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

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## ***GENERAL ECONOMIC AND BUSINESS DEVELOPMENTS IN THE WORLD***

### **China's Hu upbeat on global economy**

President Hu Jintao tells US business leaders world is recovering from financial crisis but faces destabilising factors.

Hu Jintao, the Chinese president, has told business leaders and senior officials in the US that the world is recovering from the global financial crisis, but that it is a difficult process fraught with "unstablisng factors".

Addressing the US-China Business Council in Washington on Thursday, Hu said it was important for both China and the US to work together to help achieve a "full recovery of the world economy".

The president, who is seeking to persuade Americans that his country is an economic partner and not a threat to US interests, said co-operation between the two nations in the Asia-Pacific area is crucial.

"Our two countries have never enjoyed such broad common interests and shouldered such broad common responsibilities as they do today," Hu said.

"We will unwaveringly take the path of peaceful development."

#### *No 'military threat'*

Hu, who is on a four-day visit to the US, made the speech a day after hearing complaints about Beijing's human rights and other policies from some of China's sharpest critics in Congress.

The president said that his country had no interest in engaging in an arms race but also warned Washington to respect Beijing's sovereignty over Taiwan and Tibet.

He said that Taiwan and Tibet "concern China's sovereignty and territorial integrity and they represent China's core interests".

"A review of the history of our relations tells us that US-China relations will enjoy smooth and steady growth when the two countries handle well issues involving each other's major interests," Hu said.

"Otherwise our relations will suffer constant trouble or even tension."

Patty Culhane, Al Jazeera's correspondent in Washington, DC, reported that US CEOs have several concerns regarding China, not least of which is its currency.

"US officials believe it is deliberately undervalued, putting US companies at a disadvantage. But they have an even bigger complaint: they say that China is the fastest growing economy, they have a burgeoning middle class, and these companies want access to that market.

"These companies feel as if they are being discriminated against by China in favour of Chinese companies."

After the visit, Culhane reported that US business leaders "like what they are hearing from President Hu, but now they're saying this is talk, let's see some action".

### *Human rights on agenda*

On Wednesday, at a joint news conference with Hu, Barack Obama, the US president, had urged China to engage in talks with the Dalai Lama, Tibet's exiled spiritual leader, although he reaffirmed the US view that the Himalayan territory is part of China.

Hu acknowledged that China still needed to do "a lot" with regard to its human rights.

The US and its allies, particularly Japan, have repeatedly voiced concern about China's double-digit growth in military spending.

China reportedly tested a stealth fighter this month just as Robert Gates, the US defence secretary, was visiting the country.

Dismissing the concerns, Hu said: "We do not engage in arms races, or pose a military threat to any country. China will never seek hegemony or pursue an expansionist policy."

<http://english.aljazeera.net/news/americas/2011/01/201112019115214393.html>

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### **Sarkozy vows to protect the euro**

French president tells Davos forum he and Germany will not let the euro fail amid concern over the currency's future.

The French president has said he and his European partners will "never turn our back on the euro" as concerns continue over the shared currency's future.

Nicolas Sarkozy's remarks come as debt crises in a number of European countries including Greece, Ireland and Spain have led world leaders and investors to worry over the long-term viability of the euro.

"Whether it be [the Germany] Chancellor Merkel or myself, never, never will we turn our backs on the euro. We will never abandon the euro, we will never drop the euro," he told the World Economic Forum in Davos on Thursday.

"The disappearance of the euro would be so cataclysmic that we can't even possibly entertain the idea."

Jean-Claude Trichet, the head of the European Central Bank, added to Sarkozy's comments at the Swiss forum, insisting that the currency was not in crisis.

He said individual countries in the European Union may have debt problems, but the euro zone itself is sound, although added that "good individual behaviour" and surveillance had to be improved to ensure the economic health of the region.

Sarkozy also warned that euro countries cannot continue to "mount up staggering debts without thinking about the imbalances".

Participants at the five-day conference in the Swiss resort are holding back-to-back panels on the shared currency.

Euro zone countries have been battling to prevent the debt crisis from spreading to other economies in the bloc, after the EU and International Monetary Fund agreed loans for Greece and Ireland.

#### *Currency imbalances*

Sarkozy has also made concerns about China's low-valued currency and the dominance of the US dollar in world trade a key priority for his leadership of the G20 group of nations.

He that global currency imbalances "one of these days will bring down the whole pack of cards unless we attend to this very swiftly and very strongly".

Fear of a currency war has also crept into the debate over global trade recently, with Chen Deming, the Chinese commerce minister; Pascal Lamy, the World Trade Organisation head; and Robert Zoellick, the World Bank head, taking up the issue on Thursday.

The conference was briefly disrupted by a small explosion at a hotel, which broke windows in two windows but caused no injuries.

It occurred in a storage room of the Posthotel Morosani shortly after 0800 GMT on Thursday, regional police said. Organisers of the economic forum said cause was a firework. The incident happened on the day Sarkozy, Nick Clegg, the British deputy prime minister, and Bill Clinton, former US president, were all due to speak.

Swiss federal prosecutors said they were investigating the incident.

<http://english.aljazeera.net/news/europe/2011/01/2011127135649122490.html>

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## **Global food prices hit record high**

Problem is set to worsen after a massive snowstorm in the United States and floods in Australia.

World food prices have hit their highest level on record in January, the United Nations has said.

It said on Thursday that its Food and Agriculture Organisation Food Price Index rose for the seventh month in a row to reach 231, topping the peak of 224.1 last seen in June 2008.

It is the highest level the index has reached since records began in 1990.

"The new figures clearly show that the upward pressure on world food prices is not abating. These high prices are likely to persist in the months to come," said Abdolreza Abbassian, an economist for FAO, which is based in Rome.

Rising food prices have been cited among the driving forces behind the recent popular revolts in north Africa, including the uprising in Egypt and the toppling of Tunisia's long-time president Zine El Abidine Ben Ali.

In response, some countries are increasing food imports and have built stockpiles to meet their domestic needs.

Among them is Algeria, wary after food riots in early January. It has made huge wheat purchases to avoid shortages, and on Thursday it announced plans to lift a 19-year-old state of emergency in a bid to to avert spreading protests.

Capital Economics, a consultancy in London warned that "Even if the crisis in Egypt eases soon, the actions taken by governments elsewhere to prevent similar uprisings in their own countries will add to the upward pressure on global agricultural commodity prices."

In Central America, Honduras has frozen prices on many basic foodstuffs despite complaints from farmers.

El Salvador is increasing anti-poverty programs by 30 per cent, and Guatemala is considering slashing import tariffs on wheat and is handing out food and cash vouchers to landless peasants.

Indonesia, Southeast Asia's biggest economy, last week bought 820,000 tonnes of rice, lifting rice prices, while suspending import duties on rice, soybeans and wheat.

Robert Zoellick, World Bank President urged world leaders to "wake up" to the dangers of rising food inflation.

"We are going to be facing a broader trend of increasing commodity prices, including food commodity prices," he said.

During the last food price crisis, the World Bank estimated that some 870 million people in developing countries were hungry or malnourished. The FAO estimates that number has increased to 925 million.

The FAO data showed that prices for dairy products rose by 6.2 per cent from December, oils and fats gained 5.6 per cent, while cereals went up by 3.0 per cent because of lower global supply of wheat and maize.

### *Alarming situation*

The problem is set to worsen after a massive snowstorm in the United States and floods in Australia. And economists warned that chaos in Egypt could push prices up further and foment more unrest in the region.

Sugar prices also have surged to three-decade highs on fears of the damage that Cyclone Yasi would bring to the Australian cane crop.

Prices for Malaysian palm oil, a cooking staple in the developing world, hit 3-year highs on flooding.

Big companies have had to adjust to higher raw material costs.

Kellogg Co, the world's largest breakfast cereal company, said on Thursday that it has boosted prices on many of its products to offset rising costs for ingredients such as grains and sugar.

"Today's announcement by the Food and Agriculture Organization should ring alarm bells in capitals around the world," said Gawain Kripke, a policy and research director for Oxfam America, an international development group.

"Governments must avoid repeating the mistakes of the past when countries reacted to spiraling prices by banning exports and hoarding food. This will only make the situation worse and it is the world's poorest people who will pay the price," he said.

Janis Huebner, economist at Germany's DekaBank said inflation partly fuelled by increasing food prices could in turn trigger interest rate rises in several countries this year.

"This could mean a slowing down of growth in the countries which raise their interest rates," he said.

The report showed that Somalia and Uganda have been particularly hard hit in Africa and that the ongoing unrest in Ivory Coast has helped push up prices in West Africa as a whole because of its status as a key transport hub.

But the most dramatic rises were seen in Asia, with a surge in prices across the board in India due to "unseasonal rains" during the harvest season "which resulted in severe damage to the summer crop and supply shortages," FAO said.

Josette Sheeran, the UN World Food Programme's executive director said that the world is now in an era where it has to be very serious about food supply.

"If people don't have enough to eat they only have three options: they can revolt, they can migrate or they can die. We need a better action plan," she said.

<http://english.aljazeera.net/news/2011/02/20112442413591195.html>

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### **Davos meeting ends with sense of cautious optimism**

Davos, Switzerland: The annual meeting of the 41st World Economic Forum (WEF) ended on Sunday in the Swiss Alpine ski resort of Davos with a sense of cautious optimism.

Over the past five days, more than 2,500 participants including world leaders, government officials, business executives, academics, civil society figures and media had wide-ranging discussions on such issues as global economic recovery, global risks and the Doha Round of global trade talks, under the theme of "Shared Norms for a New Reality."

Participants generally agree that the global economy is rebounding, led by developing economies including China and India -- the major driving forces for global economic recovery, with developed countries growing much more slowly.

The global economy is on a clear track of recovery, said Wei Jiafu, group president and CEO of the China Ocean Shipping Group Co., who is also one of the co-chairs of this year's WEF Annual Meeting.

The global recovery is continuing at a fairly good pace, and risks of a double dip are now much lower than six months ago, Nariman Behravesh, chief economist of the IHS Global Insight, told Xinhua in an exclusive interview.

According to the PwC's 14th Annual Global CEO Survey published just before the WEF meeting, the CEOs' confidence in future growth has returned to nearly pre-crisis levels.

While the recovery is gaining pace, political and business leaders also agree that significant challenges remain for all economies.



Problems of sovereign debt and government budget deficits in developed countries are expected to linger for some time, despite European political leaders' firm determination to solve these them.

"European leaders have taken on the 'Herculean task to adopt all of these changes' in response to the sovereign debt crisis," said Jacob Wallenberg, chairman of Sweden's Investor AB.

French President Nicolas Sarkozy said in Davos that France and Germany would never allow the euro to collapse and warned currency operators that they would be taking huge risks if they speculated against it.

Inflation, commodity and food price hikes in particular, a big problem hanging over prospects of global economic recovery, with emerging markets bearing the brunt.

"Research and development for the agricultural industry is very important," said Yorihiro Kojima, chairman of Japan's Mitsubishi Corporation.

Over 20 WTO trade ministers representing major members of the World Trade Organization (WTO), and WTO Director General Pascal Lamy met Saturday on the sidelines of the WEF meeting, agreeing to finish the long-stalled Doha Round of global trade talks within this year.

"The exchanges between ministers showed their willingness to work toward a comprehensive and balanced conclusion of the Doha Round," they said in a statement.

Lamy acknowledged that the following negotiations would not be easy, calling on all members to show flexibility.

China attracted even greater attention this year, with the spotlight on its participation in global trade, as this year marks the 10th anniversary of China's accession into the the WTO.

China's Minister of Commerce Chen Deming described China's decision to join the WTO as a "courageous and tough choice," but said it was "the right choice." He also said China would do its best to see the WTO's difficult Doha Round through to a successful conclusion.

According to officials with the WEF, the Davos Annual Meeting provides a "rethinking of our systems" and exploration of strategies and solutions that have positive transformational implications.

[http://news.xinhuanet.com/english2010/business/2011-01/31/c\\_13714733.htm](http://news.xinhuanet.com/english2010/business/2011-01/31/c_13714733.htm)

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## **Merkel says Germany will never abandon euro**

DAVOS, Switzerland: German Chancellor Angela Merkel on Friday rejected the assumption that the euro is facing a crisis and stated strong resolution to defending the currency.

"We will never abandon the euro," Merkel said at the World Economic Forum. "Let me once again make it clear that the euro is our currency, the euro spells Europe. The euro is Europe. Therefore we will never let the euro go or be destroyed."

Merkel said the euro-zone countries do have debt problems, but that it is a debt crisis, not a euro crisis.

She pointed out that, in order to overcome the current crisis, the euro-zone countries should work together, not only to enhance their economic competitiveness, but also to strengthen the coordination of political and economic policy.

Merkel pointed out Germany's economic experience as an example and suggested that fiscal consolidation and economic growth can be achieved simultaneously.

When French President Nicolas Sarkozy spoke at the forum Thursday, he also repeated his support for the euro. He stressed that the EU countries will work hard to maintain the euro status as an international currency. He also warned the speculators who bet against the euro should watch out for their money.

[http://news.xinhuanet.com/english2010/business/2011-01/29/c\\_13712743.htm](http://news.xinhuanet.com/english2010/business/2011-01/29/c_13712743.htm)

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## **UN chief urges "revolution" to achieve sustainable growth**

DAVOS, Switzerland: A "revolution" is urgently needed in thinking and policy to bring about sustainable economic growth that can both protect the environment and raise living standards, the UN chief said on Friday.

"We need a revolution. We need revolutionary change, revolutionary action. We need a free market revolution for global sustainability," UN Secretary-General Ban Ki-moon said in an address to the 41st annual meeting of the World Economic Forum (WEF).

For this to happen, change must come across the board, including to the way people live, the way they organize socially and the way politics are conducted. But most of all, it needs fast and decisive action on climate change to slow global warming, he said.

"The days of consumption without thought are over," Ban warned. "Climate change is rendering the old model obsolete."

Developing a sustainable growth agenda has become "the agenda for the 21st century," he said.

Finland's President Tarja Halonen, a co-chair of the UN High-Level Panel on Global Sustainability, called for an approach that combined growth with social justice and environmental sustainability.

"We need a modern trinity," she said, referring to the three policy goals.

Indonesian President Susilo Bambang Yudhoyono declared that his government is committed to policies that balance growth and environmental protection.

Echoing the words of Ban, he said: "We should not make a contradiction between growth and the need to protect the environment."

For Mexican President Felipe Calderon, the situation also presents huge opportunities.

"If you are able to produce more, using less (energy), that will be good for the planet," he said.

[http://news.xinhuanet.com/english2010/business/2011-01/29/c\\_13712478.htm](http://news.xinhuanet.com/english2010/business/2011-01/29/c_13712478.htm)

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### **WTO chief urges leaders to be prepared for final showdown over Doha talks**

DAVOS, Switzerland: Leaders of WTO member economies need to be prepared for the "gives and takes" to end the decade-long Doha round talks, a crucial stage that might come very soon, WTO Director-General Pascal Lamy said on Friday.

Speaking at an interactive session of the World Economic Forum annual meeting, Lamy said the leaders need to spend political capital and energy at home in order to offset the inevitable resistances created from the final trade-offs.

"Your constituencies love to take, they don't like to give," Lamy said. "We need you within your political legitimacy to make necessary decisions."

On the same occasion, Lamy's predecessor and Goldman Sachs Chairman Peter Sutherland urged direct involvement from top decision-makers in pushing forward the stalled talks.

"The only chance that we have to conclude the round now, is for the heads of government to become directly engaged in the process to conclude the negotiations," Sutherland said, frustrated at previous G20 and G8 meetings, which he regarded as having produced no more than "statements of general intent."

Presenting a collaborated report outlining the Doha Round negotiations, Sutherland talked about the need to draw a deadline on the prolonged talks.

"We've suggested in this report that there should be a deadline placed on the conclusion of the round," he said, claiming the end-game should be taking place "in the month immediately preceding December 2011."

Sutherland said if the round is not concluded by the end of this year, it will fall into a situation which makes it difficult to see a conclusion for some substantial period, as the United States will be into the electoral cycle afterward.

Meanwhile, European leaders are outspoken about their zeal for an end-game.

British Prime Minister David Cameron talked firmly about finishing the job in 2011. "This has to be the year, in which it happens," he said. "We can not go on after a decade with another year, so there is no later."

Cameron's German counterpart, Angela Merkel, expressed similar ambition, but called for attention to mind the gap between the rich and poor countries.

She said the rate at which emerging economies were growing had to be considered when concluding the Doha Round. "We have to look at the sheer speed of development in the emerging economies and this dynamism has to be factored in," she said.

The WEF meeting is offering plenty of discussions on the Doha Round this year. Apart from heads of state, dozens of commerce or trade ministers also took floor.

On Friday, Australia, Brazil, China, the European Union, India, Japan and the United States held their meeting at the proposal of the EU. Switzerland will host a mini-ministerial meeting Saturday, gathering 26 ministers with an intention to inject new dynamics into the Doha Round.

[http://news.xinhuanet.com/english2010/business/2011-01/29/c\\_13712468.htm](http://news.xinhuanet.com/english2010/business/2011-01/29/c_13712468.htm)

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### **OECD annual inflation rate up to 2.1% on higher energy prices**

PARIS: Member countries of the Organization for Economic Cooperation and Development (OECD) recorded a comprehensive increase of consumer prices by 2.1 percent in the year to December 2010, the Paris-based agency said on Tuesday.

The inflation rate picked up from 1.8 percent in November, mainly driven by higher energy prices which increased by 8.3 percent in the year to December, compared with a 5.4 percent upward trend in November, the OECD said in a monthly report.

Besides, food prices continued its climbing current at a rate of 2.6 percent in December, slower than a 2.7-percent increase in November.

Excluding food and energy, consumer prices for OECD area as a whole rose by 1.2 percent in December, unchanged from November.

For G7 countries, only Japan registered a stable consumer prices in the year to 2010 December, while the United Kingdom's rate climbed up to 3.7 percent, the highest figure compared with 2.4 percent in Canada, 1.9 percent in Italy, 1.8 percent in France, 1.7 percent in Germany and 1.5 percent in the United States.

With respect to the overall euro area, its annual inflation rose 2.2 percent up from 1.9 percent in November, according to the OECD report.

Month-on-monthly, the change of consumer prices in the OECD area was not so prominent as the rate was only 0.3 percent in December against the level in November.

[http://news.xinhuanet.com/english2010/business/2011-02/01/c\\_13716421.htm](http://news.xinhuanet.com/english2010/business/2011-02/01/c_13716421.htm)

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### **International cooperation essential to global recovery: IMF chief**

WASHINGTON: The ongoing world recovery is beset by "tensions and strains" and needs global cooperation to ensure the sustainable growth, said Dominique Strauss-Kahn, Managing Director of the International Monetary Fund on Tuesday.

"Growth is recovering across the world," Strauss-Kahn said in a written speech released by the IMF, but "it is a recovery beset by tensions and strains--which could even sow the seeds of the next crisis."

According to the IMF's latest forecast released last week, global growth in 2011 will reach 4.5 percent. This is higher than the average over the last decade.

The IMF chief said that he saw two dangerous imbalances.

"First, the recovery is unbalanced across countries. While growth remains below potential in the advanced economies, emerging and developing economies are growing much faster--and some may soon be overheating."

"Second, the recovery is unbalanced within countries. Global unemployment remains at record highs, with widening income inequality adding to social strains."

In order to ensure the "sustainable recovery", Strauss-Kahn suggested that the advanced economies need to promote growth and job creation through structural reforms.

Besides, restoring fiscal sustainability is another top priority for the advanced economies.

"The average public debt to GDP ratio is set to exceed 100 percent of GDP this year--and will rise even higher in the absence of medium term adjustment. This could have worrying implications for global growth and even for financial market stability," he said.

For the emerging economies, Strauss-Kahn warned that there are risks of overheating, and even a hard landing.

"This means that macroeconomic policies should be tightened in countries where output gaps have nearly closed, or have in fact already closed. In Asia, recent rate actions were the right decision--though more may be needed," he said.

He noted that there no easy solutions to the challenges that the world economy is facing in the new phase of recovery. He called for global cooperation to build a "stronger, fairer and ultimately more successful global economy."

[http://news.xinhuanet.com/english2010/business/2011-02/02/c\\_13716583.htm](http://news.xinhuanet.com/english2010/business/2011-02/02/c_13716583.htm)

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### **IMF chief highlights fear of rising unemployment around world**

SINGAPORE: International Monetary Fund (IMF) Managing Director Dominique Strauss-Kahn has sounded alarm over fear of rising unemployment around the world.

The IMF chief said some 30 million jobs were lost during the financial crisis, but it was a small figure compared with the 400 million jobs the world has to provide to young people, the Straits Times reported Wednesday.

Strauss-Kahn was in Singapore Tuesday for a speech hosted by the Monetary Authority of Singapore, before traveling to Indonesia on Wednesday.

He said that Asian economies may need to raise interest rates and slow the rise of property prices and money inflow from Western countries, and that while Asian central banks have been raising interest rates to deal with inflation, "more may be needed."

Asian economies were at risk of overheating as rising prices threatened to derail the strong growth in the region, the IMF chief said.

"The risk of overheating is certainly a strong one, which means many countries should be tightening where output gaps have been closed, or will be closed," he said.

Easy monetary policies adopted in the West to boost consumption has led to huge fund inflow into Asian emerging economies that have led the global economic recovery. Inflation pressures were obvious in countries such as India, China, Indonesia and Singapore. Indonesia and South Korea have announced capital control measures recently.

The IMF chief also admitted that the international organization got it wrong in Indonesian during the Asian financial crisis in the late 1990s.

"Were we totally wrong more than ten years ago? I don't think so. Not totally. Were we wrong in many respects? Yes, we were. We were because at this time, the idea that the role of the IMF could be the same everywhere, the one-size-fits-all policy, was strong," he said. "But we learnt a lot from this crisis."

[http://news.xinhuanet.com/english2010/business/2011-02/02/c\\_13717162.htm](http://news.xinhuanet.com/english2010/business/2011-02/02/c_13717162.htm)

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## **ECB holds key interest rates unchanged at historic low**

BERLIN: The European Central Bank (ECB) left its benchmark interest rate untouched at a historic low of 1 percent Thursday, as market saw mounting inflation pressure in the eurozone economy.

The ECB also kept the marginal lending rate and the deposit rate unchanged at 1.75 percent and 0.25 percent separately.

In December, the eurozone's annual inflation reached 2.2 percent, above the bank's target of close to but below 2.0 percent. The prices seemed to keep on rising at the beginning of 2011. Experts forecast that the inflation rate would climb to 2.4 percent in January.

Markets are waiting to see how long the ECB will hold its low-rate policy that has not changed since May 2009 and might trigger further rise in prices.

During last monthly meeting on Jan. 13, ECB President Jean-Claude Trichet told reporter that they have noticed "short-term upward pressure on overall inflation, mainly owing to energy prices", but it has affected the bank's assessment that current rate is appropriate for keeping price stability.

All eyes now turned to the news conference later Thursday, in which Trichet is due to explain the bank's monetary policy and comment on current situation and future direction of the eurozone economy.

[http://news.xinhuanet.com/english2010/business/2011-02/03/c\\_13718449.htm](http://news.xinhuanet.com/english2010/business/2011-02/03/c_13718449.htm)

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## **Emerging markets strive to curb inflation, but result still uncertain: economist**

LONDON: The emerging markets have started taking measures to combat inflation which has become a serious problem for them so far, but uncertainties still exist on whether these policies will be successful, said Stephen King, chief economist of HSBC.

"The big question for 2011 is whether they can change policies in such a way that will eventually bring inflation back under control," King said in a recent interview with Xinhua.

King named the measures taken by most emerging nations, including raising reserve requirements for banks, lifting interest rates, controlling capital and preventing hot money from flowing in, as a set of "quantitative tightening" measures, the opposite of "quantitative easing" in the developed countries.

"These are 'experimental policies' because we have never seen a world economy going through this process of quantitative easing and quantitative tightening," King said.

King underlined policy takes quite a long time to feed through. "You can't bring inflation down immediately. But you can do something that will perhaps alter the longer term course of inflation," King added.

He also added part of the reason for changing policy is to signal investors that the central bank policymakers mean business, which is hopefully to control people's expectations about where inflation is heading, "because one of the biggest problems with inflation is if people expect more and more of it, the danger of real inflation will grow."

As for the main causes of this round of rising momentum of inflation in the emerging economies, King attributed it mainly to the strong growth in the emerging world and low interest rates in the developed world, as well as the unintended consequences of the latter's "quantitative easing" measures.

"People today can borrow very cheaply in dollars, euros or Stirling and then reinvest the money in other parts of the world that are growing very quickly and appear to have much better long-term growth prospects. The emerging world is the biggest recipient of this," King explained.

As for China, who is trying to curb the inflation through a mixture of reserve ratio changes and increased interest rates, King said the critical thing to watch in the country is the growth of "money supply."

"If money supply remains quite strong, then that will be a worry. If it starts to slow down, it would be the first indication that perhaps the changes in policy are going to reduce domestic liquidity which in turn will lead to lower inflation," King said.

King also pointed out that the importance of policy changes for China cannot be over emphasized, as China should balance well between two issues in terms of big-picture economics --- improving people's living standard on average and controlling the rise in income inequality, which, if not handled well, can cause "political and social instability."

"For 2011 we are reasonably optimistic of the slowdown being not too much. The forecast we have of China's growth this year is a little less than 9 percent, which is actually a pretty low growth rate by Chinese standards," King said.

[http://news.xinhuanet.com/english2010/indepth/2011-02/09/c\\_13724076.htm](http://news.xinhuanet.com/english2010/indepth/2011-02/09/c_13724076.htm)

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### **Paris and Berlin write new rules for European Union**

France and Germany are preparing to submit a joint plan of economic governance in the Eurozone. This is expected to happen this Friday at the next EU summit in Brussels, but will be discussed in an informal setting. The so-called pact of competitiveness suggests the introduction of a single currency policy among the countries of the union. The information was reported by the British newspaper Financial Times citing a senior source



in Berlin. Originally the idea was to reinforce the French concept of a coherent policy in the Eurozone, rather than across the EU.

Now the proponents do not mind joining the pact of the EU countries that have their own national currencies, and Germany, according to media reports, would have to make some major concessions.

What these concessions will be is unclear now because the key points of this plan have not been made public yet. It is not ruled out that we are talking about allocation of the additional funds by Germany. In order to prevent possible defaults in the past year, the European Fund for the financial stability has been created with 750 billion Euros.

According to all the calculations, these funds will not be sufficient, but the German leadership views all proposals to provide additional means for the stabilization fund with hostility. Berlin is now concerned with the program that will allow Germany to get rid of its own structural deficiencies. What kind of dividends will make Berlin fork out for their EU partners?

It was proposed to transfer previously sovereign decisions of the EU countries in the field of economic and social policies to the competency of the center. The supporters of this position are guided by the following logic: the problem of the Euro does exist, but it is caused not by the weakness of the currency but the debt crises of the individual members of the Eurozone countries.

The artillery preparation is already underway, and it makes sense to see what exactly the parties concerned are targeting. In particular, the German foreign minister Guido Westerwelle proposed legislation to limit the maximum size of the national debt for the countries using the single European currency.

Westerwelle insisted on sanctions against members of the Eurozone that violate standards for the level of public debt, budget deficits and inflationary indicators. He believes that universalization of pension legislation is another important measure.

Some steps towards the reduction of the sovereign economic freedoms of the EU's leaders have been made in September of last year, when an agreement was reached on the "European semester", that is, the approval by Brussels of the draft budgets of the countries members of the Union.

In all likelihood, some common fiscal mechanisms will be identified in order to eliminate tax damping.

The Brussels bureaucracy is a natural ally of making this plan the reality. European nomenclature is ready to assume control over the implementation of this pact provided there is an agreement on key points.

However, are Paris and Berlin ready to give control levers for the economic policy to the European Commission or is this a new informal division of Europe between the most powerful economic players in the region?

The situation becomes particularly interesting when you consider the fact that apart from France, Germany and habitually distant London (which opposes Paris, insisting on the need for macro-economic deregulation in the EU), European economic affairs have one more player. This player is China that buys debt securities of the distressed Eurozone countries - Greece, Spain, and Portugal, as well as technology and physical assets. The main buyer of the debt is the European Central Bank.

[http://english.pravda.ru/business/finance/04-02-2011/116784-paris\\_berlin-0/](http://english.pravda.ru/business/finance/04-02-2011/116784-paris_berlin-0/)

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### **China overtakes U.S. as biggest economy?**

BEIJING: Though China is yet to release its annual economic data, a U.S. economist has already crowned China as the world's biggest economy in terms of purchasing power parity (PPP).

The "generous" No. 1 title given by Arvind Subramanian, senior fellow at the Peterson Institute for International Economics in Washington, has drawn suspicion from Chinese scholars, who say such remarks are "pure fiction."

Chen Fengying, director of the World Economy Institute of China's Institute of Contemporary International Relations, said the title was an honor unfit for China.

The size of China's economy in 2010 was 14.8 trillion U.S. dollars, compared with 14.6 trillion U.S. dollars for the United States, when accounting for the countries' differing costs of living, Subramanian wrote in a note published on Jan. 13, a week before President Hu Jintao visits Washington.

Purchasing power parity calculates gross domestic product (GDP) using exchange rates and takes into account price differences of the same goods between nations.

However, statistics from the International Monetary Fund (IMF) and the World Bank (WB) tell another story to that of Subramanian's.

The IMF, for instance, estimates gross domestic product, in PPP terms, in the United States was about 14.6 trillion U.S. dollars in 2010, while China's was 10.1 trillion U.S. dollars. The World Bank estimates a similar gap.

That's why David Leonhardt, an economics journalist with the New York Times, said on Jan. 14 in his article "On the size of China's Economy, a dissenter" that "I was careful to say that, by most measures, the United States still has by far the largest economy in the world."

Ranjit Lall, the Financial Times' 2010 Peter Martin Fellow and also a senior statistician, said on Jan. 14 in his article "Has China already overtaken the U.S.?" that "one might wonder, if this were the case, why Chinese policymakers have made no effort whatsoever to correct the IMF's statisticians."

Subramanian argued that China raised no concerns about the IMF's price data because a revision would lead to more pressure on China to appreciate its currency against the dollar, according to the article.

Theoretically, the PPP model has flaws, such as it takes traded goods into consideration while omitting non-traded ones, it neglects the influence of trade costs and trade barriers, and it overlooks the impact of international capital flow on exchange rate, analysts say.

By framing China as the world economic bellwether, Subramanian aims to cook up an excuse to add pressure on Beijing for currency appreciation, said Yuan Gangming, research fellow with the Institute of Economics of the Chinese Academy of Social Sciences (CASS).

Subramanian's conclusion is far from scientific and his claim "highly overestimates the Chinese Yuan purchasing power," said Chen Fengying.

No wonder, David Leonhardt said Arvind Subramanian "remains very much in the minority."

"Even if China's economy surpasses the U.S. by economic scale one day, in terms of total economic scale, there is a long way to go before China becomes as strong as the U.S.," Chen said.

Concerning GDP per capita, IMF figures show that the average American is six times better off than the average Chinese person, however Subramanian thinks the difference is only four times, according to Ranjit Lall's article.

Subramanian's conclusion aims to make China bear responsibilities far beyond its ability, Chen said.

Chen also downplayed a poll by the Washington-based Pew Research Center for the People and the Press, which revealed last week some 47 percent surveyed Americans said China is the leading economic power with 31 percent naming the U.S., saying that the majority of Americans do not know China in depth, and their judgments are still influenced by both countries' performances during the global economic downturn.

[http://news.xinhuanet.com/english2010/business/2011-01/19/c\\_13698161.htm](http://news.xinhuanet.com/english2010/business/2011-01/19/c_13698161.htm)

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## *GLOBAL BANKING & FINANCE*

### **US senators for tough stand on yuan**

Call echoes previous moves to pressure China to stop what they see as currency "manipulation".

US senators have pressed Congress to get tough on China over what it sees as its continued policy of "manipulating" its currency, ahead of a scheduled visit to Washington by President Hu Jintao.

The latest sparring over the yuan (RMB) underlines tensions over trade before Hu arrives in Washington on Tuesday for talks expected to focus on a host of sensitive issues, from rebalancing the global economy to dealing with North Korea.

On Monday, a group of senators, held talks over a proposed bill to pressure China on the yuan.

They said it was vital for the US to pass legislation to punish China if it fails to allow its currency to rise in value rather than manage the rate, giving it an unfair advantage in global trade.

"There's no bigger step we can take to preserve the American dream and promote job creation, particularly in the manufacturing sector ... than to confront China's manipulation of its currency," Charles Schumer, a Democratic senator, said on Monday.

The message to Hu is "we are fed up with your government's intransigence on currency manipulation. If you refuse to play by the same rules, we will force you to do so."

Any significant progress in Congress on passing a currency bill, however, may prove difficult given the White House preference to negotiate and Republican leaders who have voted against it in the past.

Both the Senate and the House of Representatives would have to approve the bill, and Obama sign it, for it to become law.

Congressional supporters claim wide support for the measure, but previous efforts to pass currency legislation directed at China have failed over concerns it could trigger retaliation by Beijing, the biggest foreign holder of US government debt.

According to analysts, Hu's visit to Washington is the most important by a Chinese leader in 30 years given China's growing military and diplomatic clout and its emergence as the world's second largest economy after the United States.

In a written interview with *The Washington Post* and *The Wall Street Journal*, Hu responded to US criticism by saying the country had taken steps toward a more flexible exchange rate policy and appeared to reject arguments that Beijing should let its currency appreciate faster to help rein in domestic inflationary pressure.

The yuan has risen nearly 3.5 per cent against the dollar since Beijing ended its peg to the dollar in June, much less than demanded by critics in the United States.

US concerns over China's huge trade surplus, a high US unemployment rate and Obama's goal to double exports - which could be fostered by a stronger yuan - indicate anger over the yuan is likely to linger long after Hu's visit.

<http://english.aljazeera.net/business/2011/01/201111883325583820.html>

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### *INTERNATIONAL TRADE*

#### **China's defense copy machine eyes Europe instead of Russia**

The European Union may lift the embargo on arms deliveries to China. The embargo was put in effect in 1989, after the bloody suppression of youth protests on Beijing's Tiananmen Square. EU High Representative Catherine Ashton is one of the ardent supporters of the intention to lift the arms shipments embargo, AFP reports.

It seems that there are no prerequisites for lifting the embargo on China. The Asian giant has not learned to respect democratic values in the Western perception of this term. So what is the reason for such a drastic change?

The chairman of the Department for the European Security of the Institute for Europe, Dmitry Danilov, told Pravda.Ru that the issue of defense cooperation with China had been on the agenda of the European Union for years.

"They conduct negotiations on the subject. A considerable part of the EU leadership would like to lift the embargo on China. However, the wish runs into Europe's position about violations of human rights in China. The problem is that one should win the support of all European leaders for that. Some of them believe, though, that human rights should stay the first priority for the European Union.

"A crisis is a good time to make things move. Many Europeans believe that political decisions must be based on material and pragmatic interests. One should pay attention to the fact that the EU is developing a new tool - the European External Action Service. The service is said to play a serious role in elaborating foreign political approaches of the European Union. A positive decision of the issue regarding the arms embargo would be an important approbation for the new service.

"It became clear during the recent years that China was growing into one of Europe's most important trade partners. There are economists who say that China is becoming the third largest commercial partner for Europe, after the USA and Russia. Many in Europe realize that they need to conduct a constructive dialogue with China, taking into consideration the fact that the USA, the "stronghold of world democracy", develops its ties with China very actively.

"Europe has not been able to develop defense cooperation with America on equal terms. The Americans consider European arms makers only as subcontractors. One should also bear in mind the fact business structures, including arms makers, lobby their interests through politicians. The competition on the arms market is tight, and the Europeans would not mind establishing firm positions in China. It will be a hard nut to crack for them because they have not been on the Chinese market for over 20 years. Choosing between economic interests and human rights, Europe chose the latter back then. In addition, European arms are more expensive than both Russian and American analogues.

"However, resuming defense cooperation with China is an extremely important political decision for developing economic cooperation with the European Union in the future," the expert concluded.

In other words, Russia will soon have to deal with tough competition on the Chinese market, where Russia was making billions of profit. Russia is losing this market speedily. China is no longer interested in the products of the Russian defense industry because it does not offer anything new. The Chinese have purchased and copied everything that they wanted.

A recent article published in Kanwa Asian Defence said that China would soon refuse from large purchases of arms from Russia and concentrate on acquiring only heavy military cargo planes and S-400 missile systems.

China currently needs qualitatively new arms systems. It is possible to achieve this goal through the synthesis of best Russian and European developments. China obviously plans to use Europe just like it used Russia - to purchase and copy everything that they need. As soon as China studies the issue in detail, the volume of defense cooperation between China and the European Union will drop considerably.

Europe is now prepared to develop defense cooperation with China because there is no other country, as it seems, that could help the EU economy. China is ready to help Spain and other economically troubled European countries, but Europe has to lift discriminating sanctions in return.

[http://english.pravda.ru/world/asia/01-02-2011/116729-china\\_europe-0/](http://english.pravda.ru/world/asia/01-02-2011/116729-china_europe-0/)

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## **U.S. and Russia Activate an Arms Control Treaty**

MUNICH — The United States and Russia on Saturday exchanged documents that formally activated New Start, a strategic arms control treaty. It was the final step in a protracted negotiation marked by difficult talks with the Russians and even more difficult talks with Republican holdouts in the Senate.

Secretary of State Hillary Rodham Clinton and her counterpart, Foreign Minister Sergey V. Lavrov, traded so-called instruments of ratification — paperwork that brings the treaty into force and starts the clock ticking on verification and inspection procedures for the two sides' nuclear arsenals.

Mrs. Clinton, speaking at a security conference here where she and Mr. Lavrov conducted the brief ceremony, said the treaty was an example of “clear-eyed cooperation that is in everybody's interests.”

She said that she and Mr. Lavrov had discussed further arms control initiatives, including a pact to reduce stockpiles of tactical nuclear weapons, as well as one that would scrap long-range warheads stored in warehouses.

And Mrs. Clinton promoted the idea of cooperation in a missile-defense system for Europe, noting that last fall in Lisbon, Portugal, President Dmitri A. Medvedev of Russia embraced the idea of working with the United States on the technology. Russia had long opposed American missile-defense plans, arguing that they were aimed at weakening its defenses.

New Start cuts the number of deployed strategic warheads to 1,550, and the number of launchers and heavy bombers to 800. Within 45 days, the United States and Russia must share details on the number, location and technical characteristics of their arsenals. Sixty days from now, inspectors will be permitted to investigate the nuclear sites of the other country.

For President Obama, Saturday's ceremony fulfilled one of his signature policies, curbing the proliferation of nuclear weapons. But it also illustrated the political hurdles to achieving even a modest arms control treaty.

Mr. Obama signed the treaty in April 2010 with Mr. Medvedev, but it took nearly 8 months for the agreement to be approved by the United States Senate, where Senator Jon Kyl, an Arizona Republican, held up approval because of concerns about financing for nuclear research.

Its prospects looked grim late last year, with several senators saying they did not want to vote on it during a lame-duck session, and with a slimmer Democratic majority coming into office in January.

But after an intense lobbying campaign by Mr. Obama, Mrs. Clinton and Vice President Joseph R. Biden Jr., the treaty was passed just before Christmas. The Duma, the upper chamber of the Russian Parliament, voted to approve the treaty a month later.

In addition to the ratification of New Start on Saturday, the so-called quartet — a group that deals with the Middle East consisting of the United States, Russia, the European Union and the United Nations — convened. This meeting was intended to reaffirm support for the Israeli-Palestinian peace process, even amid the turmoil in Egypt and the Arab world.

The United States was reluctant to hold the meeting, a senior Western diplomat said, but the Europeans, in particular, wanted to make the point that change in the Middle East was a new opportunity for peace and that stagnation between Israel and Palestine was a bad signal.

“Our analysis is, because of the events in Egypt, we must react and send a signal the peace process is alive,” the European diplomat said. Another quartet meeting will follow in the next month, he said.

Mrs. Clinton deflected a question about how the turmoil in Egypt and other Arab countries would affect Israel or the peace process. In its eagerness to avoid the issue, the administration lined up with Turkey. Ahmet Davutoglu, the Turkish foreign minister, said: “It is better not to talk about Israel-Palestine now. It is better to separate these issues.”

[http://www.nytimes.com/2011/02/06/world/europe/06start.html?\\_r=1&ref=russia](http://www.nytimes.com/2011/02/06/world/europe/06start.html?_r=1&ref=russia)

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## ***WORLD ECONOMIES***

### **US financial crisis was 'avoidable': Report says**

Congressional commission releases report saying 2008 meltdown could have been prevented.

Wall Street executives, US regulatory agencies and the US Federal Reserve are all being blamed in a new report into the causes of the 2008 financial meltdown. The country's presidential commission also concluded the financial meltdown could have been avoided altogether.

But even as it wraps up its two year inquiry, the 10-member panel remains sharply divided over the causes. The report reflects the views of six Democrats, while the four Republicans have written dissenting opinions. It also lays much of the blame on what it says are the "reckless" practices of financial firms like Fannie Mae, AIG and Bear Stearns. It says poor controls led to excessive borrowing and risky investments on mortgages. It also faults



"weak" government regulators like the Securities and Exchange Commission and US Central Bank for failing to rein in the banks they supervised.

Singled out is Alan Greenspan, the former Federal Reserve chairman, for backing deregulation practices that accelerated the sub-prime mortgage crisis.

Lobbyists are also being heavily blamed.

<http://english.aljazeera.net/business/2011/01/201112720321769863.html>

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### **Obama address focuses on economy**

President calls for investment in green energy and technological innovation as part of effort to boost growth in the US. The US president has been focusing on jobs and the economy as he addressed the public in his annual State of the Union speech.

In his first such address since his Democrat party lost the majority in Congress, Barack Obama said that what matters is creating jobs, not who wins the next election. "At stake right now is not who wins the next election - after all, we just had an election. At stake is whether new jobs and industries take root in this country, or somewhere else," he said on Tuesday.

He pledged investments in green energy and to stop subsidising "yesterday's energy".

"With more research and incentives, we can break our dependence on oil with biofuels, and become the first country to have one million electric vehicles on the road by 2015," Obama said.

"I don't know if you've noticed, but they're doing just fine on their own. So instead of subsidising yesterday's energy, let's invest in tomorrow's."

Obama also encouraged innovation, saying no one can foresee where the next big industry will be. "What America does better than anyone is to spark the imagination of our people ... In America, innovation ... is how we make our living," he said.

### *America 'underperforming'*

Speaking to Al Jazeera, Steve Clemons, of the New America Foundation, said Obama was highlighting that while the US was big and powerful "we are underperforming as a nation".

"We are well-branded, but China and India are the Googles and Facebooks of countries," he said.

"These are the countries that have moved the needle up in terms of the quality of their intellectual capital, and we are in competition with them."

Obama also vowed to invest in infrastructure, including giving 80 per cent of residents access to high-speed rail within 25 years. He also called for lower corporate taxes, to remove an "unnecessary burden" on companies while making it more difficult to escape paying taxes. "I'm asking Democrats and Republicans to simplify the system. Get rid of the loopholes. Level the playing field. And use the savings to lower the corporate tax rate for the first time in 25 years - without adding to our deficit."

### *Partial spending freeze*

Addressing the country's huge budget deficit, Obama proposed a five-year freeze in non-security discretionary spending. "I am proposing that starting this year, we freeze annual domestic spending for the next five years. This would reduce the deficit by more than \$400bn over the next decade, and will bring discretionary spending to the lowest share of our economy since Dwight Eisenhower was president," he said.

Obama has previously proposed a three-year freeze on such spending, starting with the 2011 budget. The freeze would impact spending negotiated by the president and congress each year, and not include mandatory programmes the government is legally bound to finance, such as social security retirement payments.

Discretionary spending, excluding money for security, accounts for just 13 per cent of the \$3.7 trillion federal budget.

On foreign policy, Obama repeated his plan to begin bringing US troops home from Afghanistan in July. "There will be tough fighting ahead, and the Afghan government will need to deliver better governance. But we are strengthening the capacity of the Afghan people and building an enduring partnership with them," he said.

For Al-Qaeda in the Arabian Peninsula and elsewhere, he said the message was clear: "We will not relent, we will not waver, and we will defeat you".

Sue Turton, Al Jazeera's Afghanistan correspondent, said Obama called the conflict "America's longest war, yet spent 30 seconds on it [in his speech]".

### *Republicans critical*

Pledges of new investment to spur job growth are likely to anger the Republican opposition, which has been calling for drastic cuts in government spending. Setting the stage for the Republican arguments, the House voted on Tuesday to approve a non-binding resolution calling for a return to 2008 spending levels.

Nearly 20 Democrats sided with Republicans as legislators voted 256-165 in favour of the measure. There were two Republican responses to Obama's address - an official one by Paul Ryan, the House budget chief, and one by Michele Bachmann of the "Tea Party".

However, public reaction to Obama's speech was decidedly mixed.

Sameyha Mirza, an entrepreneur, told Al Jazeera: "It [the president's speech] was extremely optimistic and inspirational, the key word was 'reinvent'." However, Johnathan Will-Banks, from the University of Southern California, said: "There was a lot of talking without actually saying much. There was no single policy proposal."

### *Foreign policy*

Rosalind Jordan, Al Jazeera's Washington correspondent, said although the president's remarks on foreign policy were rather weak, he did issue a strong endorsement of what the people of Tunisia have been doing in the past five weeks or so.

"There was a key omission, however, we heard about Iraq, we heard about Afghanistan, we heard about Tunisia but we did not hear about what is happening tonight in Egypt with thousands of protestors in the streets of Cairo and in other cities of Egypt," she said.

"It may well be because Egypt is an ally of the US, so the president did not want to use this venue to actually wade into something that is still developing."

John Nichols, a political writer for *The Nation* magazine, told Al Jazeera it was "really the start of the president's re-election campaign 2012. "And failure to mention Cairo was the most disappointing part of the speech".

### *'Bridger-in-chief'*

Marwan Bashara, Al Jazeera's senior political analyst, said: "Obama is more comfortable being a manager than a commander; he is the bridger-in-chief. "And he feels very comfortable working between the Republicans and the Democrats, bridging America's past and the future, bridging America's policy abroad and its domestic interests."

Nichols said Obama was "positioning himself as the bridger-in-chief because, unfortunately, with a divided government, not a lot is going to be achieved.

"This was more of an international speech than American presidents usually give. It was sober, mature, more instructive and with not a lot of applause lines."

<http://english.aljazeera.net/news/americas/2011/01/2011125194137405542.html>

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## **U.S. unemployment rate falls to 9 percent in January**

WASHINGTON: The U.S. unemployment rate dropped unexpectedly to 9 percent in January, the lowest level in nearly two years and 0.4 percentage points lower than the previous month, reported the Labor Department on Friday. Most economists had expected the Labor Department to report the jobless rate rose to 9.5 percent.

In December 2010, U.S. unemployment rate fell to 9.4 percent from 9.8 percent in November.

The report also said that nonfarm payroll increased by only 36,000, the fewest in four months and far less than the 145,000 increase that economists had expected, which indicates that the labor market remains weak.

The conflicting picture of employment presented by the report was mainly due to statistic method. Unemployment fell because the Labor Department's household survey determined that more than a half-million people without jobs found work. The department conducts a separate survey of businesses, which showed tepid job creation. The two surveys sometimes diverge.

Friday's report showed that employment rose in manufacturing and in retail trade but was down in construction and in transportation and warehousing. Employment in most other major industries changed little over the month.

Manufacturing sector, which is considered an engine of the economic recovery, added 49,000 jobs in January, the most since August 1998.

The government revised November and December payrolls to show 40,000 more jobs created than previously estimated.

The number of job losers and persons who completed temporary jobs fell from 8.9 million to 8.5 million in January. The number of unemployed persons decreased by about 600,000 in January to 13.9 million. That is still about double the total that were out of work before the recession began in December 2007.

The January report also includes the government's annual revisions to the employment data, which showed that fewer jobs were created in 2010 than previously thought. About 950,000 net new jobs were added last year, down from a previous estimate of 1.1 million. The economy lost about 8 million jobs in 2008 and 2009.

Recent data showed that the U.S. economic recovery is gaining momentum.

According to the latest government data, the U.S. economy grew at 3.2 percent in the fourth quarter in 2010, quicker than the 2.6 percent pace in the third quarter of 2010. It was the best quarterly showing since the start of last year. For all of 2010, the economy grew 2.9 percent, the most since 2005. However, economists believe that the recovery of labor market remains a lingering challenge.

U.S. Federal Reserve Chairman Ben Bernanke Thursday said that although the economic recovery is strengthening, to date, "growth has not been fast enough to bring about a significant improvement in the job market."

"Until we see a sustained period of stronger job creation, we cannot consider the recovery to be truly established," Bernanke said.

[http://news.xinhuanet.com/english2010/business/2011-02/04/c\\_13719376.htm](http://news.xinhuanet.com/english2010/business/2011-02/04/c_13719376.htm)

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## **Bernanke sees recovery strengthening, but challenges remain tough**

WASHINGTON: U.S. Federal Reserve Chairman Ben Bernanke Thursday said that the economic recovery is taking on an improved picture, however, the challenges, including to create jobs and restore fiscal sustainability, remain tough.

### *ECONOMIC RECOVERY STRENGTHENING*

"The economic recovery that began in the middle of 2009 appears to have strengthened in recent months," Bernanke told reporters at the National Press Club in Washington. "More recently, we have seen increased evidence that a self-sustaining recovery in consumer and business spending may be taking hold. Notably, we learned last week that households increased their spending in the fourth quarter, in real terms, at an annual rate of more than 4 percent."

The central bank chief said that businesses' investments in new equipment and software grew robustly over most of last year, as firms replaced aging equipment and as the demand for their products and services expanded.

He said that improving household and business confidence, accommodative monetary policy, and more-supportive financial conditions, including an apparent increase in the willingness of banks to make loans, seems likely to lead to a more rapid pace of economic recovery in 2011 than the Fed's expectation last year.

On the inflation front, "we have recently seen significant increases in some highly visible prices, notably for gasoline." Nevertheless, overall inflation remains quite low, which provides evidence for the Fed to keep its loose monetary policy.

"Over the 12 months ending in December, prices for all the goods and services purchased by households increased by only 1.2 percent, down from 2.4 percent over the prior 12 months," he said.

According to the latest government data, the U.S. economy grew at 3.2 percent in the fourth quarter in 2010, quicker than the 2.6 percent pace in the third quarter of 2010. It was the best quarterly showing since the start of last year.

For all of 2010, the economy grew 2.9 percent, the most since 2005. It was an improvement from 2009 when the economy suffered its worst decline in more than 60 years.

### *MAJOR CHALLENGES*

The Fed chief said that although the economic recovery is strengthening, to date, "growth has not been fast enough to bring about a significant improvement in the job market."

While indicators of spending and production have, on balance, been encouraging, the job market has improved only slowly. Following the loss of about 8.5 million jobs in 2008 and 2009, private-sector employment showed gains in 2010.

However, these gains were barely sufficient to accommodate the inflow of recent graduates and other new entrants to the labor force and, therefore, not enough to significantly reduce the overall unemployment rate, which is currently at 9.4 percent.

"Until we see a sustained period of stronger job creation, we cannot consider the recovery to be truly established," Bernanke said.

The housing sector, which had triggered this round of financial crisis and recession, remains in tough situation.

"The overhang of vacant and foreclosed homes continues to weigh heavily on both home prices and residential construction," Bernanke said.

Besides, the country's is facing lingering fiscal problems.

"The long-term fiscal challenges confronting the nation are especially daunting because they are mostly the product of powerful underlying trends, not short-term or temporary factors," Bernanke said.

Bernanke said that the U.S. federal budget deficit has expanded to an average of more than 9 percent of gross domestic product (GDP) over the past two years, up from an average of about 2 percent of GDP during the three years prior to the recession.

He noted that the extraordinarily wide deficit largely reflects the weakness of the economy along with the actions that the Administration and the Congress took to ease the recession and steady financial markets.

"However, even after economic and financial conditions have returned to normal, the federal budget will remain on an unsustainable path, with the budget gap becoming increasingly large over time," he said.

Bernanke said that there are the two major driving forces behind the soaring federal budget, including the aging of the U.S. population and rapidly rising health-care costs.

The Congress Budget Office projected that U.S. federal spending for health-care programs -- which includes Medicare, Medicaid, and subsidies to purchase health insurance through new insurance exchanges -- will roughly double as a percentage of GDP over the next 25 years.

The projected fiscal pressures associated with Social Security are also notable.

Bernanke warned that sustained high rates of government borrowing would both drain funds away from private investment and increase the country's debt to foreigners. Moreover, diminishing investor confidence that deficits will be brought under control would ultimately lead to sharply rising interest rates on government debt and, potentially, to broader financial turmoil.

In order to restore fiscal sustainability in the United States, he urged the Congress and the Administration to seek reforms to the government's tax policies and spending priorities that serve not only to reduce the deficit, but also to enhance the long-term growth potential of the economy.

"Our nation cannot reasonably expect to grow its way out of our fiscal imbalances, but a more productive economy will ease the tradeoffs that we face", Bernanke concluded.

[http://news.xinhuanet.com/english2010/business/2011-02/04/c\\_13718505.htm](http://news.xinhuanet.com/english2010/business/2011-02/04/c_13718505.htm)

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### **UK economy in surprise contraction**

The British economy shrank by 0.5 per cent in the last quarter of 2010, raising concerns of a double-dip recession.

Britain's economy shrank by 0.5 per cent in the last quarter of 2010, figures reveal, raising fears of a double-dip recession.

The Office for National Statistics said December's severe winter weather was largely to blame for the surprising figures, which show the first contraction of growth since the third quarter of 2009.

"The disruption caused by the bad weather in December is likely to have contributed to most of the 0.5 per cent decline, that is, if there had been no disruption, GDP would be showing a flattish picture rather than declining," it said in a statement.

Analysts had previously been expecting modest growth of 0.4 per cent for that quarter.

The figure is likely to spark concerns over the strength of the British economy as the coalition government brings in a raft of austerity measures aimed at curbing the country's national deficit.

The measures include dramatic cuts to public services including hundreds of thousands of public sector job losses.

George Osborne, the country's finance minister, said the figures were "disappointing" but that the country would "not be blown off course by bad weather".

“It's notable that sectors of the economy that are less affected by the poor weather, such as manufacturing, continue to perform strongly, helping to rebalance our economy,” he said,

Northern Europe was badly affected by severe snow and ice last month, causing major air, road and rail disruption.

<http://english.aljazeera.net/business/2011/01/2011125102026406434.html>

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### **China to take measures to ensure energy supplies in 2011: NEA**

BEIJING: China will take measures to ensure energy supplies in 2011 to meet growing demand, a National Energy Administration (NEA) official said Friday. The government will boost energy production and control consumption, Wang Siqiang, deputy director of the NEA General Affairs Department, said at a press conference on China's 4th-quarter of 2010 energy situation.

Wang did not specify an energy consumption control target.

Coal supply will be improved with the construction of 14 large coal bases and increased imports, he said. Net coal imports totaled 146 million tonnes in 2010, he said.

Installed electricity capacity is forecast to expand by 80 million kilowatts in 2011 to 1.04 billion kilowatts, he added.

China will focus on offshore oil and gas exploitation during the 12th Five-year Plan (2011-2015) period, he said. Offshore oil and gas output exceeded 50 million tonnes in 2010, he said.

The Chinese energy sector has faced difficulties in recent years, including imported inflation and extreme weather events, making energy product price reform difficult, he added.

[http://news.xinhuanet.com/english2010/china/2011-01/28/c\\_13711684.htm](http://news.xinhuanet.com/english2010/china/2011-01/28/c_13711684.htm)

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### **China's central bank raises priority of price controls: report**

BEIJING: China's central bank said late Sunday that it would raise the priority of keeping overall price levels under control in 2011 by adopting a prudent monetary policy.

"Controlling overall price levels will be higher up the agenda in 2011, while the financial system should be kept secure and sound," said a report on the People's Bank of China (PBOC) website.

China's consumer price index (CPI) rose 4.6 percent from a year earlier in December, down from 5.1 percent in November, which was the fastest rate in more than two years.



Last year, the CPI climbed 3.3 percent, exceeding the central government's official target of 3 percent.

Rising consumer prices have prompted the central bank to launch a series of monetary-tightening measures, including two interest rate increases and a series of rises in the bank reserve requirement ratio since the beginning of last year.

The PBOC would continue to utilize price and quantitative tools such as interest rates, reserve requirement ratios and open market operations to reach the goal and improve the monetary policy tools, said the report.

The Chinese authorities first announced last month a shift to a "prudent" monetary policy in 2011 as it sought to rein in liquidity, combat accelerating inflation and limit the risk of asset bubbles.

The central bank said it expected China's broad money supply (M2), which covers cash in circulation and all deposits, to grow 16 percent year on year in 2011, a growth rate lower than the 19.7 percent of last year.

[http://news.xinhuanet.com/english2010/china/2011-01/31/c\\_13714062.htm](http://news.xinhuanet.com/english2010/china/2011-01/31/c_13714062.htm)

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### **China's yuan rises 31 basis points to all-time high of 6.586 per USD Tuesday**

BEIJING: The central parity rate of yuan, the Chinese currency, rose to a fresh high Tuesday, according to the China Foreign Exchange Trading System.

The Chinese currency rose 31 basis points to 6.586 against the U.S. dollar Tuesday, breaking the previous record high of 6.5876 set on Jan. 27, 2011.

[http://news.xinhuanet.com/english2010/china/2011-02/01/c\\_13715817.htm](http://news.xinhuanet.com/english2010/china/2011-02/01/c_13715817.htm)

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### **China did not manipulate currency in 2010: U.S. report**

WASHINGTON: Major trading partners of the United States, including China, did not manipulate their currencies to gain an unfair advantage in international trade in 2010, according to a report released by the U.S Treasury Department on Friday.

"Based on the resumption of exchange rate flexibility last June and the acceleration of the pace of real bilateral appreciation over the past few months," China's behavior did not qualify under the official definition of manipulation, the Treasury said in its long-delayed semiannual report to the Congress on International Economic and Exchange Rate Policies.

With respect to exchange rate policies, ten economies were reviewed in this report, accounting for nearly three-fourths of U. S. trade. Many of the economies have fully

flexible exchange rates. A few have more tightly managed exchanges rates, with varying degrees of management.

"No major trading partners of the United States" met the standards identified by the Congress as currency manipulator, concluded the report.

Since the June 19, 2010 announcement by China's central bank of greater exchange rate flexibility, its currency, also known as renminbi (RMB) has appreciated 3.7 percent against the dollar, or about 6 percent annualized. The renminbi has appreciated 26 percent in total against the dollar since 2005.

The Treasury said that because inflation in China is significantly higher than it is in the U.S., the RMB has been appreciating more rapidly against the dollar on a real, inflation-adjusted basis, at a rate which if sustained would amount to more than 10 percent per year.

The U.S. accuses Beijing of keeping its currency undervalued, flooding the country with cheap exports and costing U.S. jobs. But many economists believe that the appreciation of RMB will help little to the U.S. employment.

"Treasury today again made the right call on China's currency policy in its latest exchange rate report," John Frisbie, President of the U.S.-China Business Council (USCBC) said in a statement after the U.S. Treasury Department's report.

"While USCBC believes that China should allow its exchange rate to better reflect market forces, designating China as a 'manipulator' would achieve nothing. USCBC continues to support the Obama administration's approach of combined multilateral and bilateral engagement with China as the most effective way to make progress on the exchange rate issue."

[http://news.xinhuanet.com/english2010/business/2011-02/05/c\\_13719429.htm](http://news.xinhuanet.com/english2010/business/2011-02/05/c_13719429.htm)

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### **China reports robust trade growth with emerging markets in 2010**

BEIJING: China reported robust trade growth with emerging markets last year, Ministry of Commerce (MOC) figures show.

China's trade with member countries of the Association of Southeast Asian Nations (ASEAN) increased 37.5 percent year on year in 2010.

Its trade with Brazil climbed 47.5 percent year on year.

Chinese trade with Russia expanded 43.1 percent year on year while that with South Africa grew 59.5 percent.

Trade with India increased 42.4 percent year on year.

China has become the top trade partner and export destination for Japan, the Republic of Korea, ASEAN, Australia and South Africa.

China is the second largest trade partner and export destination for the European Union.

It is the second largest business partner and the third largest export destination for the United States.

The European Union, the United States and Japan remained China's top trade partners in 2010.

China's trade with the European Union increased 31.8 percent last year.

With the United States it increased 29.2 percent and with Japan it increased 30.2 percent.

China's imports and exports totaled 2.97 trillion U.S. dollars in 2010, up 34.7 percent year on year.

[http://news.xinhuanet.com/english2010/china/2011-02/02/c\\_13717168.htm](http://news.xinhuanet.com/english2010/china/2011-02/02/c_13717168.htm)

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### **BOC maintains lead in international settlements**

BEIJING: Bank of China, the country's third largest lender, said Saturday that it has maintained its first-place position worldwide in the global banking industry in terms of international settlements last year.

BOC's international settlements volume hit 1.97 trillion U.S. dollars in 2010, and its domestic branches rose 42 percent year on year to more than 900 billion U.S. dollars, 7 percentage points higher than the growth rate of China's foreign trade.

The lender also said its renminbi cross-border trade settlement services have covered more than 30 countries and regions by the end of 2010, and its domestic branches' yuan cross-border trade settlement business had exceeded 160 billion yuan (24.24 billion U.S. dollars).

[http://news.xinhuanet.com/english2010/business/2011-02/05/c\\_13720186.htm](http://news.xinhuanet.com/english2010/business/2011-02/05/c_13720186.htm)

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### **Sales strong during Chinese New Year festival in Singapore**

SINGAPORE: Sales have been strong as more people went out to enjoy the Chinese New Year festivities in Singapore, thanks to the booming economy.

River Hongbao, a major event during the Chinese New Year featuring an array of performances and exhibitions and food stalls at the Marina Bay waterfront, attracted 250,000 visitors in the first three days, organizers said Friday.

Senior Minister Goh Chok Tong also visited the exhibition on Friday night.

Sales were initially down by up to 30 percent due to rains, but things were starting to pick up, said the stall owners. The event will run till Feb. 13.

Sales at other bazaars and exhibitions have also been strong. Xinhua reporter saw huge crowds in the streets of Chinatown and long queues outside an outlet of Bee Cheng Hiang, a brand of bak kwa, a salty-sweet dried meat product favored by the local Chinese population.

The sales of Chinese New Year goodies such as cookies and bak kwa have been particularly strong, as people queued outside outlets of brands such as Lim Chee Guan and Bee Cheng Hiang despite record prices.

Some shops were selling their bak kwa at close to 50 Singapore dollars (39.1 U.S. dollars) per kilogram.

Local television Channel NewsAsia said the prices of Chinese New Year goodies have gone up by as much as 20 percent from last year.

But even this did not diminish the sales. Analysts said the shops have the power to pass rising costs on to consumers because of the stronger economy.

A long queue was seen outside an outlet of Lim Chee Guan in Orchard on Wednesday. A shop assistant said its signature bak kwa product was almost sold in the early afternoon.

People are also going out to the resorts.

The resort island of Sentosa attracted huge crowds, partly thanks to the recent opening of a boardwalk linking the island to VivoCity shopping mall on the main island of Singapore. People have to wait for 45 minutes in the queue for the express train service to the island on Friday despite the opening of the new access point.

Online sales were also going strong as some opted for the more convenient way of shopping.

And car rentals were up 25 percent to 30 percent, industry players said.

[http://news.xinhuanet.com/english2010/business/2011-02/05/c\\_13719416.htm](http://news.xinhuanet.com/english2010/business/2011-02/05/c_13719416.htm)

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### **Japan's average wages up for 1st time in 4-years in 2010**

TOKYO: Average monthly wages in Japan increased in 2010 for the first time in four years, indicating a gradual recovery in the labor market, the Ministry of Health, Labor and Welfare said in a report on Tuesday.

In 2010, nominal average monthly cash earnings per regular employee in Japan inched up a preliminary 0.5 percent to average 317,092 yen (3,865 U.S. dollars), said the report. The 2010 figure follows a 3.8 percent decline logged in 2009.

Average base wages, including base salaries and family allowances, contracted 0.2 percent on year in 2010, however, marking the fifth year of decline. This follows a 1.3 percent retraction booked in 2009, it said.

In addition, the labor ministry reported that overtime hours worked, which significantly drives up cash earnings, rose 8.9 percent in 2010, marking the first rise in three years.

For the first time in four years, special cash earnings, including bonuses and other monetary perks, rose 1.5 percent following an 11.8 percent fall in 2009.

Monthly hours worked also rose for the first time in four years in 2010 to average 146.2 hours per month, which is an increase of 1.4 percent, according to the ministry's data.

Nonscheduled hours worked increased 32.3 percent and the number of hours of overtime and holiday work increased 8.9 percent in 2010, marking the first increase in three years.

The government report also showed that the number of regular workers rose 0.3 percent in 2010, up for the seventh straight year, following a 0.2 percent increase in 2009.

[http://news.xinhuanet.com/english2010/business/2011-02/01/c\\_13716098.htm](http://news.xinhuanet.com/english2010/business/2011-02/01/c_13716098.htm)

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### **Russian inflation may exceed forecast in 2011**

MOSCOW: The 2011 consumer prices inflation in Russia might be higher than the previous forecast, the deputy head of Russia's Audit Chamber said on Monday.

Valery Goreglyad told the meeting of the Federation Council, or Russian parliament's upper house, that the unprecedented drought in last summer attributed to the high inflation.

"Abnormal weather in last summer led to drought and destroyed crops in Russia. It might have negative effect on inflation and food prices," Goreglyad told the meeting.

The official said the money supply in Russia has grown by over 32 percent in 2010, which also could spur inflation.

In January this year, Russia's consumer inflation jumped up to 2.3 percent. Previous forecast said the inflation rate in 2011 may hit 6-7 percent.

Audit Chamber's own economic forecast until 2013 unveiled that economic and social prognosis in Russia suffered many shortcomings and inaccuracies, Goreglyad said.

According to the Audit Chamber's forecast, Russian national debt will rise by 28.7 percent in 2011 and will grow two-fold by the end of 2013, amounting to 18 percent of the gross domestic product.

As a means to boost budget revenues, Goreglyad proposed to increase the import duties on tobacco multi-fold.

Russia is the third world largest cigarettes producer, but has no domestic tobacco plantations.

[http://news.xinhuanet.com/english2010/business/2011-01/31/c\\_13715370.htm](http://news.xinhuanet.com/english2010/business/2011-01/31/c_13715370.htm)

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### **Russia to stay in Kazakh cosmodrome for economic reasons**

MOSCOW: Russia will never leave the Baikonur cosmodrome rented in Kazakhstan, even upon the completion of its new Vostochny space launch site, the head of Russia's Space agency Roskosmos said on Monday.

Anatoly Perminov told local media that "We will not abandon Baikonur till the end of times...space cooperation with Kazakhstan would be gradually switched to the entirely commercial tracks."

According to Perminov, Kazakhstan has already offered Russia to use one of Baikonur's launching pads for commercial launches after Russia's shift to the Vostochny cosmodrome of its main space operation.

Besides, Baikonur will be used for Russian-Ukrainian joint commercial launches.

In addition, Perminov revealed that Russia plans to use the Kourou launch site in French Guiana this year, and eyes cooperation agreements with Israel, Vietnam, Nigeria, Belarus, Saudi Arabia and Venezuela.

The Vostochny cosmodrome is being constructed in Amur region, which would become Russia's point of origin for space travels to the Moon planned by 2025.

Roskosmos plans to complete the building of Vostochny infrastructure by the end of 2011, Perminov said.

[http://news.xinhuanet.com/english2010/world/2011-02/01/c\\_13715378.htm](http://news.xinhuanet.com/english2010/world/2011-02/01/c_13715378.htm)

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### **Russian stock market braces for hard times**

Terrorist attack in Domodedovo has taken the lives of 35 people and has once again demonstrated the vulnerability of Russia's position in terms of ensuring the safety of its nationals and foreigners. The explosion at the airport on January 24 could cost the

country more than it seems at first glance. The investment climate of January 2011 has been completely damaged.

In connection with the terrorist attacks, Western experts have already declared that the influence of Prime Minister Vladimir Putin, who puts the security of Russia ahead of everything else, will strengthen. Because of the tragic events of Monday, Russian President Dmitry Medvedev was forced to postpone his trip to the Economic Forum in Davos, which has significantly damaged the investment image of Russia. But most importantly, the fact that foreigners were killed in the attack dramatically brings down the position of Russia in the eyes of European and U.S. investors. This will obviously affect the state of the stock market.

Despite the fact that trading opened in the green zone on Tuesday, the Russian stock market may expect hard times. According to Fincake, until the end of the month the market expects growth in the range of 1-2%. The main reason for the correction is the explosion at Domodedovo, and it is difficult to speak about continued growth that was observed during this month. Head of Analytical Services IC ITinvest Prospect Alexander Potavin believes that the sale of shares on the fact of the explosion at the international airport Domodedovo is unlikely to be replaced by the return of buyers to an active market.

According to him, "sadly, but investors have become accustomed to the fact that this type of tragedy has become the norm for modern Russia. For them, the situations in the oil market, in foreign markets, as well as charts of indices are more important. According to the results of the day, it became clear that the Russian stock indexes were trading in the zone of a slight decline. "Despite the fact that by 4pm the MICEX index went into a small plus (1723 points), the trading day cannot be called simple, because even though there was another drop in oil prices (Brent \$95.1 / bbl; -1.54%) and uncertain dynamics at the European exchanges (FTSE -0,4%) in the afternoon we did not see the continuation of the morning trend in terms of sales on our stock exchanges," the expert said.

Analyst of Investkafe Alexander Lozovaya noted that yesterday shares of major airlines - Aeroflot and UTair - reacted to the tragic events that occurred on January 24, 2011 at Domodedovo airport with a short-term decline, which was restored by the end of the trading session. This is due to the fact that the home airport of Aeroflot is Sheremetyevo and Vnukovo is the home airport for UTair. Domodedovo airport is the home of Transaero company. From 16:37PM MSK (when the explosion occurred) until 17:35PM MSK (when the airport reopened to receive incoming international flights) the landing of four flights was canceled, followed by a cancellation of another one shortly thereafter. Several flights were sent to Sheremetyevo and Vnukovo. Approximately six flights were delayed by approximately two hours, another flight was delayed by five hours. Rosaviation confirmed that by 17:35 PM MSK at Domodedovo the landing of flight was fully recovered. Accordingly, there was no transportation collapse. Investors in Russia are not easily frightened. By 1:00PM MSK on January 25 Aeroflot shares were trading at 78.25 rubles. (0.3% to the previous day's close), UTair shares were trading at 17.60 rub. (-0.2%).

The negative internal background did not prevent Bohdan Zvarich, an analyst of Nettrader.ru, from suggesting the growth of futures for U.S. indices and oil prices. He believes that this trend will "support the shares of oil and gas sector, and will allow the "bulls" to attempt to break yesterday's highs. Opening of Europe can also support the purchase, however, in anticipation of the end of the Fed meeting, the activity in the markets can be reduced, leading to a moderate movement with respect to yesterday's closing levels. In the afternoon, the players' attention will switch to the reports of U.S. companies, but at the end of the session to the data on new home sales in the U.S., which will set the mood for the last hours of trading." Nevertheless, the Russian stock market that had an energetic kick-start in the beginning of the year will likely not be able to show impressive results in January.

Investors still do not have confidence in the Russian investment climate.

[http://english.pravda.ru/business/finance/27-01-2011/116684-russian\\_stock\\_market-0/](http://english.pravda.ru/business/finance/27-01-2011/116684-russian_stock_market-0/)

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### **Russian financial literacy to get boost**

The National Agency for Financial Studies (NAFS) is a step closer to developing a Russian financial literacy strategy, with Director, Olga Kuzina, telling Business RT that a key issue is getting government and society moving in the same direction.

Improving financial literacy in Russian households has been promoted as a key Government priority, with a National promotion campaign expected to be launched later this year, backed by financial institutions pushing financial literacy awareness.

Most Russian have a vague understanding of effective money use, little understanding of what financial products are available, or have little confidence in financial institutions. This leads to a range of significant economic issues ranging from development of a national capital base, to consumer rights awareness, to theft, according to Olga Kuzina at the first all Russian meeting to address the rights of financial services consumers, and this means many stores their money under a pillow.

Speaking with RT Kuzina noted that addressing financial literacy in Russia required a complex and strategic plan, with short term measures unlikely to have much effect.

“We can’t just stand up and go in the strict and clear direction. We need to start and be able to adequately understand where we are, what we’ve achieved on each stage. We also need to understand, recognize our mistakes and start to correct them.”

### *People and Government*

Kuzina says any success depends on the government and people begin to make the effort.

“Russians themselves should demonstrate more interest in financial issues, which should necessarily be coupled with the Government making the system more transparent and understandable.”



This in turn would begin to make the marketplace more competitive, which in turn would generate synergies and greater product differentiation.

“Choosing a financial service or an institution should become a real “shopping around” exercise, with Russians being informed and competent enough to make a conscious choice.”

Today there is substantial room for improvement, with 50% of respondents in one Russian survey assessing their own financial knowledge as poor, compared to just 2% who thought they were competent.

During the economic downturn of the last three years these subjective assessments of personal financial literacy have increased, while other measures such as the ability to compare profitability of different banking deposits or knowledge about the System of Deposits Insurance, have remained constant. Kuzina says this indicates a problematic situation, where people inflated opinion of their own financial competence because they hear more economic news in the media.

“That’s really dangerous, as people, thinking they have better financial knowledge, could choose a more complicated financial service, bear losses and finally get frightened away from using it for a long time.”

Russia’s Government, she believes, should push for an easily understandable system, with more easy to understand financial documentation and more reliable financial institutions. According to the data from the National Agency for Financial Studies, 24% of respondents wanted to know about the existing laws protecting the rights of people using financial services, with 23% interested in more comprehensible financial documentation, indicating Russian’s still feel stressed trying to sort out financial documents.

### *Educainment*

Kuzina believes financial education should come as an educainment, introducing a new term combining education and entertainment. And, she believes, this should start from the very basics – personal financial tracking and planning, not just short-term, but also longer-term. According to NAFS research, just 10% of Russians plan their finance, with 62% not having a plan, while interest in more sophisticated financial instruments and the stock markets is increasing among Russians.

“It’s ridiculous that a lot of people here in Russia want to start playing in a bourse, without having a financial plan of their own. I’m sure that before starting to use any financial tool requiring specific financial knowledge it’s necessary to learn to do fundamental things, such as personal financial planning.”

<http://rt.com/business/news/russian-financial-literacy-boost/>

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## **Egypt's economy feels pain of social unrest**

CAIRO: The violence in Egypt is seriously hurting the country's tourism industry, and its economy as a result, as massive protests against President Hosni Mubarak has entered its second week.

Trains stopped running on Monday. The internet remained shut down. Banks, stock markets and most businesses were closed.

Storage racks for bread, milk, edible oil and local fruits were almost empty in Cairo's supermarkets as people tried to replenish their stores for fear that the chaos could continue and prices could rise.

Tourism, a crucial source of Egypt's revenue, was severely hit by the protest as travelers canceled trips to Egypt and tour operators avoid the country.

EgyptAir has cancelled flights during the government-imposed curfew, which was extended from 3 p.m. (1300 GMT) to 8 a.m. (0600 GMT).

The timing of the violence could not be worse as winter is the high season for tourism in all parts of Egypt.

Standard & Poor's on Tuesday joined Moody's in cutting Egypt's ratings, the second such downgrade in as many days.

Mubarak said on Tuesday that he would step down after the country's elections in September.

But the announcement, a mixture of concession and defiance did not seem to appease the protestors, as many insisted on his immediate exit.

Thousands were still camping out at the Tahrir Square to continue their demand for Mubarak's immediate exit as another eight months of his staying in power is simply unacceptable to them, who said he would only use the time to consolidate the ground of his partisan and doubted his commitment to making the kind of constitutional changes which he has resisted since taking power in 1981.

[http://news.xinhuanet.com/english2010/business/2011-02/02/c\\_13717344.htm](http://news.xinhuanet.com/english2010/business/2011-02/02/c_13717344.htm)

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## **Egypt's Central Bank intervenes to save currency**

CAIRO: The Central Bank of Egypt intervened on Tuesday to halt a sharp drop of the Egyptian currency against the U.S. dollar after two weeks of popular unrest across the country.

It was the first time in two years for the central bank to support the country's currency through pumping big quantities of U. S. dollars.

The Egyptian pound rebound steadily on Tuesday closing at 5.870 to the dollar from previous day's close of 5.9615, nearly the lowest level in six years.

Egypt's Central Bank Deputy Governor Hisham Ramez told state-run agency MENA that the bank's intervention strengthened the Egyptian pound against the dollars, adding that the bank is monitoring the currency market closely and is ready to aggressively interfere.

There is no clear report on how much the bank paid in the market, although some traders estimated the size of the intervention was between one billion and 1.6 billion dollars.

At the same time, along with the Egyptian Finance Ministry, the Central Bank of Egypt issued Egyptian treasury bonds worth 13 billion Egyptian pounds.

MENA reported that an unnamed official source explained that the desire by the banks to purchase the bonds reflect confidence in the ability of the Egyptian economy to overcome the current Egyptian crisis.

Ramez said the foreign currency reserves at the central bank hit 36 billion dollars, helping achieve stability in the market.

The Central Bank intervened directly in early 2009 during the world economic crisis. The Governor of the Central Bank of Egypt Farouk el-Okda sent an official message to the International Monetary Fund (IMF) on Friday, saying Egypt is not in need of any monetary or financial assistance to compensate losses during the massive protests as it plans to take several local measures to face the current crisis.

[http://news.xinhuanet.com/english2010/world/2011-02/09/c\\_13723241.htm](http://news.xinhuanet.com/english2010/world/2011-02/09/c_13723241.htm)

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### **Customers queue at Egypt banks**

Some 341 bank branches, including 152 in Cairo, are opening across the country after a week.

A steady stream of employees flowed into Cairo's financial district and customers queued to access their accounts on Sunday, the first day for the country's banks to open after a week-long closure due to political protests.

Bankers are bracing for chaos in dealing rooms with foreign investors and local businessmen fleeing the Egyptian pound after the street protests paralysed much of the economy and dried up important sources of foreign exchange.

While a limited number of banks opened, the stock markets remained closed.

The Egyptian stock exchange will remain closed for an eighth day on Tuesday, a stock exchange official said. The exchange on Saturday reversed a decision taken last week to reopen on Monday, saying that it would announce the new reopening date 48 hours beforehand.

Armoured personnel carriers stood guard at intersections where soldiers had erected sandbag barriers, as buses dropped employees off at large state banks.

Outside the banks, dozens of customers were waiting to enter when they open for public business at 10:00am local time (0800 GMT).

"We have to have some order around here. People are anxious to get paid and pull money out. It has been almost two weeks and life is at a standstill," said Metwali Sha'ban, a volunteer making a list of customers to organise who would enter first.

With the political crisis still unresolved, banks may see panicky withdrawals of cash by Egyptians worried that access to their deposits could be restricted again.

#### *Restricted working hours*

Banks may also be nervous to trade with each other in the domestic money markets, a source of funding for them.

Some 341 bank branches, including 152 in Cairo, are opening across the country.

However, working hours will be restricted, and individuals will be limited to daily withdrawals of E£50,000 (\$8,537) and \$10,000 worth of foreign currency a day.

In nearby Tahrir Square, the focal point of nearly two weeks of protests against President Hosni Mubarak, soldiers were opening the doors of the main government administrative building, the Mugamma.

A line of Egyptians was lining up at doors in the back of the building that does not face onto the square.

Egypt's healthy banking system is dominated by wealthy people as only 10 per cent of Egyptian population has bank accounts. So, the fear today is the fleeing of wealthy investors' money overseas instead of direct withdrawal.

The shutting down of the domestic stock market and banking sector last week has temporarily halted the outflow of capital, but not before the bourse plunged 20 per cent and an estimated \$1.5 billion of foreign money placed in Treasury bills left the country.

<http://english.aljazeera.net/news/middleeast/2011/02/20112681158721997.html>

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## *ARTICLES/COMMENTARIES*

### **The shaping of a New World Order**

If the revolutions of 2011 succeed, they will force the creation of a very different regional and world system.

Mark LeVine

I remember the images well, even though I was too young to understand their political significance. But they were visceral, those photos in the *New York Times* from Tehran in the midst of its revolutionary moment in late 1978 and early 1979. Not merely exuberance jumped from the page, but also anger; anger fuelled by an intensity of religious fervour that seemed so alien as to emanate from another planet to a "normal" pre-teen American boy being shown the newspaper by his father over breakfast.

Many commentators are comparing Egypt to Iran of 32 years ago, mostly to warn of the risks of the country descending into some sort of Islamist dictatorship that would tear up the peace treaty with Israel, engage in anti-American policies, and deprive women and minorities of their rights (as if they had so many rights under the Mubarak dictatorship).

I write this on February 2, the precise anniversary of Khomeini's return to Tehran from exile. It's clear that, while religion is a crucial foundation of Egyptian identity and Mubarak's level of corruption and brutality could give the Shah a run for his money, the situations are radically different on the ground.

#### *A most modern and insane revolt*

The following description, I believe, sums up what Egypt faces today as well as, if not better, than most:

"It is not a revolution, not in the literal sense of the term, not a way of standing up and straightening things out. It is the insurrection of men with bare hands who want to lift the fearful weight, the weight of the entire world order that bears down on each of us - but more specifically on them, these ... workers and peasants at the frontiers of empires. It is perhaps the first great insurrection against global systems, the form of revolt that is the most modern and the most insane.

One can understand the difficulties facing the politicians. They outline solutions, which are easier to find than people say ... All of them are based on the elimination of the [president]. What is it that the people want? Do they really want nothing more? Everybody is quite aware that they want something completely different. This is why the politicians hesitate to offer them simply that, which is why the situation is at an impasse. Indeed, what place can be given, within the calculations of politics, to such a movement,

to a movement through which blows the breath of a religion that speaks less of the hereafter than of the transfiguration of this world?"

The thing is, it was offered not by some astute commentator of the current moment, but rather by the legendary French philosopher Michel Foucault, after his return from Iran, where he witnessed firsthand the intensity of the revolution which, in late 1978, before Khomeini's return, really did seem to herald the dawn of a new era.

Foucault was roundly criticised by many people after Khomeini hijacked the revolution for not seeing the writing on the wall. But the reality was that, in those heady days where the shackles of oppression were literally being shattered, the writing was not on the wall. Foucault understood that it was precisely a form of "insanity" that was necessary to risk everything for freedom, not just against one's government, but against the global system that has nuzzled him in its bosom for so long.

What was clear, however, was that the powers that most supported the Shah, including the US, dawdled on throwing their support behind the masses who were toppling him. While this is by no means the principal reason for Khomeini's successful hijacking of the revolution, it certainly played an important role in the rise of a militantly anti-American government social force, with disastrous results.

While Obama's rhetoric moved more quickly towards the Egyptian people than did President Carter's towards Iranians three decades ago, his refusal to call for Mubarak's immediate resignation raises suspicion that, in the end, the US would be satisfied if Mubarak was able to ride out the protests and engineer a "democratic" transition that left American interests largely intact.

### *The breath of religion*

Foucault was also right to assign such a powerful role to religion in the burgeoning revolutionary moment - and he experienced what he called a "political spirituality". But, of course, religion can be defined in so many ways. The protestant theologian Paul Tillich wonderfully described it as encompassing whatever was of "ultimate concern" to a person or people. And today, clearly, most every Egyptian has gotten religion from this perspective.

So many people, including Egypt's leaders, have used the threat of a Muslim Brotherhood takeover to justify continued dictatorship, with Iran as the historical example to justify such arguments. But the comparison is plagued by historical differences. The Brotherhood has no leader of Khomeini's stature and foreswore violence decades ago. Nor is there a culture of violent martyrdom ready to be actualised by legions of young men, as occurred with the Islamic Revolution. Rather than trying to take over the movement, which clearly would never have been accepted - even if its leaders wanted to seize the moment, the Brotherhood is very much playing catch up with the evolving situation and has so far worked within the rather ad hoc leadership of the protests.

But it is equally clear that religion is a crucial component of the unfolding dynamic. Indeed, perhaps the iconic photo of the revolution is one of throngs of people in Tahrir Square bowed in prayers, literally surrounding a group of tanks sent there to assert the government's authority.

This is a radically different image of Islam than most people - in the Muslim world as much as in the West - are used to seeing: Islam taking on state violence through militant peaceful protest; peaceful jihad (although it is one that has occurred innumerable times around the Muslim world, just at a smaller scale and without the world's press there to capture it).

Such imagery, and its significance, is a natural extension of the symbolism of Mohamed Bouazizi's self-immolation, an act of jihad that profoundly challenges the extroverted violence of the jihadis and militants who for decades, and especially since 9/11, have dominated the public perception of Islam as a form of political spirituality.

Needless to say, the latest images - of civil war inside Tahrir Square - will immediately displace these other images. Moreover, if the violence continues and some Egyptian protesters lose their discipline and start engaging in their own premeditated violence against the regime and its many tentacles, there is little doubt their doing so will be offered as "proof" that the protests are both violent and organised by the Muslim Brotherhood or other "Islamists".

#### *A greater threat than al-Qa'eda*

As this dynamic of nonviolent resistance against entrenched regime violence plays out, it is worth noting that so far, Osama bin Laden and his Egyptian deputy, Ayman Al-Zawahiri, have had little - if anything - of substance to say about the revolution in Egypt. What they've failed to ignite with an ideology of a return to a mythical and pure beginning - and a strategy of human bombs, IEDs, and planes turned into missiles - a disciplined, forward-thinking yet amorphous group of young activists and their more experienced comrades, "secular" and "religious" together (to the extent these terms are even relevant anymore), have succeeded in setting a fire with a universal discourse of freedom, democracy and human values - and a strategy of increasingly calibrated chaos aimed at uprooting one of the world's longest serving dictators.

As one chant in Egypt put it succinctly, playing on the longstanding chants of Islamists that "Islam is the solution", with protesters shouting: "Tunisia is the solution."

For those who don't understand why President Obama and his European allies are having such a hard time siding with Egypt's forces of democracy, the reason is that the amalgam of social and political forces behind the revolutions in Tunisia, Egypt today - and who knows where tomorrow - actually constitute a far greater threat to the "global system" al-Qa'eda has pledged to destroy than the jihadis roaming the badlands of Afghanistan, Pakistan, or Yemen.

## *Mad as hell*

Whether Islamist or secularist, any government of "of the people" will turn against the neoliberal economic policies that have enriched regional elites while forcing half or more of the population to live below the \$2 per day poverty line. They will refuse to follow the US or Europe's lead in the war on terror if it means the continued large scale presence of foreign troops on the region's soil. They will no longer turn a blind eye, or even support, Israel's occupation and siege across the Occupied Palestinian territories. They will most likely shirk from spending a huge percentage of their national income on bloated militaries and weapons systems that serve to enrich western defence companies and prop up autocratic governments, rather than bringing stability and peace to their countries - and the region as a whole.

They will seek, as China, India and other emerging powers have done, to move the centre of global economic gravity towards their region, whose educated and cheap work forces will further challenge the more expensive but equally stressed workforces of Europe and the United States.

In short, if the revolutions of 2011 succeed, they will force the creation of a very different regional and world system than the one that has dominated the global political economy for decades, especially since the fall of communism.

This system could bring the peace and relative equality that has so long been missing globally - but it will do so in good measure by further eroding the position of the United States and other "developed" or "mature" economies. If Obama, Sarkozy, Merkel and their colleagues don't figure out a way to live with this scenario, while supporting the political and human rights of the peoples of the Middle East and North Africa, they will wind up with an adversary far more cunning and powerful than al-Qa'eda could ever hope to be: more than 300 million newly empowered Arabs who are mad as hell and are not going to take it any more.

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