WORLD**

**Weekly Report on General Economic and Business Developments in the World**

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## Russians don't borrow from friends

Russians prefer to borrow from relatives, but are always willing to lend money to their friends. However, friends do not rush to ask for financial support, unwilling to ruin the friendly relations with money matters. However, respondents of the research center Superjob.ru do not always favor the requests of their relatives who want to borrow significant amounts of money.

The survey revealed that most of Russians go to their relatives for financial favors (27%). Less frequently they go with such requests to their friends (17%). In turn, 8% of Russians prefer not to complicate personal relationships and take bank loans. Russians of ages 35-44 are most likely to take bank loans (16%).

Another 2% of the respondents are borrowing from coworkers and only 1% borrows from their employer. A significant number of respondents (43%) do not take loans at all, assuming that in any situation they must rely only on their own funds. The number of those who prefer to avoid debt is higher among the respondents over age 45 (59%).

As for lending money, Russians are willing to lend money primarily to friends (48%) and only then - to relatives (24%). In this case, younger respondents more likely to lend to friends, while older Russians prefer to lend to their relatives. Every tenth respondent is willing to lend money to a coworker (10%).

How much money are Russians willing to lend? As it turned out, it depends on their relationship with people asking for help. For example, relatives often borrow large sums (over 30 thousand rubles ($1,000)) - 23%, friends - from 1 to 5,000 rubles ($30 to $170) - 22%, colleagues - 1 to 5,000 rubles or less than 1 thousand -28%, analysts of the Intelligence Center Superjob.ru report.

However, many respondents specify that they can lend a substantial amount of money to a coworker only against a receipt. The respondents indicated in the comments that they are willing to help close friends and relatives, even to the detriment of themselves: "I am ready to give my last penny to a true friend," "Whatever they ask for, within reason, of course."

The majority of respondents (70%) provided a negative answer to the question of whether in the past year they borrowed money more frequently: "I try to live within my means," "I borrow even less than I used to." A similar situation is with lending money to others - 77% of respondents reported that last year they did not lend money to others frequently: "No one is asking," "I never lend money. I tell them to go to the bank!"

Russians did go to the bank frequently within the past year, mostly bringing money in, not borrowing.

Throughout the year banks recorded an increase in the number and volume of deposits. In September of this year, the growth of deposits in Russian banks in annual terms amounted to 30.8%, with most of the deposits opened in rubles.

According to a study conducted by Superjob.ru, 13% of respondents have deposits in rubles, dollars, euros or other currencies. The second most popular saving method is Forex games (4%), followed by buying gold and precious metals, as well as investments in real estate (3% each). Gold has broken all records long time ago and has grown to be $1,300 per ounce. Interestingly enough, employed Russians prefer investments in gold twice as often as those who currently do not have a full time permanent job (4% vs. 2%).

Only 2% of Russians prefer investing in mutual funds. It seems that mutual funds are not trusted by Russians, and this distrust was aggravated after the loss of mutual funds in 2008.

Every tenth respondent (10%) choses other ways to multiply personal savings. Among them are foreign exchange operations, investments in business projects, and lending money at interest.

More than half of respondents (54%) admitted that in the past 12 months they have not taken any action for the enhancement of their own savings, analysts of Suprejob.ru reported. Some of them said that they simply do not have anything to increase, while others do not know which ways they can increase their capital: "Investment is risky," "At the moment I am considering the best way to do it."

*Pravda.Ru*

*http://english.pravda.ru/business/finance/09-11-2010/115699-russians_borrow-0/*

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**Online advertising puts more pressure on print media**

The USA set a record on the level of profit received from online advertising. According to Interactive Advertising Bureau (IAB) and PwC, the income of the sector received during the first six months of 2010 increased by 11.3 percent to $12.1 billion. Contextual advertising is the leader, but video advertising shows positive dynamics as well. The Internet continues to put pressure on traditional media outlets.

The profit from video advertising on the net increased by 31 percent in comparison with the first half year of 2009. Banner advertising returned the profit of over $4.4 billion, which marked an increase of nearly 16 percent in comparison with 2009. The largest share still belongs to contextual advertising - 47 percent.

The report shows that marketing experts continue to target interactive media to promote their brands. This trend is going to continue in the future.

A forecast from Borrell Associates said that the total increase of spending on advertising would not exceed five percent in 2011 and make up $238.6 billion. Online advertising will grow by 14 percent - to $51.9 billion. The spending on targeted banner advertising in the States will grow by 60 percent in 2011 - to $10.9 billion, experts believe.

Many Russians see no difference between such notions as 'Internet' and 'social networking'. A research conducted by comScore showed that 34.5 million Russian Internet users visited at least one social network in August of the current year. A Russian online surfer spends the average of 9.8 hours on social networks, which doubles the similar index for the rest of the world - 4.5 hours per one user a month.

In Russia, the Internet wins more and more space on the market of advertising. According to the Association of Communication Agencies of Russia, advertisers spent 7.3 billion rubles on online advertising in the third quarter of 2010. A little more was spent on outdoor (8.1 billion rubles) and print media advertising (7.8 billion rubles).

Dmitry Ashmanov, the director of Mindshare Interaction:

"Most likely, online advertising will leave print advertising behind already by the end of 2011. Television is still the leader, but its influence on the market will begin to decline soon as well, I believe. The advertising market grows by 12-14 percent, whereas the Internet grows by 25-30 percent, including both contextual and media advertising. The market of online advertising has been developing very fast in the USA. The situation in Russia is the same, although Russian indexes are a bit lower. The development of the market of online advertising did not stop during the crisis," the specialist said. The advertising market in Russia will increase by 16 percent in 2010 as opposed to 2009. The share of the Internet will grow by 35 percent. In 2013, Russian advertisers will spend more on online, rather than outdoor advertising.

"If we make a diagram of all mass media, the share of online advertising will make up ten percent. This is already an impressive amount of money in comparison with 2009, when the share was eight percent. In America, the growth is larger, around 15-20 percent. In general, I would say that the advertising market in Russia has been developing fast enough," Alexander Kim of GroupM Interaction told Pravda.Ru.

Some experts believe that the Internet will become the second largest segment after television on the Russian market of advertising already by the end of the current year. Others say that it can happen during the second quarter of 2011.

*Pravda.Ru*

*http://english.pravda.ru/business/finance/10-11-2010/115721-online_advertising-0/*

**Russians' literacy and education only continue to get worse**

An astounding incident occurred at the celebration of the National Unity Day in Bryansk. Local authorities decided to emphasize proper focus at the patriotic and political course of modern Russia and erect a monument at the Alley of Cosmonauts. The creation of the avenues was widely covered by local media, and its opening was visited by all representatives of the administration. As a result, a plaster prototype (there was no time to prepare the real monument) was inscribed with "Enstein" instead of "Einstein" and instead of "Konstantin Tsiolkovsky" the inscription read "Edward Tsiolkovsky."

The most beautiful thing in this whole story is that a representative of the contractor who manufactured the monument has learnt about the blunders on the monument from journalists. At first he was surprised to learn that Tsiolkovsky's name was Konstantin and not Edward, and then tried to shift the blame on the rain that "washed out" the plaster letters.

He confirmed that the monument cast in bronze was exactly the same, that is, with the same mistakes. Officials refused to comment on this incident, but residents of Bryansk expressed their indignation very readily and eloquently. The only question is whether the firm will listen to the voices of citizens, or because of the costs incurred, will leave everything as is, and Tsiolkovsky will bear the na me of his father, not his own.

Actually, this is not surprising. Recently, it became trendy to erect monuments. One cannot forget the ongoing debate around the monument to Peter the Great authored by Zurab Tsereteli. When the monument was on the stage of planning, it had much more opposition than supporters. It is argued that the monument is historically incorrect and even offensive in its meaning. But all objections were ignored and the monument was erected.

Yet today, when the issue of moving the monument is being discussed again, it has found quite a few defenders. All of their arguments boil down to the fact that the sculpture, of course, is historically inaccurate and ugly, but large. If it is large, it means that its transfer will be expensive. Therefore, let it be.

If this example is known to the entire country, what can we expect from regional sculptors? And what kind of historical accuracy or even basic literacy can we talk about if even Russian central television channels demonstrate illiteracy.

In a hurry to air a story, hosts and reporters often make stylistic mistakes, use wrong accents and inaccurate facts. Advertising signs is another embarrassing topic. And this applies not only to commercial advertising, but even social announcements.

The official signs made by state institutions leave much to be desired. If you read the handwritten signs or those printed by private entrepreneurs, such blunders are countless. That would be funny if it were not so sad.

There has been a long discussion about introducing a law that would punish such public illiteracy. But for now this law is utopian. In contrast, we are observing a growing wave of ignorance and disrespect for the native language and the history.

*Pravda.Ru*

*http://english.pravda.ru/russia/economics/10-11-2010/115715-russian_education-0/*

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**Europe panics over Russia's gas monster**

The European Union administration intends to deprive Russia's gas giant Gazprom of the monopoly to distribute natural gas to European consumers. On October 15, the European Commission demanded amendments should be introduced to South Stream intergovernmental agreement signed between Russia and Bulgaria.

Marlene Holzner, the European Commission energy spokeswoman, believes that other EU countries should have third party access to Gazprom's pipe. The agreement between Russia and Bulgaria, Holzner said, needs to be changed and brought into compliance with European laws.

It goes about the need to grant third party access to gas transportation capacities. In this case, Holzner resorts to the Third Energy Package, which the EU approved at the end of 2009. According to the document, all countries of the European Union shall ensure the division of gas sale and transportation business. Bulgaria, Holzner added, assured the European Commission that the required changes would be introduced.

Russia Today: South Stream and freedom from transit woes

European officials did not like the fact that the agreement with Russia obliged Bulgaria to provide complete and unrestricted transit of the Russian gas via its territory. To put it in a nutshell, Holzner clearly stated that Bulgaria should give third party access to Gazprom's pipeline.

"Nabucco is our priority because it helps to diversify the sources of gas supply," Holzner said. "In this respect, South Stream is a very important project, but in comparison with Nabucco it doesn't offer diversified gas resources. It is a new transit route," she added.

Alexander Rahr, the Director of the Berthold Beitz Center of the German Council on Foreign Relations said in an interview with Pravda.Ru that the above-mentioned events testified to the importance of the gas issue, which exists in the relations between Russia and the EU.

"The concerns, which the European Commission showed at this point, show that Europe does not want Gazprom to hold complete control over the shipments of natural gas to European consumers. They want to deprive Russia's Gazprom of the monopoly. European Commission members do not know how it could be done in practice. As a result, Europe may have serious problems with gas shipments in the future. Bulgaria is not the only example here. Let's take European Commission's attacks against Polish and German companies after they had signed adequate agreements with Russia," the expert said.

Ivan Rodionov, a professor of Higher School of Economics:

"It was clear from the very beginning that Gazprom would not have complete control over gas shipments. Coca Cola, for example, can not do everything that it wants to do in Russia. In Russia, this company follows Russian laws. As for the motives of the European Commission, Europe virtually claims that Russia does not have a right to own the resources, which Europe needs. They set out such claims to Bulgaria and Poland too because they are young EU members, who do not have the authority of Germany, for example," the scientist said.

*Pravda.Ru*

*http://english.pravda.ru/business/companies/16-11-2010/115794-europe_russia_gas-0/*

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**US panel lashes out at China**

The annual report on US-China economic and security review commission recommends tougher stance against China.

17 Nov 2010

In a much-anticipated report, the US-China Economic and Security Review commission has accused Beijing of deceptive economic practices, effectively reigniting the two countries' spat over currency and trade issues. Presenting its findings to the US Congress, the congressional advisory panel has recommended the Obama administration to take tougher actions against what it calls China's policy of keeping its currency undervalued.

On Wednesday, the commission said that China is creating global imbalances and using "market access-limiting practices" that fall outside its World Trade Organization commitments.

The report added that the Chinese government wants its yuan currency to serve as a more international currency, and that it has continued buying up US debt and has become the single biggest foreign buyer of treasury securities.

"Although the size of China's holdings has raised concerns about the degree of influence China has on the US economy, the lack of alternatives and the potential detrimental impacts on China's economy make it unlikely that China would stop buying US debt or liquidate its holdings altogether," the report said.

*Not a military threat*

Daniel Slane, the chairman of the US-China review commission responsible for the report told Al Jazeera: "We should try to structure a long term currency re-evaluation and be sensitive to the Chinese issue of not creating instability; we can't expect them to change their currency dramatically over night without creating any problems."

On China's military build-up and the possible threat to the US he said: "What is happening is that the Chinese are modernizing their military.

"They have developed missiles that can reach our bases in the Far East, which is some concern for the defence department.

"They [the Chinese] have also developed an anti-ship missile that can hit a moving ship a thousand miles off their coast, we believe that more can be done to counter this threat and that is something the defense department is working on.

"We have some hope that in the next five year plan which will come out in the spring we will talk about switching from an export driven economy to a domestic consumption economy and opening up their market to US export," Slane said.

Beijing has repeatedly rejected US accusations that its currency is undervalued, and it contends that a stronger yuan will not ease the US trade deficit.

Chinese officials say globalisation of production also has contributed to trade imbalances and the US must solve its problems of unemployment, overspending and low savings.

*Al Jazeera*
*http://english.aljazeera.net/news/americas/2010/11/2010111716314796174.html*

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**China Inflation May Prove Too Hot for Price Controls**

November 23, 2010

Standing near his 12-table noodle shop on Beijing’s Yonghegong Avenue, owner Liu Heliang says meat and vegetable prices have climbed 10 percent in a year and staff wages are up 40 percent.

“I’m struggling to make ends meet with costs going up like this,” said Liu, a native of Sichuan province who pays his workers as much as 1,800 yuan ($271) a month, or 88 percent more than the Beijing minimum wage, to serve up a staple Chinese meal.

“Raising prices is the only way out,” he said, predicting he won’t be able to hold out beyond two months.

Premier Wen Jiabao’s cabinet last week announced it will sell grain, cooking-oil and sugar reserves, ordered an end to tolls on trucks carrying produce and threatened price controls to rein in a 10 percent inflation rate for food. Because the measures would do nothing to counter the 54 percent surge in money supply over the past two years, the risk is they will prove insufficient to cope with the challenge.

“They are just not addressing the fundamental problem at all,” said Patrick Chovanec, an associate professor at Beijing’s Tsinghua University. With the expansion of credit and cash in the economy stemming from China’s response to the global crisis, “you’re sitting on a volcano,” said Chovanec.

*Lagging Behind*

The People’s Bank of China has raised its benchmark interest rates once this year, lagging behind Malaysia, Thailand, Taiwan and South Korea as emerging Asian economies led the global economic rebound. Policy makers have instead relied on guidance to banks to scale back lending and on increases in reserve ratios, with the PBOC announcing the fifth boost of the year four days ago.

The Shanghai Composite Index tumbled 2.5 percent to 2,812.55 as of the trading break at 11:30 a.m. local time. The decline is an extension of the benchmark’s biggest two-week slide since May, sparked concern accelerated monetary tightening will crimp economic growth.

China’s plans to rein in prices include selling state food reserves, stabilizing the cost of natural gas and cracking down on speculation in and hoarding of agricultural products, the State Council said. The aim is to damp food inflation that reached 10 percent in October, more than twice the 4.4 percent headline rate.

*Inflation Outlook*

Standard Chartered Plc economists anticipate the consumer price index will rise by an average of 5.5 percent next year, with a peak gain of 6.3 percent in June. The bank estimates this year’s increase at 3.2 percent. That compares with a 0.7 percent decline in 2009.

China will sell soybeans and vegetable oil from its stockpiles starting this week to stabilize prices, the State Administration of Grain said in a statement Nov. 19. State news agency Xinhua reported the next day that the cabinet ordered local governments to ensure food supplies ban toll collections for vehicles carrying fresh foods.

The People’s Daily, a newspaper published by the Communist party, called on the government to expand the number of commodities for which reserves are kept. The quantities of and distributions from existing stockpiles should also be increased, the paper said in an editorial on its front page today.

Chinese corn, sugar and rice futures have reached records in the past two weeks on concern supplies may lag behind demand.

*Food Aid*

The State Council meeting last week came amid concern at the threat increased food costs pose to the poorest people in the world's most populous nation. More than 81 million people in disaster-affected parts of China may need food assistance from the government this winter, the Ministry of Civil Affairs said on its website on Nov. 18.

At a food market in Beijing's Deshengmennei Avenue, fruit- stand owner Wang Yanling says sales of apples have slumped from as much as 250 kilograms (551 pounds) a day a year ago to about 100 kilograms a day after prices soared more than 60 percent.

"People are buying less with prices jumping up," said Wang. "It's getting harder and harder to sell."

McDonald's Corp., the world's largest restaurant chain, said Nov 17. that it increased prices for its burgers, drinks and snacks in China to offset costs.

A slowing pace of economic growth may prove helpful in damping down inflation. China's gross domestic product expanded 9.6 percent in the third quarter from a year before, down from 10.3 percent in the previous three months and 11.9 percent in January to March.

*Vegetable Dilemma*

A rate increase "can't encourage farmers to grow more vegetables, it can't discourage people from eating less vegetables," Qu Hongbin, co-head of Asian economic research at HSBC Holdings Inc. in Hong Kong, said in a Bloomberg Television interview.

China also is grappling with inflows of cash sparked by monetary easing abroad, bets on yuan gains and a trade surplus that surged last month to $27 billion. Officials have faulted the U.S. Federal Reserve's plan to buy $600 billion of Treasury securities for contributing to asset-price pressures in Asia.

"Quantitative easing in the U.S. puts China's seat to the fire because it forces more inflationary pressure onto them," said Diana Choyleva, a Hong Kong-based economist at Lombard Street Research Asia. "They cannot avoid what they need to do," which is raise rates or let the yuan strengthen, she said.

*Currency Policy*

Policy makers have limited the currency's appreciation to less than 3 percent since scrapping in June an almost two-year crisis policy of keeping the yuan level with the dollar to protect the nation's exporters. It was at 6.6449 as of 12:32 p.m. Hong Kong time.

The PBOC will raise the benchmark one-year deposit and lending rates by year-end, from the current levels of 5.56 percent and 2.5 percent, according to a Bloomberg News survey of nine economists last week.

China's biggest banks are approaching annual lending quotas and plan to stop expanding their loan books to avoid exceeding the limits, according to four people with knowledge of the matter. Industrial & Commercial Bank of China Ltd., Bank of China Ltd. and Agricultural Bank of China Ltd. are only extending new loans as existing ones get repaid, the people said, speaking on condition of anonymity.

While price controls may help with inflation expectations, they will either be ineffective because producers circumvent them or create shortages if suppliers suffer losses and are not compensated, said Goldman Sachs Group Inc. economists Yu Song and Helen Qiao in a Nov. 17 note.

*Shrinking Margins*

"Prices for everything are rising every day -- no exception," said Zhu Fulong, 35, who has run a grocery shop in Hangzhou, a city near Shanghai, with his wife since 2006. "A lot of people won't increase their spending much, so they instead choose products at lower grade which we sell at thinner margins, and that's hurting our business."

Rising prices are also prompting housewives like Lily Huang, 50, to travel once a month to Hong Kong from Shenzhen in southern China to stock up on items including toothpaste, shampoo and tissues.

"Things are much cheaper here," said Huang, carrying a suitcase and three bags full of groceries at Sheung Shui train station next to Hong Kong's border with China. A packet of Tempo tissues is 30 percent cheaper in Hong Kong, she said. "It's really worth the trouble for us to come here to shop."

*Bloomberg*
*http://www.businessweek.com/news/2010-11-23/china-inflation-may-prove-too-hot-for-price-controls.html*

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**China's Banks Said to near Loan Quotas, Halt Growth**

November 23, 2010

China's biggest banks are close to reaching annual lending quotas and plan to stop expanding their loan books to avoid exceeding the limits, according to four people with knowledge of the matter.

Industrial & Commercial Bank of China Ltd., Bank of China Ltd. and Agricultural Bank of China Ltd. are only extending new loans as existing ones get repaid, the people said, speaking on condition of anonymity. Lenders are also cutting holdings of discounted bills to make room for longer-term debt, they said.

Regulators are monitoring banks' loan balances on a daily basis to ensure the official target of 7.5 trillion yuan ($1.1 trillion) in new lending for 2010 isn't exceeded, the people said. China's government in the past month stepped up a campaign to limit credit expansion after inflation quickened and property prices surged.

"We don't think financial regulators will play the chicken this time around," Lu Ting, an economist at Bank of America Corp., wrote in a note today. "Beijing's top priority now is to curb inflation and cool down inflation expectations. It is common knowledge that reining in loan growth is the key to all efforts."

In November 2008, China removed an annual quota for new loans and started encouraging lending to revive an economy stung by the global financial crisis. New loans soared to a record $1.4 trillion the following year, fueling property speculation that caused home prices to skyrocket.

*Inflation Quickens*

Domestic banks extended about 6.9 trillion yuan of new loans this year through October, according to central bank data. The lenders have made close to 600 billion yuan of new loans so far this month, the 21st Century Business Herald reported today. That would bring the total for this year to 7.5 trillion yuan.

China's inflation accelerated to 4.4 percent in October, the fastest pace in two years. The central bank last month raised interest rates for the first time since 2007, and told banks to set aside more deposits as reserves twice in November, limiting their capacity to lend.

ICBC, China Construction Bank Corp., Bank of China and Agricultural Bank had targeted a combined 3.2 trillion yuan of new loans this year, according to statements from the companies. Agricultural Bank, China's third-largest lender, has exceeded its lending quota for November, one of the people said without providing details. Spokespeople for the banks either declined to comment or weren't immediately available.

*Discounted Bills*

China should return to a "normalized" monetary policy as quantitative easing in the U.S. pumps cash into the world's fastest-growing economy and fuels price risks, Zhang Jianhua, head of research at the central bank, said this month.

Concerns that the central bank will have to step up measures to contain inflation have pushed the benchmark Shanghai Composite Index down 11 percent from a seven-month high on Nov 8. The gauge dropped 2 percent as of 2:33 p.m. to a six-week low after falling as much as 3.2 percent. The Hang Seng Finance Index lost 2.1 percent.

The government may limit new lending to 6.6 trillion yuan for 2011, a 12 percent decrease from this year's target, according to an estimate by Sanford C. Bernstein & Co. The firm forecast this year's new lending will reach 7.7 trillion yuan.

Chinese banks cut their holdings of discounted bills, short-term credits used by smaller companies to finance working capital needs, by 157.4 billion yuan in the third quarter to make room for more profitable longer-term loans, according to central bank data. The average yield on loans stood at 6.09 percent in September, compared with 3.86 percent for discounted bills, the central bank said this month.

*Bloomberg*
*http://www.businessweek.com/news/2010-11-23/china-s-banks-said-to-near-loan-quotas-halt-growth.html*

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**Bank Dividends May Be Coming Back**

JPMorgan Chase, Wells Fargo, and other large players may soon follow Comerica's lead in boosting their quarterly payouts

November 24, 2010
A regional bank's decision to double its dividend may be a signal that U.S. regulators will allow more of the nation's biggest lenders to lift their payouts. Comerica (CMA), the Dallas-based bank that posted annual profits throughout the financial crisis, boosted its quarterly dividend to 10 cents a share on Nov. 16. Banks including JPMorgan Chase (JPM), Wells Fargo (WFC), U.S. Bancorp (USB), and PNC Financial Services (PNC) may be next, says Jennifer Thompson, an analyst at New York-based Portales Partners. "You will see a number of the stronger banks increase their dividends in the first quarter," Thompson says.

The six largest U.S. banks by assets—Bank of America (BAC), JPMorgan Chase, Citigroup (C), Wells Fargo, Goldman Sachs (GS), and Morgan Stanley (MS)—paid quarterly dividends totaling $2.49 a share in 2007. That's down to 51 cents a share, with Goldman's 35 cents payout representing the majority. Concern that bank capital was under pressure from souring loans prompted Federal Reserve officials in February 2009 to issue a letter saying financial firms "should reduce or eliminate dividends" when earnings decline or the economic outlook deteriorates. Barbara Hagenbaugh of the Fed and Andrew Gray, a spokesman for the Federal Deposit Insurance Corp., declined to comment.

Investors and analysts have used quarterly conference calls to press banking executives about dividend increases, and bank managers have chafed against limits set by regulators.

Wells Fargo Chief Financial Officer Howard I. Atkins said last month that an increase is a "top priority" for the bank. JPMorgan Chase Chief Executive Officer Jamie Dimon said on Oct. 13 that he was "reasonably hopeful" the firm will be able to raise its payment in 2011's first quarter and that regulators were open to the idea.

On Nov. 17 the Fed issued guidelines on how it will decide whether large banks may increase dividends and buy back shares. Among the requirements is that banks must repay or replace any government investment with preferred or common stock. Banks must also show they can absorb losses if the economy sours. "The Fed has clearly made a decision that the industry, by and large, is able to or needs to issue dividends," says William Sweet, a former Fed attorney and a partner at Skadden, Arps, Slate, Meagher & Flom in Washington.

Richard X. Bove, an analyst at Rochdale Securities in Lutz, Fla., believes banks are making enough money to raise payouts. Earnings have topped estimates at 19 of the 24 banks in the KBW (BKX) Bank Index that have reported since Oct. 7, according to data compiled by Bloomberg. This year the bank-stock index has gained 5.4 percent through Nov. 19, while the Standard & Poor's 500-stock index has gained 7.6 percent.

JPMorgan Chase and Wells Fargo are among the banks most likely to increase their dividends as early as the first quarter of 2011, Bove says. According to Bloomberg dividend forecasts, JPMorgan will quadruple its quarterly payout, to 20 cents a share, in February, while Wells Fargo's will double, to 10 cents, in April.

*The bottom line:* As the financial crisis eases and earnings improve, regulators may allow banks to start increasing their dividends.

*Bloomberg*
*http://www.businessweek.com/magazine/content/10_49/b4206050293663.htm*

**Southern Europe's 'Herculean' Problems Diminish M&A, Carr Says**

Countries in Southern Europe face "Herculean" economic problems, making merger and acquisition opportunities in those nations problematic

November 24, 2010
Countries in southern Europe face "Herculean" economic problems, making merger and acquisition opportunities in those nations problematic, said Centrica Plc Chairman Roger Carr.

"Hunting for value in Greece, Spain, Portugal and Italy, from an M&A perspective, is a task for the brave and adventurous," said Carr, 63, at the *Bloomberg Businessweek* European Leadership Forum in London on Nov. 23.

*Bloomberg*

*http://www.businessweek.com/globalbiz/content/nov2010/gb20101123_456837.htm?chan=globalbiz_special+report+--+european+leadership+forum+2010_special+report+--+european+leadership+forum+2010*

**Bulgaria Woos Investors from China, 'Economy of 21st Century,' After Slump**

Bulgaria seeks to attract Chinese investment in infrastructure, energy and export industries to bolster its economy after the worst recession in a decade

November 24, 2010
Bulgaria seeks to attract Chinese investment in infrastructure, energy and export industries to bolster its economy after the country's worst recession in a decade, Finance Minister Simeon Djankov said.

The government has put together initiatives to win Chinese investment and plans to focus on these efforts over the next few months, Djankov said Nov. 23 in London at the *Bloomberg Businessweek* European Leadership Forum.

"China is the economy of the 21st century," he said. "We've seen growing interest from Chinese investors of coming to our region, specifically Bulgaria."

Heibei, China-based Great Wall Motor Co., the country's biggest sport-utility vehicle maker, is building an 80 million euro ($107 million) car production plant in the Balkan country, according to Bulgaria's government. China is among the countries that have expressed interest in investing in a new nuclear power plant, Djankov said in an interview Nov. 22 in London.

Bulgaria has kept its corporate and personal income tax rates at 10 percent, the lowest in the European Union, in an effort to attract investors, Djankov said. While the debt crises in neighboring Greece and Romania have cast a shadow over the region, Bulgaria also seeks to attract investors with its stable finances, Djankov said.

The country's economy grew 0.2 percent in the July-September period after six quarters of decline. The government projects 3.7 percent economic growth next year, driven by exports, Djankov said. The economy contracted 5.1 percent in 2009 after a three-year lending boom stalled and foreign investment dried up.

If Bulgaria decides to borrow on global markets or seek an international loan next year, it will be "for specific projects, be it infrastructure, be it health care," Djankov said.

*Bloomberg*
*http://www.businessweek.com/globalbiz/content/nov2010/gb20101123_356049.htm?chan=globalbiz_special+report+--+european+leadership+forum+2010_special+report+--+european+leadership+forum+2010*

**Insider trading on Wall Street: Outside the law**

A government investigation shakes the hedge-fund industry

NEW YORK: IN A SPEECH in October, Preet Bharara, federal prosecutor for the Southern District of New York, laid out his plans to root out insider trading, which he compared to a "performance-enhancing drug". Some of the hedge-fund industry's top brass may soon stand accused of using what Mr Bharara called "financial steroids". On November 22nd the Federal Bureau of Investigation (FBI) raided three hedge funds as part of a sweeping investigation into insider trading that could prove to be the largest that the industry has ever faced.

Several well-known hedge funds, mutual funds and consulting firms have already been ensnared and the list of firms from which the government is demanding information continues to grow. Some are related to SAC Capital Advisors, a big outfit run by Steven Cohen, one of the industry's most famous managers. Two of the hedge funds that FBI officials visited, Diamondback Capital Management and Level Global Investors, are headed by former SAC traders, one of whom is also Mr Cohen's brother-in-law. SAC itself has received a subpoena from the federal government, which has made a request for broad swathes of information.

By November 24th only one person had been arrested and charged with securities fraud: Don Ching Trang Chu, an employee at an "expert networking firm". These firms, which purport to provide consulting services, enable investors to pay them for advice on specific companies and industries, some of which may include non-public information. Many hedge funds are likely to suspend dealings with these firms while details of the investigation are sorted out. The probe could also dent hedge funds' nascent recovery by causing spooked investors to withdraw their money. The winners include lawyers and public-relations firms, which are seeing a surge in demand for their services, according to one hedge-fund executive.

The Securities and Exchange Commission (SEC) has scaled up its oversight since its failure to spot Bernie Madoff's Ponzi scheme, which came to light in 2008. Its investigation of Galleon Group, a large hedge fund, has resulted in charges against around two dozen people, including Raj Rajaratnam (pictured), the fund's billionaire boss, who is due to face trial in January. He denies wrongdoing.

The Galleon case showed that "paying for information from a variety of inside sources was an established practice", says Robert Khuzami, the SEC's director of enforcement. As a result, the SEC is focusing on prosecuting broader networks of people involved in insider trading, not just narrow rings and individuals. It is also employing methods, such as wiretaps, that are used to fight other kinds of criminal activity, and is reimbursing whistle-blowers more handsomely.

Hedge funds should expect further scrutiny. The SEC is hiring hordes of officials to help monitor large outfits, which, because of a provision in America's financial reform bill, will have to register next year. Funds will have to disclose more information to the SEC about their positions and retain all records.

The SEC is hoping these changes will help it spot jiggery-pokery more easily. But the speed of trades, and the frequency with which many hedge funds move in and out of positions, can make it difficult to prove insider trading.

It can also be challenging to define what distinguishes insider information from diligent research. It is obviously illegal to buy information about a merger before it is announced. But is it also illegal to buy information about the number of customers going into a retailer, and trade using those data?

Joseph Grundfest, a professor at Stanford University and former SEC commissioner, thinks that through this investigation the SEC may be trying to "expand traditional conceptions" of what constitutes insider trading. But it is still unclear what information was actually peddled. For the time being, nervous firms will have to wait for more subpoenas to be issued and more charges to be brought.

*The Economist*
*http://www.economist.com/research/articlesBySubject/displayStory.cfm?story_id=17583133&subjectID=348936&fsrc=nwl*

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**Agricultural Markets Need Better Rules, Sarkozy Says**

November 25, 2010

Agricultural commodity markets need better rules and more information on stockpiles to curb speculation, French President Nicolas Sarkozy said.

"The markets for commodity derivatives must be regulated," Sarkozy said during a visit to the Allier region in central France today. "We have no visibility on the stocks. We must have this transparency."

Wheat as much as doubled since June and corn jumped 65 percent as Russia's worst drought in at least a half century, flooding in Canada and parched fields in Kazakhstan and Europe ruined crops. A lack of information about stockpiles caused "panic," Sarkozy said.

"All of sudden prices exploded, because we had no visibility on the stocks," he said.

French Agriculture Minister Bruno Le Maire will meet with his counterparts from other G20 members next year to discuss regulation, and it may be "useful" to discuss coordinating crop production, Sarkozy said. France holds the presidency of the G20 in 2011.

Europe, the U.S. and other producers "plant the same thing at the same time, which means that we go from periods of overproduction to periods of underproduction, which drives up speculation", Sarkozy said.

*Bloomberg*
*http://www.businessweek.com/news/2010-11-25/agricultural-markets-need-better-rules-sarkozy-says.html*

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**Dollar Climbs Most Since August amid Concern on Europe, Korea**

November 27, 2010

The dollar gained the most since August against six major counterparts as concern that Europe's debt problem will worsen and military action in Korea will escalate boosted demand for the U.S. currency as a refuge.

The greenback rose against the yen for a fourth straight week, the longest streak in 20 months, after North Korea shelled a South Korean island and said "escalated confrontation" will lead to war. The euro fell for a third week versus the greenback as investors speculated Portugal and Spain will be the next European countries to need a financial rescue. The U.S. added jobs in November for a second month, data next week may show.

"The euro has further to fall against the dollar," said Kathy Lien, director of currency research at online currency trader GFT Forex in New York. "If there is a war amongst the Koreas, the yen would fall off aggressively against the dollar."

The Dollar Index rose for a third week, gaining 2.4 percent, the most since the five days ended Aug. 13, to 80.382. IntercontinentalExchange Inc. uses the gauge to track the U.S. currency against the euro, yen, pound, Canadian dollar, Swiss franc and Swedish krona. It reached 80.522 yesterday, the strongest level since Sept. 21.

The euro tumbled 3.2 percent to $1.3242, from $1.3673 Nov. 19. The three-week decline was its longest since May. The 16- nation currency has lost 5.1 percent this month. It slid 2.5 percent against the yen to 111.37, from 114.23 last week.

*Longest in 20 Months*

The greenback rose 0.7 percent against the yen to 84.10, from 83.55 yen. It was the fourth weekly gain, the longest winning streak since the six weeks ended March 6, 2009.

Europe’s common currency fell against 14 of its 16 major counterparts as the bonds of the region’s most-indebted countries dropped after Ireland agreed to become the second nation to seek a bailout, after Greece. The Financial Times Deutschland reported euro-area policy makers were pushing Portugal to follow suit to shield Spain from contagion.

The extra yield investors demand to hold Irish 10-year bonds instead of their German counterparts rose to a euro-era record 6.56 percentage points, while the spread of Portugal’s 10-year debt over German bunds touched 4.55 percentage points. The Spanish-German 10-year spread increased to 2.64 percentage points, according to Bloomberg generic data. That’s the most since the introduction of the euro in 1999.

Finance Minister Elena Salgado of Spain said there’s “absolutely” no risk that her country will need a bailout.

*Rating Cut*

Standard & Poor’s Ratings Services lowered Ireland’s long- term sovereign rating two steps to A from AA-. Irish officials raced to complete an aid-package deal before financial markets reopen next week.

“The story in Europe is going to continue; they won’t be able to stop the contagion to other countries,” said Blake Jespersen, director of foreign exchange in Toronto at Bank of Montreal. “All Asian currencies are suffering from the tensions in Korea. Those two things are really causing the market to take pause.”

The yen was poised for a 4.4 percent monthly loss versus the dollar, weakening from 15-year highs it reached in October, as the U.S. dispatched the aircraft carrier USS George Washington to take part in naval exercises off the Korean coast.

“If there is an escalation in the Korean tensions, then that certainly is a negative for Japan’s already-struggling economy,” said Omer Esiner, chief market analyst in Washington at Commonwealth Foreign Exchange Inc., a currency brokerage. “The proximity to the crisis might be something that’s keeping investors wary of the Japanese yen.”

*Won Plunges*

The South Korean won fell the most in five months as North Korea said the naval exercises naval exercises moved the peninsula “closer to the brink of war.” The North Korean artillery attack on Nov. 23 killed four people.

The won slid 2.2 percent, the most since the five days ended June 11, to 1,159.63 per dollar.

Canada’s dollar gained against 15 of its 16 most-traded counterparts for the week even as it lost 0.4 percent to C$1.0213 per dollar as European and Korean concerns damped investor risk appetite. It strengthened 1.5 percent, the biggest daily jump in almost three months, on Nov. 24 as Russia said it began adding the currency to its international reserves.

"So far the amounts are very small, but there's perhaps potential for increasing our holdings," Alexei Ulyukayev, first deputy chairman of Russia's central bank, said in an interview in Moscow.

The Australian dollar, called the Aussie, touched the lowest level in seven weeks against the greenback after Reserve Bank Governor Glenn Stevens said the nation's interest rate is appropriate for the "period ahead." It fell 2.2 percent to 96.45 U.S. cents, from 98.66 on Nov. 19, and touched 96.13.

New Zealand's dollar was the worst performer among major currencies. It tumbled 3.7 percent, the most since the five days ended Aug. 13, to 74.99 U.S. cents amid shrinking risk appetite.

The U.S. economy added 145,000 jobs in November after a gain of 151,000 in October, according to the median forecast of economists in a Bloomberg News survey before the Labor Department reports the data on Dec. 3.

*Bloomberg*
*http://www.businessweek.com/news/2010-11-27/dollar-climbs-most-since-august-amid-concern-on-europe-korea.html*

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**Pound Drops versus Dollar on China Tightening, Korea 'Unease'**

November 27, 2010

The pound posted its biggest weekly drop against the dollar in more than six months as concern that China is moving to slow its economy and tensions between North and South Korea diminished demand for riskier assets.

The U.K. currency fell below $1.56 for the first time since September as North Korea's state-run news agency said planned naval exercises by South Korea and the U.S. moved the peninsula "closer to the brink of war." Speculation grew that China will increase borrowing costs to contain consumer prices after inflation sped up to its fastest since 2008.

"The tensions in Korea, policy tightening in China and the likelihood of more to come add to the sense of unease," said Daragh Maher, deputy head of global foreign-exchange strategy at Credit Agricole Corporate & Investment Bank in London. "In this kind of more nervous environment in general, we're getting a dollar bid and by extension sterling is losing some ground."

The pound dropped to $1.5602 as of 4:30 p.m. in London yesterday, a weekly decline of 2.4 percent. It's the third weekly decline against the dollar in a row and the biggest since the week ending May 7. Sterling gained 0.9 percent versus the euro to 84.82 pence.

The U.K. currency depreciated against 11 of its 16 most- actively traded peers this week.

The U.S. sent an aircraft carrier, the USS George Washington, to the Yellow Sea off the western coast of the Korean peninsula in a show of strength after North Korea shelled a South Korean island on Nov. 23. Global stocks declined as yesterday North Korea threatened a "shower of terrifying fire" in response.

*Bank of England*

Data released in the week showed U.K. gross domestic product expanded 0.8 percent in the third quarter, unchanged from initial government estimates. The Confederation of British Industry said its retail-sales index rose in November and stores expect momentum to continue in the run-up to Christmas.

Members of the Bank of England's Monetary Policy Committee speaking on Nov. 25 gave no indication the central bank plans to step up so-called quantitative easing to support the economic recovery. The committee remains split three ways on a possible extension of its asset-purchase program, known as QE2.

Bank Governor Mervyn King told lawmakers in London that policy makers view inflation risks as "broadly balanced" at present and are ready to tighten or loosen policy as needed.

*MPC Testimony*

"Testimony from MPC members showed quite a range of opinion," said Maher. "That would be a little more supportive of sterling to the extent that it would make it less likely that we get QE2, but because the dollar's been so strong in this nervous market, it's really only been reflected in a bit of euro-sterling weakness rather than pound-dollar upside."

U.K. government bonds rose in the week on demand for the safety of fixed-income assets amid speculation Europe's sovereign-debt burdens are worsening.

Borrowing costs for Europe's most indebted nations reached record highs as Ireland's capitulation in accepting a rescue package for its banking industry stoked concern that other countries will have to seek aid. The Financial Times Deutschland yesterday reported euro-area policy makers are pushing Portugal to request support to shore up its economy and stem the risk of a bailout being needed in Spain.

The 10-year gilt yield slumped four basis points to 3.34 percent, paring last week's three month high. The two-year note yield dropped seven basis points in the week to 1.02 percent.

Gilts have returned 6.9 percent this year, compared with a 7.1 percent gain for German bonds and 7.3 percent for U.S. Treasuries, according to indexes compiled by Bloomberg and the European Federation of Financial Analysts Societies.

Sterling has weakened 3.8 percent against a basket of its developed-country peers this year, according to Bloomberg Correlation-Weighted Currency Indexes, making it the third- worst-performing currency after the euro and Norwegian krone. It has appreciated 0.8 percent in the past month.

*Bloomberg*
*http://www.businessweek.com/news/2010-11-27/pound-drops-versus-dollar-on-china-tightening-korea-unease-.html*

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**EU ministers approve Irish bailout**
Eurozone finance ministers in Brussels endorse $113bn package for Ireland with interest rate charge set at 5.8 per cent.

28 Nov 2010
European Union finance ministers in Brussels have endorsed a multi-billion dollar bailout for Ireland arranged by the bloc and the International Monetary Fund (IMF).

Jean-Claude Juncker, the chairman of the Eurogroup of eurozone finance ministers, said of the $113bn deal that $13.2bn was for "immediate recapitalisation" and $33bn for contingency support to Ireland's banking sector.

Earlier, RTE, the Irish state broadcaster reported that interest rates on the nine-year loans could be as high as 6.7 per cent - significantly more than the 5.2 per cent charged to Greece when it was bailed out earlier this year.

However, at a news conference in Dublin, Brian Cowen, the Irish prime minister, said: "If drawn down in total today, the combined annual average interest rate would be of the order of 5.8 per cent per annum.

"The rate will vary according to the timing of the drawdown and market conditions."

The eurozone countries also agreed that the private sector will share the burden in future bailouts after an existing emergency fund expires in 2013, a diplomat told the AFP news agency.

Germany and France had urged a rapid conclusion to negotiations on the Irish bailout, which will be accompanied by drastic Irish austerity measures, before markets opened on Monday.

The four-year austerity plan, revealed on Wednesday, was key to securing the international bailout and comprised $13.2bn of spending cuts and $6.6bn in tax hikes.

The plan also involves cuts to 25,000 jobs, public sector pay, pensions and social welfare in a bid to slash a huge deficit and save $19.8bn by 2014.

Cowen has been fighting off calls from opposition politicians to quit over his handling of the economy, insisting he must see through the austerity package and the budget to secure the bailout.

*Al Jazeera*
*http://english.aljazeera.net/news/europe/2010/11/20101128181762566673.html*

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**Sudan Seeking to Raise $4 Billion for Eastern Development**

November 28, 2010

Sudan aims to raise $4 billion from a conference in Kuwait this week to support its impoverished eastern region, presidential adviser Mostafa Osman Ismail said today.

“We want to achieve real development,” Ismail told reporters today in the Sudanese capital, Khartoum. “Real development in eastern Sudan will not be achieved except through investing in eastern Sudan’s resources.”

The government aims to attract foreign investors for a set of projects, valued at $2 billion, that it will propose at a two-day conference in Kuwait starting Dec. 1, while $2 billion in loans and grants will be needed for short-term development in the region, Ismail said. In March, the Organization of the Islamic Conference raised $850 million of a targeted $2 billion for development in western Sudan.

Authorities pledged to eradicate poverty and develop the region in a 2006 peace agreement it signed with rebels from Eastern Sudan, who were accusing the government of marginalizing the region. The region hosts nearly 80,000 registered refugees from Sudan’s eastern neighbors, mainly Eritrea, according to the United Nations High Commissioner for Refugees.

Fifty eight percent of the population in the eastern Red Sea state and 50 percent of the population of Gedarif state live below the national poverty line of 148 Sudanese pounds ($61.92) per month, according to the UNDP. More than 60 percent of people in Kassala, also in the east, do not have access to clean drinking water.

Projects to be showcased in Kuwait cover the agriculture, food and vegetable processing, livestock, fisheries, tourism, and real estate industries, Claudio Caldarone, UNDP’s country director, said in a telephone interview from Khartoum yesterday.

*Loan Requests*

Industrial plants, including cement factories, will also be proposed, Caldarone said.

Grants and loans, to be requested mainly from Arab funds and countries of the Organization for Economic Cooperation and Development, will be directed to poverty eradication and projects that cover basic needs such as infrastructure, Caldarone said.

"Although not so publicized," poverty in the Red Sea and Gedarif states is "much higher" than in the semi- autonomous region of Southern Sudan, he said. "It is not only a region in need, it has big potential.

"Uncultivated arable land is enormous, which could attract investors," he said. Other resources in the region include oil, natural gas, gold, marble and fisheries, he said.

Sudan is sub-Saharan Africa's third-largest crude producer, pumping 490,000 barrels per day, according to the BP Statistical Review of World Energy. Up to 80 percent of Sudan's crude is pumped in its semi-autonomous region of Southern Sudan, which is set to vote on Jan. 9 on whether to form an independent nation.

The referendum is a key component of a 2005 peace accord that ended a two-decade civil war between Sudan's Muslim north and the south, where Christianity and traditional beliefs dominate. About 2 million people died in the conflict and more than 4 million were displaced.

"I am sure investors would like to see how things are going in the next couple of months," Caldarone said. "If the forecast for a peaceful referendum is confirmed, I am sure their interest will be even higher."

*Bloomberg*
*http://www.businessweek.com/news/2010-11-28/sudan-seeking-to-raise-4-billion-for-eastern-development.html*

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**Britain Looks for a Royal Wedding Dividend**

The Prince William-Catherine Middleton nuptials promise to give the U.K. economy a boost

November 29, 2010

A day after the announcement of Britain's next royal wedding, Paul Hirst sped up production at his factory in Sheffield. The managing director of Marvelpress had gotten an order for "thousands and thousands" of commemorative engagement mugs from Wal-Mart Stores' (WMT) Britain-based supermarket chain, Asda. "It was all hands to the pumps to get everything done in time," says Hirst. "We're looking at making iPhone covers, Champagne and wine boxes."

Prince William's engagement to Catherine Middleton has kicked off the race to profit from what will be the biggest royal event in Britain since Prince Charles wed Lady Diana Spencer in 1981. According to Verdict Research, a retail analysis unit of Datamonitor, the affair, set for Apr. 29, may add £620 million ($995 million) to the economy as consumers spend more on Champagne and other celebratory treats, extra planeloads of tourists fly in, and the likes of Hirst sell separate sets of memorabilia for the engagement period and the nuptials themselves.

It helps if royal mania is affordable. For £16, British retailer Tesco will sell a replica of the designer dress Middleton wore at the engagement announcement on Nov. 16. On the QVC shopping channel on Nov. 17, telephone sales of a ring resembling the one William gave to Middleton jumped ninefold overnight, Marketing Director Sue Leeson said in an e-mail. (The QVC price: £34.) "It will be interesting to see what impact [Middleton] has on British style." said Leeson.

The U.K. economy could do with the boost. The Bank of England predicts growth of 1.8 percent this year and 2.6 percent next, following a slump of 5 percent last year. After the coronation in 1953, the silver jubilee celebration in 1977, and the royal wedding in 1981, the economy picked up its pace, according to an analysis of the data by Bloomberg.

The royal family already prompts tourists to spend more than £500 million a year, says the state-funded tourism board, VisitBritain. "The monarchy is a major reason why overseas tourists come to this country," says VisitBritain spokesman Paul Eastham. "In a royal wedding year, that figure is going to be massively exceeded."

*The bottom line:* The engagement and wedding of Prince William and Catherine Middleton will boost the British economy as tourists and locals celebrate.

*Bloomberg*
*http://www.businessweek.com/magazine/content/10_49/b4206019206079.htm?campaign_id=europe_related*

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**Online Holiday Sales Growth Poised to Reach Pre-Recession Level**

November 29, 2010

U.S. online sales this holiday season are poised to climb the most since 2007 as retailers entice consumers with free shipping and half-off deals.

E-commerce sales in November and December will rise 11 percent to $32.4 billion, researcher ComScore Inc. said last week, an increase from its previous forecast for as much as 9 percent growth. Online sales today, known as Cyber Monday because consumers increasingly log on to shop the day after the Thanksgiving weekend, may top $1 billion for the first time, according to Shawn Milne, a Janney Montgomery Scott LLC analyst.

Consumers are beginning to loosen their purse strings as the economy recovers from the recession and adds jobs, U.S. Commerce Department figures showed last week. Online stores may also benefit as shoppers become increasingly comfortable buying over the

Web. E-commerce companies will account for 7 percent of total retail sales this year, up from 6 percent last year, Forrester Research Inc. estimated.

"The beginning of the online holiday shopping season has gotten off to an extremely positive start, outperforming our earlier expectations," ComScore Chairman Gian Fulgoni said in a statement. "While this early spending surge reflects, in part, heavy promotional activity on the part of retailers occurring earlier this season, it is nevertheless a very encouraging sign."

An early indication of holiday sales over the Internet came Nov. 26, the day after Thanksgiving, when online sales tallied $648 million, a 9 percent increase from the corresponding day a year earlier, ComScore said yesterday.

*'Pronounced Shift'*

The National Retail Federation coined the term Cyber Monday in 2005. Almost nine in 10 retailers have special promotions planned for Cyber Monday, according to Shop.org, a division of the Washington-based trade group.

"The pronounced shift to e-commerce is going to be even more this holiday," said Siva Kumar, chief executive officer of TheFind.com, a shopping search engine that competes with Google Inc.

The holiday shopping period that begins after Thanksgiving is closely watched by investors because online sales each day become the equivalent of a week's worth during the non-holiday period, according to Milne at Janney Montgomery Scott.

Retailers count on November and December for about 20 percent of their annual profit.

During the 2007 holiday season, Internet sales grew 19 percent to $29.2 billion, according to Reston, Virginia-based ComScore. They declined the following November and December amid the U.S. recession before growing 4 percent to $29.1 billion in 2009.

Wal-Mart Stores Inc., the largest retailer, introduced free shipping for the holiday season on about 60,000 Walmart.com items. Amazon.com Inc., the biggest online retailer, matched the offer. Daily deals from sites such as Groupon.com may also help boost sales.

This competitive behavior by retailers may help sales on Cyber Monday rise 15 percent to 20 percent, compared with 5 percent growth last year, according to Milne at Janney Montgomery Scott.

*Bloomberg*
*http://www.businessweek.com/news/2010-11-29/online-holiday-sales-growth-poised-to-reach-pre-recession-level.html?campaign_id=technology_related*

**GM IPO: A Good Day for Obama's Auto Bankers**

GM's initial stock offering was a nail-biter for the two U.S. Treasury officials who were the architects of the deal

November 29, 2010

Want to underwrite one of the largest initial public offerings in history? Chop your usual fee by three-fourths and commit to limiting Wall Street's windfall.

That was the deal David Miller and Tim Massad, the unheralded government architects behind the General Motors (GM) stock offering, gave investment banks interested in handling the deal. When the two Treasury Dept. officials made their expectations clear, "we could kind of hear their jaws drop over the phone," says Massad.

Massad, acting assistant secretary for financial stability, and Miller, chief investment officer for the Troubled Asset Relief Program, were President Barack Obama's dealmakers on the Nov. 17 sale of GM stock, along with two Obama aides—manufacturing czar Ron Bloom and economic adviser Brian Deese.

The IPO, led by JPMorgan Chase (JPM) and Morgan Stanley (MS), was a nail-biter for Massad and Miller, who also manage the government's bank and insurance company investments. As Miller says, "you want the deal to go well" without looking overly optimistic in pricing the shares. "At the same time, we don't want it to go up way too much" because that would mean taxpayers left money on the table on the first day of trading.

GM's shares, initially priced at $33, rose 3.6 percent on Nov. 18, the first day of trading—exactly the "sweet spot" Miller and Massad wanted. Of the nearly $20 billion raised, almost $12 billion went to the U.S. Says Jay Ritter, a finance professor at the University of Florida in Gainesville who studies IPOs: Treasury officials "passed with flying colors."

Taxpayers, however, haven't broken even on GM. The government needed to sell its entire stake for about $44 a share for that to happen. The U.S. would need to sell its remaining 37 percent ownership of GM at $53 a share for taxpayers to be made whole.

Miller and Massad say they aren't waiting for the stock to reach that level. "We're not a private equity fund," Massad says. "We believe that promoting financial stability means we should exit as soon as we can." Of the $50 billion the government gave GM in 2008 and early 2009 when the auto industry was near collapse, Treasury says it will recover $9.5 billion through interest, loan repayments, and preferred stock dividends. Ultimately, the government may lose $5 billion to $7 billion of the $85 billion auto industry rescue effort, Steven Rattner, former head of the President's auto task force, said in a Nov. 17 Bloomberg Radio interview.

Investment banking fees were one of the trickiest parts of the deal, says Herb Allison, the former Fannie Mae (FNM) and Merrill Lynch executive who led Treasury's financial stability office from June 2009 through September 2010. If the government were too soft on the investment firms, Wall Street would profit at taxpayer expense. If too strict, the best firms might walk away. "That was a difficult decision," Allison says of Treasury's demand for a 0.75 percent fee. "I think it proved to be the right one."

Massad, 54, is a former corporate lawyer at Cravath, Swaine & Moore who has worked on hundreds of IPOs, although this is his first one as the client. He earned undergraduate and law degrees from Harvard. Miller, 34, worked on deals in Goldman Sachs Group's (GS) special situations unit, laying the groundwork for his job managing TARP's complex mix of preferred shares, common stock, warrants, guarantees, and dividend agreements. Before going to Harvard Business School he studied economics at Dartmouth, where he also minored in film studies.

The pair's labors aren't over yet. They still need to manage the rest of the government's auto stake, along with its holdings in American International Group (AIG), Citigroup (C), and hundreds of smaller institutions. "We have responsibility for almost $200 billion of assets and only one of those, which is very important, is General Motors," Miller says. "While it would have been nice to spend the day watching and feeling good about it, there was other business to attend to."

*The bottom line:* Two Treasury officials, both former Wall Streeters, were the government's invisible hand behind GM's successful stock offering.

*Bloomberg*
*http://www.businessweek.com/magazine/content/10_49/b4206034227876.htm?campaign_id=investing_related*

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**China: Hidden risks in booming overseas housing market**

2010-11-29
China's overseas house purchasing power is becoming more prosperous as it is expected to hit 5 billion yuan ($750 million) in 2010. However, most of the well-heeled purchasers don't know how to evade risks when they grab properties in Western countries, China Economic Net reported Monday.

China's real estate agencies have found their overseas business increased about 35 percent in the first 10 months of this year, and they said the 5-billion-yuan estimation is merely a drop in the ocean for the entire market.

The investors include entrepreneurs, professional investors and parents whose children are studying abroad, according to the agencies. More than 80 percent of the buyers will purchase a property without seeing it, the report said, adding that almost all of the buyers make the purchase as an investment.

Canada, Australia, the UK, the US, Germany and Singapore topped the list of favorite house buying destinations among Chinese investors, but few pay attention to the real estate tax policies in those countries, the report said.

Besides tax policies, house value depreciation and exchange fluctuations are also threatening the security of Chinese investors' overseas properties, the report said.

Industry insiders suggested that investors have to follow different investment patterns in different countries. For example, location is the most important factor when buying houses in China, yet some other factors may be much more significant when the deal happens in the US. For example, with the decline of the auto industry, house prices in Detroit have slumped, insiders explained.

In addition, insiders also warned that the lump-sum payment should not be the first option when making overseas property investments, as the new owners may find it hard to resell or lease the house after they've signed the deal.

Therefore, it is safer to seek bank loans because banks will evaluate the property before granting loans, and houses with no appreciation potential usually cannot get loans, the report said.

*China Daily*
*http://www.chinadaily.com.cn/business/2010-11/29/content_11626418.htm*

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**Putin Harangues Europe on Businesses**

29 November 2010
Prime Minister Vladimir Putin likened ill-considered economic policy to terrorism and religious intolerance on Friday, telling a business forum in Berlin that Russian companies seeking to invest in Europe were facing a number of political and economic barriers.

Russian investors have to overcome unfair hurdles in Europe and often find that “the door is just shut,” Putin told chief executives of Germany's largest companies.

But the main thorn in the prime minister’s side was the Third Energy Package legislation, which goes into effect in March and is intended to ensure that small gas suppliers can get unhindered access to European infrastructure and compete on an equal footing with the dominant players.

"What is this? What is this robbery?" Putin said, referring to plans by the Lithuanian government to separate the gas supply and transport business at the national gas company Lietuvos Dujos, which is partially owned by Gazprom.

Putin quipped that if Europeans did not want gas or nuclear energy, they would still have to rely on Russia for firewood to heat their houses.

"I don't understand at all. How will you heat [your houses]? You do not want gas, you are not developing nuclear energy. Will you get your heat from firewood?" Putin said. "But even for firewood you will need to go to Siberia, do you understand? You do not even have firewood."

*Smoother Investments*

The prime minister said he wanted to change the trend of Russian companies facing problems with their foreign investments, adding that the situation negatively affects European business as well.

He cited the rejected bid by a consortium of Sberbank and GAZ Group with Canada's Magna International to buy General Motors' German unit Opel in 2009, saying the carmaker was no better off “after the deal failed.”

He also said the Hungarian government was “doing it's best” to illegally isolate Surgutneftegaz from management issues at the MOL refinery, where the Russian oil company holds a 20 percent stake.

Putin also brought up an investigation into billionaire Viktor Vekselberg's Renova Group, which owns technology assets in Switzerland. Vekselberg and his associates were accused of not declaring the details of their actions when they acquired Oerlikon group.

“It was dragged from court to court. It seems [the problem] is resolved now, thank God. But it's impossible to work this way!” he said.

Swiss newspaper Der Sonntag reported Sunday that the Swiss finance ministry was ordered to pay 194,150 Swiss francs ($193,454) to Vekselberg and his associates as compensation, in light of the not-guilty verdict.

*Reputation Is Everything*

Russian companies are treated with mistrust in Europe partly due to stereotypes of the past accompanying the country's image and partly because of the negative experience of partnering with them, said Sergei Nikitin, head of the representative office of the Russian Chamber of Commerce and Industry in Germany.

“This will be resolved over time,” he said by telephone from Berlin, adding that Russian firms should work on improving their image.

The business image of Russia doesn't correspond to international standards, said Alexander Rahr, a Russia expert at the German Council for Foreign Relations.

“They don't look like European or even U.S. companies, that's why it's very difficult to talk to them,” he told The Moscow Times.

Rahr said there are very few representative offices of Russian firms in Europe, so “Western society has no chance to get to know of their transparency.”

“The stereotype of Russian companies is that they are directed by the Kremlin. That's the image of state monopolies, which lobby interests of politicians, not businessmen,” Rahr said, adding that the companies themselves do very little to improve this.

He also said Putin often has to act as chief negotiator, since many of his business leaders don’t know how to conduct negotiations.

Rahr said, however, that European firms seeking to come to Russia also face obstacles, with corruption being one of the main barriers hindering business ties with Europe and preventing mid-sized companies from getting into the Russian market.

Rahr said Putin's speech was very well received by German businessmen and politicians, who liked his manner of speaking in front of the audience.

“He didn't read from paper … he was informed about all details. This makes a good impression,” Rahr said.

*Putin’s Article*

In his speech, Putin responded to Chancellor Angela Merkel's criticism of his article published in Sueddeutsche Zeitung on Thursday, in which the prime minister pushed the idea of creating a free-trade zone with Europe.

Merkel said Thursday that she was skeptical about Putin's proposals, which contradicted the Kremlin's actions, especially in light of the Russian customs union with Belarus and Kazakhstan.

Putin called Merkel's remarks “positive signals,” and said he was glad that she had read his article.

“This is good already,” he said. “That means she's interested in what's going on in Russia.”

Chief executive of Deutsche Bank Josef Ackermann, who participated in the forum, said Russia and Europe should focus on cooperation and stop arguing “about minor things.”

Putin's plans to create a common free-trade zone “have to be supported in a very open minded manner and with enthusiasm,” Ackermann said, The Associated Press reported.

Speaking at the forum, Putin reiterated some of the ideas presented in his article.

“I don't know which forms our cooperation should take … whether it will be a common free market or our associated membership in the European Union, but Russia's and Europe's rapprochement is inevitable if we want to be preserved as a civilization and want to be successful and competitive,” Putin said.

He didn't rule out that Russia and Europe might create a common currency zone. He didn't specify whether it would be a ruble or a euro zone.

He also said the European Union should work more closely with Russia when formulating energy policy.

“I think … it's reasonable that new fair rules in such a sensitive area be developed by our colleagues in the European Union and the European Commission at least in consultation with Russia, as a big supplier of resources,” he said. “Otherwise we'll permanently face absurd situations or conflicts coming from nowhere.”

During the question-and-answer session of the business forum, Putin said he and President Dmitry Medvedev would jointly decide on who would run for the presidential elections in 2012.

“We'll look at the condition of the social sphere, economy, political situation, and we will make an agreed decision in the interest of the country,” he said.

Putin also said trade between Russia and Germany was unlikely to reach the pre-crisis level of $52.6 billion in the nearest future, although there were some positive changes.

Mutual trade increased by 34.3 percent in January through September to $36 billion, he said at a separate meeting with German businessmen, and is “perfectly balanced, with each country selling $18 billion of goods.”

The prime minister stopped at a kiosk and shopped for Christmas souvenirs after leaving the forum.

*Moscow Times*
*http://www.themoscowtimes.com/business/article/putin-harangues-europe-on-businesses/425189.html*

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**EU launches Google investigation**
Regulators to examine whether internet giant has abused its dominant position in the market.

30 Nov 2010
European Union regulators are to investigate whether Google has abused its dominant position in the online search market in what will be the first major inquiry into the internet giant's business practices. The competition watchdogs formally announced their investigation on Tuesday after complaints by rivals that Google gave their services "unfavourable treatment" in unpaid and sponsored search results. Authorities will

investigate whether Google's services are being given preferential placement in search engine results, some of which may lead to consumer spending.

One of the complainants, British search site Foundem, said in a that its revenue "pales next to the hundreds of billions of dollars of other companies' revenues that Google controls indirectly through its search results and sponsored links".

French legal search engine ejustice.fr and Microsoft-owned shopping site Ciao also lodged complaints against Google with the EU commission in February.

*Lucrative market*

If the regulator finds that Google has abused its market position, the company could be fined up to 10 per cent of its revenue, a sum that could total $2.4 billion based on its 2009 earnings. However an investigation does not necessarily mean legal action will follow.

Google has maintained it is confident that it has not broken any rules.

"Since we started Google we have worked hard to do the right thing by our users and our industry - ensuring that ads are always clearly marked, making it easy for users and advertisers to take their data with them when they switch services, and investing heavily in open source projects," Google said in a statement.

"But there's always going to be room for improvement, and so we'll be working with the commission to address any concerns," it said.

The EU has previously confronted US-based internet companies, last year concluding a long-running antitrust case involving the Microsoft Corporation that lead to over $1bn of fines. Approximately $12.4bn will be spent in the US this year on ads on search engines, with Google expected to rake in 73.3 per cent of that cash, according to eMarketer.

*Al Jazeera*
*http://english.aljazeera.net/news/europe/2010/11/201011301541530892.html*

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**Kabul Bank fraud claims probed**
Afghanistan's biggest privately owned bank is being investigated following allegations of mismanagement.

30 Nov 2010
Afghanistan's Kabul Bank is being investigated following allegations that its former chairman misused funds, the Afghan finance minister has told Reuters news agency.

"Mismanagement is being investigated," Omar Zakhilwal said on Tuesday on the sidelines of an Afghanistan investment conference in Dubai.

Hundreds of Afghans queued outside the bank in September, trying to withdraw their savings after reports that millions of dollars had been lent and poured into high-risk real estate investments in Dubai.

Afghan authorities then seized operations at the bank, which is Afghanistan's biggest privately owned, following allegations that Sherkhan Farnood, the chairman, misappropriated funds.

Farnood has been ordered to hand over more than $150m in luxury villas and condominiums that he allegedly bought with the bank's money for various Afghan elites, including Mahmood Karzai, the brother of the Afghan president.

Zakhilwal said the lender was now under the control of the central bank but was functioning normally.

"Kabul Bank has stabilised and is operating normally," he said.

*Al Jazeera*
*http://english.aljazeera.net/news/asia/2010/11/20101130832595324338.html*

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**IMF: World crisis of capitalism has destroyed 30 million jobs**

The director general of the International Monetary Fund (IMF), Dominique Strauss-Kahn, said on Monday (1st) that the crisis has destroyed 30 million jobs worldwide. "The world lost 30 million jobs because of the global crisis, and estimates for next year point to 400 million jobs," said Strauss-Kahn, at the International Forum on Human Development in Morocco.

According to the same official, quoted by international agencies, "under the new globalization, the first priority is employment, the second priority is jobs and the third priority is employment."

More than 1,500 international experts participating in the event heard Strauss-Kahn argue that it is necessary to strengthen international monitoring mechanisms against the crisis to prevent a worldwide economic collapse.

"Much has been done in terms of regulation, but not at the level of international supervision. And even the best regulations in the world are worthless without supervision," declared the general director of the IMF.

"The G20 leaders said loud and clear that they would reorganize the financial sector, but unfortunately the reality is more complex than that."

Strauss-Kahn also said that "the system is not as fragile as before the crisis, yet there is no guarantee that in five or ten years it cannot return to derail everything."

*Pravda.Ru*

*http://english.pravda.ru/business/finance/02-11-2010/115615-world_crisis_of_capitalism_destroyed_jobs-0/*

**US unemployment hits surprise high**

Fears over economic recovery as figures show jobless rate soaring to highest level in seven months.

03 Dec 2010

The US unemployment rate has hit an unexpected seven-month high, prompting renewed fears about the country's economic recovery.

Unemployment rose to 9.8 per cent in November, according to figures from the US Labour Department on Friday.

The news sent the dollar tumbling and dealt a blow to the US administration's hopes for an end to the country's continuingly high unemployment.

The department's figures showed only 39,000 jobs were created in November. That is well below the 130,000 that had been predicted by economists and is far from enough to dent the unemployment rate.

The White House, which is under pressure to prove its economic policies are working, acknowledged the unemployment rate was "unacceptably high".

*'Bumps in the road'*

Massive government stimulus plans, while alleviating the worst of the downturn, have failed to bring unemployment levels into line with those seen over the last decade.

But Austan Goolsbee, one of the top economic advisers to Barack Obama, the US president, warned it was "important not to read too much into any one monthly report".

"Although the overall trajectory of the economy has improved dramatically over the past year, there will surely continue to be bumps in the road ahead such as this," he said.

While the high rate of joblessness is a constant worry for the eight-plus million Americans who lost their jobs during the crisis, policymakers are increasingly concerned about how long the trend has persisted.

*Long-term unemployed*

Nearly 40 per cent of those unemployed have remained out of work for more than six months, and fears are growing that high unemployment rates may be more than a temporary result of the recession.

Eric Cantor, a Republican legislator in the House of Representatives, said: "Today's jobs report marks the 19th consecutive month in which unemployment has exceeded nine percent, an unacceptable result."

He also urged Congress to extend tax cuts put in place under George Bush, the former president.

Supporters argue the cuts will help spur the recovery, but critics say the US, already struggling with its deficit, can ill afford them.

Alongside tax cuts, debate has raged over unemployment benefit, with the White House warning that unless Congress extends unemployment benefit to the long-term unemployed, millions of Americans could see their incomes slashed.

*Al Jazeera*
*http://english.aljazeera.net/business/2010/12/2010123215919154913.html*

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**Spain set to raise retirement age**
Emergency cabinet meeting backs plans to raise the the pension age to 67 after controversial asset sales were announced.

03 Dec 2010
Spain's government has set a date to raise the retirement age, just days after announcing it would be selling multibillion euro stake in the lottery and airports, to ward off debt pressures threatening the country.

Jose Luis Rodriguez Zapatero, the Spanish prime minister, pulled out of a Latin American summit to attend a cabinet meeting on the economic crisis on Friday, as his country sought to avoid the type of debt debacle that hit Greece earlier this year.

His socialist government will approve the plan to raise the retirement age from 65 to 67 years, despite fierce opposition by the unions, Alfredo Perez Rubalcaba, the deputy prime minister, said.

"We have agreed that the government will approve the reform of the pensions system on January 28 in order to send it to parliament," he said after the meeting.

The government unveiled the plan more than a year ago in order to ensure that the social security system remains viable, as the country confronts a rapidly ageing population and strained public finances.

Tens of thousands of protesters took to the streets across Spain in February to condemn the proposal.

*Asset sales*

Earlier this week, ministers also agreed to boost the state coffers with asset sales, cut taxes on small- and medium-sized business and to raise tobacco taxes. Zapatero had unveiled the expanded asset sales two days earlier.

The proposed sales include up to 30 per cent of the state-owned lottery, along with a 49 per cent share of the airport management company AENA.

Spanish media said the country could net as much as $6.5bn from the privatization of the lottery and $12bn from the sale of the stake in AENA, reports said.

Salgado earlier said the sales would allow Spain to cut new borrowing from the markets by a third in 2011, lowering bond issues to about $40bn from the $60bn originally planned.

"That will allow us to reduce our stock of debt," she said in an interview with the *Financial Times* newspaper published on Thursday.

Even with a reduction in new debt issues, the central government has to repay $160bn in existing debt that matures in 2011, according to treasury figures.

That figure excludes the debt racked up by Spain's semi-autonomous, heavily indebted regional governments.

The Spanish government aims to rein in its public deficit from 11.1 per cent of GDP last year, the third highest in the Euro zone after Greece and Ireland, to 3.0 per cent - the EU limit - by 2013.

*Al Jazeera*
*http://english.aljazeera.net/news/europe/2010/12/2010123143017167955.html*

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**South Korea breaks trade deal deadlock**
Seoul reaches agreement with US negotiators after three-year delay over tariffs on import of US vehicles.

04 Dec 2010
South Korea and the United States have resolved the differences which stalled a free trade agreement between the two nations for three years.

The two allies signed the deal - which they said would boost US exports to South Korea by $11bn and create 70,000 US jobs - on June 30, 2007, but ratification had been delayed due to sticking points over the US auto industry and the opening of the South Korean beef market.

But trade negotiators for Seoul and Washington reported back to their respective presidents after four days of talks in the US capital that the final hurdles had been cleared.

"This agreement is meaningful in that it reflects both countries' interests in a balanced way and lays the foundation for a reciprocal win-win," Lee Myung-bak, the south Korean president, said in a statement on Saturday.

"It will also be an opportunity for the South Korea-USA alliance to make a leap by one notch. Our economy will face an opportunity to make a jump again in terms of quality."

Lee urged the South Korean parliament and the US Congress to approve the deal as soon as possible.

*Tariffs lifted*

The agreement lifts tariffs on 95 per cent of goods between the countries within five years, in what would be the largest US trade pact since the North American Free Trade Agreement with Canada and Mexico in 1994.

The deal was completed after Seoul said it would allow the US to move more slowly on lifting the 2.5 per cent tariff on imported South Korean vehicles.

Barack Obama, the US president, said US car and lorry manufacturers would gain more access to the Korean market "and a level playing field to take advantage of that access" now the trade pact had been finalised.

"We are strengthening our ability to create and defend manufacturing jobs in the United States, increasing exports of agricultural products for American farmers and ranchers and opening Korea's services market to American companies," he said.

The revisions also allow 25,000 cars per US automaker to qualify for entry into the South Korean market, about four times more than under the deal struck in 2007, based on US safety standards rather than more stringent Korean standards.

Alan Mulally, the chief executive of Ford Motor which had led opposition to the deal, hailed the Obama team's "tireless efforts" efforts

He said the new version of the pact offered "greater confidence that we will be able to better serve our Korean customers".

*Korean concessions*

For its part, South Korea is no longer required to eliminate immediately its eight percent tariff on US auto imports, but will reduce it to four percent for four years before removing it. It will, however, still immediately eliminate a 10 per cent tariff on US lorries.

Obama faces a battle to get congressional approval for the pact as much of the opposition has been voiced by his own Democratic party, however many Republicans have been broadly supportive of the deal.

The revision to the pact did not deal with the issue of US beef, despite Washington pushing Seoul to accept older cattle.

The issue was especially sensitive for Lee, who has faced major street protests by Koreans concerned about mad cow disease in US cattle.

US officials said beef exports have already grown and would rise further with tariff restrictions, but they conceded that South Korea had not made concessions on the cattle age.

*Al Jazeera*
*http://english.aljazeera.net/news/asia-pacific/2010/12/20101241312561555474.html*

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**Gulf urged to protect workers**
International Labour Organization calls on Gulf States to reform labour laws governing millions of foreign workers.

05 Dec 2010
The International Labour Organization (ILO) has urged Gulf countries to protect millions of migrant workers by reforming the sponsorship system and introducing a minimum wage.

The ILO also called for foreign workers to be permitted to form representative organizations, so that they would have the possibility to seek justice if their rights are violated.

The recommendations were issued on Sunday at the end of a one-day symposium at which two studies on migrant workers in the Kuwait and the United Arab Emirates were released.

"It is important that an introduction of a fair minimum wage be considered," in line with international labour principles, the ILO said, suggesting a monthly wage of $215 for Kuwait.

The ILO also called for a "major reform" of the sponsor or "kafala" system, which has been criticised as bonded labour by human rights groups. Gulf nations should consider foreign labourers as migrant workers rather than guest workers, it said.

*Local sponsors*

Navi Pillay, the UN High Commissioner for Human Rights, called on Gulf countries in April to stop requiring migrant workers to secure local sponsors, saying the system fosters abuses.

In Kuwait, immigration regulations allow for criminal charges against workers who leave their jobs, while in Saudi Arabia and Qatar workers must have their employers' permission to get exit visas to leave the country.

The ILO estimates that there are 15 million migrant workers in the six-nation Gulf Co-operation Council (GCC) states, making up about 40 per cent of the total population.

The GCC groups Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and UAE.

Foreigners form a majority of the workforce - and, in some cases, of the population - in most of the GCC states, according to the ILO.

The organisation said GCC countries should consider extending social protection to foreign workers as this would improve their employment conditions.

*Physical abuse*

Human Rights Watch, a New York-based NGO, points to the many challenges low-wage workers frequently face in the region, including unpaid wages, indebtedness from recruitment fees leading to forced labour and hazardous conditions.

For women working as domestic maids, physical abuse is also a serious concern.

The ILO's plea coincides with growing debate in some of the home countries over how to protect the rights of the many Asian women who travel to the Gulf to work as maids.

Many cases of the alleged torture of domestic workers from countries including Indonesia, Sri Lanka and thePhilippines have emerged in recent months, in what Amnesty International has called "the tip of the iceberg" of the "systematic abuse" - ranging from indentured labour to physical assault and sexual abuse - suffered by domestic servants.

Gulf states "have to take steps to put an end to this horrific treatment of migrant domestic workers, by immediately removing the legal climate of impunity that allows employers to exploit, enslave, abuse, assault and injure their domestic workers with virtual impunity" Malcolm Smart, Amnesty's director for the Middle East and North Africa, said in November.

*Al Jazeera*
*http://english.aljazeera.net/news/middleeast/2010/12/2010125134022563993.html*

## *ARTICLES/COMMENTARIES*

### The Race to Erase Debt

American households are turning away from debt and embracing thrift, says columnist Chris Farrell. Can government do the same?

By: Chris Farrell

"Transitions are dangerous," said the late Charles Kindleberger, an economic historian with a vast knowledge of financial manias, panics and crashes, in 1983. That was No. 9 of 10 lessons he summarized from the early years of the Great Depression.

Kindleberger noted that pursuit of smart public policy in that tumultuous time was handicapped by three transitions: The 1928 death of Benjamin Strong, the forceful head of the Federal Reserve Bank of New York, which caused power to pass to the Federal Reserve in Washington, a more timid group of central bankers; the victory in the 1932 Presidential election of Franklin D. Roosevelt over the incumbent Herbert Hoover; and the difficult transition of international economic hegemony from the world of Pax Britannica to Pax Americana.

Since economist James Tobin got the Nobel prize in 1981 for stating "don't put all your eggs in one basket," Kindleberger said he planned on submitting to the awards committee his one-sentence insight: "Be very careful if you have to change horses."

*Biggest in 62 Years*

Kindleberger never got the nod from Oslo, but his admonition rings true a quarter-century later. The midterm election is over, and the results have changed the balance of power in Washington, with the Republican Party picking up at least 60 seats in the House—the biggest sweep since 1948. Democrats held on to the Senate, but with a slimmer majority after Republicans picked up at least six seats.

Voters are understandably angry over the lack of jobs and economic growth. And the news remains grim on the employment front. While the U.S. economy added 151,000 jobs in October, the unemployment rate held at 9.6 percent, the Bureau of Labor Statistics reported on Nov. 5. That's the 15th month the jobless rate has remained at 9.5 percent or above, the longest such period since government statisticians started collecting the numbers in 1948.

Indeed, the major force behind the slow recovery isn't going away soon: America is turning away from debt and embracing thrift, and the epicenter of change is the household. History suggests that the transition toward a high-saving, less-debt balance sheet will be long and painful before vibrant growth resumes.

The Federal Reserve is smartly trying to bolster the economy during the transition from profligacy to thrift with its latest round of quantitative easing, QE2 (a fancy term for printing money). The Fed announced Nov. 3 that on top of its existing program of reinvesting the proceeds of its portfolio, it will buy $600 billion of long-term government bonds by the middle of 2011. In the meantime, the message for Capitol Hill and the White House is, at minimum, "do no harm" while the Great Deleveraging runs its course.

*Awash in Corporate Cash*

Considering the well-publicized extravagance of many chief executives, it's underappreciated just how much money Corporate America has been hoarding cash during the downturn. Corporations have accumulated nearly $1 trillion in cash and equivalents, up 22 percent since 2008, according to an Oct. 27 report by Moody's Investors Service. Apple Computer (AAPL) alone has $51 billion on its balance sheet. "The investment opportunities are more limited, and most can wait until management is more confident about demand," says Charles Roxburgh, the London-based director of the McKinsey Global Institute.

The recent corporate embrace of cash is really part of a longer-term trend. It started after the economic trauma of the 1970s, when companies were battered by one shattering experience after another, from double-digit inflation and interest rates to the U.S. government abandoning the gold standard, to the two OPEC oil embargoes. Despite all the headlines devoted to LBO buccaneers in the 1980s and private equity financiers in the 2000s, the average cash-to-asset ratio for U.S. industrial companies increased 129 percent from 1980 to 2004, according to scholars Thomas Bates and Kathleen Kahle of the University of Arizona, Tucson, and Rene M. Stulz of Ohio State University. In "Why Do U.S. Firms Hold So Much More Cash than They Used To?", the researchers note that the creation of the cash hoard has been so dramatic that "on average, American firms could have paid off their debt with their cash holdings."

Now that's thrifty. Many factors combine to create such a degree of corporate frugality, but the most important are the unsettling combination of changing technology, the gale winds of deregulation, and increasingly tough competition from emerging-market companies.

"As economies have become more dynamic, the ability of profitable corporations to say five years from now they will still be highly profitable has declined," says Jay Ritter, finance economist at the University of Florida, Gainesville. What's more, companies aren't going to risk that money soon

*Bringing Down Household Debt*

Now it's the household's turn to be thrifty. People learned the hard way how financially insecure they had become when the debt bubble burst. There has been progress: According to the Federal Reserve Bank of New York, U.S. households have reduced their debts over the past seven quarters. In the second quarter of this year, households owed $11.7 trillion, down 6.5 percent from the peak of $12.5 trillion reached in the third quarter of 2008. (The next report on total household debt is scheduled for release Nov. 8). The personal savings rate as a percent of disposable income in September was 5.3 percent, the Bureau of Economic Analysis said on Nov. 1. That's significantly higher than the low of 0.8 percent reached in April 2005.

Still, Americans have a long way to go before their personal finances are healthy. For instance, total household debt equaled 118.4 percent of after-tax income in the second quarter of 2010, according to Christian Weller, senior fellow at the Center for American Progress, a liberal think tank in Washington, D.C. That's down from a record high of 130.2 percent in the first quarter of 2008 but well above the 100 percent figure of the early 2000s, let alone the 60 percent to 80 percent of the late 1950s to the early '90s.

Of course, there is no magic debt ratio. Nevertheless, a recent study published in the September 2010 *BIS Quarterly Review* is suggestive. A look by Gary Tang and Christian Upper of the BIS at private sector debt after 17 of the 20 systemic banking crises suggests that the trend to deleveraging the U.S. household may be, at best, only one quarter complete.

*What about the Government?*

It's also why the pressure on government to reduce its debt won't go away. It has to be dealt with. The Republican resurgence and fulfilling a major campaign promise are factors, of course. But an even more important reason is that households struggling for greater thrift will insist that government also embrace a new frugality. Even economists that scorn calls for government austerity at the moment call for reduced debt levels tomorrow. "The deleveraging still has a long way to go for consumers," says Roxburgh. "The U.S. government's deleveraging hasn't started yet."

The return to frugality isn't fun. The transition is definitely painful. Yet an economy with a healthier savings cushion and a greater reliance on equity financing is a society with the financial wherewithal to take greater risks. The great deleveraging offers the prospect that thrifty companies, households, and government will create the foundation for a more prosperous, innovative economy.

Yet, as Kindleberger noted, transitions are dangerous. Washington can ease the burden of the great deleveraging by heeding the sage's Lesson No. 8: "Formalism, politics, and ideology impede crisis-solution." Any debt-reduction blueprint that federal policymakers embrace should keep in mind that a fragile, vulnerable U.S. household will take a long time to reduce its leverage. It's one reason why even suggestions that the federal government might default on its debt are so dangerous. For example, CNN's John King asked Senator Jim DeMint (R-SC) on Nov, 2 that if there is a vote in Congress on raising the debt ceiling, should Republicans say no? "I think Republicans will say no, unless that raising of the debt ceiling is accompanied by some—some dramatic spending cuts, something that would direct us toward a balanced budget in the future, Republicans will not support an increase in the debt limit," said DeMint.

Gridlock is not good public policy, especially with the full faith and credit of the federal government and the value of the U.S. dollar on the line.

That's why the best opportunity for devising a realistic plan for bringing down the federal debt over time comes from the efforts by two blue chip commissions. The Bipartisan Policy Center's Debt Reduction Task Force, headed up by former Senator Pete Domenici and former Congressional Budget Office Director Alice Rivlin, releases its suggestions on Nov. 17. The National Commission on Fiscal Responsibility and Reform, established by the White House and headed up by former Republican Senator Alan Simpson and former Clinton White House chief of staff Erskine Bowles, has a Dec. 1 deadline for its recommendations.

Normally, the suggestions of commissions headed by well-credentialed and well-meaning but aging wise men and women are a snoozefest, quickly tossed into scrap heap of history by practical politicians. But sometimes timing is everything on Wall Street and in politics. These commissions offer Washington a path to cut a deal. Republicans and Democrats, acutely aware of the electorate's desire to rein in massive government borrowing, should take it.

Farrell is contributing economics editor for *Bloomberg Businessweek*. You can also hear him on American Public Media's nationally syndicated finance program, *Marketplace Money*, as well as on public radio's business program *Marketplace*. His Sound Money column appears on Businessweek.com.

*Bloomberg*
*http://www.businessweek.com/investor/content/nov2010/pi2010115_719576.htm*

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**Who's Afraid of Apple, Google, Facebook?**

Timothy Wu says we should be alarmed by the monopoly powers accumulated by Apple, Google, Facebook, Amazon, Skype, Twitter, Apple, and eBay. Why he's wrong

By Mathew Ingram

Timothy Wu, the Columbia University law professor who coined the term "net neutrality," is not someone to be dismissed lightly, especially when it comes to communications and media trends. In his recent book *The Master Switch: The Rise and Fall of Information Empires*—and in a related piece in *The Wall Street Journal*—Wu argues that just as AT&T was a monopoly during an earlier phase of communications history, companies such as Google, Facebook, and Apple now hold what he calls "information monopolies" that could be just as damaging to our society.

Does he present a convincing case that this is true? Not really.

In his *Journal* op-ed piece, Wu asks: "How hard would it be to go a week without Google? Or, to up the ante, without Facebook, Amazon, Skype, Twitter, Apple, eBay, and Google?" Just for the record, I routinely go days without using Amazon, Skype, or eBay and haven't noticed any problems. I spend most of my time online. In any case, Wu says doing without Google and Amazon would be inconvenient. He goes on to say:

“Forgoing Facebook or Twitter means giving up whole categories of activity. For most of us, avoiding the Internet's dominant firms would be a lot harder than bypassing Starbucks, Wal-Mart or other companies that dominate some corner of what was once called the real world.”

*What Constitutes a Monopoly?*

The author goes on to argue that despite the Internet's reputation for encouraging freedom, it looks "increasingly like a Monopoly board," with most of the major sectors controlled by "one dominant company or an oligopoly." According to Wu, search is "owned" by Google, while Facebook owns social networking, eBay rules auctions, Apple "dominates online content delivery," and Amazon owns online retail. But as Adam Thierer has pointed out (so has Mike Masnick, among others), none of these examples—with the possible exception of Google and search—meets any kind of serious test of the term monopoly.

It's not clear what Wu even means by saying that Apple has a monopoly on "online content delivery." He seems to be referring to iTunes and the control the company exerts over distribution of music, movies, books, magazines, and so on, either directly or via its mobile apps. But that doesn't really qualify as a monopoly either: Record labels, movie studios, newspapers, and other content companies are free to distribute their content in other ways to still reach the same audience (or an even broader one), using the Web and other services.

Google probably comes closest to a classic definition of a monopoly. Not so much on the search side, but as it might apply to advertising—particularly search-related advertising, where the company clearly has a dominant position. As a result, Google has already come under scrutiny for acquisitions such as the purchase of the mobile advertising service AdMob (which got cleared after Apple bought Quattro Wireless). Others have recommended that regulators investigate the proposed purchase of the travel-information service ITA as well. Even so, arguing that Google is a monopoly is no slam dunk.

*How Would Facebook and Apple Qualify?*

Facebook and Apple, meanwhile, don't really fit any definition of monopoly, unless you broaden the definition to mean "a really big company with products that a lot of people use." It may be true that Facebook doesn't make it easy for certain kinds of data to be exported from within its walled garden—something recently criticized by the father of the web, Sir Tim Berners-Lee—but that doesn't make it a monopoly. If Facebook were a monopoly, Friendster and MySpace could just as easily have been accused of being monopolies when they were top dogs in social networking. Today, they offer proof of the fragility of such a position.

Facebook seemed like an also-ran just a few years ago—similar to Friendster and Myspace, but with fewer features. Now it's valued at more than $33 billion and feared by everyone. Could it be the next Microsoft, and therefore deserving of our criticism for being a quasi-monopoly? Perhaps, but that case has yet to be made. Look at Twitter: In just three years, it has gone from being a quirky toy used primarily by geeks to a digital-age communications network used by hundreds of millions of people as a real-time news medium; it has a theoretical market value of more than $3 billion.

Wu argues that while they may not be strictly defined as monopolies, these companies are large enough and have integrated themselves into our lives in such a way that they might as well be monopolies. The risk with this argument, of course, is that governments tend to take a dim view of monopolies, whether metaphorical or otherwise, and talking about Google or Facebook in those terms could make it even more appealing for regulators and politicians to get involved in legislating technology markets and services—rarely a good thing.

*"Network Effect" Builds and Destroys*

In his *Journal* piece, Wu says he believes the Internet is more prone to monopolistic behavior because "a single firm can dominate the market if the product becomes more valuable to each user as the number of users rises. Such networks have a natural tendency to grow, and that growth leads to dominance." What Wu is describing—the so-called "network effect"—is a double-edged sword. Just as it built the former empires of Friendster and Myspace and AOL, it just as efficiently dismantled them when a better (or at least more popular) network came along.

Should we beware that Apple is trying to control too much? Undoubtedly. Need we also be vigilant when networks such as Facebook try to control too much of our information, as Berners-Lee advocates? Sure. Wu, however, seems to want to draw a comparison between AT&T's longtime control over telecommunications and the power of companies such as Google and Facebook. The analogy just doesn't work. There are still too many variables and the ubiquity of the Web arguably makes monopolies more difficult to maintain, not less.

*Bloomberg*

*http://www.businessweek.com/technology/content/nov2010/tc20101126_023905.htm*

**Europe's Changing Role in Global Trade**

A new report by HSBC and Delta Economics finds lots of opportunities for European companies to trade abroad, especially if they focus on know-how

By: Alan Keir

If the world needed a reminder of the importance of international trade, the global downturn couldn't have made the point more clearly. While trade was itself slowed by the challenging financial climate, it nonetheless served as a driving force behind economic recovery and as a catalyst for growth amid tough times. International trading expands the horizons of businesses, offering more opportunities for growth, development, and profit-building than a solely domestic enterprise could ever have.

But while businesses may be aware of the benefits of going overseas, moving from a domestic business strategy to one with an international mindset and approach can be a daunting prospect. That's why HSBC (HBC) commissioned Delta Economics to write *Mapping the World's Trade Connections*, the first report of its kind to establish a definitive picture of how the world trades today, including which countries are trading with each other, which sectors are seeing strong international growth, and where the hot spots of the future may lie.

Bringing together extensive international trade data, the opinions of 50 businesses from around the globe already successfully trading internationally, and expert insights by HSBC trade chiefs, the report's authority lies in the breadth of opinion and practical information it draws on to support business leaders in their decision making.

*Where the Rising Stars Are*

*Mapping the World's Trade Connections* establishes not just which countries present the greatest future growth potential for European businesses, but also which specific sectors and industries will most likely see growth—and where on the world map these opportunities will occur.

The report notes that new "rising stars" are appearing all over the world. While the phenomenal growth of both Brazil and China has been well documented—and both countries will clearly be significant players in the future—*Mapping the World's Trade Connections* reveals that other nations, perhaps lesser-known for their trade prowess, also are making their mark.

Several African nations, for example, are taking their place in the spotlight. Such countries as Ghana and Ethiopia boast young, entrepreneurial populations. They also share a strong commitment to change, which can potentially produce significant opportunities to pursue growth. Ethiopia is already capitalizing on external interest;

Chinese investments there are helping to overhaul and modernize the agricultural sector. Infrastructure development also remains a key priority and is likely to lead to further opportunities for international businesses.

*Crucial Partnerships*

South Africa, still benefiting from the World Cup's boost to infrastructure investment and morale, is also seeing strong demand for its commodities. It came through the downturn well—thanks in part to being less integrated into the world's financial system—and has strong mining revenues. The country's future focus is likely to center on exploiting trade opportunities with emerging economies, in particular forming partnerships with emerging Asian nations.

Eastern European countries also are experiencing high growth, with international trade rocketing in both Poland and the Czech Republic. Kazakhstan, meanwhile, is experiencing rapid growth in its commodities exports—growth heavily influenced by its strength in oil and gas. In all these hot spots, opportunities abound for European businesses to support infrastructure development and satisfy the resulting demand for commodities.

But with so much focus on emerging nations, what part will Europe play in global trade in the future? *Mapping the World's Trade Connections* found that while Europe is still important in global trade, its role is changing significantly. In the future, Europe is likely to be less of a consumer on the global stage and more of an innovator, capitalizing on its renowned leadership in cutting-edge research, its recognized strengths in high-value manufacturing and design, and its access to ideas, innovations, and networks. Essentially, Europe's future will rest on trading skills, not products.

*Role of 'Thinking' Businesses*

The experts interviewed for the report felt that while emerging markets may offer the greatest opportunities to make quick profits, "thinking" businesses will need to capitalize on the strengths of both emerging and developed markets. In Europe that means maximizing the continent's experience, knowledge, and skills. Europe's reputation as a provider of specialist knowledge will render it an attractive option for businesses in emerging markets that are looking to establish strategic partnerships to further their growth.

What of European businesses keen to form such partnerships overseas? *Mapping the World's Trade Connections* recommends taking a multidimensional approach, conducting detailed research into potential new markets, and ensuring your business is ready to trade internationally. That includes taking necessary steps to mitigate the risks—such as the logistics of overseas transport and managing business cash flow—that overseas expansion may present. Spending time considering your business finances and seeking expert advice from organizations, including banks and government trade groups, are further crucial steps.

The message from the report is, above all, to ensure you understand global trade, how the international outlook is changing, and how best your business can capitalize on the opportunities these changes will bring.

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*Bloomberg*
*http://www.businessweek.com/globalbiz/content/nov2010/gb20101126_677982.htm*

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**Sustainable Development: Is it possible?**

*Marcus Eduardo de Oliveira (*)*

In his latest book "Caring for the Earth, Protecting Life," Leonardo Boff asserts: "In 1961, half of the Earth was needed to meet human demands." In 1981, we quote: "we needed the entire Earth. In 1995, we exceeded by 10% its spare capacity, but it was still bearable. "

However, alarms continued to be triggered announcing the expansive aggression suffered by the Earth. The calendar marked the day the 23rd of September 2008, predicted by scholars as "Earth Overshoot Day. That is the day the Earth becomes overrun. Thereafter it was believed that on a universal scale, the Earth has exceeded by 30% its ability to support and replace.

From there, you wonder, what can be done? Continue to run rampant exploitation / waste of natural resources without limits or make a quick reversal? Continue prioritizing the diverse goods the market requires all the time or look with respect and attention for the quality of life? Continue with the preaching drawn from the seminal works of economics that point out that economic growth is an effective remedy for the cure of social ills or to make this a subject in science to search for the same goals in life, whose essence is the quality rather than quantity?

Answers to these questions are scattered around, although there is more disagreement than consensus on thinking about the intricate relationship economy - nature-resources - desires - production - consumption.

Eric Hobsbawm, one of the greatest intellectuals of the century, in this regard has already positioned himself: "Either we enter a different paradigm or go against the darkness." On the other paradigm, the renowned historian says that changes in the system are not sufficient, you must change the system.

Destroying nature in exchange for the pleas of the voracity of the consumer market is to destroy the webs that sustain life. The market, as well as the entire economy, depends on something that is above it all: nature. The economy, as productive activity, is just a byproduct of the natural environment and depends outrageously on a variety of resources that nature holds. We humans, like all living beings, are parts and not all of the natural environment that includes a wealth of living creatures.

It must be emphasized that we are not on earth, we are the Earth. We do not occupy nature as mere participants, we are in nature from the fact that we are made of stardust. We depend on the nature of the arable land, water, air, sun, rain, phytoplankton (unicellular microscopic algae) and depend on the stars. That's not prose or verse, it is fact!

There are the stars, with a unique ability to shine and therefore with the power to remove the fear of the night. They convert hydrogen into helium by nuclear fusion, and from this combination emerges potassium, oxygen, carbon, iron that will be located in amino acids (the chemical units that make up proteins) and proteins (which form the muscles, ligaments, tendons, glands, and finally, that allow bone growth). Without it life would not be possible.

We are still part of nature for philological reasons (scientific study of a language). Not coincidentally, we originate from the Biblical Adam (Adam in Hebrew means "Son of the land"), although this is purely metaphorical. We are also part of nature when we realize that even the philological aspect of the word man / human comes from "humus," which means "fertile land."

Every time we see these issues come up, we will further deepen the importance of the topic. Environmental concerns, seen in a not too distant past as merely rhetorical and romantic today, for our happiness, will occupy the agenda of the key government leaders.

To some extent, it seems to be the consensus that we're talking about a perspective that involves, in essence, the maintenance of life by the close ties we have to mother Earth, also called Gaia.

It is in everyone's interest, and not just the practitioners of green activism - the first ones to call attention to these serious issues.

In this detail, the argument of the Canadian educator Herbert M. McLuhan (1911-1980) should be cited: "On spaceship Earth there are no passengers. We are all crew."

The economy, being one area of knowledge of the humanities, cannot do without help in the dissemination of a discourse in favour of life, and not in favour of the market as god, as has been common since the advent of the Classical School in the eighteenth century.

Discussing development through the lens of economics is, above all, thinking about qualitative aspects, and not in the current economic dimension of the projects targeted only for the quantitative aspect. To understand the economy only by the amount of things produced is an abysmal mistake that has only further caused the culture of waste and lack of frugality with regard to regular productive activity, while deepening consumerism, that scourge of the capitalist system.

Even today, despite the most strident and forceful speeches about the serious environmental crisis that is recognized, it is presented as a good economic policy that can make the GDP go up, regardless of whether that growth will occur in the area of environmental exploration / destruction.

They forget or ignore everything that grows too much, or explodes or spreads. To explode or to spread means, roughly, loss and waste. To grow just for the sake of growing is the foundation of cancer cells. The economy cannot go down that path. It leads to death. Now this is not solidifiable; is highly destructible. The path of any economy that has as its only priority and does everything to meet the dictates of the market that calls for more production and consumption, reaching peaks of unimaginable growth, is known by all: destruction, deforestation, pollution, scarcity and extinction of species.

It is in the name of this perverse model that is criminally responsible for deaths that the market is supplied while nature is decapitalized, while life is endangered. At some time, any hour - and hopefully before it's not too late - someone will realize that these words uttered in 1854 were punchtually certain: "(...) They will realize that you cannot eat money."

For the good of everyone is necessary to allude to the fact that it is not possible to measure the growth of an economy when a tree is knocked down, you pollute a river or contaminate a spring. It has another name: insanity.

There is no sustainable economy that thrives on the basis of this pathology. To mitigate this discourse, modern economists have created the term sustainable development. However, there are not a few who commit another mistake in the vain hope that the magic word (sustainable) is in fact something applicable.

However, it remains to ask: sustainable for whom? How? When? Where? To continue unbridled exploitation, this growth cannot be sustained. Therefore, the expression is in itself fallacious. In a development project that is guided by the rules of competition, it is not possible that something is sustainable, since this competition, made by known mechanisms, produces exclusion, a few win and triumph over the loss of hundreds of millions of people.

If thousands are (and they will be increasingly) thickening (and will thicken) within the ranks of poverty and destitution, how can you say it is sustainable development? It is only sustainable when all / any are a part, without exclusion. Exclusion is a concept that does not match the scope of the term sustainability.

Moreover, it is argued insistently that sustainable development is feasible, because one day, nature will answer the demands of renewable resources. Forget those who argue that the universe is finite, it will not increase in size. The resources, a great deal of them, will end, many are not renewable.

So once again it is appropriate to draw attention of the term "sustainable" as being unreliable. L. Boff, reflecting on it in the book cited at the beginning of these words reflects that "(...) sustainability must be ensured, firstly, to the Land, to humanity as a whole, society and every person." The economy (science) in a little more than 230 years will need to advance much further to encompass with primacy this term in their predicates. Exclusively by the methods of competition, nothing will be achieved.

With all luck, the scale of values should prevail then, if we want to prioritize life. It should include cooperation, sharing, solidarity, communion, sharing. Definitely, the project must be economic to serve life in its dimensions, including, above all, the ecological perspective. This is urgent as we think of the prospect that the model is wrong and it's past time to propose an alternative. Life is in a hurry and the clock of time passes too quickly.

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*Pravda.Ru*

*http://english.pravda.ru/business/finance/26-11-2010/115953-sustainable_development_is_it_possible-0/*

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**Russia: 10 Reasons Why the Economy Will Recover**

By: Anders Aslund

In my Sept. 3, 2008, column titled “10 Reasons Why the Economy Will Falter,” I saw no reason why economic growth would continue. At the time, most economic analysts argued that Russia was a safe haven and predicted growth of 7 percent to 8 percent in 2009. Instead, gross domestic product plummeted by 8 percent in 2009. During the past two years, the mood in Russia has changed profoundly. Euphoria and complacency have been replaced with cynicism and pessimism. A broad conviction has spread that the country is condemned to a growth rate of, at most, 3 percent to 4 percent a year.

Slowly but surely, people are starting to realize that Russia’s economic growth during 1999-2008 was caused by the two market reform waves of 1991-93 and 1998-2002. With reforms a distant memory, a new growth spurt is not likely. While the energy curse is well understood, it tends to be over-emphasized. At one time, it was believed that energy-rich countries were guaranteed stable growth; now oil and gas are considered absolute blockages to growth. But neither is quite true.

There are 10 main reasons why Russia is likely to turn around within the next couple of years and enter a higher-growth trajectory:

1. The root cause is the profound sense of malaise in the Russian elite. Nothing is better for reform than malaise. Remember how former Soviet leader Mikhail Gorbachev and former Soviet Foreign Minister Eduard Shevardnadze before assuming power told each other: “We cannot go on like this any longer!” Once again, Moscow is reaching this point.

2. Ideas are also crucial, and a new intellectual paradigm has taken hold. Since February 2008, President Dmitry Medvedev has advocated modernization. While this ambitious idea has dominated the public discourse, little has been done. This contrast between word and action is reminiscent of the Soviet Union in 1987, when Gorbachev had preached acceleration and perestroika for two years but accomplished little. That year, he shifted gear to focus on democratization to shake society up.

3. Russia is finally about to accede to the World Trade Organization within a year, which would be a game changer. The best available studies predict enormous gains for the country. Economists Jesper Jensen, Thomas Rutherford and David Tarr estimate in a World Bank study that Russia should annually gain about 3.3 percent of GDP in the medium term and 11 percent of GDP in the long term. The gains would mainly come from increased foreign direct investment and services. International integration and convergence will drive the country’s growth for a couple of decades.

4. One of Russia’s largest drawbacks and constant drags on growth is its immense corruption, but Russia is simply too rich, well educated and open to be so corrupt. As the country has failed to extend its road network since 1997, something has to be done. Even former Mayor Yury Luzhkov — the country’s “ultimate traffic jam” — has been sacked. Significant progress in the fight against corruption can be made with relatively easy and small steps — for example, public procurement for key infrastructure projects can be significantly cleaned up if a few honest people are appointed at the top.

5. Money is no longer a free utility for the Kremlin. The oil price has risen above $80 per barrel, but at that level Finance Minister Alexei Kudrin foresees a budget deficit in 2010 of 4.6 percent of GDP, and deficits will continue until 2014. Therefore, the government can no longer simply throw money at problems. It has to actually solve some of them.

6. Energy production has leveled off and is not likely to rise significantly any time soon. Therefore, growth has to come from other sectors. Look at the composition of and trends among leading companies on the RTS or MICEX and you will see how Russia has changed. The energy companies are now the laggards, while the many growth companies are in consumer industries.

7. In particular, Gazprom, the old cancer of the Russian economy, is in a serious structural crisis. Its market value has fallen by two-thirds from its peak in spring 2008. As a high-cost producer, it is losing out to independent producers — notably Novatek — and liquefied natural gas in Europe. Gazprom represents the most pressing case for restructuring. The company has to cut costs by reducing corruption and enhancing

efficiency. This means that Gazprom must put an end to its history of being the huge slush fund for Russia's rulers.

8. Russia's greatest resource is its quickly expanding human capital. According to UNESCO statistics, 51 percent of young Russians graduated from higher educational institutions in 2008, placing Russia as the ninth-highest country in the world. Compare this figure with the United States, where only 35.5 percent of the young population completed higher education in 2008. Admittedly, the Russian numbers are swollen by corruption, plagiarism and often low standards, but even with some deduction, the Russian figures remain impressive. Everywhere, you see young, ambitious, well-educated and hard-working Russians, who are determined to succeed.

9. The long absence of any significant reforms has left many low-hanging fruits, such as elementary deregulation. Privatization is becoming inevitable, and it instantly reduces the corruption characteristic of Russian state corporations.

10. Russia's leading businessmen often talk about "the 2012 problem" — that is, their uncertainty about the elite's presidential selection in March 2012, or probably in December 2011, when a presidential candidate has to be nominated.

The choice is becoming increasingly clear: Putin symbolizes corruption, energy dependence and stagnation, while Medvedev presents an image of modernization and reform. These alternatives are becoming as crystal clear as in 1985, when the Soviet elite opted for change.

Medvedev has real levers to exert power. Among other things, he possesses a "nuclear option" — at any moment, he can sign an amnesty for former Yukos CEO Mikhail Khodorkovsky, which could significantly change the presidential race in 2012.

In the end, the choice is between a growth rate of 3.5 percent a year or 6.5 percent a year in the medium term. Would big Russian businessmen prefer stagnation of their companies over healthy growth? Why should they ignore their own interests?

Anders Aslund is a senior fellow at the Peterson Institute for International Economics and co-editor with Sergei Guriev and Andrew Kuchins of "Russia after the Global Economic Crisis."

*Moscow Times*
*http://www.themoscowtimes.com/opinion/article/10-reasons-why-the-economy-will-recover/424578.html*

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**Could Russia become China after financial collapse in 1998?**

Ekaterina Evstigneeva

The financial crisis of 1998 presented the leadership of Russia with a challenging task: to choose a new path of the economic development. There were several scenarios. The government preferred the option with tight fiscal policies and structural reforms. But was it the right choice?

Anton Safonov, an analyst of Investkafe, told Bigness.ru that after the financial crisis of 1998, when the US dollar has grown from 6 rubles to 25 rubles, the Russian economy could have developed according to several scenarios.

"First, the government could have been unprepared for reforms, particularly in in the budgetary and fiscal areas, that would have jeopardized the ability to meet the obligations, especially external ones. As a result of inability to stimulate domestic demand, the economy would have virtually no capacity for development," said the expert.

Also, according to the expert, the government could have completely abandon debt payments to improve the economic situation in the country. Such a scenario was chosen in early 2000 by the Russian government, whose head at that time was Kasyanov. But such policies could have resulted in Russia's expulsion from international organizations and other sanctions in connection with which the President had decided to continue payments on the government debt.

"Such a scenario would have also led to the possibility of using only domestic sources for financing the budget deficit, which was not enough," said the expert.

The country's leadership has chosen the third option with a tough fiscal policy and structural reforms. Thanks to the actions of the Central Bank, who led the tight fiscal restraint and monetary policies, the country managed to increase tax collection and reduce inflation. Flat income tax for individuals was established at 13%, the income tax rate was reduced to 24%, a regressive unified social tax was introduced, turnover taxes and sales tax were abolished, and the total amount of taxes was significantly reduced. The process has also reduced the tax burden.

Attempts were made to reduce administrative barriers and reform the natural monopolies. Integration processes started to develop. Gold and foreign exchange reserves of the Central Bank were rapidly growing. In 2002 the pension reform was undertaken, and in the period from 2001 to 2004 banking reform was carried out.

"Undoubtedly, the economic development was positively influenced by the oil prices, which, due to the increased demand from Asian countries, held at a high level.

These funds could have been used for the investment into the economy, particularly in the industries that would ensure economic growth in the long run. But such a decision was contradicting to the stabilizing function of the Stabilization Fund, which played an important role during the 2008 crisis," says Anton Safronov.

The Stabilization Fund was to provide additional stability to public finances, as well as serve as a source of financing for the investment projects that would reduce budget expenditures in the future periods. At the beginning of 2008, the Stabilization Fund, which was divided into the Reserve Fund and National Welfare Fund, amounted to 3.85 trillion rubles.

The emphasis was placed on the establishments of the institutions that could ensure stable functioning of the economy.

As a result, before the crisis of 2008, Russia has witnessed a substantial budget and current accounts surplus, the reserves in the budgetary funds grew rapidly, as well as gold reserves. Yet, certain easing of monetary and fiscal policies led to "overheating" of the economy, largely due to a strong growth of lending, thanks to low interest rates. The budget expenses also grew in 2007, and their growth was three times higher than the growth of the GDP. The import was growing at high rates, as well as the external debt (at the end of 2007 it amounted to $417.2 billion, compared to $108 billion in 2005).

At the beginning of the global financial crisis of 2008, Russia had the advantage of the accumulated reserve funds. Large sums were allocated to insolvent banks, The Bank for the Development and Foreign Economic Affairs backed companies that were unable to repay foreign currency debt. In 2008, the anti-crisis measures reached 1.089 trillion rubles (2.6% of the GDP).

In order to support bank liquidity, the Ministry of Finance placed the federal funds on deposit at commercial banks. The funds were also used for placement on the domestic market. The National Welfare Fund provided funds for the amount 175 billion rubles in 2008.

Another 200 billion rubles were allocated to capitalize troubled banks. A line of credit to support banks was created, whose use by the beginning of 2009 amounted to 114.3 billion rubles. One of the anti-crisis measures introduced was the increased insurance on private deposits from 400 thousand rubles up to 700 thousand rubles. Actions were taken to keep the tariffs at an acceptable level.

"Large-scale anti-crisis measures have allowed Russia to reduce its losses caused by the crisis. But, unfortunately, the crisis will be felt for a very long time. The main concern now is the budget deficit, rising debt and slowing economic recovery in general," says the analyst of Investcafe.

According to the expert, the economy is gradually recovering, but at a very slow pace. In September, the consumer activity has significantly decreased and reached 4.7% versus 6.5% a month earlier. "We cannot yet talk about sustainable growth of industrial production, since the growth of 8.9% for the nine months of 2010 can be explained with the effect of a low base (for the same period in 2009 this indicator dropped by more than 10%). However, if the industrial production continues to grow at a good pace, and retail sales will not decline, it will allow us to talk about the growth of the Russian GDP by 3.7-3.8% for the year, slightly below the official forecast of 4%," the expert believes.

But, as noted by Anton Safronov, the development of the country could have taken a completely different path, and a good example here is China.

The Chinese economy has been constantly growing in the past 30 years, and its successful development can be attributed to the strategic objectives that were announced back in 1981. According to these targets, the country's GDP was to grow four-fold by 2000, but in reality it has grown more than six-fold.

The reforms in the country were introduced gradually, which made it possible to solve certain problems, but all of them were aimed at a long-term development.

One of the main arenas for the reforms in China is agriculture. First of all, the modernization of agriculture touched the coastal regions, which have become a locomotive for the economy. The Government continues to support the agricultural sector, and in 2006, agricultural taxes were completely repealed. Of course, as noted by the expert, due to self-sufficiency of individual regions, living conditions in the country vary greatly, but it was the government policy to equalize the level of regional development.

"Cheap labor force remains one of the advantages of China. To maintain this advantage, the registration reform was introduced in 2001. According to this reform, migration within the country is now influenced by the market mechanisms, which will significantly increase the proportion of urban population, which is the main source of labor force," says the expert.

He stressed that the growth of the Chinese economy is impossible without the small and medium-sized businesses that are export oriented. The government structures are actively helping such enterprises to develop overseas markets. The industries that were originally controlled by the government opened to small and medium businesses, and government orders became available for them as well.

China's small and medium business sector provides approximately 60% of the GDP, compared to 20-25% in Russia. Over 60% of China's export is generated specifically by small and medium-sized businesses.

The global financial crisis has affected China quite significantly in terms of the export-oriented economies. As a result, in the first six months of 2008 approximately 70 thousand small and medium businesses ran bankruptcy. Later, the number of bankrupt companies has increased due the ban on wage reduction and use of the forced leave, as the companies failed to optimize expenses.

In 2008, the Bank of China lowered rates 5 times to sustain the economic growth. Nearly $585 billion has been allocated to support the economy. First of all, the government is hoping to solve the unemployment problem through the construction of several large objects.

The anti-crisis measures taken by the Chinese government, according to the expert, will accelerate the modernization of the economic system. The country's economic growth is impressive: for the third quarter the GDP grew by 9.6%, and for the nine months of 2010, China's economic growth has reached 10.6%.

"Of course, the economic reforms are often unpopular among the population, since they bring the short-term negative impact on the lives of millions of people, but China can cope with it thanks to an authoritarian regime. This means that radical reforms in Russia are unacceptable; however, it is necessary to use China's experience in supporting and developing small and medium-sized businesses, as well as in the development of technology-intensive enterprises. This will create a foundation for stable economic growth in the future," summed up Anton Safronov, an analyst of Investkafe.

*Pravda.Ru*

*http://english.pravda.ru/russia/economics/09-11-2010/115700-russia_china-0/*

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**Restructuring banks: Don't start from here**

*Kazakhstan shows it is possible to make banks' creditors share the pain*

AS IRELAND grapples with its banking crisis, distant Kazakhstan, which dealt with its own blow-up in February 2009, offers an interesting lesson. The Kazakh restructuring, completed in September this year, is unusual because instead of getting a state guarantee, the majority of the creditors of BTA Bank, the biggest problem, shared the pain. Even senior bondholders, who are high in the pecking order, were hit. In most other countries—including Ireland, so far—they have been wrapped in cotton wool, at taxpayers' expense.

Most BTA creditors were offered a menu of options which included a haircut on their assets, various combinations of senior and subordinated debt, and a small stake in the bank's equity to keep them interested in its future. The government faced down those who warned that, if senior bondholders and trade creditors were included, the market would ostracise Kazakhstan for years. Around $12 billion of bonds and commercial debt was reduced to $4 billion. The external debt of the Kazakh banking sector, which was 26% of GDP when the crisis struck, has been roughly halved.

The Irish government recently dared to force holders of subordinated debt of Anglo Irish Bank, its worst lender, to take a haircut. The holders of €1.6 billion ($2.2 billion) of these bonds, which are at the bottom of the creditors' hierarchy, were asked to sacrifice 80% of principal. But the government has hesitated to extend the pain to senior bondholders.

There are good grounds not to: first, if they face losses then depositors, who in theory have the same seniority, might start a run. Second, senior bank bonds from other euro-zone countries, especially Greece, Portugal and perhaps Spain, might suffer contagion. Third, other Irish banks are thought to be big holders of Anglo Irish Bank senior bonds, so they would suffer further losses. And fourth, the European Central Bank would take losses on its reserves of Irish bank bonds and those that it is holding as collateral.

Across Europe and in America, changes in banking law are being put in place which will make it easier to force bank creditors to share the pain of a failure next time. Germany is working on a restructuring framework and Britain's Banking Act, passed last year, created a new "special resolution regime". The new rules in America envisage imposing losses on all creditors (but not depositors).

Yet the worry remains that if all creditors face the risk of loss in a crisis, they will start a run, creating a self-fulfilling prophesy. Students of the Kazakh example argue that a firm voice at the start of a crisis, insisting that the burden will be shared, works wonders for market expectations. The Irish did the opposite, giving blanket bank guarantees in September 2008 which have recently been extended to the end of June at least.

The alternative, which some regulators prefer, is to create a specific layer of debt that would bear losses if a bank fails, without (it is hoped) triggering a run of all creditors. Switzerland has already chosen one version of this approach by forcing its two big banks to issue new contingent convertible ("CoCo") bonds that turn into equity if necessary.

Whatever the method they choose, the message for all countries being held to ransom by their banks’ senior debt holders is clear: don’t start from here.

*The Economist*
*http://www.economist.com/research/articlesBySubject/displayStory.cfm?story_id=17583123&subjectID=348885&fsrc=nwl*

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**A scramble for the Arctic**
With one fifth of the world's oil and gas at stake, countries are struggling to control the once-frozen arctic.

Chris Arsenault

From her office in the frozen north, Delice Calcote has watched big powers vie for control over the Arctic with little concern for its original inhabitants.

"This is our land," said Calcote, a liaison with the Alaska Inter-Tribal Council, an advocacy group representing the region's indigenous peoples. "We aren't happy with everyone trying to claim it."

But as the planet warms, as northern sea lanes become accessible to shippers, as companies hungrily eye vast petroleum and mineral deposits below its melting ice, a quiet, almost polite, scramble for control is transpiring in the Arctic.

"Countries are setting the chess pieces on the board. There are tremendous resources at stake," said Rob Huebert, director of the Centre for Military and Strategic Studies at the University of Calgary.

The frozen zone could hold 22 per cent of the world’s undiscovered conventional oil and natural gas resources, according to the US energy information administration.

*Competing claims*

Canada, the US, Russia, Norway and Denmark have competing claims to the Arctic, a region about the size of Africa, comprising some six per cent of the Earth's surface.

The 1982 United Nations Convention on the Law of the Sea is supposed to govern resource claims in the region.

"At this point, everyone is following the rules and say they want cooperation; behind the scenes developments are happening that suggest it may not be so cooperative," Huebert said.

Under maritime law, countries can assert sovereignty up to 200 miles from their coast line. Article 76 of the UN convention allows states to extend control if they can prove their continental shelves – underwater geological formations - extend further than 200 miles.

Presently, the Lomonosov ridge, a 1,240-mile underwater mountain range, is testing the strength of the UN convention as Canada, Russia and Denmark all claim the potentially resource-rich region.

"Russia recently submitted a claim [but] the UN didn't buy it [on scientific grounds]," said Gilles Rhéaume, a public policy analyst with the Conference Board of Canada, who recently authored a report on Arctic sovereignty. "Will the legal means be used to determine claims? We don't know."

A panel of elected geology experts rule on claims under the UN convention. They are mandated to make decisions based solely on scientific merit.

*New colonialism*

But polite conventions did not stop Russia from planting a flag more than 4,000 metres below sea level under the North Pole in 2007, in a flash-back to past imagery of colonial control.

"This isn't the 15th century. You can't go around the world and just plant flags and say 'We're claiming this territory'," Peter MacKay, Canada's foreign minister, said at the time.

But Canada, which prides itself on being the "great white north," is also seen as an aggressor by many analysts. The country plans to build at least five navy patrol boats to guard potential shipping lanes in the Northwest Passage, along with new Arctic military bases and a deep water port on Baffin Island.

"Russia and Canada are the only two Arctic states who have ramped up the rhetoric on the military front," said Wilfred Graves, a researcher at the University of Toronto.

Much of Russia's military capacity, especially naval power, rusted away with the collapse of the Soviet Union, while Canada – protected by the US defence umbrella - lacks powerful military hardware.

Like small dogs with more bark than bite, or the impotent Hemmingway character sleeping beside a rifle, Canada and Russia are likely upping the rhetoric due to an inability to seriously project hard power.

Domestic politics also loom large, as leaders posture to look strong on sovereignty issues, pledging to defend national interests from hostile outsiders.

"The US, despite its military power, doesn't rattle swords in the same way," Graves said.

The Norwegians are talking the most cooperatively, said Huebert, the University of Calgary professor, but "they are arming very assertively" recently buying at least five combat frigates with advanced AEGIS spying and combat capabilities. "The Danes are rearming too," he said.

*Indigenous concerns*

As big powers assert claims, wrangle over the geology of their respective continental shelves and stock up their militaries, indigenous peoples in the Arctic have faced a colonial scramble since Europeans first arrived.

"Statehood happened without our consent," says Delice Calcote, the indigenous activist from Alaska. Russia first colonised the region, and then sold it to the US in 1867 for $7.2m.

"It is our land and our water. They [the US] don't own it, it is ours," Calcote said, echoing the view of some indigenous peoples from Greenland, through Canada, Norway, and Siberia.

While Sarah Palin, Alaska's former governor and current right-wing political star, won standing ovations for her chants of "drill baby drill", Calcote said her people rely on oil donated from Venezuela, despite the teritories’s vast petroleum wealth.

"They [Venezuela’s leftist government] know about the horrible conditions in the villages: no running water, no sewers and the decline in our traditional food sources," Calcote said.

The harsh divide between official state policy, and the conditions of people actually living in the Arctic, is not confined to the US.

"The Canadian Arctic has some of the highest levels of poverty and substance abuse in the country," said Graves, who participated in a major conference linking northern communities with southern researchers and academics.

"In [Inuvik] one of the larger communities in the Arctic, none of the indigenous people I met exhibited any concern with the military approach to the Arctic.

"People were interested in unemployment, a lack of resources [and] climate change … in Greenland, the situation is probably similar, [Arctic residents] don't feel they have any voice in the south, with respect to climate change and policy."

*Melting ice*

Global warming, partially caused by burning fossil fuels, is largely responsible for the new scramble for the northern region, as once impenetrable ice blocks melt at an alarming rate.

"It's a terrible irony that melting ice caps are allowing companies and even governments to open up the possibilities of new oil developments," said Ben Ayliffe, a senior climate campaigner with Green Peace in the UK.

Cairn Energy, a corporation based in Scotland, recently began drilling oil wells in waters off Greenland's coast. "There are reasonable [environmental] concerns given the extreme nature of drilling in the Arctic," said Ayliffe who's organisation has tried to physically block drilling.

"If something went wrong up there, the companies do not have the money to cover the cost of the spill," he said, adding that Cairn refuses to publish a spill response plan.

Climate change concerns notwithstanding, a Gulf of Mexico-type oil spill in the Arctic would wreak havoc on what Ayliffee calls "an iconic area of the natural world."

*Cold Warning*

Global warming and the hunt for resources are not the only trends leading to the latest scramble. "During the Cold War, the Arctic was a buffer zone, insulating North America from the Soviets and vice versa," said Graves. "It served a valuable function and no one was willing to tamper with it too much."

Like conflicts in the Balkans or the Democratic Republic of Congo, kept in check by Cold War politics, the end of the bi-polar world order transformed relations in the Arctic. That, onto itself, is not a recipe for a fight.

"Conflicts exist, but there are so many mechanisms designed to deal with it that the likelihood for physical conflict is very remote," said Gunhild Hoogensen, a professor specialising in the Arctic at the University of Tromso in Norway.

Perhaps new frigates and bases are merely political theatre, the war dance of international relations where countries can flex - before negotiating - without spilling blood.

But with more than one fifth of the planet's energy reserves potentially on the line, the stakes couldn't be higher.

The invasion of Iraq was "largely about oil," according to Alan Greenspan, the former chairman of the US federal reserve. And unenforceable UN conventions on conflict settlement might be insufficient to prevent the Arctic scramble from turning violent.

"We are truly in a period of transition," Huebert said. "I could see us heading for either cooperation or conflict."

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*http://english.aljazeera.net/indepth/features/2010/11/20101130181427770987.html*