

Reconcile with Turkey

Haaretz, 05.02.2014



It's time for Israel to sign an agreement and bring to an end the sorry affair of the Mavi Marmara that ruptured ties with a strategic ally. It looks as if a compensation agreement with Turkey is on the verge of being signed.

If so, it is expected to bring the superfluous three-and-a-half-year rift between the two countries to an end and offer an opportunity to turn over a new leaf in bilateral relations. Looking back, one can't help but criticize the Israeli government's conduct throughout the whole affair, from the decision in late May 2010 to attack the Gaza-bound aid flotilla, which it saw as undermining Israeli sovereignty.

Through the way the raid on the Mavi Marmara was conducted, resulting in the death of nine Turkish nationals, and ending with the arrogant shirking of responsibility for the incident and the rejection of all demands for an apology and compensation. The Mavi Marmara affair, whose failures were sharply criticized by the Turkel Committee that investigated it, evolved from the brutal blockade that Israel had imposed on Gaza four years earlier. This blockade provoked international criticism, not just from Turkey. Overnight, the incident dissolved the excellent relations that had prevailed between the two countries for decades, including during the first years that Recep Tayyip Erdogan's Justice and Development party was in power.

In addition to undermining the close military and security cooperation between the two countries, the incident also caused a deep rift between the two peoples. Turkey, though it was critical of Israeli policy in the territories even before Erdogan came to power, knew how to distinguish between diplomatic disputes and the firm infrastructure on which its ties with Israel were based. But it could not restrain itself when confronted with the killing of its citizens, certainly not when faced with Israel's dismissive attitude and refusal to apologize for fear that that would undermine the legitimacy of its attack on the Marmara. It's doubtful that any country, including Israel, would have responded differently if it had been in Turkey's position.

Still, it took more than two years before Israel would agree to admit to "mistakes that could have led to the loss of human life," and even that only came after heavy pressure from U.S. President Barack Obama. Another year was needed to bargain about the level of compensation Israel was to pay, while in the meantime Israel also agreed to ease the Gaza blockade. During those three-and-a-half years, Israel spent a great deal of time demonizing Turkey. Turkey is the only Muslim country that has close ties with Israel, and it is of great strategic importance to the region. Israel cannot afford to give up its good relations with Ankara. A reconciliation agreement, the reappointment of ambassadors and reopening a channel of formal engagement would mark the end of the mutual settling of accounts. The State of Israel will also have to work to rehabilitate its relations with the Turkish people.

Turkish, Russian officials meet for talks on Eurasia

Today's Zaman, 05.02.2014



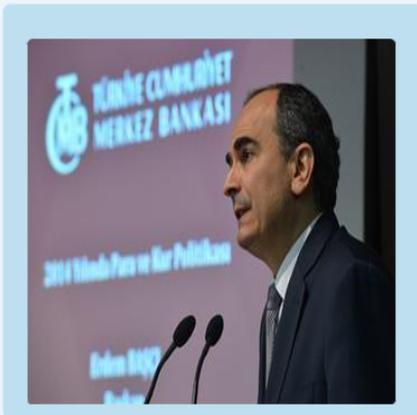
Foreign Ministry Undersecretary Feridun Sinirlioglu and Russian Deputy Foreign Minister and State Secretary Grigory Karasin met in Ankara on Wednesday for consultations on Eurasia and possible cooperation in the region.

The two officials met to discuss developments in the South Caucasus and Central Asia in Ankara. Cooperation opportunities in Eurasia were also on the agenda in the meeting, according to a statement released by the Turkish Foreign Ministry. The statement said that the meeting between the Turkish and Russian officials was held within the scope of regular consultations between the two countries.

The two countries' deputy foreign ministers have held several meetings on regional developments, including those in Eurasia and Syria. Last year, Sinirlioglu traveled to Russia to exchange views on the region with his Russian counterpart. He made his last trip to Moscow in June, when Syria was the top agenda item. Although Ankara and Moscow have long differed on how to handle the prolonged Syrian crisis, the two countries are in regular contact to prevent problems from arising. Apart from meetings on regional developments, Turkish and Russian officials also come together for the High Level Cooperation Council, which the two countries formed on May 12, 2010 during then-President Dmitry Medvedev's visit to Ankara. The council was later transformed into a cabinet-level platform for bilateral discussion.

Turkish central bank raises lending rate to 12%

BBC News, 01.02.2014



The Turkish central bank has raised its overnight lending rate to 12% from 7.75% after an emergency meeting. It also increased the overnight borrowing rate to 8% from 3.5%. The move was intended to help stabilise the value of the lira, which plunged in recent days amid ongoing turmoil across emerging markets.

The lira immediately strengthened after the central bank announcement, to 2.2 lira to the US dollar, from 2.253. The Turkish central bank had been slow to act amid fears that a rate rise could hurt the economy. In a statement, the bank said the move was intended to combat inflation.

The Turkish government has forecast that growth will pick up from an expected rate of 3.6% in 2013 to 4% for this year. Those figures are sharply down from the 8% growth Turkey achieved in both 2010 and 2011. The cost of Turkey's debt had also been rising rapidly with the price of 10-year bonds hitting a three-year high, as investors worried that a bribery scandal could destabilise the government. The Turkish central bank hopes that by raising interest rates, investors will be drawn to place their funds in Turkish banks, which would help boost the value of the lira. But Turkey is not the only emerging economy that has been hurt in recent days because of ongoing worries of a global slowdown.

Argentina and Ukraine have been working to stabilise their currencies in the face of investor nervousness. And in the US, the Federal Reserve is expected to continue to withdraw its extraordinary stimulus measures at the end of a two-day meeting on Wednesday - which is also causing some concern in the markets. Through a policy known as quantitative easing, the US central bank has been buying billions of dollars of long-term debt in an effort to keep interest rates low and stimulate the US economy. But many investors fear that as this programme is drawn down, interest rates not just in the US but around the world could rise, and adversely impact emerging economies in particular.

Iran FM: Nuclear deal possible within 6 months

Haaretz, 03.02.2014



Zarif says he isn't worried about new U.S. sanctions on Iran since Obama promises to veto. Iranian Foreign Minister Javad Mohammad Zarif said on Monday a final deal with world powers on Tehran's nuclear program is possible within six months if there is good will and he was not worried about the U.S. Congress trying to impose new sanctions.

U.S. President Barack Obama used his State of the Union address last week to veto any legislation that threatens the talks with Iran. U.S. senators including some of Obama's Democrats have co-sponsored a bill that would impose new restrictions on Iran if talks on a permanent accord falter.

But Iran has warned that it will walk away from negotiations - raising the risk of conflict in the Middle East - if the bill becomes law. It is now stalled in the Senate. "With good will we can reach an agreement within six months," he said in a speech to the German Council on Foreign Relations. "I don't fear a decision in the U.S. Congress ... The U.S. president has promised to veto it." Zarif was visiting Berlin after meeting U.S. Secretary of State John Kerry and other members of the six powers negotiating with Iran at the annual Munich Security Conference at the weekend. Iran reached a landmark preliminary agreement with them in November to halt its most sensitive nuclear operations, winning some relief from sanctions in return. Talks with the six powers about a definitive settlement begin in Vienna on February 18. The meetings with Kerry and others from the six powers in Munich evoked the easing of antagonism between the Islamic Republic and the West, with Zarif describing the talks in Vienna as an historic opportunity Iran would not squander.

Iran insists its nuclear program is entirely peaceful but Western countries have long suspected Tehran of covertly researching the means to develop a nuclear weapon. The prospect of a deal has lessened the risk of Israel or the United States taking military action against Iranian nuclear facilities to prevent Tehran acquiring a nuclear bomb. "We will not start a military operation against anyone - I say: against anyone," Zarif said in Berlin on Monday. Kerry and Zarif have met several times since the election of Iranian President Hassan Rohani, a relative moderate; last June paved the way for the thaw in relations with the West. Zarif told Reuters in an interview on Saturday, however, that Iran was not prepared, as part of a long-term deal on the scope of its nuclear activity, to give up research on advanced centrifuges that could greatly speed up its enrichment of uranium.

Syrian rebels declare new assault on Aleppo after Assad gains

Hürriyet Daily News, 06.02.2014



Rebels announced a new military campaign in the northern Syrian province of Aleppo on Thursday, a few days after government forces stepped up air attacks in a bid to recapture territory and residents out of opposition-held areas.

The largest Syrian rebel coalition, known as the Islamic Front, joined forces with the Nusra Front, al Qaeda's franchise in Syria, to launch an assault dubbed "The promise of truth approaches", a reference to a Koranic verse. President Bashar's forces recently mounted a series of attacks on Aleppo city, once Syria's business hub, using barrel bombs - oil drums or cylinders packed with explosives fragments.

They are a particularly indiscriminate weapon activists say is being used to push out civilians as the army tries to seize the initiative on the long-stalemated Aleppo battlefield. "All military forces in their bases should head to the front lines, otherwise they will be questioned and held accountable," a joint rebel statement said. It warned residents near checkpoints and bases held by Syrian government forces to leave in the next 24 hours, saying the areas would be the insurgents' main targets. Forces loyal to Assad have been making small gains on rebel-held parts of Syria's second city, advances which many opposition sources blame on weeks of rebel infighting that has killed over 2,300 combatants.

The Islamic Front and some of its secular rebel allies are trying to oust an al Qaeda splinter group, the Islamic State of Iraq and the Levant, with whom they have ideological and territorial disputes. Syria's nearly three-year conflict began as popular protests against four decades of Assad family rule but changed into armed insurgency under a security force crackdown. Now the major Arab state is in a full-scale civil war that has killed more than 130,000 people and forced over 6 million - more than a quarter of the population - to flee their homes. Since government forces unleashed the barrel-bombing campaign on rebel-held Aleppo last week, residents have been leaving in droves to seek refuge in government-held parts of the divided city.

Obama to visit Saudi Arabia amid Iran, Syria tensions

Haaretz, 02.02.2014



Saudi Arabia and Indonesia signed their first defense cooperation agreement. On Thursday, Indonesia and Saudi Arabia signed a defense cooperation agreement (DCA) between the two of them. The agreement was signed by Saudi Deputy Defense Minister Prince Salman bin Sultan Abdulaziz Al Saud and Indonesian Lt. Gen. Sjamsoeddin.

The DCA covers training, education, counter-terrorism, and defense industry cooperation. The agreement is significant for Indonesia in a few ways. It is the first agreement of its sort that Indonesia has signed with a Middle Eastern country and the first between it and Saudi Arabia.

Obama preparing to meet with King Abdullah for a summit, the Wall Street Journal reports, citing unnamed Arab officials briefed on the meetings. President Barack Obama plans to travel to Saudi Arabia in March on a mission to smooth tensions with Washington's main Arab ally over U.S. policy on Iran's nuclear program and the civil war in Syria, according to a Wall Street Journal report. Obama is preparing to meet with King Abdullah for a summit, the newspaper reported on Friday, citing unnamed Arab officials briefed on the meetings. "This is about a deteriorating relationship" and declining trust, said a senior Arab official in discussing the need for the summit, which was pulled together in recent days, the newspaper reported. A White House spokeswoman declined to comment.

The United States and Saudi Arabia have been allies since the kingdom was formed in 1932, giving Riyadh a powerful military protector and Washington secure oil supplies. Washington's relationship with the Saudis was crucial as the region faced changes and challenges from the transition in Egypt to civil war in Syria. But relations have been tested on a number of fronts. Members of Saudi Arabia's ruling family threatened a rift with the United States to protest perceived American inaction over Syria's civil war, which has killed more than 100,000 people, as well as the recent U.S. outreach with Iran. The Sunni Muslim kingdom's regional rivalry with Shi'ite Iran, an ally of Syria, has amplified sectarian tensions across the Middle East.

King Abdullah is also to use the meeting to question Obama on why he decided against airstrikes in Syria, which Saudi and other Arab officials believe strengthened Assad, the newspaper reported. "The meeting in many ways will get back to basics," said a Saudi official briefed on the meetings, according to the Wall Street Journal. "Why did Obama do it the way he did it?" U.S. and other security officials said earlier this week that "moderate" Syrian rebel factions were receiving light arms supplied by the United States. The Arab Spring as well as a November agreement between Iran and other world powers that curbs parts of Tehran's nuclear program, has angered Saudi Arabia, along with other Arab states and Israel.

Ukraine government considers early elections

Aljazeera, 04.02.2014



Protesters stand firm as government considers political solutions to the two-month crisis. Ukraine's authorities have voiced the possibility of early presidential elections for the first time as the government tries to show its determination to find a peaceful solution to the continuing conflict.

Viktor Yanukovich's personal representative in parliament told AFP news agency on Tuesday that the president has spoken at a meeting with politicians last week of "two possible scenarios" to end the two-month crisis. "The first is the release of occupied buildings and an amnesty (for protesters) and the second is early elections.

"The amnesty is not working out," said Miroshnychenko, referring to the release of detained protesters. The opposition wants protesters freed unconditionally, while Yanukovich and his ruling Regions Party say this can only happen if occupied buildings including ministries and regional government offices are vacated within the next few days. However, some anti-government activists refuse to accept the results of any negotiation between the opposition and the authorities, saying they would not quit until the president resigns. "Nobody will go home just like that. So many people sacrificed their lives and we'll just go home? We will stand until the end," Oleg Smolny, an anti-government activist, told Al Jazeera's Tamila Varshalomidze in Kiev.

"The Ukrainian people got poisoned [with the spirit of the uprising] that they won't back down now." Another activist, who only gave his nickname Odinochka, told Al Jazeera: "Everyone here already understood that the opposition has already made some deals with the government. They have distributed top positions among themselves." As the protesters kept occupying government buildings and guarding barricades in central Kiev, German Foreign Minister Frank-Walter Steinmeier has said sanctions should be used as a threat against Yanukovich's government.

Greek Cypriot president says ‘serious prospects’ reunification talks can resume

Hürriyet Daily News, 06.02.2014



Greek Cypriot President Anastasiades said on Feb. 6 there were “serious prospects” that long-stalled talks to reunify the island could resume between the Greek and Turkish Cypriot communities.

Anastasiades said negotiations between the two sides on drafting a joint communiqué outlining principles of a settlement were at a “delicate point.” “It appears there are serious prospects for a substantive joint statement which would satisfy the basic principles governing a Cyprus settlement, and lead to a resumption of negotiations,” Anastasiades told to journalists on Feb. 6.

Peace talks stalled in mid-2012. The United Nations had difficulty brokering resumption because the two sides failed at the outset to agree on the wording of a joint statement of what sort of settlement they wanted. Diplomatic sources said the United States was instrumental in pushing for a breakthrough. Victoria Nuland, assistant secretary of state for European and Eurasian affairs was on the island on Feb. 4.

Pakistan-Taliban peace talks delayed

Aljazeera, 04.02.2014



The two sides originally agreed to meet for initial talks, but the preliminary talks are now in doubt. Negotiators representing the Pakistani government and Taliban will not meet for preliminary peace talks that were meant to be taking place following a spate of killings.

Two teams, nominated by the government and Taliban were due to gather in Islamabad at 2:00pm to chart a preliminary “roadmap” for the talks on Tuesday. This was meant to pave the way for the beginnings of the peace talks. However, Al Jazeera’s Kamal Hyder, reporting from Islamabad, said the meeting was unlikely to go ahead as scheduled.

“This morning it was a done deal but now we are told the government committee wants clarification from the Taliban committee on certain issues so the formal meeting is not going to happen today,” he said. Irfan Siddiqui, the coordinator of the government’s committee on peace talks, told Al Jazeera that his group was seeking clarification from the TTP’s own committee regarding that body’s role and mandate. Specifically, the government wants to know the nature of the relationship between the TTP-appointed committee and the TTP’s own leadership council. The Taliban responded to the government’s request for clarification by saying its committee will have the three members all of whom are ready for the talks. It is now up to the government to respond. Last week, Prime Minister Nawaz Sharif named a team to begin dialogue with the Taliban, who have been waging a violent campaign against the state since 2007.

Many observers had been anticipating a military offensive against TTP strongholds in Pakistan’s tribal areas, following a bloody start to the year on both sides, with the government responding to Taliban violence with raids on Waziristan strongholds. More than 110 people were killed in attacks in January, many of them military personnel. Critics have accused Sharif’s government of dithering in response to the violence. The TTP has said in the past that it opposes democracy and wants Islamic sharia imposed throughout Pakistan, while the government has stressed the country’s constitution must remain paramount. The TTP had asked cricketer-turned-politician Imran Khan to be part of their team but he declined. The two sides held separate meetings in Islamabad on Monday and later decided to talk each other on Tuesday, Khan said.

Afghan presidential candidate's aides killed

Aljazeera, 02.02.2014



Two senior members of Abdullah Abdullah's campaign team shot dead in street in Herat province. Gunmen have killed two aides of an Afghan presidential candidate, hours before the official election campaign was due to start.

The attack on Saturday targeted staff working for Abdullah Abdullah. Abdul Rauf Ahmadi, a police spokesman in Herat, said: "Two people, Ahmad Hamdard and Shujahideen were killed in the fourth district of Herat. Unidentified gunmen opened fire on them in the middle of street." Sayed Fazel Sangcharaki, a spokesman for Abdullah, said Hamdard who was to lead the candidate's election campaign team in Herat.

The attack came as the country prepares for the democratic transfer of power, with the April 5 election viewed as a test for Afghan security forces. Taliban fighters have threatened to target the campaign, and the Afghan police and army face a major challenge as the US-led NATO troops prepare to exit. No one has yet said they carried out the attack. But a source close to Abdullah, who did not wish to be named, told the news agency AFP: "We had received some threats in the past week, and two suspects were detained three days ago near our election campaign office in the city." We had also informed the security forces that there may be more possible threats, but unfortunately despite some security measures taken by us and police there, two main members of our election team were killed this evening."

The source did not elaborate on who was behind the threats. Sangcharaki, who said Hamdard had worked with Abdullah during the last presidential campaign in 2009, criticised the lack of security provided by the government. "This incident at the beginning of election campaign is a bad sign as either the security forces are incapable of providing security for the election campaign or they do not take their job seriously," he said. Abdullah came second to President Hamid Karzai in the 2009 election. Afghanistan's election campaign kicks off on Sunday, with 11 candidates vying to succeed Karzai as the country enters an uncertain new era without the aid of NATO combat troops to fight the Taliban. A dispute between Kabul and Washington over whether a small force of US soldiers stays behind beyond 2014 is likely to dominate the two-month campaign.

US presses Beijing over South China Sea dispute

BBC News, 06.02.2014



A top US diplomat has called on China to clarify or adjust its territorial claims in the South China Sea in accordance with international law. Daniel Russel, assistant secretary of state for East Asia, criticized Beijing's so-called "nine-dash line" that outlines its claims.

He said there were "growing concerns" over China's "pattern of behavior." Tensions are already high over China's imposition of an air defense zone above disputed islands in the East China Sea. Correspondents say there are fears of a fresh showdown in the South China Sea. Several countries claim competing sovereignty over islands, reefs and shoals.

China, the Philippines, Brunei, Malaysia, Vietnam and Taiwan all have claims in the region. "There are growing concerns that this pattern of behavior in the South China Sea reflects incremental effort by China to assert control over the area... despite objections of its neighbors," Mr. Russel told a congressional committee. "Any Chinese claim to maritime rights not based on claimed land features would be inconsistent with international law," he said. "China could highlight its respect for international law by clarifying or adjusting its claim to bring it into accordance with international law of the sea," he added. The US says it does not take stances on territorial disputes in Asia. However, Mr. Russel said he supported the Philippines' right to take its case to a UN tribunal as part of efforts to find a "peaceful, non-coercive" solution.

China denounced the move last year. On Wednesday, China's state news agency branded Philippine President Benigno Aquino a "disgrace" for comments in connection with the territorial row in which he compared China to Nazi Germany. Mr. Aquino called for world leaders not to appease China over its claims in the South China Sea in the same way nations tried to appease Hitler before World War Two. "At what point do you say: "Enough is enough"? Well, the world has to say it. Remember that the Sudetenland was given in an attempt to appease Hitler to prevent World War Two," Mr. Aquino said in an interview with the New York Times on Tuesday. An angry commentary on the state-run Xinhua news agency branded Mr. Aquino an "amateurish politician who was ignorant both of history and reality".

China's "nine-dash line" stretches hundreds of miles south and east from its most southerly province of Hainan. In January, Hainan province enacted new regulations requiring foreign fishing vessels to ask for permission to enter its waters, including the disputed areas claimed by China. The Philippines said it was "gravely concerned" by the new rules, while Taiwan and Vietnam also said they did not recognize the rules. Beijing says its rights come from 2,000 years of history where the Paracel and Spratly island chains were regarded as part of the Chinese nation. More than half the world's merchant goods are shipped through the South China Sea and in 2010, then US Secretary of State Hillary Clinton declared that freedom of navigation there was a US national interest.

Relations between China and Japan are currently under strain over a separate territorial row involving islands in the East China Sea known as the Senkaku islands in Japan and the Diaoyu islands in China. Last year, China announced an air defense identification zone (ADIZ) in the East China Sea, and said that aircraft flying through the zone must follow its rules, including filing flight plans. The ADIZ covers the disputed islands, which Taiwan also claims, as well as a rock claimed by South Korea. The US, Japan and South Korea have rejected China's zone, and flown undeclared military aircraft through it. The US has called the move a unilateral attempt to change the status quo in the region.

U.S. bank leverage rules to include global revisions: Fed governor

Reuters, 06.02.2014



A top U.S. bank regulator plans to tell lawmakers on Thursday that final leverage rules for U.S. banks will incorporate recent revisions to a global capital standard, which likely means tougher requirements for the institutions.

U.S. regulators proposed rules in July to limit the extent to which banks may fund their activities through debt, part of the Basel III global agreement to boost banks' capital levels. In January, the international group revised the way it requires banks to calculate whether they are meeting the leverage requirements. That latest version is seen as somewhat tougher on banks than the method U.S. regulators.

Federal Reserve Governor Daniel Tarullo plans to tell a U.S. Senate Banking Committee hearing that the final U.S. rules would incorporate the changes agreed on by the Basel group. "These changes would strengthen the ratio in a number of ways, including by introducing a much stricter treatment of credit derivatives," he said in prepared remarks obtained by Reuters. Global regulators reached the Basel accord to make banks safer after the 2007-2009 financial crises. Capital rules force banks to fund a minimum amount of business through equity, rather than debt. Leverage ratios are calculated as a percentage of total assets, unlike some capital ratios that consider the riskiness of bank assets. U.S. regulators have proposed a 6 percent leverage ratio for the biggest banks, twice as much as called for under the global agreement.

The Basel committee tweaked its rules in January for calculating the leverage ratio. European banks saw that as easing some of the requirements on them. But that revised calculation method is tougher than the U.S. proposal in its approach to credit derivatives, Comptroller of the Currency Thomas Curry plans to tell the Senate committee on Thursday. It also differs from the U.S. version in its treatment of certain off-balance sheet commitments, Curry said in prepared remarks posted on the committee's website. "Our preliminary analysis suggests that, in the aggregate, the final Basel standards will generate a larger measure of exposure - and will therefore be more stringent - than the current and proposed U.S. standards," Curry said.

The future of American growth

Politics Syndicate, 01.02.2014



The near-term outlook for the US economy has improved, owing to the sharp increase in household wealth in 2013, together with the end of the fiscal drag caused by the increase in tax rates in 2012. The United States now has a chance to raise real (inflation-adjusted) per capita GDP faster than the feeble 1.7% average rate recorded during the four years since growth resumed in the summer of 2009.

Of course, significantly faster GDP growth in 2014 is not guaranteed. For starters, achieving it requires overcoming the negative impact of the jump in long-term interest rates that followed the Federal Reserve's announcement last June.

Moreover, the cloud of rising budget deficits at the end of the decade – and exploding national debt after that – is also discouraging investment and consumer spending. But let's look beyond 2014 and ask what will happen to US economic growth over the longer term. The Congressional Budget Office (CBO) projects that real per capita GDP growth will slow from an annual rate of 2.1% in the 40 years before the start of the recent recession to just 1.6% between 2023 and 2088. The primary reason for the projected slowdown is the decrease in employment relative to the population, which reflects the aging of American society, a lower birth rate, and a decelerating rise in women's participation in the labor force. While the number of persons working increased by 1.6% per year, on average, from 1970 to 2010, the CBO forecasts that the rate of annual employment growth will fall to just 0.4% in the coming decades.

A drop in annual growth of real per capita GDP from 2.1% to 1.6% looks like a substantial decline. But even if these figures are taken at face value as an indication of future living standards, they do not support the common worry that the children of today's generation will not be as well off as their parents. An annual per capita growth rate of 1.6% means that a child born today will have a real income that, on average, is 60% higher at age 30 than his or her parents had at the same age.

Of course, not everyone will experience the average rate of growth. Some will outperform the average 60% rise over the next three decades, and some will not reach that level. But a 30-year-old in 2044 who experiences only half the average growth rate will still have a real income that is nearly 30% higher than the average in 2014.

But things are even better than those numbers imply. Although government statisticians do their best to gauge the rise in real GDP through time, there are two problems that are very difficult to overcome in measuring real incomes: increases in the quality of goods and services, and the introduction of new ones. I believe that both of these problems cause the official measure of real GDP growth to understate the true growth of the standard of living that real GDP is supposed to indicate. Consider the problem of accounting for quality improvements. If I pay the same price for some product or service this year as I did last year, but the quality of the product or service is better, my standard of living has increased. The same is true if the price rises but the quality increases even more.

Unfortunately, a government statistician cannot judge the increase in quality of everything from restaurant meals to medical care. The problem of taking new products into account is even more difficult. Virtually everyone around us uses a smart phone, a laptop computer, or a tablet. We know what these cost and how much they add to the total nominal value of GDP. But how much more than the standard retail price would individuals pay to keep these “must-have” products? Likewise, what is the value to patients of laparoscopic surgery or drugs that relieve anxiety or prevent heart attacks? In short, I am convinced that the real standard of living produced by the goods and services that we buy is increasing faster than our official data reveal. That is true now, and it is likely to continue to be true in the future. That is not a reason for complacency. The US can and should adopt policies that will cause real incomes to rise even faster. But that is a subject for a future column.

Japan and Russia: arctic friends

The Diplomat, 02.02.2014



Increasingly close ties offer both countries potential benefits in the Arctic and elsewhere. The Arctic region has moved to the center of world politics in 2014, sitting high on the energy security agenda of most East Asian countries, including China and Japan. The latter has recently been stepping up its efforts to build a stronger foothold in the area.

Those efforts have been given a boost recently by Tokyo’s discovery of a new friend with a prominent role on the Arctic chessboard: Russia. A successful Japan-Russia rapprochement has the potential to serve as a game changer for both countries.

In September 2012, Arctic sea ice reached its lowest point ever. This has of course triggered very real fears about climate change, but it has also transformed the region into an energy hotspot. The Arctic is believed to contain 30 percent of the world’s undiscovered gas and 13 percent of its undiscovered oil. At the same time, the Northern Sea Route through the Arctic offers alternative passage for energy transportation, offering both energy importers and exporters the opportunity to reduce their dependence on unstable waterways such as the Strait of Hormuz and the Strait of Malacca. Not surprisingly, Arctic littoral states and East Asian countries have been fixated on the geopolitical merits of the region. In May 2013, Japan, China and South Korea were admitted as permanent observers to the Arctic Council, enabling them to sit in on meetings and promote their own Arctic strategies.

Of these three countries, China has been particularly active in pursuing economic, political and scientific initiatives. Notwithstanding its early engagement in the region, Japan is considered a latecomer to the Arctic race. Although its involvement in the region dates back to the early 20th century, only recently has it adopted a more comprehensive strategy. That Japan would have an interest in the Arctic should come as no surprise, given its scarce natural resources and its reliance on imports for about 84 percent of its energy needs.



Japan is currently the world's third largest oil consumer and importer and the world's largest importer of liquefied natural gas. This dependency on energy imports has only grown in the aftermath of the 2011 Fukushima nuclear disaster. As a result, Tokyo simply cannot ignore the vast energy resources of the Arctic. In parallel, with one of the world's largest merchant fleets, Japan can derive tremendous benefits from the Northern Sea Route — also called the Northeast Passage — which cuts the travel time from Hamburg to Yokohama by about 40 percent compared to the Suez route, with fuel savings of 20 percent. While taking care not to challenge the sovereignty regime of the Arctic, Japan has been trying to increase its presence in the region. For instance, it has held frequent bilateral talks with Arctic littoral states, and most particularly with Russia. Japan's relations with Russia reached their lowest ebb in years in November 2010, when then-President Dmitry Medvedev visited the disputed Kunashiri Island, but began to thaw following the election of President Vladimir Putin.

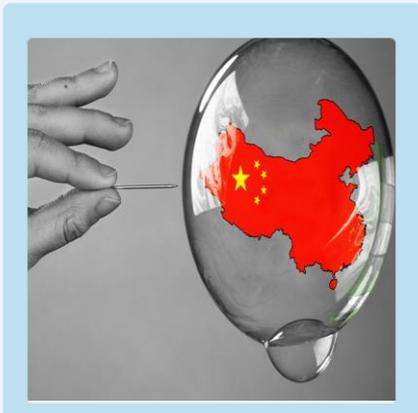
Both sides have found reason to be concerned about the rise of China and have been seeking ways to hedge against it. When the icebreaker Xue Long became the first Chinese vessel to navigate the Northern Sea Route in 2012, Moscow strongly supported Japan's candidacy for observer status at the Arctic Council, ignoring China's similar bid. Moreover, in May 2013 Japanese Energy Company Inpex Corporation reached a deal with Russian oil giant Rosneft to jointly explore two Russian oil fields. The same year Moscow championed Tokyo's candidacy for the 2020 Olympic Games. Japan and Russia have also benefited from frequent high-level contacts, with Prime Minister Shinzo Abe meeting with Putin on multiple occasions, including a visit by Abe to Moscow in April 2013, the first by a Japanese prime minister in a decade. Also last year, Japan and Russia held their first-ever "2+2" meeting, at which their foreign and defense ministers discussed security cooperation.

Although the meeting failed to make headlines, it was a significant step, given that Japan has held similar meetings only with the United States and Australia. For Russia, this was its first "2+2" meeting with an Asian country. To be sure, Japan and Russia could hardly be considered natural security partners. Issues such as the status of the Kuril Islands (known as the Northern Territories in Japan), the U.S.-Japan security alliance and the two wars in 1904-1905 and again in 1945 still pose significant challenges to their partnership. Still, both sides appear willing to cooperate, anticipating considerable benefits from this relationship. But what exactly can this romance bring to both sides? Through its warming ties with Russia, Japan seeks to exploit the Arctic's potential and to win support in standing up to what it regards as China's assertive policies.

Working with Russia is a great opportunity for Japan to strengthen ties with the most important player in the Arctic and gain leverage within the Arctic Council. It will also give Japanese energy and maritime corporations and scientific institutions valuable Arctic access. That in turn would help Tokyo diversify its energy suppliers and its transportation routes. Meanwhile, Japanese ports will have a competitive advantage compared with rivals such as Singapore, Shanghai and Hong Kong. Finally, working with Russian sailors and infrastructure workers who have experience operating in harsh weather conditions will be of great assistance for Japanese companies. Closer relations also offer benefits for Russia. As its strategic interests have shifted from Europe to Asia, Russia feels compelled to hedge against China and establish strong partnerships with other countries in Asia. Although Beijing is Russia's most important customer in East Asia, Moscow is still keen to diversify its energy sales in East Asia, especially as the balance of needs tilts in favor of China. While Beijing has developed a wide network of energy suppliers in the Middle East, Africa, Central Asia and the Asia-Pacific, Russia has constructed extensive energy infrastructure that services only China.

China's risky credit boom

Politics Syndicate, 27.01.2014



Credit in China is growing at a breakneck pace, having increased from 125% of GDP in 2008 to 215% in 2012. Local-government debt has soared by 70% since 2009, reaching almost \$3 trillion last June. This is raising serious concerns about the level of risk in China's financial system.

China's rapid credit growth reflects the government's move to loosen restrictions on investment, as well as very low interest rates in the formal banking sector. Since 2000, the one-year fixed-term deposit rate in China has remained in the 2-4% range, roughly equal to the consumer inflation rate. The lending rate has also remained relatively stable, at 5.5-7%.

Unsurprisingly, the combination of easy credit, low official rates, and high demand caused property prices to surge by 300-500% in some Chinese cities over the last decade. This has led to broad-based wealth distribution, with 80% of urban households owning their homes. But access to cheap credit remains a privilege reserved for a select group, which has amassed property and real estate, while new entrants to the labor market and small and medium-size enterprises have struggled to acquire credit at reasonable rates. Chinese authorities, recognizing that excessive credit was creating domestic economic imbalances, have been engaged in monetary tightening since 2010, slowing the pace of money-supply growth from more than 25% in 2009 to less than 14% last year.

As new credit increased by only 9.7% in 2013, tight interbank liquidity conditions arose in June and December, with average interbank rates spiking to around 12% and 9%, respectively. Since the beginning of this year, regulators have also begun to rein in shadow banking, which gained ground in the wake of the global economic crisis. With China's export sector facing labor-cost increases and the renminbi appreciating against the US dollar by 3% annually since 2005, conditions deteriorated sharply when crisis struck the advanced economies. Indeed, after 2008, demand for Chinese exports fell, and buyers began to demand seller financing, cutting Chinese firms' profit margins, cash flow, and liquidity.

The shadow-banking system emerged to meet the demand from private firms and SOEs for extra liquidity to help them cope with the slowing economy and fulfill their investment commitments. Private-sector entrepreneurs in cities like Wenzhou were willing to pay annual interest rates as high as 15-20%. On the supply side, savers – including wealthy households and corporations with surplus cash – wanted positive real interest rates on their deposits. Loan-guarantee institutions, trust companies, and others sought to benefit from the gap between the 3.5% return on one-year fixed deposits in the official banking system and rates of up to 20% in the shadow-banking sector. The result was a 43% increase in shadow-banking credit last year, accounting for 29% of China's total credit. Chinese policymakers now must determine how to unify the official and shadow rates without excessively disrupting the system – an objective that is made all the more challenging by the government's recent decision to give market forces a greater role in resource allocation.



If the unified rates are too high, the economy could come to a halt; capital inflows could negate the policy's impact; or the asset bubble could pop, putting serious pressure on banks' balance sheets. What the debate really comes down to is liquidity versus solvency. Excessively loose liquidity and negative real interest rates obscure the credit risks in the system, while excessively high real rates could transform illiquidity into insolvency. The question is whether borrowers can sustain much higher interest rates and still service their debts.

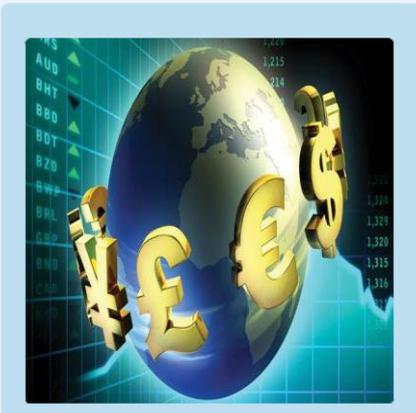
Proper credit discipline would ensure that private firms paying excessively high interest rates ultimately exit the game. But, while local-government financing platforms nominally carry state-credit status, some might not have the cash flow to make their payments, either. Should they have to pay unsustainably high interest rates? In other words, the problem stems from the quality of assets (or investments) that underlie China's credit growth. A study of better-performing cities like Foshan suggests that some municipal-level enterprises will survive, owing to high productivity and sound fiscal management. But, even at a 7% interest rate, some towns will not be able to repay their debts – a situation that will demand either that platform companies declare bankruptcy or that municipal debt is restructured.

The current divergence between official and shadow lending rates parallels the gap between the renminbi's official and swap market (unofficial) exchange rates in the 1980's. The unification of the exchange rates in 1994 improved the market mechanism substantially, thereby enabling China's foreign trade to grow exponentially. At the domestic level, the current policy dilemma is how to reconcile the economy's liquidity needs with the solvency of the system as a whole (rather than that of individual borrowers). If interest rates remain too low, the shadow-banking system will squeeze out the formal sector. If money supply is too tight, the real economy will suffer, in turn damaging the financial sector. The good news is that higher interest rates in advanced economies create more policy space for China to adjust domestic rates.

A combination of price and quantitative adjustments would buy time for the real sector to improve productivity and for policymakers to reduce SOEs' excess capacity. In short, given China's large state-owned sector, the transition to market-based interest rates will require strong government action to control public debt (especially local-government debt), while ensuring that there is enough credit to accommodate the growth in the volume of transactions and the increase in asset prices. These complex reforms – which require that both formal and shadow-banking institutions adjust to a new, risk-based environment – certainly will entail some pain; but they are critical to putting China on a stable and sustainable growth path.

The global economy without steroids

Politics Syndicate, 04.02.2014



Economic growth is back. Not only are the United States, Europe, and Japan finally expanding at the same time, but developing countries are also regaining strength. As a result, world GDP will rise by 3.2% this year, up from 2.4% in 2013 – meaning that 2014 may well be the year when the global economy turns the corner.

The fact that the advanced economies are bouncing back is good news for everyone. But, for developing economies that dominated global growth over the last five years, it raises an important question: Now, with high-income countries joining them is business as usual good enough to compete?

The simple answer is no. Just as an athlete might use steroids to get quick results, while avoiding the tough workouts that are needed to develop endurance and ensure long-term health, some emerging economies have relied on short-term capital inflows (so-called “hot money”) to support growth, while delaying or even avoiding difficult but necessary economic and financial reforms. With the US Federal Reserve set to tighten the exceptionally generous monetary conditions that have driven this “easy growth,” such emerging economies will have to change their approach, despite much tighter room for maneuver, or risk losing the ground that they have gained in recent years. As the Fed’s monetary-policy tightening becomes a reality, the World Bank predicts that capital flows to developing countries will fall from 4.6% of their GDP in 2013 to around 4% in 2016.

But, if long-term US interest rates rise too fast, or policy shifts are not communicated well enough, or markets become volatile, capital flows could quickly plummet – possibly by more than 50% for a few months. This scenario has the potential to disrupt growth in those emerging economies that have failed to take advantage of the recent capital inflows by pursuing reforms. The likely rise in interest rates will put considerable pressure on countries with large current-account deficits and high levels of foreign debt – a result of five years of credit expansion. Indeed, last summer, when speculation that the Fed would soon begin to taper its purchases of long-term assets (so-called quantitative easing), financial-market pressures were strongest in markets suspected of having weak fundamentals.

Turkey, Brazil, Indonesia, India, and South Africa – dubbed the “Fragile Five” – were hit particularly hard. Similarly, some emerging-market currencies have come under renewed pressure in recent days, triggered in part by the devaluation of the Argentine peso and signs of a slowdown in Chinese growth, as well as doubts about these economies’ real strengths amid generally skittish market sentiment. Like the turbulence last summer, the current bout of market pressure is mainly affecting economies characterized by either domestic political tensions or economic imbalances. But, for most developing countries, the story has not been so bleak. Financial markets in many developing countries have not come under significant pressure – either in the summer or now. Indeed, more than three-fifths of developing countries – many of which are strong economic performers that benefited from pre-crisis reforms– actually appreciated last spring and summer.



Furthermore, returning to the athletic metaphor, some have continued to exercise their muscles and improve their stamina – even under pressure. Mexico, for example, opened its energy sector to foreign partnerships last year – a politically difficult reform that is likely to bring significant long-term benefits. Indeed, it arguably helped Mexico avoid joining the Fragile Five. Stronger growth in high-income economies will also create opportunities for developing countries – for example, through increased import demand and new sources of investment. While these opportunities will be more difficult to capture than the easy capital inflows of the quantitative-easing era, the payoffs will be far more durable. But, in order to take advantage of them, countries, like athletes, must put in the work needed to compete successfully – through sound domestic policies that foster a business-friendly pro-competition environment, an attractive foreign-trade regime, and a healthy financial sector.

Part of the challenge in many countries will be to rebuild macroeconomic buffers that have been depleted during years of fiscal and monetary stimulus. Reducing fiscal deficits and bringing monetary policy to a more neutral plane will be particularly difficult in countries like the Fragile Five, where growth has been lagging. As is true of an exhausted athlete who needs to rebuild strength, it is never easy for a political leader to take tough reform steps under pressure. But, for emerging economies, doing so is critical to restoring growth and enhancing citizens' wellbeing. Surviving the crisis is one thing; emerging as a winner is something else entirely.



Announcements & Reports

► *The Outlook for EU-Turkey Relations*

Source : TEPAV

Weblink : http://www.tepav.org.tr/upload/files/1390554733-6.The_Outlook_for_EU_Turkey_Relations.pdf

► *Civil G20 Turkey Report*

Source : TEPAV

Weblink : http://www.tepav.org.tr/upload/files/1379085237-2.Civil_G20_Turkey_Report.pdf

► *Improving the EB-5 Investor Visa Program*

Source : Brookings Institute

Weblink : http://www.brookings.edu/~media/research/files/reports/2014/02/05%20eb5/eb5_report.pdf

► *Change in The Middle East and North Africa, EU*

Source : TASAM

Weblink : http://www.tasam.org/tr-TR/Kitaplik/Kitap/139/change_in_the_middle_east_and_north_africa

► *Public Diplomacy of Turkey*

Source : TASAM

Weblink : http://www.tasam.org/en/Icerik/5136/public_diplomacy_of_turkey

► *Emerging Problems In The Ankara-Moscow Axis: The Syrian Crisis And NATO Missile Defense*

Source : ORSAM

Weblink : http://www.orsam.org.tr/en/enUploads/Article/Files/20131227_inceleme1.pdf

► *Turkic Energy Supply and EU Demand*

Source : ORSAM

Weblink : http://www.orsam.org.tr/en/enUploads/Article/Files/20131227_inceleme5.pdf



Upcoming Events

► *9th International Turkish - African Congress*

Date : 24 – 25 April 2014
Place : Turkey
Website : http://www.tasam.org/en/Etkinlik/592/9th_international_turkish_-_african_congress

► *3rd World Turkic Forum*

Date : 28 – 30 May 2014
Place : Edirne – Turkey
Website : http://www.tasam.org/en/Etkinlik/579/3rd_world_turkic_forum

► *Feeding the World Summit*

Date : 13 February 2014
Place : London - UK
Website : <http://www.economistinsights.com/sustainability-resources/event/feeding-world-2014?region%5B4%5D=4®ion%5B7%5D=7>

► *The Lisbon Summit*

Date : 18 February 2014
Place : Lisbon - Portugal
Website : <http://www.economistinsights.com/countries-trade-investment/event/lisbon-summit?region%5B4%5D=4®ion%5B7%5D=7>

► *Arctic Summit 2014*

Date : 4 March 2014
Place : London - UK
Website : <http://www.economistinsights.com/sustainability-resources/event/arctic-summit-2014?region%5B4%5D=4®ion%5B7%5D=7>

► *The CFO Summit 2014*

Date : 6 March 2014
Place : London - UK
Website : <http://www.economistinsights.com/business-strategy/event/cfo-summit-2014?region%5B4%5D=4®ion%5B7%5D=7>

► *The Azerbaijan Investment Summit*

Date : 11 March 2014
Place : Baku - Azerbaijan
Website : <http://www.economistinsights.com/countries-trade-investment/event/azerbaijan-investment-summit?region%5B4%5D=4®ion%5B7%5D=7>



► *9th International Turkish - African Congress*

Date : 24 – 25 April 2014

Place : Turkey

Website : http://www.tasam.org/en/Etkinlik/592/9th_international_turkish_-_african_congress

► *European Energy Horizons 2014*

Date : 8 May 2014

Place : Stockholm - Sweden

Website : <http://www.economistinsights.com/energy/event/european-energy-horizons-2014?region%5B4%5D=4®ion%5B7%5D=7>

► *World Water Conference*

Date : 11 November 2014

Place : London – UK

Website : <http://www.economistinsights.com/sustainability-resources/event/world-water-forum?region%5B4%5D=4®ion%5B7%5D=7>