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Russia's Central Bank concerned about price tsunami

09 Dec 2010
Sergey Ignatyev, the head of the Russian Central Bank, did not exclude a possibility to raise the official bank rate next year to curb inflation. Ignatyev forecast the growth of crediting and the economy in 2011 by 20 and 5 percent respectively. In November, the board of directors of the Central Bank (CB) decided to preserve the level of the official bank rate and interest rates on CB operations. The official bank rate was preserved on the level of 7.75 percent per annum on June 1, 2010.

To curb inflation, the CB will use interest rates and reserve requirements. The latter should work in case of the influx of credit assets from abroad, since CB's interest rates are incapable of affecting the rates of the banks that attract funds from other countries.

January is a traditional month of high inflation in Russia. The driving force here is raising the tariffs of monopolies. The New Year will see the consequences of poor harvesting in the world that spurred food inflation. Some experts believe that Russia will have to face the price tsunami next year for the first time in 3-5 months.

According to experts' estimates, the price growth in December will make up 1.0 percent, whereas year-end inflation is not likely to drop below last year's 8.8 percent. The price tsunami is expected during the upcoming months, though. The head of the Central Bank also said that Russia's balance of payment was still positive, which supported the ruble rate. Oil prices have been growing steadily recently; some analysts say that it may soon hit the forgotten $100 per barrel.

In November, Russian banks increased their credit volumes provided to corporate borrowers and the population by 1.4 and 1.7 percent respectively. Past-due payment on the credit portfolio in November decreased by approximately one percent.

Russian economic experts say, though, that misbalance in the Russian banking system has been growing. The index of banking system misbalance reached the level of 1.08, which is the highest point since the crisis in October 2008, when it was registered on the level of 1.14. To calculate the index, they consolidate balance of accounts on interbank credits in all credit organizations. The result is then corrected to the amount of transfers inside groups of banks and correlated with the total value of liabilities of the banking system.

The growth of the system risk entails the growth of rates of the financial market. If the Central Bank raises its rates, the growth of the volumes of crediting will be complicated except for the sector of consuming credits and the aspiration of the state to run into debts.

Pravda.Ru
http://english.pravda.ru/business/finance/09-12-2010/116127-central_bank-0/

France to revise current global monetary system

15 Dec 2010

While serving as the chairman country of the G20, France wants to revise the current global monetary system and encourage countries to diversify the portfolio of reserve currencies, said Christine Lagarde, Minister of Economic Affairs, Finances and Industry of France. The control over financial flows in the process of diversification should be granted to the International Monetary Fund.

According to Reuters, Lagarde believes that the world powers should abandon the outdated ideas of forty years ago and stop treating the dollar as the major reserve currency. A balanced portfolio of reserve currencies, by contrast, would reduce the imbalance and help restore the countries' economy, said Lagarde.

According to Lagarde the IMF should control financial flows because, in her words, unilateral actions are fraught with risks. However, so far countries are doing it on their own.

In particular, the Ukrainian government has recently announced its intention to expand the country's foreign exchange reserves adding the Russian ruble. The Russian ruble is a part of the currency reserves of Belarus which is Russia's active trade partner. At the same time, Russia's currency basket consists only of the euro and the dollar.

Lagarde's idea is neither new nor revolutionary. Expansion and diversification of the currency portfolio is quite a standard measure, especially in the context of growing uncertainty about the global financial system. If one currency gets more expensive or cheaper, then it affects other currencies as well. Thus, opening up positions in other currencies may theoretically protect from substantial losses.

At the same time, the cross-exchange quotations, that is, assessing the market value of two currencies in relation to each other through their direct quotations against the dollar should be abandoned. However, it will naturally retain its relevance as a tool for analysis. But then the question arises: how many pieces of paper issued by a bank in one country will be sufficient to buy the goods offered by another country? This is the traditional question of value, which should be reduced to something understandable and clearly estimated by the participants of the transaction.

It may be gold, which, incidentally, was stated by head of the IMF, Robert Zoellick. This structure, according to French Minister of Finances should play an important regulatory role. Textbooks are considering gold as an old form of money, but markets still use the metal as an alternative monetary asset, Zoellick wrote, offering to give gold a special role in the new financial system. Creation of a new monetary architecture will not be fast, but this work must be commenced now, he said.

In his article in *The Financial Times* Zoellick proposes to create a five currencies system, which will include U.S. Dollar, Euro, Yen, Pound and Yuan, and tie them to gold as the new international standard. Thus, Zoellick rejects the dollar reserve status, but offers to take away its status of the measure of value.

Meanwhile, the Euro, the Yen, the Dollar and the Yuan are already fighting a currency war. The most serious fights for the devaluation are led by the Dollar and Euro. U.S. uses quantitative easing. The fact that the Dollar will strengthen in the coming year will be declared by a number of analysts, including particularly informed Goldman Sachs Group Inc, the ex-members of which now drive the Federal Reserve. The currency of the EU is pressured by the debt issues of some countries of the Union - this information weapon is successfully used to reduce the market value of the Euro.

Expanding portfolio of reserve currencies looks like a way to allocate risk precisely in terms of currency wars. The Kremlin has expressed support for the development of multi-currency basket.

"Time will tell how valid our predictions are, however, it seems to me that the future belongs to the global financial system over the use of different reserve currencies and the creation of a multi-currency portfolio. Three or five years ago, any negotiations on this subject seemed a fantasy beyond reality. However, an important milestone has been reached, and we are seriously discussing this issue at the global level, with numerous countries, including our American partners who, perhaps, is the least interested party in the emergence of other reserve currencies in place of dollar," stated in June Russian President Dmitry Medvedev.

Pravda.Ru
http://english.pravda.ru/business/finance/15-12-2010/116210-france_monetary_system-0/

Russia to retrieve control over uranium

16 Dec 2010
Russia and Mongolia signed an agreement establishing a joint venture for uranium mining "Dornod Uranium." The reserves of the fields are estimated at 22 thousand tons. The controlling stake in the future joint venture will be owned by the Mongolian side, and a subsidiary "Atomredmedzoloto" of Argun Mining and Chemical Association will act as the operator of the project.

The Russian government agreed on the development of joint projects with the Mongolian side last year. OAO Russian Railways (RZD) has become the managing company of the Ulan Bator railway with 50% of shares. It was a joint venture between OAO Russian Railways, and two Mongolian state companies - Erdenet IPF and MIZ - to improve rail infrastructure.

At the recent meeting of Prime Ministers of Russia and Mongolia, the parties have agreed to increase the authorized capital of Russian-Mongolian joint-stock company Ulaanbaatar Railway by $250 million in equal shares. VTB is also able to provide a loan for the purchase of Russian locomotives.

"Aeroflot has agreed with the Mongolian airline MIAT on joint operation of airlines. MIAT has suspended flights of its aircrafts on the route Moscow - Ulan Bator - Moscow, and the Russian company will increase flight frequency from three to five times a week."

Russia has been trying to get back to Mongolian uranium mines since 2007. In 2009, the country voiced its intention to establish a joint venture to develop uranium deposits launched by Soviet specialists. In particular, Russia was interested in Dornod deposit. However, the development license belonged to the Central Asian Uranium Company (TSAUK), and the company was monitored by the Canadian company Khan Resources (58% of shares).

In May, Rosatom chief Sergei Kiriyenko said that the Government of Mongolia in the near future may decide to establish a joint venture with Russia to develop a uranium deposit. "The constituent documents of the joint venture have been already submitted to the Mongolian side. Just recently we met with the secretary of the Security Council of Mongolia. He confirmed to us that in the near future, the Government of Mongolia will make a final decision on this deposit [...] actually on the establishment of our joint venture," said head of Rosatom Kiriyenko.

There have been other signs of the Russian-Mongolian rapprochement. In July, President of Mongolia Tsakhiagiin Elbegdorj lowered to the bottom of Lake Baikal in bathyscaph "Mir".

Last fall the joint tactical exercises "Darkhan-3" of the units of Russian and Mongolian armies were held in Buryatia. One thousand military personnel and up to 200 units of military equipment of the armed forces of Russia and Mongolia participated in the training.

At the same time, the Russian company announced an offer to purchase the shares of Khan Resources, but the Chinese from CNNC have won the bid by offering higher price. Canadians regarded the Russian proposal as a hostile takeover, but they were satisfied with the price offered by the Chinese.

Yet, Ulan Bator with whom the Canadians have not coordinated their actions did not want the Chinese. On these grounds, TSAUK had its license revoked, and the Mongols will be developing the uranium deposit with Russian companies. According to the assessment of Kiriyenko, at the first stage of the project the investment will amount to $300 million.

Incidentally, this year ARMZ made an agreement with another Canadian company, Uranium One, regarding the purchase of its assets in Kazakhstan, Australia and the USA. The transaction is expected to close by the end of the year. In turn, Russia is ready to write off 97.8% of the Mongolian debt, which is $172 million, and issue a new loan of $125 million. "We have agreed to cancel the debt at 97.8%, the remaining 3.8 million dollars will be repaid as a lump sum. This will open a new page in our credit and financial relations," RIA Novosti quoted Kudrin.

Also, Russia will give Mongolia 375 million rubles for the vaccination of livestock to increase the import of meat and milk to the Russian market, said Prime Minister Putin.

Pravda.Ru

http://english.pravda.ru/business/finance/16-12-2010/116233-russia_uranium-0/

Cote d'Ivoire faces EU sanctions

French president threatens international sanctions if incumbent Laurent Gbagbo does not surrender power by weekend.

17 Dec 2010

Nicolas Sarkozy, France's president, has said Cote d'Ivoire's Laurent Gbagbo must surrender his presidential post by the end of the week or face international sanctions. Sarkozy denounced Gbagbo's stand as scandalous on Friday at a news conference at the end of a European Union summit.

"There is no other option for Mr. Gbagbo but to rapidly leave a position of power that he is usurping," said Sarkozy.

"Laurent Gbagbo and his wife have their fate in their hands. If Laurent Gbagbo has not quit before the end of the week, the post he holds in violation of the will of the Ivorian people, they will be put on the sanctions list by name."

Incumbent president Gbagbo is locked in a power struggle with rival Alassane Ouattara as both claim victory in a November 28 election that was meant to reunite the world's top cocoa grower after a 2002-03 civil war but has instead deepened divisions.

Ouattara, a former prime minister, is widely recognized abroad as having won the election legitimately.

Sarkozy slammed Gbagbo's stand and suggested he could even end up being pursued by the International Criminal Court.

"It's up to Mr. Gbagbo to decide the image he wants to leave leave in history. Does he want to leave the image of a man of peace? There's still time but time is passing and he must go," said Sarkozy.

"Or does he want to leave the image of someone who allowed totally innocent civilians to be shot? In that case, there are international jurisdictions such as the (International) Criminal Court where the prosecutor himself says he is watching the situation very closely and that those who ordered the firing will be called to account."

Threats nothing new

Sarkozy had waited last week for the United Nations to publicly back Ouattara before publicly stating a similar line. But Al Jazeera's Ama Boateng, reporting from Abidjan, said that Gbagbo has "heard these threats before."

"We've heard them from the African Union, we've heard them from the United Nations, we've heard them from pretty much every international voice," said Boateng. "And so far, that has had very, very little effect."

Our correspondent also reported that Jean Ping, the African Union commission chair, is in Abidjan, meeting with Gbagbo, Ouattara and other diplomats in an attempt to make some progress in the deadlock. But there's little reason for optimism at this point.

"After all, the African Union sent somebody else, former South African President Thabo Mbeki here, and he left after two days with little success."

Boateng said Ouattara's supporters have vowed to march out on Friday night and take control of the state broadcaster's headquarters, replacing its current chief.

A failed attempt on Thursday to do the same thing left at least 30 people dead.

http://english.aljazeera.net/news/europe/2010/12/20101217132946733321.html

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Iran set for fuel hike backlash
Police guard petrol stations as subsidies are gradually lifted to bring prices up to international levels.

19 Dec 2010
Groups of policemen have appeared at major intersections in the capital Tehran, in apparent anticipation of unrest as the Iranian government makes sensitive cuts to subsidies. President Mahmoud Ahmadinejad said cuts of energy and food subsidies would start from Sunday.

Under the new system, each car would receive 60 litres of fuel per month at a subsidised price of 40 cents per litre, a four-fold increase. Further petrol purchased would cost 70 cents a litre, compared to 40 cents before.

Al Jazeera's Alireza Ronaghi, reporting from Tehran, said that things were calm in the streets. "The government has been trying to ease up the move to the new prices by paying people and putting about $40 a month into their accounts to give them some consolation over what is going to happen," our correspondent said.

"The main plan is lift all the subsidies gradually until everything is set at international prices."

Fuel riots

In 2007, angry protesters set dozens of filling stations on fire after the system of fuel rationing was implemented. Witnesses say clusters of riot police could be seen at every major square in the city. There has been no official explanation or report of disorder so far. "The people are still waiting to see how bad their lives will be affected so we will wait to see how big the discontent is," Ronaghi said.

http://english.aljazeera.net/news/middleeast/2010/12/20101219829549566698.html

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Five top world powers visit India
Russian president's visit to rising South Asian power is on heels of trips by US, UK, French and Chinese heads of state.

20 Dec 2010
The Russian president's visit to India comes hot on the heels of several world leaders making appearances in New Delhi, all of them hoping to create jobs back home and make some money. These diplomatic visits are indicative of the world's recognition of India's status as a rising global power, as a key part of the "BRIC" group of rapidly emerging economies, along with Brazil, Russia, and China. Here's a look at visits to India by leaders from all five permanent members of the UN Security council - the US, UK, France, Russia, and China - during the second half of 2010.

UK in July

British Prime Minister David Cameron brought Britain's biggest-ever trade delegation to the former colony, on a trip that also included visits to Turkey and China. Cameron, whose massive 90-member delegation included six ministers, called for taking his country's relationship with India to "the next level" during a visit to the Asian economic giant.

Indian newspapers focused on the massive purchase of scores of British fighter jets and the sheer size and stature of Cameron's delegation, which also included many corporate executives. The British government has said private businesses should be the engine of growth, and one of its strategies is to focus diplomatic efforts on fast-growing emerging markets to promote trade.

US in November

In the largest-ever trip by a US president, Barack Obama came for three days, accompanied by some 40 planes and 6 armoured cars. He visited before traveling east to Indonesia, South Korea, and Japan. Obama's trip included time in the country's financial hub, Mumbai, and the capital, New Delhi. During the visit, he emphasised the need to relax trade and investment barriers to boost economic relations between the US and India.

Trade between the two allies totals around $40bn per year, and after Obama's visit the figure was expected to rise. But some Indian companies expressed concerns about feared outsourcing cuts. Much to the delight of Indian leaders, the US president endorsed India's bid for permanent membership on the UN Security Council during a speech to parliament in Delhi.

The president and his wife Michelle also became the most high-profile guests to stay at Mumbai's Taj Mahal Palace hotel since the attacks two years ago by 10 armed men that claimed 166 lives.

France in early December

On his four-day visit, Nicolas Sarkozy, the French president, signed $9.3bn in nuclear deals with Manmohan Singh, the Indian prime minister. There were some concerns that India's recently passed liability law might prove too strict for international companies to risk entering the market. But Indian officials assured France that the new laws were in keeping with international standards and the security of nuclear operators was ensured.

Sarkozy and Singh also met to discuss regional security, trade and investment. Talks touched on plans for structural reform of the international monetary system through the Group of 20 countries, currently headed by France. Sarkozy was accompanied by his defence, foreign and finance ministers and nearly 60 business leaders.

France has pushed to win contracts to supply military hardware to India, which is expected to spend $80bn upgrading its armed forces between 2012 and 2022.

China last week

Wen Jiabao was in India so the two Asian giants could talk trade. The visit, the first by a Chinese premier to India in five years, appeared to have been carefully choreographed to improve ties. While the visit stirred political controversy, China 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. 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 making New Delhi wary of Beijing's growing might.

Wen, who traveled next to Islamabad, came to India with 300 business leaders and said that India and China were not rivals and that there was enough room in the world for both powers to develop. China is already India's largest trade partner, and two-way trade is expected to reach $60bn in 2010. Chinese leaders aim to reach $100bn in trade between the rising Asian powers by 2015.

Russia this week

Dmitry Medvedev, the Russian president, is arriving in India on Tuesday for a two-day visit. The Russian leader made his first official visit in 2008 to discuss joint defence and civil nuclear projects. Medvedev is expected to sign a $30bn deal to supply fighter jets to the Indian air force that are the Russian equivalent of the F-22 Raptor. India and Russia are also likely to discuss reforming visa policies as part of a plan to double annual bilateral trade from the current $10bon in the next five years.

In March, Vladimir Putin, Russia's premier, was in India to cement lucrative deals, including plans to build 12 nuclear reactors in India, half of them by 2017, and sell an aircraft carrier. Energy is emerging as a new focus of co-operation between oil and gas-rich Russia and energy-starved India, which is always on the lookout for new fuel sources to power its growing economy. The strong ties between Moscow and New Delhi date back to the 1950s, but India has in recent years balanced this friendship by fostering much closer relations with the US.

http://english.aljazeera.net/news/asia/2010/12/20101216144428454373.html

Russia eyes Indian defense deals

During a quick visit to Delhi and Mumbai, President Medvedev anticipates signing large military and energy contracts.

20 Dec 2010

Russia and India are expected to sign billions of dollars worth of defence and nuclear deals during the Russian president's visit starting Tuesday. An expected highlight of Dmitry Medvedev's trip will be a $30bn agreement for the design and development of a new stealth fighter jet to be inducted into the Indian air force, Alexander Kadakin, the Russian ambassador to India, said. The aircraft would be the equivalent of the US air force's F-22 Raptor.

"There is robust defence cooperation between the two countries," Vishnu Prakash, a foreign ministry spokesman, said.

"It is not a mere buyer-seller relationship, but the two sides are looking at joint research and development and joint production."

During the Cold War, India and the Soviet Union shared a deep relationship, while the US tilted toward India's neighbor Pakistan. In the post Cold War period, India has moved closer to the US, but its strategic partnership with Russia has endured. "We can rightfully call it a privileged partnership," Medvedev said in an interview with the *Times of India* newspaper published Monday.

Medvedev, who will be accompanied by several key ministers and a large business delegation, will meet with Manmohan Singh, India's prime minister, before heading to Mumbai, India's financial hub.

Diplomatic bonds

The core focus of Medvedev's visit, following trips from the leaders of Britain, the US, France and China to India in recent months, will be to convince New Delhi of Moscow's importance despite closer Indian ties with other Western powers. India's growing ties with the US, underscored by a civil nuclear deal, has made Russia ill-at-ease as New Delhi seeks to reach out to other countries to modernize its military inventory of mostly ageing Russian-made arms and fighter jets. But due to a history of close co-operation since Soviet days and as members of both the G20 and the emerging group of BRIC nations alongside China and Brazil, India and Russia have developed a close working relationship on global issues.

India has strategic and security worries over Afghanistan, but a lack of direct influence. It sees Russia as an important partner in buffering Chinese influence in the country and across the region, including its nuclear-armed neighbor Pakistan, through the three way Russia-India-China (RIC) dialogue. While Medvedev will hope for signs that the Indo-Russian relationship is still strong, New Delhi is likely to seek unequivocal backing for its ambition to secure a permanent seat on an enlarged UN Security Council, following statements of support from Paris and Washington in recent months.

Energy and defense deals

Russia is keen to continue supplying technology and expertise to energy-hungry India as it plans to add 63,000 megawatts of nuclear power by 2032 to fuel its economic growth. Russia, the world's largest energy producer, is competing with France and the United States to meet the rising demand. India and Russia are expected to sign a general framework agreement for Russia to build two more nuclear power plants in Tamil Nadu in southern India, in addition to the two it is already building there.

US firms are still reluctant to enter the Indian market due to what they see as restrictive liability regulations passed by lawmakers in New Delhi in August, allowing state-backed Russian and French suppliers to capitalize on a lucrative new market. In March, Vladimir Putin, Russia's premier, agreed to supply 16 reactors to India during his visit. Russian suppliers are likely to push for further deals during this visit, following a deal this month estimated at $9.3 bn between New Delhi and French nuclear power group Areva for at least two reactors. As India's close economic and political partner since Soviet days, Russia monopolized India's defense market for decades, providing about 70 per cent of the country's military equipment.

Diversifying order book

India, one of the world's biggest arms importers, has in recent years sought to diversify its order book as it looks to overhaul its arsenal with an eye on China, awarding contracts to US, European and Israeli firms. However, India has to award billions of dollars in maintenance contracts for the Russian fighter jets, tanks, ships and missile systems, meaning Moscow remains a crucial defense partner. And the two sides are jointly developing jets and missiles, including the recently-tested Brahmos supersonic cruise missile. Last year, India and Russia agreed two military pacts, including a 10-year deal on weapons, aircraft and maintenance contracts potentially worth at least $5bn.

Atop Moscow's wish list in New Delhi is an $11bn contract for 126 fighter jets, and Medvedev is likely to lobby hard for India to select the Russian-made MiG-35 in the face of bids from French, US and other European firms. But New Delhi has complained of delays in the supply of Russian defence equipment, including a refitted aircraft carrier, resulting in huge cost overruns, affecting military planning and damaging Russia's reputation as India's first-choice supplier.

http://english.aljazeera.net/news/asia/2010/12/20101220132956854212.html

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Moscow awaits investments for its future

20 Dec 2010

The Mayor of Moscow Sergei Sobyanin, speaking at the ceremonial reception for the leaders of diplomatic missions of foreign states accredited in Russia, said that the capital was interested in the soonest attraction of foreign direct investment in strategic areas that will shape the future of the city. First of all, he was talking about innovation environment.

In his speech, Sobyanin focused on the fact that "now the financial and banking sector plays a key role in Moscow's economy and, according to various estimates, the volume of financial transactions that take place in Moscow is on the 16th place among the largest cities in the world." "We have every chance to further develop this direction, transforming the capital of Russia into one of the international financial centers, which also requires significant investment," he stressed.

Nevertheless, Moscow expects financial investments beyond the banking sector. In his speech, the head of the capital said that Moscow needs to modernize not only the banking sector, but also hotels, communications and other necessary infrastructure. Sobyanin said that "Moscow is home to approximately 35% of all researchers and scientists of the country, both for academic and applied science, numerous universities that create powerful innovative potential of the city and we certainly will continue to develop this area, considering it one of the strategic one," Zerich.ru reports.

One of the goals of the Moscow government, according to Sobyanin, is the development of Moscow as a city that is to become comfortable for living. He called urban economy the main area that has huge potential for investment cooperation. "Our goal is to make Moscow the city that is really convenient for people, both Muscovites and guests of our city," said the mayor, naming transport issue in the capital region as the first one to solve.

Earlier, the mayor proposed to expand the investment sector in Moscow and move away from the exhausted fields of trade and real estate. At a recent conference Competition in Russia held in November, he said that "direct investment of a number of sectors saturated the market, and we cannot continue at the same pace." At the same time, he noted there were no other sectors for investments offered to investors in Moscow besides trade and real estate, and stated the need to attract investment in transport infrastructure development.

"We need two million parking spaces, this is the same 20 million square meters of various types of construction. There is a huge investment potential," said Sobyanin. The new mayor at the outset of his work began to pay special attention to solving transportation problems in the capital region. According to the ASN-INFO, the metropolitan government today issued a decree "On creation of intellectual transport system of Moscow."It is created "in order to improve the traffic situation on the road network of the city and the development of the existing automated information management systems." The Mayor of Moscow Sergei Sobyanin commissioned to develop such a system in late November, adding that the municipality was willing to allocate as much money as needed.

It is planned that the capital Intelligent Transportation System (ITS) will start operating by 2013, and 6.3 billion rubles will be allocated for its purposes. The government promises that the funds will first of all go towards building new subway lines, the development of public transport and the creation of major interchanges. Time will tell if this helps to solve the problems that have been accumulating for years.

Pravda.Ru
http://english.pravda.ru/business/finance/20-12-2010/116270-moscow-0/

Russia and India to cooperate in Afghanistan and in space

20 Dec 2010

India is ready to participate in the program to privatize Russian state assets in 2011-2013, an official spokesperson for the Indian Foreign Affairs Ministry said. The subject will be discussed at the Russian-Indian forum for trade and investments, which is currently taking place in Moscow. In addition, Russian President Dmitry Medvedev may raise the issue during his upcoming visit to India.

Indian business is interested in the privatization program, which is evaluated at $32 billion. The governments of the two countries also cooperate in the field of hydrocarbons. Russia and India mutually supplement each other, because India is interested in stable deliveries of oil and gas, whereas Russia is interested in having a stable customer.

The construction of the gas pipeline connecting Turkmenistan, Afghanistan, Pakistan and India (TAPI project) can obviously become a very important project between Russia and India. The pipeline is expected to be 1,680 kilometers long as it starts in Turkmenia's Dovletabad gas field and ends in India's Fazilka, near Pakistan's border. The capacity of the pipeline is 33 billion cubic meters of gas.

The Russian Federation has refused from the perspective, but not comfortable for the USA Iran-Pakistan-India gas pipeline, IPI, which was considered to be a competitor to TAPI. The war in Afghanistan continues, and allied troops do not seem to be able to stabilize the situation there. It is not ruled out that Russian troops will appear in Afghanistan some time in the future too.

The Russian military contingent may appear in Afghanistan under the pretext of the struggle against drug trafficking. Tens of thousands of people die in Russia because of Afghan heroine every year. Russia has already conducted joint military drills with India in Himalayas, near Pakistani borders.

In the north of Afghanistan, US troops conducted joint operations with Russian anti-drug agencies. It has already been decided that Russian border guards will return to the border between Afghanistan and Tajikistan.

President Medvedev is certain that Russian companies have the required experience and basis to build TAPI gas pipeline. The pipeline can be launched already in 2013-2014, whereas 2014 is considered to be the year, when the Americans finish their mission in Afghanistan.

Some Indian experts believe, though, that TAPI will become the reason for NATO's and USA's long-time presence in the key spot of Eurasia.

"A part of the Afghan leg of the pipeline will be built under the ground to protect the pipe from possible attacks. It will be guarded by local communities, and they will be paid for that. Kabul hopes, though, that the USA and the North Atlantic Alliance will take efforts to guarantee security to the gas pipeline. This in its turn will give the West a good official reason to preserve

its military presence in Afghanistan," M.K. Bhadrakumar, a former Indian diplomat, told *Regnum* news agency.
As for India's participation in the Russian privatization, we would like to remind that the Russian Federation government plans to sell over a hundred of federal state unitary enterprises in 2011-2013. In addition, there are plans to sell state-owned shareholdings of several joint stock companies.

It is planned to privatize the shareholdings of Rosneft (25 percent minus one share), RusHydro (7.97 percent minus one share), FISK (4.11 percent minus one share), Sovkomflot (50 percent minus one share), Sberbank (7.58 percent minus one share), VTB (35.5 percent minus one share), United Grain Company (100 percent till 2012), Rosagroleasing (50 percent minus one share - not earlier than 2013), RZD Russian Railways (25 percent minus one share - not earlier than 2013).

Apparently, India will be interested in the assets related to its national interests and adequate infrastructure. In addition to TAPI, it goes about CASA-1000 - the system to deliver electric power from Tajikistan and Kyrgyzstan to Afghanistan and Pakistan.

In addition, Russia and India have stable links in the field of military and technical cooperation. For example, Russia is working on its highly reputable fifth-generation fighter jet in cooperation with India.

Russia also builds additional units for Kudankulam nuclear power plant, whereas India is interested in Russia's Skolkovo technological project. The two countries also intend to share GLONASS satellite navigation system and conduct a joint lunar project.

Pravda.Ru
http://english.pravda.ru/business/companies/20-12-2010/116280-russia_india-0/

China Took `Concrete Action' to Help Europe Counter Debt Crisis, Wang Says

Dec 20, 2010
China backs the European Union’s efforts to ensure financial stability, Vice Premier Wang Qishan said today, spurring a rally in the euro.

China supports the International Monetary Fund’s measures and “has taken concrete action to help some EU members counter the sovereign-debt crisis,” Wang said at the start of the Third EU-China High-Level Economic & Trade Dialogue, a one-day forum in Beijing to discuss economic and trade relations.

The euro advanced against 14 of its 16 most-traded counterparts on speculation investments by China, which holds a record $2.65 trillion in foreign-exchange reserves, will ease Europe’s fiscal crisis and boost the allure of the region’s assets. Chinese Premier Wen Jiabao said in October that China supports a stable euro and won’t reduce European bond holdings.

"EU members have taken a number of steps to actively respond to the sovereign-debt crisis," Wang said. "We hope these measures will quickly produce results and lead to a steady recovery of the EU economies."

The euro yesterday fell to the lowest in two weeks against the dollar and yen on speculation some European nations will struggle to raise funds amid a slew of credit-rating and outlook changes. Greece and Ireland were rescued by their neighbors and the IMF this year, and investors now are concentrating their sights on Portugal as economies throughout the continent slash budgets to appease investors concerned by fiscal excess.

Irish Rating

"The comments would be a good Christmas present for the euro if Asian support for the EU continues into next year," said Kurt Magnus, executive director of foreign-exchange sales at Nomura Holdings Inc. in Sydney. "There's a lot of people looking to sell euro and go into 2011 with a core short position and there's no way that you would be short euro," if China continued to support the region, he said.

Moody's Investors Service last week cut Ireland's debt rating by five levels and put Greece on review for a possible "multi-notch" downgrade. It said Dec. 15 it may lower Spain's creditworthiness. Standard & Poor's is reviewing its assessments of Ireland, Portugal and Greece.

China's economy faces "uncertainties" next year, and because of that the country is paying "great attention" to whether the EU's sovereign-debt crisis can be controlled, "especially in the first quarter of next year, what will happen," Commerce Minister Chen Deming said at a press briefing at today's meeting.

Show of Support

Policy makers in the world's fastest-growing major economy will see if the EU can improve on prevention of risks and "translate their consensuses into practice for them to step out of the crisis as soon as possible," Chen said.

The Portuguese government said last week that China had made a "clear statement" of financial support during Finance Minister Fernando Teixeira dos Santos's visit to Beijing.
China is willing to invest 4 billion euros ($5.3 billion) to 5 billion euros in Portuguese government debt in the first quarter of next year, Lisbon-based newspaper Jornal de Negocios reported on Dec. 16, without saying where it got the information.

It wasn't clear if China would acquire debt on the secondary market, in government bond auctions or in a direct transaction with the Portuguese treasury, the newspaper said. China's purchases would cover about a third of Portugal's refinancing needs through April, Jornal said.

The EU is China’s largest trade partner and China is the EU’s second-biggest export market, with bilateral trade increasing 33.1 percent in the 11 months through November from a year earlier to $433.88 billion, China’s customs department said Dec. 10.

The EU’s trade deficit with China widened to 122.2 billion euros in the first nine months of 2010 from 97.8 billion euros a year earlier, the Union’s statistics office in Luxembourg said Dec. 17. EU exports to China increased 39 percent in the first nine months while imports from the Asian country rose 30 percent.

Other officials in attendance at today’s meeting include EU Competition Commissioner Joaquin Almunia, and EU Trade Commissioner Karel De Gucht.

http://www.bloomberg.com/news/2010-12-21/china-took-concrete-action-to-help-europe-counter-debt-crisis-wang-says.html

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Australia's Central Bank Judged Policy `Mildly Restrictive,' Minutes Show

Dec 20, 2010
The Reserve Bank of Australia left interest rates unchanged two weeks ago because policy was judged to be “mildly restrictive” given signs of consumer caution and few inflation pressures, minutes of its Dec. 7 meeting showed.

Household “restraint, if it continued, would provide some scope for investment to rise without causing aggregate demand to grow too quickly and inflationary pressures to build,” according to the minutes, released today in Sydney. After the November rate rise and an increase in the nation’s currency, “monetary policy was judged to be mildly restrictive.”

RBA Governor Glenn Stevens left the overnight cash rate target at 4.75 percent after seven increases since October 2009. Higher borrowing costs helped slow third-quarter growth and savings have risen, even as energy and mining investments keep unemployment at about half the near-10 percent U.S. jobless rate.

“Members observed that the restraint being shown by households, and the pick-up in the saving rate, would help reduce the medium-term risk from household balance sheets after a long period when debt ratios had risen, and would help to make room for the expected increase in investment,” the minutes said.

Australia’s economy slowed in the third quarter, with gross domestic product increasing at a 0.2 percent quarterly rate, the weakest pace since a contraction at the end of 2008. Savings as a share of disposable income climbed to 10.2 percent from July through September from 8.9 percent three months earlier.

‘No Rush’

“There seems to be no rush at all from the RBA to shift the stance of monetary policy for now,”David de Garis, a senior economist at National Australia Bank Ltd. in Melbourne, said in a research note. “The RBA, we expect, will now sit and wait for some months to monitor how inflationary pressures evolve.”

Investors are betting there is a 14 percent chance the central bank will raise rates before April, according to Bloomberg calculations based on interbank futures on the Sydney Futures Exchange today. The RBA’s next policy-setting meeting is scheduled Feb. 1.

In the minutes, the RBA called household credit growth “modest” for the past several months and said labor market conditions “remained firm.” “Employment intentions generally remained solid,” the minutes said.

Australia’s unemployment rate fell last month to 5.2 percent as employers added 54,600 jobs, the most since January. A gain of 366,000 jobs during the first 11 months of the year puts Australia on course for its biggest annual increase on record.

Job Growth

Job growth is strongest in areas such as Western Australia, where resources companies are expanding to meet demand for coal and iron ore from China and India. BG Group Plc, Chevron Corp., Royal Dutch Shell Plc and ConocoPhillips are among companies investing about A$200 billion in proposed liquefied natural gas projects in Australia.

At the Dec. 7 meeting, the RBA considered “the expected pick-up in private investment looked to be broadly on track,” according to the minutes.

The hiring boom is boosting wages, and the RBA is trying to keep consumer-price index gains -- at 2.8 percent in the third quarter from a year earlier -- within its target range of 2 percent to 3 percent.

An index of Australian wages rose 3.5 percent in the third quarter from a year earlier, the most in a year, as salaries in private industry outpaced government pay gains for the first time since the start of the global financial crisis.

Price Pressures

“Members noted that some pick-up in wage growth was likely in the period ahead,” the minutes said. “Nonetheless, overall price pressures remained relatively modest at present, reflecting discounting activity and exchange rate effects, and measures of inflation expectations remained consistent with the medium-term inflation target.”

The local dollar was little changed at 99.41 U.S. cents at 12:05 p.m. Sydney, from 99.35 cents late yesterday. The currency is up 10.8 percent this year, the second-biggest gainer after the yen among the Group of 10 currencies.

Today’s minutes showed RBA members considered to be “surprisingly large” a 1.1 percent decline in Australian retail sales in October, the steepest drop since July 2009. The housing market had “cooled,” with prices “tracking broadly sideways” since June, the minutes said.

Still, Australia's trade surplus widened in October to the most in four months as exports of gold rose and imports of fuel declined. The central bank has said the economy is facing "a large expansionary shock" from terms of trade among the most favorable in a century.

"Given the very high level of the terms of trade and the positive outlook for business investment, this policy setting was regarded as appropriate," the minutes said.

http://www.bloomberg.com/news/2010-12-21/australia-s-central-bank-judged-policy-mildly-restrictive-minutes-show.html

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India Can't Find Enough Laborers to Build Roads in $1 Trillion Singh Plan

Dec 20, 2010
Vimla, 26, wipes the dust from her forehead with a faded blue sari and fills a round metal dish with broken stones that she carries, barefoot, across a building site as part of the construction of New Delhi's Metro.

"My job doesn't need any training," said Vimla, who only uses one name. She would have to make about 800 trips to carry the load of India's most common small dump truck. Pointing to her supervisor, a man in a hard hat, she says: "I do what he says. If I was educated, maybe I could do his job."

Builders including Larsen & Toubro Ltd., India's biggest engineering company, say that while India has millions of unskilled workers like Vimla, it doesn't have enough trained masons, carpenters and machine operators to construct the roads, railways and ports it needs.

Prime Minister Manmohan Singh said last month that infrastructure is the biggest bottleneck to faster economic growth. His government plans to spend $1 trillion to boost the expansion rate to 10 percent, from 7.4 percent last fiscal year.

"Lack of skilled workers impacts on all three fronts: quality, delivery and costs," said K.V. Rangaswami, president of construction at Mumbai-based Larsen. "Skills cannot be imparted overnight." He said the lack of a trained workforce will be a major setback to the economy if the shortage isn't solved.

Bottom Half

The world's fastest-growing major economy after China will expand 9.7 percent in 2010 and 8.4 percent the following year, the International Monetary Fund said Oct. 6. India is ranked at 91 of 139 nations for its quality of infrastructure, behind Ethiopia and Indonesia, according to the World Economic Forum's Global Competitiveness Index.

"Shortage of a skilled labor force is one of the challenges that construction companies will have to deal with as India steps up infrastructure plans," said Mahesh Patil, who oversees about $3 billion as head of domestic equities at Birla Sun Life Asset Management Co. in Mumbai. "Our outlook is positive for construction companies as we expect execution of projects to improve."

Birla Sun's holdings include Larsen & Toubro and Lanco Infratech Ltd., according to data compiled by Bloomberg.

India's construction industry is the nation's biggest employer after agriculture. It had about 31.5 million workers, 83 percent of them unskilled, in 2005, according to a report last year by the New Delhi-based National Skill Development Corp. More than three out of four of those laborers are in transport network and port projects, with the rest in real estate, it said. Construction is expected to employ 83 million people by 2022, the report said.

'Virtuous Cycle'

The nation's investment in roads, rail and ports and other projects may reach about $500 billion in the five years ending March 2012, the Planning Commission said in March this year. Singh said the same month that that figure needs to expand to $1 trillion in the following five years.

Singh plans to raise half the $1 trillion spending from private financing. The government lifted the cap on foreign investment in bonds for the first time in 18 months on Sept. 24, allowing overseas investors to buy $5 billion more in debt maturing in more than five years sold by infrastructure companies. India auctioned permits on Dec. 2 to allow foreign funds to make limited purchases of the bonds within 90 days.

No Overstating

"You can't ever overstate the importance of infrastructure to the growth India will take on in the next five, 10, 15 years,"Inderjeet Bhatia, associate director at Macquarie Capital Securities India Pvt., said in Mumbai. "It's a massive virtuous cycle that can play out."

Larsen and Toubro shares have advanced 18 percent this year, compared with a 14 percent gain in the Bombay Stock Exchange Sensitive Index. Mumbai-based Hindustan Construction Co. has lost 38 percent, partly because a unit was named in a government bribery investigation last month. Hyderabad-based Lanco Infratech is up 7.7 percent.

"The quantum of projects far exceeds the capacity of the market of the contractors to deliver them," Russell Waugh, managing director of the Indian unit of Leighton Holdings Ltd., said in Mumbai. "India has developed a very good repertoire of skilled engineers and technically orientated people, but there has been a shortfall over the years of developing a skilled labor force to actually build things."

Training Schools

Sydney-based Leighton, Australia's biggest construction company, is building India's longest road tunnel. To help tackle the shortage, construction companies set up their own training schools. Larsen runs one in Panvel, about 56 miles from Mumbai's financial center. On a recent day, Manoj Pehre was learning to bend steel rods into rectangles so they can reinforce concrete beams and columns.

With so few skilled workers, Pehre, 23, said his family hopes the training will be a first step toward running his own contracting business.

“They have good hopes and ambitions for me,” said the 23- year-old, standing in the midday sun in dark blue overalls and a yellow hard hat. “That I’ll make something big out of this training.”

Around him, other men learned carpentry, bricklaying and welding. The three-month apprenticeship costs Larsen 21,000 rupees ($467) per trainee. Virendra Mohod, 26, who’s studying masonry, said the education will give them better pay, job security and the chance to travel.

Trays of Rocks

He and Pehre are among the lucky ones. Most workers are like Vimla, who moved to Delhi from Jhansi, Uttar Pradesh, four years ago with her husband and her son Rinka. He clings to her waist as she carries trays of rocks on her head, near the $275- a-night Taj Palace hotel.

Even with company training schools, India doesn’t have enough formal institutions to train the number of people needed, said Leighton’s Waugh.

The Construction Industry Development Council, set up by the central government with industry backing in 1996 to improve quality in the building industry, said it has trained and certified more than 250,000 construction workers in the past 13 years. Among India’s 1.23 billion population, the unemployment rate among the labor force was 9.4 percent in the financial year ended March.

The skills shortage mirrors a similar deficit China faced during rapid development, said Liu Kaiming, executive director of the Institute of Contemporary Observation, a Shenzhen-based non-government organization dedicated to labor studies.

“The Chinese government has no systematic training system currently in place,” he said. As in India, companies have had to educate their own workers over the past two decades.

Suffering Nation

A report last month by the 115-year-old Confederation of Indian Industry in Delhi said “youth unemployability is a bigger crisis than unemployment -- 53 percent of employed youth suffer from some degree of skill deprivation.”

“As a nation, we are suffering,” said Vinayak Chatterjee, chairman of New Delhi-based Feedback Ventures, which provides professional and technical construction services and counts Larsen and the Infrastructure Development Finance Co. as shareholders. “We have not developed the training institutes to provide the manpower to cater for the boom.”

Plugging the skills gap will also require a cultural change, said A. Janakumar, a mechanical engineer and regional training manager at the Larsen institute in Panvel.

Trades traditionally are passed down through families, with masons and carpenters learning from their fathers. Laborers don't get enough respect for their work, he said, and previously these jobs were done by underprivileged sections of the community. Workers also want to stay in their area and not move locations with construction jobs, he said.

"Fathers want sons to be engineers now, not carpenters," said Janakumar. "They want sons to earn more and get more respect."

http://www.bloomberg.com/news/2010-12-20/india-can-t-find-enough-laborers-to-build-roads-in-1-trillion-singh-plan.html

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Switzerland's Exports Dropped in November on Stronger Franc, Weaker Growth

Dec 20, 2010
Swiss exports declined in November as a stronger franc made goods less competitive abroad and the economic recovery lost some momentum.

Exports, adjusted for seasonal swings and inflation, dropped 3.4 percent from October, when they rose a revised 2.3 percent, the Federal Customs Office in Bern said in an e-mailed statement today. Imports fell 3.3 percent from October, when they increased a revised 1.7 percent. The trade surplus was 1.93 billion Swiss francs, down from 2.05 billion francs.

http://www.bloomberg.com/news/2010-12-21/switzerland-s-exports-declined-in-november-on-strong-franc-slower-economy.html

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OECD recommends Spain pension cuts
Organization for Economic Co-operation and Development said embattled Euro zone economy should make further reductions.

20 Dec 2010
Spain should make tougher pension and labor reforms to revive economic growth and ease the debt load that is putting it at the heart of Europe's debt crisis, the OECD said on Monday. The Spanish government says that next month it will approve a highly contested plan to raise the retirement age gradually from 65 to 67, part of a drive to shore up public finances. But the Organization for Economic Cooperation and Development said in a report that Spain should consider raising the retirement age even further by indexing the age to life expectancy increases. The government is considering extending the period of a person's working life used to calculate retirement pensions. It is now the last 15 years. The OECD says people's entire working life should be used in the calculation, a move that would reduce the average monthly pension.

Road to recovery

The OECD, which represents the world's developed countries, also urged further labor market reforms. It said Spain needs to encourage firms to hire and stimulate an economy struggling to recover from nearly two years of recession triggered by a 2008 property bubble burst. Measures passed in recent months make it easier and cheaper for companies to lay off workers, doing away with a system that provided some of the most generous severance payments in Europe.

The Paris-based OECD said that if these do not manage to boost hiring, the government should consider broader measures to make the labor market more flexible. "We recommend that the government try to shed light as quickly as possible on the actions it intends to take in 2011, not wait until then," Pierre Beynet, the OECD division chief, said. "We also encourage government to take all necessary action to go beyond what was planned if economic growth deteriorates faster than forecast, which means of course that the government should not hesitate to increase taxes if that's necessary," he said.

The Spanish government said Monday that regional administrations - whose finances are a worry as Spain struggles to reduce its deficit from 11.2 per cent of gross domestic product (GDP) last year to the EU limit of 3 per cent in 2013 - are set to meet their targeted cuts this year. Through the third quarter, their combined deficit was 1.24 per cent of Spain's GDP while the forecast for the full year 2010 is 2.4 per cent of GDP, Elena Salgado, the finance minister, said.

The OECD said that if Spain's deficit-reduction measures fail to meet targets the government should consider raising value-added taxes (VAT) on some goods and services.

http://english.aljazeera.net/business/news/2010/12/20101220157288825.html

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Dubai World commits to repay debt
Following a leadership change of struggling state-run conglomerate, the new chairman gives creditors assurances.

20 Dec 2010
Dubai World's new chairman has stressed the indebted state conglomerate's commitment to repaying its creditors as it reorganizes its business. Sheik Ahmed bin Saeed Al Maktoum made the comments on Monday during the first meeting of the company's new board, according to a statement from Dubai's media office. He was picked to lead the sprawling state conglomerate following a shakeup of the company's leadership last week.

"Sheik Ahmed emphasized adopting a strategy that aims at optimizing Dubai World's performance along with that of its related companies, and fortifying its financial position, which in turn will enable the company to meet its financial and contractual commitments," the statement said. The new chairman, a top aide and uncle of Dubai's ruler, also runs the city-state's airline Emirates.

Dubai World, whose holdings include seaports, Las Vegas real estate and high-end retailer Barneys New York, earlier this year got creditors to agree to new terms on repaying $24.9bn of debt. Its Nakheel property subsidiary is still working on securing a similar deal for at least $10.5bn in debt it owes.

Asset shedding

The International Monetary Fund estimates Dubai and its many state-linked companies owe as much as $109bn. A number of the firms have begun shedding assets to raise cash. Borse Dubai, a state-owned company that runs Dubai's stock exchanges, last week halved its stake in exchange operator Nasdaq OMX Group Inc. to help cover a $2.45bn loan coming due in February. An unsourced report this week in London's Sunday Times said the emirate's oil-rich neighbour Abu Dhabi was seeking to buy up some of Dubai's financial assets, including Borse Dubai's 20 per cent stake in the London Stock Exchange, for $1.5bn.

Representatives for Borse Dubai and the London Stock Exchange declined to comment on a possible sale. But the governor of the Dubai International Financial Centre banking hub, one of the assets mentioned in the article, strongly denied that any deal was in the works, according to comments published Monday in the UAE daily al-Bayan. Ahmed al-Tayer told the newspaper "there are no offers from Abu Dhabi," the richest of the seven sheikdoms that make up the United Arab Emirates, which came to Dubai's rescue with a $10bn bailout a year ago.

http://english.aljazeera.net/news/middleeast/2010/12/20101220173629856900.html

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Development with social justice, the mark of Mercosul today

21 Dec 2010
More than just promoting trade, the countries of Mercosul share a larger value, which is development with social justice. "That's the mark of Mercosul, which we are building," said President Lula on Friday (17/12) in a statement at the plenary session of the 40th summit of the bloc, in Foz do Iguaçu (PR). "And we have much to be proud of."

In 20 years of Mercosul, Brazil, Argentina, Uruguay and Paraguay were able to develop a historical process of political, economic and social conditions in South America, the Brazilian president said, noting that the achievements were obtained in an environment of peace and cooperation. As a result, the bloc's countries are experiencing a moment of extraordinary economic and social dynamism. While the Mercosul countries show consistent growth in their economies, well above the world average, developed countries are facing stagnation, unemployment and debt.

"Our integration model holds one of the highest global growths in post-crisis. While the developed economies are facing problems of stagnation and high rates of unemployment and debt, according to the numbers from CEPAL (Economic Commission for Latin America and the Caribbean), Paraguay will finish the year with the largest growth of all Latin America and the Caribbean - 9.7%. Followed by Uruguay (9%), Argentina (8.4%) Brazil (estimated at 7.7%), will have to be fifth in growth here in South America."

President Lula speech in Foz de Iguacu:

The president took the opportunity to go back to criticizing the way the developed countries have sought to address the crisis, punishing workers and rewarding "the foresight of unsuccessful speculators." Meanwhile, Argentines, Brazilians, Uruguayans and Paraguayans reiterate their determination to consolidate Mercosul, persisting on the path of convergence with other processes in Latin America, Caribbean and other regions - the meeting of the Mercosul Summit in Foz do Iguacu attracted senior representatives of Australia, New Zealand, Cuba, Palestine, UAE, Turkey, Morocco, Egypt, India, South Korea, Indonesia and Malaysia.

"Our block has become unquestioned reality. Trade within Mercosul grew eightfold in 17 years. We were one of the last regions of the planet to feel the effects of the crisis, and an early exit them. Our policies for growth with social inclusion and integration protected us from most adverse effects and prolonged the crisis. I have always insisted on defending the Mercosul in Brazil's foreign policy and had the fortune to meet many leaders with the same vision."

Pravda.Ru
http://english.pravda.ru/business/finance/21-12-2010/116302-development_with_social_justice_mercosul-0/

EU Announces Outward-Focused Trade Strategy Until 2015

21 Dec 2010
On Nov. 9, the European Union made public its strategic plans for trade policy in 2011-15. The new five-year trade strategy is meant to be a central part of the so-called Europe 2020 strategy announced earlier in 2010 and adopted in the wake of the recent economic and financial crisis. The Europe 2020 strategy pursues the EU’s economic recovery, long-term growth and employment through (among other means): opening more prospective foreign markets to EU exporters of goods and services and fighting protectionism abroad; making EU manufacturing more competitive while keeping well-paid jobs; and “exporting” the EU’s stricter laws and standards abroad in order to level the competitive field. There is a major role for trade to play in achieving these goals.

Accordingly, the immediate key priorities of the EU’s new trade strategy include:

- speeding up bilateral talks on free-trade deals with Ukraine, the Mercosur trade union of Argentina, Brazil, Paraguay and Uruguay, the Gulf Cooperation Council, India, Canada and Andean nations, all of which are growing economies;
- negotiating “deep and comprehensive” economic integration agreements with the countries of the Mediterranean region and the closer neighbors in the Commonwealth of Independent States, other than Russia;
- ensuring cheaper imported inputs for EU manufacturers through fighting restrictions on exports of raw materials such as scrap metal, mineral resources and energy adopted by foreign countries, such as through export duties or export quotas, with special emphasis on China, Russia and Ukraine;

- using all EU trade law and policy means, including “name and shame” tactics, trade barrier investigations and World Trade Organization disputes for improving access to certain product markets in specific countries, with increased focus on nontariff measures, regulatory barriers, hidden subsidies, and social and environmental “dumping”;
- liberalizing foreign services markets and integrating some of the EU’s neighbors into the EU market for financial, telecommunication and postal services;
- fighting discriminatory treatment in public procurement in foreign jurisdictions, including through imposing reciprocal EU restrictions on foreign bidders, with such EU legislative proposals in the pipeline;
- fighting barriers to EU investments in foreign jurisdictions, including integrating FDI into bilateral economic and trade negotiations with specific countries;
- promoting stronger intellectual property right protection abroad, including protected EU geographical indications on wine, spirits and food, and fighting forced transfer of IPR;
- making active use of EU trade defense instruments (anti-dumping, countervailing measures and safeguards), and applying them also to “new forms of distortion” such as indirect subsidization of exported goods through export restrictions on inputs;
- effective implementation of the Anti-Counterfeiting Trade Agreement;
- reforming further the EU Generalized System of Preferences with emphasis on human rights, environmental standards and good governance;
- promoting competition and state aid policy in foreign countries, including through bilateral agreements; and
- improving the EU’s system for export controls on dual-use goods and technology.

While stating that the United States, Japan, China and Russia remain the EU’s main strategic partners in trade, the EU places special strategic emphasis on fighting protective barriers and restrictions on the export of raw materials from China and Russia, creating a potential for tensions in trade and economic relations with these countries. Russia’s WTO accession “remains a crucial short-term objective for EU trade policy.”

The new trade strategy has raised questions and criticism concerning the EU’s attitude toward the Doha round of multilateral negotiations in the WTO. The sincerity of the EU’s stated adherence to the aims of the current WTO round has been questioned, given the special focus on speedy bilateral deals and the EU’s apparent downplaying of the importance of tariff negotiations.

Very similar foreign-trade priorities were stated in September in the Commission’s Communication concerning industrial policy in a globalized world, pursuing EU competitiveness and sustainability. That communication highlighted that the EU’s new legislation and standards had not been sufficiently tested from the point of view of global competitiveness, and that as a result the EU has weakened its competitiveness in the global economy. The EU and its member states will take steps to correct this trend. The EU is also preparing a new strategy on access to raw materials, to be made public before the end of this year.

http://www.themoscowtimes.com/business/business_for_business/article/eu-announces-outward-focused-trade-strategy-until-2015/427371.html

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Russia and India seal deals
Both countries pledge to share intelligence and co-operate in fighting international terror.

21 Dec 2010
Russia and India have pledged to share intelligence and co-operate in fighting international terror at a ceremony in New Delhi where the two allies signed agreements aimed at reinvigorating their ties. Dmitry Medvedev, the Russian president, held nearly two hours of talks with Manmohan Singh, the Indian prime minister, hoping to boost trade and investment in both countries.

Medvedev, the latest in a string of world leaders to visit India in the past couple of months, also threw his weight behind India's quest for a permanent seat on the United Nations Security Council.

Russia has been India's close economic and political partner since Soviet days, and monopolized India's defense market for decades. But New Delhi wants to reduce its reliance on one country to reflect its growing clout on the world stage.

New Delhi had been expected to seek backing from Russia during Medvedev's visit for its ambition to secure a permanent seat on an enlarged UN Security Council, following statements of support from Washington and Paris in recent months. "The Russian Federation supports India as a deserving and strong candidate for a permanent seat in an expanded UN Security Council," a joint Russian-Indian statement said.

Leaders from Britain, the United States, France and China - along with Russia, the permanent members of the UN Security Council - have all visited India in the past six months, securing contracts worth a total of around $50bn.

Russia and India signed on Tuesday a long-awaited contract to jointly develop fifth generation fighter aircraft, potentially worth tens of billions of dollars, and clinched a deal to expand capacity at a Russian-built nuclear power plant in south India. The deals announced on Tuesday were largely already known, and no financial figures were given. However, the agreements may go some way to satisfy those concerned about India too quickly cutting its defense cord with its Cold War-era ally. Russia also sees India as a counterweight to China and a potential ally in Afghanistan.

Medvedev, accompanied by a large delegation of business leaders, also held talks with Sonia Gandhi, the ruling Congress party chief, before embarking on a visit the Taj Mahal in Agra, and is expected in India's financial capital Mumbai on Wednesday.
"We can rightfully call it a privileged partnership," Medvedev said of the visit in an interview with the *Times of India* newspaper published on Monday.

"It is well known that we want to diversify our basket of suppliers for our strategic areas. We will always have close ties with Russia, but they are no longer the only game in town," said a top Indian government official, who declined to be identified.

A statement said the two countries would work on a design project for the stealth fighters and had agreed to discuss building the third and fourth reactors for a nuclear power plant in India's southern state of Tamil Nadu.

http://english.aljazeera.net/news/asia/2010/12/2010122110582288200.html

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Yuan Forwards Signal Further Weakness Before Hu Meets Obama: China Credit

21 Dec 2010
The currency fell 0.39 percent to 6.6745 per dollar since Dec. 6, when 30 senators sent a letter to Chinese Vice Premier Wang Qishan calling for the yuan to “appreciate meaningfully” before Hu’s trip.

The yuan will weaken ahead of Chinese President Hu Jintao’s visit to Washington next month, trading in currency forwards shows, antagonizing U.S. senators who say they may back trade sanctions unless there is gains.

The currency fell 0.2 percent to 6.6599 per dollar since Dec. 6, when 30 senators sent a letter to Chinese Vice Premier Wang Qishan calling for the yuan to “appreciate meaningfully” before Hu’s trip. Forwards traders are betting on a further 0.07 percent decline in the coming month. U.S. President Barack Obama has met for talks with Chinese leaders twice since a two-year currency peg was relaxed in June. Yuan advances of 0.6 percent or more were recorded in the prior month each time.

“It’s impossible for China to yield to the calls,” said Lu Zhengwei, an economist at Industrial Bank Co. in Shanghai. “Officials seem to consider the pace of appreciation since June the maximum that the economy can withstand. Faster gains would create too many difficulties for exporters.”

The yuan is the best performer among the so-called BRIC nations’ currencies in the past decade and commerce ministry spokesman Yao Jian said this month that U.S. export controls are a key cause of the trade imbalance between the two countries. U.S. data show the trade gap with China totaled $227 billion in the first 10 months of this year, more than the deficits with the next seven-largest trading partners combined.

U.S. lawmakers including Senator Charles Schumer, a New York Democrat, say a weak yuan is one reason for the trade gap and have pressed China to let its currency rise. The House of Representatives passed legislation in September letting U.S. companies petition for duties on Chinese imports to compensate for the effect of a weak yuan.

Best of BRICs

Chinese Commerce Minister Chen Deming said the nation is committed to “balancing” foreign trade by stabilizing exports and boosting imports over the next five years, the China Daily newspaper reported Dec. 17. Exports rose 33 percent from a year earlier in the last 11 months, while imports climbed 40 percent, customs bureau statistics show.

The yuan has strengthened 24 percent against the dollar in the past decade, outperforming gains of 15 percent in the Brazilian real, 3.3 percent in India's rupee and a 9 percent slide in the Russian ruble, according to data compiled by Bloomberg. The yuan, real and rupee all appreciated less than 3 percent this year, while the ruble weakened 2.6 percent.

Yuan Climbs

China's currency was 0.2 percent stronger today as of 4:09 p.m. in Shanghai, recovering from its biggest loss in six weeks, as easing tensions on the Korean peninsula boosted investor confidence. The U.S. Dollar Index, a gauge of the currency's strength, dropped 0.4 percent, after yesterday hitting its highest level in more than two weeks.

The yield on the 3.67 percent government note due in October 2020 fell 2 basis points, or 0.02 percentage point, to 3.77 percent, according to prices from the National Interbank Funding Center.

Credit-default swaps tied to China's sovereign debt for five years yesterday rose 4 basis points to 72, according to CMA prices. 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 its debt agreements.

International Monetary Fund Managing Director Dominique Strauss-Kahn said on Dec. 17 that calls for an immediate revaluation of the yuan are "probably wrong." A sudden move would be "disturbing" to the Chinese and world economy, he said.

China Stocks

The benchmark Shanghai Composite Index of shares has dropped 3.3 percent since the central bank raised its benchmark interest rates on Oct. 19 for the first time since 2007, seeking to tame the fastest inflation in two years.

Policy makers boosted banks' reserve-requirement ratios for the sixth time in 2010 this month, sparking a cash squeeze that drove the benchmark money-market rate to a 30-month high of 4.08 percent today. The seven-day repurchase rate surged 54 basis points, or 0.54 percentage point.

The People's Bank of China scrapped a two-year dollar peg on June 19 and allowed the yuan to rise 2.3 percent, a pace of gains that U.S. Ambassador to China Jon Huntsman said on Dec. 18 is "painfully slow." Obama said Nov. 12 in Seoul, a day after his last talks with Hu, that the yuan was "undervalued" and he expects "progress on this issue."

The yuan appreciated 0.6 percent in the month before that meeting, which was at the Group of 20 summit in South Korea's capital. There was a 1.4 percent advance in the month before Obama discussed currency policy with Premier Wen Jiabao in New York on Sept. 23.

'Important Events'

"Judging from what has happened to the yuan ahead of certain important events, I think there may be some obvious appreciation before the state visit next month," said Zhang Ming, Beijing-based deputy chief of the International Finance Research Office of the state-backed Chinese Academy of Social Sciences. "But that wouldn't be a wise strategy because speculators would take advantage of a regular pattern."

The yuan may rise 5 percent to 6 percent next year against the dollar because the government needs to protect exporters' interests while seeking to contain imported inflation, said CASS's Zhang. Industrial Bank's Lu forecast similar gains and the median forecast of 19 analysts surveyed by Bloomberg is for a 6.3 percent advance to 6.28.

Forwards

Non-deliverable forwards reflect bets for 2 percent appreciation to 6.5455 per dollar next year, less than the 2.9 percent gain projected when Obama and Hu met in Seoul. Forwards are agreements to buy and sell assets at current prices for delivery at a specified date. Non-deliverable contracts are settled in dollars because the yuan isn't fully convertible.

Exchange rates are likely to be overshadowed by the risk of conflict between North and South Korea during next month's talks between Hu and Obama, said Sergey Dergachev, who helps manage the equivalent of $8.5 billion in emerging-market debt at Union Investment in Frankfurt.

South Korea's defense ministry said a live-firing drill yesterday on Yeonpyeong Island that drew threats of retaliation from the North was completed without incident. Artillery positions on the island, close to a disputed sea border, were shelled following a similar exercise last month.

"Hu's visit to the U.S. will be diplomatically important, but issues surrounding the Korean peninsula are more acute" than currency matters, said Dergachev. "I expect in the next one month no real changes in the yuan's exchange rate."

http://www.bloomberg.com/news/2010-12-20/yuan-forwards-signal-further-weakness-before-hu-meets-obama-china-credit.html

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Bank of Japan Pledges to Steadily Buy Assets, Provide Liquidity

21 Dec 2010
The Bank of Japan kept the key interest rate and the size of its asset purchase program unchanged and said it will steadily buy assets and provide long-term funds

The Bank of Japan said it will "steadily" provide liquidity to support demand and Governor Masaaki Shirakawa warned about the risks a climb in bond yields posed to the nation's expansion.

"Volatile long-term rates can affect the economy, prices and financial conditions by influencing borrowing costs for households and companies," Shirakawa told reporters in Tokyo today after the central bank left its credit programs unchanged and kept the key interest rate between zero and 0.1 percent.

The BOJ's purchases of real-estate investment trusts and exchange traded funds have bolstered stock prices, a sign the stimulus has supported sentiment even as global growth slows. At the same time, an increase in bond yields suggests that higher interest rates may threaten the economic outlook and compel the BOJ to do more.

"Short-term rates are too high," said Shuichi Obata, senior economist at Nomura Securities Co. in Tokyo. "The BOJ should provide ample funds through money market operations to rein in gains in the short-term rates."

The rate decision was by a unanimous vote, as expected by all 16 economists surveyed by Bloomberg News. The BOJ left the size of its asset-buying fund at 5 trillion yen ($60 billion) and the credit program at 30 trillion yen.

'Comprehensive Easing'

"The bank will steadily purchase various financial assets and provide longer-term funds" so that "the effects of comprehensive monetary easing spread," the BOJ said in a statement in Tokyo today.

Yields on Japan's two-year government bonds and benchmark 10-year bonds have climbed this quarter, setting the stage for the biggest quarterly increases since the April-June period of 2008. The yield on 10-year government debt fell to 1.175 percent today and two-year debt yielded around 0.21 percent, according to Bloomberg Data.

An increase in borrowing costs may depress business confidence and discourage consumers and companies from investing and spending. The economy is already set to contract this quarter because of fading stimulus measures and slowing export growth. The central bank said it wanted to lower the yields of debt with maturities of around 2 years when it unveiled its policy measures in October.

Bank Profits

Shirakawa said profits of financial institutions can be affected by volatility in long-term yields because they hold government debt. Rising Japanese bond yields reflects a global trend driven by higher borrowing costs in the U.S., he said.

Japan's currency has weakened 0.8 percent against the dollar since the BOJ adopted the package on Oct. 5. The Japanese currency was traded at 83.67 as of 4:45 p.m. in Tokyo. A stable yen may reduce pressure on the central bank to add policy stimulus, according to analyst Seiji Shiraishi.

"A major reason for the BOJ to adopt its policies was the yen's rapid appreciation," said Shiraishi, chief economist at HSBC Securities. "Given that the Japanese currency has been weakening somewhat recently, there are few incentives for the bank to forcefully push down yields now" using policy tools, he said.

The central bank started buying exchange-traded funds and real estate investment trusts last week. It commenced purchases of corporate bonds rated at least BBB early this month, on top of government debt purchases.

BBB Rating

The extra yield investors demand to hold such five-year BBB-rated company debt rather than government notes of similar maturity has narrowed since the BOJ introduced its asset-buying program. The Tokyo Stock Exchange REIT Index has advanced 10.8 percent during the same period. The Nikkei 225 Exchange-Traded Fund, which tracks the performance of the benchmark stock index, has risen 7.3 percent, the same amount as gains in the Nikkei 225 Stock Average.

The central bank's asset purchase plan has encouraged companies to sell debt to investors.Nippon Sheet Glass Co., which acquired Pilkington Group Ltd. in 2006, sold BBB rated bonds this month and raised 24 billion yen from its first public sale of bonds since May 2008.

Economic Contraction

Consumer prices excluding fresh food fell 0.6 percent in October, the 20th consecutive month of decline. BOJ policy makers have pledged to maintain the near-zero interest rate policy until the bank can forecast stable price gains, which board members consider to be a rise of around 1 percent.

The economy will shrink 1.9 percent this quarter as Prime Minister Naoto Kan's stimulus spending fades, the government- affiliated Economic Planning Association said Dec. 8, citing analysts' forecasts.

Kan's ability to push through more stimulus is limited by his falling approval ratings, an opposition-controlled upper house and a swelling government debt burden. His approval ratings slid to 21 percent in a survey conducted by the Asahi newspaper on Dec. 11 and 12, compared with 27 percent in a November poll.

"The BOJ will probably consider increasing the fund should stocks fall and the yen resume gains ahead of the fiscal year end" on March 31, said Mari Iwashita, chief market economist at Nikko Cordial Securities in Tokyo. Buying more government debt is the most likely option while the bank may increase ETFs should stock prices slump, she said.

http://www.bloomberg.com/news/2010-12-21/bank-of-japan-pledges-to-buy-assets-provide-liquidity-as-rates-unchanged.html

U.K. Budget Gap Swells to Record as Spending Jumps

21 Dec 2010
Britain's budget deficit swelled to a record in November, underscoring the challenge facing Prime Minister David Cameron as his government prepares to implement the deepest spending cuts since World War II.

Net borrowing was 22.8 billion pounds ($35.4 billion), compared with 16.7 billion pounds a year earlier, the Office for National Statistics said in London today. That exceeded the 16.8 billion-pound median forecast of 12 economists in a Bloomberg survey. Spending rose the most since February. The shortfall excluding government support for banks was 23.3 billion pounds.

Business Secretary Vince Cable said there is a "constant battle" between his Liberal Democrats and the Conservatives over how to reduce the budget shortfall, the Daily Telegraph reported today. As Britons brace for spending cuts and tax increases, Cable's comments to undercover reporters from the newspaper illustrate Cameron's struggles to keep his deficit- reduction plan on track.

"You would have thought with the economy really growing at decent rates that the deficit by now would be reflecting that," David Tinsley, an economist at National Australia Bank in London and a former Bank of England official, said in a telephone interview today. "You'd expect a marked improvement in the 2011 fiscal year and if that doesn't happen then I think the market will start to get worried."

The pound erased its gain against the dollar after the report and was at $1.5497 as of 10:06 a.m. in London, little changed from yesterday. Bonds were little changed, with the yield on the benchmark two-year gilt at 1.18 percent.

Spending Increases

Revenue rose 3.1 percent in November from a year earlier, the least this year, held back by repayments of value-added tax to companies, the statistics office said. Government spending jumped 10.8 percent, led by European-Union payments and expenditure on health, defense and local government services.

In the first eight months of the fiscal year that began in April, revenue increased 8.2 percent while spending rose 6.8 percent. The deficit in the period excluding financial interventions narrowed to 104.4 billion pounds from 105.1 billion pounds a year earlier. The Office of Budget Responsibility, the government's fiscal watchdog, estimates a fiscal-year deficit of 149 billion pounds.

"The government's target can be hit, but it can't afford to keep on seeing slippage of this magnitude," said Eoin O'Callaghan, an economist at BNP Paribas in London.

Protests

There was a public-sector cash requirement of 16.8 billion pounds in November, up from 14.8 billion pounds a year earlier. Economists predicted 12.3 billion pounds. The central-government cash deficit, the measure the Treasury says most closely indicates gilt sales, was 14.4 billion pounds. Net debt was at 58 percent of gross domestic product, up from 50 percent.

Britain's government has faced opposition over its fiscal austerity measures. Student protests against an increase in tuition fees turned violent in recent weeks, while London Underground union leaders have said they may strike in the New Year as they contest planned job cuts.

The chief secretary to the Treasury, Danny Alexander, said the government will "stand firm" on its spending-cut plans for next year, the Financial Times reported today.

'Decisive Action'

A Treasury spokesman said in a statement that November's borrowing figures show why "decisive action" is required. Today's data are in line with forecasts from the OBR that borrowing will fall by almost 10 billion pounds this year and for tax receipts to increase by more than 7 percent, he said.

The OBR estimates that about 330,000 government jobs will be axed by 2015, though it says the loss will be more than offset by the creation of about 1.5 million private-sector jobs. It cut its 2011 growth forecast to 2.1 percent from 2.3 percent on Nov. 29, and lowered its 2012 outlook to 2.6 percent from 2.8 percent.

GfK NOP said in a report today that while consumer confidence was unchanged at a four-month low in December, it is really "teetering on the brink." The gauge was unchanged at minus 21 from November, the lowest since July.

NAB's Tinsley said it will be a "challenge" for the government to meet its borrowing forecasts.

Chancellor of the Exchequer George Osborne "will have to hope that the November figures are an outlier and we'll see some improvement in subsequent months," he said. "The overshoot is really coming from public spending still rising sharply, while tax revenues are recovering but not nearly fast enough."

http://www.bloomberg.com/news/2010-12-21/britain-s-budget-deficit-swells-to-record-as-u-k-braces-for-spending-cuts.html

Italy's Jobless Rate Declined to 8.3% in Third Quarter as Economy Expanded

21 Dec 2010
Italy's unemployment rate declined in the three months through September from near the highest since 2003 as the euro region's fourth-biggest economy expanded for a third quarter. Joblessness fell to a seasonally adjusted 8.3 percent, from a revised 8.4 percent, statistics instituteIstat said today in Rome. Economists had predicted a rate of 8.3 percent, according to the median of four forecasts in a Bloomberg News survey.

Household confidence gained last month to the highest in almost a year as Italian consumers became more optimistic about the economic outlook. Italy's gross domestic product expanded 0.3 percent in the three months through September, more than the 0.2 percent previously estimated, Istat said on Dec. 13. Growth was sustained by a 2.8 percent increase in exports asconsumer spending advanced 0.3 percent, the institute said.

There are signs the recovery is losing momentum in the fourth quarter and employment gains may not last. The jobless rate climbed to 8.6 percent in October, the highest since monthly records began in 2004, Istat said on Nov. 30. With companies such as airline Alitalia SpA and Italy's biggest home- appliance maker Indesit SpA planning to reduce or relocate workers, household spending may not rise in coming months.

Alitalia is seeking to scrap 400 jobs and outsource 300 positions to other airports by June to help the carrier break even in 2011, newspaper La Repubblica reported on Dec. 7, citing labor unions. Indesit said this month it is closing plants near the cities of Bergamo and Treviso and offered workers incentives to relocate to the central and southern cities of Fabriano and Caserta. Those left jobless will be offered unspecified alternative arrangements, the company said.

Layoffs' Fund

Gains in unemployment this year were limited by the use of a state-backed fund for temporary layoffs known as cassa integrazione that pays redundant workers about 80 percent of their latest salary. About 600,000 workers receive payments under the CIG program, according to a Dec. 12 report by CGIL, Italy's biggest union. The real joblessness rate, which includes those paid by the fund, exceeded 11 percent in the second quarter, the Bank of Italy said in an Oct. 15 report.

Employers' lobby Confindustria forecast in a report last week that unemployment will reach 8.5 percent in 2010 and climb to 9 percent in the fourth quarter of next year. Confindustria revised its growth forecast for 2010 to 1 percent from a Sept. 16 estimate of 1.2 percent.

The Finance Ministry predicted in September that the $2.3 trillion economy will expand 1.2 percent this year, more than the 1 percent it projected in May. Istat originally reported an unemployment rate of 8.5 percent in the second quarter, the highest in seven years.

http://www.bloomberg.com/news/2010-12-21/italy-s-unemployment-rate-declined-in-third-quarter-from-near-7-year-high.html

New Zealand's Economy May Have Stalled as 'Quake Slowed Housing, Factories

21 Dec 2010
New Zealand’s economy may have almost stalled in the third quarter as the nation’s worst earthquake in eight decades slowed housing and manufacturing.

Gross domestic product rose 0.1 percent in the three months through September from the previous quarter, according to the median of 15 estimates in a Bloomberg News survey before a government report tomorrow at 10:45 a.m. in Wellington. The economy expanded 0.2 percent in the second quarter.

Slowing growth adds to the case for central bank Governor Alan Bollard to keep interest rates unchanged until at least the second quarter next year to revive consumer confidence from a 17-month low and bolster housing demand. That outlook has pushed the country’s currency down 6.3 percent from a 2 ½-year high reached in early November, and some economists predict it may weaken further next year.

“The economy has not gained as much traction as we had hoped through the middle parts of 2010,” said Nick Tuffley, chief economist at ASB Bank Ltd. in Auckland. “The household sector has been very soft,” and the Reserve Bank of New Zealand may wait until June to raise the cash rate, he said.

Five of 12 economists surveyed on Dec. 10 by Bloomberg News expect Bollard will keep the official cash rate at 3 percent until the April-to-June period, and three forecast the next boost will happen after June 30. Four predict a move in the first three months of the year.

Bollard’s Forecast

A majority of economists surveyed predict third-quarter growth was slower than the 0.3 percent Bollard estimated on Dec. 9. His forecast was completed before reports that manufacturing sales and homebuilding shrank during the same period.

Growth hasn’t been as slow as 0.1 percent since the April- June period in 2009, when the economy was recovering from five straight quarterly contractions as the global credit crisis contributed to the nation’s worst recession in three decades.

Growth returned through the middle of 2009, buoyed by a housing recovery and demand for the nation’s commodity exports from China and Asia.

Still, the pace of expansion slowed as consumers and companies preferred to reduce debt rather than spend or invest. Four economists surveyed by Bloomberg expect the economy shrank in the quarter, and two expect no growth.

On Dec. 9, the central bank cut its 2010 growth forecast and said borrowing costs needed to stay low until the recovery became more robust.

Retail Sales
Bollard lowered his 2010 outlook to 1.8 percent from 2.6 percent, citing domestic spending and the housing market.

Retail spending fell in July and was unchanged in August, although there was a gain in September before an Oct. 1 increase in the sales tax. A home-price index dropped in September and October, and prices declined in the third quarter from a March peak, the Real Estate Institute said last week.

The magnitude 7 earthquake that rocked Christchurch city and surrounding districts on Sept. 4 curbed retail spending and manufacturing in the final month of the quarter as offices and factories closed, the central bank said Dec. 9.

The Reserve Bank of New Zealand has estimated the cost of the rebuilding will be at least NZ$5 billion ($3.7 billion) spread mainly over 2011 and 2012.

Sales at Smiths City Group Ltd., a Christchurch-based furniture and appliances retailer, fell 12 percent in the three months ended Oct. 31 from a year earlier, it said on Nov. 4. Roads around its central city store were partly or completely closed, the company said in a statement sent to the stock exchange.

Currency's Rise

Weaker construction, manufacturing and exports likely curbed growth in the quarter, economists said. The nation's currency gained 7.2 percent against the U.S. dollar in the third quarter and yesterday was still about 6 percent higher than a year earlier. The value of residential construction fell 5.3 percent from the second quarter, Statistics New Zealand said on Dec. 8. Commercial building also declined in the quarter, reducing the demand for structural steel and reinforcing, Steel & Tube Holdings Ltd. Chief Executive Officer Dave Taylor told the annual meeting in Wellington last month.

Manufacturing sales fell for a third straight quarter, declining 1.4 percent, according to a statistics report Dec. 8. Export volumes fell in the third quarter led by meat, dairy and forestry shipments, according to figures on Dec. 10. "The New Zealand economy has some serious structural and growth issues that will likely weigh on the currency in 2011," TD Securities strategists including Annette Beacher, head of Asia-Pacific research in Singapore, wrote in a research note this week.

The South Pacific island's credit-rating outlook was lowered to negative by Standard & Poor's last month, and "it's unlikely to make much progress in closing its output gap in 2011," the TD Securities strategists said. Still, farm production is expected to have rebounded after a drought affected milk production in the three months to June. Exports account for about 30 percent of New Zealand's economy.

http://www.bloomberg.com/news/2010-12-21/new-zealand-s-economy-may-have-stalled-as-quake-slowed-housing-factories.html

Russian Market Review: 2010 Results

21 Dec 2010

Fionn Herriott Regional Customer Manager DHL Express

During his visit to Russia in September 2010, Frank Appel, DP DHL CEO told Vedomosti that "Russia managed quite well to cope with the financial crisis … you are returning very quickly today to a normal, stable situation. This allows us to be confident in the future of business in the Russian Federation."

We see the express-delivery industry as a barometer of the trade and economic situation. In 2010, companies saw significant growth in volumes, inside and outside Russia, reflecting growing customer demands. Although 2010 was not easy, following as it was on the heels of a global economic slowdown, it can be nevertheless seen as a rather successful year on the Russian market.

2010 saw some important express industry developments in Russia. The most interesting for our industry is the new customs union formed between Russia, Belarus and Kazakhstan. A recent study with the London School of Economics to gauge the influence of customs management on economic growth discovered that, at a global level, the more smoothly import and export operations work in a country, the more economic growth it sees. This is not rocket science: Countries that were able to make their work at the state borders more reliable, standardized and visible made a real breakthrough in terms of the growth of their economy. Anything that helps customs operations helps business and, in the end, helps the government. We support trade, both inside a country and internationally, and the customs union is designed to develop trade. Everyone wins from this.

Another important trend this year is the growing importance of sustainability issues in the Russian business community.

The logistics industry will be key to comprehensive carbon reduction efforts in most sectors due to its unique expertise and positioning along the supply chain. The leading logistics companies of the future will be those that provide sustainable services. This is the conclusion drawn by the study "Delivering Tomorrow: Towards Sustainable Logistics," released in October 2010 as a follow-up to the 2009 Delphi study on the top-10 future trends.

Innovations and state-of-the-art technologies were among the most popular topics in 2010.

For 2011, growth across all sectors of the economy is expected. There is optimism about increasing economic cooperation between Russia and the World Trade Organization and Shanghai Cooperation Organization, and the general outlook is also optimistic.

http://www.themoscowtimes.com/business/business_for_business/article/russian-market-review-2010-results/427378.html

Russian nuclear industry to conquer country of pyramids

22 Dec 2010

Russia is ready to build a nuclear power plant in Egypt at its own expense, to manage the plant, and even find markets for the electricity. Early next year Egypt is expected to announce a tender for the construction of nuclear power plant with the capacity of 1 GW 150 km from Alexandria. Russia's Rosatom will participate in the tender.

A meeting of Russian-Egyptian intergovernmental commission on trade, economic and scientific-technical cooperation was held on Monday. From the Russian side it was chaired by the Minister of Industry and Trade Viktor Khristenko.

"The Russian side expressed its readiness to assist in financing the project. This can include both government loans and loans from state-run commercial banks," Egyptian Trade and Industry Minister Rachid Mohamed Rachid said on Monday. Given the volume and long-term return on investment, public funds are often used as "long money" for such projects.

In turn, Viktor Khristenko said that Russia will participate in this tender and is ready to be flexible in choosing forms of financing. In particular, the option of building and managing the nuclear power plant by a Russian company with the further transfer of the plant to Egypt's ownership is not ruled out, reported the Voice of Russia.

The competition for this project is very serious. All countries that own the full cycle of technology development and operation of nuclear plants are planning to participate in the tender. In addition to the Russian state corporation Rosatom, participants will include companies from the U.S., France, Japan, South Korea and China.

"We are fully able to take at least 25% of the world market for construction and operation of nuclear power." This statement was made by Vladimir Putin in March during the launch of the second power unit of the Rostov nuclear power plant. In early 2009, Rosatom has received nearly 60 billion rubles for the purchase of foreign assets.

Russian specialists are erecting 5 power units abroad. Nuclear power plant Kudankulam (two units) is being built in India, already world famous Bushehr NPP (one unit) is being built in Iran, and Belene nuclear power plant (two units) is being constructed in Bulgaria. In August, Russia and Armenia signed an intergovernmental agreement on construction of a nuclear power plant on the territory of the Armenian Republic. Russia can finance 20% of the construction.

The plans to build power plants in India will likely be adjusted. Four more power units can be built on Kudankulam site. In August, Atomstroiexport announced that India offered Russia another, second site in West Bengal (Haripur) for 6 units, and these projects have been approved.

In the near future, small countries will be added to the nuclear community: Vietnam and Thailand are planning to start building nuclear power plants in 2014, the Netherlands wants to build the second nuclear power plant, Sri Lanka (Ceylon) is preparing the feasibility study for using nuclear energy in the country after 2020.

Currently the package of vacant contracts for the construction of new nuclear power plant for Rosatom abroad includes 35 power units. 19 projects already have relevant intergovernmental agreements. They include China (4 units), India (4 units), Belarus (2 units), Armenia (1 unit), Ukraine (2 units), Vietnam (2 units) and Turkey (4 units). Construction of power plants is planned in such countries as Egypt (3 units), Argentina (2 units), Kazakhstan (2 units), Slovakia (1 unit), Hungary and the Czech Republic (2 units), as well as Bangladesh and Jordan (2 units).

Today the information was released that Russia and India have agreed to build a total of 18 units at 3 Indian sites, including Kudankulam.

Promising markets include Venezuela, where, due to the shallowing of the rivers, hydropower is not that strong any more. Russia and Venezuela have signed a partnership agreement, although the United States, France and Germany hold strong positions in the Latin American market.

Recently the Russian Federation announced a new development in nuclear energy, floating nuclear power plants. The vessel is 144 meters long, 30 meters wide. Displacement is 21.5 tons. The installed electric capacity of each reactor is 35 MW, thermal power is 140 gigacalories.
The potential life of the station is 38 years: 3 cycles of 12 years, between which the repair occurs, reports a joint press release of "Concern Rosenergoatom" and United Industrial Corporation.

The floating plant can be used to produce electric and thermal energy, and in conjunction with the desalination plant it can be used for desalination of sea water. It is capable of producing from 40 thousand to 240 thousand cubic meters of fresh water every 24 hours.

Pravda.Ru
http://english.pravda.ru/business/companies/22-12-2010/116304-russia_egypt-0/

Afghans play down 'breakthrough'
Traders say Pakistani curbs on import of Indian goods limit US-brokered transit deal benefits.

22 Dec 2010
A new US-brokered transit deal between Afghanistan and Pakistan is being hailed as an economic breakthrough. But Afghan traders say they do not benefit from it because Pakistan will not let them bring Indian goods to their country.

http://english.aljazeera.net/video/asia/2010/12/20101222145513193515.html

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China 'ready to assist' euro zone
Europe's largest trading partner offers to help stabilize continent's debt-ridden economies.

23 Dec 2010
China will be willing to assist countries in the euro zone in returning to financial health, and will also support the International Monetary Fund element of a bailout package for the bloc, according to a Chinese foreign ministry spokeswoman. Making this announcement in Beijing on

Thursday, Jiang Yu said that the euro zone is one of China's most important foreign-exchange investment areas. Her comments followed reports that China could step in to shore up European finances. The EU is China's largest trading partner, with trade worth $388bn in the first 10 months of this year. Its trade surplus with EU stands at $117.1bn.

In trading on Thursday the euro steadied against the dollar and the Swiss franc, though analysts said the outlook for the currency remained shaky, with fresh losses expected into 2011. China has the world's largest foreign exchange reserves, totaling more than $2.6tn, mostly in US dollars. The country had offered to take more "concerted action" to support European financial stabilization measures, according to a *Financial Times* report on Wednesday. The report cited unnamed senior European officials, who had met Wang Qishan, the Chinese vice-premier.

Separately, a Portuguese newspaper reported that China was prepared to buy up to 5bn euros ($6.6bn) of Portuguese sovereign debt to help the country ward off market pressures. Investors have been concerned that the country would follow Greece and Ireland in seeking a bailout package.

Portuguese officials have said the government is attempting to diversify its debt investor base, with China seen as a priority. Fernando Teixeira dos Santos, the Portuguese finance minister, met his Chinese counterpart, Xie Xuren, and the head of the People's Bank of China during a visit to the country last week. Hu Jintao, the Chinese president, offered "concrete measures" to help Portugal's weak economy during a visit in November, but stopped short of offering to buy Portuguese bonds.

It remains unclear how far Beijing is willing to go, as authorities face domestic political pressure to invest the country's foreign reserves more carefully in the wake of the global financial crises. Several Chinese investment funds suffered large losses during the crisis.

Speaking to Al Jazeera, Martin McCauley, a professor on China at University College London, said the Chinese intervention would serve its own economic interests as well, allowing it to achieve technology transfer. This would enable it to manufacture more high-end goods. The move, therefore, will probably be accompanied by demands from China for the EU to relax heavy restrictions on high-tech goods, as well as the lifting of a 1989 arms embargo.

http://english.aljazeera.net/business/2010/12/2010122317422210305.html

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Cote d'Ivoire standoff deepens

World Bank stops loans to West African nation as disputed president insists on asserting his leadership.

23 Dec 2010

The World Bank has frozen finance to Cote d'Ivoire amid a political crisis in the West African country whose incumbent president, Laurent Gbagbo, insists on asserting his leadership in defiance of the international community's wishes. Robert Zoellick, the World Bank head, confirmed on Wednesday that the loans were stopped. The World Bank's aid commitment to Cote d'Ivoire was $841.9 million as of January 2010, according to the bank's website.

"The World Bank has currently stopped lending and disbursing funds to the Ivory Coast and the World Bank's office [in the capital Abidjan] has been closed," a statement from the organization said.

"The World Bank and the African Development Bank have supported ECOWAS [Economic Community of West African States] and the African Union, in sending the message to President Gbagbo that he has lost the election and needs to step down."

The decision drew a strong reaction from Gbagbo's team, with Yao Gnamiea, his special adviser on diplomatic affairs, calling the finance freeze unfair.

"This is a political deadlock, not a governance issue, and I strongly believe the decision is unfair, and uninformed," Gnamiea told Al Jazeera from Abidjan, Cote d'Ivoire's commercial hub.

"Cote d'Ivoire is a nation with its own legal system and institutions, and it will use all the resources it has to solve this problem."

http://english.aljazeera.net/news/africa/2010/12/20101222162641743382.html

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China needs stronger euro no matter what

24 Dec 2010
China will help the EU to fight the debt crisis. This was stated by Vice-Premier Wang Qishan at the opening of the Third Meeting of China and the EU on the issues of the economic and trade dialogue. China is ready to take "organized action," in particular, to continue buying up the bonds of those European countries that were hardest hit by the crisis.

For China, the EU is a major market for Chinese goods. In 2009, the volume of trade between the parties amounted to $429 billion. During the first 11 months of this year it has already exceeded $433.9 billion, which is 30% higher than last year.

China had a very sensitive reaction to the Greek issues. "When Greece has problems, China is ready to provide any assistance possible," said Prime Minister Wen Jiabao at a joint press conference with his Greek counterpart George Papandreou.

According to Wen Jiabao, Greece is the most "trustworthy friend of China in the European Union." The exact numbers of the European countries' debt purchased by the Chinese are not disclosed. However, the authorities of Portugal and Greece talked about significant investments of this kind.

Greece became China's best friend in Europe after the government of the country, concerned about the debt, began negotiations about introduction of Chinese corporations into strategic sectors of the country - transportation and tourism.

In particular, development projects in the ports of Piraeus, Thessaloniki, and Volos, railway construction and purchase of shipyards and shipping companies were discussed with COSCO (China Ocean Shipping Company).

It is worth noting that Greek ship owners control the largest merchant fleet in the world whose tonnage exceeds 20% of the world's volume. The fact that China supplies the bulk of their goods by sea is also well known. The Chinese government intends to establish a special fund of 6 billion euros for the "aid" to the Greek shipping companies.

COSCO is the largest freight carrier in China, and the second largest freight carrier in the world. In 2009, for 3.5 billion euros the Chinese company was provided a concession period of 35 years for some of the port facilities of Greek Piraeus, where it is building two container terminals.

In Greece, the growing presence of China is one of the most pressing and debated topics. The local population has negative feelings about it, which led to protests, which, incidentally, the Greek government has not paid much attention to.

Apparently, Beijing links the support for debt-laden European countries with the transfer of the most valuable (in terms of expansionary economic policies) assets of these countries to China. First of all it is strategic infrastructure.
A week earlier, Finance Minister Fernando Teixeira Portugal dos Santos talked about China's willingness to take part of the country's debt and increase investment in trade and economy. According to unofficial information, China is willing to buy government bonds in Portugal in the amount of 5.4 billion Euros.

It is easy to see that three of the four troubled countries in Europe, united by the acronym PIGS, own decent port facilities, fleets and associated infrastructure (Portugal, Greece, Spain). These ports are southern maritime gateway to Europe, port staging areas where the Chinese can develop economic activities.

In particular, the Chinese intend to open their own businesses at the terminals of Piraeus Chinese to finish the products coming from China. This will allow them to sell products with the European labeling and directly compete in EU markets. Naturally, in this case Chinese are not very happy with the fact that Euro is dropping in value.

China's medium term goal is to fight against weak euro. Stronger European currency is beneficial for the Chinese economy as it makes the goods produced by China cheaper, and therefore more competitive. It should be noted that the statement of the Chinese officials about the financial support of European countries already had an effect.

On Tuesday, at the Asian trading floors the euro rose against 15 currencies, including the dollar. The euro exchange rate in Tokyo rose to $1.3171 from $1.3131.

China is also the largest holder of U.S. treasury bonds. In October, China bought U.S. debt at the amount of $23.3 billion. As of the end of October, U.S. debt to China was at $906.8 billion.

Beijing is interested in diversifying its huge foreign exchange reserves that have reached $2.5 trillion by mid-year. This year, Beijing tripled the size of investments in government bonds of South Korea, which already amounted to 5.15 trillion Korean won ($4.6 billion).

Therefore, European bonds are of interest to the Chinese for purely financial reasons. In addition, the yield on risky bonds of crisis-stricken European countries is above average, which allows for quite significant interest profits.

Pravda.Ru
http://english.pravda.ru/business/finance/24-12-2010/116339-china_euro-0/

OPEC officials meet on oil supply
Ministers meet in Egyptian capital to discuss concerns regarding the rising price of crude oil.

25 Dec 2010
Ministers from the Organization of Petroleum Exporting Countries (OPEC) have said that there is no need to supply the world with more crude oil, even as prices traded close to a two-year high and increased concern that prices above $100 per barrel would increase inflation levels in developing economies. OPEC ministers met in Cairo, the Egyptian capital, where they discussed oil production and prices, but no formal decision on output is expected take place.

Ali al-Naimi, Saudi Arabia's oil minister, said on Friday that he was still happy with an oil price of $70-80 per barrel and there was no need for an extra OPEC meeting before the next scheduled one in June.

US crude closed at over $91 per barrel on Thursday and Brent closed 48 cents down at $93.46 on Friday after hitting $94.74 a barrel, its highest level since October 2008.

Mohammed Bin Dhaen Al Hamli, the UAE oil minister, said that he wants OPEC to comply better with output cuts the group agreed to in late 2008, and he believes that current prices did not reflect fundamentals.

Oil's more than 30 per cent climb from this year's low in May has revived concerns that prices could once again damage economic growth in fuel-importing countries.

China, the world's second-biggest energy user, raised gasoline and diesel prices to record levels on Wednesday as it aimed to encourage refiners to boost supplies to meet demand. And in India, the government is expected to decide next week whether to increase state-set fuel prices to cushion domestic oil retailers.

But Abdullah al-Attiyah, Qatar's oil minister, echoed the consensus at Saturday's meeting, saying that supply was not the problem, and that many oil producers have blamed high prices not on a lack of supply but on the influence of oil speculators.

http://english.aljazeera.net/business/2010/12/20101225125650171705.html

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Egypt injects $3.4bn stimulus
Finance minister announces plan aimed at allowing state employees to borrow against wages in bid to boost spending.

26 Dec 2010
Egypt has adopted a stimulus plan with the aim of injecting up to $3.44bn into the economy in the 2011 calendar year, the country's finance minister said. The plan, based on letting 5.7 million state employees borrow against their salaries to make retail and other purchases, is expected to boost economic growth between 0.50 and 0.75 of a percentage point, Youssef Boutros-Ghali said on Sunday.

"This non-budget stimulus plan is based on making sure that government employees can borrow from the banking system, with the guarantee of their salaries," Boutros-Ghali said during the ruling party's annual conference in Cairo.

Egypt's economy was growing by around seven per cent in the three years until the global financial crisis struck, slowing growth to 4.7 per cent in the 2008-09 fiscal year before recovering a little to 5.1 per cent in 2009-10. The government believes it needs a minimum of six per cent growth to absorb new entrants to the labour force. Boutros-Ghali said this month he expected the economy to grow by seven per cent in the financial year beginning in July 2011 and by eight per cent to 8.5 per cent the year after.

Negotiated rates

"This plan aims to utilize the earning power of state employees and to ignite a stimulus bounce, a direct spending bounce," he said. The *al-Akhbar* newspaper said on December 15 that the finance ministry had contracted with National Bank of Egypt, Banque du Caire and Alexbank to provide the finance using the employees' salaries as security.

Boutros-Ghali said the government had negotiated reduced rates of interest from the banks. He also said the loans could be for any amount, but monthly installments could not exceed 30 per cent of a borrower's monthly salary. "We also negotiated with insurance companies because part of the loan has a life insurance plan that would pay back the loan if something happened to the borrower," he said.

http://english.aljazeera.net/news/middleeast/2010/12/2010122618281280980.html

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South Africa to Join BRIC

28 Dec 2010
Bloomberg
JOHANNESBURG — South Africa has been formally asked to join the BRIC group of major emerging markets, comprising Brazil, Russia, India and China, bolstering its position as Africa's champion. Chinese President Hu Jintao wrote a letter to his South African counterpart, Jacob Zuma, to inform him of the decision and inviting him to the BRIC's third heads of state meeting

in Beijing next year, Chinese Foreign Minister Yang Jiechi said in a statement on his ministry's web site Friday.

South Africa, which has a population of 49 million compared with China's 1.36 billion, is betting on raising its clout on the world stage by joining BRIC, while strengthening political and trade ties within the bloc. The country accounts for about a third of gross domestic product in sub-Saharan Africa and will offer BRIC members improved access to 1 billion consumers on the continent and mineral resources including oil and platinum.

Joining the group is "the best Christmas present ever," South Africa's Minister of International Relations and Cooperation Maite Nkoana-Mashabane told reporters in Pretoria. "We will be a good gateway for the BRIC countries. While we may have a small population, we don't just speak for South Africa, we speak for Africa as a whole."

Zuma has made state visits to all of the BRIC nations since coming to power in May 2009 and the government has "lobbied very hard" to be included in the group, which will now be known as BRICS, Nkoana-Mashabane said.

Africa's biggest economy is a "powerful country," even though it's small compared with the other BRIC nations, Alexei Vasiliev, President Dmitry Medvedev's envoy to Africa, said Dec. 22.

South Africa has an economy of $286 billion, which is less than a quarter of that of Russia, the smallest of the BRIC nations. Its population is also dwarfed by India's 1.2 billion, Brazil's 191 million and Russia's 142 million.

Goldman Sachs Group economist Jim O'Neill coined the BRIC term in 2001 to describe the four nations that he estimates will collectively equal the U.S. in economic size by 2020. "South Africa's economy is very small," O'Neill, who is now chairman of Goldman Sachs Asset Management International, said in an interview from London. "For South Africa to be treated as part of BRIC doesn't make any sense to me. But South Africa as a representative of the African continent is a different story."

At their first summit in Russia in June last year, the BRIC heads of state called for emerging economies to have a greater voice in international financial institutions and for a more diversified global monetary system.

"South Africa as a country is small, but if we go there as a regional market, that's a different story," said Martyn Davies, chief executive of Johannesburg-based Frontier Advisory, which provides research and corporate finance services on emerging markets. "For South Africa, it's nice to be associated with the big boys."

South Africa is the only African nation represented in the Group of 20, and will take up a two-year seat on the United Nations Security Council along with India and Brazil next year, resulting in all BRIC nations being represented on the council. The African nation is also part of a trilateral group with India and Brazil, known as IBSA, created in 2003 to coordinate action between the three emerging economies in global forums.

"We bring the most diversified and most advanced economy on the continent," said Nkoana-Mashabane. "We may not be the same size, but we can open up opportunities for them and through that, we can complete our economic integration on the continent.

http://www.themoscowtimes.com/business/article/south-africa-to-join-bric/427910.html

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Islamic banking gaining momentum

Sector manages to skirt effects of recession and impress many with its emphasis on profit instead of interest.

28 Dec 2010

The last few years have been volatile for banks around the globe, but Islamic banking has managed to steer a steadier course and is growing fast, as Al Jazeera's Imran Khan reports from Doha. The sector is worth billions of dollars and, according to some estimates, has grown by 20 per cent. The concept of Islamic banking is based on making profit through trade rather than interest, which is against Islamic religious law. Almost every bank in Qatar is boasting its Islamic credentials, and they are not alone.

Speaking to Al Jazeera about the phenomenon, R Seetheraman, CEO of Doha Bank, said: "Islamic banking is not confined to only traditional Muslims. Non-Muslims are [also keen on] Islamic banking."

He said the shift to Islamic banking has already been seen in countries such as Japan, Korea, Singapore and Canada.

http://english.aljazeera.net/video/middleeast/2010/12/201012288520313954.html

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OPEC turns 50

OPEC, the giant oil bloc, is marking its 50th anniversary amid continuing speculation over its impact on oil markets.

Fifty years into its existence, the Organization of the Petroleum Exporting Countries (OPEC), the Vienna-based oil bloc, continues to dominate the global oil market.

Its omnipresence is more acutely felt in the crude oil business.

Politically, however, the organization is not as potent a force as it could be. Its dozen members are often incohesive in their actions, sometimes pursuing contradicting political agendas.

The organization, which is 50 years old today, was founded in Baghdad, Iraq on September 14, 1960.

The founding members were Iraq, Iran, Kuwait, Saudi Arabia and Venezuela, with the five oil producing nations seeking to control their crude output in a bid to increase prices and hence their revenues.

Today, OPEC has 12 members: Saudi Arabia, Iran, Iraq, Kuwait, Venezuela, United Arab Emirates, Algeria, Nigeria, Ecuador, Angola, Libya and Qatar.

Indonesia joined in 1962 and withdrew in 2008 for not developing enough wells, and Gabon joined in 1975 and withdrew in 1996.

OPEC members produce about 40 per cent of the world's oil. The group meanwhile possesses about 60 per cent of the world's proven crude oil reserves.

Alternative energy

Despite half a century of continuous oil exporting revenues, OPEC members are still heavily dependent on oil exports as a source of revenue, an issue that prompted Abdalla El-Badri, the organization's secretary general, to urge member states to seek alternative forms of energy.

"Oil is a finite product," he told the German Press Agency dpa. "I think we need, after 50 years, to find another source of income.

"I am not saying they should abandon oil, but they should use oil to find another source of income, be it from industry, tourism or alternative energies."

OPEC refuses to be classified as a cartel. The organization says it was formed to draw a line to Western oil firms, which had been taking all the profit from oil producing operations, and that the countries where oil was pumped wanted a bigger say.

"OPEC was created because they [member states] were getting nothing from their resources," El-Badri said.

The issue of whether the 50-year-old organization is still solid and enjoys a grip on the market is highly controversial among analysts.

However, OPEC remains a key influence on oil markets, with non-OPEC output set to fall and consumers burning fossil fuels despite higher demand for renewable energy.

OPEC powerless?

Some experts say that OPEC has lost a lot of its power to shape prices directly by raising or throttling supply since the oil shocks of the 1970s, but that markets still react to its announcements.

Ahmed Zaki Yamani, the former Saudi oil and mineral resources minister, and one of the most notable figures in the world of oil markets, believes that OPEC lost much of its power after the Arab-Israeli war in 1973.

"The plan of using oil as weapon failed … we did not wait enough to reap what we sowed, and the result was OPEC loosing its power," Yamani told Al Jazeera.

However, other observers believe the organization is still influential on its silver jubilee.

Above the demographic and political differences separating members such as Algeria, Iran, Nigeria and Venezuela is "a common bond sealing the organization together - the countries' dependence on revenue from oil," said analyst Francis Perrin, from the publication *Petrole et Gaz Arabes*.

OPEC showed off its political might during the 1970s, when it significantly slashed output following the Arab-Israeli conflict and Iranian Revolution. The global oil price soared as a result.

External competition

But stiffer competition surfaced a decade later as non-OPEC oil producers came to the fore, thanks to ramped-up production in the North Sea.

In more recent times, Russia has become an increasingly important producer, able to compete with the likes of Norway and OPEC members such as Nigeria and Qatar.

Recently, however, Nobuo Tanaka, the head of the International Energy Agency, said that global dependency on OPEC for crude oil would in fact rise in the next five-to-10 years as output by non-OPEC countries falls.

All oil producers meanwhile face the risk of greater demand for cleaner and renewable biofuels amid climate change fears and recent spikes in the price of crude oil.

Shaking off the threat, producers and consumers agreed at the International Energy Forum in April that fossil fuels would provide the bulk of the world's energy needs for "decades" to come.

Barclay's Capital analyst Paul Horsnell agreed that talk of OPEC's demise was "somewhat premature".

"There is still, in our view, something of an anti-OPEC slant in much coverage, with analysis tending to rush to write-off OPEC's relevance, understate the cohesion of its aims, and to play down its effectiveness as an influence.

"Indeed, throughout the latest economic cycle, it is very difficult to make the case that OPEC has not been effective in defending prices," he added.

Steady market

World oil prices have traded between $70 and $80 a barrel (159 litres) for a number of months - a range which OPEC members have deemed adequate.

However, two years ago the market was vastly different in the run-up to and during the financial crisis.

Geopolitical tensions sent crude futures spiking to record highs above $147 a barrel, before the economic crisis sent them tumbling to just $33.

The slump in prices saw OPEC members cut their output quotas by about 20 per cent - an unprecedented amount in the group's history.

El-Badri called for trading of future contracts of oil to be regulated to some extent, to avoid another price spike like the the one of summer 2008, when crude hit $147 dollars per barrel.

Looking ahead, OPEC could well see a spike in its production as Iraq seeks to lift output to 12 million barrels a day within six years, up from 2.5 million at present as the country recovers after years of conflict.

That would catapult Iraq to the second largest oil producer in OPEC behind Saudi Arabia.

"It is a major challenge," said Jean-Marie Chevalier, an energy market expert at the Dauphine University in Paris, who added that the goal relies on large-scale foreign investment materializing.

http://english.aljazeera.net/indepth/2010/09/201091484454366337.html

Castro: Cuban model no longer works

Revolutionary leader doubts own actions during 1962 missile crisis and criticises Iran's president.

Fidel Castro has said that Cuba's economic model no longer works, a US-based journalist reports after interviews with the former president.

The Atlantic magazine's Jeffrey Goldberg blogged about the interview, that revealed a surprising look at Castro's frame of mind.

When Goldberg asked Castro, 84, if Cuba's model of Soviet-style communism was still worth exporting to other countries, he replied: "The Cuban model doesn't even work for us anymore."

The comment, delivered over a casual lunch of fish, salad, bread and red wine, appeared to reflect Castro's agreement, which he also expressed in a column for Cuban media in April, with his younger brother and current president, Raul Castro, who has initiated modest reforms to stimulate Cuba's troubled economy.

The following day, Castro invited Goldberg to the Havana Aquarium for a dolphin show, and seemed to have some fun at the reporter's expense by inviting him to ask questions - about dolphins.

"'Goldberg,' Fidel said, 'ask him questions about dolphins ... 'You're a journalist, ask good questions'."

They were accompanied to the aquarium by Adela Dworin, a local Jewish leader, who Castro kissed in front of the cameras in a possible message to Iranian leaders, Goldberg said in his Wednesday blog post. Goldberg described Castro as physically frail, but energetic and mentally acute.

State control

The reporter also said that Julia Sweig, a Cuba expert at the Council on Foreign Relations think-tank in Washington who accompanied him to Havana, believed Castro's words reflected an acknowledgement that "the state has too big a role in the economic life of the country".

Such sentiment would help President Raul Castro, who took over from his brother in 2008, against those members of the ruling Communist Party who oppose his attempts to loosen the state's hand, Sweig told Goldberg.

Goldberg wrote in an earlier blog post on Tuesday that Castro summoned him to Havana to discuss his recent article about the likelihood of conflict between Israel and Iran, with possible US involvement, over Iran's growing nuclear capabilities.

He said Castro criticised Mahmoud Ahmadinejad, the Iranian president, for anti-Semitism and denying the Holocaust. Castro, since emerging in July from four years of seclusion following intestinal surgery, has made comments against nuclear weapons and expressed concern about the future of the world. He fears that if the US and Israel try to enforce international sanctions against Iran for its nuclear activities, nuclear war will break out.

Castro also doubted his own actions during the 1962 Cuban missile crisis when he urged the Soviet Union to launch nuclear weapons against the US, telling Goldberg that "knowing what I know now, it wasn't worth it all".

http://english.aljazeera.net/news/americas/2010/2010/2010/09/20109971314731875.html

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Cuba's changes: what would Che say?

Plans to sack 500,000 state workers in the next year might not spell an end to socialism, just a reconfiguration.

Chris Arsenault

It is hard to imagine what Che Guevara, the legendary communist revolutionary, would make of Cuba's plan to lay off 500,000 state workers by 2011 as the island moves closer to a market economy.

Since his death in 1967 at the hands of US-backed forces in Bolivia, Guevara's iconic image has been used to sell everything from soda pop to cheap Chinese made t-shirts. Even symbols of socialism have great commercial value, suggesting the philosophies that motivated Guevara resonate on some level with a wide variety of people.

Given this "revolutionary" legacy, market reforms might not spell the end for Cuban socialism, which has outlasted ten US presidents since the 1959 revolution.

"Che would have understood that Cuba exists in the real world," Isaac Saney, a Marxist scholar and author of *Cuba: A Revolution in Motion,* told Al Jazeera. "You have to be able to live within your means and the state sector itself can no longer carry people who are not involved in productive activities."

Presently, Cuba's socialist government employs about 90 per cent of the labour force, according to John Kirk, a professor at Dalhousie University in Canada**,** who has worked as a translator for Aleida Guevara, Che's daughter.

"You'll often have two or three bus drivers sharing the work of driving one bus … the bottom line is that the Cuban economy is not efficient," Kirk told Al Jazeera.

Formally announced in late September, the lay offs reportedly began this week. Unemployed workers will be encouraged to get small business licenses and start work in one of 124 chosen fields - creating their own jobs managing restaurants, driving taxis, installing plumbing, grooming dogs or operating farms, Kirk said.

Margaret Thatcher in Havana?

At first glance, the massive lay offs may look like Cuba's adoption of neoliberalism, with Raul Castro, Cuba's president, taking on the role of a Latino Margaret Thatcher or Ronald Reagan – western politicians who gutted the public sector in favour of private enterprise and profit.

Kirk suggested that "the laid off people will work in three basic employment groups".

"The largest portion will keep doing what they have already been doing - [illegally running small businesses]. The underground economy in Cuba is massive. The second largest group will go into farming. They don't want to do it but there is no alternative, and the government will make growing veggies attractive. The third group will go work for foreign investors."

In an attempt to avoid the massive inequality and dislocation that often follow market reforms, Cuba has vowed to maintain its public health and education systems. These so-called "jewels" of the revolution, which don't fit into the ideology of free market capitalism, have garnered praise from the United Nations, International Monetary Fund and many other international bodies.

"Cuba demonstrates how much nations can do with the resources they have if they focus on the right priorities - health, education, and literacy," Kofi Annan, the former UN secretary general, said in 2000.

Even after market reforms come into effect, Kirk says Cuba will still "have the best statistics for infant mortality and literacy in the developing world."

These public services provided by a socialist government may, ironically, be Cuba's ticket to a successful transition towards a market economy.

"Biotechnology exports earned Cuba approximately $300m last year, and they continue growing," Kirk said. "They produce 83 per cent of their own pharmaceutical products. The drugs are cheap and they don't depend on [Western pharmaceutical] cartels."

As nations in the global South search for cheaper drugs - lifesaving products that are not priced out of the poor's reach by Western drug companies - Cuba's well educated population could stand to benefit.

But for now, tourism and nickel mining, along with remittances from Cubans living abroad, are the country's largest sources of foreign currency.

Red-tape and 'inefficiencies'

Biotechnology development and other advanced, knowledge intensive, export businesses which utilise the country's high levels of education, are hampered by a lack of investment capital, outdated machinery, and government red-tape.

Colin MacDonald, a Canadian businessman who chairs the board of directors at Clearwater Seafoods Limited, a multinational fisheries company, experienced some of these economic irritants first hand.

He visited Cuba at the government's request several years ago as a consultant to the island's lobster industry, and what he experienced could be analogous to broader economic set backs.

During processing, lobsters need to be moved from ambient to cold water tanks to keep them healthy and tasty. "The cold water tank at the Cuban operation was broken and everyone knew it. Nobody reported it, including local management, as they did not want to be the messenger with bad news," MacDonald told Al Jazeera.

"The workers continued moving the lobsters as if the cold water tanks worked, which meant they would experience high mortality" when they were shipped to overseas markets.

"The system was organised so people were disincentified to do a good job as they were paid, in money and compliments, the same no matter how well they did or did not do the job," the businessman said, underlying some of the historical critiques of socialism as an economic system.

The average government employee in Cuba earns about $20 per month, although food, accommodations and other necessities are heavily subsidized.

The China option

Some analysts believe Cuba will follow the economic trajectory set out by Deng Xiaoping, China's former leader, who proclaimed "getting rich is glorious" when he opened the country to market reforms in the 1980s. Or nominally communist Vietnam, which is experiencing high levels of economic growth due to a similar set of policies called *Doi Moi* or the opening.

But Isaac Saney doesn't see that happening. "Unlike [China or] Vietnam, Cuba has faced 50 years of financial and commercial blockades from the US."

The US first imposed a trade embargo in 1960, one year after Fidel Castro, Che Guevara and other revolutionaries overthrew the US-backed dictator Fulgencio Batista.

"So much hinges on the US normalising relations. That is the logical market for investment and exports," Kirk said. Despite the embargo, much of the seed money for new small business is expected to come from Cuban's living abroad, particularly in Miami.

With the fall of the Berlin Wall, it became fashionable for western intellectuals to link economic liberalisation with political freedom. But with the rise of state capitalism in single-party states like China and Vietnam, along with rapid growth in other market-orientated non-democratic countries such as the United Arab Emirates and Qatar, that interpretation does not seem correct.

Cuba remains a one party state with heavily censored media controlled by the ruling communist party. In a country with almost universal literacy and high rates of university education, Cubans deserve something better than *Granma* newspaper which carries "a very dry, one dimensional party line," according to Kirk.

US intervention

Some hardliners in the government fear economic openings could lead to renewed violence from the US, who backed Cuban exiles linked to the mafia in an unsuccessful attempt to invade the island in 1961 at the Bay of Pigs.

Since then, the US has tried to assassinate Fidel Castro, the former Cuban president and Raul's brother, on several occasions. An exploding cigar was reportedly one of the plans.
"The [US] state department has already set up shop for people who want to work for 'civil society' in Cuba to build institutions to bring down the government," Kirk said.

During the revolution in 1959, Delia Luisa Lopez Garcia was a student radical coordinating armed campaigns at the University of Havana, where she is now a professor of economics. Standing four feet, ten inches tall, Dr Garcia is fully trained with an AK-47 assault rifle and embodies much of the intellectual culture of socialist Cuba.

"After the end of the Cold War, it seemed as though the neoliberals won," she told Al Jazeera during a 2007 interview in Havana, Cuba's capital. Most observers in the US believed Cuban socialism would collapse along with the Soviet Union.

"Now, in many places, neoliberalism has been rejected because it was not successful," Garcia said. "Brazil kicked out the IMF [International Monetary Fund], as did Argentina… States need to take power back from companies in order to have control over economic policies."

In the wake of the 2008 economic crisis, when western governments spent hundreds of billions of dollars in public funds bailing out banks, it was Nicolas Sarkozy, France's conservative president, who proclaimed the end of "Anglo-Saxon capitalism".

"The approach in the media is that the Cuban revolution is on the skids," Kirk said. "Before you throw out the baby with the bathwater, look at what is happening in the rest of the world … look at capitalism, look at the bailouts and the recession."

As the global financial crisis holds large economies for ransom, it seems ironic that Cuba's economy breaks a long held tradition and edges closer towards the free market system.

However, with many different models of capitalism practiced throughout the world, there is nothing to prevent Cuba from defining a distinct system, appropriate to its modern history and better suited to its ideals.

Whether or not Che Guevara would support Cuba's economic changes is a matter for biographers, historians, and activists to try and decide because, in the next few years, Cubans are going to be busy cutting hair, growing crops, fixing tractors and seeking foreign investment.

http://english.aljazeera.net/indepth/features/2010/10/2010107213550484837.html

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European banks: The last idealists

Europe's banks are built for a single currency zone. What happens if parts of it default or leave?

09 Dec 2010

THE European project's greatest fans are supposed to be war-scarred visionaries and remote sheep farmers keen on new roads being built to their front gates. But the truest believers of all have been banks. Over the past decade they have expanded across a continent they thought was becoming indivisible. Their faith has meant that cross-border bets within the euro zone were far more aggressive than elsewhere.

Should a country default or abandon the euro for a new, cheaper currency, it would destabilise banks in other euro-zone countries. Even if the risk of an immediate blow-up is low, the new reality of a currency area in which the risk of default varies from country to country means banks must rethink their approach.

A sense of Europe's destiny was not the only influence on banks. Capital rules were also important, points out Simon Samuels, an analyst at Barclays Capital. Banks did not (and still do not) need to carry buffers against the government bonds of a euro-zone country, be it Germany or Greece. And since any country's assets can be used as collateral when borrowing from the European Central Bank (ECB), and all countries are supposedly irrevocably tied to the same currency, the old rule that a bank's assets and liabilities in a country should roughly match was discarded. Banks could gather deposits from thrifty Germans and lend them out to fast-living consumers and companies on Europe's periphery. That appeared to involve taking credit risk, but not currency or country risk.

The result has been a surge in cross-border lending. The Bank for International Settlements (BIS) estimates that of the €1.9 trillion ($2.6 trillion) of exposure that banks had to Greece, Ireland, Portugal and Spain at the end of March, 78% sat with banks elsewhere in the euro zone or in Britain. Such exposure is reflected in the share prices of banks in the big and stable European countries, which are wagged by the tail of their smaller neighbours. And it is revealed by the terror of policymakers, who would rather bail out the weak than see defaults bring down banks at home.

If bail-outs do not restore confidence, though, Plan B (to the extent that one exists) is that in a few years some countries might peacefully restructure their debts while staying in the euro. For many banks this could be as bad as Plan C (an Argentine-style simultaneous default and devaluation), because losses on bond holdings might imperil their own solvency and further cut them off from market funding. The ECB might also hesitate to support rickety banks domiciled in countries with bust governments, or accept collateral from those countries even if posted by "safe" banks in the more stable parts of Europe.

The direct costs for Europe's banks of either form of collapse might be bearable. A 20% loss on euro-zone and British banks' combined exposure to Greece, Ireland, Portugal and Spain would mean a hit of about €300 billion.

That is a fraction, albeit a hefty one, of the €1.1 trillion aggregate Tier 1 capital of the 91 European banks that were stress-tested earlier this year. Some think the BIS data overstate the danger. For instance, German regulators reportedly believe their banks' exposure to Ireland is only €25 billion-30 billion, against a BIS number of €150 billion. This echoes the complaints of Austrian bankers in 2008, who said the BIS figures on their exposure to eastern Europe exaggerated the true risk and panicked the markets unnecessarily.

The German regulators may have a point. After including the hedges and offsetting positions that their banks have in Ireland, and allowing that loans to vehicles in Ireland may in turn be loaned to other countries, German banks' exposures to Ireland are far lower than the headline BIS figures. Still, although there are lots of discrepancies between what the banks say and what the BIS says, there does not seem to be a bias in a particular direction for Europe as a whole. That suggests the overall BIS figures are a passable guide.

In any case, as Alastair Ryan of UBS points out, the impact on banks of a collapse would depend not only on the size of exposures, but also on the quality of collateral, the solidity of the counterparties with whom hedges have been taken out, and whether local money had been used to fund loans.

The most vulnerable banks would be those with simple cross-border loans funded by money raised at home. Many German banks seem to be in this position, as may some investment banks and some universal banks, such as Barclays, that have retail loans in peripheral Europe that exceed their deposits there.

Better positioned, particularly against the risk of devaluation, are firms with subsidiaries that have their own capital, deposits and debt. When Argentina's government defaulted and its currency was devalued against the dollar in 2001-02, foreign banks' assets took a double hit. But this was partly offset by the decline in the dollar value of banks' local deposits and debts. The net amount that many European banks wrote off was surprisingly low—mostly the equity they had invested plus loans the parent company had made to the Argentine subsidiary.

The potential costs to banks of a blow-up in the periphery may then be lower than they first appear. Royal Bank of Scotland (RBS) had £62 billion ($100 billion) of assets in its Irish and Northern Irish subsidiary at the end of 2009, equivalent to about 80% of its Tier 1 capital. But its minimum exposure—its invested equity plus its net loans to its subsidiary—was £17 billion. In the event of a devaluation, it could be easy for banks partly to "default" on their local debts by converting them to the new currency. So, for example, RBS could repay its Irish subsidiary's depositors and creditors in devalued Irish punts.

Absent a devaluation, it would be hard for banks to inflict pain on their local units: abandoning foreign subsidiaries is taboo. So when eastern Europe was in trouble in 2008, western European banks were under political instructions not to withdraw. “Funding lines were maintained far better than we previously imagined,” says Huw van Steenis, an analyst at Morgan Stanley. That was in part a result of the so-called Vienna Accord, a 2009 agreement between banks and governmental bodies not to flee. Mr van Steenis reckons banks would be unlikely to abandon their local retail units today. Some have deepened their ties. Crédit Agricole has increased funding to Emporiki, its Greek subsidiary, to make up for a loss of deposits there. Including equity and net loans, the French bank now funds over a third of its Greek unit’s balance-sheet (see chart).

The rational strategy for banks, however, is to be sneaky. In public they should insist loudly on their firm commitment to subsidiaries in peripheral countries. This will reassure local depositors and thus reduce the need for funding from headquarters. In private, banks should hedge their bets by loosening their ties with foreign units, boosting their capital, and ensuring local loans match deposits. That way they would be better protected from losses in the event of a devaluation.

The end-game for European banking may not now be full integration, but a veneer of it that covers newly built national silos. In the optimistic case, peripheral economies may still be forced to deleverage faster, because foreign banks want to shrink their loans to match their deposits. Businesses will pay a higher cost of capital than rivals in safer countries. The danger is that this process itself creates a crisis: as banks lower their exposure to peripheral Europe and weaken their guarantees to depositors and creditors there, they imperil recovery and spark yet more runs.

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All pain, no gain?

In a single currency it is hard to become more competitive and repay your debts

09 Dec 2010

BY OFFERING partial bail-outs to countries in the euro area, the authorities are buying time. Time for what? The hope is that over a few years the indebted economies on the continent’s periphery, such as Ireland and Greece, will be able to restore their competitiveness. That would boost their exports and output, helping them to close their fiscal and current-account deficits. Just how realistic is this hope?

Competitiveness is usually taken to mean keen prices: if the price of cars produced in one country falls, foreign demand for them expands. In a monetary union, with the nominal exchange rate irrevocably fixed, it is not possible to gain competitiveness by currency depreciation. The only way is to reduce costs, relative to countries inside and outside the currency area. Economists sometimes refer to this as a “real depreciation” or “internal devaluation”. That requires slower price and wage growth or faster productivity growth than elsewhere. Given today’s low inflation rates, it means outright declines in prices and wages.

In the decade and a half before the crisis, countries such as Greece, Ireland, Portugal and Spain lost a lot of competitiveness. Low interest rates led to a surge in domestic demand. That, coupled with rigid labour markets in some places, led to sharp rises in nominal wages. At the same time productivity growth was not vigorous enough to compensate. By contrast, for a decade after its reunification boom turned sour in the mid-1990s, Germany took bitter medicine, holding wages down and boosting productivity. The result was a steady erosion of the peripheral countries' competitiveness, especially relative to Germany (see chart).

Somehow the peripheral economies have to reverse this trend. Their reform packages are designed in part to improve productivity: Greece, for example, is trying to cut red tape and break its monopolies. But much of the task lies in reducing wages and prices. Some countries' efforts seem to be working. In Ireland, labour costs have fallen for two years and inflation has been negative for more than one. Public-sector pay packets are up to 15% lighter and will be lighter still after this week's budget.

In Greece, however, the picture is less clear. Wages are heading down. But other costs are not falling. The country's inflation rate, at 5%, is still well above Germany's, although part of that differential is due to increases in value-added tax. Spain and Portugal, meanwhile, are only slowly waking up to the severity of their competitiveness problems. Even now inflation in these countries remains above the average for the euro area.

Will shock therapy help to restore competitiveness in these countries? There are three big hurdles. The first is history. Under the gold standard, countries used price and wage deflation as a means of adjusting to trade deficits. But a new study by the World Bank* suggests reasons for pessimism, at least in modern economies. Looking at the experiences of 183 countries between 1980 and 2008, it does not find many episodes of sustained deflation.

Argentina provides a telling example. Like the peripheral euro-area countries, it lost competitiveness during the ten years after 1991 when the peso was fixed to the dollar. It endured three years of deflation before its economy and dollar peg collapsed in 2001. The CFA (African Financial Community, formerly French Community of Africa) franc zone supplies another cautionary tale. Median inflation from 1986 to 1993 was 0.3%, and several countries experienced outright deflation towards the end of this period. But this failed to restore competitiveness, and there was a large devaluation in 1994.

A more encouraging conclusion can be drawn from Estonia, Latvia and Lithuania. All three Baltic countries pegged their currencies to the euro in the early to mid-2000s: they enjoyed booms, then lost competitiveness and were hit by the crisis in 2008. Output collapsed but they maintained their pegs and introduced austere policies. They are now showing tentative signs of recovery, based on exports. Anders Aslund† of the Peterson Institute reckons that their resolve reflected the fear among the public and officials that the sovereignty of these newly independent countries could be threatened. It also helped that their economies were so open: this forced them to respond quickly, as Ireland has had to do.

The second reason to be wary is that the chances of reviving exports also depend on the type and quality of goods a country makes and who its competitors are. Not everyone can be Germany, excelling at selling capital equipment and luxury cars, not least to booming emerging economies: this month Mercedes said its sales in China in the first 11 months of 2010 were more than double those in same period last year. This market position is extremely hard to replicate. For peripheral countries that specialise in lower-tech industries, China is less an export opportunity and more a competitive threat (see chart). The worry is that such countries depend on selling commoditised products of which they may never be the cheapest producers.

The last problem for peripheral countries trying to deflate their way to competitiveness is the biggest: debt. The more wages and prices fall, the bigger debt burdens become in real terms. If the economy continues to shrink—nominal GDP dropped by about 30% in Latvia and has fallen by 20% in Ireland—there will be less money to service debts. This is the trap that Europe's peripheral countries are in. They must become more competitive in order to export, grow and ease their debt burden. But the more they lower wages and prices, the harder that burden is to bear. As Irving Fisher noted almost 80 years ago, the struggle to reduce debts can sometimes increase indebtedness.

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The world's biggest economy: Dating game

When will China overtake America?

16 Dec 2010

FORGET Monopoly or World of Warcraft. *The Economist*'s idea of Christmas fun is guessing when China's economy will leapfrog America's to become the world's biggest. The Conference Board, a business-research group, recently predicted that China could become the world's largest economy as soon as 2012 on a purchasing-power-parity (PPP) basis, which adjusts for the fact that prices are lower in China. But economists disagree on how to measure PPP. And America will only really be eclipsed when China's GDP outstrips it in plain dollar terms, converted at market exchange rates.

Since by that reckoning China's GDP is currently only two-fifths the size of America's, that day may still seem distant. But it is getting closer. When Goldman Sachs made its first forecasts for the BRIC economies (Brazil, Russia, India and China) in 2003, it predicted that China would overtake America in 2041. Now it says 2027. In November Standard Chartered forecast that it will happen by 2020. This partly reflects the impact of the financial crisis. In the third quarter of 2010 America's real GDP was still below its level in December 2007; China's GDP grew by 28% over the same period.

If real GDP in China and America continued to grow at the same annual average pace as over the past ten years (10.5% and 1.7% respectively) and nothing else changed, China's GDP would overtake America's in 2022. But crude extrapolation of the past is a poor predictor of the future: recall the forecasts in the mid-1980s that Japan was set to become the world's largest economy.

China’s growth rate is bound to slow in coming years as its working-age population starts to shrink and productivity growth declines.

Make your own predictions by adjusting the figures in our interactive chart

Then again, the relative paths of dollar GDP in China and America depend not only on real growth rates but also on inflation and the yuan’s exchange rate against the dollar. In an emerging economy with rapid productivity growth the real exchange rate should rise over time, through either higher inflation or a rise in the nominal exchange rate. Over the past decade annual inflation (as measured by the GDP deflator) has averaged 3.8% in China against 2.2% in America. And since China ditched its strict dollar peg in 2005 the yuan has risen by an annual average of 4.2%.

The Economist has created an online chart (www.economist.com/chinavusa) that allows you to plug in your own assumptions about future growth, inflation and the exchange rate. Our best guess is that annual real GDP growth over the next decade averages 7.75% in China and 2.5% in America, inflation rates average 4% and 1.5%, and the yuan appreciates by 3% a year. If so, then China would overtake America in 2019 (see chart). If you disagree and think China’s real growth rate will slow to an annual average of only 5%, then (leaving the other assumptions unchanged) China would have to wait until 2022 to become number one. Americans would still be much richer, of course, with a GDP per head more than four times that in China. But don’t expect that to dampen Chinese celebrations, whenever they come.

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Climate-change diplomacy: Back from the brink

The UN climate conference achieved some results, albeit modest ones

16 Dec 2010

CANCÚN: WATCHING a man being rolled over by a bulldozer, reflected a negotiator at the Cancún climate conference in the small hours of the morning, is unpleasant. The man in question was Pablo Solon, the head of Bolivia’s delegation to the UN talks. The bulldozer was the other 193 countries’ determination to get a deal, even if only a modest one.

In a rancorous all-night debate in 2009 Bolivia and a handful of others had kept the “Copenhagen accord” put together by heads of government from being fully adopted as part of the UN’s climate negotiations. But at the final session of the 2010 conference, standing alone, Mr Solon was unable to repeat that feat. The principle of consensus on which the conference runs does not give one country the right to veto the will of all the others, ruled Patricia Espinosa, Mexico’s foreign secretary and the conference’s chair. Delegates stood and cheered. The bulldozer rolled.

The deal that passed over Mr Solon’s flattened dissent found a significant amount of common ground between the rich and the developing worlds. At its heart were some elements co-opted from Copenhagen’s accord. One was a pledge of $100 billion a year from north to south to help pay for emissions cuts and climate adaptation by 2020. Developing countries like that. The deal describes the money as being “mobilised”, however, which suggests a role for private-sector money. That pleases rich countries. A similar balance came with the establishment of a new fund for some of the money to flow through. Poor countries like that. But in a nod to the rich world, the fund gained some independence from the climate conference itself.

Another bit of the deal was an agreement on REDD+, a system to reward countries for lowering (or not raising, depending on their history) rates of deforestation. This includes safeguards meant to ensure the fair treatment of indigenous people. A new adaptation framework makes dealing with the effects of climate change a bigger part of the UN process. A final element was a deal on technology transfer.

All of these now need to be turned from paper agreements into practical ones. That is something that parties to the talks have shown little flair for in the past. In particular the clean development mechanism, which moves money from rich-world carbon markets to developing countries, is in dire need of reform.

The Cancún agreement missed out some topics. Moves towards a deal on shipping and aircraft fuels, unpopular with oil producers, fell out of the text. They took with them—quite unfairly—worthy proposals in nearby paragraphs for new work on agriculture, a greenhouse-gas emitter on a par with deforestation.

The big countries got the specific things that they were after. China wanted not to be blamed for a failure, as it was after Copenhagen. America wanted pledges made in that summit’s accord to be recognised, plus progress on verification.

Keeping the sushi chilled

Most controversially, Japan wanted to be clear that it would not make a new commitment to emissions cuts under the Kyoto protocol after 2012, when its current promise runs out. Developing countries, which like the Kyoto protocol a lot (it demands nothing concrete of them), said this was an outrage. But the subtly constructed final text in essence gave Japan its way.

The all but universal buy-in to the agreements, though, was not just a testimony to Mexican diplomacy (much admired here), balanced outcomes, great-power satisfaction and textual finesse. It was also an act of desperation. The UN talks were in bad shape. Failing to meet the very modest expectations of Cancún would have been fatal. Nobody wanted that: hence the bulldozing.

It was not done without some pangs of regret. The Cancún meeting has given the UN process a new wind and the chance of real progress on forests, on footing the bill (if rich countries stump up) and on adaptation. But, as Mr Solon argued, the pledges made in the Copenhagen accord, and now annexed to the UN process, are nowhere near strong enough to limit climate change to an increase of two degrees, which is what the Cancún texts require. Bolivia may have been an irritant and an obstruction but the other negotiators knew it was right about this.

Many negotiators still say they will fight on for legally binding targets for all major economies that go well beyond their Copenhagen pledges. Evidence such as Japan's success at Cancún suggests strongly that such targets will never be applied while specific countries resist, as some—America, China and others—always will. And treating hard targets as a make or break issue would surely lead to another, perhaps final, breakage. The UN climate process did quite well out of Cancún. The climate, not so well.

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Europe's dire debt crisis

A look at how the European debt contagion spread from southern Europe and by 2010 had engulfed much of the continent.

Ben Piven

16 Dec 2010

As countless economies around the globe entered 2010 on shaky footing after the Great Recession, a number of major European countries feared a spreading sovereign debt crisis. The most affected countries included European Union (EU) members Portugal, Ireland, Italy, Greece, and Spain (PIIGS), as well as the UK and Belgium, to a lesser extent.

Confidence in these previously strong economies began to unravel, and wealthier economies such as Germany felt increasing pressure to rescue their fellow EU nations.

A series of European government debt downgrades has shaken financial markets, as budget deficits and public debt levels remain stubbornly high.

Europe's debt crisis initially focused on Greece, for whom the Eurozone and the International Monetary Fund (IMF) issued a May 2 loan of $146bn on condition of harsh austerity measures.

On May 9, European finance ministers agreed on a $600bn lending vehicle - the European Financial Stability Facility (EFSF). And most recently, Ireland has agreed to receive an $89bn EU/IMF bailout, as analysts continue to worry about the 16-nation Eurozone's long-term economic health.

The bottom line is that leaders - faced with financial and demographic obstacles - are being forced to raise taxes, cut spending, and figure out a way to ensure future economic prosperity.

Greek debt trigger

Greece's economy, like many others in Europe, expanded consistently from 2000 to 2007, and strong GDP growth allowed the government to run large deficits.

At first, currency devaluation facilitated heavy borrowing, and then Greece was able to continue borrowing due to relatively low interest rates on government bonds.

But the global financial crisis of 2008, considered by many the worst since the Great Depression, had a severe impact on Greece. The tourism and shipping sectors suffered big losses from the downturn.

The southern European country had misreported economic numbers to hide the true cost of government borrowing, which had been enabling high expenditure levels. Greece massaged statistics in order to fulfill European monetary guidelines, a phenomenon also seen to a lesser extent in Italy.

In 2009, Greece's government revised upwards its budget deficit from six per cent to 12.7 per cent - far higher than the EU limit of three per cent. By May, the deficit was estimated at 13.6 per cent - one of the world's highest deficit levels relative to gross domestic product (GDP). Greek public debt rose to $287bn by January 2010, close to 120 per cent of GDP.

The Greek parliament passed a budget bill on March 5, hoping to slash spending by over $7bn, with a variety of austerity measures, including government wage cuts.

The Greek debt rating was downgraded to the first levels of "junk" by April 2010, as investors feared government default that could gobble up their money. Then analysts expressed scepticism about Greece's ability to re-finance its debt, and stock markets worldwide reacted unfavorably.

After the Greek government requested that an EU/IMF bailout be activated, a loan agreement was made on May 2.

Subsequently, Greece imposed a fourth and final round of austerity cuts, including more public sector wage reductions, as well as increased value-added (VAT), luxury, and corporate taxes. The bill also included pension cuts and an increase in the retirement age. A nationwide strike on May 5 resulted in three deaths and more than 100 arrests.

The stiff budget-tightening of $40bn, approximately 12 per cent of Greece's 2009 GDP, could cause a decrease of 5 per cent in 2010 GDP and nearly the same in 2011.

Without a bailout agreement, Greece might have defaulted on some of its debt, effectively removing the country from the euro - due to a lack of collateral with the European Central Bank.

Some critics of the bailout argue that - while borrowing costs for the Greek government are lowered in the medium term - tighter fiscal policy and social disruption have a negative net long term effect.

Contagion spreads

If the bailout had not been delivered, the impact of a Greek default might have been relatively small, since Greece is only 2.5 per cent of the Eurozone economy. But a default would have shaken investors' faith in other Eurozone economies with debt problems, mainly Ireland and Portugal.

The Greek crisis has significantly reduced confidence in several other European economies with high government deficits (in 2009), including Ireland (14.3 per cent of GDP), UK (12.6 per cent), Spain (11.2 per cent), and Portugal (9.4 per cent).

Ireland was the second eurozone country after Greece to be bailed out by its partners in Europe and the IMF.

The country's banking system, which had invested heavily in a property boom that later collapsed, was subject to a "fundamental downsizing" following the bailout.

On November 24, the Irish government presented a four-year austerity plan outlining $20bn in savings, a key step towards securing aid from the EU/IMF.

The plan included thousands of public sector job cuts, phased-in increases in Ireland's VAT from the current level of 21 per cent, and social welfare savings of $3.74bn by 2014.

At this point, analysts say defaults in large Eurozone economies of Spain and Italy are somewhat unlikely, since their fiscal situations are relatively more stable, and Spain's debt is just 53 per cent of GDP.

Just after the creation of the EU's emergency rescue fund in May 2010, Spain instituted a new round of austerity measures to bring the deficit under control.

The socialist government had wanted to avoid deep budget cuts, but lower-than-expected economic growth and international pressure compelled the government to deepen cuts from January 2010.

Similarly, the Italian parliament approved an austerity package worth more than $32bn in July aimed at cutting the country's budget deficit and reassuring financial markets.

The measures sought to bring Italy's budget deficit under three per cent by 2010 from 5.3 per cent in 2009.

Portugal's parliament approved a budget on November 26 aiming to reduce the deficit from 7.3 per cent of the country's 2010 GDP to 4.6 per cent next year, requiring savings of around $6.85bn through a combination of slashed spending and tax hikes.

The cuts included a significant reduction in public sector wages, prompting anger from unions, who staged Portugal's biggest strike in two decades.

Portugal's high debt and low growth have alarmed investors, fueling speculation it may be the next European country to need a bailout, after Greece and Ireland.

But the government has repeatedly stated that it does not want or need international financial assistance of that magnitude.

However, some analysts have said that in order for Spain, the fifth largest EU economy, to avoid problems, Portugal should accept a bailout sooner rather than later.

And France, while in relatively decent financial shape, has struggled to contain an outpouring of public anger over budget-trimming measures, including an increased retirement age and major pension cuts.

Northern European problems

Britain announced in October that it will cut 490,000 public sector jobs over four years, with austerity measures designed to reduce the country's record deficit.

The $130bn in decreased expenditures by 2015 - the deepest cuts in 60 years - aims to reduce Britain's deficit of 11 per cent of GDP to around two per cent within five years.

Belgium, the host nation of the EU, is also struggling with major financial problems. Belgium's public debt stood at 100 per cent of GDP in 2010, the Eurozone's third highest after Greece and Italy.

Inconclusive June elections have meant no government budget for 2011, as French and Flemish language groups remain unable to compromise on how to deal with the economy.

Some financial analysts have said that Belgium could be the next country to take a major hit from the financial crisis, as borrowing costs increase. However, the government deficit is relatively manageable, and Belgian bond yields are below those of other highly indebted Eurozone nations.

The Scandinavian island nation of Iceland - neither of member of the EU nor the Eurozone - experienced the failure of its banking system and a major economic crisis, after all three of the country's main commercial banks collapsed in late 2008.

Relative to the size of the Icelandic economy, this collapse was the largest in economic history.

In the last two years, Iceland's currency, the krona, has fallen dramatically, and the market capitalization of the stock exchange has dropped more than 90 per cent. Consequently, Iceland is in the midst of a severe recession, with a GDP decrease of 5.5 per cent in the first half of 2009.

Icelandic companies have suffered from major restructuring and a decrease in consumer demand. Importers have been hard hit, and pension funds have experienced large losses. Iceland's prime minister, has sought full EU membership to stabilize the economy and combat unemployment.

Criticism of austerity programmes

The pressure on European lawmakers to find a better solution to the crisis is increasing, as economists warn about the adverse effects of unsustainable debt burdens.

A round of fresh austerity protests kicked off across Europe on September 29, and demonstrations have continued throughout autumn. December 15 was slated to be a day of coordinated anti-austerity throughout the continent, but Greek protesters again proved to cause the most significant disruption.

Meanwhile, an estimated 23 million EU workers have become unemployed during the last three years.

The EU has moved slowly to implement crucial new policies that could help prevent future crises.

Some financial leaders have called for the EU to increase the size of its bailout fund and to issue pan-European bonds to boost confidence in the Euro.

Others have made the case for a partial restructuring of public debt in Greece, Ireland and Portugal, as well as stronger guarantees for the bonds of stable countries.

Critics of the Eurozone response to the financial crisis have questioned both the efficacy and the social cost of austerity measures. Some experts actually argue that increased spending - rather than cuts - is more appropriate for certain economies.

And in many countries, sceptics say that the working population should not bear the brunt of crises brought on largely by the mistakes of bankers and investors.

Other international criticism stems from doubts about the clout of credit-rating agencies. A new European ratings watchdog could stem the influence of the private US-based agencies such as Moody's, S&P, and Fitch.

At the very least, officials have called for the regulatory body to roll back the power of these agencies, in addition to curtailing the power of financial speculators.

Some Eurozone leaders, especially in Greece and Spain, have even said the debt crisis itself was politically and financially motivated.

Spanish officials have pledged to investigate the role of the "Anglo-Saxon media" in fomenting the crisis, supposedly in order to move capital away from the euro so that the US and UK can continue to finance large external deficits by running big government deficits.

Eurozone economies have limited capacity to inject liquidity into their economies, unlike the US, whose Federal Reserve has been jumpstarting the economy since 2008 by printing new money and purchasing government securities.

But recent austerity measures in the UK - and imminent cuts in the US - may show that no nation is immune to belt-tightening budget measures in a highly uncertain global financial climate.

http://english.aljazeera.net/indepth/spotlight/2010/2010/12/20101214195945648106.html

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An education in conflict

In conflict-affected states, children are being left behind by state and private schooling networks.

Asad Hashim

26 Dec 2010

Despite widespread commitments on paper to the second Millennium Development Goal - the provision of universal primary education by 2015 - 72 million children remain out of school. More worryingly, 39 million (54 per cent) of these children reside in conflict-affected fragile states (CAFS), where they face multiple pressures in terms of lack of access to basic rights, and an accompanying unwillingness on the part of international donors or even local governments to place an emphasis on providing education.

As a result, one in three children in CAFS do not go to school, compared to one in 11 in other low-income countries, according to data compiled by the UK-based charity Save the Children (STC).

"It is obviously practically difficult, both logistically and in terms of safety for students and staff," says Tove Romsaas Wang, the head of STC's worldwide Rewrite the Future (RTF) campaign, which aims to prove that primary education can be provided even in the difficult circumstances presented in CAFS.

"But our starting point is that every child, whether you live in a conflict area or not, has the same right to education.

"Conflicts today may last 10 or maybe 30 years - if you don't provide education in conflict situations, you may miss out on five or six generations of primary school children."

Decimated teaching force

Undertaken in 2006, the RTC campaign has so far reached more than 10 million children in 20 countries - mainly located in Asia and Africa, and including Angola, Afghanistan, Haiti, Cote d' Ivoire, Southern Sudan and Uganda. Its aim is to both increase enrolment and improve the quality of education in CAFS, in partnership with local ministries of education, through a combination of direct investment of aid and pressuring governments to live up to aid commitments.

RTF is funded through a combination of national, private and corporate donors, the more significant of which include Australia, Canada, Denmark, the Netherlands, the UK, the US, the EC, the UN, UNICEF, the World Bank, Accenture, ExxonMobil Foundation and Ikea.

There are several challenges when it comes to delivering education in areas which are either experiencing conflict, or where conflict has recently ended, according to John Gregg, the director of the Qatar-based Education Above All NGO and strategic planner at the office of Her Highness Sheikha Mozah Bint Nasser Al Missned of Qatar. With active hostilities, he said, logistics can be a challenge, but the lack of teachers can often be of even greater concern.

"Often the first wave of violence will actively target the elite, and this includes teachers - either as pro-government figures, or as community leaders. So you get situations where your actual teaching force has been decimated by the conflict."

Exacerbating existing barriers

But the lack of teachers in these areas, while a key concern, is simply the tip of the iceberg.

In areas where conflicts are either ongoing or recently concluded, it is often a serious logistical challenge to build new school structures, deliver school materials - such as textbooks, desks and writing materials - or revise curricula if need be. Moreover, in CAFS, the conflict often exacerbates existing barriers such as poverty, lack of infrastructure and discrimination in admissions policies - both economic and otherwise.

The RTF approach, Wang said, is that the actual school building itself is secondary - teaching may happen "in someone's home, or even under a tree". But while the teaching can occur in makeshift spaces, what is important, she added, is to ensure that the education that is being delivered is of a high quality.

To this end, RTF's approach focuses on training teachers, helping communities rebuild their schools and providing school materials.

"One of our key learnings [sic] was that when we manage to work very closely with the community, and the community takes ownership of the school, [it] is likely to succeed," she stressed. In this respect, STC is better placed than many other international actors, according to Wang, because of the charity's long-term presence in these states. "We have been in these countries for years. So this allows us to build trust with local communities, networks and actors."

From the ground up

But having a context-driven, flexible approach to each state is simply not enough. Resources, as ever, remain an abiding problem.

While CAFS represent 60 per cent of the current annual funding requirements for education - which stands at $16.2bn - only about 10 per cent of what they need is being committed to them, and even less actually gets to them.

"Often the priority for those who want to respond [to conflicts or emergencies," said Gregg, "is in a physical thing. So, for instance, they say 'I want to build 70 schools'.

"Okay, that's very nice, but where are the teachers for the 70 schools, where are the desks, where are the books? How about the teacher training, or the psycho-social support for both students and teachers?

"Donors often get concerned about giving money in fragile environments, so they'd rather invest in something concrete."

The data reveal a telling picture. As CAFS tend to also be low-income countries, comparing their expenditure on education with other low-income countries is a useful indicator. While other low-income countries devote an average of 16.9 per cent of government expenditure to education, CAFS spend just 13.5 per cent, even though their needs may be far greater, given that in many cases they have to rebuild education systems from the ground up.

Funding shortfall

This shortfall in local expenditure means that foreign donors become particularly relevant in the case of CAFS. The 2010 UNESCO Education For All Global Monitoring Report estimated that CAFS require $9.8bn in education aid. The actual amount committed, however, remains a paltry $1bn, of which less than 12 per cent ($113mn) has actually been delivered.

The issue is not just that there is a funding shortfall, but the way that global education aid is structured. Not only is the aid tied to government's domestic concerns (which have seen aid commitments from countries such as the UK, Canada and the World Bank actually decrease), but more than half of CAFS aid went to just five countries - Afghanistan, Pakistan, Ethiopia, Nigeria and Uganda.

Analysts say that this is often because these countries have a more well-proven 'track record' when it comes to aid, and also because delivery of aid to CAFS can often occur in unpredictable circumstances.

Wang, for example, pointed out that many donors would be unwilling to invest in building schools in ongoing conflict zones because there is no guarantee that the building will not be destroyed.

She asserted that this was a particularly unhelpful approach, as the structure itself was simply a starting point for aid, and that it can still be invested in many other, intangible education assets - such as teacher training or funding support for local ministries of education.

Furthermore, with the lack of coordination in aid into conflict zones, education often falls into the gaps between humanitarian and development aid, with pre-crisis levels perhaps supporting education, but emergency and post-crisis aid neglecting adequate investments in education.

'Superficial' measures

Finally, much of the aid coming in from national donors, according to Gregg, is often tied to very "narrowly defined government policy" outcomes. These measures may look good, but they can be very "superficial".

Gregg pointed to the Millennium Development Goal itself as an example of this: "It's a very shallow measure, really. Getting children into school is one thing, but is what they're getting at the school equipping them for life? Is it a quality education? That's a huge question that we're not measuring. So sometimes some of the things we set ourselves as a goal or intent as a donor [...] are a little bit superficial."

Barriers remain high and funding scarce, but Wang said: "I think we have made the point that it is possible to deliver education in CAFS. When we deliver results, that will generate funding, as it is unrealistic to expect donors to invest without a model for success to follow."

And the effect is showing, with the Netherlands and Spain both increasing their level of committed and delivered aid. The funding shortfalls, however, remain, and with education aid levels actually dropping between 2007 and 2008, it is clear that these are contingent upon domestic political realities.

With the world financial crisis, innovative financing options now need to be developed to allow money to continue to flow in in a manner that builds sustainable systems. Steen Jorgensen, the World Bank's sector head of human development in the Middle East North Africa region, for example, has called for the development of a 'human capital' market, to be run along the same lines as the carbon market.

In the meantime, children in CAFS continue to face poorly resourced schooling systems, where governments remain either unable or unwilling to make the necessary investments to provide them with access to primary and secondary education, and barriers such as poverty, lack of teachers and lack of quality education continue to exist.

With these 39 million voices out of the net, the Millennium Development Goal remains a tool for rhetoric, in both possibilities for attainment, and, perhaps, even content.

http://english.aljazeera.net/indepth/features/2010/12/20101213133518463670.html