

**GLOBAL ECONOMY 162**

**BUSINESS AND POLITICS IN THE MUSLIM WORLD**

**Weekly Report on Global Economic and Business Developments**

**Period: Mar 06 – 12, 2011**

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**Presentation: March 16, 2011**

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

### ***The Global Economy is in Crisis, Says Halifa Sallah***

The Director of the People's Centre for Social Science Research; Civic Awareness and Community Initiative, and a renowned Gambian sociologist cum politician, Mr. Halifa Sallah said that the global economy is in crisis and the option is to think of what production system should emerge. Mr. Sallah, who informed the gathering that he is not in Dakar as a politician but on the invitation of The Council for the Development of Social Science Research in Africa (CODESRIA), was speaking at a conference organized by the Network of African Youths for Development in UCAD II at the Cheikh Anta Diop University in Dakar as part the World Social Forum.

Halifa concluded by explaining the way forward for Africa and the world as follows. Halifa indicated that Africa has to go through the three stages of economic development in order to be the producer of what her people consume and what others may consume to be able to demand for equality in world trade. Halifa said that there are two types of economies with dominant positions in the world. He said the dominant actors in Economies like the US are members of the private sector. The State helps the private sector for it to provide employment and taxes to enable it to provide infrastructural development and social services.

He said the private sector needs international market to grow and where the market is taken from them the industries will collapse, the tax base would contract and the state will have less revenue to provide infrastructural development and social services. He said in such countries the social movements are likely to develop to struggle against unemployment and cuts in welfare benefits. The state responses would require growth in public sector investment as well as private/public initiatives to save collapsing enterprises, reduction of military budgets in order to address the demands of the social movement. He said currently such countries are relying on debt to provide social services which is unsustainable. He said sovereign National Wealth must be produced through production to sustain services and infrastructural development.

On the other hand, he said that the dominant actor in economies like that of China is the public sector being dominant in production. He said that China has diversified production in to the public, public/ private partnerships, private, cooperative and small scale informal production. He said the export oriented base of the public sector enables China to accumulate the profit as sovereign National wealth which is utilised to build infrastructure and provide social services. He said that China has maximized the growth in sovereign National Wealth by investing in the banks and bonds of countries like the US . Halifa said that crisis in the world commodity markets and financial markets are bound to cause collapse of industries in China , unemployment and decline in revenue to provide social services. He said that this would give rise to social movements to protect the welfare of the people.

Halifa said that Africa cannot ask for equitable trade unless it could produce its raw materials, process it and produce the machines which do the processing. He said that when Africa attained Independence status leaders like Nkrumah argued that the countries did not have the wealthy corporations that could compete in the world market. He called for the Unification of the continent and the creation of a Central Bank and an Investment Bank so that Africa's Minerals and other resources would be harnessed and processed and Machines be built to do the processing.

Halifa said that if this route was pursued Africa would not have been in the vulnerable situation it is today. He said neither Europe nor China could save Africa . Only Africa could save

itself. He called on the youths not to be imitators or try to look for an African way of processing goods or building machines. He said the African Youth should not romanticize the past or Africanness. He said the African Youth should have scientific minds.

He said that the barometer by which the success of any country is being measured, be it US; China, India, Venezuela, Bolivia, Cuba or Brazil is how far the country has gone to guarantee the civil, political, economic, social, cultural and ecological rights of each citizen. He said each person must become sovereign if a social movement is to emerge which would ensure that such rights are guaranteed. He said the 21st century is the era of the sovereignty of the people. He said Africa could only catch up with others and even surpass them if the power of the sovereign people is established in each African country. He said this is the verdict of history and it is irrevocable.

<http://allafrica.com/stories/201103050204.html>

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### ***Libya pushes oil to 30-month high***

US considers releasing oil from emergency stockpiles as crude prices top \$106 on Libyan and Middle Eastern concerns.

07 Mar 2011

The price for US crude oil has risen to a 30-month high amid renewed fears over the conflict in Libya and possible unrest in Saudi Arabia, the world's top exporter and home to most of OPEC's spare capacity. US crude oil was up \$1.79 early on Monday, rising above \$106 a barrel and adding to concerns that high energy costs may derail the global economic recovery.

This year's 16 per cent rally in US crude oil has prompted the Obama administration to consider releasing emergency oil stockpiles as policymakers seek ways to contain a negative spillover to the world's biggest economy. "The concern is that with what we are seeing in Libya, it's purely fear driving the market," said Jonathan Barratt, managing director at Commodity Broking Services in Sydney.

Gaddafi has lost control of most of the country's east, the main oil producing region in the OPEC member nation, to his opponents. Many oil facilities are idle or working at well below capacity. Libya usually produces 1.6 million bpd, but output has been slashed by as much as 1 million bpd, according to the IEA.

### ***Supply gap***

Saudi Arabia has pledged to fill any supply gap caused by the disruption of exports from Libya. The kingdom is pumping around 9 million barrels per day (bpd) and has spare capacity of around 3.5 million bpd, a senior Saudi source told the Reuters news agency last. But some investors fear unrest elsewhere in the Arab world could also spread inside Saudi Arabian borders. Saudi Shias last week staged small demonstrations in the Eastern Province, which holds much of the kingdom's oil wealth, leading clerics to ban protests at the weekend. Saudi security forces also detained at least 22 minority Shias who protested last week against discrimination, activists said on Sunday. More than 17,000 people backed a call on Facebook to hold two demonstrations in Saudi Arabia this month, the first one this coming Friday.

### ***Prices 'may slip back'***

But oil prices may slip back to more "realistic" levels around \$80 later this year, Barratt said. "Each time the price moves up a little, people are forced into the market. Once it's feeding

itself, it will continue to rise," Barratt said, adding \$120 may be the peak without further supply disruptions.

European equities also dropped on Monday, while high oil prices also threaten Asian economies. "At \$120 a barrel, we estimate oil prices to shave off 1.5 percentage point from baseline growth" for Asia excluding Japan, Sanjay Mathur and Erik Lueth, RBS economists said.

South Korea, the world's number five crude oil importer, may lower its three per cent crude oil import tariff to curb inflation, Yoon Jeung-hyun, country's finance minister said on Monday. "(Regarding oil prices) we are thinking of a scenario of lowering import tariffs first, if necessary, although we will wait and see more," Yoon told parliament.

In Spain, fears of a shortage in the oil supply has caused the government to lower the speed limit on highways from 120 km/h to 110 km/h.

### *Emergency reserves*

William Daley, White House chief of staff, said on Sunday that the US was considering tapping into the country's strategic petroleum reserve (SPR) as a way to lower prices, adding that "a bunch of factors have to be looked at", not just prices. One of those factors is coordinating with the other 27 member countries of the International Energy Agency (IEA), which hold emergency stockpiles equivalent to at least 90 days of net oil imports, counting both government and industry stocks.

As the world's biggest oil consumer, the United States holds the largest emergency oil stockpiles in the SPR. Current levels of government-owned supplies are equivalent to about 1,000 times Libya's pre-crisis daily crude output of 1.6mn bpd. The proportion of crude and products in storage varies across countries. Four storage sites in Texas and Louisiana hold a total of 726.6 million barrels of crude, enough to cover the nation's needs for more than a month.

Japan and South Korea, among the world's top 5 crude oil importers, have no immediate plans to release oil from strategic reserves to fill any shortfall left by the unrest in Libya, industry and government officials said.

But news about the potential use of US emergency oil stocks has failed to dampen prices. "It doesn't matter what they say because it's fear," Barratt said, referring to the Obama administration's possible use of the SPR. "We have ample supplies after OPEC, led by Saudi Arabia, stepped in."

OPEC is assessing the oil market to determine whether it should hold an emergency meeting, Mohammed Saleh al-Sada, Qatar's Energy Minister, said on Monday, but added that there is no shortage of supply in the market.

David Buik, a London-based senior market analyst told Al Jazeera, "The recovery is on the way and we don't need a setback like this." "If we hadn't had this little local difficulty, out of the Middle East, I suspect that we would see European industries probably 250 points better than they are at the moment.

"Obviously, when you get geopolitical problems, we tend to underestimate the damage they do to sentiments, and they certainly take the cream off the top."

<http://english.aljazeera.net/business/2011/03/2011378328409379.html>

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### *Brazil's 'lessons' for Arab rebels*

Countries transitioning to democracy need to reduce economic inequality, says Brazil's former foreign minister.

During Brazil's two decades of military dictatorship, it would have been unthinkable that a female former revolutionary would lead the country in the 21st century. That transition, from autocracy to democracy, might offer some lessons for rebels across the Arab world, Brazil's longest serving foreign minister told a forum organised by the Al Jazeera Centre for Studies in Doha, Qatar. "Who would have thought an intellectual, a metal worker and a kind of revolutionary would follow a military dictatorship?" Celso Amorim, the former foreign minister and career diplomat, told a crowd on Thursday, speaking about Brazil's former and current leaders. "Whatever happens [rebellions across the Arab world] will create a new political situation in the Middle East. This is for certain," he said. And, while he refused to directly give advice to Egyptians, Bahrainis, Tunisians or Libyans, Brazil's experiences appear to have some parallels with the developments underway in the region today.

### *Brazil's dark past*

In 1964, the Brazilian military launched a coup, toppling a populist democracy led by the leftist president, Joao Goulart. The military closed parliament in 1968 and the generals created a 'democracy' with two legal political parties - Amorim describes them as the parties of "yes" and "yes, sir". The military dissolved student organisations, attacked leaders from the trade union movement, censored the press and tortured or 'disappeared' its opponents. It was the sort state behaviour that many Arabs are all too familiar with. From 1968 to around 1975, Brazil's economy expanded, with GDP growing by 10 per cent some years. But, as is common in top-down governments, the gains were not widely shared. Growth did not trickle down to the poor and inequality ballooned. "During the military government, we had high economic growth, but social inequality increased," Amorim said. "The most important thing Brazil did [during my two terms as foreign minister] was the reduction of inequality."

In Hosni Mubarak's Egypt, privatisation and so-called market reforms in 2004 "triggered an impressive acceleration of growth," according to a 2008 International Monetary Fund (IMF) survey. But 40 per cent of the population continued to live on less than two dollars a day, while skyrocketing property prices made apartment ownership almost impossible for many middle class families. The pie may have gotten bigger, but many bakers remained hungry. "A society that is very unequal always has the pressure of instability," Amorim said. The chasm between the 'haves' - often those with links to the regime - and the 'have nots' is profound in Egypt. The same is true in Libya and most Arab countries. To tackle inequities, Brazil's government, under President Luiz Ignacio Lula de Silva, a former metal worker and union leader, initiated a series of programmes, including scholarships and income subsidies for the poor, Amorim said. Subsidies are given to poor families under certain conditions: for example, that they send their children to school. Money is given to the female head of the household, rather than the husband. "It doesn't go this way in the Muslim world, [but] in Brazil, if you give the money to the father, they drink it all," Amorim said.

### *Religion and revolution*

Since becoming democratic, 30 million Brazilians have joined the middle class, with 30 million more leaving abject poverty for less grinding poverty, the former foreign minister said. But the country still has a long to go if the goal is to eliminate vast income disparities. Moves

towards democracy in Brazil did not happen overnight; they transpired slowly throughout the 1980s. And religious institutions played a key part in that transition, said Matthew Flynn, a sociology lecturer and Brazil specialist at the University of Texas. "I'd imagine that religious institutions will play a pretty prominent role in [any transition] in the Middle East," Flynn said.

The Workers Party (PT), which currently holds power, was formed in 1978 by labour agitators in the country's industrial heart-land, religious activists from the Catholic Church and human rights groups. "They [the PT] were pretty active in forcing elections, along with other independent parties," Flynn said.

Dilma Rouseff, Brazil's current president and the country's first female leader, began her political career as a leftist guerrilla, fighting the military dictatorship.

### *Lessons to learn?*

But violent revolution did not bring down the Junta. "When the military government fell, we didn't immediately write a new constitution," Amorim said. "We elected a committee which spent two years writing a new one" in a process that finished in 1988. After elections in 1989, Brazil was generally believed to be a democracy. Chile, Uruguay and Argentina also threw-off the shackles of military rule, along with most other countries in the region.

Mark Katz, a professor of government at George Mason University, believes there is "very good reason to believe the Middle East will go down the path of Latin America". "People were pretty hopeless about it [democracy in Latin America]," Katz said. "But in the end, it has turned out pretty well for the most part. "What is going on in the Middle East is incredibly positive."

If Katz is correct, and the uprisings across the Middle East result in more democratic governance, it is likely that ties will increase between Latin America and the Arab world.

### *Business deals*

The first Arab-South American countries summit took place in Brasilia, Brazil's capital, in 2005, with a follow-up hosted in Doha, Qatar in 2009. For now, trade is the main thrust of the relationship. "The biggest trade surplus Brazil has is with the Arab world," said Amorim. Outside of the Gulf Cooperation Council (GCC) encompassing petroleum rich countries in the Arabian Gulf, Arab economies are not particularly well integrated. "This [regional integration] is a place where we can share our experiences," Amorim said.

Founded in 1991, Mercosur, a trade bloc between Brazil, Argentina, Paraguay and Uruguay, could provide a model for Arab countries, especially in North Africa, the former ambassador said. And, integration within the Arab world could have benefits beyond increased economic growth, said Jamie de Melo, a professor at the University of Geneva in Switzerland who studies economic relationships. "Countries that are neighbours and have regional trade agreements, preferential trade agreements, seem to be less likely to go into conflict," de Melo said.

Beyond trade, Brazil has weighed into broader issues in the Middle East. South America's largest country unilaterally recognised a Palestinian state in December 2010, prompting other South American countries to follow suit. The country also maintains cordial relations with Israel. "In November 2009, we received the presidents of Iran, Israel and the Palestinian Authority," Amorim said. "How many other countries can say that?"

<http://english.aljazeera.net/indepth/features/2011/03/201134183658331534.html>

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### ***Rising demand & adverse weather tighten food supplies, Food prices to stay high: IMF***

Consumers should get used to paying more for food, after prices rose to a record, because farmers will take years to expand production enough to meet demand and drive down costs, the International Monetary Fund said.

“Increasing incomes in developing countries have boosted demand for meat and dairy, requiring more grain for livestock feed and land for grazing animals, Thomas Helbling,” an adviser for the IMF’s research department, and Shaun Roache, an economist, wrote in an article. Rising demand for biofuels and adverse weather also have tightened food supplies, the IMF said. “Over time, supply growth can be expected to respond to higher prices, as it has in previous decades, easing pressure on food markets, but this will take time counted in years, rather than months,” according to the article published Finance & Development magazine.

The global food price index, compiled by the United Nations’ Food & Agriculture Organisation, surged to a record in February. “There’s a risk that the current price spike could persist for longer than the 2007-08 experience,” Luke Mathews, a commodity strategist at Commonwealth Bank of Australia, said on Friday. “There are more commodities involved in this current spike and that means it’s going to take longer to rebuild the inventories of all those back up to what we would deem safer levels.”

Corn futures in Chicago surged 92% in the past year. Wheat jumped 65% in the past year after drought last year in Russia and Eastern Europe prompted countries to restrict exports. Dry weather curbed corn output in the US, and floods in Asia have restricted rice supplies, the IMF said.

Global inventories for all grains will drop 13% before the next harvest, the US Department of Agriculture estimates. That’s the first decline since 2007. Increasing demand is causing isolated food shortages and accelerating inflation in developing countries even as it boosts farmers’ incomes and shifts planting strategies.

While stockpiles will decline, supplies of rice, the staple food for more than half of the world’s population, may be sufficient to avert a repeat of the 2008 crisis, Abdolreza Abbassian, a senior economist at the FAO, said yesterday.

### ***Oil prices tougher call***

Global food prices will likely remain relatively high but it is harder to predict the path of oil prices because of uncertainty in West Asia, an IMF official said. "Right now what we're looking at is a relatively mild oil supply shock with prices some \$10 to \$15 (per barrel) higher ... and we expect this will be the outcome for the year," Thomas Helbling, an IMF Research Department advisor, said. Oil prices fell from near 2-1/2 year highs on Thursday after Venezuela pitched a plan to resolve the Libyan crisis even though markets questioned whether it would work.

<http://www.financialexpress.com/news/food-prices-to-stay-high-imf/758023/0>

***International policy co-op should focus on 3 situations to achieve outcomes: IMF chief***

March 07, 2011

WASHINGTON -- During the heat of the world economic crisis, the benefits from cooperation were evident, but the current international coordination are facing more challenges, said Monday Dominique Strauss-Kahn, Managing Director of International Monetary Fund (IMF).

Kahn said international policy cooperation was fairly easy during the crisis, because countries faced relatively similar situations, and the clear and present danger of the crisis spurred leaders into coordinated action. So in 2009 and the first half of 2010, the will to cooperate was strong. However, the current phase is much more complex, which has made international coordination more challenging, said the IMF chief.

"Countries are recovering from the crisis at different speeds, so countries are facing different economic situations. Also, leaders naturally want to go back and deal with problems at home, though they forget that in today's globalized world, there can be no domestic solution to global problems," Kahn said.

With respect to this issue, Kahn said it was helpful to focus on three different types of situations, where international coordination might help achieve better global outcomes. First, there are situations where policy changes in a country would advance the global interest, and also the country's own self-interest. Second, there are situations where acting unilaterally could make a country better off, but would ultimately make everybody worse off, once other countries react to the policy changes of the first. The third situation, where policy changes in a particular country would make it worse off, but the global economy better off - is perhaps the most complicated one.

[http://news.xinhuanet.com/english2010/business/2011-03/08/c\\_13766380.htm](http://news.xinhuanet.com/english2010/business/2011-03/08/c_13766380.htm)

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***Ongoing global recovery faces two-speed growth, structural changes: IMF advisor***

March 07, 2011

WASHINGTON -- The global economic recovery is gaining momentum, but is confronted with challenges including a two-speed recovery pace among emerging markets and advanced economies as well as underlying structural changes, Zhu Min, special advisor to the Managing Director of the International Monetary Fund (IMF), said here on Monday.

"The world is changing. Last year, emerging markets contributed about 70 percent to the world's new economic growth," Zhu said during a luncheon speech at the ongoing 27th annual National Association for Business Economics economic policy conference.

The IMF in January upwardly revised its projection of world output growth to 4.4 percent for this year, but warned that a two-speed recovery would continue. The latest world output forecast was 0.2 percentage points higher compared with the IMF's prediction in its World Economic Outlook report released in October 2010.

The IMF forecast that the output in advanced economies would gain 2.5 percent this year, 0.3 percentage points higher than its prediction in October 2010, while the output in developing economies would surge 6.5 percent this year, 0.1 percentage points higher than its earlier prediction.

Zhu noted that it was the first time for emerging markets to lead the global economic growth, with low unemployment rates, low budget deficits, high interest rates and robust

economic growth on average, while some advanced economies were mired in high unemployment rates, high budget deficits, low interest rates and slow growth rates.

He told a group of economists and reporters that these structural changes have "profound impact" on the global economy, people's lives and the world's future.

Zhu stressed that the world should draw lessons from the financial crisis and endeavor to foster a balanced and sustainable economic growth, adding that the world was still looking for "a new model" of economic growth.

"The overall global economic growth looks good this year, with a lot of fundamental changes going on. Looking for a new growth model for the whole world is absolutely a big issue for everyone," he added.

[http://news.xinhuanet.com/english2010/business/2011-03/08/c\\_13765828.htm](http://news.xinhuanet.com/english2010/business/2011-03/08/c_13765828.htm)

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### ***Report ranks U.S. as world's largest manufacturing economy***

March 08, 2011

LOS ANGELES -- The United States remains the world's largest manufacturing economy, generating 1.6 trillion dollars of output, 11 percent of the country's gross domestic product, according to a report issued on Tuesday. Productivity in the sector is also very high, with manufacturing jobs often paying premium wages and benefits, said the report prepared by the Los Angeles County Economic Development Corp. (LACEDC).

"Industrial restructuring has intensified, making U.S. manufacturing more competitive than ever," said LACEDC Chief Economist Nancy D. Sidhu, the report's author. "The U.S. share of global manufacturing has remained at or above 20 percent for most of the past two decades."

Manufacturing is a "high-multiplier" activity because it creates jobs for suppliers and other local businesses in areas like energy, freight transportation and business and professional services, said the report.

It is a myth that manufacturing is disappearing from the region and that all operations are moving to countries with low-cost labor, the report noted. Among different areas in the United States, Southern California boasts more manufacturing than any other region, according to the report.

In Los Angeles County, manufacturing employed 389,300 people in 2009 and the value of manufacturing shipments in the county was 153 billion dollars in 2007, the last year for which data was available.

The top five industries in the county, based on 2007 dollar revenues, were petroleum refining, computer and electronic products, food products, aerospace and fabricated metal products, according to the report.

Fifty-six percent of the county's manufacturing workers produced durable goods, such as computers, transportation equipment and metal products. The other 44 percent made non-durable goods like apparel and food.

The largest industry is computer and electronic products, with 51,323 jobs, though the sector has also suffered some of the largest declines in employment over the past decade, the report said.

[http://news.xinhuanet.com/english2010/business/2011-03/09/c\\_13768816.htm](http://news.xinhuanet.com/english2010/business/2011-03/09/c_13768816.htm)

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### ***OECD January inflation rate steady at 2.1%***

March 08, 2011

PARIS -- Consumer prices in the area of the Organization for Economic Cooperation and Development (OECD) rose by 2.1 percent in January 2011 year-on-yearly, unchanged from the figure in December, the Paris-based organization said Tuesday.

Energy and food prices continued to rise by 8.4 percent and 2.6 percent respectively in January 2011. The growths were at relatively high rates but broadly unchanged from December 2010, the agency said in its monthly report. If excluding food and energy, the overall inflation rate of the OECD area stood at 1.3 percent in January compared with the inflation level registered a year earlier, slightly higher than a 1.2-percent increase in December.

Among the major seven advanced countries, the United Kingdom and Germany witnessed accelerated inflation rate to 4.0 percent and 2.0 percent in respective; while other states broadly recorded stable growth in prices over the same period, with 2.3 percent in Canada, 2.1 percent in Italy, 1.8 percent in France, 1.6 percent in the United States and 0.0 percent in Japan.

Year-on-year, the harmonised index of consumer prices in euro area rose to 2.3 percent, faster from 2.2 percent increase in December. Compared to the previous month, consumer prices in the OECD area rose by 0.2 percent in January 2011.

[http://news.xinhuanet.com/english2010/business/2011-03/08/c\\_13767255.htm](http://news.xinhuanet.com/english2010/business/2011-03/08/c_13767255.htm)

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### ***Mexico tycoon is the world's wealthiest***

Carlos Slim with assets worth \$74bn stays the world's richest man for second year in row, according to Forbes magazine.

10 March, 2011

Mexican telecom magnet Carlos Slim has topped *Forbes* magazine's list of the world's richest people second year in a row. Slim's wealth grew by \$20.5bn to \$74bn, widening his lead over other billionaires, according to *Forbes* on Wednesday. Bill Gates with \$56bn was at the second place and investor Warren Buffett stood at third place with \$50bn. French luxury-goods magnate Bernard Arnault was fourth with \$41bn. The Mexican's wealth increased by 38 per cent from last year's estimate of \$53.5bn, which has been attributed to a rise in Mexican stock prices as well as successful mining and real estate projects carried out through his Grupo Carso conglomerate.

### ***Asia's rise***

The number of billionaires in Asia's booming new economies has displaced Europe, coming second only to the United States, *Forbes* said. A total of 332 Asians made the list, as against Europe's 300. Moscow, with 79 billionaires, racked up more berths on the list than any other city in the world. The United States still has the lead in total number of billionaires, with 413 of the 1,210 on the list.

Slim, 71, built his fortune in a country where most people - 59.5 per cent - are paid \$15 a day or less, and 38.7 per cent get \$10 or less. Son of an immigrant shopkeeper, he amassed a range of retail, industrial and telecom holdings and has ventured into oil, construction and infrastructure sectors. A civil engineer by training, Slim has bought up troubled or government-owned companies of all types, fixed them and resold them for huge profits. He is no stranger to

controversy at home, where detractors accuse him of using political connections to kick-start his rise two decades ago.

<http://english.aljazeera.net/news/americas/2011/03/201131045552797685.html>

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### ***Russia: Personal computers to become extinct like dinosaurs***

Over the past year sales of laptops and tablet computers in Russia have grown by over 50 percent. The tendency for the replacement of desktop PCs with portable devices is obvious. Over the same period, sales of PCs in terms of units have fallen by over 10 percent. In this case, tablet PCs are taking away the market share from laptops and notebooks.

According to the analytical report prepared by GfK Company and published by Kommersant newspaper at the end of 2010, Russia has sold 4.14 million notebooks and tablets at \$3 billion, or 51.6% more than in 2009 in terms of units and 91% more in terms of cash (\$1.57 billion in 2009). Revenues from sales of desktop PCs amounted to \$925.1 million (an increase of 30%), but in quantitative terms, the sales have decreased by 10.5% to 1,710,000 units.

The largest volume of sales on the Russian market was secured by Asus with 21%, followed by Acer (19%), Samsung (16%), HP (9%), Lenovo (8%) and others. In the fourth quarter of last year, according to IDC, Samsung has unexpectedly come in the first place, while the second and third places were occupied by Asus and HP, respectively. The former leader Acer has fallen to the fourth position.

However, according to the end of the year results, the Taiwanese manufacturer was the undisputed leader. Considering the sales of its controlled brands Packard Bell (3%) and Emachines (6%), the overall share of Acer for the year has increased to 28%. Apparently this year we will see an increased competition between Samsung and Acer.

In general, the top five manufacturers (Samsung, Asus, HP, Acer and Lenovo) control at least 80% of Russian mobile PC market. In this case, Apple's share in the segments of the desktop and mobile computers, according to GfK, is less than 1%. The transformation of the Russian market under the influence of iPad is not happening. Meanwhile, on March 11 sales of iPad 2 are starting in the USA.

As for desktops, in 2010 1.71 million units were sold in Russia. It is 10.5% fewer than in 2009, although in monetary terms, the sales grew by over 30% to \$925.1 million.

Most computers sold in the country are assembled by the seller. The share of those in the general sales is 76%, which is 7% lower than in 2009. As for branded manufacturers, this segment also is led by Acer with a share of 6%. This is 1% higher than in 2009. Russian Depo Computers and IRBIS and American HP owned 3% of the market in 2010.

As for global sales of mobile and stationary PCs, the research company Gartner has revised its forecast of growth of PC sales downward by 16% for the end of 2011. According to the new forecast, the volume will grow by more than 10.5%.

This year 387.8 million computers will be sold. In 2012, the sales of desktops and notebooks will increase by 13.6% and amount to 440.6 million units. This is lower than the sales growth by 14.8% in 2012, previously projected by Gartner.

The reason for the forecast revision is the popularity of tablet PCs skillfully fueled by manufacturers. The growth of PC sales was provided primarily by netbooks and laptops. Now they found themselves under the attack from new tablet devices.

[http://english.pravda.ru/business/companies/10-03-2011/117141-personal\\_computers-0/](http://english.pravda.ru/business/companies/10-03-2011/117141-personal_computers-0/)

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### ***Agreed Euro pact brings closer EU comprehensive crisis solution***

March 12, 2011

BRUSSELS -- Leaders of the 17-nation euro zone have agreed on a "Pact for the Euro" aimed at enhancing the bloc's competitiveness and sustainability, seen as a key element of the envisaged comprehensive package to tackle the yearlong debt crisis. "The Euro pact's objectives are sustainable public finances, a competitive economy and sound financial systems," President of the European Council Herman Van Rompuy said at a press conference held in the early hours of Saturday morning. In a run-up to the decisive summit of all 27 European Union (EU) states on March 24-25 when leaders were to agree on a comprehensive package, euro zone leaders had eight-hour-long tough negotiations at an informal summit that started on Friday afternoon. "An invisible loss of competitiveness was a driver of the public debt crisis in the euro zone," the president said. The competitiveness pact was initially proposed by Germany with specific requirements on economic and social reforms, backed by France but still opposed by many member states. It was not surprising that the new pact only came up with objectives instead of measures.

Euro zone leaders would announce their own measures to be put in place nationally under the pact at the upcoming EU-wide summit, according to Van Rompuy, who added that the peer pressure, apart from market and institutional pressures, would give the commitments under the pact a politically binding force. "It is a good pact in terms of competitiveness and convergence for the euro area," said European Commission President Jose Manuel Barroso said at the same press conference, adding that the pact was also open to non-euro zone area. Euro zone leaders also agreed in principle on other major elements of the comprehensive package, including the expansion of the bloc's rescue fund to help member states with debt problems. The bloc would make sure the full amount of the 440-billion-euro (one euro equals some 1.38 U.S. dollars) temporary bailout fund and the 500-billion-euro permanent mechanism available, said Van Rompuy. The effective lending capacity of the current 440 billion euro only amounts to 250 billion euro due to the need to retain its triple-A credit rating.

According to the conclusions of Friday's informal summit, the fund will also be allowed to buy the bonds of governments in financial difficulties on the open market only if the respective country is locked into a national bailout program based on strict condition, in other words, notable expansion in the fund's powers. Euro zone leaders also agreed to extend the maturity of the loans to Greece from three and a half years to seven and a half years, as well as lower the interest rates with 1 percent, Van Rompuy said. However, Ireland failed to get the same treatment as Greece from the leaders and Van Rompuy said that was because it had not fulfilled the conditions. Diplomats said it was due to the refusal of the newly-elected Irish Prime Minister Enda Kenny to raise its low corporate tax rate. Further negotiations were expected to continue until the next summit when the Euro pact and the full package would be formally adopted, according to Van Rompuy, while some experts warned that the leaders should not be complacent.

"Markets have high expectations and the crisis will re-emerge if the EU is not able to deliver sound results by the end of March," said Janis Emmanouilidis, a senior policy analyst with the Brussels-based think tank European Policy Center. Van Rompuy seemed quite upbeat about the next summit. "Everything will come together at the European Council at end of March. This should allow us to finally turn the corner," he said.

[http://news.xinhuanet.com/english2010/business/2011-03/12/c\\_13774572.htm](http://news.xinhuanet.com/english2010/business/2011-03/12/c_13774572.htm)

## *GLOBAL BANKING & FINANCE*

### **ECB Officials Signal Support for Higher Interest Rates as Inflation Gains**

European Central Bank officials signaled an interest rate increase may be necessary next month to stop surging commodity costs from fanning broader inflation. A day after President Jean-Claude Trichet shocked investors by calling an April rate increase “possible,” fellow policy makers indicated concern that rising food and fuel costs will push up other prices unless checked with an increase in the ECB’s key rate from 1 percent, a record low. Headline inflation, which includes volatile raw material costs, has been above the bank’s 2 percent limit since December.

“Some question marks start to arise that some pressure for second-round effects develops, that some pass-through is being seen,” Bank of France Governor Christian Noyer said in an interview with Bloomberg Television in Paris. “We need to reaffirm very strongly that we will never let that happen.”

With economists concluding the ECB is all but certain to shift rates in April for the first since 2008, the euro rose to its highest in four months against the dollar today. The ECB’s inflation alarm sounds more urgent than that of the U.S. Federal Reserve, whose policy makers are signaling they are in no rush to lift their key rate from near zero with underlying inflation still muted.

The U.S. central bank, which prefers to monitor core inflation and is also mandated to help tackle unemployment, won’t raise its benchmark rate until the first quarter of 2012, according to a Bloomberg News survey of economists. Chairman Ben S. Bernanke said this week he sees little inflation risk.

#### *‘Striking’ Contrast*

“The contrast between the way the ECB and the Fed are viewing the world is striking,” said David Hensley, director of global economic coordination at JPMorgan Chase & Co. in New York.

Central bankers who eye core inflation do so because food and energy tend to react to weather and geopolitical tensions, which are temporary and immune to monetary policy. By monitoring headline prices, the ECB is watching for repercussions such as workers and companies seeking compensation for the higher costs.

With the price of oil rising above \$100 a barrel and food prices climbing to a record last month, data this week showed euro-area inflation quickened to 2.4 percent in February from 2.3 percent in January. That’s the fastest since October 2008. Excluding commodity costs, inflation was just 1.1 percent in January.

#### *‘Excessive Inflation’*

“There are risks with having a number of months with an excessive inflation rate due to the cost of commodities and energy,” Noyer said in the interview. ECB Executive Board member Lorenzo Bini Smaghi said failing to react to faster headline inflation would make monetary policy “more accommodative” and eventually spur other prices.

ECB Executive Board member Jose Manuel Gonzalez-Paramo said in Cape Town today that a rate increase is “possible but not certain.” It is clear that “the risks to inflation are on the upside and it is the mission of the ECB to prevent those from materializing, so we are ready,” he said.

Cyprus central bank governor Athanasios Orphanides said in Paris that central bankers must be “pre-emptive” in fighting inflation and that nothing should “distract” them from delivering price stability.

Attending the same conference in Paris, Trichet told reporters that the ECB would “ensure price stability” in the euro-area and that doing so was “essential.”

### *Series of Increases?*

Economists at UniCredit Group, Morgan Stanley, Nomura International Plc and JPMorgan Chase are all now betting that the ECB will raise its benchmark rate to 1.75 percent by the end of the year. Those at ABN Amro Bank NV and Citigroup Inc. expect an increase to 1.5 percent.

Eric Chaney, chief economist at AXA Group, said the ECB will raise rates “a little” to restrain inflation expectations that can spur wage demands and to pressure governments to find a solution to the region’s sovereign debt turmoil. Weak credit growth will prevent a series of rate increases, he said.

The euro completed its third straight weekly increase against the dollar yesterday, the longest run of gains since October following Trichet’s comments. Julian Callow, chief European economist at Barclays Capital in London, said the risk of a continued advance means “it will be difficult for the ECB to raise rates too quickly if the Fed is still on hold.”

While Germany’s economy, Europe’s largest, is powering ahead, some economists said higher ECB rates will intensify the pain of the region’s so-called peripheral nations such as Greece and Ireland.

### *‘Macro Mistake’*

The ECB last raised borrowing costs to combat inflation in July 2008, even though subsequent data revealed the economy was contracting. It was forced to reverse the shift three months later as the global financial crisis conflagrated.

“The last thing you need is for another big macro mistake pushing the euro area back into recession,” David Blanchflower, a former Bank of England policy maker, told Bloomberg Television’s “Inside Track” with Erik Schatzker.

Harvard Professor Kenneth Rogoff said in Paris that the ECB may feel compelled to act by the strength of Germany’s economy, which expanded at the fastest pace in two decades last year. The departure of Bundesbank President Axel Weber in April may also be persuading it to prove its inflation-fighting credibility, he said.

“The ECB is facing a very different set of conditions than the Fed,” said Rogoff, a former chief economist at the International Monetary Fund. “I can’t imagine a single rate hike will have a destructive effect on the economy.”

<http://www.bloomberg.com/news/2011-03-04/ecb-officials-signal-support-for-higher-interest-rates-as-inflation-climbs.html>

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## ***INTERNATIONAL TRADE***

### ***China willing to develop alternatives of rare earth jointly with Japan: minister***

MARCH 07, 2011

BEIJING -- China is willing to cooperate with Japan in developing alternatives of rare earth, Commerce Minister Chen Deming said here Monday. "At the current pace of rare earth use, it will not take long before the world's reserves go depleted. We hope to work with Japan and other countries to find alternative materials or recycled way of use," Chen told a press conference.

China has tightened the exploration of rare earth, which is a key raw material in producing electrical products but will cause heavy pollution during its development process. As the world's largest rare earth producer and exporter, China provides more than 90 percent of global rare earth demand, though its reserves account for only one-third of the world's total.

"China faces huge environmental pressure. We hope other countries could understand our measures to reduce the quota for both domestic and overseas consumers," he said.

China announced its first batch of 2011 rare earth export quotas at 14,446 tonnes at the end of 2010. The full-year quotas are under discussion.

China exported 35,000 tonnes of rare earth from January to November last year, up 14.5 percent from a year earlier. Exports to Japan, the European Union and the United States accounted for 86 percent of the total, according to the Ministry of Commerce.

[http://news.xinhuanet.com/english2010/china/2011-03/07/c\\_13765480.htm](http://news.xinhuanet.com/english2010/china/2011-03/07/c_13765480.htm)

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### ***Facebook valued more than Russia's largest oil company***

Investment firm General Atlantic is going to purchase 0.1 percent of world's largest social network Facebook. The deal may push the price of the network up to \$65 billion, but the transaction requires approval from Facebook at first. The company has been showing an impressive growth during the recent years. In the middle of 2009, the deals with its shares were concluded on the base of the company cost of \$10 billion.

General Atlantic announced an intention to purchase the shares from several former Facebook employees. The deal has not been closed yet. According to CNBC, the deal boosted the cost of the social network 30 percent up. At the end of January of 2011, the company was valued at \$50, when Goldman Sachs placed Facebook shares worth \$1 billion among its clients, the Vedomosti wrote.

Facebook was founded by Mark Zuckerberg in 2004. The network currently has over 500 million users all over the world. Facebook is considered to be the largest social network in the world.

Georgy Voronkov, an analyst with Investcafe, said that over 620 million people visit Facebook every month. According to Goldman Sachs, the revenue of the project over nine months of 2010 made up \$1.2 billion; the net profit was valued at \$355 million.

To understand the issues of monetization, let's take a look at Russia's two most popular networks - Odnoklassniki and VKontakte. These two networks, as business models, are the closest to Facebook. As for MySpace, Baidu Space, Twitter and Orkut, the first of these is obviously unprofitable. The data of the rest, except for Twitter, are consolidated in accounts of their mother companies, i.e. - they are unknown. As for Odnoklassniki, the profit of the network

in 2010 made up \$25.4 million. The number of monthly visitors - 15.25 million people. VKontakte returned the profit of \$15.5 million with the number of monthly visitors - 18.4 million. Therefore, one shall assume that one visitor brings the average profit of \$1.12.

The advertising market in 2007 was evaluated at \$45 billion. In 2008, the cost increased to \$51.6 billion, in 2009 - to \$56.7 billion, in 2010 - to \$61.8 billion, in 2011 - \$67.34 billion. Therefore, a network user becomes 9.75 percent more expensive every year. In 2011, the number of Facebook users will increase to 670 million, and the conservative annual income forecast for Facebook will make up approximately \$824 million. "Against the background of the current market reality, in my assessment of fair cost of social networks I proceed from 12 P/E. Therefore, the fair cost of Facebook makes up about \$10 billion," an analyst of Investcafe said.

It was previously reported that Facebook attracted as much as \$1.5 billion in January 2011 from Goldman Sachs and Digital Sky Technologies. In 2012, Facebook is planning to conduct IPO.

The shares of Facebook, which currently appear on the over-the-counter market, are mostly offered for sale from former and present employees of the company, as well as from current investors. Is Facebook a bubble or not? For the time being, the current assessment of \$65 billion gives investors an opportunity to plan their future profit. For comparison, the cost of Russia's largest private-owned oil company Lukoil is valued at \$62 billion.

<http://english.pravda.ru/business/companies/09-03-2011/117130-facebook-0/>

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### ***USA humiliates Toyota internationally for no reason***

The year 2010 became the year of never-ending trouble for Toyota. The world-known car maker recalled over 8.5 million cars internationally. Toyota's CEO Akio Toyoda presented his official apologies at the US Congress, the company paid a considerably fine, but the reputation of the Japanese corporation has been considerably damaged anyway. It just so happened that the international community did not notice the official statement saying that Toyota had nothing to do with the trouble that it had to go through.

On February 24, 2010, Akio Toyoda presented his apologies for brake problems with Toyota vehicles at the US Congress. Mr. Toyoda promised to do everything possible not to let such a mishap repeat in the future. Toyota recalled over 8.5 million cars globally because of the problems with brakes. America's sanctions were classic for such cases. The Japanese had to recall their cars and pay \$50 million of compensation to the US government, Vesti FM reports.

It goes without saying that the American authorities took measures to compensate the damage a lot earlier than the final conclusions were made. Toyota's reputation suffered a very serious blow as a result of the claims. The sales of the company dropped, whereas the Americans supported their producers at other people's expense, as usual. Toyota's sales in the United States dropped by 11 percent.

The National Highway Traffic Safety Administration stated in the summer of 2010 that it was the human factor that played the tragic role in the car accidents. According to The Wall Street Journal, researchers analyzed over 3,000 cases of sudden unintended acceleration that occurred to Toyota vehicles. As it turned out, all of the accelerations occurred over the fault of the drivers. The analysis of the data received from 75 car accidents that entailed lethal outcomes because of the brake problems showed that the drivers were pressing the gas pedal instead of the brake.

The only incident, when brakes were blamed for the death of Highway Patrol Officer and his family, occurred to Lexus ES 350. However, the tragedy took place because of the all-weather mats, not the pedal. As a result, Toyota had to recall the mats as well - 3.8 million items. In 2010, Toyota's shares dropped by several points. GM took the second place on sales (8.39 million cars) after the troubled Japanese corporation. Afterwards, it was said that the crisis ended, and Ray LaHood, the US Secretary of Transportation, officially stated that there was no electronic-based cause for unintended high-speed acceleration in Toyotas.

Better late than never. The conclusions from the committee did not cancel the fines for the company over the untimely notification of the authorities about the acceleration pedal defect. Toyota was fined \$32.4 million.

A source at the US Transportation Department said that the fines, which the Japanese company would have to pay the Americans, would reach nearly \$50 million. Toyota has already paid \$16.4 million to the US government, but it was specified that the company had not broken the law and agreed to pay the fine to avoid lengthy court legal proceedings and disputes. In addition, the US Transportation Department said in May 2010 that it would investigate how fast Toyota responded to the defects in its vehicles. The financial sanctions were supposedly based on the fact that the company was aware of the problems back in September 2009, but notified the authorities about the problem only four months later.

The support of domestic car makers in the United States may take evil forms at times.

[http://english.pravda.ru/business/companies/03-03-2011/117075-usa\\_toyota-0/](http://english.pravda.ru/business/companies/03-03-2011/117075-usa_toyota-0/)

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### ***WTO reverses U.S. trade measures against China***

March 12, 2011

GENEVA -- The World Trade Organization's appellate body has largely reversed a previous panel ruling on China-U.S. trade and supports China in its complaint against American anti-dumping measures imposed on four sets of Chinese exports. China filed its complaint to the WTO in December 2008, requesting that the Dispute Settlement Body establish a panel to probe a U.S. Commerce Department decision to impose anti-dumping and countervailing duties on Chinese-made steel pipe, tubing, sacks and tires and its determinations for the duties. An appeal was brought to the appellate body in December after China disagreed with part of the rulings made by the panel.

A renewed report from the appellate body not only supported China's claims in specific cases, but also deemed the U.S. approach in forming the anti-dumping duties and countervailing duties inconsistent with WTO agreements. It outlawed American practices in labeling Chinese state-owned enterprises as "public body" and restricted the U.S. from applying anti-dumping duties to Chinese firms on the basis of a Non-Market Economy methodology. The practice of "double remedies," which by imposing countervailing duties on the basis of anti-dumping duties repeatedly applies trade measure on Chinese products, was also ruled inconsistent with WTO agreements.

Analysts believe that the appellate body's ruling has a major influence on China's exportation, as some of its trading partners, the U.S. and EU in particular, frequently use anti-dumping and countervailing duties to block Chinese products from entering their markets.

In its Friday announcement, the Chinese Ministry of Commerce welcomed the ruling and hailed it as a monumental victory in promoting fair trade.

China urged the U.S. to immediately adjust its relevant measures on the four sets of Chinese exports, and demanded the U.S. mend its current practices of unfairly overusing trade measures and ensure Chinese companies' rights to fair competition in U.S. markets.

Apart from China's complaints in the case, in recent years, the U.S. has initiated more than 20 other cases of anti-dumping and countervailing investigation, on virtually the same basis and methodology.

The reported is expected to be adopted within 30 days of issuance.

[http://news.xinhuanet.com/english2010/business/2011-03/12/c\\_13775269.htm](http://news.xinhuanet.com/english2010/business/2011-03/12/c_13775269.htm)

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## **WORLD ECONOMIES**

### ***US Unemployment dips to 8.9 pct., 192K jobs added***

WASHINGTON: Employers in February hired at the fastest pace in almost a year and the unemployment rate fell to 8.9 percent -- a nearly two-year low. The economy added 192,000 jobs last month, with factories, professional and business services, education and health care among those expanding employment. Retailers, however, trimmed jobs. State and local government, wrestling with budget shortfalls, slashed 30,000 jobs, the most since November. The government's report Friday bolstered hopes that employers will shift into a more aggressively hiring mode and allow the economic recovery to get on firmer footing. The unemployment rate has been falling for three months, down from 9.8 percent in November.

January's figures were anemic -- just 36,000 jobs added -- partly because of severe winter storms that kept businesses closed. As much as a quarter of February's job gains could come from people returning to payrolls after the bad weather. But most people pay more attention to the unemployment rate, which fell from 9.8 percent in November to 9 percent in January, the quickest decline in more than half a century.

Economists believe the rate edged up to 9.1 percent in February. Unemployment rates often rise when the economy improves and people who haven't been looking for jobs start hunting again. People who aren't looking are not counted as unemployed. It would take up to 300,000 new jobs a month on a consistent basis to reduce the unemployment rate significantly, economists say. But few analysts -- even those on the high end of February's forecast -- think monthly job gains in the 300,000-plus range could be repeated month after month. Companies have dramatically slowed the pace of layoffs. That's a major reason why economists are more optimistic that companies will hire more aggressively. The number of people filing for unemployment benefits sank last week to its lowest point in nearly three years, the Labor Department reported on Thursday. Companies, enjoying growing sales and profits, are relying less on layoffs to cut costs, analysts said. Applications for unemployment benefits plummeted to 368,000 last week. It was the third decline in the past four weeks. Applications are now at their lowest level since May 2008. Unemployment benefit applications peaked during the recession at 651,000.

The news helped give the stock market its best day in three months. The Dow Jones industrial average rose more than 190 points, or 1.6 percent, erasing most of its losses since the unrest in Libya began.

There's a big wild card for the economy -- rising prices. Prices for food around the world are at their highest levels in 20 years, and gas prices have been rising for weeks, with the average

for a gallon in the U.S. nearing \$3.50. For now, though, the economy is mostly flashing positive signs. Americans appear more confident about spending money, which could convince businesses that the time is right to start hiring more workers. Stores representing shopping tastes across the income spectrum reported strong sales for February, including J.C. Penney, Macy's and Saks. And the U.S. service sector, which employs about 90 percent of American workers in fields from health care to construction, is expanding at the fastest pace in more than five years, according to the Institute for Supply Management. Productivity did rise in the final three months of last year. When workers are producing at a higher level, it makes it easier for businesses to hold off on hiring.

<http://www.businessweek.com/ap/financialnews/D9LOEJO00.htm>

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### ***Obama Willing to Cut Spending Further***

MARCH 06, 2011

WASHINGTON—President Barack Obama on Saturday said he is willing to make further spending cuts as his administration hashes out differences with Republicans to keep the government funded for the remainder of the year.

Mr. Obama, in his weekly radio address to the nation, said Republicans and Democrats need to find a solution because the U.S. can't "do business two weeks at a time. It's not responsible, and it threatens the progress our economy has been making."

The president this week signed into law a budget that will fund the government for the next two weeks. He ordered Vice President Joe Biden and other administration officials to broker a deal with Congressional leaders to fund the government through 2011.

Republicans have proposed about \$62 billion in current spending cuts, while the White House and Democrats have proposed about \$50 billion in cuts. The majority of the cuts from Democrats, and the White House, are compared to Mr. Obama's fiscal 2011 budget request. Congress never passed that request.

When it comes to current spending levels, the two sides are still far apart, as both sides are staunchly opposed to each other's spending plans. Mr. Obama reiterated that while he is willing to make cuts, areas such as education, innovation, and infrastructure are off limits.

Rep. Diane Black, a Republican from Tennessee, said in the Republican radio address that Mr. Obama's budget proposals continue "out-of-control spending."

"The policies of the past haven't worked, and despite some signs of life in our economy, the unemployment rate is still far above the levels that the president's advisers promised when the 'stimulus' spending bill was signed into law," she said.

Both Mr. Obama and Ms. Black said they see positive signs in unemployment numbers released Friday.

The Labor Department said nonfarm payrolls rose by 192,000 in February as the private-sector added 222,000 jobs. The unemployment rate, which is obtained from a separate household survey, fell to 8.9% last month, the first time it fell below 9% since April 2009 and a substantial decline from November's 9.8%. Still, there are about 13.67 million people who would like to work but can't get a job.

*The Wall Street Journal/U.S.*

<http://online.wsj.com/article/SB10001424052748703867704576182024219391058.html>

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### ***China GDP growth target set at 7%***

CHINA has set an economic growth target of 7 percent annually over the next five years, its lowest objective in two decades. The move is designed to create "significant improvement in the quality and performance of economic growth," Premier Wen Jiabao said in a speech lasting more than two hours at the opening of the legislature's annual session yesterday in Beijing.

The economy grew 10.3 percent last year and had an annualized rate of 11.2 percent over the past five years on the back of brisk exports, investment and significant bank loans. But rising property prices, a widening wealth gap and other social inequalities underscored the urgency to rebalance the economy's structure and allow more people to share the benefits of development, which is essential to maintaining social stability. "The government has made it clear that a more reasonable economic structure and higher living standards are more important than fast GDP growth," said Zhuang Jian, an economist with Asian Development Bank.

### ***Inflation worries***

Rapid price rises have become a top concern for the government. "Inflation affects both the well-being of the people and social stability," Wen said. "We must therefore use macroeconomic controls to keep overall price levels stable." The premier vowed to clamp down on inflation, aiming to keep the rate at around 4 percent this year.

January's inflation rate remained stubbornly high at 4.9 percent despite a series of measures the government had taken to rein in price rises. The growth accelerated from 4.6 percent in December but was lower than the 28-month high of 5.1 percent in November.

Pressure on prices will likely increase as adverse weather conditions around the world have led to higher grain prices, oil costs have increased due to uprisings in several countries in the Middle East and the United States has taken quantitative easing measures.

Seeking to reassure public confidence, Wen said the country has an oversupply of major industrial products, ample grain reserves and abundant foreign exchange reserves, which the government will "make the most of" in its fight against inflation.

Despite blistering economic growth, the premier acknowledged that much needs to be done to solve issues such as income inequality, sky-high property prices and inadequate medical and education services.

A major source of public discontent comes from the reality that income growth has lagged the rise in state fiscal revenue, which jumped more than twofold to 8.31 trillion yuan (US\$1.26 trillion) over the past five years. However, incomes have risen slightly, dragging down consumer spending.

According to a World Bank report issued in 2009, the Gini-Coefficient, a major gauge of social equality, jumped to 0.47, surpassing the 0.4 watershed. In response, the central government pledged to increase both the per capita disposable income of urban residents and the per capita net income of rural residents by at least 7 percent. It's the first time the income growth rate was the same as the GDP target in the nation's Five-Year Plan.

China will strive to ensure incomes keep pace with economic growth and salaries keep pace with increased productivity to allow people to share the benefits of the opening up and reform, Wen said. "We will adjust income distribution in a reasonable manner. This is both a long-term task, and an urgent issue that needs to be addressed now," the premier said.

<http://www.shanghaidaily.com/article/?id=465512&type=National>

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### ***China to Cut Deficit to 2% of GDP***

BEIJING—China aims to trim its national budget deficit this year to 900 billion yuan (\$137 billion), equivalent to 2% of gross domestic product, down from a 1 trillion yuan deficit that accounted for 2.5% of GDP last year. China targeted keeping last year's national budget deficit within 3% of GDP.

The narrower deficit target comes as China exits a 4 trillion yuan stimulus package adopted in the past two years. China has also tightened monetary policy and cooled the property sector in a bid to curb inflation and asset bubbles. The Ministry of Finance's budget report, issued during the National People's Congress, the annual legislative session, said China expects national budget revenue of 8.972 trillion yuan this year, up 8%, and national spending of 10.022 trillion yuan, up 11.9%.

Including a 150 billion yuan contribution from the government's central budget stabilization fund—effectively a 'rainy day' fund—the ministry expects national budget revenue of 9.122 trillion yuan. That contribution will reduce the stabilization fund's balance from 236.813 billion yuan at the end of last year to 86.813 billion yuan at the end of this year.

Despite the narrower budget deficit this year, the ministry reiterated that "China will continue its active fiscal policy". However, "fiscally, there is still a significant imbalance between our revenue and expenditure," the ministry said in the annual report.

Cuts in taxes including personal income tax, "unsustainable fast growth in exports and imports" and a high base of comparison last year will produce slower revenue growth this year, the ministry said. "China is under very big pressure on expenditure as it needed to increase fiscal expenditures" on certain parts of the public sector, such as education, health, social security, subsidies for low-income people, as well as combating inflation pressures, the ministry said.

China's total revenue came to 8.318 trillion yuan last year, including national fiscal revenue of 8.308 trillion yuan and 10 billion yuan from the central budget stabilization fund. Expenditure totaled 9.318 trillion yuan last year, including national expenditure of 8.9575 trillion yuan and spending from the central budget stabilization fund of 2.248 billion yuan.

<http://online.wsj.com/article/SB10001424052748703867704576181751968305700.html>

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### ***China's Focus Turns to Its Poor***

Leaders Promise to Improve Livelihoods, Which Have Lagged Behind Growth

MARCH 07, 2011

BEIJING—Looking to head off the kind of anger that is reshaping the Middle East, China's leaders pledged to boost incomes for its less wealthy citizens and to tame inflation, goals accompanied by the mobilization of police to snuff out online appeals for antigovernment protests. The country's economic plans for this year and for the five-year period through 2015, unveiled at the National People's Congress, the annual legislative session that started Saturday, commit to raising income levels at the rate of economic growth, and call on companies to boost worker wages so they match productivity gains. Incomes haven't kept up with economic growth for at least five years in China.

"We need to reconfigure the line of thinking when it comes to growth," Zhang Ping, head of China's most powerful economic ministry, the National Development and Reform Commission, told a news conference Sunday. "In the past five-year plan, it was absolutely necessary to prioritize maintaining growth," Mr. Zhang said. "Now we want to put more emphasis on ensuring and improving people's livelihood."

The plans, which were hatched well before the outbreak of the so-called Jasmine Revolution in Tunisia in December, build on previous pledges to try to narrow a widening wealth gap in China, while also keeping economic growth humming. China's leaders have long seen economic gains as the key to maintaining social stability, and over the last two weeks, several senior officials have cited growth as the main reason why people are not responding to online appeals over the last two weeks for a Chinese "Jasmine Revolution."

But Wen Jiabao, China's Premier, acknowledged at the start of the congress Saturday that the government needed to urgently address problems such as inflation that threaten social stability and future economic growth. "We must therefore make it our top priority in macroeconomic control to keep overall price levels stable," Mr. Wen said in his annual work report—roughly equivalent to the U.S. president's State of the Union address.

Premier Wen said that China aimed to "basically eradicate poverty" by 2020, the state-run Xinhua news agency reported, and to "greatly" raise its poverty line of 1,196 yuan (\$182) per person a year.

Chinese authorities have also launched a massive security crackdown since appeals for antigovernment protests began appearing on Twitter and other web sites that are blocked inside China, but still visible to those who use proxies or virtual private networks to get around China's Internet controls.

On Sunday, Beijing government spokesman Wang Hui said protest calls were bound to fail in the capital because people want stability. "All clear-minded people will know that these people have chosen the wrong place and have the wrong idea. The things they want to see take place have not and cannot occur in Beijing," said Mr. Wang, according to the Associated Press. He vowed that Beijing "will have no such incidents."

Chinese authorities are not taking any chances, however. They have detained dozens of political activists, and deployed thousands of uniformed and plainclothes police around sites in Beijing, Shanghai and other cities where online activists have urged people to stage silent Sunday "strolling" protests. They have also stepped up Internet controls, and re-imposed many of the restrictions on foreign journalists that were lifted in the run-up to the 2008 Beijing Olympics.

The Beijing government said Sunday that all foreign reporters now need prior permission to conduct reporting activities anywhere in the city center. In Shanghai, meanwhile, police detained about a dozen foreign reporters for reporting from the designated protest site without prior permission, according to the Foreign Correspondents' Club of China. Reflecting the concern, the government Saturday projected spending on internal security items like police, courts, and jails would rise 14% to \$95 billion this year, faster even than the growth in China's defense spending.

China's heavy-handed response highlights leaders' pre-occupation with maintaining social stability ahead of a once-a-decade leadership change next year, when President and Communist Party chief Hu Jintao and others are due to retire from their party posts.

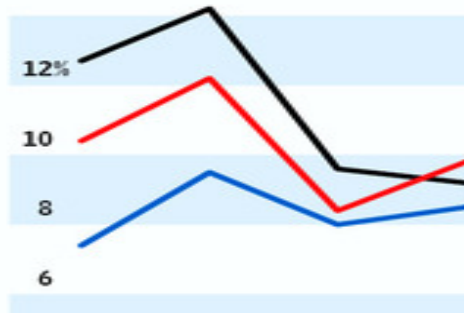
During the past five years, worker income matched growth in productivity and gross domestic product in only three of China's 27 provinces and autonomous regions, according to the National Development and Reform Commission. For the new five-year plan, 15 provinces have set the labor-income goal-or picked a higher one—as their target.

## Out of Step

Change from a year earlier in China's rural and urban incomes compared to its GDP

Note: Income data adjusted for inflation

Sources: National

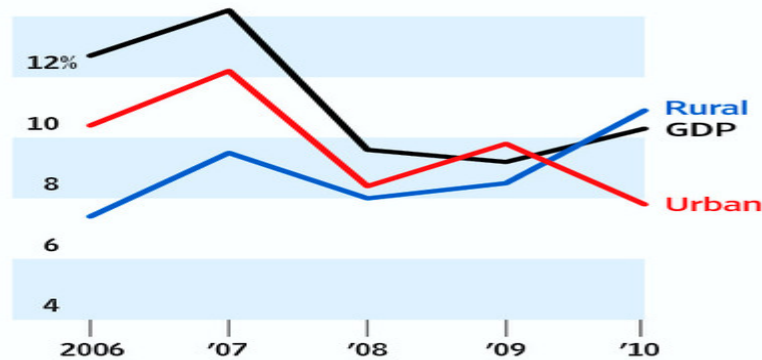


## Out of Step

Change from a year earlier in China's rural and urban incomes compared to its GDP

Note: Income data adjusted for inflation

Sources: National Development and Reform Commission (incomes); National Bureau of Statistics (GDP)



In the past, local officials have been graded and promoted on their ability to boost growth. Mr. Zhang didn't specify what measures would be taken to enforce the new goals, but the agency's written directions in a report released over the weekend were clear: Local governments "should not seek rapid growth at all costs or compete for the fastest rate."

Tough enforcement, though, is bound to produce political confrontation. Export industries depend on cheap labor to compete internationally and China's huge state-owned industries have seen their profits increase sharply over the past decade as they were able to keep labor costs at a rate well below increases in productivity. Moreover, steeper boosts in labor costs could conflict with controlling inflation, which hit 4.9% in January.

Mr. Zhang said the Chinese state was capable of handling inflationary pressures, largely driven by food prices, by tapping grain reserves, giving farmers incentives to produce more and, on occasion, selling food from granaries to drive down consumer prices. His remarks came a day after Mr. Wen told the National People's Congress that the government aims to cap inflation for the full year "around 4%." The consumer price index rose 3.3% in 2010, higher than the 3% target set last year. Mr. Wen also said that China would even use its "considerable foreign exchange reserves" to rein in inflation—leading a number of economists to wonder what he meant. Using the reserves to purchase grains, for instance, would push up prices, unless it was matched by price controls or subsidies for Chinese consumers.

<http://online.wsj.com/article/SB10001424052748703362804576184364247082474.html>

***China's trade surplus to shrink this year, deficits likely for some months***

MARCH 07, 2011

BEIJING -- China's Commerce Minister Chen Deming said Monday that the country's trade surplus would narrow this year as the growth of imports was likely to soon outpace that of exports.

Growth in China's foreign trade will slow this year, Chen told reporters during the annual session of the National People's Congress, the country's top legislature, adding that he could not rule out the possibility that China would register trade deficits in some months. Imports will expand rapidly this year as the country steps up efforts to restructure the economy, push forward its free trade agreements and improve import regulations, he said.

Chen expects the country to see a mild increase in this year's exports due to complicated domestic and international situations, including exchange rate fluctuations, increasing protectionism, higher costs of raw materials and labor as well as a shortage of domestic labor. "Higher standard of energy efficiency and environmental protection will further push up costs of production," he said.

Chen said the principle for this year's foreign trade policy is to "stabilize exports, boost imports while having a lower trade surplus." He noted the trade surplus in proportion to GDP would continue to drop this year but refused to give a specific forecast, which he said is difficult to make. The proportion was 3.1 percent for last year.

China's trade surplus fell to 183 billion U.S. dollars last year, from a record 296 billion U.S. dollars in 2008. Despite increasing uncertainties and difficulties, the outlook for China's foreign trade remains good this year, he said.

Chen said China will not "substantially" increase the imports of farm produce this year. He also hoped some western countries will remove restrictions on exports to China.

[http://news.xinhuanet.com/english2010/china/2011-03/07/c\\_13765500.htm](http://news.xinhuanet.com/english2010/china/2011-03/07/c_13765500.htm)

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***China to replace Japan as top consumer of high-end products by 2015: minister***

MARCH 07, 2011

BEIJING -- China is expected to surpass Japan to become the world's largest consumer of high-end goods by 2015, Commerce Minister Chen Deming said Monday. This shift was attributed to China's large population, rising income and inadequate supplies of home-made high-end brands, Chen told reporters.

Consumption of high-end products in China rose 23 percent in 2010, he said, adding that the number of Chinese people shopping for luxury goods overseas increased 30 percent. The government will develop the country's own brands and work out measures to let foreign brands sell their China-made products directly in China's market to benefit Chinese consumers, he said.

China will also improve its sales network and strengthen regulations in retail markets to reduce charges in circulation, he said.

[http://news.xinhuanet.com/english2010/china/2011-03/07/c\\_13765501.htm](http://news.xinhuanet.com/english2010/china/2011-03/07/c_13765501.htm)

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### ***British economic recovery faces inflation pressure in 2011***

March 06, 2011

LONDON: -- The British economy suffered more than most in the global financial crisis but enjoyed a healthy return to growth in 2010. However, 2011 looks to present challenges including rising inflation. The economy was the last of the G20 national economies to come out of recession, in the final quarter of 2009, but then enjoyed four straight quarters of quite robust growth before slipping back into decline with a 0.6 percent fall in GDP in the final quarter of 2010.

That decline in Q4 2010 surprised commentators, and in part was attributable to unusually bad winter weather which disrupted production and delivery, as well as retail sales.

However, the decline did raise the prospect that the British economy could be vulnerable to stagflation -- stagnation in GDP with inflation in prices -- which would see real costs rising for businesses and individuals while growth declined and incomes saw their real value reduced year-on-year by inflation running ahead of wage settlements.

Peter Westaway, chief European economist at Nomura in London, told Xinhua Friday, "The problem is that the UK is currently suffering a number of shocks which are causing inflation to be temporarily higher. Indirect taxation has gone up, oil prices and food prices have been very strong as well. People's income gets eroded and that tends to slow the economy down relative to a situation where inflation wasn't picking up."

One of the problems of consistently over-target inflation is that wage bargainers and workers could begin to believe that there will be long-term high inflation and start to push for higher wage settlements to compensate, said Westaway. If the Bank of England (BOE) thinks that, then it will want to raise interest rates.

Chris Williamson, chief economist at Markit, the financial information services company, also warned of the potential danger of wage inflation. "There are lots of pressures on the Bank of England to either increase interest rates or explain why it has not been raising them because inflation has been above target for quite some time now and it is beginning to lose its credibility," he told Xinhua.

"This risks consumer expectations of inflation increasing which will lead to more pay negotiation pressure. That's the big fear. It's a difficult situation but there is little information that pressure is gathering," Williamson said.

Williamson added there was some evidence of wage pressures in manufacturing, but that was an area which was "growing at a very fast rate, the fastest in 20 or 30 years, but that's only 13 percent of the economy."

The Purchasing Managers Index figures indicated a robust growth in the British economy in February, coming on the back of a return to growth in January.

Taking into account the bounce given by a rebound from the poor December figures, leading economists now predict a 0.2 percent growth in the British economy for the first quarter of 2011.

[http://news.xinhuanet.com/english2010/world/2011-03/06/c\\_13763074.htm](http://news.xinhuanet.com/english2010/world/2011-03/06/c_13763074.htm)

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### ***UK facing 1970s-style oil shock which could cost economy £45bn – Huhne***

Climate and energy secretary says an oil price of \$100 a barrel transforms the economics of climate change

Britain is facing a 1970s-style oil price shock that could cost the UK economy £45bn over two years, the climate and energy secretary, Chris Huhne, is expected to warn in his first

intervention on the issue since the start of Middle East political crisis.

In Thursday's keynote speech on the impact of the oil crisis, Huhne argued that an \$100 (£61) a barrel price for oil transforms the economics of climate change in Britain.

He disclosed the Department of Energy and Climate Change's (Decc) economists have warned that if the oil price rise turns into a 1970s-style shock the cumulative loss to the UK economy would be worth £45bn over two years. Decc's economists made the calculation on the basis of oil prices rising from \$80 a barrel last year to \$160, according to Huhne.

At \$102 a barrel, oil is at a two-and-a-half year high and there have been predictions that if the political turmoil spreads across the Gulf, the price will rise considerably more.

Huhne will say: "If the oil price doubled, as from \$80 last year to \$160 this year, it could lead to a cumulative loss of GDP of around £45bn over two years. This is not just far-off speculation: it is a threat here and now."

The speech is an attempt to galvanise public support for tough measures to create a green economy, after recent setbacks including attacks on the science of climate change and stalled international negotiations.

The speech could also be seen as an attempt to burnish the coalition's green credentials after months in which the Department for Transport has declared an end to the war on the motorist.

Drawing on research conducted for the previous government by Lord Stern, Huhne argued that a \$100 a barrel price is the exact point at which the economics of climate change pivot so that it becomes cheaper for British consumers and businesses to invest in green technology than remain with the status quo.

He said that if oil only reaches \$108 a barrel by 2020 as predicted by the US Department of Energy, which would also lead to higher gas prices, then "the UK consumer will win hands down". He said the UK consumer would be "paying less through low-carbon policies than they would pay for fossil fuel policies".

This is the moment to invest in green infrastructure, homes and transport, according to Huhne. Fossil fuels are now the costly, high-risk option for energy: it is "crazy" not to prepare for a low-carbon future.

He argued the government has made it possible for consumers and businesses to switch to green energy, through the green deal for homes, feed-in tariffs and new technologies such as electric cars which are predicted to have a "breakthrough" year in 2011.

But he warned that in the low-carbon economy, we will turn to electricity to heat our homes and charge our cars, leading to a doubling in demand for electricity by 2050. This week, Steve Holliday, the chief executive of the National Grid, said he predicts the UK will need to increase its installed capacity of electricity generation from 75GW to 100GW by 2030.

This in turn he will require a rapid transformation of the UK energy market with long lead-in times and high capital costs.

If the country is to avoid an energy crunch by the end of this decade, "the UK must cut our carbon emissions by 34% on 1990 levels. We must generate 15% of our energy from renewables by 2020, up from 6.7% in 2009."

Huhne said Britain has chosen a portfolio approach to energy supply, relying on a mix of renewables, nuclear and carbon capture and storage for coal and gas, adding it is impossible to declare now what the right mix will be in 2030.

He said it is impossible to overstate the scale of the investment challenge facing the country, pointing out that Ofgem estimates £200bn of new investment is needed over the next decade to secure supply as ageing nuclear and coal power plants close.

"Energy companies are not the Salvation Army and will need to convince big investors – like pension funds – that the UK energy market is not just stable, but also offers a good return."

As a result the consumer will face a cost, but it will be lower than not making the investment, according to Huhne.

"The carbon price set out by the EU emissions trading scheme is not high enough to drive the change we need."

Britain he insisted still wants to see a much stronger emissions target for Europe of a 30% cut by 2020, as opposed to the current 20%, claiming the extra cost of €1bn is "small change to Europe".

The government is due to finish consulting on 10 March on a major shakeup of the energy sector with its electricity market reform, which Huhne has previously said would lead to a "seismic shift" towards cleaner energy.

<http://www.guardian.co.uk/environment/2011/mar/03/chris-huhne-oil-prices-green-economy>

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### ***India will be \$5 trillion economy by 2022-25: Mukesh***

New Delhi: Reliance Industries Chairman Mukesh Ambani on Friday said that India would become USD 5 trillion economy by 2022-25. A more optimistic ICICI Bank chairman K V Kamath said that India would be USD 5 trillion economy by 2022.

India, at present, is a USD 1.2 trillion dollar economy. Participating in a discussion organised at the meeting of the Institute of International Finance (IIF) here, Ambani said, "India will be a USD 5 trillion economy by 2022-25 ... there can be a debate whether it would 2022 or 2025."

Citibank CEO Vikram Pandit, who was also a participant, underlined the need for expanding trade and commerce as it would help every one, especially the emerging economies. He said that the financial crisis is behind but the imbalances that caused the financial crisis still need to be worked out.

Appreciating the Budget 2011-12, Ambani also said fiscal consolidation proposed in the Budget would lay the foundation of "strong growth".

Finance Minister Pranab Mukherjee in the Budget 2011-12 proposed to reduce fiscal deficit to 4.6 per cent of the GDP from 5.2 per cent in the current fiscal.

Pandit said India is "at the centre of thing whichever way you look at --consumers, innovation, spending, globalisation.

Pandit said much of the global system is migrating towards emerging market economies and India is one of them. Banks are adjusting to this new reality of the real economy. Emerging markets including India are drivers of growth and banks are migrating towards the emerging markets, Pandit added.

To a query as to what will happen to New York and London, if emerging market economies will be the new financial centres, he said there will be many new financial centres but New York and London will play their roles.

Pandit exuded confidence that debt crisis in Europe will get resolved, but there will be pains in the restructuring process. In United States, the economy is starting to grow and momentum has to be maintained. He said banks will have to become banks again, referring to the global financial crisis when banks lost their assets in complex deals. Pandit said crisis in advanced countries will have a soft landing and debt overhang will be worked out. "Having come to Citi after crisis, I only look ahead," he quipped to a query on his thought about the

financial meltdown triggered by Lehman Brothers bankruptcy in September 2008.

Ambani said there is potential for India to grow in double digit and the challenge is how to manage the supply side. Energy in short run is outside control. However, food and agriculture has a big potential, he said. Besides, the other challenge is to create 15 million new earning opportunities in next 15 years. These earning opportunities have to come in agriculture, he said, adding in manufacturing, India has to compete with automation. Highlighting the importance of demographic dividend, Ambani said India is blessed with young people.

Ambani said India is going to surprise the world in the next 5-7 years in digital distribution of funds. "India is creating unprecedented infrastructure for digital distribution (of funds)," he said. Recently the Finance Minister has announced proposal to transfer subsidy directly to the beneficiary.

Ambani said there is now realisation that you have to produce goods and services that people value. "You cannot continue building market cap on thin air," he said.

<http://www.indianexpress.com/news/india-will-be-5-trillion-economy-by-202225-mukesh/758328/>

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### ***Saudi Stocks Climb on Economy, Snap Longest Selloff Since 1996***

Saudi stocks rose for the first time in three weeks, rallying the most in more than two years, after the finance minister said the Arab world's largest economy is benefitting from higher oil prices and in "excellent" shape.

Saudi Basic Industries Corp., the world's biggest petrochemical maker, surged 9.1 percent, and Al Rajhi Bank, the kingdom's biggest lender, jumped 7.6 percent. The Tadawul All Share Index, climbed 7.3 percent, the steepest gain since November 2008, to 5,709.91 at the 3:30 p.m. close in Riyadh. The gauge snapped a 13-day losing streak, the longest selloff since a similar period ended July 18, 1996.

The rise in oil prices will boost the "strong condition" of the kingdom, Finance Minister Ibrahim al-Assaf told Al Arabiya TV. Stock prices in Saudi Arabia, which holds about 20 percent of the world's proven oil reserves, are attractive now and the Saudi Public Pension Agency bought shares last week, he said. The state-run General Organization for Social Insurance also purchased stocks, according to Ajeej Capital's Fuad Aghabi.

"Assaf's comments have had the biggest impact on the market," said Aghabi, Ajeej Capital's investment director in Riyadh.

Stocks tumbled across the region last week, sending the Bloomberg GCC 200 Index of Persian Gulf shares to the lowest level since 2009 and propelling the Saudi benchmark down the most in two years, on concern the turmoil in Libya will spread through the Middle East.

#### **Discount Valuation**

"With my trust in this economy and this country, I also seized the opportunity" and bought shares, Finance Minister Al Assaf said. "I am a long term investor."

The benchmark index for Saudi stocks traded at 13.5 times reported earnings at the close on March 2, a 23 percent discount to the average price-earnings multiple of 17.5 over the past four years, data compiled by Bloomberg show.

Stocks are "attractively valued and the moves by government agencies signal continued confidence," said Asim Bukhtiar, an equity analyst at Riyadh Capital in Riyadh.

Oil rose 2.5 percent to a 29-month high yesterday. Crude oil for April delivery increased to \$104.42 a barrel on the New York Mercantile Exchange, the highest settlement since Sept. 26,

2008.

Saudi Basic, also known as Sabic, advanced the most since May, rising to 93 riyals. The relative strength index for the stock closed last week at 16.8. A reading below 30 indicates a stock will rise, according to some technical analysts.

Sabic 'Oversold'

"Oversold Saudi petrochemical companies, which enjoy advantages over international rivals, are attracting much attention after the spike in oil prices," said Amro Halwani, a senior trader at Shuaa Capital PSC in Riyadh.

Al Rajhi, the kingdom's biggest publicly traded lender by market value, rebounded from the lowest level since August 2009, rising to 70.75 riyals. Samba Financial Group, the second largest lender in the kingdom, rose the most in five years, gaining 9.8 percent to 48.40 riyals.

Etihad Etisalat Co., the second-biggest phone company by market value, climbed 7 percent, the biggest gain since December 2008, to 46 riyals.

National Shipping Co. of Saudi Arabia gained the most since November 2008 after saying it will sign four shipbuilding contracts valued at 1.5 billion riyals (\$411 billion) with Hyundai Mipo Dockyard tomorrow. National Shipping jumped 8.8 percent to 14.30 riyals.

Demonstrations

Shiite Muslims in the eastern province of Saudi Arabia held two demonstrations on March 3 to call for the release of prisoners, a rare event in the world's top oil exporter. Saudi Arabia's Interior Ministry said that demonstrations, marches and sit-ins are "strictly" prohibited under the kingdom's laws, the official Saudi Press Agency reported, citing an unidentified official at the ministry.

"Comments from the Minister of Finance today helped turn concern about domestic unrest," said Ajeej Capital's Aghabi. "It remains to be seen if the sentiment will continue to be positive as the week progresses."

Saudi Arabia's stock exchange is the only Gulf Arab bourse open on Saturdays.

*Bloomberg*

<http://www.businessweek.com/news/2011-03-05/saudi-stocks-climb-on-economy-snap-longest-selloff-since-1996.html>

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## **Saudi economy in 'excellent' shape**

Riyadh: Saudi Arabia's economy is in an 'excellent' shape and a rise in oil prices will boost the strong economic and financial position of the world's top oil exporter, its finance minister said on Saturday.

'The Saudi bourse and the overall Gulf stock markets react away from economic factors,' Ibrahim Alassaf told Al Arabiya TV.

Public revolts against autocratic regimes and economic hardships have swept through the Arab world over the past two months, unseating Egyptian and Tunisian leaders. The unrest now challenges governments in oil-exporting Libya, Bahrain and Oman.

Gulf stock markets have suffered from the regional jitters, while debt insurance costs rose across the world's top oil exporting region.

'For the first time, the Public Pension Agency bought some shares last week for the simple reason that prices became very attractive,' Alassaf said. 'Me too, I seized the opportunity to buy some shares.'

He expected the buying into shares to continue in the coming period.

Saudi Arabia's index surged after the minister's comments, rising from Wednesday's 22-month low.

But investors are likely to stay nervous ahead of a planned March 11 protest despite the king's plan to spend an estimated \$37 billion to ease social tensions in the Opec member, where over 10 per cent among 18 million locals is unemployed.

Alassaf said earlier this week that Saudi Arabia's economy had not seen any adverse impact from the regional turmoil.

Saudi Arabia, a key US ally, has outlined spending of SR580 billion (\$155 billion) for 2011 in its third consecutive record budget, with a conservative revenue estimate of SR540 billion.

Oil prices, which rose above a \$100 per barrel mark on the regional unrest, are expected to help the kingdom and other Gulf crude exporting countries to finance the increased social spending in the short term.

*Reuters*

[http://www.tradearabia.com/news/ECO\\_194593.html](http://www.tradearabia.com/news/ECO_194593.html)

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### ***Ireland 'to observe EU-IMF targets'***

Parties strike deal to form coalition government including agreement to adhere to bailout terms.

06 Mar 2011

Ireland's new government has confirmed it will stick to the stringent fiscal targets laid down in a European Union-International Monetary Fund bailout package. Confirmation followed news the centre-right Fine Gael party, the winner of last week's election, had concluded a coalition deal with the Labour party on Sunday. The two parties had taken divergent views during their electoral campaign on the scale of public-sector cutbacks, the split between taxes and spending cuts and the time frame for cutting the budget deficit to an EU limit of three per cent of gross domestic product.

Following the deal, the parties said they would stick to the fiscal targets, but reiterated in their programme for government their plans to seek a reduction on the bailout's average 5.8 per cent interest rate. "We will see very strong fiscal policy in the document which ties us into the parameters laid down by the EU/IMF, notwithstanding the fact that we want to see that renegotiated," Phil Hogan, one of the lead coalition negotiators for Fine Gael, told the state broadcaster RTE. He said the new government would target 25,000 job cuts in the public sector.

Brendan Howlin, one of the chief negotiators for the Labour party, told RTE: "We have to repair broken bridges across our European partner to build up an understanding of our position."

In November, Ireland's financial woes meant it negotiated a potential \$94bn line of credit from EU and IMF donors. A bailout became unavoidable as Ireland's largely state-owned banks found themselves unable to borrow on open markets and faced insolvency.

Fianna Fail, Ireland's then governing party, was handed a crushing electoral defeat in polls in February, thought mainly to be due to their handling of the crisis, but the new government has limited room for a change in economic policies.

Sunday's decision will likely be popular with Ireland's EU partners and draws a veil over much of the election campaigns' anti-Europe rhetoric.

<http://english.aljazeera.net/news/europe/2011/03/20113614232656952.html>

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### ***Greek credit rating downgraded***

Moody's drops rating three notches over concerns about the government's austerity programme, sparking anger from Athens.

07 Mar 2011

Greece has had its credit rating dropped by three notches, sparking strong condemnation from the debt-hit nation. Moody's Investor Services downgraded its rating to B1 from Ba1 on Monday, and warned it may cut the rating again if the government's commitment to austerity fades.

Greece was saved from bankruptcy last May after accepting a \$154bn bailout from the European Union and International Monetary Fund (IMF), on the condition that Athens imposed strict austerity measures.

Moody's said the Greek government's economic programme may not reduce debt and spark growth, and said there would be more difficult conditions when the bailout package ends in 2013. "The risk of a post-2013 restructuring might lead the Greek authorities and investors to participate in a voluntary distressed exchange before that time," the agency said in a statement.

Monday's downgrade sent a ripple of concern around credit markets, raising the price of insuring Greek, Portuguese and Spanish debt against default and the risk premium on holding Greek bonds rather than benchmark German bunds.

The Greek government swiftly condemned the move, saying the downgrade was "completely unjustified" and "does not reflect an objective and balanced assessment" of the country's economic prospects. "Ultimately, Moody's downgrading of Greece's debt reveals more about the misaligned incentives and the lack of accountability of credit rating agencies than the genuine state or prospects of the Greek economy," the finance ministry said.

It said that credit rating agencies had downgraded struggling countries like Greece heavily in past months in an attempt to make up for failing to predict the financial and debt crises. "Having completely missed the build-up of risk that led to the global financial crisis in 2008, the rating agencies are now competing with each other to be the first to identify risks that will lead to the next crisis," the ministry said.

Greek national debt is still to exceed 150 per cent of GDP this year, while the economy is forecast to contract three per cent in 2011 as a whole.

Credit ratings agencies have been criticised in recent years for having presented a too-rosy view of the global economy in the run-up to the financial crisis, which led to the deepest recession since World War II.

<http://english.aljazeera.net/news/europe/2011/03/20113712833754569.html>

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### ***Spain downgraded over banking fears***

Ratings agency downgrades debt by one notch to Aa2, citing concerns over cost of restructuring country's banking sector.

10 Mar 2011

Spain's debt has been downgraded by one notch to Aa2 by the ratings agency Moody's, which warned it may have to do so again. The US-based agency cited worries over the cost of restructuring the country's banking sector, the government's ability to achieve its borrowing reduction targets and grim economic growth prospects. It said a further downgrade was possible if indications emerge that Spain's fiscal targets will be missed, and if the public debt ratio increases more rapidly than currently expected. Moody's also expressed concern that the funding

requirements for Spain's troubled savings banks, called *cajas*, could end up greater than anticipated.

### *Property bubble*

The *cajas* have been hit particularly hard by the bursting of the nation's property bubble, which saddled them with billions of euros in bad loans. On the plus side, Moody's noted the government's resolve in dealing with its problems and added that Spain's debt sustainability is not under threat.

Elena Salgado, the Spanish finance minister, said that the government agreed that the nation must make a better effort to push debt-laden regional governments to reduce their deficits. However, Salgado said that Moody's should have waited for the Bank of Spain to release its own report on the banks' capital needs after markets close on Thursday.

While the government has previously estimated that the *cajas* need no more than \$27.8bn, or less than two per cent of Spain's gross domestic product, Moody's predicted the cost could reach \$55bn to \$70bn and might eventually come in at a massive \$140bn to \$170bn. Fitch, another ratings agency, said on Thursday that the Spanish banking system would need at least \$53bn to clean up its balance sheets, and may require as much as \$135bn based on the losses at Irish banks.

Spain's government is trying to tackle its borrowings by reducing spending and raising taxes. Last year, it reduced its budget deficit by around two percentage points to 9.2 per cent of national income. But unemployment has shot up to more than 20 per cent amid predictions of gloomy economic growth, and Spain is also being hit by high oil prices sent skyrocketing by the unrest in Libya.

Spain's main stock index sank 1.3 per cent following the release of Moody's report.

<http://english.aljazeera.net/business/2011/03/2011310163821440689.html>

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### ***Is there future for Russian arms exports?***

Is there a future for the Russian arms exports? Russia has the reasons to be concerned with this issue at this particular moment. Indeed, in the recent years sales of the Russian weapons abroad were associated mainly with the countries of the Maghreb and the Middle East due to the fact that the Chinese have abandoned their once large-scale purchases by copying everything they need.

However, Russia has some issues in the Middle East sector as well. For example, last year Russia did not supply S-300 to Iran, which has jeopardized further development of the military trade relations with the country that has earlier promised multibillion-dollar profits. Now Russia has to deal with the consequences of a series of revolutions in the Arab world which has already led to serious changes in the geography of the Russian arms exports. Moscow has agreed to support the arms embargo against Libya beset by a civil war. As a result, the prospects for the implementation of Russia's previous agreements with Gaddafi are now questionable. The situation is unstable in Algeria, one of the major buyers of Russian arms. It is not ruled out that the external forces will try to "rock the boat" in Syria, Russia's traditional partner in military-technical cooperation (MTC).

Is it possible in this situation to talk about long-term partnership with the previous buyers of Russian weapons? Experts Yevgeny Satanovsky, Alexander Khramchikhin and Konstantin Sivkov answered this question in an interview with Pravda.ru.

Yevgeny Satanovsky, president of the Middle East Institute: "We cannot speak of any kind of long-term contracts in this region. No one can vouch for the stability of the ruling regimes in the countries from the Atlantic to the Indian Ocean, even Saudi Arabia. Therefore, in view of the current events there can be very serious changes on the arms market. Now we can seriously talk about the development of MTC with the countries of the region in the short term. In other words, executed contracts are those with a prepayment".

Konstantin Sivkov, first vice-president of the Academy of Geopolitical Issues: "We have noticeably lost ground in the arms market in the region last year when, under pressure from the United States, we refused to fulfill a contract to supply S-300 missiles to Iran. We have shown to the entire world that the long-term cooperation in MTC is not possible and that we depend on the opinions of the Americans.

There is no need to entertain the thought that in spite of this we will retain the former influence in the countries that are independent of the U.S. policy. Some may think that countries like Iran and Libya have nowhere to go, and that sooner or later they will be buying Russian weapons again. This is not the case. Iran was not bluffing when, after the termination of the S-300 contract by Russia, it said that it has obtained similar equipment through other channels.

In fact, last year Russia left the arms market of that country. But as you know, a holy place is never empty, and China has already replaced Russia with its HQ-9 SAM, which are really an analog of S-300. Obviously, the same will happen to Libya. For Gaddafi Russia's accession to the arms embargo means absolutely nothing. He has so many weapons that the supplies will last for many years. However, it is unlikely that he will forgive us this behavior".

Alexander Khramchikhin, deputy director of the Institute of Political and Military Analysis: "With regard to Libya, the prospects for further cooperation remain rather vague. Apparently, the decision for Russia to join the sanctions was taken on the grounds of gloomy prospects for Gaddafi. However, the earnest hope that the rebels that came to power will rush into our arms would not be too serious.

If we are talking about the arms market in the region in general, we may lose the benefits of failed transactions for modernization of the weapons that have been already supplied. In Soviet times, we have supplied thousands of armored vehicles, hundreds of planes, etc., to Arab countries. Today they have become obsolete, but their life could be prolonged through certain updates. This type of MTC in terms of profitability is not inferior to the supply of new weapons. In particular this applies to Algeria, Libya and Syria.

The latter, being almost 100 percent equipped with Soviet and Russian weapons, at first glance seems to be simple, but it is not. Even if we lose the Syrian market it will not be catastrophic because the Syrians cannot pay, even given the fact that they are largely financed by Iran and Saudi Arabia.

If, however, we analyze the situation as a whole, there are unrests in the region and it is not ruled out that in the near future the old regimes will change. In this case we can only state the fact of the existence of threats to our arms exports, but we cannot oppose anything to it.

Given that many of the countries in the region are unstable and that radicals may come to power, the prospects for further cooperation with them are becoming hazy. I am afraid that as a result both Russia and the West would lose. China will be the one to win. As obvious from its relations with Iran, they do not take into account the policy of doing business with odious regimes".

[http://english.pravda.ru/russia/economics/11-03-2011/117159-russian\\_arms\\_exports-0/](http://english.pravda.ru/russia/economics/11-03-2011/117159-russian_arms_exports-0/)

### *Japan considers emergency budget*

Prime minister Naoto Kan calls for extra budget to help "save the country" after devastating earthquake and tsunami.

12 Mar 2011

Japan's leaders are pushing for an emergency budget to counter the economic damage from a powerful earthquake and tsunami that has killed hundreds of people and caused widespread destruction. The heads of the ruling and opposition parties agreed on the need for an extra budget after Naoto Kan, the prime minister, asked them to help "save the country".

However, Yoshihiko Noda, Japan's finance minister said on Saturday that it would be hard to compile an emergency budget before the end of March. Noda said it would take time to estimate the cost of the damage needed to determine the size of any new budget.

The Bank of Japan (BOJ) has said it will cut short a two-day policy due to start on Monday to just one day and promised to do its utmost to ensure financial market stability.

Following Friday's earthquake, many car plants, electronics factories and refineries were shut, roads were buckled and power to millions of homes and businesses knocked out. Several airports, including Tokyo's Narita, were closed and rail services halted. All ports were shut.

Until the earthquake, Japan, the world's third-largest economy, had been showing signs of reviving from an economic contraction in the final quarter of last year. The disaster has raised the prospect of major disruptions for business and a repair bill of billions of dollars.

### *'Emergency'*

Yasuo Yamamoto, a senior economist at the Mizuho Research Institute in Tokyo, said: "The government would have to sell more bonds, but this is an emergency, so this can't be avoided." Given where the Bank of Japan's benchmark interest rate is now, they can't really lower rates. The BOJ will focus on providing liquidity, possibly by expanding market operations.

New Zealand's central bank slashed interest rates on Thursday after a 6.3-magnitude earthquake that wrecked Christchurch's central business district.

The BOJ's options are more limited, with the country's interest rate already at just 0.1 per cent following cuts during the global financial crisis. The government's fiscal hands are also tied as it wrestles with the biggest public debt among industrialised countries at two times the \$5 trillion economy. "The government must act quickly to announce support packages and the central bank should pump more money into the economy," said Tsutomu Yamada, a market analyst at Kabu.com Securities.

### *Sony factories*

Japan's economy looked set to return to growth in the first quarter of 2011, according to a Reuters poll earlier this week. After the disaster, it will probably fall again before growing more strongly as a result of rebuilding work, said Chris Low, chief economist at FTN Financial in New York. The 8.9-magnitude quake sent shares skidding in Japan.

"There are car and semiconductor factories in northern Japan, so there will be some economic impact due to damage to factories," said Yamamoto.

Electronics giant Sony, one of the country's biggest exporters, announced that it had shut six factories, just one of scores of major companies affected by the disaster.

Mitsuhsige Akino, a fund manager at Ichiyoshi Investment Management, said: "Stocks will probably fall Monday, especially of those companies that have factories in the affected areas, but on the whole the sell off will likely be short-lived."

A 1995 earthquake that devastated the Japanese city of Kobe caused \$100bn in damage, though industrial production and financial markets bounced back fairly quickly.

<http://english.aljazeera.net/news/asia-pacific/2011/03/201131213440382867.html>

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### ***Algeria to maintain oil investments in Libya: report***

March 12, 2011

ALGIERS: Algeria has decided to maintain its oil investments in Libya despite the turmoil that have ravaged the country for several weeks.

"After recurrent meetings and after repatriating 80 of its workers in its subsidiary SIPEX in Libya, the state-owned oil company Sonatrach has decided to sustain the 50 million U.S. dollars investments per year in Libya," El Khabar newspaper quoted an official at the Ministry of Energy and Mines as saying on Friday.

The source specified that "Sonatrach will continue exploring its awarded oil blocks as soon as the situation calms down," adding that "working equipment and devices have been left in the sites where SIPEX works in, including in Ghadames region in the south east of Libya, near borders with Algeria."

Algerian Minister of Energy and Mines Youcef Yousfi has already declared that Sonatrach achieved its first hydrocarbon discovery in Libya in 2005, while the second discovery was made in 2010 in Ghadames basin, near borders between the two countries.

However, Minister of Interior Dahou Ould Kablia mentioned that Sonatrach and its workers in Libya have been subject to stealing by mercenaries.

[http://news.xinhuanet.com/english2010/world/2011-03/12/c\\_13775166.htm](http://news.xinhuanet.com/english2010/world/2011-03/12/c_13775166.htm)

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## ***ARTICLES/COMMENTARIES***

### ***Need versus greed***

The global economy is growing quickly, but too much wealth is siphoned off by well connected billionaires.

By: Jeffrey D. Sachs

India's great moral leader Mohandas Gandhi famously said that there is enough on Earth for everybody's need, but not enough for everybody's greed. Today, Gandhi's insight is being put to the test as never before. The world is hitting global limits in its use of resources. We are feeling the shocks each day in catastrophic floods, droughts, and storms – and in the resulting surge in prices in the marketplace. Our fate now depends on whether we cooperate or fall victim to self-defeating greed.

The limits to the global economy are new, resulting from the unprecedented size of the world's population and the unprecedented spread of economic growth to nearly the entire world. There are now seven billion people on the planet compared to just three billion a half-century ago. Today, average per capita income is \$10,000, with the rich world averaging around \$40,000

and the developing world around \$4,000. That means that the world economy is now producing around \$70 trillion in total annual output, compared to around \$10 trillion in 1960.

China's economy is growing at around 10 per cent annually. India's is growing at nearly the same rate. Africa, long the world's slowest-growing region, is now averaging roughly 5 per cent annual GDP growth. Overall, the developing countries are growing at around seven per cent per year, and the developed economies at around 2 per cent, yielding a global average of around 4.5 per cent.

### *Greed for growth*

This is very good news in many ways. Rapid economic growth in developing countries is helping to alleviate poverty. In China, for example, extreme poverty has been cut from well over half of the population 30 years ago to around 10 per cent or less today.

Yet there is another side to the global growth story that we must understand clearly. With the world economy growing at 4-5 per cent per year, it will be on a path to double in size in less than 20 years. Today's \$70 trillion world economy will be at \$140 trillion before 2030, and \$280 trillion before 2050 if we extrapolate from today's growth rate.

Our planet will not physically support this exponential economic growth if we let greed take the upper hand. Even today, the weight of the world economy is already crushing nature, rapidly depleting the supplies of fossil-fuel energy resources that nature created over millions of years, while the resulting climate change has led to massive instabilities in terms of rainfall, temperature, and extreme storms.

We see these pressures every day in the marketplace. Oil prices have surged to more than \$100 per barrel, as China, India, and other oil-importing countries join the United States in a massive scramble to buy up supplies, especially from the Middle East. Food prices, too, are at historical highs, contributing to poverty and political unrest.

### *Environmental stress*

On the one hand, there are more mouths to feed, and with greater purchasing power on average. On the other hand, heat waves, droughts, floods, and other disasters induced by climate change are destroying crops and reducing the supplies of grains on world markets. In recent months, massive droughts have struck the grain-producing regions of Russia and Ukraine, and enormous floods have hit Brazil and Australia; now, another drought is menacing northern China's grain belt.

There is something else hidden from view that is very dangerous. In many populous parts of the world, including the grain-growing regions of northern India, northern China, and the American Midwest, farmers are tapping into groundwater to irrigate their crops.

The great aquifers that supply water for irrigation are being depleted. In some places in India, the water table has been falling by several meters annually in recent years. Some deep wells are approaching the point of exhaustion, with salinity set to rise as ocean water infiltrates the aquifer.

A calamity is inevitable unless we change. And here is where Gandhi comes in. If our societies are run according to the greed principle, with the rich doing everything to get richer, the growing resource crisis will lead to a widening divide between the rich and the poor – and quite possibly to an increasingly violent struggle for survival.

### *Class conflict*

The rich will try to use their power to commandeer more land, more water, and more energy for themselves, and many will support violent means to do so, if necessary. The US has already followed a strategy of militarisation in the Middle East in the naïve hope that such an approach can ensure secure energy supplies. Now competition for those supplies is intensifying, as China, India, and others bid for the same (depleting) resources.

An analogous power grab is being attempted in Africa. The rise in food prices is leading to a land grab, as powerful politicians sell foreign investors massive tracts of farmland, brushing aside the traditional land rights of poor smallholders. Foreign investors hope to use large mechanised farms to produce output for export, leaving little or nothing for the local populations. Everywhere in the leading countries – the US, the United Kingdom, China, India, and elsewhere – the rich have enjoyed soaring incomes and growing political power. The US economy has been taken over by billionaires, the oil industry, and other key sectors. The same trends threaten the emerging economies, where wealth and corruption are on the rise.

If greed dominates, the engine of economic growth will deplete our resources, push the poor aside, and drive us into a deep social, political, and economic crisis. The alternative is a path of political and social cooperation, both within countries and internationally. There will be enough resources and prosperity to go around if we convert our economies to renewable energy sources, sustainable agricultural practices, and reasonable taxation of the rich. This is the path to shared prosperity through improved technologies, political fairness, and ethical awareness.

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<http://english.aljazeera.net/indepth/opinion/2011/03/20113313330192433.html>

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### **Why is Israel aid exempt?**

As US fiscal conservatives cut food programmes for poor children, military aid for Israel is left untouched.

MJ Rosenberg

Once upon a time, social security was considered the "third rail" of American politics. The "third rail" is the train track that carries the high-voltage power; touching it means instant death. The "third rail" metaphor has for decades been applied to social security, a government program so popular with the American public that proposing any changes in it would mean political death to the politician.

No more. Although social security is as popular as ever, politicians routinely propose changes in the program — including privatisation and means testing. While the proposals usually go nowhere, and rightly so, the politicians who support them live to fight another day. Today, with those massive deficits and the astronomical national debt, not even social security is sacrosanct. Few, if any, government programs are.

But US aid to Israel is. In fact, the \$3bn Israel aid package is the new third rail of American politics: touch it and die. It is also the one program that liberals, conservatives, Democrats, Republicans and tea partiers all agree should not sustain even a dollar in cuts.

Actually, that is something of a mis-statement. These various parties and factions do not agree that the \$3bn Israel aid package is sacred. They just say that they do because a powerful

lobby, the American Israel Public Affairs Committee (AIPAC), makes clear to them that touching the aid package will mean big trouble for them in the next election.

### *Cuts to social programmes*

It no longer comes as much of a surprise that the average Democrat or Republican will rule that Israel aid cuts are off the table — while supporting cuts in programs like head start, which educates poor children, or WIC, which provides nutrition assistance to disadvantaged women and their infants. It is not a surprise because everyone knows that the Democratic and Republican campaign finance committees warn their members of the dire consequences that might ensue if they dare to stand up to the lobby.

That is why even the most liberal members of congress never point out the absurdity of supporting full funding of military aid to Israel while slashing vital domestic programs. In fact, the only members of congress who have suggested that Israel share some of the sacrifice are Representative Ron Paul (R-TX) and his son, Senator Rand Paul (R-KY) who would pretty much cut every program in the budget, including Israel aid.

But the two Pauls, all by themselves, put enough of a scare into AIPAC that it immediately got to work to make sure that other like-minded Republicans (the "cut everything" caucus) did not go off and follow them in the name of, say, logic and consistency.

### *Fiscal conservatives?*

AIPAC was most concerned about the Republican first-termers, most of whom were elected with the support of tea partiers, who are generally extreme fiscal conservatives and tend not to favor any exemptions from the budget axe. Almost immediately, AIPAC produced a letter for the Republican first-termers to sign in which they pledged that, no matter what else they cut, Israel would be exempt. And almost immediately, 65 of the 87 Republican freshmen signed on, with more signing on later.

Among the signatories are some of the most vehement supporters of cutting virtually every domestic program. These are people who support programs that cut jobs in their own districts and proudly point to their devotion to the principle that shared sacrifice means everyone. But not Israel.

The AIPAC letter seems to recognise that virtually every other program is sustaining cuts. It refers to "runaway spending and trillion dollar deficits." It even concedes that "tough choices must be made to control federal spending" and that "we must do a better job of prioritising appropriations". Those priorities can be seen in this list of draconian budget cuts the freshmen support.

But then this: "Therefore, as this congress considers the upcoming continuing resolution, we strongly urge you [the House leadership] to include America's full \$3bn commitment for Fiscal Year 2011 under the 10-year US-Israel Memorandum of Understanding. And that is where fiscal hawks become the most docile of doves: when it comes to Israel.

### *Conditional aid*

This is not to say that the United States should eliminate military aid to Israel. Much of the aid package can be justified on the grounds that Israel is an ally, one that still has enemies bent on its destruction. But how can anyone justify picking this one program out of the entire federal budget and saying, without discussion, that it merits full funding, without scrutiny, while virtually every other program is cut?

The simple fact is that both the United States and Israel would be better off if we attached strings to our aid, as we do with other foreign assistance programmes. For instance, we might say that for every dollar Israel spends on expanding settlements, we will subtract one dollar from the aid package. Or we can put some of the package on hold until Israel agrees to freeze settlements, thereby enabling negotiations with the Palestinians to resume.

Or we can simply examine the aid budget, item by item, to make sure that each program in it supports US policy goals. Do those US -provided cluster bombs that are still exploding in Lebanon serve our interests? But we do none of that. Israel prepares a shopping list and congressional appropriators provide the goods. Shop 'til you drop.

This is wrong. Congress should treat the Israel aid package the same way it deals with programs that directly benefit Americans. Those who support it should be forced to defend it, line by line.

But the sad fact is that special interests like AIPAC, the Chamber of Commerce and the Club for Growth intimidate Congress into exempting their favorite projects even from discussion. Aid to Israel will not even be discussed this year, except for members of Congress informing AIPAC of their unquestioning devotion to it.

If only infants, working Americans, and the poor were somebody's special interest. Maybe then, someday, they too could intimidate congress. As the old Jewish expression goes: we should all live so long.

*MJ Rosenberg is a senior foreign policy fellow at Media Matters Action Network. The above article first appeared in Foreign Policy Matters, a part of the Media Matters Action Network.*

<http://english.aljazeera.net/indepth/opinion/2011/03/201135115850632729.html>

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### ***Global stagflation is here to stay***

Don't believe the overly bullish global growth estimates. There's plenty of evidence that growth will slow and inflation will continue to accelerate, even if commodities back off their highs.

*By Darius Dale, Hedgeye*

One question we've been wrestling with lately is: "Where do we go from here?" – particularly as it relates to the commodity inflation you've been reading about for the last few months. There's a compelling case that the boat has left the dock with regards to global inflation trends. As we've seen with accelerating "Core" CPI readings, particularly in Asian economies like China, Indonesia, and Thailand, companies globally are taking advantage of recent robust global growth trends and bullish growth forecasts to pass price increases through to consumers.

The US, China, Japan, India, Brazil are just a few major economies where consensus growth forecasts for 2011 are much, much too high relative to our models and the current global macro backdrop of accelerating inflation and higher interest rates.

Irrespective of the tired argument between the importance of "Core" vs. "Headline" CPI, the key takeaway here is that even if commodities start to back off, their current highs (i.e. if MENA conflict stopped today and crude oil went back down to the \$80-\$85 range), there is a very high and underappreciated possibility that global inflation readings will continue to accelerate for two main reasons:

1. Corporations will look to overly bullish global growth estimates as justification to pass the last two quarters of price inflation through to end-consumers in an attempt to protect both margins and earnings.

2. The recent global trend of public officials caving in to populist pressure to increase subsidies, transfer payments, and wages will continue to add to the demand-side inflationary pressure and exacerbate the current supply/demand imbalances of many commodities in the near term. Longer term, this artificial support of consumer demand is likely to result in additional price pass-through to end-consumers, which is likely to stymie consumption growth over the intermediate term.

Since we all know where consensus is regarding the current lofty global growth assumptions, we'll just skip right to addressing point #2. A few specific examples of the recent global trend of increasing subsidies, transfer payments, and wages include:

- China: As the government moves to rebalance the economy towards a greater reliance on domestic consumption, minimum wage hikes are anticipated in all 31 provinces for the second consecutive year, with key populations such as Guangdong, Beijing, and Shanghai are at the forefront of gains.
- Indonesia: Plans to remove longstanding subsidies for fuel in March have been scrapped. In the past, the removal of such subsidies has led to protests, which brought down Indonesian governments, such as the Suharto regime in the late '90's.
- MENA: Speaking of protests, Jordan, Algeria, Morocco, Yemen, Libya, and, perhaps most importantly, Saudi Arabia have flooded their economies with transfer payments to ward off current and future protesters. Specifically, the Saudi royal family just announced a \$37 billion benefits package last week in what may turn out to be a moot effort to prevent a domestic social upheaval.
- India: In its latest budget (released Monday) the government is attempting to boost incomes through greater income tax exemptions. Moreover, it is increasing subsidies for housing loans and allocating 1.44 trillion rupees for food and fuel subsidies. Additional subsidies are expected to be announced in the coming weeks.
- Thailand: The government just recently extended a program that provides free electricity and public transportation for the poor.
- Brazil: President Rousseff just announced a \$1.3 billion increase in funding for Brazil's Bolsa Familia transfer program, which will allow even more families to receive benefits.

Perhaps more so than the other countries, Hong Kong's capitulation on this front revealed an interesting takeaway as it relates this trend with respect to developing vs. developed economies. After Chief Executive Donald Tsang (the highest ranking Hong Kong official) was assaulted amid a wave of public protests earlier this week, Financial Secretary John Tsang agreed to hand out cash, tax rebates, pension injections to the tune of HK\$6,000 in each instance. This is in addition to his decision last week to wave public housing rents for two months and provide subsidies for electricity bills while talking up the dangerous inflationary pressures of providing cash handouts.

Addressing the media, Tsang had this to say: "We find this is the best way to respond to demands from residents..."

Given that most regard Hong Kong as a reasonably developed economy, it was interesting to see its government give in to populist demands for additional handouts. It suggests that this trend may no longer be contained to developing nations like those of the MENA region, India, and China.

All told, we've been beating the table on global stagflation since October. Now that consensus has figured out the inflation component as oil trades above \$100 per barrel, our task is to figure out how to time consensus' uncovering of the bearish growth factor on the short side of

equities. If 2008 is any guide, they will kick, scream, and buy every dip on the way down – provided we're headed there; ultimately, time and space will tell.

<http://finance.fortune.cnn.com/2011/03/04/global-stagflation-is-here-to-stay/>

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### **ASEAN connectivity - what is in it for us?**

Hong Hin Lim and Dionisius Narjoko

ASEAN, as a region, has some 32,000 islands spanning over 4 million sq km which are inhabited by about 600 million people who speak more than 900 different languages and dialects on a daily basis. Equally diverse is the level of economic development where the GDP per capita between the most and least advanced members varies from US\$800 to \$49,000.

Despite the socio-economic disparities, ASEAN has collectively made significant progress through various economic, social and political initiatives to be one of the fastest developing regions in the world.

One such initiative is the establishment of growth triangles to link different ASEAN member-states with different comparative advantages to form sub-regions of economic growth such as the BIMP-EAGA, IMT-GT and SIJORI-GT.

For example, under the BIMP-EAGA (the Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area), the expansion of air linkages through the granting of fifth freedom traffic rights for designated international airports, removal of restrictions on frequency and capacity and code sharing arrangements will help set the ground work for region-wide implementation.

However, ASEAN must not rest on its laurels, for there are significant challenges that lie ahead as she works toward establishing her community by 2015.

Internally, one of the key challenges to address is trade facilitation as reflected in World Bank Logistics Performance 2010 where ASEAN member-states ranked from second to 146th out of the 155 countries surveyed.

Externally, ASEAN would need to step up its intra-regional trade if she is to maintain a central role as the driving force for regional integration framework, given the emergence of new economic superpowers such as China and India.

Last October, the ASEAN leaders adopted the master plan on ASEAN connectivity which aims to facilitate economic growth and narrow development gaps by enhancing physical, institutional and people-to-people linkages in the region.

For physical linkages, the key issues to be addressed, among others, are enhancing transportation links, connecting archipelagic member-states to the mainland, narrowing the digital divide and addressing increasing energy demands.

In its ongoing effort to establish an efficient, multimodal transport system for seamless movement of goods, services and utilities, as well as the movement of people across and beyond the region, ASEAN drafted strategies to upgrade existing road links, construct missing rail links, enhance key ports' infrastructures, promote greater use of roll-on/roll-off activities to connect archipelagic regions and capitalize on endowed navigable inland waterways.

Such strategies will benefit both consumers and producers in terms of access to a variety of goods and services and alternative transportation links, respectively.

More importantly, it will help develop and link local markets in the archipelagic member-states with the rest of the region.

ASEAN also recognised the increasing role of information, communication and technology (ICT) in its endeavor to create a single market and production base through the simplification of trade documentations, clearance of goods and enhanced logistic services.

ASEAN further recognised the need to address the digital divide, nurture technological innovation and harmonise ICT regulations.

Strategies are in place to ensure that ICT infrastructure is accessible and affordable across the member-states with the view to promote greater usage of ICT as an empowering tool for governance and innovation.

This includes the establishment of the ASEAN Internet Exchange, which will increase the speed of transactions while reducing the associated costs, the establishment of the ASEAN Broadband Corridor to offer seamless broadband quality across the member states and adherence to the Universal Services Obligations to promote accessibility and affordability for ICT services.

Under institutional linkages, the key challenge here is to put in place requisite legal and institutional mechanisms to enable physical linkages to facilitate movements of goods, services, utilities and people within and beyond the region.

One such mechanism is the establishment of a system (eg, the ASEAN Single Window and the associated National Single Windows) which will process all related documents such as customs declarations, import/export permit applications and quarantine inspections, in relation to the release and clearance of cargo.

Currently, importers and exporters are required to obtain necessary papers and permits from several government agencies in order to complete their respective transactions.

When the system is in place, traders will benefit from an open and transparent process, effective deployment of resources, faster clearance and release of cargoes and reduction in transaction costs.

The governments will benefit from greater compliance on the part of traders, high revenue yield and enablement of risk management tools for control and enforcement purposes.

Another important ASEAN initiative relates to the minimization of technical barriers to trade to support free flow of goods in the region.

This will address differences in technical regulations, standards and conformity assessment to realize the ASEAN goal of one product, one test, accepted everywhere (in the region).

The key benefits to the manufacturers are cost savings, inasmuch as they do not have to perform multiple tests for their products to meet local requirements, as well as access to a larger market for their products.

The consumers will also benefit from a wider choice of products whose quality and interoperability have been assured as a result of the requisite tests when the products enter the local market.

Another promising mechanism is the establishment of an ASEAN Single Aviation Market where there will be no restrictions on routes, capacities, frequencies or types of aircrafts over ASEAN skies.

From the passengers' perspective, they will benefit from lower fares, better services and more options on how to get to their destinations. Airlines will also benefit from the access to new markets.

With the master plan in place in this three-pronged set of strategies for improved physical connectivity, better institutional connectivity and deeper people-to-people connectivity, its full implementation will deepen and widen ASEAN production and distribution networks which will create more opportunities for inclusive economic growth.

Finally, it is important to underline that the concept of ASEAN connectivity is consistent and strengthens the ASEAN community building efforts.

A more connected ASEAN region would certainly improve the region's competitiveness which is an important ingredient to sustaining ASEAN centrality in tougher global competition.

*(Dionisius Narjoko is a researcher and Hong Hin Lim was an associate researcher at the Economic Research Institute for ASEAN and East Asia.)*

*<http://www.asianewsnet.net/home/news.php?id=17677&sec=2>*

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