

Turkey's industrial production sees year-on-year increase in June

Anadolu Agency, 08.08.2017



Turkey's industrial production advanced 3.4 percent in June 2017 compared to the same month last year, the Turkish Statistical Institute (TÜ K) announced on Aug. 8. Turkey's industrial output is deemed a vital indicator for the economy as it is seen as a preliminary gauge for GDP growth. On an annual basis, the manufacturing index saw the biggest rise in June, up 3.8 percent, among all three main sub-indices, TÜ K said.

In the same period, the electricity, gas, steam, and air-conditioning supply index also increased by 2.5 percent while the mining and quarrying index decreased by 0.5 percent.

Meanwhile, the country's industrial production declined by 0.4 percent in June on a monthly basis, TÜ K noted. In June, the mining and quarrying index rose by 1.2 percent while the electricity, gas, steam, air-conditioning supply, and manufacturing indices fell by 0.6 percent and 0.5 percent, respectively.

Turkish banks spent all on loans in first half of 2017, now time to catch breath: TBB head

Hurriyet Daily News, 08.08.2017



Turkish lenders gave "what they had" to offer loans to businesses in the first half of the year to give a boost to the economy and it is now time for lenders to take a rest in order to slash their operational costs, the head of the top banking association said.

Turkish Banks Association (TBB) President Hüseyin Aydın told a group of journalists on Aug. 8 that loan growth for this year is expected at 16-18 percent and profitability increase at 15-20 percent. He said that Turkey's banks gave strong support to economic growth in the first half of the year.



“We grasped a rapid rise in the sector. We gave what we had to offer loans by using the legal limits to the end,” Aydın said at the meeting in Istanbul, as quoted by Reuters. Economic growth is a strength for Turkey, so it should be sustained, he noted.

“We ran very fast in the first six months of the year. Now it is time for us to catch our breath, but we will never stop. Stability in global markets will make a positive impact on Turkey. There might be some ups and downs due to some global uncertainties. The key point here is to manage them well,” he added. Aydın noted that Turkish banks offered almost all loans under the warrant of the Credit Guarantee Fund (KGF) to businesses.

“We have experienced a fruitful process. Some 313,000 clients have used 207 billion Turkish Liras (\$58.6 billion) so far,” he added. In March, Turkey raised the volume of the KGF by more than ten-fold to 250 billion liras in line with measures to boost the economy.

TBB Deputy President Ümit Leblebici said that banks’ profits were fairly high in the first quarter of the year compared to the same period in 2016, adding that normalization would start by the second quarter. “The profitability growth will likely be at 15-20 percent by the year end,” said Leblebici. Turkish banks’ net profit rose to 13.5 billion liras in the first quarter by a 65 percent year-on-year increase. Their net profit was announced 25.4 billion liras in the first half of the year with a 33.2 percent increase compared to the same period in 2016.

Leblebici also said that deposit rates would likely start to decline. “We have already started to see a relative decline in this quarter. The inflation rate will further push these rates down. It will not be surprising to see a nearly 8 percent inflation rate in the first quarter of 2018. This trend will push down the [deposit] rates,” he said, adding that the sector might see 13 percent in these rates by next year.

Aydın noted that the sector would do its best to slash operational costs in a bid to push down the rates. TBB Secretary General Ekrem Keskin said the sector expected the Turkish economy to grow by 4-5 percent.

Turkey warns new military moves in Syria imminent

Bloomberg, 06.08.2017



Turkey's president reiterated Saturday that new cross-border operations into Syria are in the works as the country boosts its military presence along the border against threats from Kurdish militants in war-torn Syria.

President Recep Tayyip Erdogan said Turkey is determined to launch "new moves" akin to its foray into northern Syria last August. "It's clear that the situation in Syria goes beyond a war on a terror organization," Erdogan said, referring to the Islamic State group, and alluding to Kurdish aspirations for statehood.

He was addressing a large crowd at a stadium opening in eastern Malatya province, and slammed the U.S.-led campaign against IS in Syria. Turkey has been vehemently opposed to the presence of the People's Protection Units, or YPG, in northern Syria. The Syrian Kurdish militants are a key U.S. ally in the fight against IS in Syria, and the ongoing campaign to retake the extremist group's de-facto capital of Raqqa.

But Turkey, a NATO member, considers the YPG to be a terror group and an extension of Kurdish militants that have waged a three-decades-long insurgency inside its borders. The country fears that the Syrian Kurds will attempt to link its semi-autonomous regions in northern Syria, which Erdogan calls a "terror entity project" that threatens his country.

In last year's cross-border operation dubbed Euphrates Shield, Turkey-backed Syrian opposition groups and the Turkish military cleared an area in northern Syria of IS and prevented the YPG from conjoining its territories.

"We would rather pay the price for spoiling plans against our future and liberty in Syria and Iraq rather than on our own soil," Erdogan said. "Soon we will take new and important steps," he announced. Turkey's official Anadolu news agency said Saturday that the military dispatched artillery to the border province of Kilis to reinforce units there.

The six-vehicle convoy included tanks and howitzers to be positioned across from the Kurdish-controlled Syrian region of Afrin, according to the private Dogan news agency. In late April, Turkey began relocating military units to Sanliurfa province across from another YPG-controlled area.

Ties between Russia, Turkey ‘promising’, says new envoy

Anadolu Agency, 10.08.2017



Current relations between Moscow and Ankara are “promising”, Russia’s new ambassador to Turkey, Alexei Yerkhov, has told Turkish media. “In the meantime, it requires a serious effort to bring them [relations] to a higher level,” Yerkhov told Ankara representatives of various media groups, including Anadolu Agency Editor-in-Chief Metin Mutanoglu, who met the diplomat at the Russian Embassy in the Turkish capital earlier this week.

The newly appointed ambassador, previously the head of the Russian Foreign Ministry’s Crisis Management Center, replaces Andrey Karlov,

Karlov had been delivering a speech at the opening of an art gallery when a gunman shot him several times. Turkish-Russian relations were tested after Karlov’s assassination. However, Russian leader Vladimir Putin described the shooting as a “provocation” designed to undermine ties with Turkey. Yerkhov insisted political dialogue between Russia and Turkey was growing.

“I am talking about the communication between our senior management. Phone discussions between Russia’s president [Vladimir Putin] and Turkey’s president [Recep Tayyip Erdogan] have gained significant momentum recently,” he added Yerkhov said Karlov’s killing had left both the Russian Foreign Ministry and the public in deep sorrow.

“We know that the investigation carried out by Turkey continues. We know that the institutions conducting the investigation in Russia are in intensive contact with their Turkish counterparts. “We are sure that after completing the investigation, the results will be shared with the public and the Turkish people,” Yerkhov said. He also said Moscow appreciated Turkey’s steps to immortalize Karlov’s memory. Ankara renamed Karyagdi Street in Cankaya district, where the Russian embassy is located, after Karlov.

Yerkhov also served as Russia’s consul general in Istanbul between 2009 and 2015. “During my six years of service, of course, I had difficult and beautiful times, but these six years were the happiest years of my life,” he said. ‘Very tight’ coordination on Syria Yerkhov said there was “very tight” coordination between Moscow and Ankara on Syria, based on “the context of the Astana process”.

The ambassador said the fundamental aim of the Astana talks process was to create a non-conflict atmosphere in some regions of Syria. “We know that the situation in northern Syria is now very sensitive and it has become sensitive in the light of recent developments. The sensitivity of this situation indicates that we should have close the cooperation between the two countries,” Yerkhov said.



About the Syrian peace talks in the Kazakh capital Astana, Yerkhov said humanitarian aid could be delivered to regions where clashes had been stopped. Yerkhov said the Astana process did not collide with Geneva-based talks, adding: "For this reason, institutions and organizations that can contribute positively to both processes should definitely take part in it." A December cease-fire in Syria brokered by Russia, Turkey, and Iran led to the Astana talks, which are being held in parallel to UN-backed discussions in Geneva, to find a political solution to the six-year conflict. He said a "180-degree change" has not been experienced in Syria due to the difficult situation there.

"There is an emotional aspect for me to establish peace in Syria because I served there for three years and it is a special case for me to have peace there and the regions that I visited before," Yerkhov said.

Economic relations

Yerkhov said the trade volume between Moscow and Ankara had decreased, but economic relationships overall had developed. "We think there is still substantial potential in trade between the two countries which has not been discovered," he added. Erdogan frequently reiterates that Turkey's desire is to increase mutual trade volume with Russia up to \$100 billion.

After Turkey shot down a Russian military jet over an airspace violation in November 2015, Moscow took several measures against Ankara, including banning imports of Turkish agricultural products and ending visa-free travel for Turks. In June, Moscow lifted the ban on some agricultural produce and Turkish companies involved in construction, engineering, and tourism. Yerkhov did not comment on the delivery of a Russian air missile system to Turkey, saying: "This is a question that I do not want to answer."

"Due to its sensitivity, it is being discussed in detail by both Turkish and Russian media. There is a huge humming noise both in Washington and Brussels on this issue. If you look at the Russian websites, you will find many different interpretations," he said. Yerkhov said his every word on this issue could be perceived as true or different, or it can be abused. "My offer is to talk this issue after a while," he added. Erdogan previously said negotiations on the missile system had been "largely" completed and he said the purchase of S-400 system is not "worrying".

Russian presidential aide Vladimir Kozhin said in late June that Moscow and Ankara had agreed on the delivery of S-400 mobile systems but that the Kremlin had not approved a loan for the deal. The S-400 system was introduced in 2007 and can carry three types of missiles capable of destroying ground and air targets, including ballistic and cruise missiles. It can track and engage up to 300 targets simultaneously and has an altitude ceiling of 27 kilometers (17 miles).

Turkey starts building security wall on Iran border

Hurriyet Daily News, 10.08.2017



Turkey has begun building a “security wall” along part of its border with Iran, regional officials said on Aug. 8, in a move aimed at stopping illegal passages. The wall is being built by the Housing Development Administration of Turkey (TOK) upon the request of the Defense Ministry. Pictures showing huge concrete blocks being moved into place were published on the website of the governor’s office of the eastern province of A rı.

The construction of a 144-kilometer long barrier in May as a means of blocking cross-border movements.

A rı Governor Süleyman Elban, Provincial Police Chief Kenan Yıldız and Provincial Gendarmerie Commander Colonel Gökhan Şahin visited the site of the construction and carried out examinations. After receiving information on the project, Elban moved on to visit a border post and dined with soldiers. The “security wall” will be constructed in five stages between A rı and the neighboring province of I dır as part of the protocol between the ministry and TOK . The first stage is expected to be completed in October and will also feature a “security road” in order for security forces be able to patrol the area behind the border.

Bulletproof glasses will be put in 15 doors that will be set throughout the wall. The efforts to place blocks weighing 7 tons with 2 meters width and 3 meters height are ongoing. To beef up security on its Syrian border, Turkey began constructing a similar wall two years ago to prevent Islamic State of Iraq and the Levant (ISIL) and the outlawed Kurdistan Workers’ Party (PKK) militants from moving easily between the two countries and to clamp down on illegal crossings.

In June, Turkish Defense Minister Fikri İşik said 690 kilometers out of a planned 828 kilometers of the wall had been completed along the frontier with Syria. He added that further border security measures would be put in place once the construction is completed.

Thomas Cook becomes first British Airline to lift laptop ban on Turkey flight

Independent, 09.08.2017



Thomas Cook Airlines has become the first UK carrier to lift the ban on larger electronic devices from passengers' hand baggage on flights from Turkey.

In March the Government banned laptops, tablets and e-readers from the cabins of aircraft flying from Turkey and five other countries to the UK. It followed hours after a similar prohibition imposed by the US. The American authorities were concerned about bombs being smuggled aboard aircraft hidden in consumer electronics. Devices had to be placed in the hold, which raised concerns about the risk of an uncontained fire started by a lithium battery

While Washington has now lifted its ban, the Department for Transport continues to impose restrictions on most flights from the affected countries: Jordan, Lebanon, Egypt, Saudi Arabia and Tunisia, as well as Turkey. Last month Turkish Airlines and Pegasus, based in Istanbul, were given the go-ahead to end the ban on their flights from Istanbul and Izmir to the UK. But it has continued to apply to British carriers.

Now Thomas Cook has met the additional security measures – including intensive screening at the departure gate – required by the Government. In a statement, the holiday firm said: “Following a review by the UK Government and the introduction of new security measures, customers flying from Turkey on Thomas Cook Airlines will now be able to carry laptops, tablets and e-readers in hand luggage. The new security measures include additional screening at the gate, so please arrive promptly when your flight is called to allow sufficient time to board.” The restrictions remain in place for flights with Thomas Cook – and all other airlines – from Egypt and the other countries on the list.

US alliance with YPG ‘creates ground for terror organizations,’ says Turkish FM Çavuşoğlu

Reuters, 09.08.2017



The partnership between the United States and the People’s Protection Units (YPG) in the fight against jihadists in northern Syria is “creating the ground for other terror organizations in the region,” Turkish Foreign Minister Mevlüt Çavuşoğlu has said, reiterating Ankara’s expectation that Raqqa will be handed to the control of local Arabs after its liberation.

“The use of a terrorist organization, the PYD/YPG [the Democratic Union Party and its armed wing] in the Raqqa operation will lead to other terror organizations in the region.

Turkey and the U.S. have long been in a deep disagreement on the role of the YPG in the fight against the Islamic State of Iraq and the Levant (ISIL) in Syria, especially after the latter started shipping weapons to the group, which Turkey sees as organically linked to the outlawed Kurdistan Workers’ Party (PKK).

Çavuşoğlu stressed that Ankara has repeatedly urged the U.S. that “fighting against one terror organization by allying with another terrorist group” is unwise and dangerous, especially for Turkey’s security concerns.

“The aim of the PYD/YPG is to make its territorial gains lasting through demographic engineering under the cover of the fight against the DAESH,” he said, using the Arabic acronym for the ISIL. “We have conveyed our sensitivities and expectations to the U.S. administration. The U.S. administration has made commitments to us on these. We will continue to monitor the fulfillment of these commitments,” Çavuşoğlu stressed. “When the operation is concluded, the control and security of Raqqa should be handed to local Arab groups,” he added.

Former Syrian rebels flee, hide from army conscription

Reuters, 10.08.2017



BEIRUT (Reuters) - After fighting against Syrian President Bashar al-Assad for six years, rebel soldier Abu Mohammed laid down his arms as part of a peace deal in his home town of Moadamiya last year. But he has now fled Syria into Turkey. His reason: the Syrian army told him to report for duty and he feared being sent to his death fighting his former allies or Islamic State.

“We’re tired of war and bloodshed, we’ve had as much as we can take,” Abu Mohammed said in a phone interview from Turkey.

The 27-year-old, who declined to give his full name, said he had signed onto the peace deal in Moadamiya, a Damascus suburb that was a rebel stronghold until last year. He said he had been told the Moadamiya agreement would exempt him from frontline duty. “We stayed in the town on that basis.”

But this spring, he heard that men from Moadamiya had been conscripted not to serve locally but to fight for the government against rebel soldiers. “People began to get worried,” he said, adding that he left after the army gave him 48 hours to report for military service.

Reuters could not independently verify the account of other soldiers from Moadamiya being taken to fight on front lines, but it echoed that of a second former rebel from Moadamiya. Declining to be named, he said defectors were being sent to the front lines in breach of agreements communicated to them verbally by what is officially termed a “reconciliation committee”, consisting of officials and local representatives of a defeated area.

The government minister responsible for local agreements, Ali Haidar, denied the state had broken any commitments in Moadamiya, saying accusations it had were being promoted by foreign states and rebels “annoyed” by the agreements. He said many former rebels had joined the army, and hundreds had been “martyred in the front lines against terrorism”.

The rapid succession of agreements in former rebel strongholds near Damascus such as Daraya, Qudsaya and al-Tal underline how far the scales have tipped in Assad’s favor in the war that spiraled out of protests against his rule in 2011. It is part of a dramatic reversal of fortunes for Assad since 2015, aided militarily by Russia and Iran. (GRAPHIC - Areas of control in Syria click tmsnrt.rs/2hz9BQx)



Fear of conscription has been a major sticking point in the local agreements, a diplomatic source said, helping to encourage residents to leave for rebel-held areas of northern Syria in what Assad's opponents call a policy of forced displacement. The government has given safe passage to thousands of rebels and civilians out of government-held territory under the deals.

Syrian officials say people are free to choose whether to go or stay put and that the deals are designed to secure peace and restore state services and authority to recaptured areas.

DEEP SCARS

After crushing centers of rebellion in the big cities of western Syria, the Syrian government has brokered agreements with many areas that were once in the hands of rebel fighters. As part of these deals, rebels have the choice of taking safe passage to territory held by insurgents in northern Syria. They can also stay behind on condition that they hand over guns and sign a pledge to never take up arms against the state.

Syrian law states that all men must complete 20 months of military service once they turn 18, a term that can be extended in wartime. It does not apply to men who have no brothers. The Syrian military has long been seen as overstretched in the war, leaving the government heavily dependent on Iran-backed Shi'ite militia allies from across the region in its fight against rebel areas in western Syria and Islamic State militants to the east. The former rebels fear being sent as cannon fodder. In the case of Moadamiya, where the deal was finalised in September, conscription was meant to be confined to local areas, according to diplomatic and humanitarian sources and local officials involved in the talks.

The psychological scars of Syria's seven-year old conflict run particularly deep in Moadamiya. The area was one of several near Damascus targeted by chemical weapons in 2013. The West blamed the government for the attack which used sarin gas. Damascus denied any role. The local agreement for the area resulted in hundreds of rebel fighters and their families being evacuated to Idlib. Others, like Abu Mohammed, decided to remain behind and turn in their weapons.

As part of the agreement, the Syrian state flag was raised again over government buildings in Moadamiya. Restrictions on movement in and out of the area - which is still surrounded by the army - were eased.

There is no longer any armed presence inside the town, even from the government side, according to several residents and former opposition activists contacted by Reuters. Yet the second former rebel contacted by Reuters by phone said he and around 100 others there had gone into hiding, fearing enlistment to a front line where he might be killed.

"The defectors are now stuck in Moadamiya, they won't leave," said the former rebel, who defected to the rebellion in 2012 during his military service and who refused to give his name for fear of discovery. He said he was recently summoned to a meeting where defectors were threatened with arrest if they did not show up for duty. "Some of them joined up, others didn't," he said. "I thought of leaving, but my financial situation is very bad," he said, adding that he would need to pay people smugglers \$2,600 to get out Syria. "I can't think of anything now. I have nothing to think about, I have no dreams or a future."

Abu Mohammed said he was smuggled out to Turkey with the help of friends in rebel-held Idlib in northern Syria. He said he had sold his house in Moadamiya to finance his passage. A 50-year-old man whose two eldest sons face conscription said in a separate telephone interview that they needed “psychological preparation” if they were to return to the army.

“For a young man who not that long ago was fighting the regime, after six years of war - if you now make him join the side he was fighting against, this is a problem,” said the man, who gave his name as Mahmoud. Haidar, the minister for national reconciliation, said the terms of reconciliation deals grant former militants and men who abandoned military service six months before conscription once their “legal status is settled”.

Former fighters in many areas had expressed a desire to join local security units operating under government supervision to safeguard their areas as part of the reconciliation agreements, Haidar said in written answers to questions from Reuters. The state had no objection to this, he said, without saying whether it had been offered to defectors as an alternative to frontline duty.

Will President Trump implement new sanctions against Russia?

The Hürriyet Daily News, *07.08.2017*



President Donald Trump’s approval of new sanctions against Russia has triggered a debate as to whether the latest spiral of tensions might lead to a new Cold War between Washington and Moscow.

The legislation, which was approved in Congress by a bipartisan and veto-proof majority, aims to punish Russia’s government for its alleged meddling in the country’s 2016 presidential elections, the annexation of Crimea and its support to separatists in Ukraine. The sanctions also target Iran and North Korea for their human rights violations and missile development programs,

From a closer look, Trump’s decision to sign the bill – albeit reluctantly – shows that he has given into the domestic pressures building on Capitol Hill amid intensified investigations into his campaign ties with Russia.

By signing the bill, Trump might be hoping to ward off some of the accusations against him, including ones that he put the U.S.’s interests at stake with his pro-Russia stance.



Notably, the president criticized the legislation for being “significantly flawed.” Kremlin responded with counter measures, ordering the U.S. to remove approximately 60 percent of its diplomatic staff in Russia and announcing the seizure of two U.S. diplomatic properties. Interestingly, the announcement came before Trump signed the bill, which could be perceived as a response addressing Congress, not the president.

Nevertheless, the new sanctions will surely cast a shadow on U.S.-Russian relations despite Trump’s efforts to improve relations with Moscow. “The hope that our relations with the new American administration would improve is finished,” said Russian Prime Minister Dmitry Medvedev.

But defining the recent U.S.-Russian confrontation as a new Cold War is not that meaningful. Although geopolitical struggles remain, power configurations and threat perceptions in today’s world differ greatly from those in the Cold War given the complex interdependency ties among actors and the forces of globalism.

Russia has been openly defying the U.S.-led unipolar world since President Vladimir Putin’s speech at the Munich Security Conference in 2007, and Russia’s expansionist policies have created concern among NATO countries, but Western allies’ priorities and threat perceptions have changed since the Cold War. Eastern European countries feel the chills of growing Russian influence in the region more than their fellow partners in the west. That is why one can observe a significant increase in the number of NATO deployments in Eastern Europe and the Black Sea to counter Russian expansion, while on the other hand, Washington and Moscow can cooperate to avoid military clashes in Syria.

As the world shifts toward a multipolar structure, issue-based cooperation and coalitions of the willing are becoming more common than a dichotomous division of the world between friends and foes as during the Cold War. The new U.S. sanctions will particularly hit firms working with Russia in the energy sector and duly affect multinational projects such as the Nord Stream 1, Nord Stream 2 and Blue Stream. Besides, many U.S. and European investors, as well as foreign banks, that do business with Russia, Iran and North Korea will also be subject to sanctions.

From a European perspective, the new sanctions are perceived as part of the trade wars launched by Trump and manifested in his “America First!” policy; as such, they have created a backlash among European allies. The crux of the matter is to what extent Trump will implement the sanctions bill.

A full implementation of the sanctions might widen the already-deep transatlantic divide. Leading French car company Renault has just signed a deal with Iran, defying the U.S. decision. Perhaps the devil is in the details. As the U.S. State Department said, “The Department is still reviewing the various provisions of this legislation [while the U.S. should] continue to uphold and seek unity with European and other key partners on sanctions implemented against the Russian Federation, which have been effective and instrumental in countering Russian aggression in Ukraine.”

The artificial divide between foreign and domestic policy is getting blurred each and every day. All the same, foreign policy decisions made with a view to domestic concerns continue to produce worldwide repercussions.

UK says EU offers restricted post-Brexit residency rights to Britons

Reuters, 09.08.2017



The European Union has proposed that Britons living in the bloc after Brexit will only have the right to stay in the country where they are resident when Britain leaves, Brexit minister David Davis said in a letter on Wednesday. The future rights of UK nationals living in the EU and EU nationals living in Britain is one of the issues the bloc wants to settle in the first stage of negotiations.

In a letter updating a committee of lawmakers from Britain's upper house of parliament on the negotiations, Davis said the EU was only offering restricted residency rights to Britons.

"Their offer only guarantees residence rights in the member state in which a British national was resident at the point of our exit from the EU. It does not guarantee the holder ... any right to onward movement within the EU, for example to work or study in a neighbouring member state," he said. "We have questioned whether this is consistent with the principle of reciprocity, and also with the Commission's desire to protect rights currently enjoyed under EU law. This will be the subject of further discussion in due course."

The European Commission, the Brussels-based executive arm of the EU where a special team is negotiating with London on behalf of the other 27 states, said divorce negotiations should start with addressing the uncertainty caused by Brexit.

"That includes the financial settlement and the uncertainty that surrounds the rights of EU citizens in the UK and of UK citizens in the EU," a spokeswoman said. "This should be agreed on the principles of continuity, reciprocity and non-discrimination," she said, adding that the triggering of the exit clause by Britain "does not change the right to free movement".

She added: "Nor should it affect the rights of citizens who have made life choices on the basis of EU law and EU membership." After the first full round of talks last month, chief EU negotiator Michel Barnier said there was "a fundamental divergence" between the two sides on how to protect the rights of expatriates after Brexit.

Britain set out proposals in June to allow current immigrants from the EU to retain healthcare, work rights and other benefits that are more generous than those given to migrants from elsewhere.

It said those who had lived in Britain for five years by an as yet unspecified cut-off point could acquire "settled status" similar to permanent residency. Those more recently arrived would be allowed to stay until they achieved this status. The next round of Brexit talks is due to take place in the last week of August.

Strong euro worries Europe's exporters, but little risk to growth

Euractiv, 07.08.2017



Some European exporters are beginning to worry about the strengthening euro which has rebounded from near parity with the dollar after Donald Trump's election, though analysts see little immediate risk to growth. Europe's single currency surged on Wednesday (2 August) to \$1.1910, its highest level since early January 2015, before retreating to \$1.1770 late Friday.

For European businesses heavily reliant on exports, especially in Italy and France, the strong euro could hurt the bottom line.

There's a general nervousness that this strong euro is beginning to impact European corporate profits – we are starting to see it in this quarter's results," William Hamlyn, investment analyst at Manulife Asset Management, told AFP. Still many analysts say economic fundamentals are in favour of the euro, compared to the weak dollar and the feeble pound which has been hammered ever since Britain voted last year to exit the European Union.

And the impact of a strong euro is different depending on the country. Germany, Europe's biggest economy, has nothing to fear for the moment, said Berenberg Bank economist Holger Schmieding, noting the euro is still far from its long term equilibrium rate of \$1.25.

Only about a quarter of German exports are pegged to the dollar, said Ilja Nothnagel, International expert at the German chambers of commerce DIHK. Italy would be the country "most affected by the increase in value of the euro", said Ludovic Subran, chief economist at trade credit-insurer Euler Hermes. "If the dollar/euro rate should remain stable at this level, we will be at a disadvantage," admitted Licia Mattioli, vice-president for international affairs at the Italian employers' organisation Confindustria.

"The effect would be crosswise on our exports, which have grown the past few years towards America. We are exporters to the United States in a number of sectors: fashion, accessories, jewels, food, automobiles, machinery..." she said. However, Lucia Tajoli, professor of economic policy at Polytechnic in Milan, notes the euro is not "super strong" and thinks Italian exports due to their growth in recent years can take some pressure.



“They could suffer a little but there shouldn’t be extremely heavy impacts,” she told AFP. For France, the rise of the euro is going to be “felt strongly in some sectors such as aeronautics”, said Subran, adding that big enterprises involved in major exports have shown in the past they know how to adapt to a rising euro. For the moment, the strong euro is not bothering Spain as two thirds of its exports are to EU countries. However, growth in exports outside the bloc – which has increased by 5% during the first five months of this year compared with the same period in 2016 – could ultimately be affected.

Growth risk?

The euro’s rebound comes with the economic recovery of the eurozone on track. “The eurozone is today seen by many as a zone of stability,” Philippe Waechter, an economist at Natixis, told AFP. The economy in the 19-country single currency area grew by 0.6% in the second quarter, compared with 0.5% in the first three months of the year, the Eurostat statistics agency said this week.

Compared with the same quarter in 2016, economic output in the eurozone rose by 2.1%, it added.”All in all, the eurozone economy has rounded out the first half of the year in a very healthy state and seems to be set up nicely for continued firm growth for the rest of 2017,” said analyst Bert Colijn of ING. Eurozone growth as a whole rose twice as fast as in Britain, where gross domestic product was up 0.3% in the last quarter. Then on Thursday the Bank of England cut its UK growth forecasts with governor Mark Carney warning that high inflation triggered by a Brexit-fuelled slump in the pound had hurt consumer spending.

So for now the strong euro is expected to have little impact on overall eurozone growth, said Subran, who estimated a loss of 0.1 percentage point this year. However if the single currency continues to strengthen the impact on growth could reach between 0.3-0.4 percent next year.

In that case all eyes would turn to the European Central Bank to come again to the rescue. The ECB’s role would be “to do everything possible so that growth can again increase and generate more employment”, said Waechter, referring to two areas at risk if the euro gets a little stronger.

Diplomacy fails to defuse India, China border crisis: sources

Reuters, 08.08.2017



India's diplomatic efforts to end a seven-week military standoff with China have hit a roadblock, people briefed on the talks said, prompting Chinese state-run media to trumpet rhetoric of "unavoidable countermeasures" on the unmarked border. China has insisted that India unilaterally withdraw its troops from the remote Doklam plateau claimed by both Beijing and Indian ally Bhutan.

But China did not respond to India's suggestion in the talks that it move its troops back 250 meters (820 ft) in return, said one source with close ties to Prime Minister Narendra Modi's government.

In the low-key diplomatic maneuvers that took place outside the public eye, the Chinese countered with an offer to move back 100 meters (328 ft), so long as they received clearance from top government officials.

But there has been no comeback since, except for China's mounting warnings of an escalation in the region, which it calls Donglang. "It is a logjam, there is no movement at all now," said a second source with knowledge of the talks. In Beijing, China's Foreign Ministry said the country would never give up any territory.

"Under no circumstances will China make its own territorial sovereignty a term of exchange," it said in a statement sent to Reuters when asked about the talks, reiterating that India had to unconditionally withdraw its forces. Indian troops went into Doklam in mid-June to stop a Chinese construction crew from extending a road India's military says will bring China's army too close for comfort in the northeast.

Their faceoff since, military experts say, is the most serious since going toe-to-toe in the 1980s, with thousands of soldiers each, elsewhere along the 3,500-km (2,175-mile) border. China has held off going to war in the hope New Delhi would see reason, the state-run Global Times, which has kept up a barrage of hostile commentary, said on Tuesday.

"If the Narendra Modi government continues ignoring the warning coming from a situation spiraling out of control, countermeasures from China will be unavoidable," it said. The border crisis caps a year of souring diplomatic ties between the Asian giants, even though trade between the fast growing economies is rising rapidly. India has grown concerned at China's ties to its arch rival Pakistan, viewing their trade corridor across Kashmir as an infringement of its claim to the whole of the region.

Modi refused to join President Xi Jinping's signature Belt and Road initiative to knit together Asia and beyond, making India the lone country to boycott a summit in May. China has warned New Delhi not to be drawn into a Western military alliance led by the United States and including Japan. Modi has sought closer ties with both.

"There will be no happy ending for this confrontation," Indian foreign policy expert C. Raja Mohan wrote in the Indian Express newspaper, adding that India was unlikely to give in. The second source said the worry was the standoff could drag on into a summit of BRICs nations China is hosting next month.

Indian military officials say there is no troop buildup on either side, nearly two months into a standoff that involved about 300 soldiers just 100 meters (328 ft) apart on a plateau 3,000 m (10,000 ft) above sea level. China has accused India of massing troops, however, and state media have warned against a fate worse than its defeat in a brief border war in 1962. "We will keep engaging with China to resolve the dispute. War cannot solve problems," Indian Foreign Minister Sushma Swaraj told parliament, sticking to a conciliatory stance.

Still, both have flexed their muscles. Last month, China held live-fire drills on the Qinghai-Tibet Plateau near the site of the standoff, state media said. India's army ran low-key exercises in the Ladakh sector of the western Himalayas, where previous disputes have flared, though it is thousands of miles distant from Doklam.

"The chance of a conflict is low, nobody is expecting Xi Jinping to go to war before the Communist Party's congress," said Srikanth Kondapalli, a China specialist at Jawaharlal Nehru University in New Delhi, referring to an Oct-Nov meeting expected to confirm a second five-year term as party general secretary for the Chinese leader.

Donald Trump takes a 'try everything' approach to North Korea

Financial Times, 09.08.2017



Donald Trump's overtures to his North Korean counterpart have veered from an invitation to a fast-food supper to the language of atomic warfare in little more than a year. The US president's rhetoric is part of a "try everything" strategy that blows hot and cold in an effort to bring North Korea to the negotiating table and to give up its fast-advancing nuclear missile programme.

"This concept of threatening with one hand and suggesting talks with the other threatens to completely undermine the diplomatic overtures and increase the potential for conflict," said Jenny Town,



North Korea and the US are trading increasingly incendiary threats. North Korea, an autocratic state whose nuclear ambition is enshrined in its constitution, said on Tuesday it was considering attacking Guam, a small US island territory south of Japan, following Mr Trump's invective. Perhaps worse, Mr Trump may have drawn himself a red line he is obliged to act on should Pyongyang fail to heed his warning, after promising to act in response to "any more threats" from North Korea.

Pressure has increased following reports Pyongyang had cracked one of the final technological challenges in nuclear missile design by miniaturising an atomic warhead. The breakthrough follows an unprecedented number of tests and growth in missile range in the past two years.

Despite efforts to make it back down, North Korea last month tested its first two intercontinental ballistic missiles. Military strategists already assume North Korea could reach the US, although the consensus view is that it cannot yet put everything together to deliver a complex long-range missile. Those familiar with the matter say Mr Trump, who three months ago said he would be "honoured" to meet Kim Jong Un, the supreme leader, is torn between competing advice.

"There is a camp that believes we should push very hard — even to the point of launching a pre-emptive strike," said a person familiar with the matter, who characterised the second camp as preferring to pursue talks but having little to show for it as North Korea accelerates its nuclear efforts. "The first camp is going to win the argument by default unless the second camp can actually walk into [Mr Trump's] office and prove they have something real," said the person.

"No one in the administration, including [Mr Trump], cares about regime change. All they care about is removing the military threat to the US," this person added. "That is a tremendous opportunity for the North Koreans." The US has spent months trying to stitch together an international coalition to bring "peaceful pressure" to bear on North Korea, seeking to isolate it politically and economically while hoping to convince Mr Kim that he and his paranoid regime can emerge unscathed from committing to de-nuclearisation. Last weekend, the US led a successful UN effort, for which it gained Russian and Chinese backing despite thorny relations with both, to pass the strongest economic sanctions yet imposing a UN ban on key exports and depriving North Korea of a third of its revenues.

A diplomat who is an expert in North Korea said the country had come to the table in the past only when faced with what it deemed were sufficiently potent existential risks, citing previous rounds of talks following high tensions. Scott Bray, national intelligence manager for east Asia at the office of the director of national intelligence, which gathers and assesses information from 16 other US intelligence agencies, said in late June that the North Korean intercontinental missile programme still had "several critical shortfalls", including a capable re-entry vehicle.

Mr Kim keeps much of his nuclear material deep in mountain hide-outs and his large conventional, nuclear and biochemical arsenals could wreak havoc on the 10m people of Seoul, South Korea's capital, which lies only 50km south of the border. Military officials have updated complex US war plans every year since the end of the Korean war in 1953, although Jim Mattis, the defence secretary, is among the most senior of those who stress war would be "catastrophic" and has advised "self-restraint" repeatedly.



But while a major war would probably trigger millions of casualties, Mr Mattis has said the US could meet any threat with “effective and overwhelming” force. “We always maintain a high state of readiness and have the capabilities to counter any threat, to include those from North Korea,” said a Pentagon official on Tuesday. “Our commitment to the defence of our allies, the Republic of Korea and Japan, in the face of these threats, remains ironclad.”

Rex Tillerson, US secretary of state, has been in Asia seeking to drum up regional support for the US approach, while saying he refuses “to negotiate his way to the negotiating table”. But he has repeatedly reassured Mr Kim that he and his regime are not at risk and has said Washington will consider talks so long as Pyongyang stops its missile launches, suggesting the US sees such an outcome “as the best signal that North Korea could give US”.

Intelligence officials often frame North Korea’s leader as a rational actor, calculating that while his nuclear programme has buttressed his leadership, he also knows that detonating a bomb would be “a regime-ending moment” because the US would move swiftly to obliterate targets. But Mike Pompeo, the Central Intelligence Agency chief who says Mr Trump asks him daily about the nuclear aspirant, appeared to take a tougher line when he said last month it would be good to “separate” the regime from the people. Even Nikki Haley, US ambassador to the UN, has on occasion suggested the US was exhausting its diplomatic options. “The North Koreans need to realise that if they don’t give the second camp some ammunition — some indication that there is a path to sincere and effective talks that could address the US concerns — the first camp is going to win and it is going to be a bloodbath,” said the person familiar with the matter. “It’s up to them to decide”.



Announcements & Reports

Precautionary recapitalisation: time for a review?

Source : Bruegel
Weblink : <http://bruegel.org/2017/07/precautionary-recapitalisation-time-for-a-review/>

Trends in Extremist Violence and Terrorism in Europe through End-2016

Source : CSIS
Weblink : <https://www.csis.org/analysis/trends-extremist-violence-and-terrorism-europe-through-end-2016>

Actualising East: India in a Multipolar Asia

Source : Brookings
Weblink : <https://www.brookings.edu/research/actualising-east-india-in-a-multipolar-asia/>

Upcoming Events

13th Asia Europe Economic Forum (AEEF)

Date : 26 August 2017
Place : Beijing - China
Website : <http://bruegel.org/events/13th-asia-europe-economic-forum/>

Emerging Markets and Europe: Time for Different Relationships?

Date : 27 August 2017
Place : Brussels - Belgium
Website : <http://www.bruegel.org/nc/events/event-detail/event/524-emerging-markets-and-europe-time-for-different-relationships/>

What future for Europe's Social Models?

Date : 27 August 2017
Place : Brussels - Belgium
Website : <http://www.bruegel.org/nc/events/event-detail/event/526-what-future-for-europes-social-models/>

Challenges for Growth in Europe

Date : 27 August 2017
Place : Brussels - Belgium
Website : <http://www.bruegel.org/nc/events/event-detail/event/521-challenges-for-growth-in-europe/>



Global Governance of Public Goods: Asian and European Perspectives

Date : 28 August 2017
Place : Paris - France
Website : <http://www.bruegel.org/nc/events/event-detail/event/529-global-governance-of-public-goods-asian-and-european-perspectives/>

The Future of the Welfare State

Date : 28 August 2017
Place : Berlin - Germany
Website : <http://www.bruegel.org/nc/events/event-detail/event/541-the-future-of-the-welfare-state/>

Vision Europe Summit 2016

Date : 28 August 2017
Place : Lisbon - Portugal
Website : <http://bruegel.org/events/vision-europe-summit-2016/>