BPM Report # 150

BUSINESS AND POLITICS IN THE MUSLIM WORLD

Weekly Report on General Economic and Business Developments in the World

Period: Dec 12 – 18, 2010

Submitted By: Muhammad Ibrahim

Presentation: December 22, 2010

Report Outline

GENERAL ECONOMIC AND BUSINESS DEVELOPMENTS IN THE WORLD

- Somalia seen as most corrupt nation
- U.S. pressured Russia on behalf of Visa and Mastercard
- Georgia wants to blackmail Russia in WTO talks
- Korean reunification 'drawing near'
- World’s biggest suppliers ready to pump more crude next year
- Russia may exercise its economic power once it joins WTO
- Dubai World head replaced
- ECB Said to Consider Asking for Capital Increase as Cushion on Bond Losses
- Producer Prices in U.S. Rose 0.8% in November; Core Up 0.3%
- Confidence at U.S. Small Companies Increases to Three-Year High
- U.S. Retail Sales Rise Above Forecast as Consumers Recover
- China Rate Pause May Reflect Policy Maker Split, Deutsche Bank's Ma Says
- Kan Orders 5 Percentage-Point Cut in Japan's Corporate Tax to Spur Growth
- JGBs Signal Economy Rebound as Tankan Points to Contraction: Japan Credit
- U.K. Inflation Rate Unexpectedly Increases to 3.3%
- U.K. Housing-Market Gauge Stayed Close to Lowest in 18 Months in November
- Russia will not build aircraft carriers during upcoming decade
- South Korea Says Economic Growth to Slow Toward 5% in 2011
- Chavez to pass laws by decree
- US-China trade talks open
- Global Demand for U.S. Assets Slowed in October
- EU unsure of debt crisis remedies

- EU Should Raise CO2-Cut Goal to 25%, EESC Says
- Russian Beet-Sugar Output May Be 2.74 Million Tons, IKAR Says
- The West destroys Africa's largest country - Sudan
- Chinese PM arrives in India
- Wen Says China Plans ‘Further Steps’ to Boost Imports from India
- China Working on 2011 Rare Earth Quota, Mofcom Says
- UN Issues 2 Million Carbon Offsets to China’s HFC-23 Project
- Turkish Rate Cut Would Be ‘Risky Experiment,’ Aksoy Says
- Sudan Revives Sukuk After Global Sale Fails: Islamic Finance
- Ghana joins ranks of oil producers
- EU leaders set up debt crisis fund
- Wen on charm offensive in India
- China PM to bolster Pakistan ties
- EU leaders agree on rescue fund
- China, Pakistan sign for billions
- Qatar Airways may order more A380 superjumbos

ARTICLES/COMMENTARY

- Islamic Finance in Russia – Developments in 2010
- Bridging the Gap of Islamic Finance in Russia and the CIS
- 2010 in Review
- China and India's Growing Energy Rivalry

GENERAL ECONOMIC AND BUSINESS DEVELOPMENTS IN THE WORLD

Somalia seen as most corrupt nation

Iraq and Afghanistan also among most corrupt nations in the world as United States slips out of top 20 least corrupt

Somalia is the most corrupt country in the world, followed by Afghanistan, Myanmar and Iraq, an international watchdog has said. In its annual report released on Tuesday, Transparency International found Somalia to be most corrupt country, topping a list of the 178 countries surveyed.

The international watchdog found almost 75 per cent of the countries to be in the index score below five, on a scale from 10 (very clean) to 0 (highly corrupt). These findings indicate a serious worldwide corruption problem and highlight the need to make more efforts to towards strong governance structures across the globe.

Edda Mueller, the head of Transparency International's German section, said that the overall international situation was "very worrying". "There are clear indications that the more unstable a country is, the higher the level of corruption."

And at the other end of the scale, Denmark, New Zealand and Singapore shared the top slot as the least corrupt nations. They were followed by Finland, Sweden, Canada and the Netherlands.

Successful fight

The study also identified the countries that have successfully fought corruption and have shown an improvement in the rankings. These include Bhutan, Chile, Ecuador, Gambia, Haiti, Jamaica, Kuwait and Macedonia. Chile and Uruguay were rated the least-corrupt countries in Latin America, while the best ranking in the Middle East was given to Qatar. Mueller said that the performance of these countries should serve as hope and inspiration for countries such as Afghanistan and Iraq.

The report found that some countries that were hit hard by the the global economic crisis became more corrupt during the last year. Greece and Italy feature in this category together with the United States, which has dropped its position from 19th to 22nd in the last year.
Transparency International has identified corruption as a major hindrance in fighting major problems like the financial crisis and climate change. It has advocated stricter implementation of the United Nations Convention against Corruption, the only global initiative that provides a framework for putting and end to corruption.

Transparency International's corruption index is based on 13 different surveys of business people and governance experts conducted between January 2009 and September 2010.

MOST CORRUPT COUNTRIES

1. Somalia (1.1)
2. Myanmar & Afghanistan (1.4)

3. Iraq (1.5)
5. Uzbekistan, Turkmenistan & Sudan (1.6)
8. Chad (1.7)
9. Burundi (1.8)
10. Equatorial Guinea (1.9)

LEAST CORRUPT COUNTRIES

1. Denmark, New Zealand & Singapore (9.3)
4. Finland & Sweden (9.2)
6. Canada (8.9)
7. Netherlands (8.8)
8. Australia & Switzerland (8.7)
10. Norway (8.6)

(Source: Transparency International, Corruption Perceptions Index 2010.)

http://english.aljazeera.net/news/2010/10/20101026213816364284.html

---

U.S. pressured Russia on behalf of Visa and Mastercard

Dec 09, 2010

One day after Visa and MasterCard announced the suspension of all payments to Wikileaks, the organization founded by Julian Assange has responded. And its answer could not be otherwise than making public a cable in which two U.S. financial giants are involved. This follows from the cable number 246 424 (February 2010) which reports that there was U.S. pressure on Russia to try to change a bill in the Duma so that the two U.S. credit card companies, Visa and MasterCard, would not be put in a position of disadvantage.

Visa and MasterCard, as well as Amazon and PayPal, which also have cut all ties to the Wikileaks site, have justified their decision to cut off the supply of donations to the organization, ensuring that they had acted illegally when publishing leaks of 250,000 U.S. diplomatic cables.
According to the cable, sent earlier this year by Matias Mitman, a U.S. diplomat specializing in economics and based at the embassy in Moscow, the Russian deputy finance minister, Alexei Savatiuguin, would lead plans to create a new system for credit card payments for which it would collect all the commissions on transactions within Russia, which would mean depriving Visa and MasterCard of a large amount of income from these operations.

Representatives of Visa and MasterCard defined this bill at the U.S. Embassy Russia, as recorded in the cable, like "the last Chinese model" in methods to pay with credit cards. This system would consist of a consortium of Russian state banks that would be responsible for managing the entire process of credit card transactions and collect the commissions, which would be about "4 billion dollars a year." Given these revelations, the Obama administration pressured senior officials the Russian government to 'correct' the difficult situation in which Visa and MasterCard would see reduced computer information of each of the financial transactions that were occurring in Russia.

The diplomat Mitman reported that "the bill has not yet been submitted to the Duma and can still be modified" and requested that a presidential commission of the Obama administration be sent to Russia to address this issue and focus their efforts on establishing a new bilateral commission with the Russian president, Dmitri Medvedev, as part of a realignment of the relations between Russia and the United States. "We recommend that senior officials of the U.S. government also benefit from meetings with their counterparts from Russia, including through a bilateral presidential commission to pressure and to change the text of the law to guarantee that payments to American companies are not affected," concludes the cable.

The Law on the National Payment System was introduced by the Russian Government to the State Duma last month and its first public discussion and voting on the first reading is scheduled for the day after tomorrow, on Friday. The project will be defended before the deputies and by deputy Alexei Savatiuguin himself, who has been responsible for its creation, Rodrigo Fernandez reports.

Pravda.Ru
http://english.pravda.ru/russia/economics/09-12-2010/116134-us_pressured_russia_on_behalf_of_visa_mastercard-0/

Georgia wants to blackmail Russia in WTO talks

Dec 10, 2010
Tbilisi does not know what else to do to get noticed by Moscow so it would relent and finally start talking. The subject of the talks is not that important, it is the fact of talking that matters. In Astana, at the OSCE summit, the attempts of Georgian President Mikhail Saakashvili to meet with Russian leader Dmitry Medvedev have failed. Yet, it would be harder to shy away from the questions of the WTO, thought Georgian officials and made another statement. Allegedly, they are ready to listen to Russia's position. They pricked up their ears to listen what answer would come to them from abroad.

The fact that Russia has steadfastly refused a bilateral meeting does not seem to bother Georgia at all. In order to get to the negotiating table, Georgian officials did not disdain even primitive blackmail. Recently the press-speaker of Georgian Prime Minister Niko Mchedlishvili stated that the Caucasus republic has a certain veto power by which it could significantly interfere with Moscow's intent to get into the World Trade Organization. But we can always negotiate, hinted Mchedlishvili, smiling slyly.

The European Union and the United States of America that have already settled all the pressing issues of the membership with the Russian side are shrugging their shoulders. They do not know what these exclusive rights are that Sakartvelo is talking about. Apparently, this is a great secret known only by Mikheil Saakashvili and those with whom he has deigned to share it. After all, Georgians are the only ones that are not bored with these preschool-level games, because it is the only way they can still draw attention to their intrigues. All other resources have been exhausted.
"Our terms are based not on political but on economic arguments, which implies control of economic borders of member countries of WTO. On this basis, we stipulate a condition to control the transportation of goods around the perimeter of the economic borders of the country,

including Psou and the Roksky Tunnel. In regard with this issue, we are ready to listen to the position of the Russian Federation. If Russia wishes to join an international organization, it must obey international rules," said candidate for the permanent representative of the republic into the WTO and Ambassador to Switzerland Zurab Chiaberashvili.

In the case of the WTO, Georgia wants to make Russia yield only on one point. They want Russia to sign a customs control agreement for the internationally recognized border between the two countries. Tbilisi wants the total recognition of the territorial integrity of the Caucasian republic. Moscow will not take back its words on the recognition of the sovereignty of Abkhazia and South Ossetia. Yet, the differences on cross-border issue are not even in the fact that the former Soviet republics are being stubborn about their respective positions. The international community does not know where these recognized borders are located, and this is not a good thing.

It is one issue when Georgia loses all its benchmarks and a completely different one when Western countries are unable to determine whose cooperation is more beneficial for them. On the one hand, Russia is an ally beneficial for Europe. The EU does not seem to have any claims against Russia. On the other hand, the Old World is already so used to living looking up to Washington that the agreement with the U.S. on critical issues became somewhat a reflex.

Most likely, until a unified opinion regarding the foreign policy of Russia and the United States in the South Caucasus is formed, Tbilisi will continue to speculate on WTO and other equally interesting issues. Yet, in the end all wining regarding the Georgian border will go unnoticed. Economic experts believe that Europe and the States would not support the position of the Georgian leadership and will welcome Russia into their arms, without waiting for anyone's consent.

Sakartvelo's supporters made their attempt to attract attention in the hope that the situation that took somewhat dangerous turn for the Caucasus republic can be resolved. They are ready to listen. If Georgia announced that a consensus it its understanding was in something else, there would be no limit to the Kremlin's surprise. Yet, Georgian disregard when Tbilisi is trying to say "welcome" through its clenched teeth will find the only appropriate response - silence.

Georgia Times
http://english.pravda.ru/russia/politics/10-12-2010/116138-georgia_russia_wto-0/

Korean reunification 'drawing near'
South Korea's president says Seoul must prepare for a united country as the North becomes aware of South's affluence.

10 Dec 2010
South Korea's president has said unification with North Korea has become more likely as people in the North become more aware of the South's affluence. Lee Myung-bak said on Thursday, during a trip to Malaysia, that residents of the communist nation know the world is changing, but did not elaborate on how their knowledge has expanded, or how soon unification would come.

"Reunification will definitely come," Lee said in a speech marking the liberation of the Korean peninsula from Japanese colonial rule.

"I believe that the time has come to start discussing realistic policies to prepare for that day such as a reunification tax."

Heightened tensions

Lee's comments come amid a period of heightened tensions on the Korean peninsula after the North shelled a South Korean island close to a disputed maritime border, killing at least four people. The North has blamed the South for sparking the exchange of artillery fire last month and criticised both Seoul and its US allies for "provocative" military drills. The two states are still technically at war having only signed a ceasefire in 1953 and since coming to power in 2008, Lee has abandoned the so-called "Sunshine Policy" of his predecessor for a more strident stance.

Lee said on Friday that North Korea's new understanding of circumstances in the outside world is "an important change that no one can stop". He added that South Korea has a responsibility to ensure that the North's 23 million people enjoy basic rights, and that Seoul should use its economic power to prepare for unification. One way Lee proposed was a "reunification tax" to help fund the expected $1 trillion it could cost when the two Koreas eventually rejoin.

Costly reunification

He also said it was now time to start saving for the massive cost of reuniting with the North, whose economy has been driven close to ruin by central economic planning, heavy military expenditure and years of famine. North Korea is one of the world's poorest countries, with annual gross national income of about $24bn in 2009 - less than three per cent the size of the South's economy.

The cost of reunification could wreak havoc on South Korea's economy, with a state-funded research agency saying it would raise the tax bill for South Koreans by the equivalent of two percentage points annually for 60 years. Opinion polls, however, show more than 60 per cent of South Koreans want unification, but they would prefer it happen later rather than sooner because of the cost.

http://english.aljazeera.net/news/asia-pacific/2010/12/2010121073940470142.html

World’s biggest suppliers ready to pump more crude next year

Dec 13, 2010
OPEC is breaching its production limits the most in six years, signaling the world's biggest suppliers are ready to pump more crude next year as oil rallies toward $100 a barrel.

The Organization of Petroleum Exporting Countries excluding Iraq pumped 26.78 million barrels a day this year, exceeding the quotas by an average of 1.934 million a day, the highest level since 2004, according to data compiled by Bloomberg.

Crude rose 12 percent in 2010 as demand recovered, trading at about $90 for the first time in two years. Options to buy at $100 next December are near a five-month high, according to *Bloomberg*.
"The ministers generally love existing prices," Cameron Hanover said in a report. "Some insiders have hinted at a quota increase if crude oil prices break above $100 a barrel."

In other Nymex trading in January contracts, heating oil rose 1.6 cents to $2.47 a gallon, gasoline futures added 2.5 cents to $2.33 a gallon and natural gas jumped 5.9 cents to $4.48 per 1,000 cubic feet.

In London, Brent crude rose 70 cents to $91.18 a barrel on the ICE Futures exchange, according to The Associated Press.

Pravda.Ru
http://english.pravda.ru/news/business/13-12-2010/116182-economy-0/

Russia may exercise its economic power once it joins WTO

Dec 13, 2010
Russia is rushing towards the WTO. The Memorandum of Understanding on the conditions of accession to the World Trade Organization was signed on December 7. The USA and China announced their support of Russia's incorporation in the organization at the end of last week too. In Russia, experts still split in their opinions about the advantages of the WTO membership.

Russia has been striving for the WTO membership for 17 years already. The talks with the USA, the EU and China were most complicated. The USA signed the protocol on Russia's incorporation in the WTO in November 2006. In October 2010, Russia settled all moot questions with China, which made Russian Finance Minister Kudrin believe that Russia would join the WTO in the summer of 2010.

Officials representing the Chinese foreign department stated that the WTO membership would give Russia an opportunity to enter a new level in the field of foreign trade.

The European Union remained the only obstacle for Russia. John Clancy, trade spokesman at the European Commission, the EU's executive arm, said that "the EU is satisfied with the outcome achieved in this negotiation with regard to long-standing issues of Russia's applied export duties and railway fees."

Moscow is now ready to cut the export duty on timber from 25 to 15 percent, but it will happen only after Russia becomes a WTO member. The EU also agreed that Russia's customs union with Kazakhstan and Belarus was not an obstacle for the WTO membership.

However, Russia's stance on several issues raises concerns with European officials. The WTO is incapable of changing the politics of a WTO member, whereas Russia, they believe, can successfully oppose to certain requirements of the organization.

Fredrik Erixon of the European Centre for International Political Economy said that Russia's membership would complicate such WTO talks as Doha Development Round. Russia, Erixon believes, will become a part of the protectionist wing of the organization. Afterwards, the official added, Russia would start expressing its influence in relevant fields of the trade.
Therefore, European officials indicate that there are certain opportunities to defend national interests even within WTO's restrictions. This opportunity is especially important for Russia taking into consideration the country's dependence on the export of fuel and the necessity to diversify its own economy.

At the same time, as Mr. Erixon pointed out, many influential figures in Russia dislike the idea of putting up with restricting international agreements to compete with foreigners. Now President Medvedev will have "to stand up against oligarchs and his Kremlin colleagues" which can become a hard nut to crack.

Pravda.Ru
http://english.pravda.ru/russia/economics/13-12-2010/116175-russia_wto-0/

Dubai World head replaced
Ruler of debt-ridden emirate replaces head of conglomerate with a close aide and uncle in a bid to clean up the company.

13 Dec 2010
Dubai's ruler has replaced the head of Dubai World with his close aide and uncle as the debt-laden conglomerate works to revamp its business. Mohammed bin Rashid Al Maktoum named Sheik Ahmed bin Saeed Al Maktoum chairman of the company whose holdings include seaports, retailer Barneys New York and a stake in Las Vegas casino operator MGM Mirage. The appointment was announced in a decree carried by state media on Sunday.

The order also reshuffled the rest of the company's board, giving seats to senior lieutenants of Dubai's ruler who are charged with cleaning up the emirate's financial troubles. Among them are Mohammed al-Shaibani, director of the Ruler's Court, the seat of executive power in the emirate, and Ahmed Humaid al-Tayer, who heads the Dubai International Financial Centre banking hub.

Sheik Ahmed replaces as chairman Sultan Ahmed bin Sulayem, who headed Dubai World's rapid growth but also oversaw the accumulation of what turned out to be unmanageable levels of debt. He also holds multiple roles in Dubai, and is best known as the chairman and CEO of Emirates, the city-state's rapidly expanding international airline, and is president of Dubai's civil aviation department. He also chairs a government committee set up to oversee Dubai World in the wake of the emirate's financial crisis.

Financial recovery

Dubai World's new board will have the power to approve asset sales, including real estate, stocks, bonds and other holdings, according to the decree. Dubai World is at the centre of the emirate's financial troubles, which erupted late last year when the company called for new terms on billions of dollars of debt it owed. The surprise announcement and the uncertainty that followed rattled markets all over the world.

The company has since taken steps to get its finances in order, and won full support from creditors for its $24.9bn debt restructuring in October following months of negotiations. Nakheel, its subsidiary and the property developer that spent billions to build Dubai's many manmade islands, is in separate talks to re-negotiate terms on at least $10.5bn in debt it owes.

Dubai officials said recently that the emirate is considering selling more assets and offering shares in state-run companies to raise more money.

http://english.aljazeera.net/business/2010/12/20101213815436964l4.html

---

ECB Said to Consider Asking for Capital Increase as Cushion on Bond Losses

Dec 14, 2010
The European Central Bank may ask members for a capital increase to protect itself from any losses stemming from its government bond purchases, said a euro-area central bank official with knowledge of the talks. Any new money would come from the 16 national central banks which use the euro and contribute most of the ECB’s 5.8 billion euro ($7.8 billion) capital base, the ECB’s statutes show. The matter may be discussed at the next Governing Council meeting on Dec. 16 and no decision has yet been made, said the official, who spoke on condition of anonymity. Germany would view any ECB request positively, a government official said.

The debate suggests the ECB is concerned its program to buy the bonds of strained governments such as Portugal and Ireland, which now totals 72 billion euros, may end up saddling its balance sheet with losses. Bundesbank President Axel Weber opposed the purchases when they were introduced in May and the risk is that seeking support could raise new questions about the ECB’s independence from politics.

“The link to this potential hike in ECB capital and what’s going on in the markets is certainly the fact that the ECB is buying government bonds which are not AAA-rated and are more risky than bunds,” said Marco Valli, chief euro-region economist for UniCredit SpA in Milan.
An ECB spokeswoman declined to comment. The ECB’s potential capital request was reported by Reuters late yesterday.

Capital Keys

Any increase would be supplied by the national central banks according to their capital subscription keys, according to the ECB website. The formula is calculated using the respective country's share in the total population and gross domestic product of the European Union. Germany's Bundesbank is the largest contributor with 18.9 percent, followed by the French and Italian central banks, with 14.2 percent and 12.5 percent, respectively. The Bank of England and other non-euro members contribute 7 percent of the ECB's subscribed capital.

According to the ECB's statutes "the Governing Council, acting by the qualified majority" shall "determine the extent to which and the form in which the capital shall be paid up."

ECB officials have been putting pressure on the governments to do more to end the region's sovereign-debt crisis on concern the central bank is shouldering too much of the burden. President Jean-Claude Trichet said late yesterday leaders should consider extending and broadening the region's bailout fund. Standard & Poor's today cut the outlook on Belgium's credit rating to negative from stable.

Austrian central bank Governor Ewald Nowotny raised the issue of capital increases for national central banks last week. "We are clearly seeing that risks are increasing in the system for European central banks because we are having to take on a whole range of extra risks," Nowotny said in Vienna on Dec. 10. "So in the whole European system we'll have to get a better capital base for central banks."

http://www.bloomberg.com/news/2010-12-14/ecb-said-to-consider-asking-for-capital-increase-as-cushion-on-bond-losses.html

---

Producer Prices in U.S. Rose 0.8% in November; Core Up 0.3%

Dec 14, 2010

Wholesale costs in the U.S. rose in November by the most in eight months, led by higher prices for gasoline, heating oil and fruit. The producer price index increased 0.8 percent from the prior month after a 0.4 percent rise, Labor Department figures showed today in Washington. So-called core prices, which exclude food and energy costs, rose 1.2 percent in November from a year earlier, the smallest increase in five months and matching the median forecast.

Unemployment near a 26-year high is making it difficult for companies to pass on higher raw materials costs. The wholesale data underscore last month's decision by Federal Reserve policy makers, who are meeting today, to take more steps to bolster the economy and prevent deflation, or a prolonged period of price declines.

"You have the commodity and energy price appreciation that has occurred over the last several months but at the core inflation is still very weak," Russell Price, a senior economist at Ameriprise Financial Inc. in Detroit, said before the report. "It gives the Fed some level of comfort. So far the scenario has been supportive of their move."

Separate figures showed retail sales rose more than forecast in November, a sign consumers will play a bigger role in the recovery. Purchases increased 0.8 percent, following a 1.7 percent gain in October that was larger than previously estimated, Commerce Department figures showed in Washington.

Retail Forecast

The median forecast of economists surveyed by Bloomberg News called for a 0.6 percent rise. Excluding autos, gasoline and building materials, which are the figures used to calculate gross domestic product, sales climbed 0.9 percent, the most since August.

Stock-index futures advanced for a sixth day after the reports and Treasury securities fell. The March contract on the Standard & Poor's 500 Index increased 0.1 percent to 1,237.8 at 9:14 a.m. in New York. The yield on the benchmark 10-year Treasury note, which moves inversely to price, rose to 3.34 percent from 3.28 percent late yesterday.

Economists forecast producer prices would rise 0.6 percent, according to the median of 76 projections in a Bloomberg survey. Estimates ranged from gains of 0.2 percent to 1.2 percent.

Excluding food and fuel, prices were projected to increase 0.2 percent, according to the Bloomberg survey. Forecasts ranged from a decrease of 0.1 percent to a gain of 0.8 percent.

Compared with a year earlier, companies paid 3.5 percent more for goods last month after a 4.3 percent gain in October. Excluding food and energy, wholesale prices rose 1.2 percent in the most recent 12 months, following a 1.5 percent increase.

Core Inflation

So-called core prices rose 0.3 percent in November from a month earlier, reflecting a rebound in passenger car costs and higher pharmaceutical preparations, after a 0.6 percent drop in October.
New-car prices increased 1.7 percent, the most since 2006, after a 3 percent drop in October that was the biggest decline in more than four years. Prices of light trucks rose 0.3 percent, after a 4.3 percent decline that was the largest since October 2006.

Last month's report included the Labor Department's valuation of quality changes for 2011 model vehicles. The decline in prices for October suggests new vehicles were outfitted with better equipment or more options, while manufacturers kept price adjustments to a minimum. The PPI is one of three monthly inflation gauges reported by the Labor Department this month. Import prices rose 1.3 percent in November, the government's figures showed on Dec. 10. The consumer price index is scheduled to be released tomorrow.

Food Prices

The cost of food increased 1 percent, today's report showed. Egg prices increased 23 percent, the most since April 2009, and fresh fruits and melons rose 14 percent, the biggest rise since December 2009.

Energy prices rose 2.1 percent. Gasoline costs were up 4.7 percent and home heating oil prices increased 7 percent, the most since August.

Expenses for intermediate goods rose 1.1 percent from the prior month and were up 6.3 percent from a year earlier. Prices of crude goods, or materials used at the earliest stage of the production process, increased 0.6 percent.

Fed policy makers, meeting today for the last time this year, may indicate that while the economy showed signs of picking up at the end of the year, high unemployment and a risk of a prolonged drop in prices remain. The Fed is scheduled to release its policy statement around 2:15 p.m. in Washington.

Fed's Bernanke

Without action by the U.S. central bank last month to purchase as much as $600 billion of Treasury securities, the economy might have tipped into a period of deflation, Chairman Ben S. Bernanke said in an interview on CBS Corp.'s "60 Minutes," aired Dec. 5. He said fears of inflation are "overstated" and that keeping price pressures under control isn't a diminished priority for the central bank.

Companies, concerned about boosting sales, are absorbing higher costs rather than passing them on to consumers. The Fed's preferred gauge for consumer prices, which excludes food and energy, rose 0.9 percent in October from a year earlier, the smallest gain on record, according to Commerce Department data.

"They'd love to be able to pass on the prices but I don't think they can, the level of competition is too great," said Robert Stein, a senior economist at First Trust Portfolios in Wheaton, Illinois. "The producers are going to have to absorb at least some of the costs themselves."

Computer Prices

Cheaper component prices for some companies are allowing for bigger corporate profits. Dell Inc., the third-largest supplier of personal computers, last month posted earnings that beat analysts' forecasts, helped by cheaper parts and buoyant spending from companies that are updating aging personal computers and servers. Today's Labor Department report showed computer prices in November were down 8.8 percent from the same month last year.

Profit margins were helped by "pricing discipline" that kept Dell from cutting product prices too much, Chief Financial Officer Brian Gladden said in an interview after the results.

The costs of computer memory and hard drives have declined, and that also shored up profitability, he said. Still, parts prices may "bottom out" this quarter and there will be a "more challenging competitive environment," Gladden said on a conference call.

http://www.bloomberg.com/news/2010-12-14/producer-prices-in-u-s-climb-the-most-in-eight-months-on-costs-for-fuel.html

Confidence at U.S. Small Companies Increases to Three-Year High

Dec 14, 2010
Confidence among U.S. small businesses rose in November to the highest level since the recession began three years ago as more companies projected the economy and sales will improve, a private survey found.

The National Federation of Independent Business's optimism index increased to 93.2, the highest since December 2007, from an October reading of 91.7. Seven of the index's 10 components rose and three declined. The measure averaged 100.7 during the previous expansion.

A brighter outlook for the world's largest economy means small-business owners may pick up the pace of hiring after the jobless rate reached a seven-month high. With more businesses expecting higher sales, the survey also signals an increase in consumer spending, which accounts for 70 percent of the economy.

"It was encouraging to see substantial improvement in expectations for economic performance, critical if spending and hiring are to elevate beyond survival and replacement levels," William Dunkelberg, the group's chief economist, said in a statement. "Plans to hire make capital outlays and invest in inventories all rose, albeit from historically low levels."

The gauge of expectations for better business conditions six months from now rose to the highest level since June 2005, jumping 8 points to 16 percent in November, the report showed.

Increasing optimism amongst small businesses parallels gains in shares. The Russell 2000 Index of small U.S. companies has risen 28 percent since Aug. 31, compared with an 18 percent gain in the Standard & Poor's 500 Index.

More Bankers

This outperformance has increased investors' confidence in smaller companies and those that cater to them. Bank of America Corp., the largest U.S. bank by assets, in October said it plans to hire 1,000 employees in the next year to focus on companies with sales of $3 million or less.

Citigroup Inc., which claims 2,500 of the world's 3,000 largest corporations as clients, is also targeting U.S. companies with less than $20 million of annual sales. The New York-based bank said it plans to hire about 200 employees by the end of 2011 to court them. That would bring the number of small- business bankers to about 500, or one for every two North American branches.

The measure of hiring plans over the next three months rose three points to a net 4 percent, according to the NFIB report. Nine percent of businesses said they intend in increase staff, up one percentage point from the prior month. Fewer indicated they plan to cut payrolls, with 12 percent anticipating workforce reductions, down from 13 percent in October.

Payroll Gains

Small companies have added jobs in every month since March, including a 54,000 gain in November, according to ADP Employer Services in Roseland, New Jersey, and St. Louis-based Macroeconomic Advisers LLC.

A gauge of whether small firms think this is a good time to expand increased two points to a net 9 percent, today's survey said. Plans for capital investment over the next few months rose two points to 20 percent. A net zero percent plan to add to inventories, up four points from November.

The survey's net figures are calculated by subtracting the percent of business owners giving a negative answer from those giving a positive response and adjusting the results for seasonal variations.

The net share of owners projecting higher sales, adjusted for inflation, increased five points to 6 percent, the highest since April.

Not 'Supportive'

At the same time, the sales trends are not yet "supportive of a widespread recovery in the small business sector even if a bit stronger than October," Dunkelberg said. Weak sales continued to be businesses' top problem, with 30 percent of respondents listing it as their main concern.

"The historically high percent of owners who cite weak sales means that, for many owners, investments in new equipment or new workers are not likely to pay back," Dunkelberg said. "This is a major cause of the lack of credit demand observed in financial markets."

Ninety-one percent of small businesses reported that their credit needs were met or that they were not interested in borrowing, the report showed. Banks have further eased standards and terms on some types of business and household loans in the past three months, according to a Federal Reserve survey of senior loan officers, released Nov. 8.

The NFIB's index of earnings trends fell by four points to minus 30 percent.

Cutting Prices

Limited demand continued to keep inflation at bay. October was the 24th straight month that showed more small business owners cutting average selling prices than raising them.

Private payrolls jumped by 50,000 workers in November, less than forecast and the least since January, while the jobless rate rose to 9.8 percent, Labor Department figures showed on Dec. 3.

The NFIB report was based on 807 small-business owners surveyed through Nov. 30. Small businesses represent more than 99 percent of all U.S. employers and have created 65 percent of all new jobs in the past 17 years, according to the U.S. Small Business Administration. A small business is defined as an independent enterprise employing up to 500 people.

http://www.bloomberg.com/news/2010-12-14/confidence-at-u-s-small-companies-increases-to-three-year-high.html

---

U.S. Retail Sales Rise Above Forecast as Consumers Recover

Dec 14, 2010
Sales at U.S. retailers rose more than forecast in November as holiday shopping got under way, a sign consumers will play a bigger role in the recovery.

Purchases increased 0.8 percent, following a 1.7 percent gain in October that was larger than previously estimated, Commerce Department figures showed today in Washington. The median forecast of economists surveyed by Bloomberg News called for a 0.6 percent rise. Excluding autos, gasoline and building materials, which are the figures used to calculate gross domestic product, sales climbed 0.9 percent, the most since August.

Customers snapped up discounts at chains like Target Corp. and Macy's Inc. during the Thanksgiving weekend, the traditional kick-off to the busiest sales season of the year. Even as the world's largest economy gains momentum heading into 2011, high unemployment and the risk of a prolonged drop in prices remain concerns for Federal Reserve policy makers meeting today.

The holiday-shopping "season got off to a really solid start," said Chris Low, chief economist at FTN Financial in New York, who correctly forecast the increase in sales. "There's no question this will be the strongest quarter for consumer spending since before the recession. The economy has pretty good momentum going into the new year."

Wholesale Prices

A report from the Labor Department showed wholesale costs rose in November by the most in eight months, led by higher prices for gasoline, heating oil and fruit. The producer price index increased 0.8 percent from the prior month after a 0.4 percent rise. Excluding more volatile food and energy costs, the so-called core measure posted the smallest year-over-year gain in five months.

Stock-index futures rebounded as the sales figures helped ease concern over the outlook for spending after Best Buy Co. reported earnings that trailed analysts' estimates. The contract on the Standard & Poor's 500 Index expiring in March rose 0.2 percent to 1,238 at 9 a.m. in New York. Treasury securities fell, pushing the yield on the 10-year benchmark note up to 3.31 percent from 3.28 percent late yesterday.

The projected increase in retail sales was based on the median of 71 estimates in a Bloomberg News survey. Economists' forecasts ranged from increases of 0.2 percent to 1.5 percent. The

Commerce Department revised the October reading up from a 1.2 percent gain previously reported.

Consumers 'On Fire'

"Consumers are on fire relative to expectations in the last three months," said Brian Jones, an economist at Societe Generale in New York. The "revisions are equally important. Typically, when the revisions start moving in one direction, it's a clear sign of a pickup or a turning point."

Eight of 13 major categories showed increases last month. Sales at general merchandise stores climbed 1.3 percent, the most since October 2009, and purchases at non-store retailers, which include Internet merchants, advanced 2.1 percent, the biggest gain of the year.

Electronics and appliances stores were among retailers that showed weakness last month as sales fell 0.6 percent. Best Buy, the world's largest consumer-electronics retailer, reported a 4.4 percent decline in third-quarter profit that missed analysts' estimates as U.S. sales dropped more than expected. The Richfield, Minnesota-based company said today sales at stores open for at least 14 months sank 5 percent on weaker demand for televisions and entertainment products.

Using Discounts

Retailers began cutting prices earlier in November than the past few years and continued through Black Friday, the day after Thanksgiving. Sales at stores open at least a year climbed by the most in eight months from November 2009, industry reports showed.

Target and Costco Wholesale Corp. led the sales gains for discounters last month, while teen retailer Abercrombie & Fitch Co. and department stores Macy's and J.C. Penney Co. also posted better-than-forecast increases.

Purchases are broadening out beyond holiday gifts and clothing. Home Depot Inc., the world's largest home-improvement retailer, lifted its full-year profit forecast on stronger fourth-quarter demand for plumbing and electrical items and Christmas trees.

"As we look at November into December, we see strength across the store," Chief Financial Officer Carol Tome said Dec. 8 by telephone from an analysts' meeting in Boston. The Atlanta-based company had a "terrific Black Friday."

Raising Forecasts

The National Retail Federation has forecast the November- December holiday sales gain will be the biggest since 2006. A Bloomberg survey taken Dec. 2 to Dec. 8 showed economists raised 2011 projections for consumer purchases, the biggest part of the economy, to 2.6 percent from 2.3 percent estimated last month.

Today, the International Council of Shopping Centers revised its November-December holiday-season sales forecast up by 0.5 percentage point to a range of 3.5 percent to 4 percent, citing “the strong November performance and promising trends in early December.”

While recent gains in consumer sentiment bode well for retail sales, the unemployment rate, which in November reached a seven-month high of 9.8 percent, remains a hurdle.

Fed policy makers, who meet today for the final time this year, may reiterate the strategy to buy an additional $600 billion of Treasuries through June to try to trim joblessness and avert deflation, or an extended drop in prices.

http://www.bloomberg.com/news/2010-12-14/u-s-retail-sales-rise-more-than-economists-forecast-as-consumers-recover.html

---

China Rate Pause May Reflect Policy Maker Split, Deutsche Bank's Ma Says

Dec 14, 2010
China’s pause in adding to October’s interest-rate increase may reflect the difficulty in reaching consensus as the State Council consults with government agencies, according to Deutsche Bank AG economist Ma Jun. “It has been difficult to reach consensus on a rate hike,” Ma said in an interview in Hong Kong yesterday, noting that “the People’s Bank of China is not the final decision- maker of monetary policy.”

Accelerating inflation has underscored the risks of delaying monetary tightening in China after lenders flooded the world’s fastest-growing major economy with cash to drive the nation’s recovery from the global financial crisis. A decision making process that relies on consensus may be slowing the government’s response, according to Ma, who previously worked at the International Monetary Fund and World Bank.

Rate decisions tend “to represent different interests in the economy, not just the inflation control objective,” said Ma, the No. 1 China analyst in polls by the magazine Institutional Investor and the top China economist in an Asiamoney survey in 2010.

Consumer prices jumped 5.1 percent in November, a statistics bureau report showed Dec. 11. A measure of wholesale costs climbed 6.1 percent, exceeding all 28 estimates in a Bloomberg News survey of economists. Even so, the central bank held off over the weekend on the rate move predicted by firms including UBS AG and Mizuho Securities Asia Ltd.

All Possible Means

“China needs essentially all possible means to deal with inflation,” he said.

According to Ma, the central bank should increase interest rates by 0.75 percentage point by June and raise bank reserve requirements by as much as 2 percentage points. The central bank will allow “a little faster” gain in yuan’s value, which may rise 5 percent against the dollar by the end of 2011, Ma said.

The PBOC boosted the rates by a quarter point each in October, to 5.56 percent and 2.5 percent, leaving it lagging behind counterparts from Malaysia to Thailand, Taiwan and South Korea in boosting borrowing costs this year.

Inflation may average 4.2 percent next year and is the biggest risk to the Chinese economy, Ma said. That would leave a negative so-called real rate for deposits, meaning households' purchasing power is eroded by the increases in consumer prices.

Inflation Outlook

While inflation may slow to 4 percent this month, it's likely to run about 5 percent in the second quarter after the Chinese Lunar New Year in February, he forecasts. In the first 11 months of this year, prices rose 3.2 percent.

A delay in increasing borrowing costs is "not desirable" and "will force them to raise more aggressively later" to counter inflation, Ma said.

China's economy may grow 10.3 percent this year and slow to 9 percent next year, Yu Bin, director general of the macroeconomic research department of the State Council's development research center, said in Beijing today.

Monetary policy in 2011 will be "tightened appropriately," Yu said. "Even if the growth rate of money supply and loans is slower next year, if we can effectively guide" the deployment of credit, then the impact on the economy will be limited, he said.

China's new bank lending and money supply growth next year will be lower than levels in 2009 and 2010, Yu said. China's government aims for 16 percent money supply expansion and a target of at least 7 trillion yuan of new loans next year, said two people briefed on the matter, declining to be identified because the information isn't public. That compares with this year's 7.5 trillion yuan target for new lending and nearly 21 percent growth in money supply in the first 11 months of 2010.

http://www.bloomberg.com/news/2010-12-14/china-rate-pause-may-reflect-policy-maker-split-deutsche-bank-s-ma-says.html

---

Kan Orders 5 Percentage-Point Cut in Japan's Corporate Tax to Spur Growth

Dec 14, 2010
Japan's Prime Minister Naoto Kan ordered a 5 percentage point cut in the nation's corporate tax rate starting in the next fiscal year to boost an economy that is showing signs of contraction.

"I've instructed ministers to lower the corporate tax by 5 percent to lift up the economy and beat deflation," Kan told reporters in remarks broadcast last night on TV Tokyo. He spoke after meeting with Finance Minister Yoshihiko Noda and other members of his Cabinet.

The corporate tax rate in Tokyo, Japan’s financial and economic center, is 40.69 percent, compared with 28 percent in the U.K. and 25 percent in China, according to Ministry of Finance data. Lowering the levy would fulfill a goal set by Kan in September as part of his medium-term economic growth plan.

Kan’s six months in office have been dominated by struggles to cope with falling prices and a strong yen while trying to resolve diplomatic disputes with China and Russia. The administration’s handling of the disagreements has helped send his popularity plummeting.

The corporate tax cut “is one of the few positive things Kan has done for the economy since taking office,” said Masamichi Adachi, senior economist at JPMorgan Chase & Co. “This will help companies stay at home and prevent the country from losing jobs.”

‘First Step’

Trade Minister Akihiro Ohata said in a statement that Kan’s directive “is the first step to lower corporate tax rates that are too high compared with international standards, and to create a world-class investment environment.”

The cut would increase the burden on financing Japan’s public debt, the world’s largest. A 5 percentage point reduction in the corporate tax will decrease revenue by between 1.4 trillion yen ($16.8 billion) and 2.1 trillion yen, according to Ministry of Finance calculations.

“The finance ministry will surely be able to come up with the revenue needed by observing our fiscal management strategy,” Chief Cabinet Secretary Yoshito Sengoku told reporters in Tokyo. Noda said the trade ministry reported it can secure 650 billion yen in funding by widening the corporate tax base. He also reiterated Kan’s pledge to not exceed this year’s record 44.3 trillion yen in government bond issuance.

‘Utmost Efforts’
“We must make our absolute utmost efforts” to cover the loss in revenue, Noda said.

Hiromasa Yonekura, chairman of Keidanren, Japan’s biggest business lobby, welcomed Kan’s announcement.

“The business community intends to aggressively work on domestic investment and job creation as the new growth strategy is implemented,” Yonekura said in a statement.

The world’s third-largest economy may shrink this quarter as the impact from a stimulus package fades, the government- affiliated Economic Planning Association said last week. Exports rose 7.8 percent in October, the slowest pace this year, while industrial production fell for a fifth month and the jobless rate climbed to 5.1 percent.

http://www.bloomberg.com/news/2010-12-14/kan-orders-5-percentage-point-cut-in-japan-company-tax-rate-to-spur-growth.html

JGBs Signal Economy Rebound as Tankan Points to Contraction: Japan Credit

Dec 14, 2010
Japanese bond yields are rising the most since June 2008 as traders look toward faster global growth just when the nation's economy shows signs of starting to contract.

The Bank of Japan's December Tankan report will show an index of sentiment among large manufacturers dropped for the first time in seven quarters, sliding to 3 from 8 in September, according to the median forecast of 20 economists in a Bloomberg News survey before tomorrow's announcement. Data for October showed industrial output fell by the most since February 2009, export growthslowed and the jobless rate rose.

At the same time, three-month euroyen futures rates for September delivery, which indicate investor expectations for interest rates, touched 0.42 percent on Dec. 9, the most since April, and 10-year government bond yields were at 1.24 percent today, near last week's six-month high of 1.27 percent. The mismatch shows growing conflict between investors dumping bonds and analysts and executives concerned Japan's year-long recovery may end.

"There's no evidence that Japan's economy is gaining strong momentum at the moment," saidJun Fukashiro, who helps oversee about $18 billion as chief fund manager at Toyota Asset Management Co. "The current wave of selling in Japan's short- term market can't be justified as deflation is persisting and corporate sentiment is starting to dwindle."

Yields on Japanese government bonds have climbed 31 basis points this quarter, setting for the biggest quarterly increase since June 2008 on optimism about a global recovery. The 1.2 percent 10-year bond due Dec. 20, 2020 was unchanged at 1.24 percent today, according to Bloomberg data.

Lost 2.1 Percent

Investors in Japanese government bonds lost 2.1 percent since Sept. 30, while those who boughtTreasuries lost 2.7 percent, according to indexes compiled by Bank of America Merrill Lynch.

Euroyen contracts for September delivery fell the last three months, lifting the implied yield by 15.5 basis points, or 0.15 percentage point, to 0.405 percent today from a five-year low of 0.255 percent in August.

The advance in rates was partly because of selling by Japanese banks that suffered losses on Treasuries holdings, said Shinsuke Kanabu, a project and research director at Tokyo-based money market dealer Central Tanshi Co.

'No Double-Dip'

"People are expecting there will be no double-dip recession," said Shinji Hiramatsu, senior investment manager in Tokyo at Sompo Japan Nipponkoa Asset Management Co. Ltd. which oversees about 1.5 trillion yen. “China is picking up and the U.S. is getting better, so people are expecting Japan could be next.”

China’s industrial-output growth accelerated to a 13.3 percent annual pace in November, while retail sales rose almost 19 percent. U.S. gross domestic product will expand 2.6 percent in 2011, more than the 1.4 percent predicted for the euro region and the 1.4 percent forecast for Japan, according to the median estimate of at least 15 economists in Bloomberg surveys.

Japan’s economy may shrink this quarter as Prime Minister Naoto Kan’s stimulus spending fades, the government-affiliated Economic Planning Association said last week, citing forecasts from economists. Exports rose 7.8 percent in October, the slowest pace this year, while industrial production fell for a fifth month and the unemployment rate climbed to 5.1 percent.

Capital Outlays

The Tankan may show that companies’ forecasts for capital outlays this year have increased. Large companies aim to boost spending by 2.7 percent in the year ending March 31, more than the 2.4 percent planned three months ago, according to the Bloomberg News survey.

The rise in yields on euroyen futures is impeding the Bank of Japan’s efforts to spur the economy through asset purchases by driving up borrowing costs.

The Bank of Japan seeks to bolster growth with 35 trillion yen ($419 billion) of asset purchases. The bank also cut its target rate to as low as zero in October and introduced a 5 trillion-yen fund to buy bonds and assets including exchange- traded funds and real-estate investment trusts, aiming to add money to the economy.

Japan’s economy expanded at an annual 4.5 percent rate in the three months ended Sept. 30, the Cabinet Office said Dec. 9. In dollar terms, the $3.96 trillion economy, which returned to growth at the end of last year, remained larger than China’s $3.95 trillion economy in the first nine months of 2010, the Cabinet Office said.

The BOJ’s plans have driven up prices for assets targeted by the central bank’s fund, including company bonds rated BBB or higher and real estate investment trusts.

Corporate Yields

The extra yield investors demand to hold five-year corporate bonds rated BBB over government notes of similar maturity narrowed to 106 basis points yesterday from 121 on Oct. 5, when the BOJ announced the asset-purchase program.

The Tokyo Stock Exchange REIT Index has advanced 14 percent since Oct. 5. Japan’s central bank plans to buy 50 billion yen of REITs.

Goldman Sachs Group Inc. forecasts the BOJ will need to expand stimulus measures to boost the economy even as the yen's decline helps exporters. The yen has dropped 4 percent against the dollar from a 15-year high of 80.22 reached Nov. 1.

"The BOJ is going to keep its cautious stance because we know the yen is not getting stronger but at the same time we also notice the economy is getting worse," said Chiwoong Lee, senior economist at Goldman Sachs in Tokyo. "So, I am betting the BOJ is going to keep its easy stance. We are actually expecting more additional easing in February."

90 Per Dollar

The yen will trade at 90 per dollar by the end of 2011, according to the median forecast in a Bloomberg survey of 32 analysts.

Bonds designed to protect investors against inflation show money managers in Japan anticipate prices will decline over the next five years. The difference between yields on five-year Japanese government notes and inflation-linked debt widened by one basis point today to minus 0.68 percent.

The cost to protect Japanese government debt against non- payment for five years with credit-default swaps was at 69.85 basis points yesterday, declining from 73.68 points on Nov. 30, CMA prices in New York show. The contracts pay the buyer face value in exchange for the underlying securities or the cash equivalent should a government or company fail to adhere to debt agreements.

http://www.bloomberg.com/news/2010-12-13/tankan-points-to-contraction-as-bond-market-signals-recovery-japan-credit.html

---

U.K. Inflation Rate Unexpectedly Increases to 3.3%

Dec 14, 2010
The U.K. inflation rate unexpectedly accelerated to a six-month high in November, adding to the case for policy makers to rein in cost pressures.

Consumer prices rose 3.3 percent from a year earlier after a 3.2 percent increase in October, the Office for National Statistics said today in London. That's the highest since May and exceeded the 3.2 percent median forecast of 33 economists in a Bloomberg survey. Food prices jumped 1.6 percent on the month.

Inflation has been above the government's 3 percent limit for nine months and a sales-tax increase in January may add to prices in 2011. Bank of England Deputy Governor Charles Beanyesterday said the strength of inflation has increased the risk to price expectations and there may also be less slack in the economy than previously thought.

“It makes a second round of quantitative easing even less likely,” said Alan Clarke, an economist at BNP Paribas SA in London. “Inflation will stay above the 3 percent limit next year with the peak coming in the first quarter. Today’s data tells a story of inflation being elevated for longer.”

The pound jumped as much as 0.2 percent against the dollar after the report and was at $1.5876 as of 11:01 a.m. in London little changed on the day. U.K. government bonds fell, with the 10-year gilt yield gaining 1 basis point to 3.56 percent.

Energy, Cotton

From the previous month, consumer prices rose 0.4 percent in November, exceeding economists’ forecast for a 0.3 percent increase. Clothes prices jumped 2 percent on the month and furniture prices rose 1.6 percent.

So-called core inflation, which excludes costs of energy, alcohol, food and tobacco, remained at 2.7 percent, matching the median forecast in a Bloomberg News survey of 14 economists.

Higher prices for commodities may continue to put upward pressure on inflation. Npower, the U.K. unit of RWE AG, will raise household gas and power prices 5 percent from Jan. 4, it said last week. Next Plc, the U.K.’s second-biggest clothing retailer, and Associated British Foods Plc, the owner of Primark stores, have both highlighted pressure from cotton prices.

The Bank of England predicts that inflation will stay above its 2 percent goal next year, masking underlying subdued price pressures from the aftermath of the recession. That may prevent officials from adding stimulus to aid the economy during the deepest budget cuts since World War II.

‘Credibility’

Nevertheless, with the bank forecasting that inflation will ease to below the target by the end of 2012, officials are “unlikely to respond” to today’s “surprise,” said Fabio Fois, an economist at Barclays Capital in London.

“The Monetary Policy Committee has nailed its colors to the mast; it views the current high rate of inflation as temporary,” Fois said in an e-mailed note. “In its forbearance, it is putting its credibility on the line, however, and if inflation rises further, as we expect, the situation is set to become even more uncomfortable.”

The bank’s nine-member committee kept its bond-purchase plan unchanged this month and held its benchmark interest rate at a record low of 0.5 percent. In November, Andrew Sentancecalled for higher rates to combat inflation, while Adam Posen pushed for more stimulus to sustain the recovery. Minutes of this month’s decision are due Dec. 22.

Bank of England Governor Mervyn King has said that consumer-price gains will stay “elevated” in 2011 and that policy makers stand ready to change policy in either direction.

“Given the unexpected strength of inflation in recent months,” the risk to longer-term price expectations “has probably increased of late,” Bean said yesterday. Moreover, the high rate of inflation “could indicate that the margin of spare capacity is not as large as the collapse in activity might suggest,” he said.

Retail-price inflation, a measure of the cost of living used in wage negotiations, unexpectedly accelerated to 4.7 percent in November, the highest in three months, from 4.5 percent in October. Economists forecast a reading of 4.5 percent, according to a Bloomberg survey. Excluding mortgage costs, it was at 4.7 percent, the statistics office said.

http://www.bloomberg.com/news/2010-12-14/u-k-inflation-unexpectedly-accelerates-to-six-month-high-on-food-clothes.html

---

U.K. Housing-Market Gauge Stayed Close to Lowest in 18 Months in November

Dec 14, 2010
A U.K. housing-market gauge stayed close to the lowest in 18 months in November as demand for homes waned, the Royal Institution of Chartered Surveyors said.

The number of real-estate agents and surveyors saying prices fell exceeded those reporting gains by 44 percentage points, compared with minus 49 points in October, the London- based group said in an e-mailed report today. Economists forecast a decline to minus 50 points, according to the median of 16 predictions in a Bloomberg News survey.

“Fear over how future spending cuts will impact on the jobs market are clearly still weighing heavily on potential purchasers’ minds, with many deciding to ‘wait and see’ until the new year,” RICS spokesman Ian Perry said in a statement. “Meanwhile, the lack of mortgage finance continues to deter first-time buyers.”

Recent data have shown a mixed picture of the housing market. While the Bank of England kept its benchmark interest rate at a record low this month, making loan repayments cheaper, mortgage approvals fell to an eight month-low in October. Consumers are also bracing themselves for the deepest spending cuts since World War II, leading to the loss of 330,000 jobs.
A gauge of new buyer enquiries dropped to minus 18 in November from minus 12, RICS said. A measure showing the number of new property listings was unchanged at minus 4.

An index of prices in London was at minus 32 percent in November, compared with minus 49 percent the previous month.

‘Downward Spiral’

“The housing market is only a shadow of itself in 2007,” Jeremy Dell, a real-estate agent at JJ Dell & Co. in Shropshire, England, said in the report. “The economics indicate a long downward spiral.”

The U.K. has at least seven indicators of the housing market, which have shown divergence in recent months. Acadametrics Ltd. and LSL Property Services Plc said on Dec. 10 that house prices increased to the highest in more than two years in November. Mortgage lender Halifax said prices fell 0.1 percent that month, while the Department for Communities and Local Government said today that prices declined by that amount in October.

Banks are still curbing credit. Lenders granted 47,185 loans to buy homes in October, compared with 47,369 in September, the Bank of England said on Nov. 29. That's less than half the level at the peak of the housing boom in 2007.

Still, the number of mortgage holders in arrears fell 11 percent in the third quarter from a year earlier, the Financial Services Authority said today. The increase in the number of new arrears cases is also easing. There were 36,600 such cases in the quarter, a drop of 19 percent on the year.

The central bank's Monetary Policy Committee last week left its benchmark interest rate unchanged at a record low 0.5 percent and its emergency bond-purchase plan at 200 billion pounds ($317 billion).

http://www.bloomberg.com/news/2010-12-14/u-k-housing-gauge-stayed-close-to-18-month-low-in-november.html

---

Russia will not build aircraft carriers during upcoming decade

Dec 14, 2010
Before 2020 Russia will begin construction of aircraft carriers vessels - such information was released by media on Friday, December 10. Currently project documentation is being prepared. Meanwhile, Defense Minister Serdyukov has denied these rumors. Russia must first determine the cost of such ships, their combat capabilities and production capacity.

Earlier, the former Commander of the Navy Kuroyedov said that according to the plans of commanders of the fleet, by 2016-2017 a new aircraft carrier will have become a part of the Northern Fleet. A draft design of a new aircraft carrier was to be developed by 2010.

According to a number of military experts, the new carrier will be nuclear, as well as will have a displacement of up to 60 thousand tons. Such parameters were communicated to RIA Novosti by head of state defense of the United Shipbuilding Corporation (USC), Vice-Admiral Anatoly Shlemov.

Now Russian Navy has only one aircraft carrier - "Admiral Kuznetsov" launched in 1985. There could have been more of those, but the collapse of the Soviet Union permanently buried these military-production plans.

A heavy aircraft carrier Minsk was sold to the Chinese for scraps. They studied it and turned into a naval museum. The Chinese also acquired cruiser Varyag similar to Admiral Kuznetsov The ship was also purchased by China allegedly for scrap metal, but was never destroyed.

The first Soviet nuclear aircraft carrier Ulyanovsk was quietly destroyed. It was founded on the Black Sea Shipyard in Nikolayev, but in 1991it was taken off the construction process, removed from the list of Navy ships and a year later was disassembled for scraps.

Currently, the global leader in the number of aircraft carriers is the U.S. that has 12 ships of this type. The UK has three aircraft carriers, while France, Italy, Spain and India have one each.

At the moment Russia does not have suitable docks, slipways, and related engineering and design potential. Previously, these ships were built in Nikolayev, however, in recent years they have been hosting a corps of tankers with a displacement of 45,000 tons for foreign customers.

Perhaps Russia will still build a dry dock suitable for the construction of these super ships. In particular, the need for the country to build large vessels is referred to in the federal target program "Modernization of Russian transport system".

It is worth recalling that Gazprom has also expressed interest in creating its own tanker fleet with ships of ice class tonnage no less than 150 thousand ton.

However, to ensure military escorts for each carrier an entire group of ships, cruisers, frigates, corvettes, support vessels and so on is required. However, Russia lacks even these simpler ships, and the replacement of the fleet with new ships continues with microscopic steps.

Pravda.Ru
http://english.pravda.ru/russia/economics/14-12-2010/116193-aircraft_carriers-0/

South Korea Says Economic Growth to Slow Toward 5% in 2011

Dec 14, 2010
South Korea’s economic growth will probably slow to around 5 percent next year after a 6.1 percent expansion in 2010 as export gains moderate, the nation’s finance ministry said.

Shipments abroad will increase 10 percent next year, down from a 29 percent jump this year, trimming the trade surplus to $29 billion from $41 billion, the ministry said in a statement in Gwacheon today. Inflation may run at a 3 percent pace in 2011 after a 2.9 percent rate this year, the ministry also said.

The slowing in exports reflects a strengthening exchange rate, with South Korea’s won advancing 21 percent against the dollar since the end of the first quarter last year as the global financial crisis ended. With capital flowing into the emerging markets leading global growth, South Korea’s government reiterated today it’s prepared to counter any inflows of funds that threaten to destabilize the economy.

“An uncertain global economic outlook requires a flexible policy approach,” said Yoon Jong Won, director-general at the ministry. “We will make sure that ample liquidity and capital inflows won’t unsettle prices and asset markets.”

The finance ministry's forecasts indicate faster growth and slower inflation than projected by the central bank. The Bank of Korea last week forecast a 4.5 percent gain in gross domestic product and 3.5 percent inflation rate for 2011. The ministry said today the unemployment rate will likely fall to 3.5 percent next year, from 3.7 percent, with the nation adding 280,000 jobs.

Rate Increases

Bank of Korea Governor Kim Choong Soo left the seven-day repurchase rate at 2.5 percent last week, following quarter percentage-point increases in July and November from a record- low 2 percent. The benchmark remains below November's 3.3 percent pace of inflation, signaling the central bank may have to resume rate increases. The central bank aims for 2 percent to 4 percent on average through 2012.

The government may take additional steps to cope with an expected increase in fund inflows fuelled by quantitative easing in advanced economies, the ministry said. Possible measures include strengthened rules covering foreign-currency derivatives and a bank levy, it said.

Tension with North Korea, which shelled a border island last month, had spurred speculation South Korea might scale back efforts to stem any influx of foreign cash. Hwang In Seong, vice president of the Samsung Economic Research Institute in Seoul, said last month officials "may delay additional steps to control capital flows until international investors feel confident about the security situation."

North Korea

The finance ministry also said today that it plans to improve a contingency plan for the economy in case of a possible crisis due to North Korea.

The won appreciated 0.4 percent to 1,141.20 per dollar as of 9:31 a.m. in Seoul, according to data compiled by Bloomberg. The Kospi stock index rose 0.3 percent today, approaching its highest level since November 2007.

Nations from China to South Africa are striving to limit currency volatility as near-zero borrowing costs in advanced economies spur demand for higher-yielding assets in emerging-markets. Governor Kim said yesterday the nation needs to use "macro-prudential" measures to reduce the volatility of the won because sharp fluctuations are an obstacle to financial- market stability.

South Korean regulators began an audit of how banks handle foreign-currency derivatives on Oct. 19 to tackle speculation. The parliament's finance committee on Dec. 7 supported a bill that would tax interest income from treasury and central bank bonds by as much as 14 percent and put a 20 percent levy on capital gains from their sale.

http://www.bloomberg.com/news/2010-12-14/south-korea-says-economic-growth-to-slow-toward-5-in-2011.html

Chavez to pass laws by decree

Opposition wary of Venezualan president's plans to enact "Enabling Laws" to deal with crisis caused by heavy rains.

14 Dec 2010

Hugo Chavez, the Venezualan president, has announced plans to pass laws by decree for the next six to 18 months. Chavez says that he needs the fast-track powers to deal effectively with a major national crisis caused by rains that have left 130,000 people homeless, devastated crops and damaged roads. Opponents fear he will use the powers to legislate in areas unrelated to the crisis sparked by rains. They say Monday's presidential announcement would effectively eliminate any chance for the opposition to influence national politics for the next few months.

Special powers

A special "Enabling Law" is expected to be passed this week by Venezuela's outgoing National Assembly, which is dominated by the ruling Socialist Party. It will give Chavez the same special powers which he has exercised three times before in his rule.

The current parliament is almost entirely made up of allies because the opposition chose not to participate in legislative elections in 2005, making it a rubber-stamp assembly.

Chavez, who rejects criticism that this would undermine democracy, has used decree powers in the past to pass about 100 laws. They include controversial measures to nationalise part of the oil sector and increase the number of supreme court judges.

Opposition parties had said that it would be illegitimate to extend the measure beyond January 5 when a new parliament, with a larger presence of Chavez opponents, is to convene. Opponents fear that he will use them to step up his drive to entrench "21st-style socialism" in Venezuela. Pastora Medina, an opposition politician, said: "This is madness, a lack of respect for the popular will and a coup d'etat against the constitution. He's consolidating himself as a dictator."

Beating opposition

But Chavez, in an address carried live on TV, laughed at the opposition as "crazy" and "in need of Valium". Chavez, who wants to seek re-election in 2012, has generally beaten Venezuela's opposition during his 11 years, winning all but one of about a dozen elections. He accepted the results of a September vote that gave opponents about 40 per cent of seats in the 165-member National Assembly. Opposition parties had feared he would simply bypass parliament rather than face a curb on power.

Minutes before his announcement, Chavez took state TV cameras on a walkabout in his presidential palace, interviewing homeless women sheltering there and showing children playing around an ornate fountain in a cobbled square. The president, who is seen as Latin America's leading opponent of Washington, has a strong power base among Venezuela's poor whom he says were ignored by past right-wing governments. They see him as a leader who has ushered in greater democracy through increased participation in politics and decision-making, with grass-roots councils and other organisations giving communities funding for public works.

Sales tax hikes

Chavez announced plans to raise sales taxes using the decree powers, a move that will please holders of Venezuela debt who are keen to see signs of fiscal strength in the recession-hit oil exporter. It is not clear what other laws Chavez will pass with the decree powers, but he could use them to find funds in a number of ways, including a widely rumored currency devaluation.

Other bills on the parliamentary agenda include an emergency housing law allowing the government to seize vacant properties in cities, new rules to regulate the internet and a law that will take some profits from banks.

http://english.aljazeera.net/news/americas/2010/12/201012146225420220.html

---

US-China trade talks open

December 15, 2010
The twenty first session of the US/ China Joint Commission on Commerce and Trade or JCCT is underway in Washington DC on Tuesday. The first two days are being seen as a test of the Obama administration's ability to bring down trade barriers that currently impede US exports and economic growth with China.

On Thursday the European Union will join the talks to broaden the discussion into global issues such as seeking a way to end the Doha round of world trade talks by next year.

US Secretary of Commerce Gary Locke and US Trade Representative Ron Kirk will co-chair the event alongside Chinese Vice Premier Wang Qishan. US Secretary of Agriculture Tom Vilsack will also join the dialogue.

During the meeting American and Chinese officials are expected to review progress made by over a dozen working groups covering a wide range of trade issues such as intellectual property rights, telecommunications, agriculture, medical devices and pharmaceuticals, and travel and tourism.

The talks complete a tough year of trade relations between the US and China in which Beijing's booming economy has received the lion's share of US attention.

Only last week a bipartisan group of members of the US House of Representatives complained that promises made by China at past JCCT meetings have failed to lead to commercially meaningful market access for US companies.

They urged the US delegation to press China to commit to specific targets for measuring how much it is cutting piracy of US software and other intellectual property and boosting imports of American goods.

The US is also expected to press China to loosen export restraints on rare earth minerals used in a variety of clean energy and high-tech industry technologies.

US concerns about China's currency, which the United States contends is significantly undervalued, are not formally on the agenda but will be in the background of the talks.

Another major topic will be China's "indigenous innovation" policies that threaten to force US companies to transfer intellectual property to China to participate in that country's vast government procurement market.

Behind the scenes it's hoped a way can be found for a summit to take place between US President Barack Obama and Chinese President Hu Jintao in mid-January.

The JCCT was established in 1983 and is the primary forum for addressing bilateral trade matters and promoting commercial opportunities between the United States and China.

Last year, it was held in Hangzhou, China, and during the meetings China agreed to reopen its market to US pork and to remove barriers for American firms to China's growing clean energy market.

http://blogs.aljazeera.net/americas/2010/12/15/us-china-trade-talks-open

---

Global Demand for U.S. Assets Slowed in October

December 15, 2010
Global demand for U.S. stocks, bonds and other financial assets slowed in October from a month earlier, the Treasury Department reported, as the pace of economic recovery weighed on demand. Net buying of long-term equities, notes and bonds totaled $27.6 billion during the month compared with net buying of $77.2 billion in September, according to statistics issued today in Washington. Including short-term securities such as stock swaps, foreigners purchased a net $7.5 billion compared with net buying of $80.1 billion the previous month.

The U.S. economic recovery from the deepest recession since the 1930s has lagged behind growth in emerging markets, weighed down by an unemployment rate close to 10 percent and record home foreclosures.

“There’s some question about the pace of our recovery and the size of our deficit and that may be damping demand for U.S. assets,” Gary Thayer, chief macro strategist at Wells Fargo Advisors LLC in St. Louis said by telephone after the data were released. “I also think there may be better opportunities elsewhere that are attracting people.”

Total net foreign purchases of Treasury notes and bonds slowed to $23.5 billion in October from $78.9 billion of purchases in September, according to the data released today.

Treasury's Reporting
The Treasury's reporting on long-term securities captures international purchases of government notes and bonds, stocks, corporate debt and securities issued by U.S. agencies such as Fannie Mae and Freddie Mac, which buy home mortgages.

China remained the biggest foreign holder of U.S. Treasuries, after its holdings rose by $23.3 billion to $906.8 billion in October, according to the Treasury's statistics.

The Chinese currency, the yuan, has strengthened since a two-year dollar peg was scrapped on June 19. The government will push forward the reform on the yuan's exchange rate next year, according to a statement on the State Council's website Dec. 12 following the Central Economic Work Conference.

The Treasury's statistics on other countries showed Japan, the second-largest holder, increased its holdings by $12.8 billion to $877.4 billion in October. Hong Kong, counted separately from China, increased its holdings by $3.3 billion to $139.2 billion.

http://www.businessweek.com/news/2010-12-15/global-demand-for-u-s-assets-slowed-in-october.html

---

EU unsure of debt crisis remedies
Just before a gathering of European leaders on Thursday, protests rage and debt crises remain unresolved.

December 15, 2010
Disagreement over how to fight Europe's debt crisis deepened on Wednesday, on the eve of a two-day summit of European leaders in Brussels, as violent protests fuel investors' worries. Amid Europe-wide political deadlock, the crisis' effects rang out across the region. Rioters in Athens smashed cars and hurled gasoline bombs at police during a nationwide protest and general strike against the government's latest austerity measures.

Meanwhile, rating agency Moody's warned it may downgrade the debt of Spain, the eurozone country many economists say is too big to be bailed out. Still, diplomats said the meeting of European Union heads of state and government Thursday and Friday would not result in any bold decisions to contain the escalating debt crisis. Instead it will focus on a small change to EU treaties that sets up a new crisis mechanism agreed almost two months ago.

EU Paralysis

Calls for bolder actions, either increasing the eurozone's $1 trillion bailout fund or creating pan-European bonds to boost confidence in the euro, have been growing louder.

German Chancellor Angela Merkel - so far the most ardent opponent of both proposals - was attacked by her country's biggest opposition party for her stance.

In an opinion piece in the Financial Times, the parliamentary leader of the Social Democrats, Frank-Walter Steinmeier, and Peer Steinbrueck, Germany's former finance minister, called for a "more radical, targeted effort to end the current uncertainty".

They made the case for a partial restructuring of the debts of Greece, Ireland and Portugal, guarantees for the bonds of stable countries and the limited introduction of pan-European bonds. And EU officials have indicated that an increase in the bailout fund has not been ruled out.

Jose Manuel Barroso, president of the EU's executive Commission, said the European Financial Stability Facility, while far from exhausted, "can be improved and adapted". However, he also asked politicians to focus on solutions to the crisis for which a political consensus was possible.

"What we don't need is a beauty contest between leaders, a cacophony of diverging scenarios, or announcements that are not followed by action," he told the European Parliament in Strasbourg.

Olli Rehn, the EU monetary affairs chief, also speaking in Strasbourg, said it was a priority to make the current bailout fund "more agile and effective." His comments echoed a statement from Jean-Claude Trichet, European Central Bank president. "On the EFSF I can say we are calling for maximum flexibility and I would say maximum capacity quantitatively and qualitatively," Trichet told journalists on Monday night.

The pressure on European policymakers to find a way out of the debt crisis has remained high.

Next steps

Ratings agency Moody's on Wednesday warned it may downgrade Spain's debt because the government is vulnerable to a borrowing crunch next year, when the recapitalisation of weak banks could prove more costly than expected for public finances.

The agency, which lowered Spain's rating in September, said it will review the rating again because of high financing needs in 2011. However, it said that it does not expect the country to need a bailout.

Moody's warning comes a day after Spain had to pay significantly higher interest rates when it sold $3.3bn in treasury bills to help refinance its debt load.

In Greece, the seventh general strike of the year protesting painful austerity measures imposed as part of its bailout earlier this year, grounded flights, closed factories, and disrupted hospital and transport services.

The Greek strike action was supported by several hundred members of the European Trade Union Confederation, who gathered in front of the European Commission headquarters in Brussels. They demanded that EU leaders focus on spurring economic growth rather than imposing further bugdet cuts.

Portugal's government, meanwhile, was expected to unveil further reforms designed to prevent the country from having to follow Greece and Ireland in seeking an international bailout.

Prime Minister Jose Socrates has held talks in recent days with trade unions and business leaders as his socialist government searches for ways of spurring economic growth despite potentially crippling austerity measures designed to cut sovereign debt.

The government was expected to announce its latest reforms after a weekly Cabinet meeting on Wednesday.

Portugal's high debt and low growth have made it one of the weakest members of the 16-nation Eurozone, but the government insists it doesn't need or want a financial rescue of the kind provided to Greece and Ireland.

http://english.aljazeera.net/news/europe/2010/12/20101215140477453.html

---

EU Should Raise CO2-Cut Goal to 25%, EESC Says

December 15, 2010

The European Union should move to a stricter carbon-cut goal of 25 percent to ensure its energy industry is transformed and encourage ambitious goals in other countries, the European Economic and Social Committee said.

The EESC, a consulting body composed of members of economic and social interest groups in Europe, said the EU internal goal to cut greenhouse-gases should be tightened from the current 20 percent compared with 1990 levels following a United Nations summit in Cancun, Mexico.

Climate envoys approved a climate-protection package on Dec. 11, including a fund that would manage a “significant share” of the $100 billion annually pledged last year in aid for poorer nations by 2020 and a plan to reduce deforestation. They failed to agree on emission-reduction targets after the Kyoto Protocol’s initial limits expire in 2012.

“In the continuing absence of a comprehensive global deal on climate change, the EU should consider an early move toward a 25 percent reduction by 2020,” EESC said in an opinion paper on the EU energy strategy.

A more-ambitious target would lead to tighter caps in the EU emissions-trading system, the world’s largest, and would boost the price of carbon-dioxide allowances, EESC said. European permits for delivery in December 2011 fell 1.4 percent today to 14.56 euros on London’s ICE Futures Europe exchange.

Getting ‘Genuine’ Results

The EESC also said a floor price of at least 30 euros should be set in the emissions-trading system to deliver “genuine” results. The European Commission, the EU regulator, has said it doesn’t favor intervention in carbon markets.

In addition, arrangements should be put in place to ensure that “a higher proportion of carbon reductions are achieved within the EU itself by appropriate investments rather than being exported to other parts of the world,” the EESC said.

European emitters can use a quota of credits generated by the United Nations carbon market to comply with their pollution limits. Under the UN Clean Development Mechanisms, they can get credits for emission-reduction projects in developing nations.

The EU said Dec. 11 the UN agreement in Cancun was an important step on a “long and challenging” road toward a binding treaty to tackle global warming. The 27-nation bloc has said it may deepen its emissions-reduction goal to 30 percent should other nations follow suit. It stopped short of doing so during the 2009 summit in Copenhagen, citing inadequate efforts by the U.S. and China.

A move to 25 percent “would secure some of the transformational benefit of adopting a tighter target as soon as possible, while retaining the negotiating benefits of having a further 5 percent still to offer to encourage other countries to do more in the next two years,” the EESC said.
Next year’s UN summit is scheduled to take place in Durban, South Africa.

http://www.businessweek.com/news/2010-12-15/eu-should-raise-co2-cut-goal-to-25-eesc-says.html

---

Russian Beet-Sugar Output May Be 2.74 Million Tons, IKAR Says

December 15, 2010
Russia may refine 2.74 million metric tons of sugar from domestically grown beets in 2010, the Institute for Agriculture Market Studies said, raising its previous forecast by 7 percent.

The Moscow-based researcher, also known as IKAR, earlier forecast Russian sugar output at about 2.56 million tons, analyst Yevgeny Ivanov said by telephone today.

http://www.businessweek.com/news/2010-12-15/russian-beet-sugar-output-may-be-2-74-million-tons-ikar-says.html

---

The West destroys Africa's largest country - Sudan

December 15, 2010
Africa is about to lose its largest country. We are talking about Sudan that is getting ready for the separation of its southern part. On December 8, 2010, Southern Sudan completed the registration of voters for the self-determination referendum. Plebiscite is scheduled for January 9, 2011.

In order to be recognized as having taken place, the turnout of at least 60 percent of registered voters is required. Southern Sudan will officially become independent in the event that it secures at least 51 percent of votes.

The situation around the preparations for the vote was nerve wracking. Some people in Sudan are dissatisfied with the way the participants were registered. According to the chairman of the Referendum Commission Mohammed Khalil, out of five million potential voters (according to other sources, up to ten million people are entitled to vote here) less than half were registered - approximately 2.4 million people.

Out of half a million voters, less than 20 percent of the southerners living in northern Sudan were included on the voting lists - only 88,000 people. The ruling northern National Congress blames the Sudanese People's Liberation Movement. Allegedly it pressured the residents of the South not to register in Khartoum.

There is some truth in such statements: the southerners fear that the northerners will falsify the voting results on the territories under their control. In turn, the northerners have the same accusations against the southerners.

After the formation of an independent Sudan (1955) key positions in the government were taken by the Muslim Arabs who refused to create a federal state and provide the autonomous rights to the South inhabited mostly by Christian blacks. As a result, the southerners revolted in 1955, which transformed into a civil war that lasted until 1972. The North, in fact, conceded defeat and granted sub-autonomous rights to the South. The truce lasted a decade, until 1983 when Khartoum decided to enact sharia law in the South involving stoning, flogging and amputation. The war resumed.

According to American legal defenders, within 20 years the government troops killed nearly two million civilians in the South and another four million became refugees. Armed clashes continued until January 2005, when the parties have agreed on a final solution of the South Sudan issue in the referendum of 2011. During this period of time, the South enjoyed autonomy from the North, including in the division of oil revenues.

The rebel leader John Garang became vice-president of Sudan, which contributed to diffusion of the tensions. However, it was brief: on July 30, 2005 Garang was killed in a helicopter crash. Many southerners believe that this was set up by the northerners. The situation started heating up again, and occasionally there were new clashes in the South.

International observers have noted that Khartoum does not express a particular desire to meet its obligations to respect the rights of the peoples of southern Sudan. Khartoum officials have their own claims and accuse the West of supporting the rebels. In any case, it is foreseeable that the south Sudan issue will not be resolved peacefully.

According to independent observers, two-thirds of the population of southern Sudan would vote for secession from Khartoum. However, whatever the outcome of a vote, the national liberation forces of the south of the country which already lives an independent life, are going to see it through. In turn the North does not intend to unconditionally accept the outcome of the people's will.

In particular, the official Khartoum is outraged by Western interference in its affairs, and not without reason. For instance, on July 22 of 2009 the arbitral tribunal in The Hague ruled that the dispute between the South and North regarding the territory of the city of Abiey arising immediately after the truce of 2005 will be solved at the referendum in January 2011. That does not mean that Northerners will rush to carry out the decision of the court in The Hague.

Even more complicated situation is observed in respect of provincial Nuba Mountains and Blue Nile, whose status should be defined at the same referendum. However, their transfer to the southern Sudan is not considered. A substantial portion of the population in these provinces was previously opposed to the stay under the authority of the North and saw salvation from genocide in the alliance with southern Sudan.

Here is another issue that is clearly not conducive to progress in resolving this difficult situation: The International Criminal Court in July of 2008 issued a warrant for the arrest of the current ruler of Sudan Omar Hassan al-Bashir who is accused of the genocide in the western part of the country, Darfur, which, incidentally, is rich in oil just like the South.

This circumstance forces the West to maintain anti- Khartoum rebel groups in southern Sudan and in Darfur. And as a reward for the assistance in the collapse of the largest African country, the rebel leaders are ready for a fair price to give Western companies the rights to develop oil fields, which, according to geologists, are not smaller than Saudi ones.

Pravda.Ru
http://english.pravda.ru/world/africa/15-12-2010/116209-sudan_africa-0/

Chinese PM arrives in India
Wen Jibao to discuss a series of trade and territorial issues with Manmohan Singh on a three-day state visit to India.

December 15, 2010
Wen Jiabao, the Chinese premier, has arrived for a three-day state visit to India intended to build trust between two Asian powers with increasingly close economic ties despite ongoing competition for regional influence. Upon his arrival on Wednesday afternoon, Wen said his visit "aimed at promoting friendship, expanding cooperation, building on our past achievements and opening up new dimensions for mutual benefit and common development of the two countries".

He then addressed a business conference before heading to a school to discuss Chinese culture, a week after the government decided to add Mandarin to the list of languages taught at Indian schools.

The two countries are expected to discuss their lingering border disputes, a growing trade imbalance and friction over India's role in Kashmir. The world's two most populous countries have worked to play down their tensions.

"We are, from the Indian side, looking at the positive side of the outcome. The trade is growing between the two countries, the people-to-people exchanges are increasing, high-level visits are also increasing," S Krishna, India's external affairs minister told the CNN-IBN news channel.

Both Wen and Singh, have stated that the world is "large enough" to accommodate the growth and ambition of the two Asian giants, but ties are dogged by a history of mutual suspicion and mistrust.

Growing competition for global markets and the raw materials needed to keep their fast-growing economies on the move has exacerbated tensions over border disputes, trade and the activities in India of Tibet's exiled spiritual leader, the Dalai Lama.

'Fragile'

Zhang Yan, China's ambassador to India, warned ahead of Wen's three-day visit that relations between China and India were "fragile... easy to (damage) and difficult to repair."

Wen, the latest world leader to beat a path to India's door, will be accompanied by around 400 Chinese business leaders, outnumbering recent delegations headed by Barack Obama, the US president and Nicolas Sarkozy, the French president.

Annual bilateral trade currently totals close to $60bn, with India pushing hard for greater access to Chinese markets to redress a trade surplus in China's favour estimated between $18-$25bn.

It is expected that talks between Wen and Singh on Thursday will focus on the two countries' disputed Himalayan border - the cause of a brief but bloody war in 1962 and the focus of 14 rounds of fruitless negotiations.

Both sides have become increasingly assertive over their territorial rights and Beijing was infuriated last year by New Delhi's refusal to block a visit by the Dalai Lama to the northeast state of Arunachal Pradesh, which China claims in full. The Dalai Lama, regarded as a dangerous separatist by Beijing, has lived in exile in India since fleeing a failed 1959 uprising against Chinese rule in Tibet.

Protests

Meanwhile, hundreds of Tibetan exiles marched through New Delhi on Wednesday to protest against China's rule over Tibet. The Tibetan Youth Congress (TYC), which organised the protests in Delhi, said it wanted to highlight China's "occupation and oppression" of Tibet, a mountain region that has seen regular unrest against the Beijing authorities.

"The conditions of Tibetans in Tibet and the situation of political prisoners have become extremely critical," the TYC said in a statement.

"History shows that occupation and oppression never lasts forever and until that day comes and to hasten the arrival of that day, we will keep our fight alive."

The TYC campaigns for complete independence for Tibet, in contrast to the Dalai Lama who favours autonomy for the region under Chinese rule.

The protesters, who said they would demonstrate against Wen's visit until the premier leaves India for Pakistan on Friday, waved flags and chanted as they marched through the Indian capital.

Harsh Pant, a lecturer in the Department of Defence Studies at King's College in London, said tensions were inevitable in a relationship that will help define the balance of global power in the 21st century.

"A troubled history, coupled with the structural uncertainties engendered by their simultaneous rise, is propelling the two Asian giants into a trajectory that they might find rather difficult to navigate in the coming years," Pant said.

"India-China ties have entered choppy waters and they are likely to remain there for the foreseeable future," he added.

Wen will follow his visit with a trip to Pakistan, whose close ties with Beijing have always been viewed with suspicion by New Delhi.

http://english.aljazeera.net/news/asia/2010/12/201012154238255470.html

---

Wen Says China Plans 'Further Steps' to Boost Imports from India

December 15, 2010
Prime Minister Wen Jiabao said China was "ready to take further steps" to address a trade imbalance with India by boosting imports of Indian goods.

Speaking in New Delhi at the beginning of a three-day visit Wen said the two Asian rivals were not inevitable rivals. "It is entirely possible for our two countries to draw upon each other's strengths and move forward together," Wen told business leaders from both countries.

http://www.businessweek.com/news/2010-12-15/wen-says-china-plans-further-steps-to-boost-imports-from-india.html

---

China Working on 2011 Rare Earth Quota, Mofcom Says

December 15, 2010
China's commerce ministry and other agencies are still working to decide rare earth export quotas for 2011, pledging once more the nation will act responsibly over the supply of these minerals to other countries.

China hopes to see more global exploration efforts to increase supply, ministry spokesman Yao Jian said at a regular briefing held in Beijing today, reiterating previous remarks.

At least 90 percent of the world's rare earth minerals, used in electric cars, wind turbines and weapons, are produced in China. Government tightening of export controls, including yesterday's announcement of higher export taxes, sparked a surge in prices and highlighted global dependence on Chinese shipments.

"We expect 2011 export quotas to be similar or slightly lower, compared with this year," Peng Bo, an analyst at Guosen Securities Co., said in a telephone interview from Shenzhen.

The Ministry of Finance yesterday said China will increase export taxes on some rare earth products from next year to regulate the amount exported. The ministry didn't elaborate on the extent of the planned increases.

China has imposed export taxes on rare earths for the past four years, although World Trade Organization rules ban export taxes, the New York Times reported today. Calls made to China's commerce ministry seeking comment were not immediately answered.

The United States Energy Department will publish a detailed report today, which predicts that it could take 15 years to break U.S. dependence on Chinese supplies, the New York Times said. The U.S. should increase research and find alternative sources and develop recycling techniques, the report said.

Rare earth exports from China declined 77 percent in October from a month earlier, according to the General Administration of Customs on Nov. 23.
Japan, the largest rare-earth importer, has stepped up efforts to diversify supply sources, develop substitutes and recycle minerals from used products after shipments from China were disrupted in September.

http://www.businessweek.com/news/2010-12-15/china-working-on-2011-rare-earth-quota-mofcom-says.html

---

UN Issues 2 Million Carbon Offsets to China's HFC-23 Project

December 15, 2010
Regulators of the United Nations carbon market issued about 2 million Certified Emission Reductions to a hydrofluorocarbon-23 reduction project of Zhejiang Juhua Co. in China, according to a UN website.

The credits can be used by more than 11,000 factories and power stations in Europe to comply with emissions limits and by other nations to meet greenhouse-gas targets under the Kyoto Protocol. HFC-23 is a waste gas with almost 12,000 times more global warming potential than carbon dioxide.

The EU proposed a ban last month on credits linked to HFC- 23 and nitrous oxide from adipic acid production starting in 2013. The European Commission, the EU regulator, said projects related to those industrial gases may create “excessive” profits for investors and undermine the market’s integrity.

Representatives of EU governments are due to hold a first discussion on the proposal at a meeting today.

http://www.businessweek.com/news/2010-12-15/un-issues-2-million-carbon-offsets-to-china-s-hfc-23-project.html

---

Turkish Rate Cut Would Be ‘Risky Experiment,’ Aksoy Says

December 15, 2010
A Turkish rate cut tomorrow would be a “risky experiment” that could jeopardize the central bank’s inflation goals, according to Morgan Stanley & Co. economist Tevfik Aksoy.

The monetary policy committee meets in Ankara tomorrow following a policy proposal from Deputy Governor Erdem Basci that has “triggered an expectation of a rate cut,” Aksoy, chief economist for the Middle East, Turkey and North Africa, said in an e-mailed report today. A cut would leave the lira vulnerable to any reversal in global risk appetite, he said.

Basci said that lower interest rates, combined with an increase in the reserves banks must park at the central bank, would help curb the widening in the current-account deficit and tame a surge in consumer lending. His comments, in a report published on the bank’s website, followed other statements by the central bank that the chances of a rate cut have grown.

A cut would be unorthodox, untested policy and is unlikely to happen this month, Aksoy said. “Given the fact that the economy is still growing quite fast and the credit expansion has yet to respond to recent hikes in required reserves, we believe that easier monetary policy would be a significant risk to the inflation outlook.”

The bank has held rates unchanged for a year and the guidance Governor Durmus Yilmaz issued in October is that there’s unlikely to be a change before late in 2011. The main one-week repo rate is 7 percent.

Yields on benchmark two-year bonds have fallen about 30 basis points since Basci’s proposal was published, and there’s a chance “that market pricing could actually force policy-makers to actually undertake such an action,” Aksoy wrote.

http://www.businessweek.com/news/2010-12-15/turkish-rate-cut-would-be-risky-experiment-aksoy-says.html

---

Sudan Revives Sukuk After Global Sale Fails: Islamic Finance

December 15, 2010
Sudan is selling Islamic bonds to local banks after attempts to issue global notes this year failed on investor concern over the country's conflict in Darfur and a possible breakup after more than two decades of civil war.

The government is selling 800 million Sudanese pounds ($336 million) of seven-year sukuk this week to complete plans to raise 1.89 billion pounds, said Azhari Eltayeb Elfaki, general manager of the Sudan Financial Services Co., 99 percent-owned by the central bank, in an interview in Khartoum Dec. 13. Faisal Islamic Bank (Sudan), Sudan's oldest Shariah-compliant lender, and Financial Investment Bank are among lenders that bought 570 million pounds of a second portion this week, he said.

Sudan, which needs funds to bridge its budget gap and diversify the economy, has been classified by the U.S. as a sponsor of terrorism and been subject to economic sanctions since 1997. Sub-Saharan Africa's third-largest oil exporter is facing dissolution next month as the south, which accounts for as much as 80 percent of the nation's oil output, prepares to vote on a referendum to secede from the north.

Sudan's difficulty in selling bonds outside is "aggravated by the fact that it has high political risk associated with Darfur and its incumbent president," said Sergey Dergachev, who helps manage the equivalent of $8.5 billion in emerging-market debt at Union Investment in Frankfurt, in an e-mailed response to questions on Dec. 13. Sudan has "a very low level of transparency and it is extremely tough to get reliable and useful information to assess the macroeconomic, and the external and public debt situation," he said.

Financing Deficits

The International Criminal Court has issued arrest warrants for Sudanese President Umar al-Bashir on allegations of genocide, crimes against humanity and war crimes in Sudan's western Darfur region.

Growth in the $65.9 billion economy will accelerate to 5.5 percent this year and 6.2 percent in 2011, from 4.5 percent last year, the International Monetary Fund said in its October Regional Economic Outlook report. The government is targeting 5 percent economic growth next year, Finance Minister Ali Mahmoud Abdel Rasoul said Nov. 10 in Omdurman, a suburb of Khartoum.

The budget deficit may narrow to 3.2 percent of gross domestic product in 2011, Abdel Rasoul said. Central Bank Governor Sabir Hassan estimated in November 2009 a shortfall of 4.9 percent for this year. The government plans to fund with domestic borrowing including sales of Islamic bonds, and from external loans of 4.4 billion Sudanese pounds from such nations as China, Arab states and India, he said.

Overseas borrowings stood at $35.7 billion in 2009, with more than $30 billion in "arrears," or past due dates, the World Bank and the IMF said in a statement on Dec. 13.

Returns

The government raised 500 million Sudanese pounds from the sale of seven-year sukuk last month, Elfaki said, adding that overseas investors bought 12.5 percent of the offering. The final 800-million Sudanese-pound portion will close Dec. 20, he said. The debt is backed by the government's stake in Khartoum Refinery Co., a joint venture with China National Petroleum Corp., Elfaki said.

The notes, which comply with the religion's ban on interest, will pay a return of 14 percent annually, said Khartoum-based Osama Al-Nour Mohamed, the head of research and statistics at Sudan Financial Services. The firm is selling the debt for the government.

Calls to Faisal Islamic Bank's office in Khartoum weren't answered. Calls to the debt capital markets department at Financial Investment Bank weren't returned.

'Steer Away'

The government delayed an overseas sale of $300 million of Islamic bonds originally planned for 2008 because of "political uncertainty," Hassan said Nov. 3. Sudan isn't rated by Moody's Investors Service or Standard & Poor's, according to data compiled by Bloomberg.

"Sudan is one nation that we don't consider at all," Zeid Ayer, who helps manage $1.6 billion of Shariah-compliant assets at CIMB-Principal Islamic Asset Management Sdn. Bhd., said in a telephone interview from Kuala Lumpur Dec. 13. "It's not investment grade, it isn't rated, so its debt isn't something we'd be interested in."

Southern Sudan is set to vote Jan. 9 on whether to remain united with northern Sudan or form an independent nation. The vote is the centerpiece of a 2005 peace deal that ended a 21- year civil war between the Muslim north and the south, where Christian and traditional beliefs dominate. About 70 percent of Sudan's 44 million people are Muslim, according to the Central Intelligence Agency World Factbook.

Spread Shrinks

"The country has quite a high debt to gross domestic product ratio," Dubai-based Ahmad Alanani, head of Middle East fixed-income sales at Exotix Ltd., said in a telephone interview Dec. 13. "There's also a question about the nation's credit worthiness if secession in 2011 becomes a matter of fact."

Southern Sudanese overwhelmingly favor secession from the north, the Washington-based National Democratic Institute said in an Oct. 20 report.

Global sales of Islamic debt declined 28 percent to $14.5 billion so far this year, according to data compiled by Bloomberg.

The spread between the average yield for global sukuk and the London interbank offered rate shrank 47 basis points this month to 313 yesterday, according to the HSBC/NASDAQ Dubai US Dollar Sukuk Index. Shariah-compliant bonds returned 0.7 percent in the period, the data show. Debt in developing markets dropped less than 0.1 percent this month, JPMorgan Chase & Co.'s EMBI Global Diversified Index shows.

Referendum

The extra yield investors demand to hold Dubai's dollar sukuk rather than Malaysia's 3.928 percent Islamic note due June 2015 has narrowed 51 basis points to 339 in December, according to data compiled by Bloomberg. The yield on Dubai's 6.396 percent sukuk maturing in November 2014 rose 4 basis points today, the data show.

The U.S. eased sanctions on Sudan this year, allowing the export of farming equipment to help local food production and to boost the agriculture industry, the U.S. Office of Foreign Assets Control said in a statement Oct. 20.

Sudan has been fighting rebels in Darfur since 2003, when insurgents took up arms, accusing the government of neglecting the region. The conflict has led to the death of as many as 300,000 people and forced about 2.7 million to flee their homes, according to United Nations estimates. The Sudanese government has put the death toll at about 10,000.

If the authorities in Khartoum fail to hold a credible, peaceful referendum, the U.S. could add more sanctions on Sudan and step up international pressure, U.S. Senator John Kerry said Oct. 22. Kerry is a Massachusetts Democrat and chairman of the Senate Foreign Relations Committee.

'Everything Islamic'

Sudan relies on oil exports for most of its foreign currency earnings and reserves are estimated by the IMF at $1 billion for 2010. The country produced 490,000 barrels of oil a day in 2009, according to the BP Statistical Review of World Energy.

The government began selling Islamic bonds in 1998, and the financial industry adheres to Shariah-compliant principles, the Sudan Financial Services' Mohamed said.

"Everything is Islamic, the banking sector and everything," he said.

http://www.businessweek.com/news/2010-12-15/sudan-revives-sukuk-after-global-sale-fails-islamic-finance.html

Ghana joins ranks of oil producers
Ghana set to become Africa's seventh largest oil producer with the president promising 'benefits for all'.

15 Dec 2010
Ghana has joined the ranks of the world's oil producers, pumping crude oil for the first time from an offshore field in the Gulf of Guinea.

Ghanaian President John Atta Mills turned on the oil valves Wednesday in a ceremony that was broadcast live from a 330-metre-long floating platform located 60km off Ghana's Atlantic coast. The Jubilee oil field, discovered three years ago, holds an estimated 1.8 billion barrels of oil, and will begin producing around 55,000 barrels per day in the coming weeks.

Oil production is expected, however, to rise to about 120,000 barrels over the next six months, making the country Africa's seventh largest oil producer.

The British-based explorer Tullow Oil PLC is leading the consortium that is operating the production facilities.

The start of commercial production sees Ghana join the ranks of 16 other oil-producing African countries.

Oil 'blessing'

President Mills said that "oil will be a blessing and not curse" for Ghana, echoing widespread hopes among the 23-million-strong Ghanaian population that the country will be able to avoid the mistakes made in other resource-rich African countries.

Oil wealth in the region has often fueled conflict rather than boosted development.

The President also reiterated that the revenue from the oil "will be used for the benefit of all, and not the benefit of a few".

Ghana is already the world's second largest cocoa producer, and also ranks second on the African continent in gold exports.

The government expects Jubilee's oil and gas to help double the growth rate to as much as 12 per cent by next year, creating funds that can be used to boost infrastructure and lay the foundation for new industrial sectors.

The Gulf of Guinea increasingly represents an important source of oil, with the US estimating that it will supply over a quarter of American oil by 2015. It has already sent US military trainers to the region to help local navies to secure shipping.

Nearby Equatorial Guinea, Gabon and Congo Republic are already exporting oil from the Gulf, while Liberia and Sierra Leone remain hopeful of joining the club.

http://english.aljazeera.net/news/africa/2010/12/20101215112019131345.html

EU leaders set up debt crisis fund
European leaders agree to change EU treaty to create permanent financial safety net to fight euro zone debt crisis.

16 Dec 2010
European Union leaders have agreed to change the EU treaty to create a permanent financial safety net, a measure designed to fight the euro zone debt crisis. A two-sentence amendment to the EU's governing treaty was approved at Germany's behest to permit the creation of a European Stability Mechanism (ESM) to handle financial crises from 2013, a draft summit statement said on Thursday.

The ESM, which replaces a temporary European Financial Stability Facility (EFSF) created in May, will be empowered to grant loans on strict conditions to member states in distress, with private sector bondholders sharing the cost of any sovereign debt write-down on a case-by-case basis. The aim is to have the treaty change ratified by all 27 member states by the end of 2012.

The EU, together with the IMF, has set up a about $993bn emergency loan pool to help highly indebted euro zone states unable to finance themselves in volatile financial markets.

'Ensuring stability'

Herman Van Rompuy, the EU president, said that the heads of state "stand ready to do whatever is required to ensure the stability of the euro zone". However, he insisted that only about four percent of the bailout fund has been utilised since it was introduced in May, and that the question of expanding it "is not being posed today".

The leaders were holding their seventh summit of the year, a record number due to the debt crisis, in which Greece and Ireland have received EU/IMF bailouts and Portugal and Spain are seen by markets as potential risks.

In a separate move on Thursday, the European Central Bank, in charge of monetary policy in the 16-nation euro area, said it would almost double its capital to about $14.24bn to cope with bigger credit risk and market volatility. Euro zone members will provide the increase.

The decision by the Frankfurt-based ECB to raise its subscribed capital base was the first such increase in its 12-year lifetime, a mark of the severity of the situation.

"We infer from this that the ECB ... is seeking a greater cushion in order to offset potential losses, given that its portfolio of securities holdings has risen substantially, as well as to protect itself from potential collateral losses," Barclays Capital economists said in a research note.

The central bank has bought some $95bn in euro zone government bonds since May but has resisted political pressure to substantially step up these asset purchases to help indebted governments avoid having to seek a bailout.

'Piecemeal approach'

Dominique Strauss-Kahn, the managing director of the International Monetary Fund, who has been critical of EU leaders' disjointed response to the rolling crisis, said he was worried about slow growth and the threat of contagion in Europe.

"… I'm urging the Europeans to provide for a comprehensive solution, because this piecemeal approach obviously doesn't work," Strauss-Kahn told a Thomson Reuters Newsmaker event in Washington. "And the markets are just waiting for what's next."

Credit ratings agency Moody's highlighted investor fears about the first country to receive an EU/IMF rescue by saying it was putting Greece under review for a possible downgrade, due to uncertainty over its ability to cut debt to a sustainable level.

Strauss-Kahn said he was concerned about the length of the process Europe was going through to resolve its crisis and said the EU needed to find a "comprehensive" solution.

But he voiced optimism that Spain would be able to ward off the worst of the debt crisis without needing a rescue, and said he saw no threat to the euro's existence.

Angela Merkel, the German Chancellor, who pressed for the treaty change to assuage Germany's constitutional court, sought to keep other ideas, such as increasing the size of the EFSF or issuing euro zone bonds, off the summit agenda.

http://english.aljazeera.net/business/2010/12/2010121622575625991.html

---

Wen on charm offensive in India

Leaders of China and India set to strengthen trade and security ties in bilateral talks, despite deep differences.

16 Dec 2010

Wen Jiabao, the Chinese premier, has continued his charm offensive in India, offering support for New Delhi's bid for a greater role in the United Nations and agreeing on an ambitious target of $100bn in trade between the rising Asian powers by 2015.

Wen and Manmohan Singh, the prime minister of India, exchanged vows of amity and goodwill on Thursday. They appeared to put aside a series of differences that have long hampered relations between the two countries, ahead of brief bilateral talks in the capital.

Relations between the Asian giants are tense, despite the booming trade relationship between them. Nearly 40 years after they fought a war, there are still rifts over disputed borders. Suspicion remains high in New Delhi over China's regional ambitions and its close ties with India's arch-rival, Pakistan.

Yet Wen's visit, the first by a Chinese premier to India in five years, appears to have been carefully choreographed to improve ties.

"I believe with our joint efforts, through the visit, we'll be able to raise our friendship and co-operation to a high level in the new century," Wen declared on Thursday, standing alongside Singh at the Indian presidential palace after a formal welcome ceremony.

'Not rivals'

Arriving with more than 300 business leaders the previous day, Wen said that India and China were not rivals and there was enough room in the world for both powers to develop.

"With the joint efforts of the prime minister and I, we'll be able to reach [an] important strategic consensus during my visit and the visit will yield important outcomes," he said.

Singh responded in kind to Wen's effusive words before they went into a meeting behind closed doors.

"A strong partnership between India and China will contribute to long-term, peace, stability, prosperity and development in Asia and the world," he said.

The two leaders said they were aiming to raise bilateral trade to $100bn by 2015 from $60bn in 2001, an increase which would be driven in part by greater access for Indian firms to Chinese markets.

"The two sides agreed to take measure to promote greater Indian exports to China with a view to reduce India's trade deficit," a joint statement said.

Extensive trade

China is now India's largest trade partner and two-way trade is expected to reach $60bn in 2010/11. Trade was $13.6bn in 2004/05 and $3bn in 2001/02 - illustrating a phenomenal growth rate.

While the two are often lumped together as emerging world powers, China's GDP is four times bigger than India's and its infrastructure outshines India's dilapidated roads and ports, a factor that makes New Delhi wary of Beijing's growing might.

The joint statement outlined Beijing's support for United Nations Security Council Resolution 1267, which calls for sanctions against the Lakshar-e-Taiba armed group that New Delhi blames for the 2008 attacks in Mumbai.

India fears China may oppose its bid for a permanent UN Security Council seat, so as to restrict its global reach.

China, however, reiterated its support for India's aspirations to play a greater role in the Security Council, though it stopped short of expressing full backing for India.

Beijing's overtures toward New Delhi come just a little over a month after a trip to India by Barack Obama, the US president. During his visit, he endorsed India’s long-held demand for a permanent seat.

http://english.aljazeera.net/news/asia/2010/12/2010121685931732540.html

---

China PM to bolster Pakistan ties

Visit aimed at reassuring Islamabad that relations remain tight despite Beijing's warming relations with New Delhi.

17 Dec 2010

The Chinese premier has arrived in Pakistan on a visit aiming at reassuring the country that energy, military and economic ties remain tight, despite China's warming relations with India, Pakistan's rival.

Yousuf Raza Gilani, Pakistan's prime minister, and other members of the government received Wen Jiabao and his delegation at Chaklala Air Base in Rawalpindi on Friday.

The Chinese leader arrived after a three-day visit to India, and is expected to sign off on trade deals officials estimated at between $10bn and $14bn with Pakistan, and was likely to pledge Chinese help to develop a strategic port.

Ties between nuclear-armed rivals India and Pakistan remain tense over a host of issues, and China's ties with Pakistan irk India.

Yet while China is India's largest trade partner, it invests seven times more in Pakistan and is helping it build nuclear reactors, despite grave misgivings in the West.

China wants to use Pakistan as a gateway to the Muslim world and as a new "Silk Road" for China's energy-hungry interior, as well as a balance against India's military rise.

Pakistan, in turn, plans to further rely on China for the bulk of its weapon systems, as a major investor for its ports and roads, and as a counter-weight to American demands and conditions in the fight against "Islamist" militancy.

During his New Delhi visit, Wen used more than $16bn in trade deals and promises of political support to charm India into temporarily setting aside disputes with China.

Reassuring Pakistan

He will want to assure Pakistan that China's improving ties with India do not come at Pakistan's expense. "China still looks at Pakistan and India through the same lens," Hamayoun Khan, an independent analyst and former China-Pakistan expert at the Institute of Strategic Studies said.

"Whereas the US considers Pakistan as part of Af-Pak and India as a separate country, which is not taken well in Pakistan."

According to a Pew survey of Pakistan public opinion last year, 84 per cent of respondents said they had a favourable view of China, while 16 per cent had a favourable view of the US.

Pakistani diplomats like to refer to China as an "all-weather friend", whose needs - strategic and economic - fit in with what Pakistan wants and has to offer.

"It's a question of where each country finds itself and gets the most out of the other," Talat Masood, an independent defence analyst, said.

China has already invested $200m in Pakistan's deep-water Gwadar port, on the Arabian Sea coast.

Singapore's state-owned PSA International Ltd. was given a 40-year contract to run the port, but Pakistan is contesting that in court, and wants more Chinese involvement, officials said.

The port will help Pakistan, struggling to revive its debt-laden economy, to become a conduit for trade to landlocked Afghanistan and Central Asia. It would also enable China to ship oil from the Gulf to its interior more directly.

http://english.aljazeera.net/news/asia/2010/12/2010121742023487595.html

---

EU leaders agree on rescue fund

Bloc says it must do "whatever is required" to protect the shared euro currency following two-day summit in Brussels.

17 Dec 2010

European Union leaders have agreed to set up a permanent bail-out fund for eurozone members by 2013, as the region's economic woes gather pace.

Members of the 27-nation bloc agreed to do "whatever is required" to defend the shared euro currency as they met for a two-day summit in Brussels, the Belgian capital.

"The European Union is not only an economic union and a trade bloc, but also an important geopolitical partner," Herman Van Rompuy, the EU president said.

"We are clearly moving in the right direction."

Angela Merkel, the German chancellor said the EU "will finalise the details of this crisis mechanism by March and, naturally, it must have sufficient" resources to face future debt shocks.

She and Nicolas Sarkozy, the French president, have said they will present new proposals to reduce differences among the economies that use the euro, with some nations facing high debts.

"We have to tackle the competitiveness gaps within the 16 eurozone nations," Sarkozy said on Friday as the meeting came to a close.

Paul Brennan, Al Jazeera's reporter in Brussels, said the overall message of the meeting appeared to be "that Europe is united in protecting the euro". But he added that behind closed doors, each country appeared to have its own idea on how to do that.

'Summit vague'

Jonathan Loynes, chief European economist at Capital Economics said the summit was unlikely to ease pressures in peripheral bond markets, saying van Rompuy's speech was "typically vague and short on detail".

The meeting came as credit rating agency Moody's downgraded Ireland's credit rating by five notches and Spain's debt reached its highest point since 1996, according to its central bank.

There are growing concerns in Portugal where borrowing costs have also soared.

Meanwhile leaders at the meeting hailed progress with their strategic international partners, such as the United States, China and India.

EU leaders also decided to grant membership candidate status to Montenegro and praised global moves to combat climate change at a conference in Cancun, Mexico, earlier this month.

http://english.aljazeera.net/news/europe/2010/12/20101217122443479878.html

---

China, Pakistan sign for billions

With 13 economic agreements already signed, the two nations ink billions more in deals during Chinese PM's visit.

18 Dec 2010

China and Pakistan have signed nearly $20bn in economic deals, boosting trade and investment as Wen Jiabao became the first Chinese premier in five years to visit the nuclear-armed state.

Business leaders formalised another $10bn worth of deals on Saturday at Islamabad's Marriott Hotel, where a devastating suicide truck bomb killed 60 people in 2008.

Pakistan, on the front line of the US battle with al-Qaeda and struggling with Taliban fighters in its northwest, considers China its closest foreign ally and treated Wen and a massive business delegation to a red-carpet welcome upon his arrival on Friday.

Qamar Zaman Kaira, Pakistan's information minister, said the countries signed 13 agreements and memorandums of understanding on Friday in fields ranging from energy to railways, from reconstruction to agriculture and culture.

Kaira said China had promised to fund "all the energy projects of Pakistan," which he termed a "major breakthrough". Pakistan suffers from a debilitating energy crisis and produces only 80 per cent of the electricity it needs.

"China will provide assistance in 36 projects in Pakistan to be completed in five years," he said. "Basically this is a five-year development plan."

Nuclear co-operation

Although not specifically mentioned, behind-the-scenes talks are also expected on China building a one-gigawatt nuclear power plant as part of Pakistani plans to produce 8,000 megawatts of electricity by 2025 to make up its energy shortfall.

Tariq Pirzada, a strategic affairs analyst, told Al Jazeera that this relationship had a two-fold purpose and served the interest of both Islamabad and Beijing.

"Today, in a show of massive strategic and military support, a Chinese leader is visiting a Pakistani military base - something that has not happened too often," Pirzada said.

"With some $20bn worth of investment, China is sending a strong message to New Delhi and Washington."

Wen is expected to inaugurate a cultural centre built as a monument to Pakistani-Chinese friendship, and is scheduled to hold talks with the country's opposition leader Nawaz Sharif and senior figures in the military, which depends on China for hardware.

After the business leaders' meeting, Asif Ali Zardari, the Pakistani president, is to host a state banquet, before Wen addresses a special joint session of parliament early on Sunday.

"The outcome of the visit is beyond our expectations. It is an historic day," Masood Khan, Pakistan's ambassador to Beijing, said.

Pakistan depends on China's financial and political clout to offset the perceived threat from rival India and rescue its economy from the doldrums of catastrophic flooding, a severe energy crisis and poor foreign investment.

Pakistan's prime minister has expressed hope that trade will rise to between $15bn and $18bn over the next five years.

China, meanwhile, has been concerned about the threat of fighters infiltrating its territory from Pakistan.

Before arriving in Islamabad, Wen visited India, where he and his 400-strong delegation inked deals that will see bilateral trade double to $100bn a year by 2015.

http://english.aljazeera.net/news/asia/2010/12/20101218546191649l8.html

---

Qatar Airways may order more A380 superjumbos

December 18th, 2010
Qatar Airways board is discussing the possibility of ordering more A380 Airbus superjumbo planes, the airlines chief executive Akbar al-Baker told Al Jazeera.

The airline has five 555-seat double-decker planes on order and expects to order more, al-Baker said. He would not say how many the airline would order except that he was willing to consider Rolls Royce engines despite a recent blowout on a Qantas A380 jet.

Al-Baker was opening the new temporary arrivals terminal at Doha International airport on Saturday. Qatar Airways, which hopes to carry 16 million passengers in the financial year ending March, is one of the world's fasting growing airlines and has planes worth about $35bn on order. Each A380 has a listed price of $346m, according to Airbus.

Qatar Airways is on track to make its second consecutive year of profits and if the airline made a net profit in the third year, it would sell shares for the first time to the public as it seeks a stock market listing, al-Baker said.

We will have an extended version of al-Baker's interview, including his thoughts on Boeing's 787, Virgin's possible sale, criticism from European carriers, and Qatar Airways' expansion as well as the reason behind the need for a new terminal that could be in use for as little as one year.

http://blogs.aljazeera.net/middle-east/2010/12/18/qatar-airways-may-order-more-a380-superjumbos

---

ARTICLES/COMMENTARIES

Islamic Finance in Russia – Developments in 2010
By: Rustam Vakhitov Head of International Tax Service Group Pepeliaev Group

14 December 2010
It has been a year since the first conference on Islamic finance in December 2009. Over the year there have been quite a number of significant events taking place, all of which will influence the development of Islamic finance in Russia. Among these, the major milestones are the establishment of the Russian Association of Experts in Islamic Finance; the first Halal Expo Exhibition; publication of an authorized translation of the Accounting and Auditing Organization for Islamic Financial Institutions' Standards of Islamic Finance Transactions; and the first Islamic finance deals on the Russian market.

As part of the wider growth process of specialists focusing on Islamic finance, the Association of Experts of Islamic Finance was established in early 2010. At present it has 76 members and 11 candidates from seven Russian regions. To become a member, candidates should demonstrate an adequate level of knowledge and obtain recommendations from two existing members of the association.

The first Halal Expo Exhibition took place in June 2010. This was a three-day event, which gathered more than 60 producers of halal goods and services from 10 countries. Companies demonstrated the advantages of their products to the several thousand visitors that attended. The event was supplemented with a seminar on Islamic finance that attracted the participation of representatives of one of the largest Islamic banks Al-Baraka and of the Malaysian Central Bank.

The first publication in Russian of the authorized Accounting and Auditing Organization for Islamic Financial Institutions, or Aaoifi, standards was one of the year’s important events. Assisted by Pepeliaev Group, the Russia Council of Mufties in association with the RAEIF translated and published such standards as “murabaha” (sale on credit), “sukuk” (securitization) and “takaful” (Islamic insurance).

The presentation of these published standards took place in Moscow in October 2010, with the participation of Aaoifi head Dr. Mohamad Nedal Alchaar.

One of the most important developments was investment by a Malaysian fund in facilities related to production and distribution of halal foodstuffs in Tatarstan.

Despite numerous complaints with respect to the tax and legal obstacles to implementing Islamic finance in Russia, it was possible to find adequate solutions for investment that were compliant with both Russian legislation and sharia principles. Russian lawyers, in cooperation with Malaysian colleagues, provided all the necessary support in respect of services required for this investment.

2010 saw issues of several sukuks in Europe, in particular in the field of aviation, i.e. the leasing of aircraft. Although transactions did not involve Russian companies, there are no major obstacles to conducting similar financing projects in Russia. We expect the first Russian sukuk to be issued in 2011, as the market is recovering and Russia appears to be attracting the interest of foreign investors, also from the Middle East and North Africa.

At present, the Russian legal and tax environment is able to accommodate most of the classical Islamic finance transactions, and there is growing number of experts who know the field, and so executing Islamic finance projects in Russia is rather more a matter of selecting the appropriate investment projects than issues relating to tax and legal support surrounding implementation. For the latter, there are appropriate solutions under existing laws.

http://www.themoscowtimes.com/business/business_for_business/article/islamic-finance-in-russia--developments-in-2010/426233.html

Bridging the Gap of Islamic Finance in Russia and the CIS
By: Alain-Amine Raad Acting Head of VTB Capital Dubai

14 December 2010
The first experience of Islamic finance in modern times formally started in the 1960s. This relatively young industry has emerged as one of the world's fastest growing in the financial services sector, not surprisingly driven by the high energy prices and the expansion of the banking sector in the Middle East and Southeast Asia.

However small from a global perspective, with an estimated $1 trillion of assets and expected to reach $2.5 trillion by 2015, according to the Islamic Financial Services Board, sharia-compliant banking has become a financial force that net importers of capital, countries and companies alike, need to recognize and accommodate.

From a macro point of view, Islamic banks and asset managers have not yet managed to embark on a large diversification of their portfolio: Despite tremendous growth it remains a largely concentrated industry in terms of geography, underlying assets and players.

- In the debt capital markets, issuers from the Gulf Cooperation Council and Malaysia still dominate the sukuk market;
- In asset management, with average assets under management below the traditional $100 million mark, Islamic funds are too fragmented and their product offering has been focused on either replicating conventional funds or, for the large part, on a single asset class, mainly real estate.
-

Few Islamic players have been in tune with the new world economic needs and trends such as agriculture, commodities and infrastructure, or have focused their investment in the emerging markets or BRIC countries.

Interestingly enough, the lack of diversification can be attributed to two external factors:

- Absence of favorable legal and regulatory framework for the development of sharia-compliant financial transactions; and
- Lack of awareness among Islamic investors with respect to opportunities beyond their traditional areas of focus.

Although positive changes have recently been witnessed in some countries, such as in the United Kingdom with its Finance Acts of 2003, 2005 and 2007, putting Islamic products and investors on equal tax and legal footing with their conventional counterparts, sharia-based investors' best option remains to partner with and rely on the expertise of a strong local financial institution that can originate and identify viable investment ideas, understand local legal, tax and regulatory regimes and thereby assist in the structuring of Islamic finance-compliant transactions.

In conclusion, given the economic similarities, the development of Islamic finance in Russia is a matter of bridging the gap between the regions. Ample natural resource reserves and significant need for infrastructure development in Russia and the CIS could, for instance, be an ideal situation for potential equity and financing partners, for structuring sharia-compliant transactions and for allowing local companies to diversify their funding base.

http://www.themoscowtimes.com/business/business_for_business/article/bridging-the-gap-of-islamic-finance-in-russia-and-the-cis/426232.html

---

2010 in Review

The pall of Lehman Brothers' collapse in 2008 is still settling over many Western economies and its citizens. Yet things aren't all dreary. We've tried to take the contradictions of 2010 and show how stories link up, sometimes in unexpected ways

By: Josh Tyrangiel

December 16, 2010

"Dull year for the industry."

There you have it, the most interesting sentence in the American Federation of Labor's roundup of 1910. Even those who fetishize stability would concede that it's a death march of a volume, a 420-page trade-by-trade chronicle of a year in which little seems to have happened. At least the authors of the five-word summary above—members of the AFL's knife-sharpening union—could say they spent 1910 crafting a decent pun.

A century later the idea of a dull work-year is quaint verging on incomprehensible. Global trade connects the fate of every industry and laborer, no matter how small or seemingly self-sufficient, to the decisions of bureaucrats in China, shipbuilders in Korea, and bankers everywhere. It's hard to have a quiet year in the shop when the shop has no borders. Even the structure of a year seems enlarged and more complex. The depth of our interconnectedness, the constancy of media, means that themes and moods tend to hang around past their season. By the admittedly squishy metrics of pessimism and disruption, 2010 feels as if it started a long time ago.

Maybe that's because we're still breathing the fumes of 2008. Lehman Brothers' collapse 27 months ago brought on more than just a teetering economy: It created a cloud that has settled over most Western economies and, in 2010, wrought a kind of seasonal affective disorder on their citizens. In a Bloomberg poll conducted in October, two out of three likely voters in the Nov. 2 midterms said that taxes had gone up, the economy had shrunk, and the billions lent to banks as part of the Troubled Asset Relief Program would never be recovered. A September poll showed that 77 percent of global investors expected the European monetary union would crumble and at least one struggling government would default, all despite a $1 trillion euro zone backstop.

What's revealing about these responses is the chasm between feelings and facts. Congress and the Obama Administration have cut taxes by $240 billion since 2009. Growth continued without interruption in 2010 in the U.S. and most major economies. The Treasury expects to turn a $16 billion profit on the TARP rescue. Greece and Ireland may have stared into the white light of fiscal death, but they were yanked back to earth by their neighbors and are now trying to rehabilitate (with wounded fury, but—so far at least—without default). By the end of the third quarter, U.S. nonfinancial corporations were sitting on a record $436 billion in cash. Through Dec. 14, the Standard & Poor's 500-stock index was up 11 percent for the year. And Wall Street was racking up its fourth-largest profit ever, a projected $19 billion for the year, according to the New York State Comptroller's office.

So if things aren't nearly as bad as they seem, why do they seem so bad? Jobs and houses have a lot to do with it. In the U.S., 17 percent of the workforce either couldn't find employment or was surviving on part-time jobs. Their collective frustration and scrimping are contagious. Despite interest rates so low they would shock previous generations, the housing market has all the bustle of a Pompeii bazaar; there were 202,000 new homes on the market at the end of October, the fewest since June 1968. Mix in an unrelenting foreclosure crisis, in which the centuries-old concept of title was thrown into doubt by faulty record-keeping, and it's easy to understand why so many people feel like they've lost a degree of control over their lives: because they have.

The notion that trusted institutions can restore our sense of security is as worn as that 1910 yearbook. Governments can't stop leaks— of oil or information—let alone regulate behavior. Passage of the Dodd-Frank Act in July may have constrained investment banks by putting limits on proprietary trading, but as Michael Lewis wrote in this magazine, "What's really striking is how little ability the outside world retains to find out what is going on inside these places—even after we have learned that what we don't know about them can kill us." The Tea Party, which resists meaning as ferociously as it resists Ben Bernanke, makes sense when seen as an exercise in fist-shaking. Two years after hope and change, it fumed at economic abstractions such as quantitative easing and bending the curve and asked a simple question: Why can't we have our country back?

Here's the thing: That America has been gone for years. Cheap labor and plentiful resources combined with ease of travel and communication have given emerging markets more than just a place at the table. In 2010, the U.S. added 937,000 jobs; Foxconn, the Taiwan-based maker of nearly every consumer electronic product you wanted this year, added 300,000. Fueled by gold, copper and coal, the most robust currency of the year against the dollar was the Mongolian tugrik. In India, competition for deals has become so intense that billionaire Ravi Ruia is branching out to Africa—buying coal mines in Mozambique and a Kenyan oil refinery. Competition is one of the pleasures of business and one of the foundations of America. That right hasn't been rescinded—it's been extended to people around the world. In a way, we've won. Now the game starts again.

Capitalism lives off of change. The new challenge is to shake off the trauma of a decade that started with the ultimate loss of control and get to work on winning the new century. There's a lesson to be found in the two most-talked-about companies of the year. On May 26, Apple (AAPL) blew past Microsoft (MSFT) to become the second-most-valuable company in the world (it's currently No. 3) largely by selling beautiful devices that let you control a universe with a swipe. Google (GOOG), which began the decade offering a pathway to infinity, now fights to keep its employees from defecting to Facebook, which chops infinity into an endless series of cul-de-sacs. Apple and Facebook figured out something about the consumer psyche—then they innovated to fill the need with astonishing results.

Our yearend issue takes some inspiration from that approach. We've tried to take all the contradictions and complexity of 2010 and make sense of them. Grouping the year into chapters—Normal, Jobs, Spills, Stuck, Currency, and Gaga—our writers, editors, photographers, art directors, and graphic whizzes collaborated to show all the ways in which diverse stories link up, sometimes in linear fashion, sometimes with unexpected leaps such as the price of gasoline, measured in bacon. We think it's unlike any previous issue of *Bloomberg Businessweek*. One thing's certain: It ain't dull.

Josh Tyrangiel is editor of Bloomberg Businessweek and an executive editor of Bloomberg News.

http://www.businessweek.com/magazine/content/10_52/b4209009504184.htm

---

China and India's Growing Energy Rivalry

Competition for oil and gas resources will be the most likely cause of serious tension between the two Asian giants in the years ahead, say columnists John Lee and Charles Cull

By John Lee and Charles Cull

December 16, 2010

According to China's Foreign Ministry, there is nothing off the table for Premier Wen Jiabao on his three-day visit to India, which began on Wednesday, Dec. 15. Premier Wen's dialogue with Prime Minister Manmohan Singh will address obstacles blocking a future China-India free-trade agreement in addition to the simmering dispute over the 90,000-square-kilometer territory of Arunachal Pradesh, which is currently under Indian control and claimed by China. These are important issues hindering better relations between the world's two most populous countries.

Conspicuously left out of the dialogue is frank discussion about managing future energy security. This is a significant omission since energy competition will be the most likely cause of serious tension and possibly even war between the two emerging Asian giants.

To be sure, nations have long competed for finite energy and other resources. But Asia has not seen a powerful China and India since the 1600s. Their rapid modernization over the past three decades means energy competition is occurring on an unprecedented scale.

SOARING DEMAND

The numbers behind China and India's seemingly insatiable thirst for energy are mind-boggling. For example, Chinese demand for petroleum reached 8.6 million barrels per day in 2010, and is projected to jump to around 14.2 billion barrels in 2030. Although China has massively increased its refining capacity to meet most of its current and projected needs, the estimate is that China will still need to import 11.7 million barrels of crude oil in 2030, up from 4.8 million barrels currently. This means 70 percent to 80 percent of China's crude oil needs will be from imports.

The numbers for India are smaller but still overwhelming. India consumes 3 million barrels per day, two-thirds of them imported. According to the International Energy Agency analysis of projected trends, India will eventually be importing around 7.4 million barrels per day, roughly 90 percent of its future petroleum needs. Indeed, even accounting for increased reliance on other energy sources such as coal and natural gas, China and India will collectively account for 50 percent to 65 percent of the growth in demand for petroleum over the next two decades.

These huge rises in demand for petroleum and other resources do not in themselves presage rising tensions between China and India. It is arguable that it is in the interests of both countries to enhance their collective leverage over energy suppliers such as Russia, Saudi Arabia, and Australia in an attempt to be a price-maker rather than taker. Yet, the evidence is that competition rather than harmony is increasingly driving the energy security policies of both countries, and that an energy-driven rivalry between China and India will intensify rather than abate. There are two major reasons this is the case.

"ME-FIRST" POLICY

First, the legitimacy of the Chinese Communist Party depends on the continuation of rapid economic growth. China's state-led development model relies heavily on fixed investment to produce growth—an approach that is extremely energy-dependent. Since the regime sees securing necessary energy resources as a matter of survival, China's energy strategy is increasingly based on owning and controlling foreign petroleum resources in places such as the Middle East and Africa.

Based on the prevailing view that global energy markets and open access can be manipulated and restricted by American-led efforts, China views its "me-first" mindset toward secure energy resources as prudent. Rather than rely on strengthening an international system of open access based on market prices to secure its energy, Beijing gives its state-owned national oil companies (NOCs) what it needs (in the form of cheap loans and other support) to directly source resources for China's exclusive use. Chinese NOCs have 200 energy projects in more than 50 countries worth some $50 billion.

This perceived mercantilist approach to energy is in turn leading New Delhi to use its own state-owned NOCs to secure India exclusive access to foreign energy supplies. For example, Indian NOCs such as ONGC Videsh (ONGC:IN) have been making large investments in countries such as Sudan, Angola, and Russia. Although India does not exhibit the same paranoia about the dangers of relying on the international commodities market like China, New Delhi is nevertheless increasingly copying the Chinese me-first approach for fear that China will undermine India's future access.

The trend toward using state-owned NOCs to secure exclusive access creates a further problem. Given the intimacy between NOCs and their respective governments, commercial competition and disputes between Chinese and Indian NOCs have the potential to take on a serious political flavor. In 2005, ONGC Videsh bid against the state-owned China National Petroleum Corp. (PTR) to acquire major assets of a London-based company, PetroKazakhstan. In 2006, ONGC lost out again to another Chinese state-owned company, Sinopec (SNP), for a Nigerian oil field. The competition translated into political tension at the highest levels before a diplomatic agreement between New Delhi and Beijing on bidding protocols was reached. The point is that the trend toward a nationalistic approach to energy security is likely to significantly harm political relations between the two countries.

SHIPPING SECURITY

Second, 70 percent to 80 percent of oil imports into China and India will probably originate from the Persian Gulf by 2030. For China, this means oil tankers will have to leave the Gulf, then pass through the Indian Ocean and up through the Malacca Straits toward ports such as Qianwan in Shandong province. Given the long-standing vulnerability to potential American-led efforts at what some Chinese see as a policy of "energy strangulation," China has grown increasingly intolerant and critical of India's ongoing plans to extend its presence in key shipping routes along the Indian Ocean. Beijing has already termed the Indian Ocean as "critical" to its core interests. Although Beijing does not yet have the capability to deploy significant naval forces in the Indian Ocean, the already serious naval rivalry between Beijing and New Delhi is driven by energy security concerns.

Worryingly, resolving energy insecurities between these two Asian giants is a long way away. China needs to trust an open international market for energy resources and the region needs to trust China. Neither of these things will happen soon—even more reason the issue should be on the table in New Delhi this week.

Dr. John Lee is a foreign policy fellow at the Center for Independent Studies in Sydney and a visiting fellow at the Hudson Institute in Washington. Charles Cull is a research assistant at the Center for Independent Studies in Sydney.

http://www.businessweek.com/globalbiz/content/dec2010/gb20101215_795065.htm