Politics & Economics Bulletin

▸ 16.03.2018

Turkish PM starts two-day Azerbaijan visit

Anadolu Agency, *14.03.2018*

Turkish Prime Minister Binali Yıldırım will travel to Azerbaijan on March 14 to attend the 6th Global Baku Forum in the capital Baku, the Prime Ministry has announced.

Yıldırım will meet his Azerbaijani counterpart Artur Rasizade as well as Azerbaijan's President İlham Aliyev and Parliament Speaker Oktay Asadov during his two-day visit, the Prime Ministry said in a statement. At the forum, Yıldırım will deliver a speech at a session titled "Power: Big Powers and the Others." The forum, focused this year on the theme "Bridging Gaps to create Inclusive Societies,"

It is organized by the Baku-based Nizami Ganjavi International Center. Yıldırım will also hold bilateral talks with other heads of states during the forum and meet representatives of the press and business world, said the statement.

Turkey: Unemployment falls to 10.4 percent

Anadolu Agency, *15.03.2018*

Turkey's unemployment rate stood at 10.4 percent in December 2017, falling 2.3 percentage points on a yearly basis, the country's statistical authority said.

According to the Turkish Statistical Institute, the number of unemployed people aged 15 and over was 3.291 million last December, a fall of 581,000, year-on-year. "The number of unemployed persons aged 15-years-old and over decreased by 581,000 to 3.29 million persons in the period of December 2017 in Turkey compared with the same period of the previous year," it said in a statement. In the same period, the non-agricultural unemployment rate was 12.3 percent.

While the youth unemployment rate, covering ages 15-24, was 19.2 percent, down 4.8 percentage points, the unemployment rate for the 15-64 age group was also down 2.3 percentage points to 10.6 percent, it added. The number of people employed rose by nearly 1.619 million in the same period, bringing the employment rate to 46.9 percent, up 1.8 percentage points on an annual basis, the statement said. Breaking down employment by sector, 18.3 percent of people were employed in agriculture, 19.5 percent in industry, 7.3 percent in construction, and 55 percent in services.

TurkStat added that the labour force participation rate (LFPR) was 52.4 percent, up 0.8 percentage points over the same period in 2016. LFPR for men was 71.7 percent, up 0.2 percentage points, and the rate for women was 33.5 percent, also up 1.3 percentage points compared with the same period of the previous year, it said. The rate of unregistered employment came in at 33.3 percent, up 0.6 percentage points from the same month in 2016, TurkStat added.

Enver Erkan, an economist at Istanbul-based GCM, told Anadolu Agency that both the raw and adjusted data are in line with market forecasts, which had expected a “little” increase in the non-adjusted unemployment rate and a “continuing moderate” drop in the adjusted unemployment rate. “The continuing decline of seasonally-adjusted unemployment rate is a good point. As we look at the details, we see a general steady employment increase. But, the higher labor force participation rate limits the decline of unemployment rate,” Erkan said. He added the situation will likely be seen in the near term future also. “After the seasonal increase in the first month of 2018, we’ll see the unemployment rate at current levels.” He said the moderate decline would “probably” continue in the adjusted data. But, he added, one could not consider 10.9 percent unemployment rate “as a success in a 7 percent GDP growth environment.” “If the employment increase could be sustained like that and above 5.5 percent GDP growth is achieved, more recovery for labor market could be expected in the longer term,” he said.

Turkey: Private sector loans from abroad on rise

Anadolu Agency, *15.03.2018*

The Turkish private sector’s outstanding long-term loans received from abroad rose to $225.7 billion in January 2018, while short-term loans stood at $18.9 billion.

The Central Bank of the Republic of Turkey (CBRT) announced that the private sector’s pending long-term loans from abroad rose $5 billion whereas short-term loans -- excluding trade credits -- increased by $506 million compared to the end of 2017. By definition, short-term loans have an original maturity of one year or less while long-term loans have an original maturity of more than one year.

“As for the sectoral breakdown by the end of January, of the total long-term loans in the amount of $225.7 billion, 51.2 percent consist of liabilities of the financial institutions, whereas 48.8 percent consist of the liabilities of the non-financial institutions,” the CBRT said. “In the same period, of the total short-term loans in the amount of $18.9 billion, 75.6 percent consist of liabilities of the financial institutions, whereas 24.4 percent consist of liabilities of the non-financial institutions,” the bank added.

Regarding the currency composition, 58 percent of the total long-term loans were U.S. dollar loans, 35.5 percent are in euros, 4.8 percent were in Turkish lira and 1.7 percent from other currencies, as noted in the report.: “And of the total short-term loans in the amount of $18.9 billion, 46.6 percent consist of U.S. dollars, 27.7 percent consist of euros and 25.7 percent consist of Turkish lira. “The private sector’s total outstanding loans received from abroad based on a remaining maturity basis point out to principal repayments in the amount of $71.6 billion for the next 12 months by the end of January.” The central bank periodically releases the data for the private sector’s long and short-term loans received from abroad by gathering details from credit-based forms submitted by resident financial institutions and companies. The bank’s next report is slated to be issued on Monday, April 16.

US, Turkey top diplomat meeting scheduled for March 19 could be delayed: Çavuşoğlu

Hurriyet Daily News, *14.03.2018*

A planned meeting between Turkish Foreign Minister Mevlüt Çavuşoğlu and U.S. Secretary of State Rex Tillerson on March 19 could be delayed until after Tillerson’s departure, Çavuşoğlu has said.

“The meeting we will hold on March 19 could be delayed until after Tillerson’s departure,” Çavuşoğlu said in Moscow during a press conference with his Russian counterpart Sergei Lavrov on March 14. Turkey wants to work “with the same understanding” with incoming U.S. Secretary of State Mike Pompeo, he added.

“The new U.S. secretary of state must learn that Turkey must be respected,” Çavuşoğlu said.

US-Turkey relations do not depend on individuals, Turkish PM says over Tillerson exit

Hurriyet Daily News, *14.03.2018*

Relations between the United States and Turkey do not depend on individuals, Turkish Prime Minister Binali Yıldırım said on March 14 after U.S. Secretary of State Rex Tillerson was sacked by President Donald Trump.

Speaking to journalists in Ankara before leaving for Azerbaijan, Yıldırım said: "Whoever comes in, Turkey's stance is clear. It is not very important to us what the new secretary thinks about Turkey." Yıldırım said he hopes Tillerson's departure from the state department will improve relations between the U.S. and Turkey. "I hope healthier relations could be developed after that," said Yıldırım.

Relations between the U.S. and Turkey do not depend on individuals, he stressed. Trump on March 13 announced CIA Director Mike Pompeo as his pick to be the country's new secretary of state, ousting Tillerson. The White House and the State Department have had a number of high-profile clashes after Tillerson took the post as America's top diplomat, including a glaring split during a dispute between Qatar and its Arab Gulf neighbors. Trump and Tillerson have also been at odds over a number of key foreign policy issues, including climate change. "We disagreed on things," Trump told reporters before heading to California. "When you look at the Iran deal, I think it's terrible, I guess he thought it was O.K. I wanted to either break it or do something, and he felt a little bit differently."

2018 to be milestone in Turkey-Japan economic ties: Zeybekci

Hurriyet Daily News, *14.03.2018*

The year 2018 will be a historical milestone in economic and commercial ties between Turkey and Japan, Economy Minister Nihat Zeybekci said on March 13.

Speaking at a reception at the Turkish Embassy in Tokyo, Zeybekci said the trade volume between the two countries should rise four or five-fold from its current level of $4.7 billion, in order to better reflect the friendship between the two countries. The reception was organized to mark the first Turkish chicken meat export delivery of 500 tons to Japan.

Zeybekci said he held important meetings with three Japanese ministers, a number of prominent Japanese institutions and business people during his three-day visit to Japan. "One of the most important agenda items of our visit is the free-trade agreement between the two countries, which has been maintained since 2014," he said, state-run Anadolu Agency reported. "We have completed the eighth of these talks and the ninth will be held in April," Zeybekci added. The minister had earlier said he was hopeful that a framework deal could be sealed this year. "I have great hope [that we will reach] a framework agreement within 2018," Zeybekci told Nikkei ahead of his departure for Japan, where he will meet with his counterpart Hiroshige Seko. "With this visit I would like to see a clear picture," added Zeybekci, who believes an agreement could result in a pact being implemented in 2019.

Turkish Lira continues fall against dollar, euro amid risks

Anadolu Agency, *13.03.2018*

The Turkish Lira continued to decline against both the U.S. dollar and the euro amid a series of negative developments.

The lira fell 0.7 percent against the dollar to its lowest since mid-December, dropped to over 3.86 in the early afternoon of March 13. It also fell to record lows of 4.76 against the euro. The plunging trend resumed last week after Moody's downgraded Turkey's sovereign rating to Ba2 from Ba1, citing a continued loss of institutional strength and the increased risk of an external shock given its wide current account deficit.

The rating outlook was also changed to stable from negative on March 7. On March 8, the lira fell as much as 0.4 percent to 3.81 per U.S. dollar after the downgrade. Moody's rating move came one day after the Turkish Central Bank kept interest rates steady, saying it would keep policy tight until price pressures eased, signaling its intention to rein in inflation. Year-on-year inflation has cooled from the 14-year peak of 12.98 percent it reached in November 2017. But at 10.26 percent in February it remains one the main imbalances in Turkey's economy, well above the Bank's target of 5 percent.

Turkey remains one of the most vulnerable emerging markets to U.S. Federal Reserve rate rises. The lira has been the worst performing emerging currency since the beginning of the March 12 week, following the release of higher-than-estimated current account deficit data. Turkey's current account deficit widened by $4.4 billion year-on-year to reach nearly $7.1 billion in January, the Central Bank stated on March 12. The gap was higher than estimates, which were set at around $6.9 billion. According to some analysts, the decline in the lira accelerated after parliament passed a controversial law revamping electoral regulations on March 13. The opposition said the law could open the door to fraud and jeopardize the fairness of 2019 polls. A brawl ensued in parliament after the result of the vote was announced. İnan Demir, senior emerging economist at Nomura International, told Reuters that the law's passing may have contributed to the negative sentiment around Turkey following the Moody's ratings downgrade last week and the weak current account numbers on March 12. Turkish five-year credit default swaps also widened 2 basis points (bps) from Monday's close to 171 bps. Turkey's 10-year local government bond yield rose to 12.75 percent, its highest since November 2017.

'2019 will be Turkish Culture Year in Russia'

Anadolu Agency, *14.03.2018*

Turkish Culture and Tourism Minister Numan Kurtulmuş on March 13 opened Turkey's giant stall at Russia's biggest tourism event.

Speaking at the 25th Moscow International Travel and Tourism Exhibition (MITT), Kurtulmuş said that after two challenging years, Turkey's tourism market recovered in 2017. "Some 4.7 million Russian tourists visited Turkey last year. Attracting a total of 32.4 million foreign visitors, Turkey returned as a major tourism destination in the world market," he added.

Kurtulmuş said tourism and culture bring nations closer together. “The Russian market has great importance for Turkish tourism. 2019 will be the ‘Year of Turkish Culture in Russia,’ and the ‘Year of Russian Culture in Turkey,’ giving our two nations the chance to know each other better,” he said. Turkey’s 1,254-square-meter stall at the fair features seven different sections reflecting the nation’s rich cultural heritage. Turkey has been continuously represented in the fair since it began in 1994, and at last year’s fair it won the “Best Destination Presentation” award.

Turkey’s budget posts around $500M deficit in February

Anadolu Agency, *15.03.2018*

Turkey’s central government’s budget balance saw a deficit of 1.9 billion Turkish liras ($502 million) in February.

The country’s budget revenues surged 30.1 percent to 61 billion Turkish liras ($16.14 billion) last month, compared to the same month of last year, he said in a statement issued by the ministry’s press office. Budget expenses also rose 17 percent to reach 62.9 billion Turkish liras ($16.64 billion) in the same period. In February 2017, the central government’s budget deficit was 6.8 billion liras ($1.85 billion). Excluding interest payments, the budget recorded a surplus of 4.8 billion Turkish liras (around $1.27 billion) in February.

The government’s tax revenues reached 52.56 billion Turkish liras ($13.9 billion) in the second month of this year, a 31.4 percent annual rise in tax collection. In the January-February period, the central government’s budget balance also saw a deficit of 201 million Turkish liras ($53.2 million). The balance saw a surplus of 4.6 billion Turkish liras (around $1.24 billion) in the same period of 2017.

The country’s budget revenues rose 12.8 percent to 119.2 billion Turkish liras ($31.53 billion), while its expenses rose 18.1 percent to 119.4 billion Turkish liras ($31.58 billion) year-on-year in the same period. Agbal said: “In the first two months of the year, budget expenses were consonant with budget targets.” The biggest increase in expenses was seen in investment expenditures, he stated, adding: “We will continue to remain committed to achieving the year-end budget target by staying within the medium-term program objectives in the coming months.” Last year, Turkey’s central government budget balance showed a deficit of 47.4 billion Turkish liras ($12.9 billion), which was below expectations -- around 1.5 percent of GDP. Turkey’s budget revenue hit 630.3 billion Turkish liras ($172.7 billion) last year, while expenditures were 677.7 billion liras ($185.6 billion) -- including interest payments.

The government's annual budget balance saw a non-interest surplus of 9.3 billion Turkish liras ($2.6 billion) in 2017, considering the interest expenditures of 56.7 billion Turkish liras ($15.5 billion). As noted in the country's medium-term program, the budget deficit/GDP ratio is targeted as 1.9 percent in 2018, 1.9 percent in 2019, and 1.6 percent in 2020. According to Turkey's Central Bank, the average USD/TRY exchange rate was 3.78 in January and February, while it was 3.68 in the same month of the last year.

Euro area industrial production down by 1 pct: Eurostat

Reuters, *14.03.2018*

Seasonally adjusted industrial production dropped by 1 percent in the euro area (EA19) and by 0.7 percent in the EU28 in January, compared to the previous month, the statistical office of the European Union announced on Wednesday.

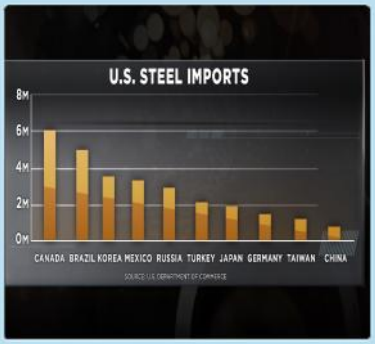
In December 2017, industrial production has increased by 0.4 percent in the euro area and by 0.3 percent in the EU28, according to Eurostat's statement. Eurostat underlined, the decrease of 1 percent in the euro area stemmed from fallings in the production of energy (6.6 percent), durable consumer goods (1.9 percent) and intermediate goods (1 percent).

Meanwhile, production of capital goods and non-durable consumer goods rose by 1.2 percent and 0.1 percent, respectively, said the statement. The EU28's decline is also due to the falling of energy production by 3.3 percent, durable consumer goods by 1.4 percent, intermediate goods by 0.6 percent and non-durable goods by 0.3 percent, while production of capital goods rose by 1.2 percent. "Among member states for which data are available, the largest decreases in industrial production were registered in the Netherlands (5.7 percent), Romania (2.9 percent) and Spain (2.5 percent), and the highest increases in Portugal (2.5 percent), Estonia (1.9 percent) and Denmark (1.8 percent).

Eurostat also said industrial production has increased by 2.7 percent in the euro area and by 3 percent in the EU28 in January, compared with the same month of 2017. In the euro area, production of capital goods rose by 8.5 percent, intermediate goods by 5.1 percent, durable consumer goods by 3.8 percent and non-durable consumer goods by 3 percent, while production of energy fell by 10.4 percent, year-on-year in January. In this period, the EU 28's production of capital goods rose by 8.3 percent, intermediate goods by 5.1 percent, durable consumer goods by 4.2 percent and non-durable consumer goods by 2.7 percent, while production of energy fell down by 7.4 percent. Romania, Estonia and Sweden registered the highest increases with 8.5 percent, 7.7 percent and 7.1 percent, respectively, while the Netherlands, Malta and Greece saw biggest declines with 6.6 percent, 1.7 percent and 1.6 percent, respectively.

EU could join forces with countries outside Europe to strike back against Trump's tariffs

CNBC, *13.03.2018*



The European Union should unite in response to any U.S. tariffs on its steel and aluminium exports — and it could retaliate alongside nations from outside Europe, the French economy and finance minister told CNBC.

"I think the first is to have a common response from the member states from the European Union," Bruno Le Maire said on Monday. But then, if other countries want to take part in the EU response, "of course, we are kind of open to these discussions." He called for "European forces to think about common concern, a common response.

Le Maire's comments come after U.S. President Donald Trump announced last week a proposal to raise import taxes to 25 percent on steel and 10 percent on aluminum. The tariffs could particularly hurt car exporters and construction firms in countries around the world that are on the tariffs list. Trump said he believes the tariffs will help deal with overcapacity in the steel industry and China's practice of "dumping" excess steel onto other countries. The EU sees the move as protectionist, limiting free trade and, along with other nations including China, has said the move is tantamount to a "trade war." The U.K., EU and Japan hope to negotiate exemptions from the tariffs. Mexico and Canada are already exempt. Canadian Prime Minister Justin Trudeau told CNBC on Monday that Canada's exemption from the tariffs has nothing to do with North American Free Trade Agreement (NAFTA) negotiations but he thanked Trump for the "special consideration" given to Canada over the tariffs. He added that he was willing to go further in cooperation with the U.S. "We are also very worried about global oversupply, about China dumping and other places dumping their steel and aluminum and it's affected our workers here," Trudeau said. "We've put in very strong measures, some of the strongest in the world against dumping, but as I said to the president and as I said to congressional leadership, I'm happy to work with the U.S. to go even further with them."

The EU reacted angrily to Trump's announcement with the European Commission announcing last Wednesday that it would raise import duties on archetypal U.S. goods including bourbon, peanuts and cranberries if the U.S. went ahead. The EU's trade chief Cecilia Malmstrom commented last Friday that the EU should be excluded from tariffs. On Monday, Trump tweeted that Commerce Secretary Wilbur Ross will be "speaking with representatives of the European Union about eliminating the large Tariffs and Barriers they use against the U.S.A." The tide of opposition to tariffs has continued in the EU with the region's finance ministers voicing their dismay to the idea as they arrived for a meeting of the Eurogroup in Brussels on Monday.

Commenting as he arrived at a meeting, Netherlands Finance Minister Wopke Hoekstra told CNBC that tariffs were "a bad idea." "Let me be clear. I think this is a bad idea; it's bad for European citizens, for Dutch citizens and it will turn out to be bad for U.S. citizens as well, so I very much hope that we can make sure that we avoid going down such road," he said. Hoekstra didn't believe that retaliatory tariffs would be productive, however. "We shouldn't go down this road," he said, "because it won't be in the interests of us and not in the interests of the U.S. either, but it is a scenario that in my mind the European Union has looked upon." Meanwhile, Germany's Acting Finance Minister Peter Altmaier called on all parties to keep trade as open as possible. "I think there is a responsibility for everybody to keep international trade as fair and as open as possible," he said as he arrived for the Eurogroup meeting. "This is in the interest of everybody and it will help us grow our economies," he added.

China is at risk of a banking crisis, the Bank of International Settlements has found

CNBC, *12.03.2018*

China is one of the economies most at risk of a banking crisis, according to the Bank of International Settlements, which published its quarterly review.

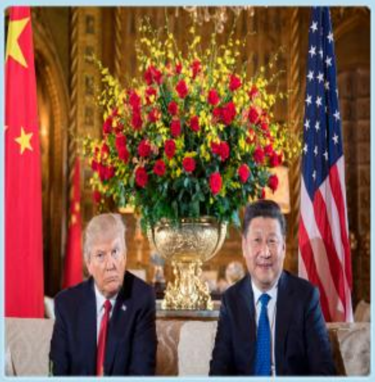
The report, which included a study on the early signs of a banking crisis, found China's debt — measured by a credit-to-GDP gap — surpassing an amount that could lead to a system fallout. The country also has a high level of debt servicing ratio, which made its banking system more vulnerable. The credit-to-GDP gap measures the difference between the percentages of debt in an economy.

Its long term trend. A bigger number suggests debt is growing at a pace that may not be healthy for the economy. Debt servicing ratio, meanwhile, refers to the amount of money as a proportion of income that's used to repay loans. A higher ratio means borrowers may have taken on too much debt than what their income can support. In addition to China, the BIS report also found Canada and Hong Kong to be at risk of a banking crisis. The vulnerabilities of those two economies were partly caused by climbing property prices. The People's Bank of China and the Bank of Canada did not immediately respond to CNBC's request for comment. A spokesperson for the Hong Kong Monetary Authority said that a number of macro-prudential measures had already been put in place to strengthen the banking's system resilience. It listed new capital buffers and new stress tests for mortgage applicants, among other measures.

"Hong Kong's banking sector remains healthy and well capitalized, and has the ability to weather through stresses," the spokesperson said in an emailed statement. Despite signs pointing to the banking systems in those three economies being distressed, the BIS said that doesn't mean China, Canada and Hong Kong are definitely heading into a crisis. "(The indicators) have been calibrated based on past experience, and cannot take account of broader institutional and economic changes that have taken place since previous crises," said the BIS, an umbrella body of central banks around the world. "For example, the much more active use of macroprudential measures should have strengthened the resilience of the financial system to a financial bust, even if it may not have prevented the build-up of the usual signs of vulnerabilities," the Switzerland-based organization said. Not the first warning about China. The BIS is not the first international body to flag risks in China. The International Monetary Fund, in a report published in December, identified three "major tensions" in China's financial system that could derail the world's second-largest economy. But Chinese authorities had acknowledged those risks and taken action to slow down debt accumulation even before the IMF report was released. China accelerated those efforts in 2017 by strengthening regulatory oversight and closed several loopholes in the economy. Major steps taken include the setting up of a "super financial regulator" to coordinate the oversight of the banking, securities and insurance sectors. The Chinese government has also proposed prohibiting issuers of wealth management products from offering implicit guarantees to investors.

China is ready for a trade war with the US and it could hurt Americans

CNBC, *14.03.2018*



One should be cautious before we say 'this is a one way street' China is prepared for a trade war, expert says. China is prepared for a trade war with the United States, but the U.S should consider the costs of starting one.

Robert Ross, a professor of political science at Boston College, told CNBC: "The Chinese have made it clear: 'You want a trade war? We're prepared.' And they are. Because of course they have a very large market and a very robust economy." In fact, nationalistic state media outlet Global Times said in a Wednesday op-ed that China should be ready for a "looming trade war."

“Beijing needs to give Washington head-on blows in a similar manner and must not be soft,” the op-ed said. It’s worth considering the possible fallout for Americans and U.S. companies operating in China, if there is a trade war, he said. “We should remember two things. One, Chinese exports to the United States improve the American standard of living by selling less expensive goods to United States that we benefit from — and we don’t make those goods anymore.” “Second, there are an awful lot of American companies that are making large sums of profits inside China, whether it’s Apple, whether it’s Buick, whether it’s other American companies,” he told CNBC’s “The Rundown.” “One should be cautious before we say this is a one-way street,” Ross said of the economic relationship between the U.S. and China. Reports on Tuesday said President Donald Trump’s administration is considering a trade package including tariffs on $60 billion worth of Chinese goods, which may target the tech and telecommunications sectors — among others — in China.

Ross also pointed out that the trade deficit with China — at a record $276 billion last year — is a result primarily of economic factors instead of policy issues. “The Chinese have a very high savings rate, the Americans have a very low savings rate. We consume more than they do, we’re going to have a trade deficit. Now, do you fix that through policy? Do you fix that through trade wars? Highly highly debatable.” Larry Kudlow, who Trump has tapped to be his new chief economic advisor, also had harsh words for Beijing on Wednesday, calling for a “coalition of large trading partners and allies against China.”

But Ross said such a coalition was unlikely. “The Europeans are constantly tripping over each other to get advantages in China. And to think they would fall behind the United States and impose sanctions that would put at risk their own economic growth — I don’t think that’s probable at all.” Furthermore, if China becomes a trade adversary, it does not portend well for any U.S. talks with North Korea on denuclearization, he said. “It becomes a lot more difficult to ask for Chinese cooperation on something we care about when we are treating them like a trade adversary,” Ross said, predicting that Chinese cooperation and interest in the North Korea problem would diminish.

South Korea gears up for summit, report shows North Korea testing reactor

Reuters, *16.03.2018*

South Korean officials began preparations on Friday for a summit next month with North Korea aimed at reducing tensions on the peninsula, as a report showed the North had probably begun testing a nuclear reactor as recently as late February.

The report by intelligence analysts at Jane’s by IHS Markit said satellite imagery from Feb. 25 showed emissions of non-condensable gases from a stack at the North’s experimental light water reactor (ELWR) at the Yongbyon Atomic Energy Research Center, suggesting preliminary testing had likely begun.

The reactor could be used to produce weapons-grade plutonium, but North Korea is believed to already have enough fissile material for multiple nuclear bombs, according to Joshua Pollack, a senior research associate at the Middlebury Institute of International Studies at Monterey. Meantime, South Korean officials were set to convene their first meeting at the presidential Blue House to prepare for a summit between President Moon Jae-in and North Korean leader Kim Jong Un late next month. Headed by Moon's chief of staff Im Jong-seok, former prominent democracy activist, the team will hammer out plans for the summit, including when to contact the North and what will be discussed between Kim and Moon. U.S. President Donald Trump also accepted a summit invitation from Kim Jong Un, after a South Korean envoy told him earlier this month that the North's leader was prepared to discuss denuclearization. Trump and Kim are expected to meet sometime in May although a location has not been set yet.

Although North Korea's state media has yet to comment on the pending summits with Moon and Trump, its foreign minister Ri Yong Ho is visiting Sweden for talks with his Swedish counterpart Margot Wallstrom. Ri's trip prompted speculation it could lay the groundwork for the summit in Sweden between Trump and Kim Jong Un. The push for these summits came after the North Korean leader said in a New Year's address that he wanted to improve relations with the South following a year of heightened tensions brought on by the North's nuclear and missile tests.

North Korea completed construction of the Yongbyon ELWR in 2013. It was optimized for civilian electricity production, and although it is not yet operational, it could start running with "little warning" later in 2018 or 2019, the Jane's report said. The experimental reactor is likely too small to provide much in the way of electricity, but is part of a "long-running effort" to develop a light-water reactor after a deal by an international consortium, including the United States, to provide two such nuclear power reactors in the 1990s fell apart, Pollack said. "It's their way of saying, 'see, since you won't give us what you promised, we'll do it ourselves'," Pollack said. "They haven't made any agreements lately with the U.S., so the work goes on." An official at the South's defense ministry said authorities were aware of the Jane's report, which follows a similar one released on the 38 North website earlier this month that said a nearby reactor had also continued to show signs of operation. The isolated state has maintained it will continue developing its nuclear program but later added it was open to abandoning the program if the security of its regime was guaranteed, according to South Korea.

Trump: 'Looks like' Russia to blame for UK attack

Anadolu Agency, *15.03.2018*

President Donald Trump said Thursday "it certainly looks like" Moscow is to blame for the poisoning of a defected Russian spy and his daughter on British soil.

Trump said "It looks like" her government's assessment is correct. "A very sad situation," Trump told reporters at the White House. "Something that should never, ever happen, and we're taking it very, very seriously as I think are many others." Earlier Wednesday, Britain expelled 23 Russian diplomats in the ongoing row with Russia over the attempted killing of former spy Sergei Skripal.

Skripal, 66, and his daughter Yulia, 33, were admitted to a hospital March 4 after being found unconscious in the southern city of Salisbury Since then, British officials have determined it is "highly likely" Moscow was behind what they describe as a chemical attack, in part because they have determined the nerve agent that was used is from the Novichok group of chemical weapons developed by Russia during the Cold War. Canadian Prime Minister Justin Trudeau added his voice Thursday to the chorus of countries condemning the poisoning. "The attack is despicable and it is unacceptable that there would be chemical weapons used against citizens of the United Kingdom," Trudeau told reporters Wednesday. "Russia's likely involvement is absolutely unacceptable and needs to be condemned in the strongest terms," he said. "That's what I told May and that is what I'm glad to repeat here today.

But while condemning the act, Canada has not invoked new sanctions against Russia, as the U.K. has done. A media release from the Russian Embassy in the Canadian capital of Ottawa took exception to Foreign Minister Chrystia Freeland, who also condemned the attack earlier Wednesday before Trudeau addressed the incident. "We regret Canadian foreign minister's hasty support for the unfounded and unacceptable accusations on the part of the U.K. with regard to the Skripal (poisoning) case," it said.

Trade war would wipe out gains from tax cuts, Penn analysis says

CNN, *14.03.2018*

A full-blown trade war would erase any economic benefits from the Republican tax cuts passed last year, according to an analysis by the University of Pennsylvania.

The Trump administration is imposing steep tariffs on imported steel and aluminum next week. So far, only Canada and Mexico have officially been given exemptions, and Trump says even those are contingent on progress in NAFTA renegotiation talks. China and the European Union have already said they will retaliate. But Trump administration officials say fears of a trade war are overblown.

Most independent economists also don't see a full-scale trade war as the most likely outcome. The Penn Wharton Budget Model, a research center at the university, imagined the worst case — no US imports or exports crossing borders tariff-free. The United States has free trade agreements with 20 nations. Wharton's model assumes those all disappear. Such a trade war would make US economic output 0.9% lower than otherwise by 2027, according to the analysis. Over the same period, the tax cuts, in the best scenario, would boost output by 1.1%.

Over the longer term, the costs of a trade war would heavily outweigh the benefits of the tax cut. By 2040, the US would lose 5.3% of economic output in the worst trade-war scenario, compared with a 1.6% increase from the tax cuts, the university found. Put another way, a full-blown trade war would cost the economy $200 billion over 10 years, and $1.4 trillion by 2040. American wages would decline, too, falling 1.1% over the next 10 years. That may sound small, but in context it would have big ramifications. "A trade war could lead to more than a year's worth of lost wage growth over the next decade," says Kent Smetters, director of the Budget Model and a professor at the Wharton School of Business. Despite administration officials' contention that a trade war isn't coming, the analysis stands at odds with Trump's comment that trade wars "are good, and easy to win." The White House did not immediately answer a request for comment.

US monthly deficit largest in 6 years

CNN, *13.03.2018*

New Treasury Department numbers show that the US government racked up a $215 billion deficit in February -- the largest monthly deficit in six years.
It was also $23 billion higher than the deficit for the same month last year.

Deficits are a measure of the gulf between what the government spends and what it collects in revenue. Last month, the federal government spent roughly $371 billion, up $7 billion from February 2017. Tax receipts, meanwhile, fell to $156 billion from $172 billion a year earlier.

Interest payments on the nation's debt, Social Security and Medicare, and outlays by the Department of Homeland Security and Department of Defense, are the areas where spending has gone up the most, according to the Congressional Budget Office. The CBO attributed the drop in revenue to higher tax refunds and a reduction in income and payroll tax withholding in the wake of the tax cuts that went into effect on January 1.

For the first five months of this fiscal year, which began on October 1, the country's deficit totaled $391 billion, which is $40 billion higher than the same period last year. For the full fiscal year, Treasury now projects the annual deficit will near $833 billion, and then $984 billion in fiscal 2019. The climb back to trillion dollar deficits — a hallmark of the financial crisis — has been hastened by policies put into place in the past several months. Given the cost of the tax overhaul, a recent spending deal passed by Congress and other legislation, the Committee for a Responsible Federal Budget estimates that the country next year will start booking trillion dollar deficits permanently absent policy changes. It was less than a year ago the CBO was projecting deficits wouldn't cross the $1 trillion threshold until 2022.

U.S. hints at shift on Russia with sanctions and condemnation

Reuters, *16.03.2018*

By imposing new sanctions on Russia and condemning a suspected Russian chemical attack in Britain, Washington has hinted at a tougher stance toward Moscow despite President Donald Trump's stated desire for better ties.

The U.S. Treasury slapped sanctions on 19 Russian citizens and five entities for election meddling and cyber attacks in the most significant steps the United States has taken against Russia since Trump took office amid U.S. intelligence agency allegations that Moscow tried to help him win the 2016 election.

While the Treasury put off targeting oligarchs and officials close to Russian President Vladimir Putin, it said further sanctions were coming and for the first time blamed Moscow for cyber attacks stretching back at least two years that targeted the U.S. power grid, including nuclear facilities. After initially equivocating about a chemical attack on a former Russian double agent in Salisbury, England, the White House joined a statement by the leaders of Britain, France and Germany in which they said they "abhor the attack" and blamed it on Moscow. Moscow has denied any involvement in the poisoning. Thursday's actions have caused some Russia analysts to ask whether the administration is taking a more confrontational stance despite Trump's repeated statements in the election campaign that he wanted a better relationship with Moscow, his praise for Putin and apparent reluctance to criticize the Russian leader. "I think we have hit an inflection point in the current administration's approach towards Russia," said a diplomat who spoke on condition of anonymity. "There has been a shift in balance."

The diplomat attributed the evolution partly to a clash between U.S.-backed and Russian-backed forces in the Syrian city of Deir al-Zor in February; Russia pounding Syria's eastern Ghouta enclave of anti-government rebels with air strikes during the past month; and Putin showing a video on March 1 of a weapon appearing to hover over what looked like a map of Florida, home to Trump's Mar-a-Lago resort. Those three things, taken together, have caused a shift in analysis in parts ... of the administration," said the diplomat. While there was a sense at the White House that there has been a hardening of Trump's view toward Russia, at least for now, it was unclear whether this represented a long-term shift. A senior administration official said there was some feeling that the goodwill that Trump extended toward Russia when he took over has not been reciprocated and that the Russians do not want to have good relations with the United States. This has exasperated Trump, who instructed his team to make sure the United States appeared to be in solidarity with Britain over the nerve agent attack.

Eugene Rumer, a former U.S. national intelligence officer for Russia, suggested Trump's approach may ultimately be guided by Special Counsel Robert Mueller's investigation into whether Russia meddled in the election campaign. The Kremlin denies interfering. Mueller is also investigating any potential collusion between the Trump campaign and Moscow officials, something Trump denies. "My hypothesis is ... the White House stance on Russia is going to be determined to a large extent by how much they think the investigation threatens their political position," Rumer said. Officials from multiple U.S. agencies discussed next steps at a meeting on Thursday, with one aim being to avoid personally attacking Putin and taking in-your-face steps that could prompt retaliation. In announcing Thursday's sanctions, U.S. officials made clear more would follow. "This is just one of a series of ongoing actions that we're taking to counter Russian aggression," one U.S. official told reporters. "There will be more to come, and we're going to continue to employ our resources to combat malicious Russian activity and respond to nefarious attacks."

Sergei Skripal, 66, and his daughter Yulia, 33, were found unconscious on a bench outside a shopping center on March 4 after being exposed to what the British authorities have identified as a military-grade, Soviet-era Novichok nerve agent. Another U.S. official attributed the sharper edge to U.S. policy to increasingly brazen behavior by Russia in cyberspace and on the ground, culminating in the Salisbury attack. This U.S. official, who spoke on condition of anonymity, also pointed to Russia's refusal to restrain Syrian President Bashar al-Assad and the role of Russian "mercenaries" in Syria, now entering its eighth year of civil war. The official said it was unclear if Trump himself saw Russia as an adversary but suggested Putin may have "overplayed his hand" by leaving Russian fingerprints on the hacking, the chemical attack, the deployment of ground-launched cruise missiles which the U.S. says violate an arms control treaty, and a March 1 speech on "invincible" Russian weaponry. "If the president felt like Putin was one-upping him, not to mention stealing the limelight, then it wouldn't be surprising that he would react," the official said. While more sanctions are expected, it was not clear if the Trump policy toward Russia was changing, especially given Trump's unpredictability, said a third official, who is involved in talks on next steps. "Tomorrow is another day," the official said.

Multinationals pay lower taxes than a decade ago

Financial Times, *12.03.2018*

Big multinationals are paying significantly lower tax rates than before the 2008 financial crisis, according to Financial Times analysis showing that a decade of government efforts to cut deficits and reform taxes has left the corporate world largely unscathed.

Companies' effective tax rates — the proportion of profits that they expect to pay, as stated in their accounts — have fallen 9 per cent (two percentage points) since the financial crisis. This is in spite of a concerted political push to tackle aggressive avoidance.

Governments' cuts to their headline corporate tax rates only explain around half the overall fall, suggesting multinationals are still outpacing attempts to tighten tax collection. Receive 4 weeks of unlimited digital access to the Financial Times for just $1. Drawing on 25 years of financial statements, the FT examined the tax rates paid by the world's 10 biggest public companies by market capitalisation in each of nine sectors. The tax rates reported by the 10 multinationals with the largest offshore cash piles were also examined. The results show that the corporate contribution to public finances has fallen since 2008 as a proportion of profits — whether measured by headline rates, reported effective rates, or the rates actually paid to governments. Rules allowing companies to delay when some taxes are paid mean reported effective rates and actual amounts paid can vary substantially in a given year.

The longer-term trend is even more pronounced, with effective reported corporate tax rates falling nearly one-third since 2000, from 34 per cent to 24 per cent. "There has been a lot of action and gestures that are very visible but the reality is different. Rate cuts and patent boxes [tax breaks for intellectual property] have been the dominant forces on corporate tax — and that reflects the continued dynamics of tax competition," said Mihir Desai, professor of finance and law at Harvard university. "Call it a great irony or hypocrisy, but it's one of the two. Since the financial crisis, average reported effective tax rates have fallen around 13 per cent for the largest technology and industrial companies, according to the FT's research. They have been broadly flat in the health, consumer staples and materials sectors.

The results highlight how the long downward trend in corporate tax rates set by the countries that make up the OECD continued at a time when taxes on consumers and workers were rising after the financial crisis. Since 2008, countries have cut headline corporate taxes by 5 per cent while governments on average have increased personal taxes by 6 per cent, according to figures from KPMG, the accountancy firm. "That's the process of competition [between governments] and I can't really ever see it stopping," said Michael Devereux, professor of business tax at Oxford university. He said the recent US cut to its headline rate was likely to spur more tax competition between governments. More surprising has been the limited impact so far of a decade-long push in the OECD and G20 to simplify a web of national tax rules that enable multinationals to minimise their global tax bills.

Pierre Moscovici, EU commissioner for tax, said countries were free to set their own corporate tax rates, but highlighted that international tax reform was needed. "Let's make no mistake: the headline rate is not what triggers tax evasion and aggressive tax planning. That comes from schemes that facilitate profit shifting." The political desire to tackle this "profit-shifting" has been given more urgency because of the light shed on corporate tax arrangements by large-scale data leaks and political inquiries into the tax affairs of tech groups such as Apple, Google and Amazon. Group level accounts show many big tech companies tend to pay significantly less tax on foreign profits than the money they earn at home. The groups argue they pay all taxes legally required and some have acknowledged the need for tax reform.

National laws to implement the OECD’s 15-point action plan to cut aggressive tax avoidance — through so-called base erosion and profit shifting — are starting to come into force. Mr Devereux expects new restrictions on interest charges between countries — clamping down on inter-company loans often used by multinationals to shift profits between jurisdictions — “will show up next year [in the numbers] if it’s going to have any effect.” Other initiatives are expected to take longer before they show up in corporate results. The gap between companies’ reporting of what they expect to pay in tax, and the actual payments as revealed by cash transfers, has also grown because of anomalies in the tax system that encouraged some US companies to park cash or profits overseas during this period. By the end of last year US companies had built up almost $2.6tn in untaxed cash held offshore, according to the Institute for Taxation and Economic Policy. The US overhauled its tax rules in December, hitting companies’ offshore cash with a 15.5 per cent one-off levy. It also lowered the corporate tax rate from 35 per cent to 21 per cent. The one-off levy could net Washington about $400bn in tax revenues but will also save companies up to $500bn compared to the headline corporate tax rate that applied when the profits were earned, the FT estimates.

Announcements & Reports

► *Military Spending: The Other Side of Saudi Security*

Source : CSIS
Weblink : https://csis-prod.s3.amazonaws.com/s3fs-public/publication/180311_Saudi_Military_Spending.pdf?ZiU0dawl1CwU76RaQH_sAygDb_xL3FjB

► *Citizens in Training: Conscription and Nation-building in the United Arab Emirates*

Source : CSIS
Weblink : https://csis-prod.s3.amazonaws.com/s3fs-public/publication/180312_Alterman_UAE_conscription.pdf?Cm63tWWtbEUVpxNhcFyl6lehkkL8rFks

► *Steel, Aluminum, the Policy Process, and the Trading System (Commentary)*

Source : CSIS
Weblink : https://www.csis.org/analysis/steel-aluminum-policy-process-and-trading-system

Upcoming Events

► *Energy Statistics Course March 2018*

Date : 19 - 23 March 2018
Place : Paris
Website : http://www.iea.org/workshops/energy-statistics-course-march-2018.html

► *Angola Forum 2018: 30th Anniversary of the Battle of Cuito Cuanavale*

Date : 23 March 2018
Place : London
Website : https://www.chathamhouse.org/event/angola-forum-2018-30th-anniversary-battle-cuito-cuanavale

► *The Modus Operandi of the Trump Administration: A View from Washington*

Date : 26 March 2018
Place : London
Website : https://www.chathamhouse.org/event/modus-operandi-trump-administration-view-washington

► *11th Energy Storage World Forum*

Date : 14 May 2018
Place : Berlin
Website : https://www.entsoe.eu/news-events/events/Pages/Events/11th-Energy-Storage-World-Forum.aspx?EventWorkshopId=334