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BUSINESS AND POLITICS IN THE MUSLIM WORLD

Weekly Report on General Economic and Business Developments in the World

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Submitted By: Muhammad Ibrahim

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Report Outline

GENERAL ECONOMIC AND BUSINESS DEVELOPMENTS IN THE WORLD *03*

- Europe: Facing austere times
- La Nina floods land across Pacific
- Europe stands on the brink of new crisis
- Food prices grow at fearful rate
- China: A force for peace in Sudan?
- President Hu's U.S. visit significant: ambassador
- Fighting against piracy, Americans patent stolen ideas

GLOBAL BANKING & FINANCE *15*

- World Bank's first yuan bond promotes Chinese currency's internationalization
- Financial markets: Investors love to chase winning stocks. Policymakers should be wary of the momentum this creates
- Chinese banks make Americans move
- Yuan internationalization a big step for world monetary reform: China official

INTERNATIONAL TRADE *20*

- US and China meet on trade
- U.S., China to enhance cooperation on consumer product safety
- Russia and Belarus fight over oil prices again
- Europe gives Russia a piece of Schengen visa pie
- BP and Russia sign Arctic oil deal
- BP and Russia sign Arctic oil deal

WORLD ECONOMIES *28*

- For Jjapan, 2010 was a year best forgotten
- Politics, strong currency, interest rate to affect Thai economy in 2011
- Portugal rejects bailout talk
- Stocks gain on Portugal debt sale
- Indian inflation: Enough to make your eyes water
- Fiscal hawk joins Japan cabinet
- World's freest economy does not exist in the Land of the Free
- Jordanians march against inflation
- Economic recession ignites turmoil in Tunisia

ARTICLES/COMMENTARIES *39*

- Price rises in China: Inflated fears
- The euro area's debt crisis
- The euro area: Time for Plan B
- The recovery: Still patchy
- Latin America's economies: Waging the currency war

GENERAL ECONOMIC AND BUSINESS DEVELOPMENTS IN THE WORLD

Europe: Facing austere times

Europe's economy tattered in 2010. Huge debts cause austerity measures. Public anger rises. Rounding up the top 10.

Although many economies around the world have faced tremendous economic uncertainty since the financial crisis in 2008, several major European countries remain in danger of being subsumed by a quickly spreading sovereign debt crisis.

This sovereign debt crises has sparked fresh debate over the viability of the Eurozone, and has caused some of the world's traditionally more wealthy countries to introduce tough austerity measures.

A move that has lead to considerable public dissatisfaction.

The most vulnerable countries include European Union (EU) members Portugal, Ireland, Italy, Greece, and Spain (PIIGS), as well as the UK and Belgium.

These previously strong economies continue to struggle with difficult fiscal conditions, and wealthier economies such as Germany feel mounting pressure to rescue fellow EU nations.

An estimated 23 million EU workers have become unemployed during the last three years.

This year, European government debt downgrades have rattled markets from Paris to Hong Kong, as budget deficits and public debt levels remain stubbornly high.

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

European finance ministers in May also agreed on a $600bn lending vehicle - the European Financial Stability Facility (EFSF), which was made permanent in December.

And in November, Ireland agreed to receive an $89bn EU/IMF bailout, prompting further worries about the 16-nation Eurozone's long-term economic health.

The bottom line is that leaders - faced with financial and demographic obstacles - are being forced to raise taxes, cut spending, and figure out a way to ensure future economic prosperity. Thier actions have significantly trimmed down the social benefits that many of Europe's average citizens take for granted.

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

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

Europe's age of austerity has meant that some of the planet's most developed nations and some of her most priviledged citizens have to now rethink their way of life.

http://english.aljazeera.net/indepth/spotlight/aljazeeratop102010/2010/12/2010122693810127508.html

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La Nina floods land across Pacific

Unusual ocean weather pattern is causing wetter-than-usual conditions in both South America and Australia.

The flooding in Australia has submerged vast swathes of Queensland. What's the cause? Is it climate change or could there be something else?

Maybe it has something to do with it being a La Niña year.

Many people have heard of El Niño, as it gets blamed for crazy weather around the world, but La Niña is his lesser known sister. So what is it?

In a neutral year - which is not El Niño or La Niña - the warmer surface waters of the Pacific get blown towards Indonesia. This is due to the prevailing winds across the Pacific, and is the usual set-up.

As the warmer surface waters head west, cooler waters well up near the coast of South America. This is good news for fishermen, as these waters are full of nutrients and fish.

During an El Niño year, the set up is slightly different. The prevailing winds ease and the warmer surface waters wash back towards South America. This gives warmer than usual surface temperatures across the Pacific and cuts off the supply of cooler water near South America.

It was Peruvian fishermen who first noticed El Niño conditions centuries ago, when they tried to explain the lack of fish.

Then there is a third situation - a La Niña year - when cooler than usual waters well up near South America. These get blown westwards as the prevailing winds strengthen, and this causes cooler than usual surface waters across the Pacific.

Why do we care?

It's not just the Peruvian fishermen who should take notice, as this subtle change in the Pacific also alters the weather around the globe.

The current La Niña condition developed back in May 2010, and at that point it was clear that there was going to be some severe weather. Usual conditions include wetter-than-usual conditions in Colombia, Venezuela and Panama, and wetter than usual conditions in northern and eastern Australia.

Almost from the start of the rainy season in Colombia, it became clear that it was going to be an exceptionally wet year. The torrential rains continued until December, when even parts of Bogota became submerged.

At the end of November, Venezuela was hit by devastating floods and landslides, then just a few days later Panama was hit, forcing the closure of the Panama Canal for the first time due to bad weather.

The wet season in Queensland has not been with us for many weeks, but already vast portions of the state are still under water. The rainy season continues until March, and the La Niña set-up is supposed to continue throughout this time.

This does not mean we will have continuous flooding until March, but it does mean there is the risk of more flooding until then.

The area affected is equal to the size of Germany and France combined, and meteorologists in the area are saying that it is the worst flooding in Bundaberg since 1971 - and the highest level of the Dawson river since 1956.

It is not a coincidence that both of these years were La Niña years.

What else can we expect?

Between now and the end of February we can expect heavy rain and snow for the west coast of Canada and the US, a harsh winter in Japan, heavy rain in northern Brazil, and wet weather in the southeastern parts of Africa, including Mozambique, Madagascar, South Africa and Tanzania.

The La Niña conditions are expected to ease between April and July, and after that maybe the weather will have the chance to calm down.

http://english.aljazeera.net/weather/2011/01/201113134728374445.html

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Europe stands on the brink of new crisis

10 Jan 2011

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
11 Jan 2011

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/

China: A force for peace in Sudan?

Beijing has invested billions in the oil-rich country and may now have to step up to ensure stability prevails.

11 Jan 2011

As the world anxiously watches the southern Sudanese vote on whether to secede, one country has more to lose than most if civil war returns to Sudan.

With an estimated 24,000 of its citizens living there and billions of dollars worth of investments in the country, China is the key foreign player in Khartoum.

When the US oil giant Chevron pulled out of Sudan - beginning in 1984 when three of its employees were killed and culminating in 1992 when it finally sold all of its Sudanese interests - the state-owned China National Petroleum Corporation (CNPC) stepped in.

It now has controlling stakes in the biggest energy consortiums operating in Sudan, giving China an estimated 60 per cent share of the 490,000 barrels of crude oil produced daily.

It also constructed the 1,500km pipeline that connects the oil fields of the south with Port Sudan in the north - from where the oil is exported.

But with oil accounting for more than 90 per cent of government revenues in the south, compared to just over 40 per cent in the north, there is a possibility that Khartoum could close the pipeline should the south vote for independence.

This decision would not only be devastating for the underdeveloped and oil revenue-dependent south, but would also disrupt China's oil supply.

Friends in the south

To counter this and to secure access to the south's resources after secession, China has started to build closer ties with the south.

Beijing, to the chagrin of the West, has supported the right of African nations to run their domestic affairs without outside interference, which partly explains the booming trade between the continent and the Asian power.

But by communicating with the government of South Sudan while it is not an official sovereign entity, it is partially abandoning its 'non-interference policy' and its traditional reluctance to engage with separatist movements - motivated in part by its own experiences in Tibet and Taiwan.

Richard Dowden, the director of the Royal African Society, says this is because the "Chinese priority is oil".

"They openly opposed the independence option to start with, but then realised that it would happen and now say they are neutral," Dowden explains.

"They are beginning to realise that a strict 'non-interference' policy is political and diplomatic nonsense. The very relationship between China and an African state is a political act that has implications. The relationship creates a political dynamic that implies support for the ruling group.

"The Chinese are beginning to realise that since so much of African politics is driven by groups or individuals below the official state level they will have to understand and engage with these dynamics. That means meeting leaders of the opposition, negotiating with local chiefs and kings in areas where the Chinese operate even though they have no status at official national level."

A Chinese consulate was established in Juba, the southern capital, in September 2008. In November 2010, it was upgraded to ambassadorial level, and Li Zhiguo, China's former envoy to Bahrain, was appointed consul general in Juba.

In October 2010, a delegation of Chinese government leaders visited Juba, where they met with the secretariat of the south's ruling Sudan People's Liberation Movement (SPLM). Salva Kiir, the leader of the SPLM, and other southern Sudanese government ministers, have also visited Beijing and multiple projects have progressed in the region.

Chasing Chinese investment

Ian Taylor, a professor of international relations at the University of St. Andrews' School of International relations and author of *China's New Role in Africa*, says: "China has implemented various projects in the south and plans more, like building universities, hospitals ... and water projects."

After years of neglect, the underdeveloped south is in desperate need of investment and, according to He Wenping, the director of the African Studies section at the Institute of West Asian & African Studies (IWAAS) at the Chinese Academy of Social Sciences, understands that "oil cooperation between the north and south is the key for their future development".

"China's involvement in the field, including post-referendum economic construction in many other fields, is also important," he added.

But many southerners have complained about the refineries that have been built on their land and the resulting environmental problems, like water contamination and sprawling lakes of toxic waste, and say that they have seen little of the wealth generated by oil production.

The Chinese are allegedly involved in negotiations over a new 1,400km pipeline, which would link South Sudan to the Kenyan port of Lamu, where it also intends to develop infrastructure. Once completed, the pipeline could serve as an alternative route for the land-locked south.

This development would see about 80 per cent of oil revenue shift from Khartoum to Juba. And despite the assurances of Liu Guijin, China's special envoy to Darfur, that "China wishes to cooperate with the north and the south," some suspect that Chinese investments will shift along with the revenue.

But while Beijing's approach towards Juba is pragmatic, with securing the oil flow the central goal, China has invested an estimated $15bn in the north and is likely to want to maintain its relationship with Khartoum.

Furthermore, Khartoum has proved itself to be a reliable trade partner and ally, while a new government in the south will be an unknown figure in China's calculations.

So, while CNPC is setting up a branch in Juba, the company remains headquartered in Khartoum.

"It [the secession of the south] wouldn't have [a] big influence on the current China-Sudan relations," He says. "While maintaining the traditional good relations with the north, China will also establish good relations with the south."

From bilateral to trilateral

But with both the north and south rearming, Beijing is keen to ensure that the referendum does not result in renewed instability, which could threaten its multi-billion dollar investments and potentially impact its growing interests in neighbouring countries like Ethiopia, Chad and Libya.

"Beijing is a supremely pragmatic actor. It is in China's best interests that the vote goes smoothly and the probable secession by South Sudan is permitted to go ahead peacefully," Taylor says.

China has sent a delegation to the south to observe the referendum and a foreign ministry spokesman has stressed Beijing's hopes that the vote will be held in a "fair, free, transparent and peaceful atmosphere and that all parties involved should be committed to peace and stability".

In turn, the government of South Sudan has assured China that its investments will be protected if the south secedes from the north.

"We have given assurances to the Chinese leadership delegation to protect the Chinese investments in southern Sudan, and are desirous to see more investment in the future," Pagan Amum, the secretary general of the SPLM, reportedly said.

But despite China's growing ties with the south and the south's need for investment, southerners may not have entirely forgotten Beijing's traditional support for Khartoum. And as US sanctions will only apply to the north should the south secede, the new country could potentially be open to new investors from the West.

Beijing's efforts to turn its bilateral ties into trilateral relations may just pay off, however, and the repercussions of this could stretch far beyond oil production.

He says China has already played a key role in "consolidating the smooth implementation of the Comprehensive Peace Agreement [the 2005 agreement that brought the civil war to an end and which included the provision of a referendum on independence for the south]".

Dowden suggests that China could be just as critical to ensuring that peace is maintained after the referendum as, should the south vote to secede, the two sides enter a six-month transition period during which thorny issues such as border demarcation and oil revenue sharing will be negotiated.

"They could be a force for peace if they play their cards right and understand what is going on," Dowden says. "One of their most important pools of oil lies under the border so they will be desperate to make sure a war does not break out."

http://english.aljazeera.net/indepth/features/2011/01/20111910357773378.html

President Hu's U.S. visit significant: ambassador
12 Jan 2011

BEIJING: Chinese President Hu Jintao's visit to the U.S. next week is a significant event, Zhang Yesui, Chinese ambassador to the United States, said in his cross-ocean online interview from Xinhuanet Wednesday morning.

This year marks the 40th anniversary of the restoration of China-U.S. contacts and the beginning of the second decade of the 21st century. The Sino-U.S. relations are breaking new ground for the future. President Hu's visit at this point is of great importance, Zhang said.

Zhang also pointed out that although differences and friction do exist between both sides, mutual understanding and respect are the key points for successful cooperation. He said that overall, the common interests outweigh differences, which means dialogue and cooperation remain the main stream of Sino-U.S. relations.

President Hu will pay a state visit to the United States from Jan. 18 to 21 at the invitation of U.S. President Barack Obama, Foreign Ministry spokesman Hong Lei announced Friday.

Chinese Foreign Minister Yang Jiechi paid a five-day visit to the U.S., which is viewed as preparations for President Hu's upcoming visit. Yang met with U.S. President Barack Obama, and other officials and lawmakers. Trade imbalances and Korean peninsula tensions top their wide-ranging agenda, which will likely be the focus of the upcoming visit.

Besides Yang's visit to the U.S., officials from both sides have already ratcheted up interaction.

Under Secretary of U.S.Treasury Lael Brainard, who arrived in Beijing last Friday morning, is the first foreign official Chinese Vice Premier Wang Qishan has met in 2011.

"During their meeting, Brainard briefed Wang on how the United States has been preparing the economic agenda of President Hu's visit," according to an official statement issued after the meeting.

Also last week, U.S. Special Representative for Democratic People's Republic of Korea (DPRK) policy Stephen Bosworth visited Beijing as part of a three-nation tour aiming to ease tensions on the Korean Peninsula.

On the heels of Brainard's visit, U.S. Defense Secretary Robert Gates visited Beijing from Jan. 9 to 12 to resume U.S.-China military ties, which stalled when the Pentagon decided to sell a nearly 6.4-billion-U.S.-dollar arms package to Taiwan in Jan. 2010.

http://news.xinhuanet.com/english2010/china/2011-01/12/c_13686299.htm

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Fighting against piracy, Americans patent stolen ideas
12 Jan 2011

The U.S. has revealed the leaders of 2010 in terms of filing patents for new inventions. In the past year IBM has set a new world record. To be more precise, International Business Machines Corp has issued 5,896 patents. Samsung took the second place with its 4,551 patents, and the third place was taken by Microsoft with 3,094 patents.

IBM has been heading the patent race for eighteen years in a row. This year, the corporation has patented a new system for prediction of seismic activity and earthquakes, a computer chip that combines electrical and optical devices on a single silicon wafer, and a host of other potentially commercial developments. The number of new patents by IBM has increased by 20% in 2010, Bloomberg reports.

"Not all of our inventions will bring commercial benefits, but almost all research starts with consideration of the possibility of subsequent commercialization of the results," said the counsel for IBM's patents Manny Chekter.

In 2010, U.S. Patent Office has greatly accelerated processing of applications. On the whole, within the year the U.S. Patents Office has issued 219,614 patents, which is also a record number since its inception.

The ten companies that received the highest number of patents in the past year in the U.S. include Canon (2,552 patents), Panasonic (2,482), Toshiba (2246), Sony (2.150), Intel (1,653), LG Electronics (1,490) and Hewlett- Packard (1,480). Remarkably, all ten companies with the largest number of new developments work in high technology industries.

The financial crisis had no effect on the invention and research investments. Companies are actively investing in new technologies. For example, IBM had spent $6 billion on research. The revenue from licensing of the developments over the same period amounted to $1 billion.

In the U.S., intellectual property generates nearly 30% of the gross domestic product (GDP), which brings in over $4 trillion. This includes operations with the brands, technologies and patents. Today there are approximately a dozen countries led by the United States that are global exporters of patents, licenses and permits for the use of intellectual property. In Russia the share of intangible assets in GDP is extremely low - approximately 0.3%.

It is interesting that the U.S. that is now earning huge money on the sale of objects that are protected by copyright some hundred years ago was among the main consumers of scientific discoveries, patenting everything and anything.

It is time to think of the "Edison's light bulb," that is, the light bulb of Ladygin, as well as hundreds or thousands of other discoveries, which, due to the lack of patent law in most countries at the time and a fairly loose system of exchange of scientific information were simply appropriated by the Anglo-Saxons.

Simply put, the Americans seized the intellectual property of others, simultaneously developing complex legal concepts for the subsequent protection of previously stolen ideas. Scientific and intellectual piracy has become one of the most powerful engines on the U.S.'s path to global hegemony. Now Americans are trying to make the consumer piracy look like a terrible crime.

It is worth mentioning that Beijing has been carefully fostering its own technical intelligentsia, and created a powerful Corps of Engineers, which will affect the number of its own technologies.

"Due to the tightening of Russian legislation on copyright protection, there are several fundamental issues, and the first of them is the ethical one. Is the copyright a fundamental value and should this value be protected on the basis of certain higher goals? "This question was asked by Michael Braude-Zolotarev, director of IT research and expertise of the Academy of National Economy at the December open conference of the Ministry of Communications on the improvement of the legislation in the sphere of protection of copyright and related rights.

"In fact we are talking about legal monopoly granted to the author or an entity that represents a group of authors. Is such a monopoly advantageous for the society? It has long been known that monopoly can only cause harm by limiting the development of any positive process," reminds Braude-Zolotarev. "The second issue is a political one. Objectively, there is a group of very influential countries in the world that exert political pressure on other members of the international community, urging them to adopt rules for the regulation of copyright that are beneficial for them," Computerworld quoted the official.

While copyright and patent law are not identical concepts, and the patent is also much shorter in terms of granting monopolies, strict adherence to the requirements of the so-called developed nations openly contradicts the national interests.

For example, now in the U.S. approximately 20% of human genes are patented, and the information on them belongs to various commercial entities. In order to study these genes, as well as to create diagnostic and treatment methods associated with these genes, it is necessary to obtain a license from the patent-holder. This causes serious concerns as a legal appeal for total control over people.

Pravda.Ru

http://english.pravda.ru/business/companies/12-01-2011/116488-american_patent-0/

GLOBAL BANKING & FINANCE

World Bank's first yuan bond promotes Chinese currency's internationalization

BEIJING: The World Bank's first yuan-denominated bond offered investors the chance to diversify their currency holdings and promotes the internationalization of the Chinese currency, the yuan, or RMB, economists said.

The World Bank China Office said Wednesday the World Bank has priced 500 million yuan (76 million U.S. dollars) of RMB-denominated fixed-rate two-year bonds with a coupon of 0.95 percent in Hong Kong.

The bonds' settlement date is Jan. 14. They mature on Jan. 14, 2013. Interest on the bonds is paid semi-annually. HSBC was the bookrunner for the sale.

The sale was the first RMB-bond issuance in Hong Kong this year, a World Bank statement said.

"If yuan-bond issuance goes well, it will build trust between investors and the yuan currency. It will also promote the recognition of the RMB at the regional and international levels," Zhuang Jian, a senior Asian Development Bank economist said.

The issuance comes as China's shareholding in the World Bank is set to increase, after the realignment of voting shares announced last year.

World Bank member countries reached an agreement last April to give more voting power to developing nations. Under the agreement, China's voting power will increase to 4.42 percent from 2.77 percent.

Doris Herrera-Pol, global head of Capital Markets at the World Bank, said the World Bank's RMB-bond signals the World Bank's interest in supporting the development of the RMB market.

"It is a privilege for us to have this opportunity that establishes the institution as a premier issuer in the fastest growing capital market in the world," Doris said.

Anita Fung, Head of the Global Banking and Markets with HSBC Asia-Pacific, said Hong Kong continues to develop as an offshore RMB center.

In a significant step towards internationalizing the Chinese currency, China's central bank announced last month a dramatic expansion of its pilot program for cross-border yuan trade settlement to 67,359 domestic exporters from the original 365 firms.

The pilot program, first announced last April by China's State Council, the Cabinet, allowed only exporters in Shanghai and four cities in the Pearl River Delta bordering Hong Kong -- Guangzhou, Shenzhen, Zhuhai and Dongguan -- to settle cross-border trade deals in yuan.

Two months later, the central bank further expanded the trial scheme to 20 regions from the original five cities.

http://news.xinhuanet.com/english2010/business/2011-01/05/c_13677915.htm

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Financial markets: Investors love to chase winning stocks. Policymakers should be wary of the momentum this creates

SOME shoppers queue all night to buy goods in the January sales. When it comes to stockmarkets, however, investors take the opposite approach: they flock to buy shares that have risen in price.

This "momentum effect" has been in existence for over a century and has been observed across many countries (see article). Investors who buy the best-performing shares over the previous year earn much higher returns (ten percentage points a year) than those who buy the laggards of the preceding 12 months. This anomaly flies in the face of academic theory, in the form of the efficient-market hypothesis, which suggests that past price movements should provide no guide to future changes. It cannot be explained away by saying that high-performing stocks are more risky, or by arguing that the trading costs involved in such a strategy would eat up all the profits.
Although the momentum effect has been amply documented it has never been properly explained. Perhaps investors are slow to react when the fortunes of companies change; one good set of results can be dismissed as a fluke, but after two or three bumper periods the share turns into a wonder stock. Another possibility is that fund managers create the momentum effect by "window-dressing" their portfolios with the market's recent favourites (it looks much better to close a quarter owning the market leaders).

A second puzzle is why the effect has not been arbitraged away. The answer probably lies in timing. Clearly the momentum effect cannot last for ever or share prices would head for infinity. Over long periods (more than three years or so) an opposite anomaly known as the value effect occurs: shares that are depressed in price tend to rebound. Momentum-chasing investors may get caught out by the switch from one effect to the other, especially when they have used borrowed money to try to enhance returns.

Forever blowing bubbles

Whatever the rationale, the momentum effect tells us something significant about markets. The efficient-market hypothesis is a useful reminder that the average investor cannot expect to beat the market after expenses. As a result, low-cost vehicles like index-trackers and exchange-traded funds have become popular. But the mere fact that the market is hard to beat does not make it rational. Analysing an irrational market is extremely difficult, as those who tried to call the top of the dotcom boom discovered in the late 1990s. An irrational market sends misleading signals, causing capital to be allocated in the wrong places—for example, encouraging the building of homes in America, Spain and Ireland for which there was scant underlying (as opposed to speculative) demand. The companies that find it easiest to raise cash thanks to these market signals may not be those with the best business prospects.

For investors, such second-guessing is complicated enough. But what about regulators? Momentum effects are yet another reason to refrain from imposing restrictions on short-sellers. Doing that merely prevents (or more often delays) prices from finding the right level. All too often, as with the failed energy giant, Enron, the short-sellers were the only ones brave enough to be sceptical of market favourites.

At the overall market level, momentum effects help to explain why bubbles develop. Put that together with borrowed money and you have a disaster in the making, like the credit crunch. Too often, central banks have tended to give speculative buyers a one-way bet—cutting interest rates when markets falter, but leaving them unchanged when asset prices boom. Even now, many still stick to the creed of Alan Greenspan, a former Federal Reserve chairman, who thought central bankers should not try to pop bubbles but act to cushion the economy when they burst. It is certainly hard to spot bubbles; but central banks already grapple with other imponderables, such as the size of the output gap or the level of structural unemployment. And asset bubbles can be deflated through limits on some sorts of borrowing rather than just interest-rate hikes. Economies can get carried away by momentum.

http://www.economist.com/node/17851295

Chinese banks make Americans move
11 Jan 2011

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 €99.65 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/

Yuan internationalization a big step for world monetary reform: China official

15 Jan 2011

BEIJING: China should steadily promote the internationalization of its currency, the yuan, the head of China's social security fund said Saturday.

The internationalization of the yuan is a significant step for advancing the reform of the international monetary system, Dai Xianglong, chairman of China's National Council for Social Security Funds, said when speaking at annual economic forum in Beijing.

The current international monetary system has not adapted to the new patterns of global economic development, he said, adding that currency diversification is a realistic solution.

Currency diversification means continuing the role of dollar, increasing the role of the euro and internationalizing other currencies, he said.

The U.S. dollar, serving as both the U.S. currency and the most important international currency, will be used for U.S. policy goals when the two roles contradict each other, spurring fluctuations in global financial markets, he said, adding that the dollar has a tendency to depreciate.

He said the Chinese yuan is a stable currency, and so ensures the safety of other countries' assets.

The Chinese currency also enhances world trade, protecting the interests of China's foreign trade and investment, he added.

The internationalization of the yuan will take 15 to 20 years, he said, suggesting an expansion of the overseas circulation of the yuan and an acceleration in the opening-up of China's large commercial banks to speed up the process.

He urged Chinese banks in foreign countries to offer funding in yuan.

He also called for more efforts to reform the interest rate mechanism, to ease the process of the internationalization of the yuan.

http://news.xinhuanet.com/english2010/china/2011-01/15/c_13692144.htm

INTERNATIONAL TRADE

US and China meet on trade

Playing down tensions over currency, foreign ministers discuss economy as they prepare Hu Jintao's upcoming US visit.

The US and Chinese foreign minsters have met to discuss the global economy, as tensions between the two nations continue over financial policies.

Hillary Clinton, the US secretary of state, and Yang Jiechi, the Chinese foreign minister, met on Wednesday in Washington DC, stating afterwards that the two countries wanted to boost trade between the two nations.

"Both sides reflected on the current state of the global economy and our interest in building more trade between the two countries," PJ Crowley, the State Department spokesman, said after the talks.

The meeting was held in preparation for Hu Jintao, the Chinese president's visit to the US on January 19. Barack Obama, the US president, is expected to meet his Chinese counterpart.

The two biggest economic powers wanted to iron out points of contention before the visit, such as China refusing to lower it's exchange rate, which the US has said is putting pressure on its exports.

Sense of responsibility

"We are preparing diligently for the upcoming state visit by President Hu Jintao. It's very much anticipated and looked forward to," Clinton said as she posed for photographs with Yang.

"And both the minister and I feel a great sense of responsibility to ensure that it continues the positive, cooperative comprehensive relationship between our two countries."

Yang said: "I think China-US relationship is on the right track. We are confronted with common challenges and we are enjoying common opportunities.

"It's in the best interests of China, the United States and the world for us to continue to work together so that our relationship will bring more benefits to both our two peoples and to the people of the world"

Yang added that preparations for Hu's visit are "proceeding very well".

Tensions rose last year between the two nations mainly due to the mutual blame both sides give for China's large trade surplus - slated to rise to $270bn this year.

The US says China is artificially maintaining a cheap currency, giving it an unfair advantage in trade.

China has said that the US is printing extra money to weaken the dollar and improve its export levels.

Nuclear issues

The White House said that they would not drop their demand for China to devalue its yuan currency.

"China plays an enormously important role in our global economy, and China has to take steps to rebalance its currency," Robert Gibbs, the White House spokesman, said on Wednesday.

"And the president will continue to make that point when President Hu is here, as he did with the foreign minister."

The two nations are also facing tough diplomatic challenges over the handling of nuclear programmes in Iran and North Korea.

Washington has been urging China to put more pressure on ally North Korea, which in November shelled a South Korean island, killing four people and raising tensions.

On Tuesday, Yang saw national security advisor Tom Donilon at a White House meeting that Barack Obama, the US president, dropped in on.

"They discussed ways to advance our nonproliferation objectives, including working together to prevent Iran from acquiring nuclear weapons and to persuade North Korea to abandon its nuclear weapons program, to meet its commitments and international obligations and to avoid destabilising behavior," the White House said in a statement.

http://english.aljazeera.net/news/americas/2011/01/20111641412994841.html

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U.S., China to enhance cooperation on consumer product safety

10 Jan 2011

BEIJING: The United States will enhance cooperation with China on consumer safety to avoid product recalls, a U.S. official said Monday in Beijing.

"It is very important we maintain a good relationship with the AQSIQ (China's General Administration of Quality Supervision, Inspection and Quarantine), as well as have a proactive approach in working with the Chinese government and Chinese manufacturers," U.S. Consumer Product Safety Commission (CPSC) Chairperson Inez Tenenbaum told reporters.

Tenenbaum said China was very important for the United States, as 45 percent of all consumer products and 90 percent of all toys sold in the United States came from the Chinese mainland and Hong Kong.

Instead of just issuing recalls to enforce the standards in the United States, Tenenbaum said the CPSC would be more proactive to "reduce the number of recalls, keep our consumers safe, and also prevent the loss of revenue and damage to the brands of manufacturers."

The commission would establish its first overseas office in Beijing as it saw a "critical need" to let manufacturers and importers know the U.S. rules and standards on consumer product safety, Tenenbaum said.

"The office would work with the AQSIQ to be a resource to Chinese manufacturers in terms of our standards and requirements and go to the provinces to ensure they understand our requirements," Tenenbaum said.

Since 2009, the CPSC had established an office of education to cooperate with U.S. and Chinese universities in providing training for manufacturers and importers on U.S. consumer product safety standards in order to reduce recalls, Tenenbaum said.

"We provide training programs annually for Chinese manufacturers. We offered a training program in 2010 for over 150 manufacturers and they found it very interesting," Tenenbaum said.

"Small and big businesses should make sure they understand what our standards are," Tenenbaum said.

Manufacturers should carefully choose suppliers as some materials could contain heavy metals, such as lead, that are forbidden in the United States.

Despite the urgent need to enforce the safety of consumer products made in China, Tenenbaum said the quality of products from China had seen a "huge" improvement.

The number of the CPSC recalls of products from China dropped to 220 last year from 346 in 2008 and that of toys from China dropped to 44 last year from 172 in 2008, Tenenbaum said.

Tenenbaum, who took office in June 2009, is scheduled to meet with AQSIQ Minister Zhi Shuping while in China. She will also visit Hong Kong and Australia.

Jeff Hilsgen, who will be head of the CPSC office in Beijing, said the office would also enhance cooperation with the governments of Vietnam, Australia and Thailand.

http://news.xinhuanet.com/english2010/china/2011-01/10/c_13684195.htm

Russia and Belarus fight over oil prices again
13 Jan 2011

Russia suspended oil shipments to Belarus on January 1 after the two sides failed to sign adequate agreements. The two countries can not come to a compromise regarding the prices. Oil transit to Europe via Belarus has not been interrupted.

"We are discussing price determination issues with Russian suppliers," Maria Kostyuchenko, the press secretary of Belarus's Belneftekhim stated. "We hope that the shipments will be resumed in January," she added saying that the oil reserves at Belarusian oil refineries would guarantee normal work before February.

Belarus informed Russia of its intention to raise the price for the transit of the Russian oil via its territory from February 1, 2011. According to Belarusian officials, the price would be increased up to $45 per ton. This is still cheaper than Venezuelan oil, the price of which is too high because of the transportation problem. However, the new price considerably exceeds the costs of Russian companies for the transit via the republic, even if the cost of the transit grows.

During the first quarter of the current year, the largest oil shipments to Belarus were scheduled by Russia's Lukoil (1 million tons), Surgutneftegaz (1 million tons) and Rosneft (0.9 million tons). Rosneft officials refused from comments; officials of other companies were unavailable for comment, the Vedomosti wrote.

In 2010, Russia delivered only 12.9 million tons of oil to Belarus vs. 21.4 million tons in 2009. It happened after Russia introduced a duty for the export of oil in Belarus in 2010 - 100 percent of its cost.

Belarus usually consumes 6.8 million tons of oil a year and processes 13.5 million more tons to sell this amount afterwards and derive enormous profit from that. The country would send petroleum products to the markets of Western countries - to Poland and Germany, first and foremost. Moscow refused to sponsor the fuel business of its neighbor with duty-free oil.

As a result, Belarus conducted negotiations with Venezuela. The latter agreed to ship ten million tons of oil to Belarus annually, from 2011 to 2013. It goes about Santa Barbara oil, which will be delivered to Belarus via Baltic and Black Sea ports. In January and February, two tankers will arrive in Odessa carrying 80,000 tons of oil each.

In November, Ukraine and Belarus agreed to transport Venezuelan oil to Belarus via Odessa-Brody oil pipeline. At the end of December, prior to the presidential election in Belarus, Presidents Medvedev and Lukashenko regulated the question of oil shipments.

Belarus undertook to ratify the documents about the establishment of the joint economic space within the scope of which Russia would cancel duties for Belarus. Minsk promised to pay the duties received from the export of petroleum products made from the Russian raw materials. In addition, the sides discussed the possibility of importing 21.7 million tons in 2011.

According to the information from the Russian Ministry for Energy, in 2010, the export and transit of Urals oil in Europe via Belarus along Druzhba pipeline made up 63.5 million tons. For the time being, there are no problems with the transit, but Belarus may try to block the corridor if the sides fail to reach an agreement.

The two sides have been acting diplomatically so far. Belneftekhim hopes that the problem will be solved by the end of January, and Russia would resume its oil shipments to Belarus. Oil shipments from the Russian Federation provide 80 percent of the capacities of Belarusian oil refineries.

Pravda.Ru

http://english.pravda.ru/business/companies/13-01-2011/116509-russia_belarus-0/

Europe gives Russia a piece of Schengen visa pie
14 Jan 2011

On January 14, Russian news agencies reported about the negotiations, which the Russian Foreign Ministry conducts with European countries. As it was said, Europe agreed to issue single-entry Schengen visas to Russian citizens during their first visit to European countries. During a second visit to Europe, a Russian citizen will be allowed to receive multi-entry visa for the period of two years. Afterwards, visas will be issued for the period of five years.

Will Russians be able to travel to Europe more in near future, or will visa regulations still mar the relations between Russia and the European Union?

The cancellation of the visa regime between the Russian Federation and the European Union has been one of the hottest issues during the recent years. However, Brussels does not hurry to open the doors to Europe for the Russians. In October it became known as a result of the talks in France that Europe would be prepared to cancel visas for Russia in 10 or 15 years only. Nevertheless, Russia's Medvedev set out a hope in the beginning of December that Russia and the EU would cancel the visa-entry regime before the World Cup in Russia in 2018.

Russian Foreign Minister Sergei Lavrov is more optimistic about the matter. On Thursday, Mr. Lavrov told reporters that Russia and the EU had achieved considerable progress in the talks. Moscow hopes to conduct an active cooperation with Brussels this year to discuss the questions which hamper the elimination of visas, Lavrov said.

The sides have already made the list of questions that need to be solved to give Russian citizens an opportunity to visit Europe freely. "We hope to solve all those problems this year, or, at least, to solve them actively. This will be the test for the strategic character of our relations," the minister said. The Russian Federation and the European Union are strategic partners, and it is vitally important for such partners to refuse from the visas at all, Lavrov noted.

European officials say that several European countries are indeed ready to simplify visa regulations for Russian citizens. However, it is much more important for many other states to preserve visas to avoid the inflow of economic migrants from the former USSR.

The EU presented the list of requirements to Russia in the beginning of December. If Russia meets the requirements, the EU will probably abolish the visa regime for the Russian Federation. Europe wants Russia to strengthen the struggle against organized crime, terrorism and corruption. To achieve progress in the anti-corruption struggle, Russia was offered to establish cooperation with European law-enforcement and court bodies.

Finland does not conceal its interest in simplifying the visa regime with Russia, because Finland is a very popular destination with Russian tourists. Spain, France and Italy also intend to ease visa regulations for Russian travelers.

French Prime Minister Francois Fillon stated during his visit to Moscow in December that the visa entry regime would be preserved, but he promised that France would use the opportunities of the current European rules to automatically issue long-term visas during the renewal of short-term visas.

However, it is obvious that the procedure to eliminate visas with the European Union is a very long, non-transparent and non-regulated process. It may take years for words to become action. Most recently, the given procedure was conducted in November 2010 for the citizens of Bosnia and Herzegovina and Albania. The citizens of these countries had been waiting for the decision since 2003.

Pravda.Ru

http://english.pravda.ru/russia/economics/14-01-2011/116523-europe_russia_visa-0/

BP and Russia sign Arctic oil deal

Concern from environmentalists and US politicians as UK firm agrees to explore area with state-run energy giant Rosneft.

15 Jan 2011

BP has signed a joint venture with Russia's state-controlled energy giant Rosneft to explore for offshore oil and gas and in a deal that gives the UK company access to areas of the Arctic previously reserved for Russian companies.

The British energy giant will swap five per cent of its shares, valued at $7.8bn, for 9.5 per cent of Rosneft in an agreement that immediately raised concerns about US economic security from US politicians and criticism from environmentalists.

The deal covers huge areas of the South Kara Sea in the Arctic that BP, which is still recovering from the financial impact of the Gulf of Mexico oil spill, said could contain billions of barrels of oil and gas.

The companies will explore three areas, known as EPNZ 1, 2 and 3, located on the Russian Arctic continental shelf and covering an area of 125,000 square kilometres.

'Remarkable' deal

The government of Vladimir Putin, the prime minister, has pledged to ease investors' access into Russia as it looks to foreigners to play a key role in helping to modernise the economy - including through taking part in a big privatisation drive starting this year.

Speaking to Al Jazeera, Stanley Reed, the author of a book about the BP Gulf of Mexico oil spill called *In Too Deep*, said: "All the major oil companies are trying to figure out how to make deals with the producing countries that have most of the resources of oil and gas in the world and this deal ... is an interesting way of trying to solve that problem.

Following the Gulf of Mexico disaster which has put BP under pressure in the US, Reed said that by signing a deal with Russia the company was "hedging their bets" and that the deal "shows how resilient and, quite frankly, creative they are."

However, Reed warned that BP's position in Russia was vey much at the whim of whoever is in power there.

"Russia is a very difficult place, it all depends on who is in charge and whether they're in favour, so if something happens to Mr Putin, or whatever, then BP might be out of favour, but it looks good so far," he said.

"It's remarkable to be able to pull something like this off."

Skills gap

BP is seen as filling a skills and technology gap for Rosneft as it seeks to develop the region.

"Rosneft is well aware that its ability to do deepwater Arctic work alone is very limited," Cliff Kupchan, a director at Eurasia Group, a global political risk consultancy based in Washington, said.

"They have been looking for ways to bring in companies with the technology and especially management skills needed to pull off deepwater Arctic work."

Edward Markey, a US congressman who is the senior Democrat on the House Natural Resources Committee, immediately called for a review of the deal by US regulators to see whether it affects the national and economic security of the US.

He noted that in 2009 BP was the top petroleum supplier to the US military.

Michael Burgess, a Republican congressman who is on the House Energy and Commerce Committee, also said the deal "deserves some analysis and scrutiny" by the government's Committee on Foreign Investment in the US given BP's ownership of critical oil assets in the US.

The US Treasury said it is forbidden by law to comment on investigations, planned or under way, by the committee.

Environmental concerns

Environmentalists also raised concerns about the deal.

"Now BP has bought its way into the Arctic by the back door," Charlie Kronick of Greenpeace said. "It seems the company learned nothing last year in the Gulf of Mexico."

However, Chris Huhne, the UK secretary of state for energy and climate change, welcomed the "groundbreaking" deal and called it "good news for Europe, for the UK's energy security and worldwide."

The venture underscores Europe's dependence on Russia for a rising share of its energy needs - particularly for clean-burning natural gas.

Russia holds one-fifth of the world's reserves of natural gas.

Friday's deal highlights a rebound in relations with Moscow both for BP and Bob Dudley, its chief executive, who was forced to leave Russia in 2008 after heading BP's Russian joint venture, TNK-BP, which is half-owned by BP.

'Fistfight to love fest'

Dudley said the deal, announced late on Friday, was the first significant cross-shareholding between a nationally owned oil company and an international oil company and called it "a new template for how business can be done in our industry".

Dudley had been the boss for TNK-BP's formation in 2003 and was forced to leave due to what he described as a campaign of harassment by BP-TNK's billionaire oligarch co-owners.

The issue has since been resolved and Dudley returned to Moscow for the first time this summer, following his appointment as CEO of BP.

"It has turned from a fistfight into a lovefest," Kupchan said.

BP has a market capitalisation of $150bn, while Rosneft is valued at about $83bn.

http://english.aljazeera.net/news/europe/2011/01/201111513522382747.html

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WORLD ECONOMIES

For Jjapan, 2010 was a year best forgotten

TOKYO — Japan has been overtaken by China as the world’s No. 2 economy. Its flagship company, Toyota, recalled more than 10 million vehicles in an embarrassing safety crisis. Its fourth prime minister resigned in three years, and the government remains unable to jolt an economy entering its third decade of stagnation.

For once-confident Japan, 2010 may well mark a symbolic milestone in its slide from economic giant to what experts see as its likely destiny: a second-tier power with some standout companies but limited global influence.

As Japanese drink up at year-end parties known as “bonen-kai,” or “forget-the-year gatherings,” this is one many will be happy to forget.

Problem is, there’s little to look forward to. With a rapidly aging population, bulging national debt, political gridlock and a risk-averse culture slow to embrace change, Japan’s prospects aren’t promising. And a tense, high-seas spat with China has intensified fears of its neighbor as a military as well as economic threat.

A few optimists hope Japan can harness its strength in technology and its “Cool Japan” cultural appeal — from fashion and art to “anime” cartoons. The country needs to shed its reliance on manufacturing, they argue, and find new growth areas such as green energy, software engineering and health care for its elderly.

But talk to university students, and their outlook is bleak.

Many worry about finding steady jobs and whether they can support families — concerns that have contributed to Japan's low fertility rate of 1.3 children per woman. Average household income has fallen 9 percent since 1993.

Makoto Miyazaki, a 22-year-old student at prestigious Keio University in Tokyo, senses forces outside his control — and Japan's — are going to dictate his future.

"Internationally, Japan is between big countries like China and the U.S. And Korea is becoming a major competitor — that's a big threat to Japan," he said. "I feel like we have fewer choices."

It's a startling contrast with the 1980s, when Japan was flush with cash and some experts believed its economy was poised to dominate the world.

Millions have given up the goal of lifetime employment at a major corporation and become "freeters," flitting among temporary jobs with few if any benefits. As companies cut costs, temporary workers have grown to a third of the work force, up from 16 percent in the mid-1980s.

Further, the population is projected to fall from 127 million to 90 million by 2055 — 40 percent of them over the age of 65. That's going to place a heavy tax burden on workers.

Economic difficulty is a chief reason more than 30,000 Japanese have committed suicide every year for the past 12 years.

Hopes for change from the Democratic Party, which toppled the long-ruling conservatives last year, have fizzled. The Democrats lost control of the upper house of parliament in July elections, setting the stage for political gridlock.

Prime Minister Naoto Kan has acknowledged Japan's declining status.

His prescription: "Open up the country." He advocates reducing trade barriers, loosening regulations and making the country a more attractive place to invest.

His Cabinet recently approved cutting the corporate tax rate by 5 percentage points to 35 percent and is weighing whether Japan should join a U.S.-led free trade zone, the Trans-Pacific Partnership, that would slash tariffs on everything from electronics to food.

Business leaders say doing so is vital, but farmers fear a flood of cheaper imports would ruin them. Analysts say it could be a vehicle for economic revival but also lead to job losses and social dislocation, especially in rural areas.

The St. Petersburg Times
http://www.sptimes.ru/story/33378

Politics, strong currency, interest rate to affect Thai economy in 2011

BANGKOK: Domestic politics, strong local currency and rising interest rates will be key factors affecting the Thai economy next year, leading industrialists and businessmen said on Wednesday.

At a seminar organized by the Federation of Thai Industries (FTI), a major private association of industrialists and businessmen, on Wednesday, the participants agreed that the Thai baht will continue to rise as more foreign capital will flow in to invest in domestic financial market.

"In 2011, our exports will face difficulties from dropping demands and the uncertainties and tension in the foreign exchange market," said FIT Chairman Payungsak Chartsutipol.

"Business owners are quite worried about foreign exchange rate in the near future," Payungsak said.

Bunluasak Pussarungsri, executive vice president of CIMB Thai Bank, said the baht could strengthen to 28-29 baht to the U.S. dollar next year, adding that Thai businessmen should protect themselves from currency fluctuation by hedging.

The baht, one of the highest appreciating Asian currencies this year, is currently hovering around 30 baht to the dollar.

The government's top economic planner, the National Economic and Social Development Board (NESDB) has projected that Thailand's gross domestic product (GDP) will grow 3.5-4.5 percent in 2011, compared to an estimated 7.9 percent in 2010, due to anticipated slower growth in the global economy and appreciation of the Thai currency.

The agency also projected export growth in 2011 at 11.7 percent, compared to an estimated 25.1 percent this year.

NESDB also warned of the baht strengthening, saying its continued appreciation could hurt the country's manufacturing sector as a strong baht would make Thai goods less competitive in the world market.

Other speakers said domestic politics remained a worrying factor as Thailand expected a general election next year, in which a new government could lead to changing policies.

They were concerned that the anti-government red-shirt movement could launch major protests, leading to unrest in the country.

The red-shirts, also known as the United Front for Democracy against Dictatorship (UDD), has vowed to stage rallies on the 10th and 19th of every month until "justice is returned to the society" .

Their last rally on Dec. 19 was able to gather thousands of protesters in central Bangkok, but it ended on the same day without any violence.

Speakers also expected rising domestic interest rates next year, as the inflation rate is currently higher than the central bank's policy rate, making real rate in the negative territory.

Paiboon Nalinthrangkurn, chairman of the Federation of Thai Capital Market Organizations, said as value of Thai baht- denominated assets have been rising in the past two years, now they became less attractive to investors.

He said, hence, the Thai stock market was expected to rise at a slower pace in 2011 than in the past two years.

http://news.xinhuanet.com/english2010/business/2010-12/22/c_13660341.htm

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Portugal rejects bailout talk

Prime minister says speculation over possible aid to tackle the debt crisis is harming the country's interests.

11 Jan 2011

Portugal has insisted that it will not need a bailout from the European Union and International Monetary Fund to tackle its debt crisis, despite its central bank forecasting that the economy is set to plunge into recession.

"All the rumours on the IMF and on external assistance are speculation which does not help which harms the interests of the country and aggravates market conditions," Jose Socrates, the prime minister, said on saturday.

Socrates said Portugal's public deficit for 2010 was "clearly less than the forecast" of 7.3 per cent of output and might even be down by an extra 0.5 percentage points.

However, specualtion that Portugal's eurozone partners have been encouraging it to accept funds to avert a wider crisis that could drag down others, including neighbour Spain, will not go away.

Fernando Teixeira, the finance minister, had earlier been forced to deny that Portugal intended to seek external help and said it "would do everything to avert such an eventuality".

"Portugal is doing its work to solve its fiscal imbalances, it is Europe which seems not to be doing its work in maintaining the stability of the euro," he said.

Confused situation

The European Commission, France and Germany have denied that Lisbon is being pushed towards a bailout, but European officials issued similar denials of pending aid late last year before Ireland ultimately succumbed to pressure to accept a bailout from the EU and IMF.

The situation was similarly confused before Greece asked for help in May.

Lisbon faces a crucial test on Wednesday of its ability to fund itself on the market at affordable rates as it holds a bond auction of $967 million to $1.6 billion worth of long-term debt.

"If it can shift the whole lot at sensible rates it could win a stay of execution on the rescue," Moneycorp analysts said in a client note.

The yield or rate of return on on Portuguese benchmark 10-year bonds fell back to 6.889 per cent on Tuesday, after hitting record high levels of 7.193 per cent on Friday, as tensions eased following Tokyo's expression of support for the eurozone.

The Bank of Portugal forecast that the country's economy would shrink by 1.3 per cent this year, contradicting government forecasts, and said Portuguese banks would continue to rely on European Central Bank for liquidity.

http://english.aljazeera.net/business/2011/01/2011111202432171159.html

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Stocks gain on Portugal debt sale

Portugal hails bond sale a success as it seeks to avoid a bailout to tackle its debt crisis.

12 Jan 2011

Global stocks and the euro currency have rallied after healthy demand for Portugal's debt sale eased concern over Europe's lingering debt crisis and boosted sentiment among investors.

European stocks hit a 28-month closing high on Wednesday, lifted by speculation the European Union will bolster the region's rescue fund, and government bond prices dropped after the Portuguese bond auction reduced the safe-haven appeal of debt and gold.

Portugal raised €1.249bn [$1.62bn] in the bond sale with strong demand from investors who bought the bonds at 6.7 percent interest, below the critical level of seven per cent.

This figure is important because when Greece breached the seven per cent interest rate last April, it was just 17 days before it needed a bailout and after Ireland's bonds reached seven per cent interest, it lasted about 30 days before needing its own rescue package in November.

Fernando Teixeira dos Santos, Portugal's finance minister, told the Reuters news agency would help Lisbon resist a bailout, amid widespread speculation in recent days that it was being pushed towards accepting financial aid.

"We consider today's bond auction a success," he said. "We see no reason to abandon the strategy of raising financing in markets and diversifying our investor base."

However, Matthew Lynn, a financial commentator based in London, told Al Jazeera that despite the successful bond sale, he does not think Portugal will manage to avoid a bailout.

"Portugal managed to get away with the bond auction today, but they [bond auctions] are slightly artificial. They get set up in the market as a big hurdle but it's known in advance that they're going to get the bonds away, otherwise they wouldn't try and sell them," he said.

"I wouldn't put too much weight on this [sale]. The fact is there is lots of noise behind the scenes - Germany and France are trying to push Portugal to accept a bailout ... because they are trying to draw a line under this crisis."

'Encouraging news'

The euro extended gains versus the US dollar on Wednesday, with traders citing options-related demand pulling it toward a session high of $1.3113.

That gain put the euro above its 200-day moving average, which Reuters news agency data put at $1.3070, a level that would be a first step toward improved euro sentiment, traders said.

World stocks as measured by MSCI's all-country world index advanced 1.4 per cent, while it's emerging markets index gained 1.7 per cent.

In Europe, the FTSEurofirst 300 index of top European shares finished 1.5 percent higher at 1,163.94 points, the highest close since September 2008, with Spanish banks leading a relief rally.

"Encouraging news that the EU Commission could use the region's rescue fund to back sovereign debt issues is helping bring down risk premiums and this is directly benefiting the banks," Oscar Moreno, fund manager at Renta4 in Madrid, said.

US stocks also gained, helped by signs of strength in the US banking sector, but Europe played a key role.

Wells Fargo raised the US bank sector to an "overweight" rating and JPMorgan Chase & Co Chief Executive Jamie Dimon said his bank could pay an annual dividend of 75 cents to $1 once the Federal Reserve completes and approves stress tests of the largest US banks.

On Wall Street, the Dow Jones industrial average was up 107.85 points, or 0.92 percent, at 11,779.73. The Standard & Poor's 500 Index was up 12.14 points, or 0.95 percent, at 1,286.62. The Nasdaq Composite Index was up 18.00 points, or 0.66 per cent, at 2,734.83.

http://english.aljazeera.net/business/2011/01/20111122069629577.html

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Indian inflation: Enough to make your eyes water

A spike in food prices is especially painful for the poor

JAGIR SINGH has sold red onions at Kotla market in south Delhi every day for the past half-century. Perched on an upturned crate, wrapped tight against the chill air, he offers *pyaz*, a staple for much Indian cooking, for 60 rupees ($1.33) a kilo, the most he can remember. Business is brisk but most customers pick up only a small handful of onions. That is just as well: wholesale supplies are tight, he says, and the quality is poor.

As India's economy grows by some 9% a year, food prices are soaring. In late December the commerce ministry judged that food inflation had reached 18.3%, with pricey vegetables most to blame. Officials have made some attempts to temper the rise in the past month—scrapping import taxes for onions, banning their export and ordering low-priced sales at government-run shops. But there is no quick fix.

Heavy rain in the west of India brought a rotten harvest. Vegetables from farther afield—including a politically sensitive delivery from Pakistan—are costly to move on India's crowded, potholed roads. Few refrigerated lorries and poor logistics mean that much of each harvest is wasted. Newspapers allege hoarders (an onion ring?) are cashing in.

The biggest problems are structural. Food producers, hampered by land restrictions, archaic retail networks and bad infrastructure, fail to meet extra demand from consumers. Subir Gokarn, deputy governor of the central bank, estimated in October that a 39% rise in income per person in the previous five years might have created an extra 220m regular consumers of milk, eggs, meat and fish. Supplies have not kept up with this potential demand.

The broader inflation rate may be a less eye-watering problem than the onions suggest. The central bank has lifted interest rates steadily in the past year and is expected to do so again later this month. Headline inflation fell to 7.5% in November, down by just over a percentage point from October, though it is still above the central bank's forecast of 5.5% for March.

But higher interest rates may encourage more hot money to flow into India. The country's current-account deficit widened to 4.3% of GDP in the quarter ending in September. India has had no trouble yet in financing this gap but Goldman Sachs suggested this week that funding a growing deficit from short-term capital flows remains "the biggest risk to India's growth". For poorer shoppers trying to stretch their food budgets as far as they will go, such concerns may seem a bit abstract.

http://www.economist.com/node/17853294

Fiscal hawk joins Japan cabinet

Prime minister announces new ministers in reshuffle as part of bid to revive the country's struggling economy.

14 Jan 2011

Japan's prime minister has reshuffled his cabinet in a bid to revive the county's faltering economy and tackle reforms. Naoto Kan announced the new ministers for fiscal policy, trade, justice and transport on Friday. But he kept other important posts, including foreign, finance and defence, unchanged.

The most notable changes include Kaoru Yosano, a 72-year-old independent fiscal conservative who has advocated raising the five per cent sales tax, and who will become minister for economic and fiscal policy.

Yosano held a number of senior government positions under the former Liberal Democratic Party government, and is viewed as a leader who can foster consensus across party lines.

"Japan's fiscal policy will hit a dead end if it is left as it is," Yosano said.

"I share the prime minister's thinking on the need to reform the public finances and social security."

'Difficult time'

Yukio Edano, the ruling centre-left Democratic Party of Japan's acting secretary-general, will take over as chief cabinet secretary.

"For Japan and the DPJ government, this cabinet reshuffle has come at a particularly difficult time," Edano, who replaces Yoshito Sengoku, said.

"We see a good balance of old and young. This allows each one of us to make the most of ourselves."

Kan's new cabinet, his third since taking office last June, will aim to push for reforms in the face of a string of problems including a rapidly ageing population, growing national debt and a struggling economy.

He has faced criticism from fellow party members that his administration was failing to tackle urgent problems confronting the country.

http://english.aljazeera.net/news/asia-pacific/2011/01/201111442247576419.html

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World's freest economy does not exist in the Land of the Free
14 Jan 2011

Hong Kong has been recognized the world leader in the field of economic freedom for the 17th time in a row. According to the research conducted by Heritage Foundation, Hong Kong received 89.7 of 100 points on the economic freedom index. The average global index makes up 59.7 points. "Hong Kong, one of the world's most competitive financial and business centers, demonstrated a high degree of resilience during the global financial crisis," the report said.

The research embraced 183 countries. The USA takes the modest ninth place on the list of the countries that scored most in terms of economic freedom. The UK did not even make it in the top ten, having dropped from the 11th to the 16th position.

Russia takes the 143rd place on the list. Russia can find a consolation in the fact that it is followed by Zimbabwe, which took the 178th place, and North Korea, which "prestigiously" takes the fourth place from the bottom of the list.

Nowadays, Hong Kong receives billions of dollars of investments through the stock market, the private equity, commercial transactions, large-scale investment projects, etc. What makes Hong Kong so attractive to foreign investors?

John Tsang, the Financial Secretary of Hong Kong, believes that the competitive ability of Hong Kong's economy is determined by the firmness of public and political freedoms and the freedom of business activities, which let many companies succeed in Hong Kong.

One of the most important constituents of economic freedom in Hong Kong is the supremacy of law, civil rights, influential mass media, free movement of capital, commodities and labor, as well as the multi-cultural, tolerant and multinational community of its population. Hong Kong's past and present success lies in its amazing ability to adjust to new reality and show proper reaction to regional and global challenges.

Hong Kong profited greatly from the speedy growth of the Chinese economy and from its special relations with the "middle country." After the unification, the economy of Hong Kong began to develop incredibly fast owing to Hong Kong's dual role as the most international city, as well as owing to China and Asia on the whole.

Organic advantages of the local market are supplemented with favorable macroeconomic situation, because it works under special conditions, within the scope of the Special Administrative Region of China, which exists in China as "one country - two systems" concept. That is why, on the one hand, it is a highly developed cosmopolitan market, which operates according to Western standards. On the other hand, it is the territory which can become a springboard for developing the colossal potential of mainland China.

In 2010, China left Japan behind in terms of the Gross Domestic Product and became the second biggest economy after the USA. In addition, China accumulated world's largest gold and currency reserves evaluated at $2.65 trillion, according to most recent official data.

Hong Kong, its economic advantages and freedoms, has been an attraction to the Russian business recently. Russia's RBC organized the Russian-Asian investment forum in Hong Kong at the end of 2010. Hong Kong evinces serious interest in attracting the resources of the Russian business too. However, Hong Kong invites the Russian business for Hong Kong's interests first and foremost.

Pravda.Ru

http://english.pravda.ru/business/finance/14-01-2011/116522-hong_kong_economy-0/

Jordanians march against inflation

Thousands vent anger in Amman and other cities against government's inability to rein in prices and poverty.

14 Jan 2011

Thousands of Jordanians have taken to the streets of the capital Amman and other cities to protest against rising commodity prices, unemployment and poverty. The protesters are calling on the government headed by Samir Rifai, the prime minister, to step down.

Demonstrators, including trade unionists and leftist party members, carried national flags and chanted anti-government slogans in downtown Amman. They called Rifai a "coward" and demanded his resignation.

"Prices, particularly gasoline and food, are getting out of hand," Buthaina Iftial, a 24-year-old civil servant, said.

"We're becoming poorer every day," she said, holding a poster with a piece of Arabic flatbread attached.

Police and plainclothes officers formed rings around the demonstrators to contain the protests. There were no reports of arrests or violence.

'Starvation and fury'

"Jordan is not only for the rich. Bread is a red line. Beware of our starvation and fury," read one of the banners carried after mid-day prayers, amid a heavy police presence, according to the AFP news agency.

"Down with Rifai's government. Unify yourselves because the government wants to eat your flesh. Raise fuel prices to fill your pocket with millions," the protesters chanted as they marched in Amman.

Similar demonstrations took place in the cities of Maan, Karak, Salt and Irbid, as well as other parts of the country.

"We are protesting the policies of the goernment, high prices and repeated taxation that made the Jordanian people revolt," Tawfiq al-Batoush, a former head of Karak municipality, told the Reuters news agency at a protest outside Karak's Al Omari mosque.

Friday's protests came amid similar protests in Algeria and Tunisia.

On Tuesday, Jordan's government announced a $169m plan to reduce the prices of commodities, including fuel, sugar and rice, and to create jobs in the face of rising popular discontent.

Protesters say these measures are not enough, and are complaining of growing unemployment and poverty. Year-on-year inflation hit 6.1 per cent last month.

The Muslim Brotherhood, its political arm the Islamic Action Front (IAF), and the country's 14 trade unions say they will hold a sit-in outside parliament on Sunday to "denounce government economic policies".

"We demand a solution to this problem to avert any negative repercussions through reforming policies and carry out true and fair economic and political reforms," the trade unions said in a statement.

Jordan's budget deficit hit a record $2 billion in 2009, 9 per cent of GDP, as public finances came under strain after the global downturn. The deficit is expected to narrow to 5 per cent of GDP this year as tough spending cuts take effect.

The kingdom had experienced civil unrest in the past over fuel price hikes and attempts to end bread subsidies. The government has already allocated 170 million dinars in the 2011 budget to subsidise bread, on which many poor in the country of 7 million people depend, officials said.

http://english.aljazeera.net/news/middleeast/2011/01/20111141219337111.html

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Economic recession ignites turmoil in Tunisia

15 Jan 2011

TUNIS: Tunisia was caught in Chaos and violence, after riots broke out last week over skyrocketing prices and high unemployment.

The former president Zine El Abidine Ben Ali, who ruled the north African country for 23 years, fled to Saudi Arabia, as the riots developed into a political crisis and raised serious concern from both the Arab world and the international community.

The turmoil in the country, known as "peaceful oasis" in north Africa, was triggered by the death of a university graduate in central Tunisia, who burned himself after the police confiscated his unlicensed fruit cart. However, some analysts believe that the economic recession and aftermath of the global financial crisis is the real reason behind the collapse of the strongman's regime.

Although the World Davos Economic Forum has just published its report on the competitiveness of tourist trade in the world and has ranked Tunisia 39th out of a total of 130 countries, the imbalance in Tunisia's national economic development has been a chronic illness for a long time.

Since the global financial crisis erupted in 2008, the traditional manufacturing industry of Tunisia, which relies on cheap labor force as its competitive advantage, faced severe challenges due to the shrinking international demands. With withered Foreign investment and climbing trade deficit, the deficit of current item in 2010 has accounted to 4.1 percent of its Gross Domestic Products (GDP).

The sovereign debt crisis of Euro zone also gave a heavy blow to Tunisia's economy in 2010. The Tunisia dinar linked with Euro depreciated about 10 percent against U.S. dollar, which affected its pillar tourism industry in the past two years.

Meanwhile, the sluggish economy made the employment environment further deteriorate in the country. According to some economists, the unemployment rate is much higher than the official declared 14 percent, and nearly 30 percent of the jobless are university graduates, who became the major force in the riots.

In the first 10 month of 2010, Tunisia's customer price index (CPI) has increased 4.5 percent, much higher than 3.4 percent of 2009. The soaring price on food, fuel, housing and other necessities ignited the public discontentment. Although Ben Ali has vowed not to seek for his sixth presidential term in 2014 and pledged to create more job opportunities for the youth, the clashes between protestors and police, killing more than 20 people, still plunged the country into turbulence after decades of stability.

The analysts said, the vacuum of the political power in the country needs a long time to fill in after the leave of Ben Ali, which marked a new era of Tunisia. The widespread riots have turned Tunisia volatile in the recent days and the only way to get rid of the dilemma is to maintain social stability and sustain economic development.

http://news.xinhuanet.com/english2010/world/2011-01/17/c_13694665.htm

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ARTICLES/COMMENTARIES

Price rises in China: Inflated fears

Inflation in China is a problem for the country but not for the world

IN JANUARY 1992 Deng Xiaoping, then China's paramount leader, arrived in Shenzhen for the start of his month-long "Southern tour". He extolled the success of the coastal special economic zones, lambasted his reactionary opponents in Beijing and ushered in a torrid economic boom that forced inflation above 25%.

China has not suffered from double-digit inflation since. But the episode did lasting harm to the credibility of its macroeconomic stewardship. According to Jonathan Anderson of UBS, many outsiders see "the monetary authorities as unreconstructed relics of the socialist planning era without much grasp of market tools." They fear that the economy is '"beyond control", prone to speculative excesses followed by clumsy crackdowns.

China is once again stirring their fears. In the year to November consumer prices rose by 5.1%, the fastest increase for 28 months and a striking turnaround from the deflation of the year before (see chart). Higher prices are now percolating through the economy: last month Starbucks bumped up the price of a whipped-cream Frappuccino by about 6%.

About 75% of China's inflation is the result of higher food prices, as in 2008 when costly food pushed inflation past 8%. But in 2010, unlike 2008, disruptions to food supplies have been modest. China experienced harsh weather early in the year and floods in the summer. But it suffered nothing like the blue-ear disease that took such a toll on the country's pigs in 2007-08.

Food inflation may, therefore, reflect stronger demand rather than weaker supply. As China's households grow richer, meat, poultry and milk are claiming a bigger share of their budgets, according to Wenlang Zhang and Daniel Law of the Hong Kong Monetary Authority. If the share of spending on other things were to shrink, this need not be inflationary. But the rejuggling will cause what Kaushik Basu of India's Ministry of Finance has called "skewflation", a rise in one set of prices relative to others.

If China is suffering from skewflation, or temporary dips in supply, its inflation problem should soon resolve itself. Food prices will settle at a higher level, or fall back. The central bank's only job is to make sure higher food costs do not translate into higher pay demands, which might start a wage-price spiral.

But many economists now worry that the problem runs deeper than food. If the prices of vegetables, fruit and other crops are more flexible than other prices, food inflation may be an early warning of an overheating economy. Perhaps China's monetary policymakers have let the economy slip their grasp again. They have allowed the money supply to grow by half since January 2009, real interest rates to plunge and bank lending to breach government quotas. The central bank's own survey of households shows inflationary expectations at their highest for over a decade.

The People's Bank of China (PBOC) did raise interest rates by a quarter of a percentage point over Christmas, following a similar move in October. The hikes mean that banks cannot now lend at less than 5.81%. But in an economy growing by 15% a year (in nominal terms), that floor is unlikely to deter borrowers. Deposit rates were raised to 2.75%, but in real terms savers get back less than they put in.

The PBOC also raised reserve requirements on banks six times in 2010, obliging them to set aside 18.5% of their deposits, a record ratio. But such requirements may do little more than offset the expansionary effects of the central bank's purchases of foreign exchange, made necessary by its stubborn refusal to allow the yuan to strengthen faster. To ease that pressure, the government has announced that it no longer requires exporters to surrender their foreign exchange in return for yuan.

Besides interest rates and reserve requirements the PBOC still relies on non-market tools such as loan quotas and "window guidance" to banks. Window guidance is not a relic of socialism so much as a throwback to Japan's clubable capitalism of the post-war era. The central bank convenes a meeting of bank heads and offers some friendly advice on how to do their jobs. In 2010, for example, it prodded banks to back China's outsourcing, logistics and culture industries, as well as a drive to encourage university graduates to fill civil-service jobs at "grassroots level".

If "window guidance" influences the direction of lending, China's credit quotas regulate the amount. Or they are supposed to. The government set a limit of 7.5 trillion yuan for new lending for 2010 but banks exhausted a quarter of that quota in the first two months and over 99% of it by the end of November (see chart). The government may not bother to set a quota for 2011, preferring to police the bigger banks month by month and one by one. Policymakers have decided they can live with somewhat higher inflation, raising their target from 3% in 2010 to 4% in 2011.

If China cannot tame its headstrong banking system and quell inflationary expectations, its reputation for macroeconomic management will suffer. But Chinese inflation still need not inflict too much damage on the rest of the world's economy. China makes a big contribution to world growth: it is, after all, 9% of global GDP and it is growing at 10% a year. But it does not make such a big contribution to the rest of the world's growth: whatever its growing imports add to the GDP of its trading partners, its burgeoning exports tend to subtract. Inflation in China may even help its rivals. As prices rise in China, its goods become less competitive abroad. China's trade surplus should shrink, contributing to growth elsewhere. If Chinese inflation is one of the big worries for the world economy in 2011, it should be a decent year.

http://www.economist.com/node/17851541

The euro area's debt crisis

13 Jan 2011

THE euro zone's strategy for tackling its sovereign-debt crisis is failing. A makeshift scheme was put in place in May to help countries that cannot otherwise borrow at tolerable interest rates. That lowered but did not remove the risk that a country may default for want of short-term funds. But the bond market's nerves have been shredded again by the likelihood that from 2013, when a permanent bail-out mechanism is due to be in place, it will be easier to restructure an insolvent country's debts. More worrying still for private investors, this seems set to give official creditors preference over others.

As a result, bail-outs are making private investors less rather than more keen to hold a troubled country's bonds. As old debts are refinanced and new deficits funded by the European rescue pot and the IMF, the share of such a country's debt held by official sources will steadily rise. That will leave a shrinking pool of private investors to bear losses if debts are restructured. And the smaller that pool becomes, the larger the loss that each investor will have to accept. Bond purchases by the European Central Bank (ECB) aimed at stabilising markets have further diminished the stock in private hands.

This perverse dynamic argues for a restructuring of insolvent countries' debts sooner rather than later. But when is a debt burden too heavy to be borne? A first indicator against which to make that judgment is the ratio of gross public debt to GDP. Most rich economies, including the euro area's most troubled, have large budget deficits and so will be adding to their debts for years. Today's toll is not so important. What matters is how big the debt burden will be when it stabilises.

Column 2 of the table below shows *The Economist*'s estimates of the likely burden for the four most beleaguered euro-zone countries. To keep our projections as simple and objective as possible, we have imposed identical (and thus necessarily stylised) assumptions about growth and interest rates on all. Because all four countries suffer from a lack of competitiveness, a recovery in real GDP in the face of fiscal austerity will probably require a drop in wages and prices. For that reason, we assume that nominal GDP falls before recovering to its 2010 level. The interest rate on new debt is pegged at 5.25%, a bit less than Ireland will have to pay on its rescue funds from the European Union and the IMF.

The reckoning

% of GDP (unless stated)

	Gross government debt		Primary budget adjustment,	Net international-investment	% of gov't bonds	Ten-year gov't-bond
	2010 est	2015 f'cast	2010-15 f'cast	position, 2009	held abroad*	yield†, %
Greece	140.2	165	10	-89.1	58.0	11.3
Ireland	97.4	125	13	-102.5	54.2	8.3
Portugal	82.8	100	8	-113.2	66.0	6.8
Spain	64.4	85	10	-95.7	38.7	5.5

Sources: *The Economist*; European Commission; IMF; Citigroup; Thomson Reuters *Q3 2010 †January 12th 2011

We assume that it takes five years of tax increases and spending cuts for each country to reach a primary budget surplus (ie, excluding interest payments) large enough to stabilise its ratio of debt to GDP. The required austerity varies: Ireland has already endured a lot of pain but still has most to do (see column 3).

The depth of the mire

To avoid charges of spurious accuracy, we have rounded down our estimate of the stable debt burden to the nearest five percentage points. On this basis Greece ends up with a debt-to-GDP ratio of 165% by 2015. Ireland's projected burden is 125%, Portugal's 100% and Spain's 85%. Only Japan has a larger burden than Greece, and its government can fall back on a big stock of

liquid assets and wealthy domestic savers who hold almost all public debt. Even at the subsidised interest rates we assume, Greece would pay 8-9% of its GDP in interest by 2015, mostly to foreigners. For a small country with a shaky economy, that is unbearable: Greece looks bust.

Spain, though, is probably solvent. On our estimate its prospective debt burden is similar to those of "safe" France and Germany today. A worst-case scenario in which the government had to cover enormous losses at the country's banks (see article) would leave its debt burden close to, but not above, the limits of what Spain could sustain at current interest rates.

Ireland and Portugal are less clear-cut cases. A public-debt ratio in three figures might be tolerable at interest rates of 4% or so, but would be too costly to bear at today's bond yields. Two other euro-zone countries, Belgium and Italy, already have public debt of 100% of GDP or more and do not (yet) suffer painfully high yields. But both are quite near to primary budget balance and depend far less on foreign capital than Greece, Ireland or Portugal (column 4). Belgium's economy is small but closely aligned with Europe's strong core. Like Japan, Italy benefits from scale. Its large bond market attracts investors who prize liquidity; its public revenues are backed by a big, diversified economy.

Debt burdens may turn out to be higher. Ireland's government is using its liquid assets to bolster its banks' capital. But if losses on property loans and mortgages are worse than hoped, they could add up to 10% of GDP to our estimate of its debt burden. Portugal says its banks are sound. But the combination of capital inflows and low productivity hints at wasteful investments and a lurking bad-debt problem.

Greece provides the best example of why it is wise to write down unbearable debts sooner rather than later. Investors typically take losses of one-third to one-half of the value of bonds when sovereign debts are restructured. Greece would need to halve its debts to reduce its burden to a tolerable 80% or so of GDP. If the pain were delayed until the end of 2013 its debts would have to be written down by €185 billion ($239 billion) on our reckoning. Were official creditors repaid in full, private investors would be left with nothing: only €183 billion of the Greek bonds issued before the bail-out would mature after 2013, according to Bloomberg. (That is unlikely. In past restructurings bilateral official creditors, but not the IMF, have taken a hit. Still, the longer the delay the more private investors lose.)

A Greek default would be the first by a rich country since 1948. It would be shocking but feasible. Restructurings by several poorer ones, from Uruguay to Belize, provide a legal case history for how to do it. Two factors may make it easier. First, the bulk of "peripheral" Europe's debts are issued under local law, which some lawyers say can be changed retroactively to add clauses binding all creditors to a deal agreed on by a big majority. Second, the ECB could induce commercial banks to seek a swift agreement by refusing to accept "old" bonds as collateral. The lawyers think a Greek restructuring could be completed in six months. It must be done eventually. It would be better not to delay.

http://www.economist.com/node/17902803

The euro area: Time for Plan B

The euro area's bail-out strategy is not working. It is time for insolvent countries to restructure their debts

13 Jan 2011

FOR a few weeks over the Christmas holidays, Europeans put their sovereign-debt crisis on hold. Now they are facing grim reality once more. Bond yields are spiking in an ever broader group of countries, just as the euro zone's governments need to raise vast sums from the markets. On January 12th Portugal was forced to pay 6.7% for ten-year money—better than feared but a price it cannot afford for long. Yields for Belgian debt have jumped, as investors fret about its load of debt and lack of leadership. Spain is hanging on.

This mess leads to a depressing conclusion: Europe's bail-out strategy, designed to calm financial markets and place a firewall between the euro zone's periphery and its centre, is failing. Investors are becoming more, not less, nervous, and the crisis is spreading. Plan A, based on postponing the restructuring of Europe's struggling countries, was worth trying: it has bought some time. But it is no longer working. Restructuring now is more clearly affordable than it was last year. It is also surely cheaper for everybody than it will be in a few years' time. Hence the need for Plan B.

The initial response, forged in the rescue of Greece in May 2010, has been undone by its own contradiction. Europe's politicians have created a system for making loans to prevent illiquid governments from defaulting in the short term, while simultaneously making clear (at Germany's insistence) that in the medium term insolvent countries should have their debts restructured. Unsure about who will eventually be deemed insolvent, investors are nervous—and costs have risen.

The least-bad way to deal with this contradiction is to restructure the debt of plainly insolvent countries now. Based on this newspaper's calculations (see article), that group should start with Greece and probably also include Portugal and Ireland. Spain has deep problems, but even with a big bank bail-out it should be able to keep its public debt at a sustainable level (see article). Italy and Belgium have high debt levels but more ample private savings, and their underlying budgets are closer to surplus. There is, thus, a reasonable chance that, handled correctly, euro-zone sovereign defaults could be limited to three small, peripheral economies.

The perils of procrastination

This newspaper does not advocate the first rich-country sovereign defaults in half a century lightly. But the logic for taking action sooner rather than later is powerful. First, the only plausible long-term alternative to debt restructuring—permanent fiscal transfer from Europe's richer core (read Germany)—seems to be a political non-starter. Some of Europe's politicians favour closer fiscal union, including issuing euro bonds, but they are unlikely to accept budget transfers big enough to underwrite the peripheral economies' entire debt stock.

Second, the dangers from debt restructuring have diminished even as the costs of delay are rising. Eight months ago, when euro-zone governments and the IMF joined forces to rescue Greece, their determination to avoid immediate restructuring made sense. There were reasonable fears that default could plunge Greece into chaos, precipitate bond crises in the euro zone and spark a European banking catastrophe.

But the European economy, as a whole, is now in better shape. Banks have had time to build up more capital—and palm off some of their holdings of dodgy sovereign bonds to the European Central Bank. Greece and other peripherals have shown their mettle with austerity plans. Europe's officials have created mechanisms to stump up rescue money quickly. And lawyers have been thinking about managing an "orderly" default. A sovereign restructuring could still spook financial markets—fear that it would spread panic makes Europe's politicians shy away from it—but if handled correctly, it should not spawn Lehman-like chaos.

At the same time the costs of buying time with loans have become painfully clear. The burden on the countries that have been rescued is enormous. Despite the toughest fiscal adjustment by any rich country since 1945, Greece's debt burden will, on plausible assumptions, peak at 165% of GDP by 2014. The Irish will toil for years to service rescue loans that, at Europe's insistence, pay off the bondholders of its defunct banks. At some point it will become politically impossible to demand more austerity to pay off foreigners.

And the longer a restructuring is put off, the more painful it will eventually be, both for any remaining bondholders and for taxpayers in the euro zone's core. The rescues of Greece and Ireland have increased their overall debts while their private debts fall, so that a growing share will be owed to European governments. That means that the write-downs in any future restructuring will be bigger. By 2015, for instance, Greece could not reduce its debt to a sustainable level even if it wiped out the remaining private bondholders.

How to change course

A cost-benefit analysis, in short, argues in favour of carrying out an orderly restructuring now. The debt reduction should be big enough to put afflicted economies on a sustainable path. Greece may have to halve its debt burden. Ireland's may need to be cut by up to a third, with some of this coming from writing down bank rather than sovereign debt.

All creditors, including governments and the European Central Bank, will have to chip in. New rescue money will also be needed: to fund defaulting countries' budget deficits; to help recapitalise these countries' local banks (which will suffer losses on their holdings of government bonds); and, if necessary, to recapitalise any hard-hit banks in Europe's core economies. The ECB and others should stand ready to defend Belgium, Italy and Spain if need be.

If Europe's leaders stick to plan A, the debt crisis will continue to deepen. If they get on with restructurings that are eventually inevitable, they have a fighting chance of putting the crisis behind them. Plan B will require deft technical management and political courage. Thanks to its

emerging-market expertise, the IMF has some of the former. It is up to Europe's politicians to find the latter.

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The recovery: Still patchy

American firms are hiring again, but hold the cheers

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WITH the dawn of 2011 America's recovery is officially longer-lived than the recession that preceded it. It is a recovery that seems to be strengthening, raising hopes that employers will at last develop an appetite for hiring. America remains over 7m jobs short of the previous employment peak, and figures published on January 7th showed that the economy added just 103,000 jobs in December—scarcely enough to keep up with population growth. The unemployment rate fell in that month by nearly half a point, to 9.4%, but that was mainly because so many jobless workers gave up and stopped looking.

For all the labour-market pain, some areas are experiencing a strong rebound. But it is hard to be optimistic about this particular recovery. Geographical variation is partly to blame. More than ten percentage points separate the nation's highest unemployment rate, in Nevada, from its lowest, in North Dakota, and in some regions rates are still rising. Elsewhere growth has been stronger than average, but highly concentrated. Of the million or so jobs added in 2010, two-thirds were created in just 11 states, and one—Texas—accounted for 20% of the country's net job gains.

Even within the fastest-growing states, hiring has been tightly packed in just a few cities, leaving most residents feeling glum. In California, tech-business centres such as San Jose and Orange County have led the state to net employment gains. In Texas, Austin and Dallas have

experienced disproportionate employment growth while other large cities, such as Houston, have lagged behind. A handful of metropolitan areas—Boston, Phoenix and Minneapolis among them—also account for a disproportionate share of new jobs.

The focused nature of new employment growth can be attributed in part to the fact that the recovery has been outsourced. Professional and business services accounted for a third of hiring over the year to November. Firms in these sectors handle a range of tasks, from consulting to caretaking, that might previously have been done in-house by firms in other industries. Many of these new positions are for temporary workers only. As firms increase production, they are expanding through contracts with outsourcing firms rather than permanent recruitment. This reflects the uncertain nature of recovery, but it also indicates a move towards leaner business models. Cost-control and flexibility are paramount. And one outcome is an employment shift from industry hubs to cities where business services are strong.

The result is less benefit for a given level of hiring. With job creation concentrated in just a few cities, many areas are experiencing no recovery at all. The high proportion of temporary work breeds insecurity, and people who feel their job is about to disappear may also be more reluctant to spend. Workers in positions where few skills are required also face pressure from the nearly 15m Americans still stuck without a job. In a hirer's market, there is little chance that wages will rise.

Where employment in skilled professions has increased, conditions were often pretty good to begin with. Employment growth, thanks to boom-times for lobbyists and their ilk, has reduced metro Washington, DC's, unemployment rate from 6.2% to 6%. The jobless rate in the Boston area has dropped from 8.3% to 7.4%, and in metro Minneapolis has declined from 7.2% to 6.5%.

Why have the rich got richer? Partly because fewer college-educated workers lost their jobs during the recession, so lower unemployment rates in some cities simply reflect a brainier citizenry. But Ed Glaeser, an economist, argues that clusters of clever workers themselves enhance productivity. Such clusters give firms a useful advantage in a productivity-obsessed, cost-conscious world. And in tighter labour markets, firms are more eager to snap up talent while they can. But with conditions improving for those who were never that badly affected to begin with, new hiring is less likely to lead to a surge of fresh optimism.

A manufacturing turnaround is not lifting spirits either. In some respects the Midwest's economy looks perky. Regional manufacturing output in November was up 7.9% from a year earlier, compared with 6.0% for America as a whole, according to the Chicago Federal Reserve's Midwest Manufacturing Index. The steel and car industries led the way, up 18% and 6.1% respectively, thanks to a 13% rise in vehicle sales over the year.

But an uptick in output does not augur prosperity. Rustbelt states bled jobs in the downturn. In Ohio, manufacturing employment in 2009 was 66% of its level in 2001. The situation in Michigan is even worse. Between 2001 and 2009, 44% of the state's private manufacturing jobs disappeared. Michigan's unemployment rate has dropped in recent months, thanks to the addition of 10,000 jobs in durable-goods manufacturing. But it is still 120,000 jobs short of the number

working in that sector in 2007, and nearly 400,000 jobs shy of the level in 2000. A turnaround in manufacturing has added jobs, but in places already so battered by recession that the gains scarcely register in the public mind. For now, too much of America does not feel that the recovery is real.

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Latin America's economies: Waging the currency war

Strong economies, soaring currencies and rising inflation have brought a dilemma for policymakers. Some are reaching for unorthodox tools

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HAVING quickly shaken off the world recession, many countries in Latin America are prospering again. The region's economies grew by an average of 6% last year, according to a preliminary estimate from the United Nations Economic Commission for Latin America and the Caribbean. This strong performance, linked in large part to the global commodity boom, has attracted big inflows of foreign cash. With that has come a familiar problem: the region's currencies have soared in value against the dollar (see chart), making life uncomfortable for Latin American manufacturers. They find themselves priced out of export markets or struggling to compete with cheap imports. Worried governments are launching a battery of measures to try to restrain the value of their currencies. Will they work?

This month alone Chile announced it would buy $12 billion of foreign reserves in 2011 and Brazil began requiring its banks to cover 60% of their bets against the dollar with deposits at the Central Bank that will attract no interest. Peru is buying dollars, too, and similarly extended reserve requirements for banks' sales of foreign exchange. Central banks in Mexico and Colombia are intervening to buy dollars. Chile's announcement prompted an immediate fall in the peso, and other currencies have temporarily stabilised, but there is no guarantee that these measures will be effective in the medium term.

In part, stronger currencies reflect Latin America's stronger economies. The commodity boom plays to the region's comparative advantage: China and India are gobbling up Brazilian soyabeans and iron ore, Chilean copper and Peruvian silver. Brazil and Colombia have both made big oil discoveries. These countries all have fairly sound economic policies, and their financial systems are deepening. With money cheap and returns poor in the rich world, Latin America has become a tempting destination for investors. Guido Mantega, Brazil's finance minister, has blamed the real's strength and his country's rising import bill both on loose monetary policy in the United States and China's refusal to allow the yuan to appreciate.

But this is becoming too much of a good thing. The real has appreciated by 38% against the dollar over the past two years, for example. Overall, Latin America posted a current-account surplus of 1.6% of GDP in 2006; this year it is likely to post a deficit of similar magnitude, according to the IMF. There are other signs of overheating: inflation for non-tradable products in Chile is 6.4% and Brazilian wages are increasing at double-digit rates.

Affected businesses are howling. Chile's wineries need an exchange rate of 530 pesos to the dollar (at the start of this month it was at 464) to be profitable, according to René Merino, who represents the industry. In Brazil, São Paulo's industrialists' association claims that "excessive imports" of consumer goods have led to a "dizzying process of deindustrialisation", costing 46,000 manufacturing jobs and $10 billion in lost output in the first nine months of 2010.

Uncomfortably strong currencies and overheating economies pose an excruciating dilemma for policymakers. If central bankers raise interest rates to curb inflation, they risk driving up the currency further. But if their interventions in the foreign-exchange market drive the currency down, that may boost inflation.

In Brazil overheating has been aggravated by official tardiness in withdrawing the fiscal stimulus applied during the recession. Brazil's new government has said it will curb its fiscal deficit, though many economists are sceptical as to how deep budget cuts will go. Mr Mantega now accepts that expansionary fiscal policy has helped drive up interest rates and the currency, something he previously denied.

To ease the pressure on currencies, governments are shifting some of their assets abroad. Colombia has urged Ecopetrol, its state oil company, to refrain from repatriating its international profits. Peru's Congress is considering a bill that would raise the cap on foreign investment by pension funds, from 30% to 50% of their assets. Brazil recently authorised its sovereign-wealth fund to trade currency derivatives.

They are also reaching for less orthodox tools. Brazil introduced a 2% tax on the purchase of bonds by foreigners last year, and then raised it to 6%. Colombia and Peru both tax interest payments to non-residents. Colombia is considering whether to reintroduce a measure to require foreign buyers to deposit 30% of the price of their financial investments in the country for a year at its central bank with no interest.

Measuring the effectiveness of these tools is hard, since nobody can know what the exchange rate would be in their absence. Bankers worry that they might work too well. “Be careful what you wish for,” says Marcelo Carvalho, an economist at BNP Paribas in São Paulo. “If you try too hard to scare investment away, you might succeed.” Reforms, often neglected, of taxes, infrastructure, red tape and labour laws would help manufacturers compete. Nevertheless, trying to scoop the froth from the commodity boom looks justified in the struggle to ensure more balanced long-term growth.

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