GLOBAL ECONOMY 163
BUSINESS AND POLITICS IN THE MUSLIM WORLD

Weekly Report on Global Economic and Business Developments

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Report Outline

GENERAL ECONOMIC AND BUSINESS DEVELOPMENTS IN THE WORLD

Global recovery faces headwinds -- World Bank chief economist

WASHINGTON -- The global economic recovery was under way in a two-speed growth manner, with headwinds such as inflationary pressure to deal with, World Bank Chief Economist Justin Yifu Lin said Friday.

The world economy expanded by 3.9 percent last year after declining by 2.2 percent in 2009, as some advanced economies were hit hard by the worst recession in decades, Lin, also World Bank Senior Vice President, told Xinhua in an exclusive interview.

"The world economy is forecast to grow at a pace of 3.3 percent this year," Lin said, adding that developing countries will continue to spearhead the global economic growth.

The growth pace of emerging economies this year was predicted to reach 6 percent, outstripping a 2.4-percent growth of advanced economies, as some developed countries were still mired in a slack of production capacity and stubbornly high unemployment rates.

"This scenario will dampen some investors' enthusiasm for increasing new investment, and curb improvement of household consumption in those economies."

As the gross domestic product (GDP) of developed countries accounted for about 70 percent of the world's total, this would also affect the pace of global economic growth, Lin said.

He meanwhile noted that a combination of factors including dropping grain supply in some countries, oil price surge and speculation had contributed to the recent food price spike, and that this challenge must be properly dealt with.

The Washington-based agency predicted in January that the global economy growth would slow down to 3.3 percent this year and pick up steam to advance by 3.6 percent in 2012, while China's economy was to grow 8.7 percent this year and 8.4 percent in 2012.

Predicting that China is expected to sustain high-speed growth in the coming 20 or 30 years, Lin meanwhile pointed out that China needs to keep a close eye on challenges including the real estate bubble and income gap, and be alert to some economic uncertainties.

The renowned economist contended that China should continue with its economic restructuring efforts, give the private sector a bigger role to play, and help improve billions of farmer's income and livelihood.

http://news.xinhuanet.com/english2010/indepth/2011-03/12/c_13774360.htm

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OPEC weekly oil price keeps rising for fourth week

March 14, 2011

VIENNA -- The weekly average oil price of the Organization of Petroleum Exporting Countries (OPEC) increased to 110.29 U.S. dollars per barrel last week, the Vienna-based cartel said Monday.

The OPEC basket prices have so far continued to increase for four consecutive weeks.

Analysts believe that this round of continual price hikes is not driven by big changes in supply and demand in oil market, but due to market speculation promoted by the turmoil in North Africa and Arab countries, many of which are OPEC countries.

The unrest in Libya and instability in Saudi Arabia have become the major topic of speculation on the international oil market. The concerns on the security of future supplies of crude oil push oil prices higher.

However, as the chaotic situation of North Africa and the Middle East has not been further aggravated since last weekend, which makes the market speculation cool down. Besides, some profit-taking business operations of the crude oil investors also suppress the oil price to a certain extent.
In addition, the major earthquake in Japan, which would hit its economy tremendously and lead to a huge decline in oil consumption, also affects the relationship of supply and demand in international oil market.
Japan is the world's third largest consumer of crude oil. Its crude oil consumption amounts to 4.37 million barrels per day, accounting for 5.22 percent of total global consumption of crude oil.
Japan is also the fourth largest oil refining country of the world, and its daily processing capacity amounts to 4.62 million barrels. However, its oil consumption is totally dependent on imports.
Press reports showed that the tsunami in Japan last weekend caused by the earthquake has led to the closure of at least five oil refineries, whose combined refinery capacity accounts for one fourth of its total refining capacity.
Japan's crude oil imports are expected to be reduced before the reopening of its ports and its post-disaster reconstruction.
Although the latest OPEC monthly report said that global supply of crude oil remained adequate, the impacts of the situation in Libya and Saudi Arabia on international crude oil market are still cause for concern for the next period of time.
Since Saudi Arabia's current situation is not stable, and as one of the most important crude oil suppliers over the world, there would be huge impact on the international oil prices if there is any unrest in Saudi Arabia.
Overall, in the near future, if there is no further spread of unrest from the Middle East to the major oil producing countries such as Saudi Arabia, the international oil prices would drop with fluctuation.

http://news.xinhuanet.com/english2010/business/2011-03/14/c_13778385.htm

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Asia arms itself to the teeth

March 15, 2011

India became the world's largest importer of arms during 2006-2010, a report from the Stockholm International Peace Research Institute said. The share of India's world arms shipments made up nine percent. China's share was evaluated at six percent. The list of other active arms importers includes South Korea (6%) and Pakistan (5%). The largest exporters of arms in the world are the USA, Russia and Germany.

According to SIPRI experts, Russia remains the primary supplier of arms and military hardware to India. Russia's share in arms transfers to India during the recent five years was evaluated at 82 percent.
This situation is said to change in the future. India does not purchase ready-made products only - the country is interested in acquiring defense technologies and launching its own production of arms. India is following China's example at this point. China already promotes itself as a large member on the arms market to make a competition to its former primary supplier - Russia.
A year ago, SIPRI named China as the world's largest importer of arms during 2005-2009. It was particularly said that China had bought nine percent of world arms. There are serious doubts about China's ability to independently design and develop state-of-the-art arms. However, it goes without saying that it is much cheaper and easier to reproduce relatively simple types of arms.

China presumably exports its arms to Pakistan. Egypt is the second largest importer of Chinese arms. The products of the Chinese defense industry become more and more popular in poor African countries and in Latin America.
The numbers of Beijing's defense spending are unknown. International experts believe that one should multiply the official Beijing data by two, at least.
If India's defense budget for the upcoming financial year is evaluated at $36 billion, then China officially intends to spend $91.5 billion. Experts say, though, that China will spend twice as much to maintain the 2.5-million-strong army, the Times of India reports.
According to SIPRI's report, the geography of arms shipments in the world has not changed much during the recent ten years. Asia and Oceania were the basic regions for arms shipments from 2006 to 2010 - 43 percent of all imports of arms. Europe comes next with 21 percent of shipments, the Middle East follows with 17 percent, America with 12 percent and Africa closes the list with seven percent.
The list of world's largest arms suppliers remains stable too. The USA tops the list with 30 percent of the global export of defense products.
The USA shipped 44% of its arms to Asia, 28% - to the Middle East and 19% - to Europe.
Germany is the world's third largest arms exporter (11 percent of world sales); France comes next with seven percent. The fourth place is taken by Britain - 4 percent. The volume of world arms transfers has increased by 24 percent in comparison with the period from 2001 to 2005. Russia was the leader on the actual volume of exports during 2000-2004. However, the situation changed during 2005-2008. The share of the Russian Federation on the world market of arms reached the highest point in 2003 (33%), but then dropped to 23% as of 2005-2009.

http://english.pravda.ru/business/finance/15-03-2011/117201-asia_arms-0/

Japanese crisis hits world markets
Stocks follow Japan downwards after Nikkei's biggest drop since 1987 crash as tsunami and nuclear crisis hammer markets
15 Mar 2011
Japan's stock market has plunged 10.6 per cent in the face of a worsening nuclear crisis, which has affected markets across the world.
The Nikkei has lost 16 per cent of its value since Monday, the benchmark's biggest two-day drop since the 1987 crash, as Japan warned of significantly higher radiation levels following explosions at quake-stricken nuclear power plants.
The Bank of Japan injected a further $97.8bn into the financial system in an attempt to calm the markets, a day after it fed a record $184bn into money markets and eased monetary policy.
The government has said it expects a "considerable" economic impact from the 8.9 magnitude earthquake, devastating tsunami, and subsequent nuclear crisis.
The catastrophe has also impacted on global markets, with some $247bn being wiped off the value of indexes of major European stock markets and shares in the region fell to their lowest in 14 weeks.
The FTSEurofirst 300 index of top European shares finished the day down 2.2 per cent at a three-month closing low of 1,084.70 points. Germany was hardest hit in early European trading, with the DAX index down 3.19 per cent, while France's CAC-40 slid 2.51 per cent and Britain's FTSE 100 index fell 1.38 per cent.

US markets were also hit early in the session but pared losses later in the day with the Dow Jones industrial average and Standard & Poor's 500 index both down by around 1 per cent.
Southeast Asian stock markets also dropped on Tuesday, with Singapore falling more than 3 per cent at one stage to its lowest level since last August. Indonesian shares also fell 1.3 per cent.
Investors across Asia are leaving risky assets such as equities and commodities because of uncertainty about world growth following the Japanese earthquake and nuclear crisis.
In Hong Kong the main index fell 2.86 per cent, Australia plunged 2.11 per cent, and South Korea shed 2.40 per cent.
Stocks in emerging markets also fell two per cent on Tuesday, with Russian and South African stocks plummeting amid news of radioactive leaks in Japan.
Meanwhile safe-haven assets, such as US Treasuries and the dollar, have soared. The dollar rose 0.8 percent against a range of major currencies, pulling away from last week's four-month low. The yen has also made gains because of its capacity as a safe haven asset.

http://english.aljazeera.net/business/2011/03/2011315104911221462.html

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Global recovery to stay intact as Japan reels

March 17, 2011

WASHINGTON -- While Japan reels from the double whammy of a major tsunami and an earthquake that set off a nuclear reactor crisis, it is unlikely to derail the global economic recovery.
That is because Japan, unlike some other Asian countries, has not been an engine driving global growth for many years, a factor that is likely to blunt the impact on the United States, Asia and the rest of the world.
"It would probably take two more earthquakes like the one last week and they'd have to be in Tokyo Bay to have that kind of global problem," said James F. Smith, chief economist at Parsec Financial.
To be sure, though, there have been short-term impacts.
U.S. stocks plunged nearly 300 points at the start of trading on Tuesday before bouncing back slightly. At the same time, Japan's Nikkei underwent a two day sell-off that amounted to its worst two-day loss in four decades.
On Wednesday, the Nikkei rebounded nearly 6 points, although the gain fell short of making up for the week's earlier losses. The sell-off came amid investor uncertainty over how the nuclear reactor crisis could play out in Japan.
While economic fallout is unlikely to make any big splash overseas, Chief Global Economist at the Economic Outlook Group Bernard Baumohl argued that the world's third largest economy could shave off worldwide growth by 0.2 of a percentage point this year.

IMPACT ON JAPAN

While the global recovery will remain intact, the disasters will take a toll on Japan, lowering economic activity as much as one percentage point, Baumohl said.
Japanese officials and business leaders are also facing a reconstruction tab that could amount to more than 200 billion U.S. dollars, double the rebuilding cost after the 1995 Kobe earthquake, he said.0 The country will also have to finance all the repairs at a time when Japanese sovereign debt is already higher than any other industrialized country and is expected to surge to 228

percent of the GDP in 2011. That will heighten concerns of a default, especially if interest rates start to rise, he contended.
"It is true that Japanese investors hold more than 90 percent of the country's sovereign debt. But if foreign investors begin to sell off their holdings, will Japanese institutional bondholders be far behind?" he asked.

SUPPLY CHAIN DISRUPTIONS
Some experts said there will be some disruptions in Asian supply chains to which Japan belongs.
Barry Bosworth, senior fellow at the Brookings Institution, said that the interruptions may knock a half a percentage point or so off the growth of some countries for a couple of months. Still, it will be temporary and have no major impact, barring any major nuclear catastrophe.
Most of the disruption in supply chains will happen inside Japan, he added.
In the medium term, however, Japan will see a 200 billion dollar plus reconstruction effort. Reconstruction of the areas damaged by the earthquake and tsunami will provide a much-needed jolt to Japan's sluggish economy, some economists said.

http://news.xinhuanet.com/english2010/business/2011-03/17/c_13784548.htm

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Asian investors bracing for mixed impact from Japan's earthquake
March 17, 2011
SINGAPORE -- Since the 9.0-magnitude earthquake in northern Japan last Friday, many Asian investors have been scrambling to assess the likely impact of this natural catastrophe upon Asian companies outside Japan.
While the situation in Japan is still fluid given the aftershocks and the threat of radiation leakage from the damaged Fukushima nuclear plant, research houses like Nomura Securities Research has recently released reports with thorough analysis of the likely implication of the earthquake upon other parts of Asia.
According to the report, industrial production in the prefectures worst affected by the earthquake and tsunami comes to 6.8 percent of Japan's total industrial output.
"We see the possibility of major impacts in farming, forestry, fisheries, mining, food manufacturing, ceramics, primary metal such as steel, manufacturing, electrical machinery, precision equipment, and public utilities. Considering the major disruption to infrastructure such as roads and electric power generation facilities, we think the short-term impact on economic activity could be greater than after the Kobe earthquake in 1995. Another characteristic of the affected region is the large amount of IT- related industry," said Nomura Securities Research.
While it is still too early to fully assess the full impact of the earthquake and the radiation leakage of Fukushima nuclear power plant, most research houses agreed that the earthquake should only have short-term impact upon regional bourses. Nomura Securities said, "We expect the event to have a short-term impact on the market, compounding existing concerns around the Middle East unrest, higher inflation and peripheral Europe."
In terms of sectors, while the construction sector is widely believed to perform well on expectations of demand for infrastructure reconstruction, and that the insurance sector will underperform on concerns that insurance payouts will cause earnings to deteriorate, the dynamics of some other sectors in Japan as a result of the earthquake may also have spillover effect upon related sectors in Asia, which could be either positive or negative.

It is especially pronounced in energy sector. In Japan, a total of 11 nuclear reactors were shut down off Japan's Pacific north- eastern coast after the earthquake. Nomura Securities Research said, "If we assume half of the power loss to be generated by coal- fired power plants, the additional coal imports to Japan will likely increase 50 percent of the current import amount. We believe this will put upward pressure on regional spot coal prices. "

As there are a number of Japanese semi fabs in the region being halted operation in the wake of the earthquake, Nomura Securities also see risks for the disruption of the IT supply chains such as handsets and personal computers, affecting mostly on the supply of memory chips and to a lesser extent LCD and Battery. Consequently, Asian electronics manufacturers will have to source these components elsewhere to avoid production being adversely affected.

And there is the issue of steel demand for reconstruction effort. Japan is all along a net exporter of steel, but Nomura Securities noted if more steel is used in the rebuilding effort, the market in Asia will tighten up, which could add some support to Asian steel prices later this year. Certainly it will bode well for Asian steel makers, as the record-high inventory recently has weakened steel prices, and thus depressed share prices of most steel companies in the region.

However, Citigroup Equity Research pointed out that with the radiation leakage taking place in the plant in Fukushima, the potential impact from the situation at a nuclear power plant of Fukushima will likely to make big difference between this earthquake and the Kobe earthquake, considering that there is a chance of a reactor meltdown in the plant.

Indeed, as the radiation leakage crisis in the plant escalates, the ultimate impact of the earthquake this round may potentially get even greater. Tokyo, which has so far not been badly damaged by the earthquake, is facing the threat of leaked radiation from the nuclear plant. Such scenario, should it get worse, will drive more investors to risk aversion mode, as Citigroup Equity Research noted Tokyo and the Kanto region around it accounts for nearly 40 percent of Japan Gross Domestic Product.

http://news.xinhuanet.com/english2010/business/2011-03/17/c_13783384.htm

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GLOBAL BANKING & FINANCE

Banks race to speed up RMB operations in Singapore

March 15, 2011

SINGAPORE -- The expansion of Renminbi operations in Singapore has been speeding up, as banks raced to offer yuan deposit products and access to bonds to meet the growing appetite for the Chinese currency.

ICBC, the world's largest commercial lender, officially inaugurated its first overseas RMB Processing Center here on Friday, the same day Singapore's second largest bank by assets OCBC launched two offshore RMB deposit products, following similar moves by local rivals DBS and UOB as well as the local branch of global banking giant HSBC.

"Singapore investors and our customers have shown very strong interest in Renminbi-denominated deposits and investments and we expect this to continue as the RMB gains prominence," a spokesperson for HSBC said.

RMB PROCESSING CENTER

Wang Lili, executive director and senior vice president of ICBC Group, said the banking giant will leverage on the favorable geographical location and business environment as an international financial and trade center to make the Singapore branch "ICBC Group's RMB Processing Center for Southeast Asia."

While the establishment of an RMB Processing Center will bring no major difference to ICBC's RMB operations in Singapore, it is a branding effort by the bank to push ahead its offshore RMB operations.

It is a decision thoroughly thought over to establish such a center in Singapore, and it shows the bank's confidence in the prospects of the RMB businesses in Singapore, said Wang Lili. She highlighted ICBC's status as the world's largest bank in terms of RMB transactions, saying that the banking giant is now striving to extend domestic RMB capabilities to beyond the Chinese markets.

"The establishment of RMB Processing Center marks yet another major breakthrough in the steady implementation of the bank's internationalization strategy," she said.

The Singapore branch of ICBC is one of the first to start cross- border RMB settlement in 2009. It is now No. 1 by the number of transactions and No. 2 by volume among the overseas branches of ICBC group.

SURGE IN RMB BUSINESSES

In a sign of acceleration of the growth of RMB businesses over the recent months, the Singapore branch of ICBC said its RMB deposit balance grew by an astounding ten times from the end of 2010 to hit nearly 2 billion yuan (304 million U.S. dollars) by the end of Feburary this year.

Meanwhile, other Chinese banks, like the Bank of China, are also developing their RMB businesses here.

The card business is also growing quickly. The volume of transactions made through China Unionpay cards issued in cooperation with the banks in Southeast Asia surged 89 percent year on year as at the end of 2010, Yang Wenhui, chief representative of China Unionpay, said in a recent interview with Xinhua.

China Unionpay now has card business operations in 12 countries in the region. By the end of 2010, 99 percent of the ATMs in Singapore accept Unionpay cards, as do 70 percent of the shops.

China Unionpay also plans to launch new RMB card products within the year, including possibly debit cards and cash cards, Yang said.

RMB RETAIL PRODUCTS

Other banks in the local market have also been racing to launch RMB retail products recently. HSBC Singapore launched its suite of RMB savings and time deposit accounts in January to the needs of wealthy customers, followed by Singapore's largest bank DBS Bank in Feburary and the second and third largest banks OCBC and UOB in March.

HSBC Singapore said it has raised 1.4 billion yuan (212.8 million U.S. dollars) by March 10.

"We anticipated pent-up demand for the RMB from customers but still, the response has exceeded our expectations," said Greg Zeeman, head of personal financial services at HSBC Singapore.

"We see good growth potential in the outlook for RMB- denominated investments, given that demand and access to the currency is rising rapidly," he said.

The bank said the development of RMB trade settlement in the region is also accelerating at a faster than expected pace and more clients in Singapore "are in active discussions with us on financing their trade in RMB."
On a wider front, RMB as percentage of Hong Kong's total deposit base has grown from below 1 percent to more than 5 percent in the second half of 2010, and the number of new RMB bond issues in 2010 exceeded the total number of bond issuances in the preceding three years, the bank said.

RMB-DENOMINATED BONDS

In yet another sign of the deepening of the RMB market in Singapore, the banks are also offering or planning to offer access to RMB-denominated bonds. The growth of both money supply and the bond market is essential to the deepening of the market for any given currency.
HSBC Global Asset Management has launched a RMB Bond Fund for accredited investors in Singapore and Hong Kong. The fund has collectively raised 400 million U.S. dollars in Hong Kong and Singapore by late Feburary.
"Another important driver for the development of the offshore yuan market is the deepening of the offshore yuan bond market," said Daniel Hui, senior foreign exchange strategist at HSBC Global Research.
"We would expect the bond market to grow at the pace of offshore yuan supply growth. We also foresee demand for offshore yuan bond issuance from both onshore companies and multinationals", he added.
Both UOB and OCBC said they planned to offer offshore RMB- denominated bonds by the end of March for retail investors in Singapore. UOB said its fund aims to generate fixed income returns and benefit from the potential appreciation of yuan over the medium term by investing primarily in offshore RMB debt securities and bonds.
DBS also said last month it planned to launch access to the Hong Kong yuan-denominated bonds from Singapore in the weeks ahead.

http://news.xinhuanet.com/english2010/indepth/2011-03/15/c_13779200.htm

Asia investment to increase in next three years: survey

March 16, 2011

BEIJING -- Asia has remained a favorite investment destination for European and Asian investors, and further investment increases in the region are expected in the next three years, according to survey results released here Wednesday.
The survey conducted by Fidelity Investments, the world's largest mutual fund firm, showed that 56 percent of the interviewed Asian investment institutions and 58 percent of the European institutions plan to increase their investment in Asian stock markets in the next three years.
The survey, which interviewed institutions in Asia and in Europe with assets under management of 1.6 trillion U.S. dollars, also found that more than half of the European investors increased their holdings of Asian corporate bonds and 58 percent of Asian institutions will buy more Asian government bonds.
Carlos Venes, head of Institutional Business in Asia, Fidelity Investments, said the survey showcased investors' growing confidence in the Asian market.

China remained a focus of investors' attention, with 40 Asian institutions having special funds on Chinese equities, and 11 percent of European investors planning to increase investment in the Chinese market when setting investment portfolios, according to the survey.
Fidelity Investments said the recent trend of capital flowing from western countries to the eastern market has never changed, and investors believe that Asian government bonds less risky than European ones, with Asian economies under recovery and European countries continuing to experience sovereign debt crises.

http://news.xinhuanet.com/english2010/business/2011-03/16/c_13782257.htm

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Global financial community calling for redefining sovereign risk: IMF
March 18, 2011
WASHINGTON -- The traditional definition of sovereign risk needs to be broadened in order to better understand and address the current financial challenges, concluded an International Monetary Fund (IMF) high-level conference in Washington on Friday.
Sovereign risk, broadly, the probability that a country may not pay its debts, "has been shown to be too narrow by the global financial crisis," according to a statement released by the IMF.
"Developments since mid-2008 have exposed very complex interactions between fiscal balances, public and private debt, and the financial sector."
The IMF conference, Financial Crises and Sovereign Risk-- Implications for Financial Stability, brought together policymakers and regulators from developing and emerging countries, academics, representatives from global banks, and senior Fund staff, at IMF headquarters. They exchanged their ideas of new, multifaceted and more nuanced dynamic of sovereign risk and its implications for financial stability.
"Sovereign risks have been transformed in a number of important ways as a direct consequence of the crisis and major fault lines in the financial sector. As the public sector intervened to support financial institutions, distinctions between sovereign and non-sovereign and private liabilities have been blurred, and public exposure to private risks has increased," IMF Managing Director Dominique Strauss-Kahn said in his opening remarks.
The IMF noted that the global crisis has seen unprecedented government support to the real economy and the financial sector. The combined effects of these interventions and the loss in revenues caused by economic slowdown have resulted in worsening fiscal balances, increased public debt, and a general deterioration in countries' public finances. Substantial and sustained efforts to restore soundness to public balance sheets are necessary.
The size, maturity structure, composition, and ownership of public debt have been altered. Investors' risk aversion has grown and concerns of contagion among the sovereign, quasi-sovereign, and financial sectors remain at elevated levels.
The Fund said that in this highly uncertain context, the conventional measurements have become too limited and unable to explain the present elevated levels of sovereign risk in some countries, creating an urgent need for proper identification, measurement, and management.
"A wider definition of sovereign risk is warranted, one where core fiscal variables and the macroeconomic context are complemented with elements reflecting broader balance sheet developments, debt portfolio structure, investor base, cross- border linkages, and financial assets of a country," Strauss-Kahn added.

http://news.xinhuanet.com/english2010/business/2011-03/19/c_13786749.htm

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INTERNATIONAL TRADE

WTO, World Bank call for private sector support in trade capacity building for developing countries

March 14, 2011

WASHINGTON -- Private sector can play a more important role in helping build trade capacity for developing countries, said Pascal Lamy, director-general of the World Trade Organization (WTO) and Robert Zoellick, the World Bank President, on Monday.

"Business should be more creative" to help developing countries upgrade trade capacity, Lamy said at a panel discussion with Zoellick at the U.S. Chamber of Commerce in Washington D.C..

He said the private sector and government organizations need closer cooperation to push the agenda when they examine the role of the WTO and the World Bank in "The Aid for Trade" initiative, a program established in 2005. However, "we do not have yet brilliant answers," Lamy added.

Echoing Lamy's remarks, Zoellick stressed the need to forge new partnerships between government organizations and the private sector. He noted that when talking about to increase the growth opportunity for developing countries, "the trade is not only important in the traditional way we might have studied in the textbooks, but increasingly in supply chain and logistics system."

He said that the World Bank will try to help improve the overall competitiveness in the developing countries, help those countries cut cost of trade, and provide financial assistance. "The Aid for Trade" is a multilateral initiative to assist developing countries, especially low-income countries, integrate into the world economy as a way to spur growth. Launched formally in 2005 at the Hong Kong Ministerial of the WTO, the initiative was designed to help developing countries take advantage of market openings by overcoming obstacles hampering trade -- poor infrastructure, trade-stifling regulations, and policy disincentives -- as well as finance domestic adjustment to any new liberalization.

http://news.xinhuanet.com/english2010/business/2011-03/15/c_13778437.htm

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Russia to raise April oil export duty by 16 percent

March 15, 2011

MOSCOW -- Russia will raise its oil export duty by 16.08 percent in April, from 365 U.S. dollars per ton in March to up to 423.7 dollars, an official said on Tuesday. According to Alexander Sakovich from the Russian Finance Ministry, the final oil export duty for April is based on the average price of the Urals crude oil from Feb. 15 to March 14, which stood at 108.16 dollars per barrel. Sakovich also said crude oil from Russia's Eastern Siberia will still enjoy the duty preference, but its export duty is expected to rise to 191 dollars per ton in April from 150.4 dollars in March. In line with the oil export duty, the duty on light refined fuels is also going to rise from 244.6 dollars per ton to 289.3 dollars, while that for heavy fuels will stand at 197.9 dollars, 27.5 dollars higher than in March.

Local media reports said the duty is now at a 2.5-year peak since 2008, and believed the hike was caused by the chain reaction of the unrest in the Middle East and North Africa.

In general, the Russian government changes the oil export duty every month and officially announces the rate at the end of each month.

http://news.xinhuanet.com/english2010/world/2011-03/16/c_13780427.htm

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EU signals end of anti-dumping duties against Chinese shoes

March 16, 2011

BRUSSELS -- The European Commission on Wednesday signaled an end of the controversial anti-dumping duties slapped more than four years ago on shoes imported from China and Vietnam.

"The commission gives notice that the anti-dumping measure ... will shortly expire" since "no request for a review was lodged," the European Union (EU)'s executive arm said in its official journal.

The anti-dumping measures were now set to expire by the end of this month.

The EU first introduced anti-dumping duties of up to 16.5 percent against Chinese leather shoes for two years in October 2006, a decision widely criticized by EU retailers and consumers since the punitive taxes pushed up shoe prices in the European markets.

A similar move was taken at the same time against shoes imported from Vietnam.

Brussels temporarily re-imposed the tariff pending a review launched in October 2008 when the penalty duties should have expired, despite opposition from the majority of member states.

During the review period which usually lasts 12 to 15 months, the duties remained in effect.

In December 2009, the review ended with an extension of the anti-dumping duties by another 15 months. The decision was a compromise among divided EU member states since the definite anti-dumping duties usually last five years.

Countries led by Britain and Northern European countries were largely against the anti-dumping measure, calling for free trade to the benefits of consumers, while Italy, Spain and other Southern European countries, home to small and less competitive shoe makers which lodged the complaint, were in favor of it.

Bigger and more competitive manufacturers such as Adidas and Puma, which have plants in China, were also opposed to the duties.

But the European Commission warned it would monitor for one year the evolution of the imports of shoes from China and Vietnam, with a view to facilitate swift appropriate action should the situation so require.

http://news.xinhuanet.com/english2010/business/2011-03/17/c_13782762.htm

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WORLD ECONOMIES

France's trade deficit widens in January

PARIS -- The French trade deficit in January widened to 5.89 billion euros (8.21 billion U.S. dollars) from 5.6 billion euros (7.8 billion dollars) in December, mainly due to increased oil costs, according to official data released Tuesday.

Recent political tension in North African countries significantly drove up the cost of France's oil imports.

France's total imports for January were 40.2 billion euros (56.05 billion dollars), from 38.88 billion euros (54.21 billion dollars) in December.

Exports reached 34.31 billion euros (47.84 billion dollars), slightly up from 33.82 billion euros (47.15 billion dollars) the previous month.

Export performance was held back by sales in the aerospace, chemical and pharmaceutical products sectors, which declined "considerably" in January, according to the Finance Ministry.

France-based European aircraft maker Airbus, the primary driver for French exports, sold 16 units with a total value of 1.14 billion euros (1.59 billion dollars) in the same period, against 27 units for 1.72 billion euros (2.39 billion dollars) in December.

http://news.xinhuanet.com/english2010/business/2011-03/08/c_13767272.htm

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U.S. jobless claims rise by 26,000

WASHINGTON -- The number of Americans initially applying for unemployment aid last week rose after hitting its lowest level in nearly three years a week earlier, the U.S. Labor Department said Thursday.

The Labor Department said that the advance figure for seasonally adjusted initial claims for jobless benefits was 397,000 in the week ending March 5, an increase of 26,000 from the prior week revised figure.

The fresh figure covered the week after the Presidents' Day holiday. Applications usually climb in weeks following holiday-shortened weeks.

Economists said that fewer than 425,000 people applying for aid is consistent with modest job growth, but the number of jobless claims will have to fall to 375,000 or below to signal a sustained drop in the unemployment rate.

Though the fresh figure was an increase, economists were still encouraged that claims remained below 400,000 for the third straight week.

Meanwhile, the four-week moving average, a more closely watched claims figure, increased to 392,250 from the previous week's revised average of 389,250.

The advance figure for seasonally adjusted insured unemployment during the week ending Feb.26 was 3.771 million, a decrease of 20,000 from the previous week.

In recent months, the U.S. labor market has seen constant improving, with the unemployment rate dropping to 8.9 percent in February, the lowest level in nearly two years.

The weekly figures of jobless benefits application reflect the level of layoffs and indicate real-time conditions of the American job market.

http://news.xinhuanet.com/english2010/business/2011-03/11/c_13771549.htm

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Immigrants not cause of high unemployment in U.S., says study

LOS ANGELES -- Contrary to blames in the United States that immigrants have taken away American jobs, a new study shows that immigrants are not the cause of high unemployment and low wages among minority workers in the country.

The study conducted by the Immigration Policy Center (IPC) and released this week said that the best available evidence suggests that immigration is not the cause of dismal employment prospects for American minorities.

For instance, cities experiencing the highest levels of immigration tend to have relatively low or average unemployment rates for African Americans. This should come as no surprise; immigrants go where jobs are more plentiful, said the study.

The grim job market which confronts many minority workers is the product of numerous economic and social factors: the decline of factory employment, the reindustrialization of inner cities, racial discrimination, etc. Immigration plays a very small role. However, that role is generally positive, according to the study.

Immigrant workers, consumers, and entrepreneurs help to create jobs and give a slight boost to the wages of the vast majority of native-born workers. Some unscrupulous employers do exploit undocumented immigrants to the detriment of wages and working conditions for both native-born workers and legal immigrants, the study said.

If immigrants took jobs away from large numbers of minority workers, one would expect to find higher minority unemployment rates in those parts of the country with larger numbers of immigrants. Yet data from the 2009 American Community Survey, analyzed for the IPC by Rob Paral and Associates, indicate that there is no correlation between the size of the foreign-born population and the African American unemployment rate in U.S. metropolitan areas.

The study shows African American unemployment rates in many low- immigration cities are far higher than in many high-immigration cities. For instance, immigrants were 17.6 percent of the population in Miami in 2009, but only 3.1 percent of the population in Toledo. Yet the unemployment rate for African Americans in Toledo (30.1 percent) was much higher than that of African Americans in Miami (17.6 percent).

Manuel Pastor of the University of California, Santa Cruz, commented that "in the policymaking process, the small size of immigration's impact on the labor market must be kept in perspective."

There are many other, far more significant factors contributing to unemployment and low wages among African American men in particular, such as "the rising level of skill requirements of jobs, racial discrimination, and spatial mismatch between the location of employment opportunities and residential locations of blacks," he said.

The most recent economic research indicates that immigration produces a slight increase in wages for the majority of native- born workers, according to the study.

This occurs in two ways. First, immigrants and natives tend to have different levels of education, work in different occupations, and possess different skills. The jobs which immigrants and natives perform are frequently interdependent. This increases the productivity of natives, which increases their wages.

Second, the addition of immigrant workers to the labor force stimulates investment as new restaurants and stores open, new homes are built, etc. This increases the demand for labor, which exerts upward pressure on wages, the study says.

The wage increase which native-born workers experience as a result of immigration is very small, but it is an increase, according to the study.

A 2010 report from the Economic Policy Institute estimated that, from 1994 to 2007, immigration increased the wages of native-born workers by 0.4 percent. The impact of recent immigration on native-born wages varied slightly by the race, educational attainment, and gender of the worker.

Native-born African Americans experienced an average wage increase of 0.4 percent, nearly the same as the 0.5 percent increase among native-born whites, the study says.

College graduates saw an increase of 0.4 percent; workers with some college 0.7 percent; high-school graduates 0.3 percent; and workers without a high-school diploma 0.3 percent.

Native-born men with only a high-school education or less experienced a 0.2 percent wage decline, while native-born women with the same level of education saw an increase of 1.1 percent, the study said.

Only foreign-born workers experienced significant wage declines as a result of new immigration, according to the study.

A 2008 study by Giovanni Peri, an economist from the University of California, Davis, estimated that, from 1990 to 2006, immigration increased the wages of native-born workers by 0.6 percent.

College graduates experienced an increase of 0.5 percent, workers with some college 0.9 percent, high-school graduates 0.4 percent, and workers without a high-school diploma 0.3 percent.

According to the study, immigrants and native-born workers fill different kinds of jobs that require different skills. Even among less-educated workers, immigrants and native-born workers tend to work in different occupations and industries. If they do work in the same occupation or industry-or even the same business-they usually specialize in different tasks, with native-born workers taking higher-paid jobs that require better English-language skills than many immigrant workers possess.

In other words, immigrants and native-born workers usually complement each other rather than compete.

Immigrants create jobs as consumers and entrepreneurs, the study shows. Immigrant workers spend their wages in U.S. businesses-buying food, clothes, appliances, cars, etc. Businesses respond to the presence of these new workers and consumers by investing in new restaurants, stores, and production facilities. And immigrants are 30 percent more likely than the native-born to start their own business. The end result is more jobs for more workers.

Peri concluded that "immigrants expand the U.S. economy's productive capacity, stimulate investment, and promote specialization that in the long run boosts productivity," and " there is no evidence that these effects take place at the expense of jobs for workers born in the United States."

http://news.xinhuanet.com/english2010/business/2011-03/05/c_13761718.htm

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U.S. trade deficit widens in January on oil price surge

WASHINGTON -- The U.S. trade deficit in January widened to 46.3 billion U.S. dollars due to a spike in oil prices, the U.S. Commerce Department announced Thursday.

January exports of 167.7 billion dollars and imports of 214.1 billion dollars resulted in a goods and services deficit of 46.3 billion dollars, up from a revised 40.3 billion dollars in December 2010.

January exports of the world's largest economy were 4.4 billion dollars more than December volume of 163.3 billion dollars.

January imports grew at a quicker pace, as the figures were 10.5 billion dollars more than December imports of 203.6 billion dollars.

The January gain in imports of goods mainly reflected increases in industrial supplies and materials, automotive vehicles, parts, capital goods, consumer goods, foods, feeds and beverages.

The monthly goods and services deficit increased 11.7 billion dollars from January 2010 to January 2011, the department said.

For the three months ending in January, exports of goods and services averaged 163.8 billion dollars, while imports of goods and services averaged 205.4 billion dollars, resulting in an average trade deficit of 41.6 billion dollars.

http://news.xinhuanet.com/english2010/business/2011-03/10/c_13771528.htm

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Canada's unemployment rate stable at 7.8% in February

OTTAWA -- Statistics Canada announced Friday that Canada's unemployment rate remained unchanged at 7.8 percent in February, with employment edged up only 15,000.

The job creation is far below economists'expectation of 23,500 as the number of full-time jobs fell, and it is the worst performance in three months. In January, there is a strong 69,200 gain in jobs.

Data released by the agency showed that full-time jobs dropped 23,800 in February, with majority of the losses coming in the business, building and other support services group, while part- time employment rose by 38,900.

Employment was up slightly in health care and social assistance and accommodation and food services, with the health care and social assistance group added 18,000 jobs, and accommodation and food services saw a pick-up of 15,000.

Employment in business, building and other support services decreased by 35,000, and was down by 14,000 in public administration.

The loonie weakened immediately after the report but shook off early losses to trade at 102.69 U.S. cents, up 0.19 of a cent from Thursday's Bank of Canada close. And the result also lowers expectations for any early rate hike by the country's central bank.

http://news.xinhuanet.com/english2010/business/2011-03/12/c_13774688.htm

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Ecuador suspends oil exports amid tsunami threat

QUITO -- Ecuador said late Friday it had suspended crude oil exports of 342,000 barrels a day as long as a tsunami threat remains in place following the major 8.8-magnitude earthquake that devastated Japan earlier in the day.

Ecuador's official oil company said it had declared "force majeure" on all crude exports and notified foreign companies that buy Ecuadorian crude oil.

Marco Calvopia, head of the state oil company PetroEcuador, told reporters that all export operations had been stopped since the news of the earthquake broke. Shipments of fuel oil and liquid gas to Central America, as well as operators of the country's heavy crude pipeline by local company OCP were also temporarily suspended.

Ecuador's meteorological authorities expect the tsunami to hit the western-most part of the territory on the Galapagos islands about 5:30 p.m. local time Friday, while the waves are expected to reach the South American coast by 7:30 p.m. local time.

Petroleum is Ecuador's main source of exports and finances most of the Andean country's national budget.

http://news.xinhuanet.com/english2010/business/2011-03/12/c_13774552.htm

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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 analysts 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

Merkel delays nuclear extensions

German chancellor delays decision to extend the life of ageing nuclear plants in reaction to Japanese crisis

14 Mar 2011

Angela Merkel, the German chancellor, has suspended plans to extend the life of the country's nuclear power plants, in response to the situation in Japan.

"If a highly developed country like Japan, with high safety standards and norms, cannot prevent the consequences for nuclear power of an earthquake and a tsunami, then this has consequences for the whole world," Merkel said on Monday as she announced that the decision would be delayed for three months.

"This changes the situation, including in Germany. We have a new situation, and this situation must be thoroughly analysed."

Opposition groups had been pressuring the government to scrap its decision, made last year, to extend the life of the country's 17 nuclear power plants by an average 12 years.

The stations were originally intended to be shut down in 2021, but the power industry had pushed to extend the lives of the ageing facilities.

European concern

Merkel said those facilities due to close in the next three months, before the extension would take place, will now be shut down, meaning Germany's oldest reactors, Neckarwestheim 1 und Biblis A, which begain in 1976 and 1975, could be closed down.

Under the original schedule they had been due to shut down this year. No new nuclear power stations have opened in Germany for decades due to public hostility, especially following the 1986 disaster when the Chernobyl plant in Ukraine exploded, sending radiation across much of Europe.

The nuclear crisis unfolding in Japan triggered protests in Germany on Saturday, where some 50,000 activists formed a human chain around the Neckarwestheim nuclear power plant. More gathered in Berlin on Monday over the issue.

Other European nations are also questioning their reliance on nuclear energy following the disaster.

In France, Green politicians have urged an end to nuclear fuel, and in Switzerland, the government also suspended plans to replace its ageing nuclear power plants.

The Federal Office for Energy said authorities decided to suspend ongoing procedures regarding authorization requests for the replacement of nuclear power plants "until security standards can be carefully re-examined and, if necessary, adapted."

It added that its Federal Inspectorate for Nuclear Security had been ordered to "analyse the exact causes of the accident in Japan and to draw conclusions on possible stricter new standards."

However in Poland authorities said they would press on with plans to build the country's first nuclear reactor despite safety concerns out of Japan.

"A nuclear energy program is indispensable to ensure Poland's security so that industry does not have problems with electricity supply in the coming decades," Pawel Gras, a government spokesman told public broadcaster Polish Radio.
Warsaw has plans to build two 3,000 MW nuclear reactors, with the first scheduled to come on line by 2020.
"We are now looking for the best technologies and safety is one of our principal criteria," Gras said.

http://english.aljazeera.net/news/europe/2011/03/2011314154359989592.html

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Japan scrambles to shore up economy

Government injects billions into its shaken markets in a bid to allay investor concerns amid worsening nuclear crisis

15 Mar 2011

Kaoru Yosano, Japan's economics minister has said that the government and the Bank of Japan (BOJ) must strive to ease the public and investors' anxiety, after Japanese stock prices tumbled following the devastating tsunami that hit the country's Pacific coast last week. "There is no doubt that the government and the BOJ need to make efforts to ease anxiety among the public and investors," he told reporters on Tuesday.
His comments come as the BOJ pumped billions of dollars into the country's financial system to quell fears that the country's banks could be overwhelmed by the impact of the massive earthquake and tsunami, while stocks slumped amid fears of a possible nuclear crisis.
Two cash injections came a day after the BOJ fed a record $184bn into money markets and eased monetary policy to support the economy in the aftermath of the disaster.
The injections have helped stabilise currency markets. But stock markets dived for a second day.
The benchmark Nikkei 225 stock average slid more than 12 per cent after prime minister Naoto Kan warned residents near a damaged nuclear power plant in the country's northeast to stay inside or risk getting radiation sickness.

Impact to spread

The BOJ has also moved to try to keep financial markets calm. By flooding the banking system with cash, it hopes banks will continue lending money and meet the likely surge in demand for post-earthquake funds.
But financial analysts say the central bank's moves to bolster liquidity could put pressure on Japan to raise interest rates, particularly since the country is saddled with massive debt that, at 200 per cent of gross domestic product, is the biggest among developed nations.
Vincent Tsui, an economist at the Standard Chartered Bank in Hong Kong, told Al Jazeera that the economic impact of the disaster will be felt across Asia.
"Because of the close linkage of trade, the possible nuclear crisis that is unfolding will have a great impact on the economies of the region," he said.
On Monday, the central bank's nine-member policy board also voted unanimously to ease monetary policy. It will expand the size of an existing programme to buy assets - such as government and corporate bonds - by $486.4bn.
It kept its key interest rate at virtually zero.
Billions of dollars are also expected to be needed to rebuild homes, roads and other infrastructure requiring public spending that will benefit construction companies but add to the national debt.

The economy will eventually get a boost from reconstruction but "this does not mean that Japan is better off," Julian Jessop, chief international economist at Capital Economics in London, told the Associated Press.

It is a quirk of accounting that destruction of assets is not counted as a reduction in the economy but replacement of those assets boosts economic activity, he said.

http://english.aljazeera.net/business/2011/03/201131574913920574.html

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Japan quake sends shockwave through Chinese economy

March 15, 2011

BEIJING -- Japan's massive earthquake and tsunami have sent shockwaves through China's economy, though it is not yet possible to estimate the total loss, analysts said Tuesday.

Trade between the two countries will definitely be affected in the short term, said an official with China's Ministry of Commerce.

In 2010, Japan was one of China's most important trade partners, accounting for about 8 percent of China's total exports, while China sourced 13 percent of its imports from Japan. The majority of trade between China and Japan was in vegetable and animal products, minerals, machinery and base metals, according to a report from Morgan Stanley Asia Limited.

China ran the biggest trade surplus with Japan in textiles, and the biggest trade deficit in machinery and electrical equipment. Trade in machinery and electrical equipment was the main force behind growth in both exports to and imports from Japan, the report said.

Analysts believe that the quake's impact on bilateral trade will include petrochemical, electrical production, automobile, and agricultural industries.

"Take high-end petrochemical industries, for example. China mostly relies on importing petrochemical products from Japan, because, so far, China can not independently produce these kinds of products. But the quake damaged Japan's infrastructures, including electric supplies and transportation systems, therefore lowering its production capacity of petrochemical products," said Liu Zhibiao, dean of east China's Jiangsu Provincial Academy of Social Sciences.

"The price of petrochemical products will rise dramatically in a short period of time, and so we should be aware of that," Liu added.

The quake will also reduce Japan's domestic consumption ability, thus reducing Japan's imports from China, said Liu.

"Japan's imports of agriculture products and sea food products from China will fall," Liu said. "It will also affect China's processing industries. The seafood processing industries of east China's Shandong Province, for example."

JAPANESE COMPANIES IN CHINA

Japan is not only an important trading partner but also the fourth largest source of direct investment for China in 2010, accounting for 4 percent of China's total FDI utilized, after Hong Kong, the Virgin Islands, and Singapore.

"Some Japanese manufacturing companies were damaged during the earthquake and stopped production, so it will take a while for them to resume operation. Therefore, the Chinese counterparts of the Japanese companies will be affected either by reduced sales in Japan's market or the hardship in stocking materials from Japan, etc.," said an anonymous official with China's Ministry of Commerce.

Ito Shiceo, director of the business division of Guangdong Nanhai Honda Automobile Parts Manufacturing Co., LTD, said that, due to the suspension of production of its parent company in

Japan, the parts manufacturing company in China can only ensure normal production until the end of March.

TOURISM

Besides trade and foreign direct investments, the most directly affected industry in China was tourism.

Most travel agencies in China halted tours to Japan after China's National Tourism Administration on Saturday issued an emergency notice asking all travel agencies to ensure the safety of Chinese citizens on trip to Japan. The notice also required travel agencies to fully respect people's will to cancel their planned trips to Japan for safety concerns.

In east China's Jiangsu Province alone, all travel agencies have canceled their tourist groups to Japan within the month. Customers either received refunds or had their travel plans delayed.

In Shanghai, the municipal tourist administration also issued orders Monday afternoon for all tourist agencies to properly handle customers' requests to withdraw from trips.

Due to safety concerns, most travel agencies nationwide suggested customers avoid Japan as an upcoming travel destination or delay existing plans pending further observations.

Despite the potential damages brought by the quake, hopes of an economic rebound remain.

According to a statement from Bank of East Asia, the post-quake reconstruction of Japan would stimulate the economy in the long run, while damage to the economy would be only a short term issue.

http://news.xinhuanet.com/english2010/china/2011-03/15/c_13780277.htm

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U.S. economic recovery on firmer footing, property sector still weak: Fed

March 15, 2011

WASHINGTON -- The U.S. economic recovery is "on a firmer footing," but the nation's housing sector continues to be depressed, the Federal Reserve said on Tuesday.

The overall conditions in the labor market is "improving gradually," the Fed noted in a statement released after a meeting of the Federal Open Market Committee (FOMC), the interest rate policy-making body of the central bank.

Based on information received since the FOMC met in January, the Fed said that U.S. household spending and business investment in equipment and software continue to expand.

However, "investment in nonresidential structures is still weak, and the housing sector continues to be depressed."

In a unanimous decision, the Fed said it was maintaining the pace of its 600 billion dollars Treasury bond-purchase program to help the economy grow more strongly and to lower unemployment, which now stands at 8.9 percent.

It also decided to keep the federal funds rate at the historically low level of zero to 0.25 percent for an "extended period."

In the statement, the central bank expressed its attention toward inflation factor.

"The recent increases in the prices of energy and other commodities are currently putting upward pressure on inflation. The Committee expects these effects to be transitory, but it will pay close attention to the evolution of inflation and inflation expectations," noted the statement.

The Fed said that commodity prices have risen significantly since the summer, and concerns about global supplies of crude oil have contributed to a sharp run-up in oil prices in recent weeks.

Nonetheless, longer-term inflation expectations have remained stable, and measures of underlying inflation have been subdued, the Fed said.
Oil prices have spiked since January, as investors worry that unrest in the Middle East and North Africa could hurt global supply. Oil prices have dropped in recent days and are now hovering around 97 dollars a barrel. Still, U.S. gasoline prices have stayed high and now average 3.57 dollars a gallon nationwide.

http://news.xinhuanet.com/english2010/business/2011-03/16/c_13780430.htm

ARTICLES/COMMENTARIES

Oil on fire

By: Ed Bentley
As the conflict in Libya pushes oil prices to over $110 a barrel, consumers could stand to lose out despite the government's energy windfall.
Russia is the world's largest oil producer, pumping out almost 9.93 million barrels a day, and is the main alternative to the Middle East, which has been thrown into turmoil by the Arab revolutions.
"In the longer term Russia does stand to benefit from the weaker role of the Middle East and North Africa region as the source of energy supplies to Europe," said Yaroslav Lissovolik, chief economist at Deutsche Bank.

Budget gains
Every extra dollar on the oil price adds about $2 billion to the annual budget, economists say, helping Russia to tackle its burgeoning budget deficit.
The hole in the country's finances ran to 4.1 per cent of GDP last year, but the Gaidar Institute for Economic Policy believes the budget would balance at $105.
Finance Minister Alexei Kudrin has said a budget surplus would be used to top up the sovereign wealth fund, which could reach $50 billion this year. The government had expected to deplete the reserves funding post-crisis spending.

Inflation
But while the oil boom will boost the budget, the burden is likely to fall on average consumers due to rising inflation.
Last year the wild fires pushed up grocery bills as the cost of some food products leapt over 100 per cent, and rising oil prices will have a further knock on effect.
"The oil price is rising together with food prices and precious metals, and this adds to world inflation and hinders world economic growth," said Semen Birg, general director of analytical agency Investcafe.
Rising petrol prices before the crisis in North Africa had led to dissatisfaction among drivers, but the government is expected to regulate petrol prices – a major component of inflation due to transport costs.
"Consumers won't gain anything as petrol prices will be regulated for a while, but then they'll soar at some point anyway," said Birg.

Reforms

Analysts say increasing budget revenues could harm the modernisation drive by reducing the incentive to reform Russia's energy driven economy.

"Together with high inflation I would put [fears it could be a disincentive to modernisation] as one of the drawbacks to this environment," said Yaroslav Lissovolik, chief economist at Deutsche Bank in Moscow.

The deficit had forced the government to look at expansion into other sectors when the oil price was $30 short of ensuring a balanced budget.

Tardy OPEC

Algeria's energy and mining minister, Youcef Yousfi, said there was no need for OPEC to call an emergency meeting as there is no shortage of oil.

But energy prices had been rising before the crisis hit North Africa, as the global recovery gained pace.

"In the second half of last year demand turned out to be considerably stronger than most people thought it was, which means the market is effectively being undersupplied," said Colin Smith, a commodities analyst at VTB.

He added that OPEC had been "pretty tardy" in its response to the fighting in Libya, but there were signs Saudi Arabia was increasing production.

"The lack of clear visibility on how things will play out in Libya my view is that OPEC will have to do more than in otherwise would have done in order to stop prices moving up further or to ameliorate them, let's say, than had they acted earlier," Smith said.

Saudi situation

Saudi Arabia put thousands of riot police on the streets to head off large-scale protests on the planned "day of rage" on March 11. Analysts had feared that unrest in OPEC's largest producer would have a serious impact on energy prices.

Huge protests in Yemen and Bahrain had seen the revolutions transported to the Gulf, but public demonstrations in Oman have raised fears it could spread to the richer countries in the area. "If we end up with actual physical ability being curtailed below physical demand then the price response could be very severe indeed so we could be back into $150 plus territory," said Smith.

"I don't think oil prices are reflecting a very significant further deterioration in another major oil producer as things stand," he added.

The Gulf States have set up an aid package providing Oman and Bahrain with $10 billion each over the next 10 years to try to ease the situation.

Record high oil prices could also see a return of fears of a double dip recession.

http://themoscownews.com/business/20110314/188492406-print.html

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Is China exporting inflation to the world?

With inflation in China staying at steadily high levels over the past months, complaints surfaced in the west that China's reckless monetary expansion and rising labor costs pushed up inflation which could spill over to the rest of the world.

Beijing-based economists, however, said that some people in the west distorted and misread China's economy, and what they complained about were inconsistent with facts.

Actually, China is also a victim of global inflation, which is mainly caused by America's ultra-loose monetary policy, they said.

To ward off the negative impacts of the global financial crisis and avoid a sharp economic slowdown, China implemented a 4-trillion yuan stimulus package at the end of 2008, which included significant bank loans.

The stimulus measures were hailed by most countries in the world as a timely boost, not only to the Chinese economy but also to the global economy.

The measures did help keep the Chinese economy growing 9.2 percent in 2009 and 10.3 percent last year. However, negative impacts also emerged as the monetary expansion, which highlighted more than 1.8 billion yuan of new loans, also sowed the seeds of inflation.

But is it serious enough to worsen global inflation?

Guo Tianyong, a professor with the Central University of Finance and Economics, said that since the yuan is not a global reserve currency, its domestic monetary expansion could hardly spill over to the outside.

The global commodity price surge is due to the U.S. quantitative easing monetary policy and the low interest rates by some developed economies, said Li Daokui, a central bank monetary policy advisor.

On February 24, crude prices in the New York market hit 103 U.S.dollars per barrel, while prices in London hit 119.79 U.S. dollars. The prices of gold, cotton and other commodities also soared.

Zhang Xiaojing, a researcher with the Chinese Academy of Social Sciences, said that the global excessive liquidity not only pushed up commodity prices but also intensified the inflation pressures for emerging economies by attracting more inflow of speculative money.

To cope with the imported inflationary pressure, many emerging economies hiked interest rates. However, the widening rate gap only served to attract more "hot money" .

Chen Fengying, the director of the World Economy Institute of China's Institute of Contemporary International Relations, said blaming China for exporting inflation helps some countries shun responsibility for global inflation.

Over the past decades, China's economic boom has largely been built on cheap labor and excessive use of resources. But a new generation of migrant workers demanded higher pay and better treatment, which could add costs to China's export products. That was also cited as a reason for China's role in pushing up global inflation.

Chen Fengying said that rising labor costs in China is conducive to upgrading labor-intensive economy in the country. It is also good to rebalance China's foreign trade to benefit the world economy.

Although China faces a daunting battle against inflation, economists said that inflation would not spiral out of control.

The Consumer Price Index (CPI) hit 4.9 percent in January, which was near a 28-month high of 5.1 percent in November.

Yao Jingyuan, a chief economist with the National Bureau of Statistics (NBS), said that the chances for hyperinflation in China are slim due to the country's bumper grain harvest for seven straight years, its overall balanced industrial market and overcapacity of production in some sectors.

Since inflation would not exacerbate matters domestically, how could it spread to the world, argues Chen.

http://news.xinhuanet.com/english2010/china/2011-03/03/c_13759034.htm

Stagflation Stages a Comeback with a Side of Social Unrest

"Investors start to fret over renewed threat of stagflation," says a headline this week in the *Financial Times*. You remember stagflation from the 1970s. Prices rose, the economy didn't. It seems to be happening again, thanks to the Fed.

The economy is caught between an unstoppable force on one side and an immovable object on the other. Between a great correction and awful money-printing. Deflation and inflation.

"Don't fight the Fed," say the old-timers. The Fed's easy money is boosting up prices all over the world. Not all prices, at least not in the US and other advanced economies, but prices for key "auction-priced" goods such as food and energy and stocks are going up fast. The typical U.S. stock has gained 100% in the last two years. (We are coming up on the two-year anniversary of this rally next week.)

Meanwhile, the private sector is in the grip of a great correction. It hit a wall in the crisis of '07-'09. It wants and needs to sober up, dry out, go through rehab, discharge debts, de-leverage and correct mistakes.

A piece in *The International Herald Tribune* underlined one of the effects of this process: "Shaken by the recession, Americans adopt a new frugality…cars, phones, and clothes, once easily discarded, are being kept in use longer." The article went on to quote one expert who says people are now "upgrading for necessity, not vanity."

The public mood is changing. The zeitgeist is evolving with the economy. The consumer isn't the spendthrift he used to be because he no longer believes he is getting richer. His house is falling in price. His job, if he has one, no longer gives him the hope of wage gains.

While the Fed pumps up prices worldwide, the average fellow in America or Europe is unable to keep up. Local products and services are actually falling in price as he eases off his buying habits, but prices that depend on global markets and energy are going up rapidly.

The irresistible force of Fed money-printing collides with the immovable object of a great correction in the smash-up, the debris flies in every direction, giving us a bewildering, mixed-up picture that looks a lot like stagflation.

A couple of distortions make the real picture even harder to see. The feds refract prices through their own bent glass. They filter out the things that are going up, food and energy. Then, they publish a "core" inflation figure and congratulate themselves for a steady, apparently stable price structure.

What is really happening, of course, is that they're showing only a part of the picture. Taking out the key components, the feds necessarily magnify those that are left – principally housing, which has clearly gone down. The consumer who neither eats nor heats nor travels may enjoy stable prices. The rest of us see our purchasing power eaten away by rising prices for gasoline, cereal, bread, and a lot more.

The other distortion concerns how much consumers have to spend. If you look at income gains in America over the last 10 years, you will find that, on average, people got richer, but the wealth created during that period did not get distributed widely. The wealth created in the '00s was mostly fraudulent, based on unwise increases in debt. Still, many people managed to pocket huge sums of money, notably people in the financial sector or people with financial assets.

This leads to the myth that "people" are richer now than they were 10 years ago. They're not. The typical person did not participate in the money-shuffling of the last decade, except in a modest and unfortunate way. He bought a house for more than it was worth; now he sinks lower in his chair every time he reads the real estate section of the paper. His net worth declines.

Straighten out these distortions and the picture is grim. Low incomes. High debt. Falling house prices. Rising prices for almost everything else.

The private sector is still off-loading debt, as near as we can see, but the feds are adding to it. Result? Net, debt goes up worldwide.

There were street clashes in Athens last week. Little wonder. Unemployment among young Greeks is 35%. Why? The geezers have rigged the game against them. They put the price of labor-force participation so high with regulations, social charges, minimum wages and so forth that businesses are reluctant to take on young, untrained workers.

Why so many restrictions? They were put in place to protect the old, established, now zombie like workforce. When you are permitted to rig a system for your own benefit it is not surprising that people find clever and corrupt ways to do it.

We read yesterday about a hospital in Athens – on the verge of bankruptcy, of course – with 35 gardeners on its staff. What was remarkable about this was that the hospital had no garden. Now, the Greeks are threatening to bring the whole system crashing down. In Paris, youthful scofflaws frequently jump over the turnstiles in the subway. People look the other way – even people who are supposed to be working for the subway and enforcing its rules. In Greece, the whole society seems to be jumping over the turnstiles.

This report from MSNBC*:* The “I won’t pay” movement spreads across Greece… They blockade highway tollbooths to give drivers free passage. They cover subway ticket machines with plastic bags so commuters can’t pay. Even doctors are joining in, preventing patients from paying fees at state hospitals. Some call it civil disobedience. Others a freeloading spirit. Either way, Greece’s “I Won’t Pay” movement has sparked heated debate in a nation reeling from a debt crisis that’s forced the government to take drastic austerity measures – including higher taxes, wage and pension cuts, and price spikes in public services.

The Return of Stagflation? by Bill Bonner *originally appeared in the Daily Reckoning.*

http://blogs.forbes.com/greatspeculations/2011/03/02/stagflation-stages-a-comeback-with-a-side-of-social-unrest/

Central banks need help from politicians to tame Asia's inflation beast

By: William Pesek

DUVVURI SUBBARAO knows a thing or two about inflation. The head of India's central bank defeated price gains of more than 10 per cent twice in the past two years alone. Now Subbarao is back at battle stations as a chorus of traders say he is behind the curve. It's hard to argue with the wisdom of markets with Indian inflation back above 9 per cent, the highest among Asia's 10-biggest economies. Yet the Reserve Bank of India is the vanguard of a worrisome trend in Asia. Central banks are in over their heads and need help from politicians. Higher interest rates alone will not cut it.

Subbarao personifies the shifting economic sands. He was a top World Bank economist from 1999 to 2004. Back then, central bankers like then-Federal Reserve chairman Alan Greenspan were treated like gods for their supposed omnipotence to tame inflation.

Several asset bubbles and one global crisis later, we know better. The surge in prices of commodities such as food are fanning Asian inflation and require bold action. Higher rates will only do so much. Politicians must do their part to reduce fiscal-stimulus excesses.

Just before joining India's central bank, Subbarao said monetary policy is the "first line of defence" against price pressures. Now he is being very vocal in urging the government to curtail fiscal policies that are working at cross purposes with interest rates. And good luck with that. India's government this week unveiled a budget proposal that kept the onus on the central bank to contain prices. That should be a concern for investors.

Events from Egypt to Tunisia and from Libya to Yemen show just how destabilising rising food costs can be. For officials in New Delhi and those controlling budgets in India's 28 states, the focus is on subsidies - ways to shelter households living on the edge. That makes sense in a nation where 66 per cent of the population lives on less than $2 a day. In the week ended February 5, food inflation was 11.1 per cent. That marked the 10th consecutive week in which food cost increases held above 10 per cent. Such increases are beyond unsustainable.

Let's remember, though, where the blame for all this lies. Elected officials dragged their feet for years on boosting agricultural production to curtail prices. At the very least, India must allocate ample funds for more efficient warehousing and distribution of farm products. More money must be invested in improved irrigation techniques and infrastructure. Among the handful of people who saw this coming was Rob Subbaraman, chief economist for Asia excluding Japan at Nomura Holdings in Hong Kong. Nomura's September report, *The Coming Surge in Food Prices* is a sobering road map for where the global economy is heading. It predicts a multiyear jump in food costs.

The problem is many Asian governments are thinking this jump in commodity prices is cyclical, not secular. Demographics is one reason to expect prices to keep rising. Dithering among government officials is another. Governments aren't doing enough to make sure the supply side of the equation comes close to meeting the demand side.

That's not to give central banks a pass. Monetary policymakers left the punchbowl out for too long. From Seoul to Jakarta, rates need to go higher to reduce price gain risks. Asia risks falling behind the curve on inflation.

Yet there are two reasons to at least partially give central bankers the benefit of the doubt. One is hot money. The chairman of the US Federal Reserve, Ben Bernanke, is flooding the globe with liquidity. So are central banks in Japan and Europe. Lots of that money is heading to Asia, and higher rates may only attract more of it as investors seek more generous returns. The other reason is the risk of shoulder checking economies. Central banks in India, Indonesia and the Philippines must balance inflation risks with poverty. They worry about ushering in a period of stagflation, that dreaded combination of weakening growth and steepening price increases.

It's time for politicians to earn their pay cheques. During a credit crisis, fiscal policy is more effective in steering economic activity than monetary policy anyway. The 1990s and early-to-mid 2000s were a time of policy drift in which governments deferred economic fine-tuning to central banks. It was left to them to keep growth up and consumer prices down. That willful neglect has run its course. The job can no longer be fobbed off on central bankers alone.

Subsidies are a bandage that treats the symptoms of rising inflation, not the causes.

Winning back the esteem of investors will take more than Subbarao's interest rate rises. The government needs to get busy, too.

Bloomberg

The Sydney Morning Herald
http://www.smh.com.au/business/central-banks-need-help-from-politicians-to-tame-asias-inflation-beast-20110304-1bhtk.html

Global stakes of Mideast turmoil

Political unrest in oil-rich region threatens to double-dip the worldwide recession

By: Nouriel Roubini

Political turmoil in the Middle East has powerful economic and financial implications, particularly as it increases the risk of stagflation, a lethal combination of slowing growth and sharply rising inflation. Indeed, should stagflation emerge, there is a serious risk of a double-dip recession for a global economy that has barely emerged from its worst crisis in decades.

Severe unrest in the Middle East has historically been a source of oil-price spikes, which in turn have triggered three of the last five global recessions. The Yom Kippur War in 1973 caused a sharp increase in oil prices, leading to the global stagflation of 1974-1975. The Iranian revolution in 1979 led to a similar stagflationary increase in oil prices, which culminated in the recession of 1980-1981. And Iraq's invasion of Kuwait in August 1990 led to a spike in oil prices at a time when a US banking crisis was already tipping America into recession.

Oil prices also played a role in the recent finance-driven global recession. By the summer of 2008, just before the collapse of Lehman Brothers, oil prices had doubled over the previous 12 months, reaching a peak of $148 a barrel - and delivering the coup de grâce to an already frail and struggling global economy buffeted by financial shocks.

We don't know yet whether political contagion in the Middle East will spread to other countries. The turmoil may yet be contained and recede, sending oil prices back to lower levels. But there is a serious chance that the uprisings will spread, destabilizing Bahrain, Algeria, Oman, Jordan, Yemen, and eventually even Saudi Arabia.

Even before the recent Middle East political shocks, oil prices had risen above $80-$90 a barrel, an increase driven not only by energy-thirsty emerging-market economies, but also by non-fundamental factors: a wall of liquidity chasing assets and commodities in emerging markets, owing to near-zero interest rates and quantitative easing in advanced economies; momentum and herding behavior; and limited and inelastic oil supplies. If the threat of supply disruptions spreads beyond Libya, even the mere risk of lower output may sharply increase the "fear premium" via precautionary stockpiling of oil by investors and final users.

The latest increases in oil prices - and the related increases in other commodity prices, especially food - imply several unfortunate consequences (even leaving aside the risk of severe civil unrest).

First, inflationary pressure will grow in already-overheating emerging market economies, where oil and food prices represent up to two-thirds of the consumption basket. Given weak demand in slow-growing advanced economies, rising commodity prices may lead only to a small first-round effect on headline inflation there, with little second-round impact on core inflation. But advanced countries will not emerge unscathed.

Indeed, the second risk posed by higher oil prices - a terms-of-trade and disposable income shock to all energy and commodity importers - will hit advanced economies especially hard, as they have barely emerged from recession and are still experiencing an anemic recovery.

The third risk is that rising oil prices reduce investor confidence and increase risk aversion, leading to stock-market corrections that have negative wealth effects on consumption and capital

spending. Business and consumer confidence are also likely to take a hit, further undermining demand.
If oil prices rise much further - towards the peaks of 2008 – the advanced economies will slow sharply; many might even slip back into recession. And, even if prices remain at current levels for most of the year, global growth will slow and inflation will rise.
What policy responses are available to dampen the risk of stagflation? In the short run, there are very few: Saudi Arabia – the only OPEC producer with excess capacity – could increase its output, and the US could use its Strategic Petroleum Reserve to increase the supply of oil.
Over time - but this could take years - consumers could invest in alternative energy sources and reduce demand for fossil fuels via carbon taxes and new technologies. Because energy and food security are matters of economic as well as social and political stability, policies that reduce commodity-price volatility should be in the interest of producers and consumers.
But the time to act is now. The transition from autocracy to democracy in the Middle East is likely to be bumpy and unstable, at best. In countries with pent-up demand for higher income and welfare, democratic fervor could lead to large budget deficits, excessive wage demands, and high inflation, ultimately resulting in severe economic crises.
So a bold new assistance program should be designed for the region, modeled on the Marshall Plan in Western Europe after WWII, or on the support offered to Eastern Europe after the collapse of the Berlin Wall. Financing should come from the International Monetary Fund, the World Bank, the European Bank for Reconstruction and Development, as well as from bilateral support provided by the US, the European Union, China, and the Gulf states. The goal should be to stabilize these countries' economies as they undertake their delicate political transitions.
The stakes are high. Unstable political transitions could lead to high levels of social disorder, organized violence, and/or civil war, fueling further economic and political turmoil. Given the current risk-sensitivity of oil prices, the pain would not be confined to the Middle East.

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http://english.aljazeera.net/indepth/opinion/2011/03/201131510293860448.html