

## Call for joint Iran-Kuwait technical firms

**Tehran Times Economic Desk**  
**TEHRAN** — Iranian Commerce Minister Mehdi Ghazanfari met his visiting Kuwaiti counterpart Ahmad Rashed AlHaroun in Tehran on Sunday and called for establishing joint technical and engineering companies.

IRNA news agency quoted Ghazanfari saying that Iranian specialists have successfully carried out over

250 projects in 38 countries building dams, roads and power plants.

He pointed out that Kuwait's private sector has historically had expanded trade ties with Iran's private sector and emphasized the necessity of resolving problems of these two in order to further ease and facilitate trade relations between them.

The minister voiced the need to promote ties between regional countries, especially Islamic ones and said Tehran and Kuwait must highlight their common political, economic and trade goals. Ghazanfari went on to explain investment opportunities in Iran and announced the countries' readiness to strengthen cooperation in fields of oil and gas, trade, transportation, and establishing insurance companies, trade centers and joint banks.

## British business chiefs seek path to recovery

**LONDON (AFP)** — Britain's business leaders gather here on Monday for an annual conference expected to focus on how companies can recover from the country's longest recession on record.

The Confederation of British Industry (CBI), the nation's biggest employers' body, has billed its one-day gathering 'Routes to Recovery'.

The worst global crisis since the 1930s has hammered consumer demand, ramped up unemployment and ravaged manufacturing in Britain.

Businesses have also been blighted by the credit crunch as the struggling banking sector has tightened lending criteria, despite record low interest rates from the Bank of England.

Britain faces a general election by next June and ahead of the polls, one of the biggest headaches facing the government is how best to fix the dire state of the nation's public finances.

British Prime Minister Gordon Brown's Labour party is tipped to lose at the hands of David Cameron's Conservatives, the country's main opposition.

The CBI meanwhile, the biggest lobbying organisation for Britain's business sector, is calling on the government to sort out ballooning debt and extend its car scrappage scheme to safeguard valuable automaking jobs.

"This time last year, the world was absolutely in the eye of the storm, unimaginable things were going on after the collapse of (US investment bank) Lehman," CBI Director-General Richard Lambert told AFP ahead of the conference.

"Just about everywhere in the world, demand for just about everything fell by about 30 percent.

"The banking system was in a state of absolute shock and we really had no idea what on earth was going to happen next."

Lambert said the economic environment had improved over the past year, despite Britain being plagued by shrinking economic growth.

# EU recession over, but sharp contrasts in east



**WARSAW (AFP)** — The European Union may have inched out of its sharpest recession since the global slump of the 1930s, but green shoots are not emerging uniformly across the 27-nation bloc's eastern member states.

Contrasts are sharp among the 10 ex-communist countries that have joined the EU since 2004.

The situation in Poland, the only EU nation to have enjoyed sustained growth this year, compares with the stark lot of countries such as Latvia or Hungary, where the economies have been in freefall.

"In terms of growth, eastern Europe will trail behind the rest of the world," said Erik Bergloef, chief economist at the European Bank for Reconstruction and Development, which focuses on the ex-communist bloc.

"Over the next few years, this will be the region with the lowest economic growth," he said in an interview in the Austrian daily Der Standard.

Combined third-quarter figures last week showed that the EU — the world's biggest trading bloc — had joined Japan and the United States in returning to growth, albeit modestly.

The entire EU economy grew by 0.2 percent in July to September compared with April to June, after five straight quarters of shrinking. A recession is generally defined as two quarters of economic contraction in a row.

"Central and eastern Europe countries remain highly dependent on western Europe, which is much more powerful economically. As a result, their future hinges on recovery in western Europe," Polish analyst Witold Orlowski, of PricewaterhouseCoopers, told AFP.

## Putin announces more aid as Russia exits crisis

**ST PETERSBURG, Russia (Reuters)** — Vladimir Putin pledged on Saturday to widen Russia's anti-crisis aid package with a car scrappage scheme and mortgage support to jolt the economy out of the worst recession in 15 years.

Putin, who now serves as Russia's prime minister after eight years as Kremlin chief, vowed to restore boom-time levels of economic growth after an 8.0-8.5 percent decline in gross domestic product this year. Speaking to members of his United Russia party at a congress in St Petersburg, Putin said he saw a rise in cargo turnover and electricity demand in 2010, two key

indicators of economic activity. He did not mention taxation policy or interest rates.

"The decline in GDP by the end of the year will not be as big as we thought — the figure of 10 percent or even more was calculated — it will be less: about 8 or 8.5, but that is still a great deal," Putin said in a speech lasting more than an hour.

His remarks followed a brief opening speech from President Dmitry Medvedev lasting around 10 minutes which concentrated on the need for United Russia to modernize and largely avoided the economy.

"In the next 2 to 3 years, we must not

only fully restore the pre-crisis level of the economy — this is of course essential, as it is also with people's incomes — but more importantly, also achieve major changes," said Putin.

A decline in annual GDP of 8.0 to 8.5 percent would be Russia's worst economic result since 1994, when the economy, trapped in the chaos which followed the 1991 fall of the Soviet Union, contracted by more than 12 percent.

Alexander Shokhin, who heads Russia's main business lobby, the Union of Industrialists and Entrepreneurs, said after the speech that tax reform should be a priority for the government.

"Countries like Bulgaria or the Baltic states, which are heavily dependent on foreign capital, are suffering the most. They are dicing with disaster and are still worried about the stability of their currencies," he said.

The Baltic trio of Latvia, Lithuania and Estonia had earned reputations as tigers within the EU, topping the growth tables, before their overheated, credit-fueled economies went off the rails last year.

Latvia, like Hungary and Romania, has had to be bailed out by the International Monetary Fund.

"Poland, the Czech Republic and Slovakia, who made fewer mistakes, can look to the future more serenely," said Orlowski.

Slovakia — which adopted the euro in January, joining ex-communist Slovenia in the 16-nation eurozone, and is heavily dependent on car and white goods exports — posted 1.6-percent growth in the third quarter.

"That's even stronger than the growth in Germany and the Czech Republic" which expanded by 0.7 and 0.8 percent respectively, said Tatra Banka analyst Juraj Valachy in Slovakia.

In the Czech Republic, Raiffeisenbank analyst Michal Brozka said: "The recession is behind us. We're in a stabilisation phase, but we still need to wait for a real recovery."

In the Baltics, Lithuania emerged from recession with estimated 5.1-percent growth in the third quarter, but still saw its economy shrink by 14.3 percent compared with the same period of 2008.

Finance Minister Ingrida Simonyte urged caution after that data was released, saying she would only talk about recovery after two quarters of growth and that it was "too early to say when we'll see the result in people's pockets."

## The other D-word

### ◆ Is Japan back in a deflationary trap?

**TOKYO (Economist.com)** — While investors have been fretting recently about Japan's huge debt, another of the dreaded D-words has come back to haunt them. On Friday November 20th, Japan's Cabinet Office issued a monthly report that for the first time since 2006 acknowledged that the country was suffering from deflation.

Consumer prices have actually been falling for months, but the pace of decline accelerated over the summer. In September prices slumped by 2.2 percent compared with a year earlier. This is partly because the country is still loaded with excess capacity after the collapse in exports during the global financial crisis, and partly because oil prices were lower in September than in the same month last year. But there are more structural problems, too. As Japan's population declines, for instance, retailers are being forced to cut prices to gain market share.

It was no coincidence that the new government of Yukio Hatoyama chose the day when the Bank of Japan (BoJ) was holding a rate-setting meeting to make a lot of noise on the issue. Both the deputy prime minister and finance minister made concerned comments. Their unspoken message to the BoJ was clear: remove monetary-stimulus measures at your peril. At the end of its two-day meeting, the BoJ left its policy rate unchanged at 0.1%, and continued to use other measures, such as buying government bonds, that it believes make monetary policy "extremely accommodative."

But the BoJ does not give the impression it is particularly concerned about prices. It believes there are not yet clear signals of a deflationary mindset in corporations or the public at large, and that a recovery in private demand will eventually pull the economy out of its slump.

Some economists think this reflects a dangerous complacency. The BoJ's own recent forecasts predicted that the year-on-year change in the consumer price index excluding fresh food would be negative this year, next year and in 2011. On Thursday, the OECD issued a strong injunction to the BoJ to fight deflation by

committing to keep interest rates low and implementing quantitative-easing measures until inflation turns "firmly positive". Some advocate even more radical steps to reflate the economy, such as charging banks to deposit money at the central bank. Proponents of these measures fear that businesses will retrench as prices fall and their debts rise, creating a vicious circle.

The government, too, is keen for the BoJ to keep doing its bit to stimulate growth, because the fiscal deficit is already projected to reach 10 percent of GDP next year and it has expensive campaign promises to keep. The government was given a dose of good news on Monday when it was reported that economic growth picked up in the third quarter, reaching 4.8% on an annualized basis, which was better than expected. But much of that was spurred by public spending; domestic demand was still weak and the domestic-demand deflator (a measure of inflation excluding effects related to import and export prices) was at its lowest level in more than 50 years, according to Lombard Street Research, an economic consultancy.

It is not only the BoJ that needs to do more to combat deflation, however. Mr. Hatoyama's government, in office since September, has so far failed to spell out clearly its economic policies. It says it wants to rebalance the economy by spurring domestic demand, but has not made it clear how it intends to do that. Meanwhile, it has suggested meddling with wages and hiring-and-firing practices that exporters say would further weaken them at a time when they are struggling to cope with a high yen.

Raising Japan's trend growth rate would be difficult, especially as the population ages and shrinks. But it is not impossible: productivity could be improved dramatically, especially in the services sector. A sustained period of higher growth would have a double-barreled effect of killing both the debt and deflation problems. If the double-D scares of the past few weeks help to convince Mr. Hatoyama's government of this, it would be a good outcome. Sadly, that cannot be counted on. Economist.com



## A yuan-sided argument

### ◆ Why China resists foreign demands to revalue its currency

**HONG KONG (The Economist)** — President Barack Obama, on his first visit to China last week, urged the government to allow its currency to rise. President Hu Jintao politely chose to ignore him. In recent weeks Jean-Claude Trichet, the president of the European Central Bank, and Dominique Strauss-Kahn, the managing director of the International Monetary Fund, have also called for a stronger yuan. But China will adjust its currency only when it sees fit, not in response to foreign pressure.

China allowed the yuan to rise by 21 percent against the dollar in the three years to July 2008, but since then it has more or less kept the rate fixed. As a result, the yuan's trade-weighted value has been dragged down this year by the sickly dollar, while many other currencies have soared. Since March the Brazilian real and the South Korean won have gained 42 percent and 36 percent respectively against the yuan, seriously eroding those countries' competitiveness.

Speculation about a change in China's currency policy increased in the week before Mr. Obama's visit, after the People's Bank of China tweaked the usual wording in its quarterly monetary-policy report. It dropped a phrase about keeping the yuan "basically stable" and added that foreign-exchange policy will take into account "international capital flows and changes in major currencies". But exchange-rate policy is decided by the State Council, not the central bank. And many policymakers, notably in the Ministry of Commerce, do not favor a revaluation right now.

Indeed, Chinese officials have become bolder in standing up to Washington. "We don't think that it's good for the world economic recovery, and it is also unfair, that you ask others to appreciate while you depreciate your own currency," said a spokesman for the Ministry of Commerce on November 16th. The previous day Liu Mingkang, China's chief banking regulator, blasted Washington for its low interest rates and for the falling dollar, which, he claimed, was encouraging a dollar carry trade and global asset-price bubbles. He strangely ignored the fact that China's own overly lax monetary policy, partly the result of its fixed exchange rate, is fuelling bubbles in shares and property.

Foreigners argue that a stronger yuan would not only help reduce global imbalances, such as America's trade deficit, but would also benefit China. It would help China regain control of its monetary policy. By pegging to the dollar, it is, in effect, importing America's monetary policy, which is too loose for China's fast growing economy. A stronger yuan would also help rebalance China's economy, making it less dependent on exports, putting future growth on a more sustainable path.

If a stronger exchange rate is in China's own interest, why does it resist? Beijing rejects the accusation that its exchange-rate policy has given it an unfair advantage. It is true that other emerging-market currencies have risen sharply this year, but this ignores the full picture. Last year China held its currency steady against the dollar throughout the global financial crisis, while others tumbled. Since the start of 2008, the yuan has actually risen against every currency except the yen.

Beijing also argues that it has done a lot to help global rebalancing. Thanks to its monetary and fiscal stimulus, domestic demand has contributed an incredible 12 percent points to GDP growth this year, while net exports subtracted almost four percent points. Its current-account surplus has almost halved to around 6 percent of GDP from 11 percent in 2007. Chinese policymakers accept that the yuan needs to appreciate over the longer term, but say now is the wrong time, because exports are still falling, by 14 percent over the past 12 months.

Another reason for hesitation is that the theory that revaluing the yuan will allow Beijing to tighten its monetary policy is too simplistic. China's experience since 2005 shows that a gradual rise encourages investors to bet on further appreciation; hot-money inflows then swell domestic liquidity. A large one-off increase might work, as it would stem expectations of a further rise. But the sort of increase required — perhaps 25 percent — is politically unacceptable because it would put many exporters out of business overnight.

Some Chinese economists warn that the benefits to America from yuan revaluation are much exaggerated. In particular, a stronger yuan would not significantly reduce America's trade deficit. There is little overlap between American and Chinese production, so American goods cannot replace Chinese imports. Instead, consumers would simply end up paying more for imports either from China or other producers, such as Vietnam. This would be like imposing a tax on American consumers.

These arguments help explain why China is dragging its feet. Nevertheless, in the long run, a stronger yuan would benefit China's economy — and the world's — by helping shift growth from investment and exports towards consumption. It would boost consumers' purchasing power and squeeze corporate profits, which have accounted for most of the increase in China's excessive domestic saving in recent years. China will probably allow the yuan to start rising again early next year. This will not be the result of foreign lobbying — indeed, China is more likely to change its policy if foreign policymakers shut up. But by early next year China's exports should be growing again, its year-on-year GDP growth could be close to 10 percent, and its inflation rate will have turned positive. The arguments in favor of revaluation will then loom much larger.