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BUSINESS AND POLITICS IN THE MUSLIM WORLD

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Report Outline

GENERAL ECONOMIC AND BUSINESS DEVELOPMENTS IN THE WORLD 03

- Facebook growth under US scrutiny
- Europe stands on the brink of new crisis
- Food prices grow at fearful rate
- Russian tourists replacing German ones on Turkey's south coast

GLOBAL BANKING & FINANCE 08

- Despite tight credit, banks' profits to grow
- China leads global IPO mart, may raise \$60b
- Chinese banks make Americans move

INTERNATIONAL TRADE 13

- Russia welcomes direct investment from China
- China-Russia oil pipeline opens
- China wants Germany to open up market
- \$7.5b deals signed with Spain
- China takes little profit but big surplus from processing trade
- China OKs JPMorgan, Morgan Stanley joint ventures
- Daimler, VW to sign China deals worth \$5b
- China, Germany to sign deals worth billions of dollars
- Chinese vice premier pledges closer cooperation with Japan on energy-saving sector
- Russia, US begin civilian nuclear cooperation deal

WORLD ECONOMIES

20

- Singapore economy 'second to Qatar'
- Bolivia rescinds fuel subsidy cuts
- China: More exporters allowed to keep revenues overseas
- China central bank reiterates monetary policy stance in 2011
- China expects further rate hikes to cool property market
- Fed expects U.S. economy to gain momentum in near term
- China due for fiscal tightening soon, govt. researcher says
- Chinese economist sees 5-6% yuan rise in 2011
- China's GDP-driven provinces urged to slow down
- China power sector to boom as oil sector goes slower
- China: Taming inflation high on central bank's agenda
- Russia to spend \$3.8 bn on space programmes in 2011
- Top Forecasters Expect Ruble at Eight-Month High: Russia Credit
- Russian inflation hit 8.8% in 2010

ARTICLES/COMMENTARIES

35

- Buttonwood
 - Government debt
 - Capital's war against WikiLeaks
-

GENERAL ECONOMIC AND BUSINESS DEVELOPMENTS IN THE WORLD

Facebook growth under US scrutiny

Financial regulators monitor private trading of social networking website after \$500m deal with US and Russian firms.

03 Jan 2011

Popular social networking website Facebook has raised \$500m from American and Russian investment firms, a move that has drawn the attention of US financial regulators. US media reports citing sources close to the deal said on Sunday that Goldman Sachs pumped in \$450m and Digital Sky Technologies invested \$50m.

The New York Times in its online edition on Sunday said Goldman has the right to sell part of its stake, up to \$75m, to the Russian firm in a deal that values Facebook at \$50bn. The report said representatives for the three parties declined to comment.

The US Securities and Exchange Commission (SEC) is reportedly looking into the growth in privately-held shares of popular social networking sites such as Twitter, LinkedIn, and Facebook, which is the world's largest - with 500 million-plus users worldwide. Regulators are concerned that, with this private market booming, companies might be able to circumvent public disclosure requirements.

US law requires the public disclosure of certain financial information once a company hits 500 shareholders, even if it has not filed for an initial public offering. This is believed to be the main reason the SEC is looking into the trading of these popular private startups' shares.

The *Times* said Goldman is planning to create a "special purpose vehicle" that may be able to circumvent the 500-shareholder rule because it would be managed by Goldman and considered just one investor, even though it could conceivably be pooling investments from thousands of clients.

According to Tom Royal, deputy editor of *Computer Active* magazine, the deal "shows that Facebook is a really, really valuable company doing very well, especially when you consider how long it's been around and how it's grown".

Speaking to Al Jazeera, Royal said: "You do have to put it in perspective against the really big online giants like Google ... but I think it's reasonable to assume that Goldman has made quite a good investment."

Private trading

Shares of privately held companies can be traded on private stock exchanges such as SecondMarket, based in New York, and SharesPost, based in San Bruno, California. The shares are generally sold by former employees or early investors in these companies.

Only institutional investors or high net-worth individuals, with assets of more than \$1m, can buy the shares. For those who can sell them, the market is on fire.

On SharesPost, a completed contract between a buyer and a seller valued shares of California-based Facebook at \$25 each. This implies a valuation of nearly \$57bn.

Facebook recently tightened its privacy settings after criticism that personal information was being disseminated without users' knowledge or permission.

Mark Zuckerberg, the founder and CEO of Facebook, was named *Time* magazine's "Person of the Year" and was the subject of a high-profile movie about Facebook creation entitled *The Social Network*.

Further scrutiny by the SEC could help push Facebook towards a public listing but Zuckerberg has denied plans for a flotation. Zuckerberg, who owns about a quarter of Facebook's shares, is one of the world's youngest billionaires.

The *New York Times* said the deal may double Zuckerberg's personal fortune, which *Forbes* estimated at \$6.9bn when Facebook was valued at \$23bn.

<http://english.aljazeera.net/business/2011/01/201113101826707442.html>

Europe stands on the brink of new crisis

Debt crisis of the European countries of Spain, Portugal and Greece will cause the EU to experience a new crisis, says Ethan Harris, principal analyst for the economies of developed countries BofA Merrill Lynch. The crisis will begin in the coming months if the EU does not find ways to solve sovereign debt problems. Yet, China is already rushing to help and ready to buy Spanish bonds.

Infox.ru is citing Harris who said that the EU continues to take steps which in reality do not solve the problems of the market and the economy, and raise serious concerns about the situation with the European banks. So far the EU has not comprehensively addressed the banking problem. This means that in a few months the crisis will reemerge.

This has a negative impact on the single currency, the expert believes. He said that in the short term the dollar would rise against the euro, because the crisis in Europe continued. But in the long run, the exchange rates would stabilize. Both the U.S. and Europe face serious problems, and the possible consequences of this are mitigated by developing countries. But in fact, neither the U.S. nor Europe can now have a strong currency.

At the end of the last year the Speaker of Slovak Parliament Richard Sulik said that the actions of the European Commission could not be considered responsible. "Financial infusions can save Greece and Ireland, perhaps - Portugal. The attempts to rescue Spain are a gamble with the euro," said Sulik. He added that Italy in general is out of the question since its debts are twice as high as those of Greece, Ireland, Portugal and Spain combined.

China is trying to take advantage of the European debt issues and enter Europe. Chinese vice Premier Li Keqiang said that China was willing to buy Spanish bonds, while Spain is in a difficult position because of rising interest rates on debts, and sign multibillion-dollar contracts with the Europeans.

Lee is now preparing for visits to Spain, Britain and Germany, and outside observers include Deputy Prime Minister in the list of possible successors of Wen Jiabao as the prime minister.

In late December, against the backdrop of another wave of panic over the fate of the euro zone and sovereign debt, another Chinese vice Premier Wang Qishan promised to support the EU by purchasing bonds.

Finance Minister of Portugal Fernando Teixeira dos Santos also spoke about willingness of China to take care of the country's debt and increase investment in trade and economy. According to unofficial information cited by RBC, China is willing to buy government bonds of Portugal for the amount of 5.4 billion euros.

As for Russia, the debt crisis in Europe should not create any particular problems for the country's domestic economy, Ethan Harris thinks. He predicts the economic growth in Russia in 2011-2012 to be at 4-4.5% per year.

The expert believes that, like many emerging markets, Russia is experiencing inflationary pressures that may be coupled with possible rate hikes by the Central Bank. However, the country's economy will be supported by a strong commodity market.

At the same time, bubbles are getting inflated in the emerging markets, the expert warns. He also believes that in the countries with developed economies many assets are overvalued. Nevertheless, the expert thinks that the U.S. and China will remain the leaders of developed and developing economies in the coming year, respectively.

Pravda.Ru

http://english.pravda.ru/business/finance/10-01-2011/116466-europe_new_crisis-0/

Food prices grow at fearful rate

UN experts are alarmed and predict continued growth of food prices. The price index for basic foods (Food Price Index), which is calculated based on 55 key products, had been growing throughout the past year and in December reached a record 214.7 points. The experts are concerned about the length of the price growth.

The FAO emphasizes that the growth index is mainly due to the rising prices of sugar, corn (maize), oil and meat. In December of 2010, the Sugar Price Index has risen to record levels and amounted to 398.4 points. Within the year sugar prices have set an absolute record, and have increased more than twofold. Major exporters of sugar, India and Mexico, are experiencing bad weather conditions, which causes frustration on the market.

The Oils Price Index has grown 20 points and Cereals Price Index has increased by 14 points. The price of cocoa reached its maximum, which has not been observed in the global market for over 30 years.

In the last days of December of 2010, the worst flooding in 50 years was recorded in Australia. There are fears that this year Australia will limit the export of sugar and grain crops to the growing markets of Asia due to the crop failures caused by the frequent rains and floods.

The analysts of the Australian Crop Forecasters (ACF) in the past month have lowered their forecasts for wheat production in the country by nearly a million tons. Last year, when a temporary ban on grain exports was imposed by Russia, it led to a spiraling of prices for grain on the world markets.

However, Asia and the world's poorest countries are more dependent on the rice prices which have been decreasing in recent years. Since 2008, the rice prices fell almost twice, to \$535 per ton. Nevertheless, in the last 2 years, the demand for wheat in China, Brazil, India and Russia has been growing by 5% per season.

The UN experts believe that the world economy is threatened by a sticker shock in terms of the food prices, which in turn may lead to a food crisis. They mention that the last price record documented in 2008 had caused a wave of protests and riots in some countries. Now over one billion people in the world suffer from hunger.

World Bank President Robert Zoellick noted on the pages of *The Financial Times* that French President Nicolas Sarkozy called the volatility in food prices a priority issue that will be brought up for a discussion during the French presidency of the G20.

Among the solutions proposed by the head of the bank is the creation of a "code of conduct" for the release of food from the ban on exports by various countries.

Zoellick said that, ideally, countries should not introduce export bans. He added that in 2011, at the very least, an agreement should be signed regarding the free food trade for humanitarian purposes.

Zoellick also proposed to assist small farmers in poor countries and to replenish local humanitarian resources with the products produced by the countries in need of food. As pointed out by Zoellick, approximately 86% of basic foods in poor countries are produced there.

The World Bank has prepared a program for lending \$49 billion to the countries that experience serious problems with food and has also formed a Foundation for Food Security. According to Zoellick, it is necessary to consider the possibility of granting credit lines and loans with deferred payments during periods of price shocks.

Pravda.Ru

http://english.pravda.ru/world/europe/11-01-2011/116480-food_prices-0/

Russian tourists replacing German ones on Turkey's south coast

Tuesday, January 11, 2011

Changing economic and political dynamics across the world are reflected by tourism statistics on Turkey's Mediterranean coast. While the number of German tourists, who once ranked first on the list, has shrunk in recent years, the number of Russian tourists has shown a substantial increase. Some radical changes to the Turkish tourism sector are coming, say sector representatives.

Turkey's Mediterranean tourism destinations are increasingly popular with Russian tourists, who are now traveling to Turkey in greater numbers than any other nationality.

The changing economic and political situations throughout Europe, especially those that have occurred in the last five years, have oriented Turkey's popular tourism destinations into looking at new markets with different needs, expectations and income levels, according to tourism officials. Among these markets, the number of tourists from Russia and Kazakhstan is constantly increasing.

However, while the number of tourists arriving from the north may be increasing, the number coming from traditional customer bases such as Germany are declining. According to data obtained from the Culture and Tourism Ministry's Antalya Directorate, from 2004 to 2010 the number of German tourists visiting Antalya decreased by 15 percent.

German tourists in decline

The German market had its heyday along the Mediterranean coast in 2004 with a total of more than 2.5 million tourists visiting Europe's southern shores, representing approximately 42 percent of total tourist numbers on the coast.

However, 2005 saw the start of a continuous decline in the number of German's visiting the Mediterranean. The approximate number of German tourists currently on the Mediterranean accounts for 27 percent of total visitors to the coast.

"It is still a good percentage. Turkey still keeps its leadership in the market," Hüseyin Çoksak, tourism investor, told the Hürriyet Daily News & Economic Review in a recent interview.

The deteriorating economic situation in Germany following its transition to the euro in 2002, hardships in collecting on European customs and uncertainty deriving from successive bankruptcies in the eurozone have left the Turkish tourism sector with no choice but to turn to alternative markets that are more stable, Çoksak said.

Sevim Erinç, a partner in a local travel agency, agreed with Çoksak on the need to find new markets, adding that Turkey has been making serious investments in the sector since the 1980s and is now redirecting its attention to attracting tourists from other parts of the world.

“The coming term will see changes in the sector, such as more involvement from tourists from Far Eastern countries,” she said.

Russians on the rise

According to the recent news in the daily Hürriyet’s Mediterranean supplement, the Russian market has radically changed the face of the tourism sector in just five years. With the proportion of tourists coming to Turkey from Russia having increased from 17 to 27 percent, Russian tourists now constitute the largest percentage of guests.

A source from a leading travel agency catering mainly to the Russian market told the Daily News on condition of anonymity that serious capital accumulation in Russia, coupled with Russian people’s interest in finding new experiences bring them to Turkey – and especially to Antalya.

“Airlines that set direct flights to and from Antalya to different cities in Russia play a crucial role in spurring this need,” the source said, adding that there were similarities in the holiday mentalities of both Turks and Russians.

ANTALYA- Hürriyet Daily News

<http://www.hurriyetdailynews.com/n.php?n=russian-tourists-in-german-tourists-out-2011-01-11>

GLOBAL BANKING & FINANCE

Despite tight credit, banks' profits to grow

05 Jan 2011

BEIJING - Chinese commercial banks earned unprecedented profits in 2010, and are projected to secure a profit growth rate as high as 20 percent this year, said officials and analysts.

Yang Zaiping, deputy head of the China Banking Association, said Chinese banks' profits in 2010 will exceed 800 billion yuan (\$120.8 billion), setting a historical record.

Guo Tianyong, a professor with the Central University of Finance and Economics said the figure will certainly exceed 900 billion yuan and might even reach 1 trillion yuan.

In 2009, the profits of Chinese banks totaled 668.4 billion yuan, a 14.6-percent increase on 2008. For the same period, assets reached 78.8 trillion yuan, up 26.3 percent year-on-year.

The rapid growth in profits was mainly attributable to the expanding scale and rising difference between lending and deposit interest rates, said analysts.

In 2010, the net interest margin of 16 listed Chinese banks rebounded by 11 basis points on average, it said. In addition, fast growing intermediary business with a 35.1 percent year-on-year in revenue growth also helped the banks gain more profits.

It predicted the growth rate of banks' profits in 2011 may slow down to between 15 and 20 percent, mainly due to the country's tightening monetary stance and shrinking new yuan loans, said the report.

To tame inflation and stabilize economic growth, the Chinese government has put suppressing inflation at the top of its agenda for 2011 while shifting its monetary stance to "prudent" from "moderately easy", which analysts said means tighter policies.

Analysts predicted the amount of the new yuan loans would be reduced to around 7 trillion yuan this year from 7.5 trillion in 2010.

"The banks will raise lending interest rates to compensate for the negative effect brought by the declining credit scale. But as the government liberalizes deposit interest rates gradually, the interest margin may not be big enough to offset the shrinking credit," said Guo, predicting banks' profits will grow by 10 percent this year.

Although the growth rate will decline in 2011, it will still be a rapid clip, said the Bank of Communications. The Guotai Junan Securities predicted if the regulators won't require higher provisions for the banks, profits would even reach 21 percent. It said the central government's moves to raise interest rates, banks' increasing bargaining capability, and assets and liabilities restructuring will jointly drive the net interest margin up in 2011.

The net interest margin will rise 12 to 18 basis points, or 6 to 8 percent year-on-year in 2011, said Industrial Securities. On the other hand, fee income will grow steadily this year, as banks further optimize their revenue structure, said analysts.

Bank of Communications predicted net fee income of Chinese banks will grow at a rate of 30 percent, becoming a major contributor to rising profits.

Essence Securities expected 2011 profit growth of the banking industry will be around 17 percent, among which profits of the State-owned banks will increase by 16 percent, profits of the shareholding banks up by 20 percent, and that of the smaller city commercial banks will rise by as high as 28 percent as they are in the expansionary phase.

Although Chinese banks may not earn as much money as they used to, international investors should still be optimistic about their profit prospects, said Elaine Wong, managing director and head of Professional Services Asia-Pacific at Moody's Analytics.

"Despite the government soaking up excessive liquidity and planning to further tighten credit, new loans will still grow rapidly in the next year," she said.

http://www.chinadaily.com.cn/business/2011-01/05/content_11797498.htm

China leads global IPO mart, may raise \$60b

05 Jan 2011

BEIJING - China will continue to lead the global IPO market this year in terms of the number of new listings and the amount of capital raised, international accounting firm PwC said on Tuesday.

According to PwC, the total number of new listings will reach 320 in 2011, including 30 listings in Shanghai and 290 on the Shenzhen SME Board and ChiNext, with fund-raising exercises exceeding an estimated 400 billion yuan (\$60 billion).

However, due to the potential lack of major IPOs in 2011, PwC forecasts that listing exercises this year may not raise funds as large as those in 2010.

The Shanghai and Shenzhen stock exchanges had 349 IPOs in total last year, raising 478.3 billion yuan, an increase of 155 percent from that of 2009.

Small and medium-sized enterprises were active during this period, becoming the main driving force in the IPO market, the PwC report said.

"While many large State-owned enterprises completed their IPOs in the past few years, the trend now will be listings by small and medium-sized firms," said Charles Feng, PwC China Beijing Lead Partner.

The Shenzhen SME Board attracted 204 IPOs last year, with funds raised reaching 202.7 billion yuan, an increase of 378 percent from 2009, highlighting the importance of SMEs in the future of the capital market.

ChiNext, launched in October 2009, also showed robust development, with the number of new listings reaching 117, amounting to 95.4 billion yuan in raised funds. In addition, Shanghai had 28 A-share IPOs, raising 180.2 billion yuan.

Meanwhile, Hong Kong continued to sustain the largest listings market in the world, beyond the Chinese mainland, with capital raising via IPOs hitting HK\$445.0 billion (\$57.29 billion), representing a 79 percent increase from 2009. The funds raised through IPOs and Taiwanese Depository Receipts in the Taiwan market amounted to TW\$ 59.3 billion (\$2 billion), an increase of 53 percent compared with the same period last year.

In 2010, industrial products dominated the capital market in terms of the number of new listings. Information technology and telecommunications accounted for 35 percent of IPOs on ChiNext, and increased the sector's share on the Shanghai A-share market and the Shenzhen SME board, demonstrating the promising future of that industry and indicating that, since the launch of ChiNext, capital resources have been weighted in favor of growth and innovation-based enterprises.

China is committed to speeding up the reform of the economic growth model during the 12th Five-Year Plan (2011-2015), highlighting technology and innovation as pillars of the reform, said Feng.

"I believe small and medium-sized high-tech and growth enterprises will lead the capital market in the coming years."

http://www.chinadaily.com.cn/business/2011-01/05/content_11796728.htm

Chinese banks make Americans move

The German edition of the Handelsblatt published a list of the top 10 global banks with the largest market capitalization. The top three banks include only one bank of London's City. Lending institutions on Wall Street that formerly topped the rating have yielded the leadership to Chinese banks. Sberbank, the largest in terms of market capitalization in Russia, is on the 16th place.

As noted by Handelsblatt, major lending institutions continue to operate in conditions of market uncertainty. However, due to China's tight financial policies, Chinese banks have not sustained any major financial and reputational losses.

Back in 2007, the list was headed by U.S. Citigroup. In the current ranking, it was able to take only the seventh position. However, in 2008 the situation for the bank was even worse. This transnational structure has not even hit the top thirty of the leading banks in the world in terms of market capitalization.

Many others regulars of the rating are not in the best shape either: BNP Paribas (France) ranked only 13th, Mitsubishi UFJ (Japan) - 15th, Lloyds Banking (UK) - 18th.

The first and second places were taken by two representatives of the PRC - banks ICBC (Industrial and Commercial Bank of China, 174.59 billion Euros) and China Construction Bank (168.76 billion Euros).

At the moment, the leader of the ranking, founded in 1984, is servicing over 3.6 million corporate customers. The number of individuals utilizing the services of the Industrial and Commercial Bank of China amounts to a record 216 million.

China Construction Bank is a part of the so-called big four largest state banks of China with a market capitalization of €168.76 million. As ICBC, the bank has branches and interests worldwide, including New York, London, Frankfurt, Johannesburg, Tokyo, Seoul and Singapore.

The third place is occupied by the largest European bank HSBC (UK). Incidentally, it is the sole representative of the European banking structures in the top 10. Its market capitalization reaches 138. 20 billion euros. According to experts, a strong presence in Asian markets has helped the bank to successfully survive the financial crisis.

The fourth and fifth positions are taken by U.S. banks Wells Fargo (123.15 billion) and JP Morgan Chase (122.01 billion euros).

The sixth place is taken by another well-known representative of the financial system of China, Bank of China. Its market capitalization in 2010 amounted to 106.57 billion euros. By the end of this year, it can further strengthen its position.

The seventh place went to the American Citigroup (104.82 billion euros). It shows a relatively good dynamic recovery, yet it has a long way to go before it can keep up with the Chinese.

Another Chinese Bank, Agricultural Bank of China, placed eighth. Its appearance in the top 10 can be associated with a successful IPO conducted in the summer of 2010 in Hong Kong and Shanghai. The Bank managed to attract \$21 billion, and by the year end its market capitalization was 101.05 billion euros.

The ninth place was given to another American bank, Bank of America (USA) with a capitalization of €9.65 billion. The Bank is extremely important for the U.S. economy, as it services the largest companies in the country. However, the rate of growth of the market capitalization of U.S. banks is lagging behind not only Asian, but also European credit institutions.

A young Brazilian super bank also made it to the ten most expensive banks in the world. Itau Unibanco was founded in 2008, but the finance company is already the largest in its mainland, Latin America. Its market capitalization is €70, 56 billion.

Russia's Sberbank has taken 16th place from the top with a market capitalization of 57.14 billion euros. Handelsblatt experts suggest that in 2011 the Russian bank will be able to take a more prominent position in the ranking.

Pravda.Ru

http://english.pravda.ru/business/finance/11-01-2011/116479-chinese_banks-0/

INTERNATIONAL TRADE

Russia welcomes direct investment from China

01 Jan 2011

MOSCOW - Russia welcomes direct investment from China in an effort to expand bilateral cooperation on trade and finance, a Russian official said Friday. Vladimir Milovidov, head of the Federal Financial Markets Service said at a meeting with Li Hui, the Chinese ambassador to Russia, that China has successfully responded to the impact of the global financial crisis and attained internationally known achievements.

Russia highly appreciates China's policies on financial market supervision and is willing to share its experience with China on this field, Milovidov said. Russia also welcomes direct investment from China to promote bilateral cooperation on trade and finance, he said.

Li noted that the leaders of both countries have remarked that China-Russia relations are at an all-time high and that bilateral ties increased to a new level in 2010. Li valued the official launch of ruble-yuan trading in Russia's Moscow Interbank Currency Exchange on Dec 15, saying it marked another stage of bilateral financial cooperation.

China hopes to further promote cooperation with Russia on trade and finance, boost mutual investment and achieve more in pragmatic cooperation, Li said.

Li said the cooperation will lay a solid substantial foundation to the overall promotion of the China-Russia strategic partnership of coordination.

In November, trading in yuan-ruble had already begun in China's Shanghai Stock Exchange.

(Xinhua)

http://www.chinadaily.com.cn/business/2011-01/01/content_11784990.htm

China-Russia oil pipeline opens

New pipeline to double Russian exports of crude oil to world's largest energy consumer.

02 Jan 2011

Russia has begun oil shipments to China via an East Siberian link, with supplies delivered in January expected to hit 1.3 million tones, Russian officials say. Igor Dyomin, a spokesman for Russian oil pipeline monopoly Transneft, confirmed on Saturday that the supplies had begun.

Russia, the world's biggest crude oil exporter, has concentrated most of its 50,000km-long pipeline network in West Siberia, but the new Eastern Siberia-Pacific Ocean (ESPO) pipeline gives it access to the world's largest energy consumers' market.

According to the final schedule for crude oil exports and transit, in January-March 2011, Russia will ship 3.68 million tones of oil to China via ESPO.

"According to our plan, the input capacity 2,100 cubic metres per hour, that's 43,000 tones per day. This is what we have so far," Li Yunchao, an official with the China Petroleum Pipeline Company, told Al Jazeera.

An annual plan envisages the supply of 15 million tones (300,000 barrels per day). Many oil market participants expected it would effectively double Russian sales to China, which totaled 12.8 million tonnes (308,000 bpd) in the first 10 months of 2010.

Transneft started to ship the barrels along the first stage of the pipeline, which runs in a 2,757km arc above Lake Baikal. So far the oil had been transported only by rail to the Pacific port of Kozmino.

The crude flowed on Saturday to Daqing in China from Russia's Skovorodino via the pipeline. When the 4,070km the pipeline's second stage is finished in 2013, it will be the world's longest. At a cost of \$25bn, it dwarfs all other infrastructure projects in post-Soviet Russia.

Russian state oil firm Rosneft has been sending oil to China by rail ever since it bought the biggest unit of defunct oil giant Yukos six years ago. The purchase was facilitated by a \$6bn loan from China, which effectively prepaid \$17 per barrel for 48.4 million tonnes of oil.

That contract ran out this year, and Rosneft decided not to extend it, citing the low selling price.

<http://english.aljazeera.net/business/2011/01/201112142136273568.html>

China wants Germany to open up market

05 Jan 2011

China wants to develop the untapped purchasing potential of its domestic consumers and hopes Berlin will support the expansion of Chinese companies in Germany, a top Beijing official said on Wednesday.

Chinese firms should have the chance to further boost some \$1 billion in investments in Germany, Vice-Premier Li Keqiang wrote in a guest editorial in the Sueddeutsche Zeitung ahead of his three-day visit to the country later this week.

"We are encouraging robust, creditworthy Chinese companies to invest more abroad," he wrote. "We would be happy if ...the conditions for Chinese companies could be improved for investments and business start-ups in Germany."

Li reaffirmed Beijing would support the European Union in sorting out its sovereign debt crisis, and raised the hope that the EU might ease restrictions for high-tech products to China, which he said would create balanced and sustainable trade relations.

The vice-premier said China's imports in 2011 would likely total \$1.5 trillion, but acknowledged that 700 million Chinese farmers still could not benefit from the country's rapid growth and prosperity -- let alone the 150 million that must live from less than \$1 a day.

"This is about the accelerating change of the economy's development model -- its development should be fast, but stable in the long-run and allow all Chinese to participate in the fruits of reform," he said.

"For that, domestic consumption must grow."

Restructuring income distributions, improving public services and establishing a social security net would release the purchasing potential of more than 1 billion Chinese, according to Li. China's vice-premier is due to meet this week with Chancellor Angela Merkel, when they are expected to discuss expanding bilateral trade valued at roughly \$140 billion last year, or nearly 30 percent of China's commerce with the EU.

http://www.chinadaily.com.cn/business/2011-01/05/content_11797300.htm

\$7.5b deals signed with Spain

Li pledges to help EU tackle its debt problems as he starts European tour

06 Jan 2011

MADRID / BEIJING - China and Spain signed \$7.5 billion worth of agreements on Wednesday, a welcome boost for Spain's recession-hit economy. Visiting Vice-Premier Li Keqiang also vowed to help Europe beat its debt crisis, as he started his three-nation European tour. Li told a breakfast meeting of Spanish and Chinese business leaders in Madrid that the signed agreements and contracts cover 16 programs.

The deals reportedly involve the banking, energy, transport and telecommunications sectors. According to the Spanish daily El Mundo, they include Spanish flight simulator manufacturer Indra, and the Spanish branch of Vodafone. It was not clear whether the deals included the purchase of Spanish bonds.

Li said prior to the trip China will buy more of the country's treasury bonds "depending on market conditions".

Spain's finance minister told Li on Tuesday that Chinese investors played an important role in stabilizing financial markets and suggested the two countries join in developing markets in Latin America.

"For Spain, \$7.5 billion of deals is a large number, and that will serve as a timely boost for the country's economy," Zhang Min, a deputy researcher on European studies at the China Institute of International Studies, told China Daily.

The Spanish economy, the EU's fifth largest, slumped into recession during the second half of 2008 as the global financial meltdown compounded the collapse of the once-booming property market. It emerged with tepid growth of just 0.1 percent in the first quarter of 2010 and 0.2 percent in the second but then stalled with zero growth in the third.

Li on Wednesday also met Spanish Prime Minister Jose Luis Rodriguez Zapatero, King Juan Carlos and Foreign Minister Trinidad Jimenez. During the breakfast meeting Li said that the economies of China and the EU are complementary, with closely interwoven interests at bilateral and global levels. Li also said that China hopes the EU will recognize his country's full market economy status as soon as possible and expressed his hopes that the EU will ease its high-tech export limitations on China. He also urged the EU to resist protectionism and handle bilateral disputes via dialogue.

Li arrived in Spain on Tuesday, the first leg of his European trip, which will later bring him to Germany and Britain.

Analysts believe that China's help could be important for the EU's recovery.

"I think it's very significant for Europe at large, not just for Spain. I think it sends a very important signal to the financial markets as well," Beat Lenherr, chief global strategist at LGT Capital Management, told CNBC television.

China has previously announced multibillion-dollar accords with Greece and Portugal, the two worst performing economies in the EU.

"China's support for the EU's financial stabilization matters and its help to certain countries in coping with the sovereign debt crisis are all conducive to promoting full economic recovery and steady growth," Li said in a comment piece published in the German daily Sueddeutsche Zeitung on Wednesday.

China is now the EU's second largest trading partner and export market and China's imports from the EU rebounded rapidly in 2010.

Chinese analysts said that the visit may also help China explore possibilities of new cooperation in technology transfer, especially green technology, to help ensure China restructures its energy-reliant economy, said Jin Ling, an expert on EU studies at the China Institute of International Studies.

European countries have a traditional advantage in high-tech and clean energy industries, which serve China's needs if it is to transform its growth model.

Yet Jin cautioned that both China and the EU have to do more to build political confidence in each other.

http://www.chinadaily.com.cn/business/2011-01/06/content_11802038.htm

China takes little profit but big surplus from processing trade

06 Jan 2011

BEIJING -- China earns only a thin profit but, at the same time, a big trade surplus from the processing trade, a Chinese commerce official said Wednesday. Jiang Yaoping, China's vice commerce minister told a forum in Beijing that as a result of globalization, Chinese enterprises only make limited profits from assembling and processing products, while the rest of the profit is enjoyed globally. Jiang also stressed that China needs to maintain steady development in the processing trade, since this is China's role in the international division of labor which is determined by the country's current economic status and development.

Processing trade has created some 40 million jobs in China, as well as made a significant contribution to China's trade surplus, Jiang said. China's trade surplus stood at \$170.4 billion in the first 11 months of 2010, while the processing trade surplus hit \$291.1 billion during the same period.

Jiang said China will keep policies stable to avoid any drastic changes in the sector, and at the same time work to promote the upgrading of the sector and expand imports.

(Xinhua)

http://www.chinadaily.com.cn/business/2011-01/06/content_11802385.htm

China OKs JPMorgan, Morgan Stanley joint ventures

07 Jan 2011

HONG KONG - Chinese regulators gave approval on Friday to the banking joint ventures of JP Morgan Chase & Co and Morgan Stanley, bringing the banks a step closer toward operating securities businesses in China that they, and other banks, have long sought.

For JP Morgan, the approval allows it to make its maiden entry into the Chinese securities market, where foreign banks seek the ability to underwrite securities in the rapidly growing stock and bond markets. The bank will link up with First Capital Securities Co, a Shenzhen-based brokerage and hold 33 percent of the venture.

For Morgan Stanley, the green light allows it to move on with its new Chinese partner, Huaxin Securities, also known as China Fortune Securities. Morgan Stanley recently sold its stake in China's premier investment bank, CICC. Under its new joint venture, Morgan Stanley will have more management control and will also underwrite securities for the mainland market.

The approval by the China Securities Regulatory Commission was expected, as more and more foreign banks enter into joint venture partnerships in China, which are subject to a mandatory ownership cap of 33 percent. UBS AG, Credit Suisse Group AG and Deutsche Bank AG have similar ventures in China.

http://www.chinadaily.com.cn/business/2011-01/07/content_11808952.htm

Daimler, VW to sign China deals worth \$5b

07 Jan 2011

BERLIN - German carmakers Daimler and Volkswagen will sign deals totalling \$5 billion at a meeting with China's Vice-Premier Li Keqiang on Friday, government sources told Reuters on Thursday. Daimler confirmed it would sign contracts with the Chinese government on Friday but declined to make any further comment. No one at Volkswagen was available for comment. The contracts would formalize deals already agreed on the import of passenger cars to China, Daimler said.

Li, who is on a three-country European tour, said on Wednesday China wants to develop the untapped purchasing power of its domestic consumers and hopes Berlin will support the expansion of Chinese companies in Germany. Li is due to meet with Chancellor Angela Merkel when they are expected to discuss expanding bilateral trade valued at roughly \$140 billion last year, or nearly 30 percent of China's commerce with the EU.

A newspaper report on Thursday also said China was ready to buy around 6 billion euros of Spanish debt.

http://www.chinadaily.com.cn/business/2011-01/07/content_11807912.htm

China, Germany to sign deals worth billions of dollars

08 Jan 2011

BERLIN -- China and Germany will ink \$8.7 billion worth of business deals during Chinese Vice-Premier Li Keqiang's visit to Germany, Chinese Ambassador to Germany Wu Hongbo said here on Friday. Wu said at a press conference that Li was accompanied by some 120 Chinese business leaders on his current visit. The two sides are expected to sign 11 agreements and commercial contracts worth some 8.7 billion dollars, covering such fields as automobile purchase, financial cooperation, energy and machinery.

Earlier on Friday, Li met with German President Christian Wulff and then held talks with Chancellor Angela Merkel. Li told the German leaders that China is a long-term and responsible player in European financial markets. China has increased its holdings of, and will continue to buy Spanish government bonds.

Li said China viewed Europe as an important partner and would like to see a prosperous Europe. Li, who started his four-day official visit to Germany on Thursday, is due to meet with German Foreign Minister Guido Westerwelle in the afternoon and attend a signing ceremony of the business deals between the two countries.

(Xinhua)

http://www.chinadaily.com.cn/business/2011-01/08/content_11813067.htm

Chinese vice premier pledges closer cooperation with Japan on energy-saving sector

08 Jan 2011

BEIJING-- Chinese Vice Premier Zhang Dejiang on Saturday vowed closer cooperation with Japan on the energy-saving sector. In a meeting with Japan's Hitachi President Hiroaki Nakanishi in Beijing, Zhang said China and Japan are complementary with regard to cooperation on energy conservation and environmental protection.

The two countries should enhance exchanges and cooperation in this area and expand cooperative programs in a bid to make contribution to sustainable development in Asia and in the world, Zhang said.

Zhang said China attaches great importance to energy conservation and emission reduction and has made notable progress in this regard.

Nakanishi was in Beijing to attend a China-Japan seminar on green economy.

(Xinhua)

http://news.xinhuanet.com/english2010/china/2011-01/08/c_13681887.htm

Russia, US begin civilian nuclear cooperation deal

A civilian nuclear cooperation deal between Russia and the US came into force Tuesday. The accord, which was signed in 2008 when then US president George W. Bush was in office, was put on ice for three years by the US after Russia's invasion of Georgia that year.

'The agreement is very important for Moscow because the US is a key part of the global market for nuclear technology,' said Sergei Kiriyenko, head of Russia's state-run nuclear holding company Rosatom. Among other aspects, the deal allows Russia to reprocess US spent nuclear fuel rods.

It came into force after an exchange of diplomatic notes in Moscow between US Ambassador John Beyrle and Russian Deputy Foreign Minister Sergei Ryabkov.

Russia News.Net

<http://www.russianews.net/story/730335/ht/Russia-US-begin-civilian-n-cooperation-deal>

ECONOMIES

Singapore economy 'second to Qatar'

City-state's record economic growth attributed to its manufacturing, finance and tourism sectors.

01 Jan 2011

Lee Hsien Loong, Singapore prime minister, has announced a record 14.7 per cent growth in the country's economy in 2010, making it the second fastest growing economy in the world, behind Qatar. Gross domestic product expanded 12.5 per cent in the fourth quarter from the same period a year earlier, Lee said in a statement on Friday.

Singapore's three key sectors, manufacturing, finance and tourism, all flourished this year as the global economy bounced back from an economic downturn triggered by the financial crisis of 2008.

Singapore seeks to become one of Asia's top gambling and shopping destinations and the opening of the city-state's first two casino resorts this year attracted record numbers of tourists. Lee said that the result showed a dramatic recovery from the negative growth of 2009. He said that growth momentum in Asia is strong while the US economy remains weak and Europe faces a sovereign debt crisis in several countries.

"The outlook for the world economy is mixed," Lee said. "Hopefully, Asia will continue to do well despite the weakness in developed countries."

But he cautioned that the growth figure was a one-off, due to special circumstances. He also credited investment in education and support for innovation for driving the economic expansion.

The government forecasts a GDP growth of between four and six per cent next year.

<http://english.aljazeera.net/news/asia-pacific/2011/01/201111104446706770.html>

Bolivia rescinds fuel subsidy cuts

After week of strikes and demonstrations, South American country cancels decree that saw fuel costs soar.

01 Jan 2011

Faced with spreading civil unrest, the Bolivian president has scrapped a government decree that significantly raised fuel prices and provoked violent protests. Evo Morales, the Bolivian president, presided over back-to-back government meetings on Friday aimed at crafting a strategy for quelling civil unrest in La Paz, Cochabamba and other major cities sparked by the decision to remove price controls.

Alvaro Garcia, the Bolivian vice president, filling in for Morales, had issued the decree on Sunday removing subsidies that keep fuel prices artificially low but cost the Bolivian government an estimated \$380m per year. As a result fuel prices went up by as much as 83 per cent in the sharpest increases since 1991.

"Answering to the wishes of the people, we have decided to rescind Decree number 748 and other measures that accompanied it," Morales told reporters at the presidential palace.

"There is no justification for raising transportation fares or food prices right now."

Violent clashes

Fifteen police officers were injured on Thursday in clashes with rock-wielding protesters near La Paz, as major cities in the Andean nation were crippled by a transport strike protesting huge fuel price hikes. Initial reports from El Alto said police officers came under attack by rock-wielding demonstrators and responded by lobbing tear gas canisters.

The residential area surrounding the La Paz international airport saw thousands of protesters throwing up barricades across access roads, burning tires and hurling stones at government buildings to vent their anger.

The crowds tried to set a monument to Cuban revolutionary hero Ernesto "Che" Guevara on fire, broke the doorway to the vice president's residence, torched highway toll booths and damaged offices of state-run BoA airlines and the Central Obrera union.

Morales's palace in La Paz was besieged by angry demonstrators who were also repelled by police using tear gas. The president attempted to stem the growing public discontent late Wednesday by announcing a 20 per cent minimum salary increase, but powerful unions and civil groups still promised further strikes, marches and disruptions.

Political fallout

Erecting barricades in El Alto as tyres and cars burned around her, an unrepentant Patricia Coyo said the poor "suffered the most" with serious knock-on effects such as hikes in transport fares and food prices.

"We put him in power, we can also bring him down," the 30-year-old laundry worker told AFP, as protestors waved Bolivian flags and set off firecrackers.

"We have to repeal this decree of starvation by this damn government!" Coyo said.

Demonstrators muttered the word "treason" to describe Morales's actions, compared him to Venezuelan President Hugo Chavez, his political mentor, and called for immediate elections.

Even Morales's strongest base, the coca growers union, voiced their disdain at the price hikes. Union protesters even halted truck routes by barricading a key road linking the country's centre to the south.

Truckers blocked key intersections with their rigs in Cochabamba, 400km southeast of La Paz, and Bolivia's economic capital Santa Cruz was also hard hit by a transport strike and demonstrations.

Franklin Duran, head of the Confederation of Drivers bus union, called a nationwide strike against the price hike and demanded a 100 per cent passenger fare increase.

<http://english.aljazeera.net/news/americas/2011/01/2011116339693721.html>

China: More exporters allowed to keep revenues overseas

01 Jan 2011

BEIJING - China's foreign exchange regulator announced Friday that it would spread a program from previously trial regions to the entire nation, allowing exporters, beginning Saturday, to keep their revenues overseas.

The program started as a trial plan on Oct 1, and was only applied to Beijing municipality, Guangdong, Shandong and Jiangsu provinces, the State Administration of Foreign Exchange (SAFE) said in a statement on its website.

Under the program, qualified Chinese exporters would be allowed to hold their foreign currency earnings in overseas accounts, SAFE said.

Each export company can hold up to five overseas accounts and was free to decide on the length of time that it wanted to keep its income offshore or when to return the funds to China, it said.

The decision would not only help balance China's international payments, but also benefit domestic companies and encourage them to do business abroad.

According to official figures, as of the end of September 2010 China held \$2.6483 trillion in foreign exchange reserves.

(Xinhua)

http://www.chinadaily.com.cn/business/2011-01/01/content_11784681.htm

China central bank reiterates monetary policy stance in 2011

01 Jan 2011

BEIJING - China will implement a prudent monetary policy in 2011 and ensure consumer prices stay "basically stable," the central bank governor Zhou Xiaochuan said Friday. The People's Bank of China, the central bank, will strive to make the monetary policy more targeted, flexible and effective next year, Zhou said in a New Year's address posted on the central bank website.

More efforts will also go to pushing forward financial reform, preventing systematic risks in the financial sector and safeguarding financial stability, he said.

With inflation running at a record high, China announced early this month to shift its monetary policy stance from relatively loose to prudent next year.

The proactive fiscal policy, which China implemented in late 2008 to help the national economy through the global financial crisis, would continue in 2011 however.

The consumer price index, a main gauge of China's inflation, surged to a 28-month high of 5.1 percent in November, exceeding the government's target ceiling of 3 percent for this year, pushed up by soaring food prices.

(Xinhua)

http://www.chinadaily.com.cn/business/2011-01/01/content_11784652.htm

China expects further rate hikes to cool property market

03 Jan 2011

BEIJING - The New Year may be tough on people who plan to buy homes and those who already bought homes using bank loans, as China is very likely to announce new interest rate hikes this year after two increases in 2010, which will add to the financial burdens of home buyers.

"I thought I could pay off the mortgage ahead of schedule. But it seems impossible for me now after the government raised interest rates by 25 basis points on Dec 25," said Wu Jing, a female white-collar worker employed at a foreign-funded enterprise in Beijing.

China raised its benchmark one-year lending and deposit rates to 5.81 percent and 2.75 percent, respectively, beginning on Dec 25, 2010.

"The latest interest rate hike will add about 170 yuan (\$25.76) to my monthly payment," Wu said. She took out a one-million-yuan loan to buy a second home at the beginning of 2010.

The Christmas Day rate hike came after the government raised rates in October for the first time in more than two years to tame inflation and prevent asset bubbles. Further, the December hike will not be the last one in this cycle of interest rate increases, as the problem of excessive liquidity cannot be solved quickly in the world's fastest-growing major economy, said Yu Yongding, a researcher at the Chinese Academy of Social Sciences.

Chinese banks extended 7.44 trillion yuan of loans in the first 11 months of 2010, just shy of the government annual target of 7.5 trillion yuan. Also, though shrinking from the previous month, the country trade surplus in November reached almost \$23 billion, with imports and exports both hitting record highs.

"The rise in bank lending, trade surplus and hot money inflows pumped more money into the economy, already awash with capital, prompting the government to take more measures to drain liquidity this year," Yu said.

Guo Tianyong, a professor with the Central University of Finance and Economics, said interest rate hikes would help control liquidity, curb soaring property prices and keep the real estate market stable, despite added pressure on the balance sheets of home buyers and developers. "It will be more difficult for developers to secure loans after further interest rate hikes," said Lian Ping, chief economist at the Bank of Communications, China's fifth-largest lender.

China's property prices climbed 7.7 percent from one year earlier in November, the slowest pace in a year, according to data from the National Bureau of Statistics. "If interest rates continue to rise in the first quarter of 2011, the government's efforts to cool the property market will show more noticeable effects in the second half," Lian said.

The rise in interest rates also prompted banks to adjust their lending structure.

China Construction Bank (CCB), the country's second largest lender, said it would increase investment in the construction of affordable housing this year, while raising the threshold for commercial property developers to receive loans. CCB has extended more than 20 billion yuan to support the building of affordable housing and individuals' purchases of such homes, vice president Zhu Xiaohuang said.

The bank's move was in line with the country's effort to increase the construction of affordable housing to 10 million units this year from 5.8 million units in 2010. It also reflected the country's shift to a prudent monetary policy in 2011 from a moderately loose stance adopted to buoy the economy during the financial crisis.

Further, Lian Ping said the government should ensure adequate capital supplies for new projects and emerging industries this year, despite its decision to tighten bank lending, in order to minimize the effect of reduced liquidity on the real economy.

(Xinhua)

http://www.chinadaily.com.cn/business/2011-01/03/content_11787691.htm

Fed expects U.S. economy to gain momentum in near term

05 Jan 2011

WASHINGTON: The U.S. Federal Reserve said on Tuesday that it expected the U.S. economy to pick up momentum in the near term, but the central bank's outlook for the economic activity over the medium term was little changed.

Central bank officials held that with the recent strong production and spending data, the staff revised up its projected increase in real gross domestic product (GDP) in the near term. However, the staff's outlook for real economic activity over the medium term remained nearly the same.

"Economic activity was increasing at a moderate rate, but that the unemployment rate remained elevated. The pace of consumer spending picked up in October and November, exports rose rapidly in October, and the recovery in business spending on equipment and software appeared to be continuing," the Fed noted in the minutes released on Tuesday of a Federal Open Market Committee (FOMC) meeting held in December 2010.

Members of the FOMC, the interest rate policy making body of the central bank, predicted at their November monetary policy meeting that the U.S. economy would expand by 3 percent to 3.6 percent in 2011, down sharply from the previous forecast of 3.5 percent to 4.2 percent.

The central bank pointed out that a number of less favorable factors would weigh on the U.S. economic growth, including the depressed housing market and employers' continued reluctance to add to payrolls.

The Fed also decided to maintain the target range for the federal funds rate at the historically low level of zero to 0.25 percent to bolster the economic growth.

The Fed announced in the Tuesday minutes it would maintain the pace of its 600 billion dollars Treasury bond-buying program in a bid to strengthen the economic recovery and tackle the high unemployment challenge.

"While the economic outlook was seen as improving, members generally felt that the change in the outlook was not sufficient to warrant any adjustments to the asset-purchase program, and some noted that more time was needed to accumulate information on the economy before considering any adjustment," according to the 10- page minutes.

On Nov. 3, 2010, the Fed announced its plan to buy 600 billion dollars of government longer term bonds to foster maximum employment and price stability, which had invited strong criticism both at home and abroad.

The next FOMC meeting was scheduled to take place on Jan. 25 and 26.

(Xinhua)

http://news.xinhuanet.com/english2010/business/2011-01/05/c_13676599.htm

China due for fiscal tightening soon, govt. researcher says

06 Jan 2011

BEIJING - China should draw in loose fiscal policies before long and does not have room for big increases in state outlays on top of existing programs, a senior government researcher said in comments published on Thursday. But Jia Kang, head of the Chinese Ministry of Finance's Institute for Fiscal Science, also told the overseas edition of the official People's Daily that Beijing was likely to officially announce a shift in its fiscal settings only after the changes were firmly in place.

"Now in fiscal and monetary policy, the first is looser while the second is tighter, and the fiscal side should stay loose for a time, but not for very much longer," the Chinese-language newspaper cited Jia as saying.

With projects to improve poor people's housing, upgrade healthcare, increase education spending and strengthen rickety dams already on its books, the Chinese government did not have room for other big new spending initiatives, said Jia.

China increased interest rates for a second time in just over two months late in 2010 to rein in inflation, which hit a 28-month high of 5.1 percent in the year to November. The government would gradually phase out its 4 trillion yuan stimulus program unveiled in November 2008, a Chinese business newspaper reported last month, citing unnamed official sources.

Jia suggested that a full shift in fiscal policies would take years, not months.

"At some time, active fiscal policies will phase out, but only some time after that will the transformation of fiscal policy be announced," said Jia. "To judge from experience, this process is likely to take about three years from after 2011," he said.

The government would set a fiscal deficit of 900 billion yuan in 2011, down from 1.05 trillion yuan in 2010, Gao Peiyong, an economist at the Chinese Academy of Social Sciences, a government institute in Beijing, said in the same report.

(Xinhua)

http://www.chinadaily.com.cn/business/2011-01/06/content_11802337.htm

Chinese economist sees 5-6% yuan rise in 2011

07 Jan 2011

BEIJING - The yuan is expected to rise between 5 and 6 percent this year against the US dollar, Li Daokui, an adviser to China's central bank, was quoted as saying in a local newspaper. "My personal view is that the yuan will rise by 5 to 6 percent this year in a controlled and gradual manner," said Li, one of three academics on the central bank's monetary policy advisory committee.

Li's comments were reported by the Xiaoxiang Morning News on Thursday. He had made the remarks in a speech on Wednesday at an event sponsored by the newspaper in Changsha, the capital city of China's central Hunan province.

Li said China will steer its monetary policy in a modest and gradual way, and that investors should not rule out the chance of more interest rate rises in 2011. He added that China's economy will grow at least 9.5 percent this year, and that inflation will hit 4 percent. This means economic growth will largely be on par with last year's pace, while inflation picks up from 2010's 3.3 percent.

If the yuan indeed climbs 5 percent this year, it will far outstrip market expectations. The latest pricing in offshore forwards market showed investors only see the currency gaining 2.7 percent for all of 2011.

China's central bank reiterated on Thursday that it would keep the yuan exchange rate "stable." But with China's inflation hitting a 28-month of 5.1 percent in November, some analysts believe the country will be compelled to let the yuan rise faster to rein in inflation.

http://www.chinadaily.com.cn/business/2011-01/07/content_11810372.htm

China's GDP-driven provinces urged to slow down

07 Jan 2011

BEIJING - Alarmed by the vaulting ambitions of many Chinese provinces to grow at all costs, China's top economic chief is calling on officials to calm down and spare a thought for the environment.

Zhang Ping, who heads China's National Development and Reform Commission, the central economic planning agency, said only five or six of China's 30 provinces are targeting annual economic growth of 8 or 9 percent.

The remaining provinces are aiming for growth rates of more than 10 percent this year, with some wanting to double economic output in the coming five years.

"China has a planned energy supply of about 4 billion cubic tons of coal equivalent for the next five years, and this is not enough to meet demands for economic growth to double," he was quoted as saying on the news portal Sina.com.

Beijing is increasingly concerned with the ambitions of Chinese provinces across the country to chase high growth despite the central government's pleas for a more moderate and sustainable pace of expansion. Years of rapid economic growth have taken a toll on China's environment, with Beijing trying to undo some of the damage now. It has an annual growth target of 7 percent for the next five years, well down from last year's 10 percent.

Zhang said Beijing has asked local governments to take into account the supply of "energy, environment, water and land" to set more reasonable growth targets.

http://www.chinadaily.com.cn/business/2011-01/07/content_11807776.htm

China power sector to boom as oil sector goes slower

07 Jan 2011

BEIJING - China unveiled a raft of targets for its energy and power sectors on Thursday, revealing a plan for a rapid increase in power generation but a much slower rise in the country's oil refining capacity over the next five years. China faces the challenge of keeping its growing economy fueled while cutting back on its staple fuel, cheap but dirty coal.

Although energy use is certain to grow, the government wants energy consumption to rise much more slowly than the economy overall, and hopes to bolster supplies of cleaner energy sources. China has already said it will spend 5 trillion yuan (\$755 billion) on clean energy over the next decade to lift the non-fossil fuel component of its supply to 15 percent of primary energy demand by 2020, up from 8 percent in 2009.

On Thursday, Zhang Ping, the head of the top economic planning body, said the country had met its five-year target to reduce energy consumption per unit of gross domestic product by 20 percent by the end of 2010.

Chinese officials are still deliberating energy intensity targets for the next five years, but media reports have said the figure for 2011-15 could be 17.3 percent, one of the many targets to be set under a five-year plan which will be launched by the country's parliament in March.

Power generating capacity is expected to hit 1,440 gigawatts (gW) by 2015 and 1,760 gW by 2020, Liu Zhenhua, general manager of the State Grid Corp of China, was quoted as saying by state media.

Zhang Guobao, the head of the National Energy Administration, said generating capacity stood at 950 gW at the end of 2010, so Liu's forecasts imply growth of 52 percent in the next five years and then a further 22 percent rise in the following five years.

Thermal power capacity, which includes coal, oil and gas and accounts for the bulk of China's electricity generation, will rise by 80 gW in 2011 and 260-270 gW by 2015, Zhang Guobao said. He said by 2015 China should add 38 gW of nuclear power capacity and 140 gW of hydropower capacity. That compares to capacity of about 10 gW and 200 gW respectively at the end of 2010 and signals a much faster roll-out of those power sources than many had expected.

Some media reports had put the 2015 target for total nuclear power capacity at 39 gW and for hydropower at 250 gW.

Zhang did not give a target for wind power, the other big component of alternative energy, but his agency has previously said it should have 90 gW of capacity by 2015. Although the targets show renewables taking a much bigger share of the overall energy mix, thermal power will continue to be a bigger absolute source of new power generating capacity. But Zhang also said China had made cuts in coal use over the last five years by replacing outdated thermal power plants with environmentally-friendly ones, which saved more than 300 million tons of coal, and by pushing clean energy, which saved a further 1.5 billion tons of coal.

The government is also trying to make coal work more efficiently by building new power plants in the coal-rich western regions of China and by investing heavily in ultra-high voltage power lines, a new technology which allows the power from coal to be sent over long distances. It plans to invest more than 500 billion yuan in the technology by 2015, building 40,000 km of UHV lines.

Slower oil

The targets for power supply are much more aggressive than the planned growth in oil refining capacity, which Zhang Guobao said would hit 600 million tons, or 12 million barrels per day (bpd), by 2015, with annual refined oil output of 310 million tons. That signals a rise of about 20 percent in refining capacity over five years, less than a Reuters calculation based on estimates from industry officials and local media, which showed China was likely to add more than 3 million bpd of new refining capacity between 2011 and 2015.

China's oil demand has hit record highs this year, rising 13.9 percent in November to more than 9.3 million bpd, but the country's top refiner Sinopec Corp expects it to grow 5-6 percent per year over the next five years. Although refining growth may be modest, it is widely expected to outpace the growth of China's own oil production, making the country more dependent on foreign oil.

Zhang Guobao said China's oil output may hit 190 million tons (3.75 million bpd) in 2011, barely more than the 185.557 million tons produced in the first 11 months of 2010.

Gas production is growing faster, with output likely to exceed 100 billion cubic meters in 2011, Zhang said, compared to 86.74 billion cubic metres of gas produced in the first 11 months of 2010. Gas demand is rising fast and Zhang said 60 million rural households would use gas by 2015.

http://www.chinadaily.com.cn/business/2011-01/07/content_11807463.htm

China: Taming inflation high on central bank's agenda

07 Jan 2011

BEIJING -- The People's Bank of China (PBOC), or the central bank, reiterated Thursday that it would give higher priority to stabilizing prices this year. The central bank plans to make its micro-control policies more targeted and effectively manage liquidity to bring the monetary conditions for price hikes under control, said the PBOC in a statement posted on its website.

It also stressed that it would employ multiple financial tools, including interest rates, the required reserve ratio, and open market operations, to maintain liquidity within the nation's banking system at a proper level, according to the statement. Further, the central bank vowed to implement a prudent monetary policy and steer credit growth back to normal.

China faces mounting inflation pressures with the November consumer price index (CPI) renewing a 28-month high of 5.1 percent, while new loans reached 7.45 trillion yuan in the first 11 months of this year, compared to the government's full-year target of 7.5 trillion yuan.

Also, the central bank announced, for the second time in 2010, a hike in interest rates late December. It had also increased the bank reserve required ratio six times last year to 18.5 percent and 19 percent for some large commercial banks, to battle surging prices.

(Xinhua)

http://www.chinadaily.com.cn/business/2011-01/07/content_11807227.htm

Russia to spend \$3.8 bn on space programmes in 2011

Russian Prime Minister Vladimir Putin said Tuesday that the government will spend 115 billion rubles (\$3.8 billion) on the country's space programmes in 2011. Russia will celebrate this year the 50th anniversary of the first manned spaceflight by Yury Gagarin.

'We will allocate 115 billion rubles from the federal budget in 2011 on national space programmes,' Putin said at a meeting with space officials.

The prime minister said Russia is planning to launch about 50 spacecraft and adopt a programme for the development of the Glonass satellite navigation system until 2020.

Russia intended to conclude last year the forming of its Glonass system - a project similar to America's GPS - but a carrier rocket carrying three Glonass satellites veered off course and sunk in the Pacific Ocean Dec 5, 2010.

Space agency Roscosmos said the next launch of a rocket carrying another three Glonass satellites could be conducted sometime in August. Russia is also planning to increase its share in the global space market by designing new models of unmanned and manned spacecraft, participating in a large number of international space projects and building a new space centre.

Russia News.Net

<http://www.russianews.net/story/730327/ht/Russia-to-spend-38-bn-on-space-programmes-in-2011>

Top Forecasters Expect Ruble at Eight-Month High: Russia Credit

The most accurate ruble forecasters expect Russia's currency to climb to an eight-month high this quarter as rising interest rates, higher oil prices and a more flexible exchange rate lure investors to the world's biggest energy exporter.

The ruble will advance 3.3 percent by the end of March to 34 against the central bank's target basket of dollars and euros, the strongest level since May, according to the median of estimates from the five analysts who made the best calls in the third quarter of 2010. The ruble added 3

percent last year. The currency surged as much as 2.9 percent to 39.53 per euro in Moscow today, the biggest intraday advance since March 23, 2009, as markets opened for the first day of 2011.

With oil near \$90 a barrel, analysts are predicting gains for the ruble this year even as currencies depreciate in emerging-market nations including Brazil and South Africa, where authorities have attempted to weaken their exchange rates. The ruble's rally helped local-currency government bonds to gain 9.7 percent in dollar terms last year, according to JPMorgan Chase & Co.'s GBI-EM Russia index. The returns compared with a 20 percent gain on Brazilian local bonds as the real advanced 5 percent against the dollar.

"Oil will remain at quite historically high levels and that will be a big supporting factor for the ruble this year," Lee Hardman, the currency strategist at Bank of Tokyo-Mitsubishi UFJ Ltd. whose forecast for the dollar- ruble rate in the third quarter was the closest match on Bloomberg, said in a phone interview from London on Jan. 6. "The central bank will raise interest rates further and that will help to improve the attractiveness of the ruble."

Bullish Bets

The ruble added 1.4 percent to 34.6423 against the basket today, the largest gain in a year. Russia's currency will climb 0.6 percent against the dollar in 2011 while the real will drop 0.7 percent and the rand will lose 3.8 percent, the median of analyst estimates on Bloomberg shows.

Traders stepping up bullish bets sent the ruble's three- month risk-reversal rate -- the premium of put options over calls -- to 2 percent today, from as high as 6.15 percent in May last year, according to data compiled by Bloomberg. Three-month non-deliverable forwards, which provide a guide to expectations of currency movements and interest-rate differentials, have strengthened 3.4 percent since Nov. 30 to 30.8002 per dollar.

Bank of Tokyo, which was closest to predicting the ruble's 2.3 percent gain against the dollar in the third quarter, says the currency will strengthen 1.4 percent to 34.65 versus the basket by March 31.

Crude Rally

BNP Paribas SA, headquartered in Paris, and London-based HSBC Holdings Plc, the second- and third-most accurate ruble forecasters, say it will reach 34. Credit Agricole CIB in Paris, the fourth best forecaster, has its target at 33.70, while Deutsche Bank AG, the fifth-most accurate, sees the ruble trading at 34.4 by the end of this quarter.

The estimated advance would be the largest since the first three months of last year, when a 5.5 percent jump in the price of crude helped the ruble strengthen 5.8 percent versus the basket.

The price of oil, Russia's chief export earner, rose 15 percent last year to \$91.38 a barrel, the highest in more than two years, as the global economic recovery boosted demand. Oil consumption will increase by 1.3 million barrels a day to a record 88.8 million in 2011,

according to the Paris-based International Energy Agency. Crude and natural gas account for about a quarter of Russia's economic output.

Bank Rossii loosened its control over the ruble last year, widening the corridor it allows the currency to trade within and targeting a free float as soon as next year. The ruble has been managed against the basket since 2005 to limit fluctuations that disadvantage exporters.

'Beginning to Worry'

The central bank said it expanded the corridor at least twice last year and Chairman Sergei Ignatiev said in December said it will be widened further in 2011. The corridor shifts by 5 kopeks if interventions exceed \$650 million, First Deputy Chairman Alexei Ulyukayev said in October.

Bank Rossii raised the deposit rate by 25 basis points, or 0.25 percentage point, to 2.75 percent at its Dec. 24 review and may increase key rates in the first quarter as inflation is "beginning to worry us," Ignatiev said Dec. 8. The annual inflation rate accelerated in December to 8.8 percent, the highest in a year and above the official forecast of 8 percent, the Federal Statistics Service said today.

Quickening inflation may encourage the central bank to allow gains in the ruble as a stronger currency brings down prices of imported goods, Bank of Tokyo-Mitsubishi's Hardman said.

Carry Trade

Higher interest rates will boost the ruble's appeal as a carry trade, said Yaroslav Lissovolik, Deutsche Bank's chief economist in Moscow. In carry trades, investors borrow funds in countries where costs are low, including the near-zero rates in the U.S. and Japan, and invest them in places where the returns earned on local-currency securities are higher, including Brazil or South Africa.

"Inflation will be increasing and that will affect the stance of the central bank," Lissovolik said in a phone interview.

Russia's currency weakened 0.9 percent to 30.57 per dollar last year, its third annual decline, and strengthened 6.3 percent versus the euro, snapping four years of depreciation. The basket rate is calculated by multiplying the dollar-ruble rate by 0.55, the euro-ruble rate by 0.45, then adding them together.

Catching Up

The ruble lagged behind major commodity currencies against the dollar in 2010 as lower interest rates eroded demand for the currency and local investors withdrew money from Russia after the ouster of Moscow Mayor Yuri Luzhkov, said Bartosz Pawlowski, head of currency and interest rates strategy for central and eastern Europe, the Middle East and Africa at BNP Paribas in

London. Australia's dollar jumped 14 percent versus the greenback and the South African rand added 12 percent in 2010.

The ruble has room to "catch up," Pawlowski said by phone from London Dec. 30. BNP Paribas predicts the ruble will strengthen to 33 versus the basket by the end of this year while the median estimate of the five top analysts is 33.25.

The main risk to the ruble's appreciation trend is a decline in oil prices, which may shrink Russia's \$6.02 billion current-account surplus, according to Credit Agricole CIB and HSBC. After gaining in the first quarter, the ruble will probably weaken to 36.1 versus the basket by the end of 2011, Credit Agricole CIB said. HSBC predicts a slide to 38.2.

Current Account

Credit Agricole's "bearish" view is supported by the bank's prediction that oil prices will slide back to around \$70 to \$80 a barrel this year, said Maxim Oreshkin, the Paris-based investment bank's chief strategist for Russia and the former Soviet Union in Moscow.

"This could result in serious deterioration in Russia's current account during the second half and force ruble weakness," Oreshkin said by e-mail Dec. 21.

An advance in Russian sovereign dollar bonds due in 2020 pushed the yield down 5 basis points, or 0.05 percentage point, to 4.95 percent today, after falling 36 basis points since their issue last April. The ruble was little changed at 30.5975 per dollar today.

The cost of protecting Russian debt against non-payment for five years using credit-default swaps rose 4 basis points yesterday, 66 points below last year's peak of 217, according to data provider CMA. The contracts pay the buyer face value in exchange for the underlying securities or the cash equivalent should a debtor fail to adhere to its agreements.

Bond Risk

Credit-default swaps for Russia, rated Baa1 by Moody's Investors Service, its third-lowest investment grade, cost 146 basis points today, 1 basis point less than for Turkey, which is ranked four levels lower at Ba2. Russia swaps cost as much as 40 basis points less on April 20. Brazil stood at 111 points and China at 77.

The extra yield investors demand to hold Russian debt rather than U.S. Treasuries fell 9 basis points to 192 basis points yesterday, according to JPMorgan's EMBI+ indexes. The difference compares with 126 for debt of similarly rated Mexico and 169 for Brazil, which is rated two steps lower at Baa3 by Moody's.

Russia cut its benchmark borrowing costs 14 times between April 2009 and May last year to help spur lending and the economy after the global credit crisis. Traders are pricing in 0.86 percentage points of increases to Russian interest rates in the next three months, according to forward rate agreements.

Stemming Outflows

Brazil increased its benchmark Selic target rate three times last year to 10.75 percent. Brazilian Finance Minister Guido Mantega told reporters in Brasilia yesterday he's confident the country's currency won't strengthen and that the government won't lose money by buying dollars in the futures market.

South African reserves climbed 1.1 percent in December as the government boosted funds to the central bank to buy more foreign currency in a bid to curb the rand's strength.

In Russia, capital has been leaving, with the central bank more than doubling its year-end estimate for outflows in November to \$22 billion as record-low borrowing costs prompt companies to increase acquisitions abroad. Outflows were as high as \$30 billion in 2010, Ulyukayev said Dec. 29, according to the Interfax newswire.

The decline in investment caused the ruble to weaken against the basket in the six months between May and October, capping its longest run of monthly declines since the central bank engineered its so-called "gradual devaluation" of the currency between August 2008 and January 2009.

Bloomberg

<http://www.businessweek.com/news/2011-01-11/top-forecasters-expect-ruble-at-eight-month-high-russia-credit.html>

Russian inflation hit 8.8% in 2010

MOSCOW- Russian consumer price inflation in December 2010 totalled 1.1%, with overall inflation for the year 2010 hitting 8.8%, the same as in the preceding year, the Federal State Statistics Service said on Tuesday.

"The consumer price index in December reached 101.1% and 108.8% from the start of the year," the service said.

The government had expected inflation to reach 8.5% in 2010. It hiked its inflation forecast several times, primarily because of the abnormal heat and drought last summer, which boosted food prices.

RIA Novosti

<http://en.rian.ru/business/20110111/162101909.html>

ARTICLES/COMMENTARIES

Buttonwood

THROUGHOUT 2010 financial markets have reflected a strange confluence of views. Government-bond yields have been low (outside peripheral Europe), indicating that investors are expecting low inflation and slow economic growth. But gold, an inflation hedge, has risen steadily, while American equities, a play on growth, have performed well.

This threefold combination cannot last for ever. That it has persisted for so long is probably down to the Federal Reserve's quantitative easing (QE), which gave comfort to bulls in all three asset classes. The gold bugs saw QE as inflationary, equity enthusiasts saw the tactic as boosting growth and the bond markets had the comfort that the Fed would be the "buyer of last resort" for Treasuries.

Oddly enough, it was the launch of the Fed's second round of QE in November that seems to have broken the logjam. The ten-year Treasury bond yield has increased from 2.56% to 3.53% since then, with an extra spurt after the announcement of an agreement to extend America's Bush-era tax cuts, supplemented by a cut in the payroll tax.

The driving force behind these rising yields is a matter of debate. Higher bond yields can result from stronger economic-growth expectations, fiscal worries or higher inflation. Economists at Goldman Sachs attribute the move to the first of these factors. They have marked up their forecasts for the American economy next year by between a half and a full percentage point. A rise in bond yields is part of a return to more normal market conditions and is nothing to worry about.

Paul Mortimer-Lee, a strategist at BNP Paribas, is in the second camp. In a coruscating note entitled "The night they killed Santa", he fretted that any pretence of fiscal probity had been discarded. "Now it looks like the nice man with the white beard was just there to fund a fiscal expansion. [Ben] Bernanke volunteered to buy more Treasuries and [Barack] Obama decided to help him out by supplying a lot more of them." But Mr Mortimer-Lee's fears are not widely shared, at least judged by spreads on American government debt in the credit-default-swaps market.

As for inflation expectations, there has not been a dramatic move higher in recent weeks but there has been a drift upwards since it became clear, back in August, that a second round of QE was in the works. The markets are now expecting American inflation of around 2% over the next ten years. If expectations can be kept at that rate, the Fed would be delighted.

Indeed, even though bond yields have risen, the Fed probably regards the latest round of QE as a success. As well as heading off deflationary fears the programme has given a further lift to share prices. The wealth effect created by the rally will play its part in reviving the economy. But this looks like a revival of the old Fed tactic (much in evidence in the 1980s and 1990s) of underwriting the stockmarket. "The Bernanke put is very much alive and well," notes David

Zervos of Jefferies, an investment bank, who says the Fed is determined to reflate the economy. Yet in the long run creating money to prop up asset prices is not a sustainable tactic.

Higher bond yields have other consequences that might not be quite so welcome. Mortgage rates in America have risen, casting a further pall over the subdued housing market. Influenced by the Treasury market, yields in Britain and Germany have risen by a third to a half of a percentage point over the past month, even though both countries are making strenuous efforts to keep their budget deficits under control. Higher yields in Germany, which sets the benchmark for other euro-zone countries, put pressure on peripheral borrowers.

Stockmarket investors should also think carefully before they celebrate too wildly over rising bond yields. After all, bulls were previously arguing that low yields were good news for equities, as they encouraged investors to move out of fixed-income assets in search of higher returns. On the best long-term measure, the cyclically adjusted price-earnings ratio, Wall Street looks overvalued on a multiple of 21.9, some 33% above the historic average. That already seems to price in a significant rebound in corporate profits.

The fundamental problem remains. In a “normal” American economy, with 2% inflation and 3% real GDP growth, government-bond yields ought to be around 5%. But yields at that level would be too high for the health of the housing market, the stockmarket and for other governments worldwide. The markets are no closer to resolving that dilemma than they were at the start of 2010.

<http://www.economist.com/node/17732977>

Government debt

IF YOU want to know what to worry about in 2011, here’s a place to start. Sovereign-bond yields are rising—not just in beleaguered economies on the edge of the euro zone, but across much of the rich world. During the first two weeks of December Spain’s ten-year borrowing costs hit 5.5%, the highest rate in more than a decade. Yields on American ten-year Treasuries jumped more than half a percentage point to 3.5%, a six-month peak. German ten-year Bunds rose to 3%, a yield not seen since May. This simultaneous shift in the rich world’s core as well as the enfeebled euro periphery raises two questions. Are the rising yields being driven by similar forces? And are they the harbingers of a broader bond-market bust?

The pessimistic interpretation is that this reflects concerns about America’s fiscal mess, in a paler version of bondholders’ jitters about Greece and Spain. The worriers point out that bond yields jumped after the recent announcement of a tax-cut plan that is likely to add some \$800 billion to America’s public debt over the next decade, and which utterly fails to explain how the country’s medium-term finances are to be sorted out. Likewise, Germany’s dearer borrowing costs may have less to do with optimism about its economy than with concerns about the costs to its exchequer of keeping the euro zone together.

But optimists argue that the scale of the bond-market moves and the dynamics behind them are totally different in the core and in the periphery. Investors may be fretting about the Irish or

Spanish governments' ability to pay their debts, but elsewhere, especially in America, the rise in bond yields—from extraordinarily low to merely very low—is a reflection of better growth prospects rather than worsening government finances. As the economy accelerates, the risk of deflation recedes, private investment rises and the Fed is less likely to engage in further rounds of quantitative easing (printing money to buy bonds). These shifts all push government-bond yields up, but they are a cause for cheer rather than gloom.

So far the evidence suggests that it is confidence rather than fear that has pushed bond yields up of late. In America especially, a rising stock market, the strength of the dollar and absence of a spike in credit-default swaps all suggest the recent bond-market sell-off is being driven by hopes for growth rather than by fear of deficits.

In the coming year, however, a different dynamic may take hold. The surge in private savings in the wake of the economic crisis has masked big changes in the rich world's sovereign-bond markets. First, governments are much more indebted, compared both with their recent past and with fast-growing emerging economies. At 70% of GDP, the average rich economy's net sovereign debt is 50% higher than it was in 2007, and more than twice as high as the average debt burden in emerging economies. That has happened at a time when the rich world's growth prospects are deteriorating. Second, with budget deficits still gaping and lots of short-term debt coming due, many governments' financing needs are rising. Calculations by the Institute of International Finance, a bankers' group, suggest that America needs to raise over \$4 trillion in 2011 and European governments collectively need to borrow almost \$3 trillion. Japan, with the world's highest government-debt burden and short maturities, must raise funds worth more than 50% of GDP by the end of 2011.

Meanwhile, policy uncertainty has increased. Quantitative easing means that central banks now have a big role in long-term government-bond markets. Worries are sharpest in the euro zone, not just because sovereign defaults are now regarded as a distinct possibility, but also because policymakers have managed to confuse sovereign-bond holders by offering them no losses in the short term and plenty in the medium term.

New Year irresolution

Amid all this uncertainty, only one thing is clear: sovereign yields are likely to rise, and even the strongest governments cannot afford to be sanguine about a bond-market bust. America may be the issuer of the world's reserve currency, but its debt markets are not immune to a sudden upward lurch, which in turn could threaten the fragile recovery.

Governments could, and should, minimise this volatility. America needs to complement its short-term tax cuts with an agreement on medium-term deficit reduction. Japan should kick-start growth and overhaul the tax code. But the most urgent task is in Europe, where leaders need to blend inconsistencies between today's rescues and tomorrow's reform proposals into a coherent plan for managing the euro. There are, unfortunately, few signs of any of this happening. That is why 2011 could be a year of more, and bigger, sovereign-debt shocks.

<http://www.economist.com/node/17732829>

Capital's war against WikiLeaks

Can the leak phenomenon sustain the continued assault by the corporate sector to prevail in the first ever cyber-war?

By: Mark LeVine

When your Swiss banker throws you overboard, you know you've made some very powerful enemies. Long famed for hiding money for everyone from Nazis and drug lords to spies and dictators, the Swiss government's banking arm has decided that WikiLeaks and Julian Assange are just too hot even for it to handle.

And so the PostFinance, which runs the country's banks, declared in early December that it had "ended its business relationship with WikiLeaks founder Julian Paul Assange" after accusing Mr. Assange of - gasp! - providing false information about his place of residence.

This move followed similar moves by credit card companies MasterCard and Visa, as well as PayPal and Amazon.com, to no longer process WikiLeaks payments and, in Amazon.com's case, to cease hosting its data.

As I write this, Bank of America has joined the crescendo of corporations taking aim at WikiLeaks, refusing to process payments for it any longer because of "our reasonable belief that WikiLeaks may be engaged in activities that are, among other things, inconsistent with our internal policies for processing payments."

And soon after, none other than Apple joined the chorus, pulling the plug on a WikiLeaks app only days after it went on sale on its iTunes website. Every sector of the corporate economy, it seems, is out to get WikiLeaks.

Zeroing in on "neo-corporatism"

Should CIA agents, mafia bosses and other fellow Swiss banking customers who have likely been even less than forthright in their personal representations than Assange is alleged to have been also worry about the loyalty and discretion of their Swiss bankers?

Probably not. And that's because the world's criminals, autocrats and spooks are very much part of the global political economic system, even if sometimes on opposite sides.

But WikiLeaks both operates outside the system, seeking "Matrix"-style, to use technology - the internet - to "destroy" it by prying it open to public scrutiny, exposing the constant conspiracies of the powerful against the rest of society.

This task, Assange argues, is the most important way to help free the system's millions of often complicit - if not quite willing - victims and in so doing, "change or remove... government and neo-corporatist behaviour".

As a political theorist, Assange leaves something to be desired. "Neo-corporatism" describes a system in which capital and labour are enmeshed in an integrated but ultimately dependent relationship with a powerful and autonomous state apparatus - an update of the triangular relationship that enabled unprecedented economic growth and gains for the working class in the West in the decades after World War II.

Ideologically, this kind of close working relationship between government, big business and organised labour is the antithesis of the neoliberal system WikiLeaks seeks to combat.

But Assange is right that there is something "neo", if not exactly new, in the way the corporate sector is behaving today and its relationship with government. It lies in the embrace - or better, re-embrace - of finance capitalism and militaristic empire and the military industrial complex that sustains it.

Whether preying on unwitting consumers in middle America or preying on suspected insurgents in the Middle East, these are two of the most secretive sectors of the American economy. They depend on the public knowing as little as possible about their inner workings to secure the greatest possible freedom of action, power and profits.

The power of secrecy

Assange's abandonment by the Swiss banking system and its American corporate cousins is thus not surprising. Few industries have used secrecy and lack of disclosure more effectively than the banking, financial services and credit card industries.

Indeed, their secretive business practices are central to their constant ability to rake in enormous profits at the expense of working and middle class Americans through monopolizing trading systems, charging morally usurious interest rates and fees, and engaging in other practises that would make even the most cold-hearted lone shark blush.

If the grand bargain between workers, capitalists and governments enabled the first two post-World War II generations to move from high school right into the middle class, this road was irreparably damaged by the 1980s, when the neoliberal Right first came to power.

As the United States entered its long and painful era of deindustrialization American foreign policy became more aggressively militaristic; and so joining the military as opposed to GM or Ford became one of the few routes to secure any kind of stable economic future (as long as you stayed in the military).

Not surprisingly, profits from the financial sector surpassed that of manufacturing in the early 1990s and haven't dropped since. But these profits and the economic growth they generated have relied disproportionately on government and consumer debt and a hollowing out of the manufacturing sector, which together helped make the US the "sick man of the globe", as one senior corporate economist.

For their part, GM, Ford and Chrysler simultaneously focused most of their energies on producing comparatively profitable gas-guzzlers like SUVs while establishing financial services arms that quickly became responsible for a substantial share of their profits (in some years upwards of 90 percent of profits are so derived).

Their lending practices, it's worth noting, included the kinds of "liar" home loans, given out with little concern over the ability of borrowers to pay them, that precipitated the global economic crisis of 2007 till today.

Financialisation and history

None of these practises would have withstood the light of public scrutiny, and it was only the corporatisation - in good measure, financialization - of American politics that allowed them to flourish in the last thirty years. Few enterprises threaten that secrecy as much as WikiLeaks and its laser-like focus on openness, which is why its actions are viewed in Washington as "striking at the very heart of the global economy".

The "financialisation" of the economy represents the increasing dominance of the financial industries in the overall economy, taking over "the dominant economic, cultural, and political role in a national economy".

Crucially, this process isn't unique to the United States; it also happened to previous empires, like the Hapsburg's, Dutch and British empires, at precisely the eras they lost their dominant global position. In all cases, financialism and militarism went hand in hand, as first pointed out by the British historian John Hobson's famous 1902 book *Imperialism: A Study*.

In it, Hobson argued that the monopolisation of the financial sector created a new oligarchy that linked together the large banks and industrial firms together with "war mongers and speculators" which encouraged imperialism to secure markets for the surplus products produced by corporations.

America's rise to global dominance came after the end of the imperial era and so it couldn't blatantly conquer territory to create new markets. But at the moment of its rise policy makers called on the government to use high military spending to ensure overall robust economic growth.

This coincided with rapid expansion of easily obtainable credit, creating two "giant black holes" (in the words of Israeli economists Shimshon Bichler and Jonathan Nitzan) whose potential for expansion was limited only by the willingness of citizens to support the policies that enabled them, despite the long term harm to the economic and political well-being of their societies.

During the first thirty years of the Cold War era, the propensity towards militarism was balanced by the robust manufacturing economy and the tripartite business-labour-government relationship that secured it.

This began to change in the 1970s, when the hugely expensive, and profitable, Vietnam War began to wind down.

As Nitzan and Bichler describe in their hugely important book, *The Global Political Economy of Israel*, beginning in this period "there was a growing convergence of interests between the world's leading petroleum and armament corporations. The politicisation of oil, together with the parallel commercialisation of arms exports, helped shape an uneasy weapondollar-petrodollar coalition between these companies."

What is most crucial about Nitzan and Bichler's analysis is that one of the most important ways that the arms and oil industries were able to earn a disproportionate (as they describe it, "differential") level of profits was through the regular eruption of Middle Eastern energy conflicts, which ensured both relative high oil prices and arms purchases.

McDonald's and McDonnell Douglas

As this process developed, the authors explain that "the lines separating state from capital, foreign policy from corporate strategy, and territorial conquest from differential profit, no longer seem very solid."

New York Times columnist Thomas Friedman puts it more colourfully: "The hidden hand of the market will never work without the hidden fist. McDonald's cannot flourish without McDonnell Douglas - and the hidden fist that keeps the world safe for Silicon Valley's technologies to flourish is called the US Army, Air Force, Navy, and Marine Corps."

This is the "neo-corporatism" that Assange and his WikiLeaks comrades have zeroed in on, although today, more than a decade after Friedman wrote the above words, Master Card is more relevant than McDonald's.

The problem is that WikiLeaks alone cannot turn the tide in this conflict.

Assange might well be a "high tech terrorist," as US Vice President Joseph Biden recently called him, given how much terror his actions have struck in the heart of the American political system.

But the US is ultimately only one of a group of powerful countries and corporations whose leaders all share a fundamental commitment to securing as much profit and power as possible for themselves, however much their methods and politics differ.

Indeed, a sober look at the relevant data reveals that the profit share of the financial sectors outside the US has almost always been significantly higher than in the US, meaning that the rest of the world has long been more "financialised" than has the US economy.

As always, capitalism and power have never been as conveniently centred in one country or region as people imagine.

To really have an impact, WikiLeaks needs to inspire a whole generation of leakers in other countries and cultures, who are as willing to risk their freedom as Assange and the other people behind WikiLeaks. The leak culture has started to take root, however only time will tell if it resists the forces working against its development.

If this doesn't happen - if Assange and his comrades are successfully made into examples by their corporate and political enemies that scare off those who might be inspired by their example - Capital will likely win the world's first "cyber-war", much as it's won most every war before it during modernity's long, bloody and unimaginably profitable history.

Mark Levine is a professional musician and professor of Middle Eastern history at the University of California, Irvine. He is author of half a dozen books, including *Heavy Metal Islam: Rock, Religion and the Struggle for the Soul of Islam* (forthcoming, Random House/Verso, companion CD to be released by EMI Records).

<http://english.aljazeera.net/indepth/opinion/2010/12/2010122971637433801.html>
