

## Turkey's Central Bank makes massive rate hikes to stem Lira fall

Hürriyet Daily News, 29.01.2014



Turkey's Central Bank hiked all of its key interest rates in dramatic fashion at an emergency midnight policy meeting Jan. 28.

The bank raised its overnight lending rate to 12 percent from 7.75 percent, its one-week repo rate to 10 percent from 4.5 percent, and its overnight borrowing rate to 8 percent from 3.5 percent - all much sharper moves than economists had forecast. The Turkish Lira strengthened to 2.18 per dollar after the decision, from 2.25 late on Jan. 28 and after touching 2.39 a day earlier - the latest in a series of record lows.

Prime Minister Erdogan, keen to maintain economic growth ahead of an election cycle starting in two months, has been a vociferous opponent of higher borrowing costs, railing against what he describes as an "interest rate lobby" of speculators seeking to stifle growth and undermine the economy. "I would like you to know that as always, I am against a hike in interest rates today," the prime minister told reporters late on Jan. 28, hours before the central bank's emergency meeting. "But of course I don't have the authority to interfere with the Central Bank ... They are responsible for anything that could arise," he added, emphasizing the bank's independence.

The Central Bank had been struggling to contain the lira's precipitous slide, with investor confidence damaged by a corruption scandal shaking the government and the global impact of a cut in U.S. monetary stimulus. Reluctant until now to make an outright rate hike, it had instead tried to defend the currency by burning through forex reserves and trying to squeeze up borrowing costs on the margins - a battle it had clearly been losing and one which it has now decisively abandoned. In a statement, the bank said it would maintain tight monetary policy until the inflation outlook showed a clear improvement. That could have a marked impact on Turkey's economic growth, which the government has forecast at 4 percent this year.

Reuter's poll of 31 economists on Jan. 27 found a consensus pointing to a 2.25-percentage-point rise in the lending rate. Only one forecast a move this dramatic. The boldness of the actions stunned investors, stirring hopes it would short-circuit a vicious cycle of selling in emerging markets and revive risk appetite in the developed world. On Jan. 28, the bank also raised its mid-point forecast for year-end inflation to 6.6 percent from a previous forecast of 5.3 percent, well above its target rate of 5 percent. Turkey's problems have been exacerbated by a sharp global emerging selloff in recent days. In a sign of how closely investors are watching worldwide, U.S. stock futures rallied in late trade after the Central Bank's move, even though a policy decision is due from the Federal Reserve later on Jan. 29.

Yet much of the pressure on Turkey is of its own making. The recent graft scandal, which triggered the resignation of three government ministers and the detention of businessmen close to the government, has grown into one of the biggest challenges of Erdogan's 11 years at the helm, just as he prepares for local elections in March and a presidential race he is expected to contest five months later. The government's response, purging the police force of thousands of officers and seeking tighter control over the courts with a judicial bill, has been criticized by the European Union and raised investor concern over the rule of law and independence of state institutions. "This move was all about trying to re-establish the credibility of the Central Bank, and I think it will go a long way to achieve that," said Timothy Ash, head of emerging markets research at Standard Bank.

## Turkey's Central Bank prepared to tighten policy further

Financial Times, 30.01.2014



Turkey's central bank said on Thursday it was prepared to tighten monetary policy further, despite doubts expressed by the country's government about the efficacy of this week's broad rate increase. In a statement released on Thursday, the central bank said it would keep monetary policy tight "until there is a significant improvement in the inflation outlook".

Turkey's Central Banal said that inflation for January could exceed market expectations, but that inflation was expected to trend downwards in subsequent months. Nonetheless, it added: "If deemed necessary, liquidity policy may be tightened further."

In contrast, Recep Tayyip Erdogan, prime minister, told reporters he would consider other measures if interest rates stayed high, the currency remained weak and shares on the stock market did not recover. Analysts said that, rather than a further rate rise, any future tightening would be likely to come in the form of rationing funds at the 10 per cent weekly rate, pushing borrowers to opt for the more expensive 12 per cent overnight rate. Inflation ended 2013 at 7.4 per cent. In explaining this week's decision to increase rates, the bank said it had decided to "deliver a strong and front-loaded monetary tightening" to prevent inflation expectations from worsening.

It added that Turkey had been facing the "risk of inflation hovering significantly above the [country's 5 per cent] target for an extended period" because of "rapid exchange rate depreciation, recent tax adjustments and adverse developments in food inflation". Pro-government newspapers, which like Mr Erdogan warn of a supposed "interest rate lobby" plotting against Turkey, complained that companies are now facing both higher interest rates and foreign currency debts that are more expensive to service. The prime minister himself warned the central bank of his own limited patience for the increase to bear fruit. "I am always against increasing interest rates," he told reporters on a flight back from Tehran on Wednesday night. "But now that the central bank has taken such a decision, my position is to be patient for a while, to see where we are going."

We need to keep our good intentions in case we see interest rates come down, or a positive improvement in the foreign exchange rate, or an increase in the Borsa Istanbul [stock market]. But otherwise, we cannot keep our good intentions – we always stated that interest rates are not the only instrument at this point.” Although Mr Erdogan said he was considering extraordinary measures, Mehmet Simsek, finance minister, later clarified that the government was not thinking of foreign exchange controls. Asked if the government had an alternative to the interest rate rise, Mr Erdogan said: “We might have a study that we are likely to announce in the coming days, a Plan B or Plan C.” He said it was not appropriate to elaborate further just after the central bank had taken action. The prime minister also insisted that the central bank is independent and is not subject to political pressure.

Nevertheless, economists and investors have asked why the bank waited until this month to increase interest rates, despite above target inflation, a current account deficit of around \$60bn, a vulnerable lira and a corporate sector with \$167bn in net foreign currency liabilities. I am always against increasing interest rates. But now that the central bank has taken such a decision, my position is to be patient for a while, to see where we are going - Recep Tayyip Erdogan, Turkish prime minister. Before increasing effective rates by about 2.5 percentage points on Tuesday night, the bank tried a series of alternatives, such as increasing the cost of borrowing on certain days and a \$3bn direct intervention in the market last week. None stemmed the lira’s fall.

Mr Erdogan’s own resistance to interest rate rises goes deep: on the flight, the prime minister insisted that, contrary to economic theory, increases in interest rates cause inflation. “I believe that inflation and interest rates are not inversely proportional but in direct proportion,” he told reporters. “In other words, the relationship between inflation and interest is cause and effect: the interest rate is the cause, inflation is the result. If you increase the rate, inflation increases. If you reduce it, both drop together. When you think they are inversely proportional you always get much more negative results.” Mr Erdogan’s stance may disappoint economists calling for a joint approach between government and central bank to reduce Turkey’s financial vulnerability and rein in its current account deficit, partly through steps such as fiscal tightening.

“It’s not enough to increase interest rates, you need to act as part of a concerted government approach,” Bulent Gultekin, a former Turkish central bank governor, told the Financial Times. “The prime minister is the kind of guy who thinks independence is fine as long as you do what he wants.” In the latest of a series of moves that critics say amount to the encroachment of the rule of law in the face of an anti-corruption investigation targeting figures close to the government, Mr Erdogan’s administration moved more than 800 police officials from their positions on Thursday. A day earlier 90 prosecutors were moved from Istanbul’s main courtho—se - almost half of the total. Mr Erdogan says such moves are necessary to combat a “parallel state” operating within the state – a reference to the movement of Fethullah Gulen, a preacher and former ally.

# The Global Impact of US Shale

The Project Syndicate, 22.01.2014



The biggest innovation in energy so far this century has been the development of shale gas and the associated resource known as “tight oil.” Shale energy ranks at the top not only because of its abundance in the United States, but also because of its profound global impact – as events in 2014 will continue to demonstrate.

America’s shale gas and tight oil are already changing global energy markets and reducing both Europe’s competitiveness vis-à-vis the US and China’s overall manufacturing competitiveness. They are also bringing shifts in global politics.

Indeed, how shale energy may change America’s role in the Middle East is becoming a hot topic in Washington, DC, and in the Middle East itself. “Unconventional revolution” in oil and gas did not come quickly. Hydraulic fracturing – known as “fracking” – has been around since 1947, and initial efforts to adapt it to dense shale began in Texas in the early 1980’s. But it was not until the late 1990’s and early 2000’s that the specific type of fracturing for shale, combined with horizontal drilling, was perfected. And it was not until 2008 that its impact on the US energy supply became notable. Since then, the industry has developed fast, with shale gas currently accounting for 44% of total US natural-gas production. Given abundant supply, US gas prices have fallen to a third of those in Europe, while Asia pays five times as much.

Tight oil, produced with the same technology as shale gas, is boosting US oil production as well, with output up 56% since 2008 – an increase that, in absolute terms, is larger than the total output of each of eight of the 12 OPEC countries. Indeed, the International Energy Agency predicts that in the next few years the US will overtake Saudi Arabia and Russia to become the world’s largest oil producer. Five years ago, it was expected that the US would be importing large volumes of liquefied natural gas to make up for an anticipated shortfall in domestic production. Now the US is not importing any LNG – thereby saving \$100 billion on its annual import bill. At current prices, the increase in US oil production has been cutting another \$100 billion from that bill. In addition, the unconventional revolution supports over two million jobs.

The global impact has been enormous. Much of the new global LNG capacity was developed with the US in mind. Now, with the US market cordoned off by cheap domestic gas, some of that LNG is going to Europe, introducing unexpected competition for traditional suppliers Russia and Norway. For Japan, the lack of US demand for LNG proved fortunate in the aftermath of the disaster at the Fukushima Daiichi nuclear-power plant in 2011. Much of that LNG could go to Japan to generate electricity, replacing the electricity lost from the total shutdown of nuclear power. Many other countries are reassessing their own energy policies in light of the unconventional-energy revolution. China, seeing the speed and extent of US shale-gas development, has placed a high priority on developing its extensive unconventional gas resources.



For China, replacing coal with natural gas in electricity generation is essential to mitigate public discontent and health problems stemming from the heavy burden of urban air pollution. The rise of US shale energy is also having a broader global economic impact: American shale gas is changing the balance of competitiveness in the world economy, giving the US an unanticipated advantage. Indeed, inexpensive natural gas is fueling a US manufacturing renaissance, as companies build new plants and expand existing facilities. Throughout Europe, industrial leaders are becoming increasingly alarmed by enterprises' loss of competitiveness to factories that use low-cost natural gas and the consequent shift of manufacturing from Europe to the US. This is particularly worrying in Germany, which relies on exports for half of its GDP, and where energy costs remain on a stubbornly upward trajectory. These high costs mean that German industry will lose global market share.

Whatever their targets for shifting their energy mix, European Union countries, already suffering from high unemployment, will be forced to reconsider high-cost energy strategies or face weakening competitiveness and loss of jobs. The geopolitical impact is already evident. For example, Iran is now seriously at the table in nuclear negotiations, which might well not have happened were it not for tight oil. When strict sanctions were imposed on Iranian oil exports, many feared that world oil prices would spike, and that the sanctions would ultimately fail, owing to insufficient alternative supply. But the increase in US oil production over the last two years has more than made up for the missing Iranian output, enabling the sanctions (bolstered by parallel financial measures) to work – impelling Iran to negotiate seriously, which it was unwilling to do only two years ago.

In Arab capitals, anxiety is mounting that a rapid increase in US tight-oil production will fuel wholesale US disengagement from the Middle East. But this overstates the extent to which direct oil imports shape US policy toward the region. To be sure, rising US output, combined with greater automotive fuel efficiency, will continue to reduce US oil imports. And, while the US will still import oil in the years ahead, more of it will come from Canada (notwithstanding the debate about the Keystone XL pipeline). But the fact is that Middle East supply has not loomed very large in the overall US petroleum picture for some time. After all, even before the growth of tight oil, the Persian Gulf provided only about 10% of total US supply. It was not direct US oil imports from the Middle East, but rather oil's importance to the global economy and world politics, that helped define US strategic interests.

The Middle East will continue to be an arena of great geopolitical importance, and its oil will be essential to the functioning of the global economy. This implies that the region will likely remain a central strategic interest for the US. Overall, however, the shale-energy revolution does provide a new source of resilience for the US and enhances America's position in the world. The emergence of shale gas and tight oil in the US demonstrates, once again, how innovation can change the balance of global economic and political power.

# Sell-Off emerging currencies continues

Financial Times, 29.01.2014



The sell-off in emerging market currencies intensified on Wednesday despite a string of surprise rate rises by central banks as investors warned policy makers would need to take tougher action to restore confidence.

The rally that followed the dramatic midnight rate hikes by Turkey's central bank fizzled out as analysts said monetary policy had not been tightened as much as initially thought. South Africa's central bank also shocked markets by raising rates – but the rand continued to plunge after policy makers presented it as a one-off move that would not change its overall stance on inflation.

Turkey's lira swung sharply and ended the day at TL2.2445 to the dollar, little changed from the level it reached before the rate rise. The South African rand fell around 2 per cent to R11.29 against the dollar in volatile trade, despite the 50 basis point increase in the central bank's base rate to 5.5 per cent. Investors signalled they wanted to see more aggressive and sustained action from central banks before they regained their appetite for emerging markets assets. Despite concerns over the impact of a Chinese slowdown while the US Federal Reserve is scaling back its stimulus, real interest rates remain negative in many emerging markets. "It is possible that investors fear that the emerging markets central banks have fired their last shot, and will be unable to follow through with more tightening," wrote Steve Englander, strategist at Citibank.

"However much the Fed insists that other countries are not its table, the evidence of the last two days is that the Fed is the only waiter in the room." Other currencies suffering sharp falls included the Russian rouble, down 1.2 per cent at Rbs35.20 to the dollar, and the Hungarian forint, down 1.5 per cent at Ft225.66 to the dollar. The sell-off also hit currencies seen as more robust, with the Mexican peso down 0.8 per cent and the Polish zloty down 0.7 per cent. Analysts said that contagion had now spread across emerging markets as local companies sought to buy dollars and investors in local currency bonds rushed to hedge currency risk. Hedge funds were also helping to drive prices down as were any remaining retail investors many of whom fled emerging markets in last year's sell-off. "For the time being, you wouldn't want to stand in front of a freight train," said Christian Lawrence, strategist at Rabobank.

Institutional investors – who did not abandon emerging markets last year despite a big sell-off by retail investors – may also be starting to crack. Bill Gross of Pimco, the world's biggest bond investor, tweeted: "Turkey & South Africa flunk currency test – don't wait around to see who's next. De-risk, move to Treasuries." Investors were initially surprised by the aggressiveness of the Turkish central bank's overnight move, under which its benchmark one-week repo rate more than doubled from 4.5 per cent to 10 per cent. But the effective rate on Turkey's interbank rate was already above 7 per cent before the rise, meaning the true increase was more modest than thought.

On Wednesday, the central bank provided liquidity to banks at its new 10 per cent benchmark rate but surprised participants by fulfilling all orders, rather than only about a third as it has done on other occasions. Analysts said this was inconsistent with the behaviour of a central bank in the process of tightening monetary policy and sent confusing signals about Turkey's commitment to more conventional monetary policy. Traders reported dollar buying by hedge funds taking short positions against emerging market currencies on Wednesday morning, including the rand, the rupee and the lira.

## Money transfer issue with Iraq settled: Turkish minister

Hürriyet Daily News, 27.01.2014



Money transfer problems between northern Iraq and Turkey that were caused by changes in customs regulation amendments in Iraq have been resolved, the Turkish economy minister has announced.

The Turkish exporters have been saying they face troubles in collecting foreign exchange payments from trade with northern Iraq. "Our ministry was recently informed about the challenges faced over the collection of payments for domestic and international commercial relationship with northern Iraq," Turkish Economy Minister Nihat Zeybekci said in a written statement released on Jan. 27.

The minister said Turkish businessmen were having troubles receiving due debts from exports to northern Iraq and the business conducted in that country, adding the problem was solved as of Jan. 26. "As a result of our intense attempts and contacts with Iraqi authorities, we settled the money transfer problem arising from the changes in customs regulations by Iraq as of yesterday (Jan. 26)," the minister's note read.

# Turkey, Iran to establish high level cooperation council

Hürriyet Daily News, 29.01.2014



Turkish Prime Minister Recep Tayyip Erdogan departed for Tehran Jan. 28 for his first meeting with Iranian President Hassan Rouhani. Turkey and Iran will sign an agreement to establish a high-level cooperation council during the visit, after Western countries eased sanctions on Tehran over an interim nuclear deal.

Paying a two day visit to Tehran, Erdogan will hold talks with Rouhani, First Vice President Eshaq Jahangiri, and the religious leader Ayatollah Ali Khamenei. He will also deliver a speech at the international institute of the Iranian Foreign Ministry.

According to Iran's Foreign Ministry, a visit to Turkey by President Hassan Rouhani will also be on the agenda. Spokeswoman Marzihe Afkham described the visit as "very important." "Dialogue and contacts have entered a new phase, and we hope this trend continues. Besides serving the interests of the two countries, we hope [our dialogue] will serve the interests of the region as well," Afkham said. Energy-hungry Turkey is planning to increase oil and gas imports from Tehran after the gradual lifting of sanctions on the Islamic republic's energy sector after an interim nuke deal with the West. However, a visiting U.S. official warned Ankara that companies should hold off making new business with Iran. "Iran is not open for business."

Businesses interested in engaging in Iran really should hold off. The day may come when Iran is open for business, but the day is not today," David Cohen, the U.S. secretary for terrorism and financial intelligence, told reporters on Jan. 27. He was in Ankara for discussions at the Foreign Ministry on the implementation of the Joint Plan of Action (JPOA), which was agreed on by the P5+1, the European Union and Iran. "What we are working toward is the possibility of a long-term, comprehensive resolution with the Iranians in which they demonstrate that their nuclear program is exclusively for peaceful purposes," Cohen added.

Meanwhile, Erdogan yesterday delivered messages on developments in Syria ahead of his trip, harshly criticizing the international community for its "inaction" on the regime's "brutality against civilians." Ankara will maintain its "humanitarian policies" on Syria, Erdogan said, adding that Turkey's attitude on Syria would "make history." "We'll continue to defend the rights of the oppressed, despite all pressure and all sabotages," he said, addressing his parliamentary group. "We'll continue to carry aid to the oppressed (in Syria), as a responsibility of being a great state, despite some staging treacherous sabotages ... Syria faces a heavy examination. As brothers of Syria, we will also put our stamp on history through our own examination," Erdogan added.



# France wants new chapters for democratization, rule of law in Turkey

Today's Zaman, 28.01.2014



After noting that he agreed with Holland's remarks on the focus of the new chapters, Gül called on Hollande to lift the block on four of the 35 chapters, but the French President is so far maintaining his silence on that particular issue.

"Everyone was thinking that -- and it was actually real, but you changed this reality after becoming president -- France imposed a political block on many chapters, on five of the chapters. You removed one of the blocks on a chapter (Chapter 22), but say that you also lifted others. Turkey may complete them or not.

This is another story, as it (Turkey completing all the chapters) will happen when Turkey fulfills its duties, not you," Gül said and called on France to lift the other blocks in order for Turkey to be able to do its part for accession. French President François Hollande said on Tuesday that France supports the opening of talks on new EU chapters, especially on the separation of powers and the rule of law for democratization in Turkey, comments that came amid the government's ongoing attempts to control the judiciary in response to a major corruption investigation. The negotiations [accession talks between Turkey and the EU] can be additional instruments for democratization, the rule of law, freedom and modernization (in Turkey).

That's why France wants new chapters to be opened, especially the chapters on the separation of powers and the rule of law," Hollande said, adding, "Without thinking about what will happen in the end." Hollande's watchful support for Turkey on the opening of new chapters on law, freedom and human rights follows a corruption scandal that hit Turkey's agenda on Dec. 17 with a wave of high-profile detentions, including those of three Cabinet minister's sons. The EU has warned Ankara several times that it should uphold the principles of the separation of powers and the independence of the judiciary after the government responded to the corruption probe by reassigning scores of judges, prosecutors and police officials, including those involved in the investigation, as well as by restricting the body responsible for appointments, promotions and removals in the judiciary.

President Abdullah Gül also said on Tuesday that Turkey is very aware that it won't become a full member automatically after fulfilling the requirements of the accession chapters and that first it wants to finalize its accession process successfully. He added that for Turkey to become a member of the EU requires a referendum in France as well as in Turkey; however, that is not the issue of today. When speaking at the francophone Galatasaray University on the second day of his visit to Turkey, Hollande also noted that his long-awaited visit to Turkey was the first presidential visit to Turkey from France in 22 years, saying, "Twenty-two years may seem long; however, when we consider that relations date back to the 16th century, it is not that much. I came to here to save time, as we have a lot to do together."

Francois Hollande is the first French President to visit Turkey since former President François Mitterrand's visit to Turkey in 1992. Although former French President Nicholas Sarkozy came to Turkey on the sidelines of the G20 summit in 2011, it is not considered a presidential visit between the two countries as it was not bilateral. Hollande also mentioned the events of 1915. He said two countries sometimes have disagreements on historical issues because they haven't talked each other in a frank manner for a long time. "You know the stance of France and I won't say anything different than I say in France," said Hollande, who believes that there was an Armenian genocide committed by Turks and has promised in the past to pursue efforts to criminalize the denial of claims that Armenians were subjected to genocide at the hands of the late Ottoman Empire.

He also stated that if the Turkish nation were to face up to its own history, it would make it a more admired and grander nation. Ankara denies that the events of World War I amount to a genocide, saying there were killings on both sides when Armenians revolted against the Ottoman Empire in the hope of establishing an Armenian state in eastern Anatolia. The European Court of Human Rights (ECHR) ruled last month that denial of the Armenian genocide claims cannot be criminalized because it is a matter of free speech. Later in the day, the French president met with Rakel Dink, the widow of Turkish-Armenian journalist Hrant Dink, who was killed in 2007. While he was at the university, Hollande also awarded the well-known singer Candan Erçetin, who sings in French as well as Turkish, with the title Knight of Arts and Literature and the Ordre des Arts et des Lettres medal.

# Turkey gives more time for missile deal offers

Hürriyet Daily News, 29.01.2014



Turkey has again extended the deadline for bidding companies to send revised offers for its anti-ballistic missile air defense system.

The new deadline for rival bidding companies to submit their proposals is April 30, allowing U.S. company Raytheon Co and Lockheed Martin Corp and Italian-French team Eurosam SAMP/T to revise their offers and try to head off a Chinese company, with which Turkey is still in talks. Turkey announced its decision to negotiate with China's Precision Machinery Import and Export Corp. (CPMIEC) to co-produce anti-ballistic missile system last September.

It then extended the deadline to Jan. 31, after firm statements from NATO and U.S. officials that the Chinese MD-2000's would not be interoperable with the NATO defense architecture. Turkish leaders said the deal had yet to be finalized, and that Ankara remained open to new offers from the other two bidders. In the meantime, French Defense Minister Jean-Yves Le Drian, who accompanied French President François Hollande during his visit to Turkey on Jan. 27, met with Murad Bayar, Turkey's head of the Under secretariat for Defense Industries (SSM), for discussions on the missile deal.

Officials from Eurosam and Raytheon are in contact with the SSM from time to time, but offers from any bidders will only be examined if contract negotiations with the Chinese company fail before April 30, a Turkish official familiar with the process told the Hürriyet Daily News. The issue is expected to be on the agenda of talks during President Abdullah Gul's visit to Italy, the official also said. Chinese manufacturer CPMIEC has been on the U.S. State Department's sanctions list since February 2013 due to non-proliferation concerns. The National Defense Authorization Act that the U.S. Congress also passed last month, with a clause barring the use of "2014 funds to integrate the missile defense systems of the People's Republic of China into U.S. missile defense systems."

# Iran welcomes start of nuclear deal

New York Times, 19.01.2014



Iranian officials said they expected positive economic changes with the lifting of some sanctions against the country as part of a deal struck with world powers, which begins on Monday.

The interim deal, signed in November in Geneva and completed last week, will temporarily freeze much of Tehran's nuclear program in exchange for limited relief from the Western economic sanctions. The deal will last for six months, giving Iran and six countries involved - Britain, China, France, Germany, Russia and the United States - time to negotiate a permanent deal.

Nuclear inspectors from the International Atomic Energy Agency, the United Nations' watchdog group, who will monitor the Iranian elements of the agreement, arrived in Tehran over the weekend, local news media reported. Iranian leaders, including some hard-liners, have welcomed the deal, which allows the nation to freely export petrochemical products, have sanctions lifted on gold and precious metals, and create a special banking channel to facilitate payments for goods like food and medicine. These products were not affected by sanctions in the past but could not be paid for because of restrictions on all international financial transactions with Iran.

"Through these talks in Geneva, we are heading in a direction in which not only the sanctions are being lifted, but also Iran's political isolation is coming to an end," Mohammad Sadr, an adviser to Foreign Minister Mohammad Javad Zarif, told the Iranian Student News Agency on Sunday. "It will take time, but these two fundamental problems will be solved," he said. If Iran starts diluting parts of its stockpile of uranium that has been enriched up to 20 percent, which is close to weapons-grade material, it will be rewarded with the release of some of its funds that have been frozen abroad, up to \$4.2 billion. Describing Iran's economy as having its arms and legs tied to "the ropes of the sanctions," President Hassan Rouhani said last week that he expected the economy to improve under the deal.

"One of these ropes will be cut," Mr. Rouhani said, according to state television. "Over all, in my opinion, we will witness a positive, acceptable and outstanding change in the country's economic sector in the next six months." Mr. Rouhani is scheduled to address the World Economic Forum in Davos, Switzerland, on Thursday, and he is expected to highlight the opportunities the Iranian market has to offer. Critics of the deal in Congress and elsewhere are warning that the limited sanction relief offered to Iran by the Obama administration will undermine the intended effect of the measures, which was to force Iran into a compromise over its nuclear program.



The critics say that easing the sanctions could lead to an end of the Islamic republic's international isolation, which, they say, is what brought the Iranians to the negotiating table in the first place. Austrian Airlines announced last week that it was resuming flights to Iran after a one-year break forced by the sanctions, and several European political and trade delegations have visited the country in recent weeks. Inside Iran, some hard-liners are complaining that the government is trying to silence critics of the deal, which some here say was a loss for the Iranians, who refused any compromise with the West for more than a decade. "Criticizing the Geneva agreement is like denying the Holocaust," said Hamid Rasaei, a hard-line member of Parliament, according to the semiofficial Fars news agency.

His newspaper and another weekly were closed after they spoke out against the agreement, said Mr. Rasaei, a Shiite Muslim cleric. "Anybody who dares to speak out against parts of the agreement will be confronted," he said. Mr. Rouhani, in a speech broadcast nationally on Thursday, warned that some people in the country did not want the sanctions to be lifted, accusing them of benefiting politically and economically from the measures. "I have a lot to say, but today is not the right time," he said. "But a group of people are against the establishment of normal conditions in the country because of their own interests and that of their group."

## Obama says chances of Mideast peace deal 'less than fifty-fifty'

El Arabiya News, 20.01.2014



**U.S. President Barack Obama said that he was not confident that a lasting Israeli-Palestinian peace agreement could be reached, according to an interview with New Yorker magazine published on Sunday.**

**All three of Obama's main initiatives in the Middle East - the Israeli-Palestinian conflict, Iran's nuclear program, and Syria's civil war - had a "less than fifty-fifty" chance of reaching a final agreement. Obama added that all three events were connected. "And in all three circumstances we may be able to push the boulder partway up the hill and maybe stabilize it so it doesn't roll back on us," he said.**

Obama said the Middle East was going through "inexorable change." "The region is going through rapid change and inexorable change. Some of it is demographics; some of it is technology; some of it is economics. And the old order, the old equilibrium, is no longer tenable. The question then becomes, What's next?" Obama also spoke about his handling of the Syrian crisis last year – when U.S. military action seemed likely after a deadly chemical weapons attack in a Damascus suburb in August.

# Syrian Kurds declares new autonomous administration in Kobani

Today's Zaman, 28.01.2014



Syrian Kurds on Monday declared a second autonomous administration in the northern part of war-torn Syria about a week after declaring autonomy in Cizîre, another Kurdish-populated area of northern Syria.

The declaration of democratic autonomy in the Kurdish-majority regions in the north of Syria comes amid accelerated efforts to resolve the Syrian crisis. The second democratic administration was named the Kobani Canton and will have 22 ministers similar to the Cizîre Canton. The capital of the administration in the Cizîre Canton is the Syrian city of Qamishli.

The administration in Rojava (the Kurdish name for northern Syria) is expected to be divided into three autonomous provinces -- the predominantly Kurdish-populated territories of Qamishli, Afrin and Kobani. Syrian Kurds are looking to establish one more separate autonomous administration in the country's north after Cizîre and Kobani. According to news outlets, Kurds will be declaring an autonomous administration in Afrin in the coming days. The president, deputies and ministers were sworn in after the declaration of the administration in Kobani on Monday, say reports. According to the Fîrat News Agency, a tripartite model was adopted for the Cizîre administration, and if the president is a Kurd, its deputies should be an Arab and an Assyrian.

On Tuesday, Kurds elected an Assyrian, Elizabeth Gawriya, and an Arab, Hussein Azam, as deputies, according to the agency. As the crisis in Syria deepened, Syrian Kurds gained ground in Syria's north after a fierce struggle with the al-Qaeda-linked groups and made major territorial gains. In December, Saleh Muslim, the head of the Democratic Union Party (PYD), a Syrian offshoot of the Kurdish Workers' Party (PKK) in northern Syria, noted that Syrian Kurds are looking to establish three separate autonomous federal states in the country's north. Muslim also confirmed that a commission was in the process of preparing a constitution for the northeastern and northwestern regions of Syria, which is majority Kurdish.

"The [Syrian] Kurdish region will be divided into three autonomous provinces: Kobani [center], Afrin [west] and Qamishli (east)," he said, speaking through a Kurdish-French translator. Syria's Kurds make up around 15 percent of the population and are mostly concentrated in the northeast and northwest of the country, along the Turkish and Iraqi borders. The Syrian government withdrew troops from those regions in mid-2012. When the PYD and other Kurdish parties announced the establishment of an autonomous transitional administration in November, Turkey harshly criticized the self-rule declaration and accused the PYD of not "keeping its promise." The PYD presence in northern Syria is a source of concern in Turkey because of the group's links with the PKK.

# Fate of Geneva II in limbo after UN's invitation to Iran

Today's Zaman, 20.01.2014



The fate of the long-awaited international peace conference for Syria, known as Geneva II, is in limbo after the Syrian opposition stated that it would not take part in the talks if Iran attends.

The situation has become further complicated after the US said the United Nations invitation to Iran should be withdrawn as Tehran has still not met the criteria to participate in the talks. The United States of America statement came right after the Syrian opposition set a deadline for the United Nations to retract its invitation to Iran by 1900 GMT on Monday.

US State Department officials quoted by the Associated Press and Reuters noted that the United Nations must rescind the invitation to Iran unless Tehran fully and publicly endorses the aims of the meeting, namely accepting the conclusions of a plan for a Syrian political transition agreed to during the first Geneva conference in June 2012. Iran, for its part, rebuffed a precondition for taking part in Syria peace talks this week. "Setting such a condition to accept the Geneva I agreement for attending at the Geneva II meeting is rejected and unacceptable," the Iranian Student News Agency (ISNA) quoted Deputy Foreign Minister Hossein Amir Abdollahian as saying.

As the situation became more fluid, UN Secretary-General Ban Ki-moon said heated discussions were under way concerning his invitation for Iran to join this week's peace talks on Syria. "Intensive and urgent discussions are underway, and I'll have more to say about the situation later in the day," Ban said. The results of discussions were not clear when Today's Zaman went to print. The opposition also added that Iran would be accepted only after it publicly states that it is withdrawing its forces from Syria, committing to the first Geneva agreement in full and committing to implementing any results of Geneva II. The Syrian opposition considers the invitation to Iran by Moon as a step throwing months of diplomatic maneuvering into question, as the attendance of Iran has been one of the most hotly debated issues.

The UN chief stated that he had received assurances from Iran that it accepted the premise of the talks -- to establish a transitional government for Syria -- and that he had invited the country to Geneva II, which aims to bring the opposition and the Syrian regime together to find a solution to the crisis. The UN chief has also noted that Iranian Foreign Minister Javad Zarif has pledged that Iran would play a positive and constructive role in Montreux. "He has assured me that like all the other countries invited to the opening day discussions in Montreux, Iran understand that the basis of the talks is the full implementation of the June 30, 2012, Geneva communiqué. Foreign Minister Zarif and I agreed that the goal of the negotiations is to establish by mutual consent a transitional governing body with full executive powers," said Moon.

Geneva II will be bringing together the representative of President Bashar al-Assad's regime and the members of the opposition trying to topple Assad for the first time. The aim of the conference is to agree on a roadmap for Syria that would pave the way for the establishment of a transitional government. So far, Syria's prolonged war has produced more than 2 million refugees in neighboring countries, and millions more have been internally displaced, and have resulted with the deaths of thousands. Those figures are expected to rise if the conflict continues unabated. The international community is aware more than ever that the humanitarian tragedy of the Syrians will only end when a political agreement is reached for the conflict in Syria. Therefore, Geneva II has raised hopes for peace or at least getting the two sides to talk.

However, Monday's decision of the Syrian opposition to suspend its participation because an invitation was extended to Iran once more puzzled minds over the fate of the conference. Iran has been supporting Assad since the beginning of the crisis, keeping in mind that the downfall of the regime will inflict a deadly blow to the Syria-Iran axis. Turkey, which has been pushing for the Geneva II to take place, stated that it was important for the opposition to take part in the conference, as Geneva II would be a significant opportunity for the opposition to voice its rightful demands. A senior Turkish diplomat, who spoke to Today's Zaman on the condition of anonymity, noted that Turkey would continue to exchange views with the opposition and would send the message for the opposition to take part in the talks.

We find it beneficial for the opposition to participate in the talks, as it would prove the opposition's commitment to a peaceful solution to the crisis in the country. It does not matter for what reason, the opposition should not give up participating in the talks, said the diplomat. Turkey, a staunch supporter of the Syrian opposition, insists that Geneva II should make it clear that Assad will have no place in Syria's future, in line with the conclusions of a similar conference held in 2012, Geneva I. The first Geneva conference called for the Syrian government and the opposition to form a transitional government "by mutual consent," a phrase Western opponents of Assad say rules out any role for Assad. Russia, a sponsor of the plan, however, disputes that view. Meanwhile, Turkish Foreign Minister Ahmet Davutoglu first phoned the UN chief on Sunday and then called his Iranian counterpart on Monday morning.

According to the information obtained from diplomatic sources, during the conversation with Moon, Syria and Cyprus issues were discussed. The phone conversation took place prior to the opposition deciding to pull out of the conference, as during the conversation Davutoglu and the UN chief welcomed the decision by the opposition to attend the international conference on Syria. Regarding Syria, the latest situation ahead of the Geneva II was also discussed, added sources. Davutoglu and the UN chief also discussed the effective steps that should be taken in order to end the humanitarian tragedy and agreed to bring to the agenda the humanitarian situation of Syrians at Geneva II.

On Monday morning, Davutoglu had a phone conversation with Zarif. During the conversation, the latest developments in Syria and Turkish Prime Minister Recep Tayyip Erdogan's upcoming visit to Iran at the end of January was discussed, said diplomatic sources. The sources noted that Davutoglu told his Iranian counterpart that Turkey expects Iran to make constructive contributions to efforts that aim to end the Syrian crisis. Davutoglu has also called on the regime to end its attacks against civilians. From his side, Zarif also noted that Iran would be in close contact with Turkey to find an end for the conflict in Syria.



# Syria talks deadlocked over power transfer

Aljazeera, 27.01.2014



Syrian peace talks in Geneva have reached a deadlock after a session aimed at tackling contentious political issues, including the possibility of a transitional government.

The UN mediator for the Geneva 2 peace talks, Lakhdar Brahimi, told a news conference on Monday afternoon that little progress had been made on any front, but discussions would continue on Tuesday. "The humanitarian discussion has not produced much," Brahimi said, noting the Syrian government was still willing to move forward with the evacuation of women and children from Homs, but there was no plan on exactly how this should be done.

On allowing access to a convoy of food and medical supplies, he added, "there is no decision (by the government) to let them in." Despite the slow progress, Brahimi said "there is still hope," but maintained peace was unlikely to be achieved within days or even weeks. He urged both sides to "think about their people". Earlier on Monday, sources told Al Jazeera that the opposition delegation had rejected the government's "declaration of principles" for the Geneva 2 talks. The declaration states that the Syrian Arab Republic is a democratic state based on sovereign rule of law, independence of the judiciary, protecting national unity and cultural diversity. It also says Syrians have the exclusive right to choose their political system away from any imposed framework or foreign intervention.

"The declaration is outside the framework of Geneva, which centers on creating a transitional governing body," the opposition's chief negotiator, Hadi al Bahra, told the Reuters news agency. "It fails to address the core issue." Asked on Monday afternoon how to deal with the political deadlock, Brahimi noted wryly: "Ideas, I'll take them with great pleasure." The Geneva 2 peace talks have so far focused on humanitarian issues, but it was hoped they would move on to the central issues that divide the government and the opposition after nearly three years of civil war: the political future of Syria and of President Bashar al-Assad. The opposition says Assad must leave power and a transitional government be formed based on an agreement reached during an initial peace conference in Geneva in 2012.

The government says Assad's role is not up for debate at this conference, and denies that the initial Geneva deal requires him to go. "The government officials have been telling us over and over that Assad will not leave power, that he will continue his constitutional term and even has the right to run for president again," said Al Jazeera's Basma Atassi, reporting from Geneva. "The government may suggest a 'national unity government', an expanded government with opposition figures headed by Assad." In the first tangible promise to emerge from the talks, Brahimi said on Sunday that the government had agreed to allow women and children safe passage from besieged rebel-held areas of the city of Homs. But Syrian Information Minister Omran al-Zoubi told Al Jazeera nobody should think that the humanitarian deal in Homs was the result of the Geneva talks, noting it was a process planned earlier between the government and the UN and Red Crescent on the ground.

# Syrian peace talks on verge of collapse

Aljazeera, 24.01.2014



Syrian peace talks are on the verge of collapse with the Syrian government threatening to leave Switzerland after the opposition refused to meet face-to-face until it agreed to the creation of a transitional government.

The so-called Geneva II talks got under way on Friday and were due to bring together representatives from President Bashar al-Assad's regime and the main opposition bloc for the first time. However, the opposition demanded the government endorse the Geneva communique of June 30, 2012, which calls for a transitional governing body to be established, before direct talks began.

That led the Syrian foreign minister, Walid al-Muallem, to say: "If no serious work sessions are held by (Saturday), the official Syrian delegation will leave Geneva due to the other side's lack of seriousness or preparedness." The UN-Arab League envoy to Syria, Lakhdar Brahimi, met the government representatives separately before the threat to leave was announced. Alessandra Velluci, a UN spokeswoman, said: "There are no Syrian-Syrian talks at the moment. I cannot tell you anything about what will happen in the next few days." The government says it will not discuss removing Assad, while the opposition says it will not stay unless Assad's removal is the basis for talks. One of the government delegates said on Friday that Assad would remain president until the next election, when anyone could run for election.

In his remarks on Thursday, Ahmed Jarba, head of the Syrian National Coalition, said the international community now realised that Assad could not stay in power. "We have started to look into the future without him. Assad and all of his regime is in the past now. Nobody should have any doubt that the head of the regime is finished. This regime is dead," Jarba said. He said the negotiations would be long and difficult, and would look at all the "core issues" as a package deal, including the creation of a transitional governing body. "This is the basis of our negotiations and we will demand it," he said. Syria government officials, who left talks with a UN envoy on Thursday evening without making any statement, have insisted that Assad is not going anywhere.

Few expect the peace talks to result in a breakthrough to end the war, since Sunni religious fighters who disdain the Western and Arab-backed opposition are not present at the talks, and nor is Iran, Assad's main regional backer. Officials hope they can salvage the process by starting with more modest, practical measures to ease the plight of millions of people on the ground, especially in areas cut off from international aid. More than 130,000 people are believed to have been killed in the fighting, nearly a third of Syria's 22 million people have been driven from their homes, and half are in need of international aid, including hundreds of thousands in areas cut off by fighting. Against this backdrop, the UN humanitarian chief has urged the Syrian delegations to remember their people and try to reach local ceasefires to allow vital food and medicines to reach millions of civilians in dire needs.

# Egypt to hold early presidential election

Aljazeera, 27.01.2014



Interim president says he will change “roadmap” to call early presidential election, and vows to combat “terrorists”. Egypt’s interim president, Adly Mansour has announced that Egypt will hold a presidential election before parliamentary polls, changing a political “road map” laid down after the army overthrew Mohamed Morsi last summer.

The long-expected change could pave the way for the swift election of General Abdel Fattah el-Sisi, the popular defense minister who many expect will run for the presidency. The “road map” had called for parliamentary elections first, but many political parties are not ready for a legislative vote.

“Most of the political forces demanded presidential elections first,” Mansour said in a televised address, “and I have amended the road map to meet their demands.” The president did not announce a date for the vote, a job that falls to the High Elections Commission. It must be held no less than 90 days after the constitution was adopted, which will require a ballot before mid-April. Mansour also said he would increase the number of courts dealing with terrorism charges, to “bring perpetrators to justice swiftly.” Security in Egypt has deteriorated since Morsi’s removal, with bombings now a regular occurrence in Cairo and other major cities.

His comments came after the government announced that 49 people were killed on Saturday in violence that erupted on the third anniversary of the popular uprising which toppled Hosni Mubarak. Nearly 250 people were wounded in Cairo and several other provinces during the demonstrations, the Health Ministry said on Sunday. The worst violence was directed at supporters of the deposed president, Mohamed Morsi, who staged dozens of rallies across the country. While thousands rallied in support of the army chief, General Abdel Fattah al-Sisi, who overthrew Morsi in July, others protested against the military-backed government, underscoring deep and persistent divisions.

The Interior Ministry said in a statement on Sunday that it had arrested 1,079 “rioters” in possession of rifles, petrol bombs, fireworks, and other weapons. It said that a number of policemen were injured in clashes. Also on Sunday, four soldiers were killed and nine wounded when gunmen attacked a military bus that was travelling in the Sinai Peninsula, security sources said. The area is home to Ansar Bait al-Maqdis, an armed group that has said it carried out attacks in Cairo in the days before the anniversary of the start of the uprising against Mubarak’s 30-year rule. Sinai was the site of a reported attack on Saturday where an army helicopter was destroyed by rocket fire.

# EP member Ludford says Cyprus talks must produce results

Today's Zaman, 20.01.2014



Liberal Democrat member of European Parliament (MEP) for London Sarah Ludford said Turkish and Greek Cypriots should recognize their mutual interest to overcome a decades-old deadlock between them and expressed support for the Turkish Republic of Northern Cyprus's (KKTC) having observer status at the European Parliament (EP).

Ludford met with two members of the Turkish Cypriot Parliamentary Delegation in Strasbourg last week to discuss prospects for a political settlement in Cyprus and the need for Turkish Cypriot observers in the EP, according to a statement that appeared on her website.

Ludford stated that she had a productive meeting with the Turkish Cypriot deputies, who expressed their desire to reach a political settlement to the long-standing dispute in Cyprus. The British MEP said: "I note with approval that businesses from the Turkish and Greek communities recently stressed in a joint statement the need for negotiations on reaching a peaceful solution to resume. Both sides must recognize that it is in their economic, political and social interests to break the impasse and get results." She also extended support for the KKTC being represented at the EP, saying: "Discussions also covered Turkish Cypriot representation at the European Parliament.

I strongly support the proposal for Turkish Cypriots to be granted observer status so that they have the opportunity at least to attend and take part in debates. This would represent an important step towards respecting and enfranchising the Turkish Cypriot community." She added, "I regret that groups representing a majority of MEPs rejected this proposal last April, but hope it will soon return to the European Parliament agenda so that Turkish Cypriots can have a proper say about EU legislation."



# Ukraine's PM submits resignation before talks

Aljazeera, 28.01.2014



Parliament holds special session to scrap laws banning protests. Ukrainian Prime Minister Mykola Azarov has offered his resignation in a bid to ease Ukraine's deadly two-month crisis as politicians debated key reforms.

The statement was released by his office on Tuesday, ahead of talks aimed at retracting a controversial anti-protest law that sparked violent demonstrations. "I have taken a personal decision to ask the president of Ukraine to accept my resignation from the post of prime minister with the aim of creating an additional possibility for a political compromise to peacefully resolve the conflict," he said in a statement.

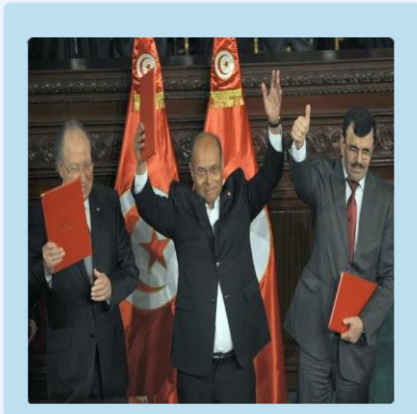
The resignation comes a day after the president, Victor Yanukovych, offered to repeal the law in an attempt to ease tensions. The government will most likely eliminate the laws in a special parliament session starting at 8:00GMT on Tuesday, in what is seen as a major concession by the Ukrainian president. "There was a political decision to abolish the January 16 laws that have caused so much discussion," read Monday's statement by the justice minister, Elena Lukash, on the presidential website. Yanukovych on Saturday has also offered the opposition posts in government and to make changes to the constitution that would reduce the powers of the presidency. We want everything to end peacefully.

It is a good sign that Azarov resigned, but we will wait and see what happens next, said Tatyana, an anti-government protester in Maidan square. "We mothers pray to God that nothing happens to our children." It is unclear whether the opposition will agree to the new terms or stop demanding its own, namely that the president steps down from power. Opposition leader Arseniy Yatsenyuk rejected the president's offer to become prime minister, while protesters' demands for an early election continue. The president stopped short of proposing amnesty for dozens of arrested protesters until demonstrators stopped occupying buildings and ended their protests, a major sticking point for Tuesday's talks.

The president's decision came a day before a key EU-Russia summit in Brussels on Tuesday, where the crisis dominates discussions. Talk of a state of emergency being declared in the former Soviet republic has also made the EU's foreign policy chief, Catherine Ashton, hastily move up a visit to Kiev on Tuesday. The US vice president, Joe Biden, called Yanukovych on Monday and warned him that "declaring a state of emergency or enacting other harsh security measures would further inflame the situation and close the space for a peaceful resolution," according to a White House statement. However, the foreign minister, Leonid Kozhara said on Monday: Today we are not considering the introduction of a state of emergency. Today, this measure is not on the table.

# Tunisia signs new constitution into law

Aljazeera, 27.01.2014



Charter may be one of the last steps to full democracy after the 2011 uprising that sparked the Arab Spring. Tunisian President Moncef Marzouki and the head of the National Assembly have signed the country's new constitution, officially adopting a charter that is one of the last steps to full democracy after a 2011 uprising.

"With the birth of this text, we confirm our victory over dictatorship," Marzouki said in a speech to the assembly on Monday, before signing the document which he embraced, waving the victory sign. "Much work remains to make the values of our constitution a part of our culture," he added.

The country's national assembly had on Sunday approved the new constitution, three years after the overthrow of the North African country's long-time ruler Zine el-Abidine Ben Ali. The vote by an overwhelming majority of assembly members marks another crucial step to getting the democratic transition back on track in the birthplace of the Arab Spring. It came close on the heels of an announcement by Mehdi Jomaa, the prime minister, of a new caretaker cabinet to govern the country until elections. The new constitution, seen as one of the most progressive in the region, guarantees equal rights for men and women. It also demands that the state protect the environment and tackle corruption.

Executive power is divided between the prime minister, who will have the dominant role, and the president, who retains important prerogatives, notably in defence and foreign affairs. Islam is not mentioned as a source of legislation, although it is recognised as the nation's religion and the state is committed to "prohibiting any attacks on the sacred", while freedom of conscience is guaranteed. Earlier, members of parliament amended three articles in the draft text, before ratifying changes to the rules of the assembly's confidence vote, to facilitate the appointment of the caretaker cabinet which must win parliamentary backing. But there has been criticism that the constitution has not banned the death penalty.

There are also restrictions on freedom of speech, and attacking religion and accusing people of being nonbelievers is illegal. In the new government, Hakim Ben Hammouda, an economist with experience at the African Development Bank, will be the finance minister while Mongi Hamdi, a former UN official, will be the foreign minister. Jomaa, a technocrat, was appointed in December after the ruling Islamist Ennahda party agreed to step down in a deal with secular opponents to end a political crisis. "The objective is to arrive at elections and create the security and economic climate to get out of this crisis," Jomaa said in Tunis. Tunisia's progress to approve a new constitution stands in contrast to turmoil in Libya, Egypt and Yemen which also toppled leaders in 2011 uprisings. Al Jazeera's Nazanine Moshiri, reporting from Tunis, said Tunisians see Jomaa as a unifier - someone who can hold the country together until new elections are held. "All these political wrangling seems to be over for now," she said. No date has been set for elections though they are due this year.

# Sudan government and rebels sign truce deal

Aljazeera, 24.01.2014



Mediators say agreement will put in place ceasefire verification mechanism and allow unrestricted access to aid workers. South Sudan's government and rebels have signed a ceasefire deal that much hope will put a pause to five weeks of fighting that has killed thousands of soldiers and civilians in the world's newest country.

The peace deal, signed in the Ethiopian capital Addis Ababa on Thursday by representatives of President Salva Kiir and Riek Machar, the rebel leader and former South Sudanese vice president, is the first real progress since political friction turned violent on December 15.

Mediators from the East African regional bloc IGAD, which has been brokering the peace talks, said the deal will put in place a verification and monitoring mechanism for the truce and allow unrestricted access to aid workers. Reports said Kiir's government also agreed to free 11 officials close to Machar who were detained in course of the fighting, although no timeline for their release was given. The status of the detainees had been a major sticking point in the peace talks. "These two agreements are the ingredients to create an environment for achieving a total peace in my country," Taban Deng Gai, the head of Machar's delegation, said. Deng Gai, a general in South Sudan's army before he defected to the rebel side, said he hoped the deal would "pave the way for a serious national political dialogue aiming at reaching a lasting peace in South Sudan".

An estimated half million residents have fled their homes because of the fighting, which has often pitted Kiir's Dinka-led government and military against ethnic Nuer fighters backing Machar. The UN has warned of atrocities committed by both sides on the battlefield. The fighting has endangered South Sudan's oil industry, after technical workers fled and rebel fighters took control of the fields for some time. Nhial Deng Nhial, negotiator for Kiir's government, said the Addis Ababa talks, which had been dragging on for three weeks, were "not easy". "We hope to be able to make haste towards an agreement that will end bloodshed," he said, but voiced scepticism over the ability of the rebels, comprised of renegade army units, ethnic militia and ordinary civilians, to halt their operations.

"What worries us is whether the agreement on the cessation of hostilities will stick the capacity of the rebel group ... to stop fighting. "We would like to take this opportunity to urge the rebel group to heed the voice of reason and abandon the quest for political power through violence." Separately, Colonel Philip Aguer, military spokesman for South Sudan, cautioned that a group from Machar's Nuer ethnic group known as the White Army may not want peace. "Riek Machar has been using that force to fight the SPLA, so we have to see what will happen," Aguer said, using the acronym for South Sudan's military. "War is not good for anybody, especially war fought for power of a political position. " Civilians, innocents are dying, so it is good for the people of South Sudan to have peace."

The UN said on Thursday it is protecting 76,000 civilians at eight bases in South Sudan. The UN mission has received reports of fighting continuing in multiple locations in the country. Nevertheless, Jay Carney, the White House spokesman, welcomed the signing of the ceasefire deal, describing it as a “first critical step in ending the violence” and building a sustainable peace. The US expects both parties to implement the agreement fully and swiftly and move towards an inclusive dialogue, he said. “The United States will remain a steady partner to those who choose the path of peace” and work towards a more democratic, unified South Sudan, Carney said.

The US helped broker talks that saw South Sudan end its civil war with Sudan in 2005 and then gain independence in 2011. The European Union also welcomed the ceasefire deal in a statement on Thursday. “The killing must end now,” Catherine Ashton, EU foreign policy chief, said. “I welcome the agreement on the cessation of hostilities in South Sudan. This agreement must now be turned to reality and the parties must move immediately to implement in good faith. “This means that the killing must end now. Women must be safe again. Children must be protected. The displaced must be able to return home. Humanitarian assistance must reach all in need without obstacle or abuse.”

## The New Cold War: China vs Japan

*The Diplomat, 25.01.2014*



**China and Japan’s war of the words reveals a larger struggle for regional influence akin to a mini Cold War. Lately, it seems that Japanese officials can’t sneeze without incurring the wrath of the Chinese — and vice versa.**

**So it’s no surprise that even conciliatory statements from Shinzo Abe have been soundly rebuffed. On Thursday, Abe wrote a message, published in local Chinese-language papers, conveying greetings for the lunar new year. According to Reuters, Abe insisted that Japan has “taken the path of peace” since World War II, and “nothing has been changed in the policy of continuing to uphold this position.”**

Friday, Abe further extended the olive branch. According to Channel NewsAsia, Abe told a parliamentary session that “Japan and China are inseparable.” He also expressed his desire for the two countries to restart diplomatic meetings. “Instead of refusing to hold dialogue unless issues become resolved, we should hold talks because we have issues,” Abe said. China flatly rejected these overtures. Responding to earlier requests for a bilateral dialogue, Qin Gang responded with bitter sarcasm: “Such kind of dialogue will be of no effect. Chinese leaders are very busy. Let them spend more time on things useful and effective.” China has repeatedly expressed its position that no diplomatic meetings between China and Japan can be held until Shinzo Abe proves his sincerity.



During Friday's press conference, Qin Gang laid down a specific path for restarting dialogue: Abe should declare that "I will pull back from the precipice, immediately admit and correct mistakes and make no more visits to the Yasukuni Shrine." As I wrote earlier, at this point it seems impossible that anything Abe will do will satisfy Chinese leaders (the things he could do, like apologizing for his visit to Yasukuni and/or Japan's imperialistic past, are incredibly unlikely). To Chinese officials, Abe is "self-contradictory," as an editorial in China Daily put it. Unless Abe apologizes for and refrains from repeating actions that upset China (from visiting Yasukuni to building up Japan's military), China will dismiss as insincere his rhetoric about dialogue and peace.

Meanwhile, from the Japanese perspective, were Abe to devote the rest of his administration to proving his friendship to China, it would have obvious negative repercussions for Japanese interests. So we have two countries, each building up their militaries while insisting they must do so to counter the threat of their regional rival. Added to this, a deep distrust of each other's different political systems coupled with a history of animosity makes the two nations deeply suspicious of each other. Each country insists it loves peace, and uses scare tactics to try to paint its opponent as a hawkish boogeyman. Sound familiar to anyone else? Ever since the Cold War ended, strategists have been warning leaders to drop the "Cold War mentality." But it apparently hasn't worked, because that is exactly what we have right now between China and Japan.

The two countries identify so strongly as rivals that it's impossible for either country to do or say anything without triggering a response from its counterpart. The tensions pop up in the most unexpected places – during Abe's Africa tour, during a global economic summit in Switzerland. Even the strong economic ties between China and Japan haven't helped forestall tensions. In fact, it's the other way around – tensions are eroding the economic relationship. The Telegraph recently reported that, according to a poll, 60 percent of Chinese business leaders are unwilling to work with Japanese firms. In 2012, China-Japan tensions even erupted into outright calls to boycott Japanese products, with rioters targeting Japanese businesses and restaurants. While Japan's business view of China is less affected economic interests are shifting to other regions, notably Southeast Asia.

Economic ties are likely to continue worsening. It's certainly hard to see the next round of negotiations on a trilateral China-Japan-South Korea free-trade agreement going off as planned in February 2014. As with the Cold War, part of the problem is that both China and Japan willfully read each other's every move as a challenge or threat. For all the distrust between China and the United States, the problem hasn't reached this level (yet). The U.S. has too many potential enemies (Russia, Iran, North Korea) and too many global interests for China to realistically interpret every diplomatic or strategic maneuver as somehow anti-China Japan, with its more limited global presence and strategic interests, is a different story.

Meanwhile, as China is currently limiting its military build-up and strategic goals to the near seas, it's easy for Tokyo interpret each move as directly aimed at Japan. My colleague Zachary wrote Friday that one byproduct of the United States' decline could be the emergence of regional hegemons. We might be seeing the beginning of this process now, with China and Japan in a Cold War-style battle, not for global power but for regional dominance. The territorial dispute highlights this by increasing the possibility of military conflict, but even if the Senkaku Islands were to sink into the ocean tomorrow the tensions would remain. It's a regional Cold War, currently being fought with words but with an arms race looming on the horizon. And, like the Cold War, tensions are unlikely to end until one country claims victory.

# Between China and Japan, a tug-of-war over Africa

Newyork Times, 17.01.2014



Diplomatic tensions between China and Japan showed no signs of abating this past week as the two countries traded barbs over Africa.

Lu Shaye, head of the Chinese Foreign Ministry's African affairs department, defended China's engagement in the continent. China is "sincere," Mr. Lu said, "unlike some countries" that he said are driven by self-interest and politics. His comments followed remarks by Prime Minister Shinzo Abe of Japan, during a visit to Mozambique this month, that Japan will not just extract resources from Africa but "create jobs."

Tomohiko Taniguchi, Mr. Abe's spokesman, told the BBC that countries like Japan "cannot provide African leaders with beautiful houses or beautiful ministerial buildings." Instead, Japan's policy is "to really aid the human capital of Africa." Mr. Abe was trying to distinguish Japan's efforts from those of China, Europe and the United States, news agencies reported. However, at a time of tension between Japan and China, the Chinese Foreign Ministry responded angrily, calling Mr. Abe's comments "unprofessional and ridiculous." Relations between the two countries have been strained because of a sovereignty dispute over several East China Sea islands and unresolved issues from Japan's wartime past.

Mr. Abe's decision in December to visit the Yasukuni Shrine, where convicted war criminals are honored along with other Japanese war dead, drew angry condemnation from China and South Korea. In an online interview with the state news agency Xinhua on Thursday, Mr. Lu said that African countries "have already seen" that Japan was eyeing African resources and markets, wanting to compete with China and to win votes at the United Nations. He criticized Japan's approach as empty words whereas Chinese assistance "can be seen and touched." China has financed the construction of numerous major infrastructure projects in Africa, including government buildings, roads and railways – often with resource-backed loans.

"During Abe's visit to Africa, the Japanese side said China only engages in infrastructure construction," Mr. Lu said. "The problem is, without infrastructure, how can Africa develop? Why don't you, Japan, help Africa with basic infrastructure?" In the days after Mr. Abe's visit to the Yasukuni Shrine, the Chinese government waged a global diplomatic campaign denouncing Mr. Abe's actions, which Beijing sees as disregarding Japan's wartime past. Shortly after Mr. Abe wrapped up his Africa tour, which included visits to Ivory Coast and Ethiopia and pledges of hundreds of millions of dollars in aid, the Chinese ambassador to Ethiopia, Xie Xiaoyan, held a news conference at which he accused the Japanese leader of being "the biggest troublemaker in Asia," Xinhua reported.

Holding up several graphic photos that he said showed victims of Japanese atrocities during World War II, Mr. Xie said he wanted to inform Africans about Japan's record in Asia, the article said. Mr. Xie is one of more than a dozen Chinese ambassadors around the world who have expounded on Beijing's views in local newspapers and television since Mr. Abe's visit to the Yasukuni Shrine on Dec. 26. Cui Tiankai, the Chinese ambassador to the United States and a former ambassador to Japan, wrote an op-ed piece for The Washington Post this month that called the shrine "ground zero for the unrepentant view of Japan's wartime aggression." Mr. Abe's visit, he said, was a challenge to the world. On Friday, The Washington Post carried an op-ed by the Japanese ambassador in the United States, Kenichiro Sasae, who called on China to "cease its dogmatic anti-Japanese propaganda campaign and work with us toward a future-oriented relationship."

The Chinese Foreign Ministry spokesman, Hong Lei, said on Thursday that the Chinese diplomats' actions in recent days were aimed at ensuring that countries around the world "clearly recognize the threat to world peace Mr. Abe's visit to Yasukuni poses." Beijing's recent diplomatic push in part reflects the government's increasing appreciation of public outreach. In recent years, China has stepped up its public diplomacy – from trying to project a better image of Chinese development projects in Myanmar to setting up a Foreign Ministry-affiliated Public Diplomacy Association, led by retired senior diplomats. Global Times, a nationalist-leaning state-run newspaper, published an editorial last week that argued that the war of words was an important fight that China "must not lose." "There is no smoke in this 'Chinese-Japanese public opinion war' but it is a special 21st century battlefield," the paper said.

## Beijing pushes for China-EU free trade deal

The Diplomat, 28.01.2014



At a meeting with his EU counterpart, Yang Jiechi expressed hope for a China-EU free-trade agreement. Chinese State Councilor Yang Jiechi is in Brussels this week for meetings with Belgian officials as well as the fourth China-European Union strategic dialogue, which Yang co-chaired Monday with EU foreign affairs chief Catherine Ashton.

Though the main focus of the dialogue is strategic and security issues (including regional affairs, non-proliferation, and climate change), perhaps the biggest news to come out of the meeting was economic - Yang's enthusiasm for a free-trade agreement between China and the European Union.

According to Reuters, Yang told the press that China and the EU should "work jointly to create conditions for launching a feasibility study of a China-EU free-trade agreement." The global repercussions of such an agreement would be huge - during his December visit to Beijing, UK Prime Minister David Cameron estimated that an FTA between China and the EU "could be worth tens of billions of dollars every year."

He predicted it would boost the UK economy alone by £1.8 billion per year, which explains why Cameron enthusiastically offered to “put [his] full political weight behind such a deal.” The EU is China’s largest trading partner, and only the United States does more trade with the EU than China does. The EU’s Trade Commission notes that China-EU trade is worth over €1 billion a day, reaching €433.6 billion in 2012. Still, despite the massive volume of trade the two have a history of nasty trade disputes. Last year, the European Union accused Chinese firms of dumping solar panels, and threatened to add duties to these products. The Chinese government retaliated by opening investigations into EU wine exports. Reuters called the row “the biggest trade dispute by far” between China and the EU. That particular dispute reached a negotiated settlement, but not before revealing something of a schism within the EU when it comes to China trade.

In part, the EU Trade Commission was forced to negotiate because many EU member states (led by Germany) were against applying punitive tariffs. As the possibility of an FTA between China and EU moves forward, it will be difficult for the EU to balance its interests with the competing and at times conflicting interests of its member states. Past trade disputes provide a picture of likely sticking points in any FTA negotiations. The EU Trade Commission has specifically mentioned concerns over access to China’s service industry, discrimination against foreign companies, and lack of IP protection as areas of concern — in addition to its issues with pricing on specific types of goods. Meanwhile, China seeks more investment access to the EU market as well as eliminating restrictions on high-tech exports to China. Discussion over a potential China-EU bilateral investment agreement, seen as a precursor to a possible FTA, began last week in Beijing.

Yang Yanyi, China’s Head of Mission to the EU, told New Europe that concluding a bilateral investment treaty (BIT) “would be mutually beneficial, offering each side what it needs, financing for Europe and quality for China.” China already has separate BITs with every EU member state except for Ireland; however, the new China-EU BIT would be expected to supersede the previous individual agreements. As Jiang Shixue, the Deputy Director of the Institute of European Studies at the Chinese Academy of Social Sciences, wrote for Ching.org.cn, “The existing China-EU BITs were signed at a time when China was mainly the recipient of foreign investment coming from Europe and other parts of the world. Nowadays, the situation has changed.”

Indeed, China is more interested in investing in Europe than vice versa - Jiang called the EU “the most favored [investment] destination of Chinese investors among all developed countries.” Ironically, in her remarks after the Strategic Dialogue, Ashton noted that the EU and China “started of course from a largely trade-driven agenda, but that has now matured as we engaged in a wide spectrum of different areas.” Yet the “trade-driven” news of a potential China-EU FTA could have more global impact than any of the purely strategic areas of cooperation discussed at the meeting. There’s potential for the momentum to keep building too, as Chinese President Xi Jinping plans to make his own visit to the EU headquarters in Brussels later this year.



# China's 2013 economic growth dodges 14-year low but further slowing seen

Reuters, 20.01.2014



China's economy narrowly missed expectations for growth to hit 14-year lows in 2013, though some economists say a cooldown will be inevitable this year as officials and investors hunker down for difficult reforms.

The chance that the world's second-largest economy may decelerate in coming months was underscored on Monday by data that showed growth in investment and factory output flagged in the final months of last year. Waning momentum capped China's annual economic growth at a six-month low of 7.7 percent in the October-December quarter, a slowdown some analysts say may deepen this year.

Full-year growth in 2013 was 7.7 percent, steady from 2012 and just slightly above market expectations for a 7.6 percent expansion, which would have been the slowest since 1999. "It's like a Chinese medicine," said Lu Zhengwei, chief economist at Industrial Bank in Shanghai. "If you don't take it, you may have problems in future. But if you take it now, you cannot expect to regain your youth tomorrow." After 30 years of sizzling double-digit economic growth that lifted many millions of Chinese out of poverty but also devastated the environment, China wants to change tack by embracing sustainable and higher-quality development instead. That means reducing government intervention to allow financial markets to have a bigger say in allocating resources, and promoting domestic consumption at the expense of investment and exports.

Monday's data from the National Bureau of Statistics showed China's 56.9 trillion yuan (\$9.4 trillion) economy is still very much dependent on investment for growth. Capital formation accounted for 54 percent of China's economic growth last year, exceeding the 50 percent share taken up by consumption. Net exports, on the other hand, detracted 4.4 percent from overall growth. "I don't see any evidence of a rebalancing last year," said Tim Condon, an economist at ING in Singapore. Yet there are signs Beijing wants to rein in investment. For the whole of 2013, China's fixed-asset investment climbed 19.6 percent, the smallest increase in at least 10 years and a tick below forecasts for a 19.8 percent rise.

Ambitious investment by local Chinese governments that have racked up some \$3 trillion worth of debt has been at the forefront of China's investment drive in recent years, a trend that must be checked, said Ma Jiantang, head of China's statistics bureau. "In 2014, I believe reforms will continue to be key driving forces for economic growth," Ma said on Monday. To be sure, the gentle fall-off in growth is welcomed by most experts as a must-have in China as it transits to better-quality development. If growth continues to ease in a controlled manner, China's government can impose some difficult changes without worrying about a spike in job losses that will stir social discord.

It will also give Beijing the latitude to keep monetary policy stable this year, as most economists expect it will likely do, even as regulators continue to crack down on riskier lending, the fallout from which is unnerving some stock market investors. “On the whole, the Chinese economy is performing well through its adjustment phase,” said Brian Jackson, chief China economist at IHS Global Insight. Concerns that China may sacrifice too much growth in its bid to enact change are also unfounded, Jackson said. Though an average of the 2014 growth targets already issued by 22 of China’s 31 local government’s shows growth has been revised downwards by nearly a percentage point, large provinces that are China’s commercial centres have mostly kept their growth targets stable, he said.

Still, there is little doubt China’s economy is losing steam. Factory output growth fell to a five-month low of 9.7 percent in December from a year earlier as factories struggled with lukewarm demand at home and abroad. Indeed, a Reuters visit to southern China this month showed many factories in China’s manufacturing heartlands have closed earlier than usual this year for the nation’s biggest holiday, discouraged by weak orders and rising costs. Other indicators also pointed to muted activity. China’s steel output dropped for the third consecutive month in December, while oil consumption rose at its slowest rate in five years in 2013. China is the world’s second-largest oil user. That said, a minority of analysts are predicting China’s economy may speed up this year, confounding a prevalent belief that growth will slacken to make room for reforms.

Deutsche Bank expects China’s growth to accelerate to 8.6 percent this year while RBS thinks it may climb to 8.2 percent. “We expect China to benefit from improved global growth this year,” said Louis Kuijs, an economist at RBS in Hong Kong. China has yet to announce its economic growth target for 2014 but most analysts agree that the fruits of reforms, if reforms are to succeed, are unlikely to juice the Chinese growth engine any time soon. Sources with top think-tanks have told Reuters that the government will likely stick with its 7.5 percent economic growth target again in 2014. “Reforms won’t produce results overnight.” said Xu Hongcai, a senior economist at China Centre for International Economic Exchanges, a think-tank.

# China cheer muted as Deutsche Bank sets European nerves jangling

Reuters, 20.01.2014



Big losses for Germany's biggest bank meant European markets started the week on a sour note on Monday as slightly better than expected Chinese data failed to dispel a general air of caution.

Deutsche Bank (DBKGn.DE) reported a surprise pre-tax loss of 1.15 billion euros for the fourth quarter of 2013 due to heavy costs for litigation, restructuring and balance sheet reduction. The bank was originally scheduled to report its results on January 29, but opted to release them early after the Wall Street Journal on Friday reported that a profit warning was possible.

Its shares were down almost 5 percent in early afternoon trading, dragging down bank stocks across Europe .SX7P as Germany's Dax .GDAX, down 0.3 percent, also led the region's lengthy list of losing bourses. Liquidity was lacking with U.S. markets closed on Monday for a holiday. The Dow Jones index .DJI ended last week with a slim gain of 0.1 percent after some disappointing earnings, while the S&P 500 .SPX lost 0.2 percent for the week. In Asia, a majority of share markets had stayed in the red on Monday, with Tokyo off 0.6 percent .N225, Sydney .AXJO down 0.3 percent and Shanghai down 0.6 percent .SSEC, adding to a miserable few weeks.

China's annual economic growth slowed a tick to 7.7 percent last quarter, which was just ahead of market forecasts for 7.6 percent and at least countered fears that monetary tightening might have caused a sharper pullback. "The economy may be a little more robust than people thought coming into 2014," said Tim Condon, an economist at ING Group in Singapore. "I had thought the monetary tightening in 2013 would pose a downside risk. The numbers reduce that downside risk." Other data out of China was much in line with forecasts, with retail sales growing 13.6 percent in December from a year earlier, while industrial output rose 9.7 percent. That resilience was considered a positive for Australia, given that China is its single biggest export market, and helped the Australian dollar clamber off a three-year trough of \$0.8756 to reach \$0.8814.

Yet the Australian currency remains out of favor, having shed 2.4 percent last week due to disappointing domestic data and demand for U.S. dollars and yen. The yen was in favor again on Monday as the general mood of risk aversion led speculators to cut back on short positions, which has been a very popular trade for months now. The Bank of Japan holds its policy meeting on Tuesday and Wednesday and is expected to maintain its massive asset-buying program. The euro was particularly affected, dropping to a six-week low at one stage against both the dollar and the yen before recovering to \$1.3560 and 141.00 yen. The dollar eased to 103.95 yen from an early 104.32. A sovereign rating upgrade for euro zone bailout poster child Ireland helped ensure the recent rally in periphery debt rumbled on in debt markets <GVD/EUR>[ID:nL5N0KR3E6], though Deutsche's troubles darkened the mood.

The unexpected loss is likely to compound the problems that have dogged the bank over the past year, especially a lengthening list of lawsuits and regulatory matters, and to redouble pressure on co-chief executives Anshu Jain and Juergen Fitschen to prove their turnaround plan is on track. The EU's quarterly earnings season shifts up a gear this week. STOXX Europe 600 .STOXX companies are seen missing consensus by 0.4 percent on revenues and by 0.9 percent on earnings, according to StarMine SmartEstimates, which focuses on the predictions by the most accurate analysts. Among emerging markets, the Turkish lira touched a new record low on Monday as a corruption scandal and fading hopes for a policy reaction from the central bank to support the battered currency weighed on markets. Societe Generale strategist Kit Juckes said markets remained nervous about the impact on under-pressure developing nations as the U.S.

Fed scales back its stimulus this year, adding with reference to Turkey, "trouble continues at mill". In commodities, spot gold made an early push to a five-week peak of \$1,259.46 an ounce, thanks in part to talk of strong physical demand from Asia. It was last at \$1,256.36. Data from the Commodity Futures Trading Commission also showed on Friday that hedge funds and money managers raised their bullish bets in gold and silver futures and options for a third week amid a decline in stocks. Brent crude oil for March delivery was off 6 cents at \$106.42 a barrel, while U.S. crude fell 58 cents to \$93.79. Having had its best week in almost a year last week, Nickel also dropped, falling 2.4 percent to \$14,340.

## Obama challenges Congress on inequality, lays out go-it-alone approach

Hürriyet Daily News, 29.01.2014



**U.S. President Barack Obama vowed to reverse a tide of economic inequality Jan. 29, seeking to outflank rival Republicans and revive his stumbling second term. In his annual State of the Union address, Obama vowed to use his executive powers to lift up workers, improve education and clean the environment if his foes in Congress balk at more sweeping action.**

**"America does not stand still - and neither will I," Obama said, talking, past the lawmakers gathered to listen in the House of Representatives directly to millions of television viewers.**

"Inequality has deepened. Upward mobility has stalled and too many still aren't working at all," Obama said in an address to lawmakers, cabinet members, Supreme Court justices and top military brass, punctuated by ritual standing ovations. While focusing squarely on a domestic audience, Obama strayed into foreign policy only briefly. He vowed to support free expression in Ukraine, warned al-Qaeda's threat had evolved and yet again urged Congress not to thwart his efforts to close the war on terror camp at Guantanamo Bay, Cuba.



But mostly Obama mined a political seam that has proven rich in the past, billing himself as the champion of middle class families fighting to overcome the worst recession since the Great Depression. He opened on a note of optimism, saying that thanks to “five years of grit” by the American people, the US economy was finally poised for a “breakthrough.” “The United States is better positioned for the 21st century than any other nation on earth,” Obama declared, touting the lowest unemployment rate in five years and a rebounding housing market. Yet he argued the “defining project of our generation is to restore” the promise of equality of opportunity for all Americans. He promised to wield his power to raise the minimum wage for federal workers on new contracts from \$7.25 to \$10.10 per hour, and to create a new retirement savings “starter” scheme to help millions of Americans.

Obama called on corporate CEOs to pledge not to discriminate against long-term unemployed job seekers, and to introduce new energy efficient fuel standards for trucks while working with cities and states to promote cleaner power. But Obama’s vows of action are likely to reach far fewer Americans than could be accomplished through legislation. For example, while he has the power to wage the minimum wage for federal workers, a reluctant Congress would be required to extend the measure across the entire economy. He called on lawmakers to do just that but they appear unlikely to heed his call. Such is the stranglehold clamped by Republicans on Congress, much of Obama’s second term agenda is stillborn.

While Obama’s headline was easing the burden of the middle class, the subtext was reviving a presidency that seems to be racing towards early lame duck status after a disastrous 2013. On foreign policy, Obama also warned that “the fact is, that danger remains” and the United States had “to remain vigilant” in face of changing global threats. “While we have put al-Qaeda’s core leadership on a path to defeat, the threat has evolved, as Al-Qaeda affiliates and other extremists take root in different parts of the world,” Obama told U.S. lawmakers. “But I strongly believe our leadership and our security cannot depend on our military alone,” he said. “As commander-in-chief, I have used force when needed to protect the American people, and I will never hesitate to do so as long as I hold this office,” he warned.

“But I will not send our troops into harm’s way unless it’s truly necessary.” In November, Tehran struck an interim deal struck with six global powers, under which Iranian leaders agreed to scale back their uranium enrichment in return for sanctions relief. “It is American diplomacy, backed by pressure, that has halted the progress of Iran’s nuclear program - and rolled parts of that program back - for the very first time in a decade,” Obama said. Thanks to the six-month accord, the Islamic republic has begun eliminating its stockpiles of enriched uranium, has agreed to daily inspections and is not installing advanced centrifuges, he said. “With our allies and partners, we’re engaged in negotiations to see if we can peacefully achieve a goal we all share: preventing Iran from obtaining a nuclear weapon,” he stressed.

But he warned that negotiations for a comprehensive deal, due to start in New York next month, “will be difficult. They may not succeed.” Answering criticism from some lawmakers about negotiating with Iran, Obama said the U.S. was “clear-eyed” and any deal would not be based merely on trust but on verifiable actions. The sanctions that we put in place helped make this opportunity possible. But let me be clear: if this Congress sends me a new sanctions bill now that threatens to derail these talks, I will veto it. “For the sake of our national security, we must give diplomacy a chance to succeed,” Obama said.

# U.S.-China relations and the Western Pacific

The Diplomat, 16.01.2014



The middle of 2013 brought the possibility of a reset in U.S.-China relations, as new Chinese President Xi Jinping spoke of his desire for a “new kind of great power relations” as he enjoyed relaxed, heart-to-heart talks with U.S. President Barack Obama at a California resort. The year ended, however, with further evidence that strategic friction between Beijing and Washington is serious and long-term.

The Chinese declaration of an air defense identification zone in the East China Sea and the incident involving the U.S. Navy cruiser Cowpens and a Chinese naval vessel reinforced the suspicion that despite explicit denials.

Beijing intends to impose a sphere of influence over the seas off the Chinese coast. That intention is not surprising; it is typical behavior for a great power, and China sees itself as a rising great power in a region where the long-dominant power, the United States, is declining. Furthermore, China is a returning great power that for centuries dominated or attempted to dominate its periphery. This sets expectations and provides a familiar pattern for modern-day Chinese, who view the Sinocentric tributary system of the past as a confirmation that China’s destiny is to lead the region in the future. Neither, however, is China’s apparent intention a cause for celebration for most of the region.

Most Chinese have a sanitized view of China’s historical leadership in the region: that China exercised influence through cultural, scientific and economic prowess rather than through coercion or expansionism. Neighboring states – like Vietnam, forcibly occupied for a thousand years by the Chinese – often have a different, darker view of historical Chinese pre-eminence. The promise that China will never seek hegemony or a sphere of influence has become a mantra of PRC leaders and diplomats. Hegemony means domination: a strong country forcing weaker countries to do what is in the strong country’s interest, as the Chinese often accused the U.S. and the U.S.S.R. of doing during the Cold War.

A sphere of influence means a strong country has exclusive supervisory and veto power over international affairs in the areas near its borders. China’s declaration of an ADIZ in the airspace near its territory followed precedents set by many other countries, including the U.S., Japan and South Korea. Thus it could be seen as China trying to keep up with the Japanese. But the ADIZ also reinforces China’s claim to some level of ownership over the East China Sea, as the ADIZ roughly encompasses the area of sea that China demarcates as its exclusive economic zone, a claim that cuts deeply into the half of the East China Sea bordered by Japanese territory. It is unfortunate that China chose to announce its ADIZ at a time of high tensions with Japan caused by the ongoing standoff over the Senkaku/Diaoyu islands.

China's act might have created a permanent new source of regional conflict. As the U.S. immediately signaled by flying two B-52 bombers into the zone without China's approval, foreign governments predictably feel compelled to demonstrate non-compliance by violating the ban, which in turn humiliates Beijing and creates pressure for the Chinese to retaliate. Effective January 1, Beijing is demanding that foreign vessels obtain prior permission from the Chinese government before fishing in the South China Sea. A PRC Foreign Ministry spokesperson said on January 9 that the purpose of the new regulation is "to strengthen the operation, development and rational utilization of fishery resources to protect fishery workers."

It sounds like another effort by Beijing to demonstrate administration and control as a basis for claiming ownership of disputed territory. As with the ADIZ, how strictly the Chinese attempt to enforce this unilateral law remains to be seen, but the PRC already has plans to greatly step up patrols of the South China Sea over the next few years. In November, the Cowpens was observing China's Liaoning aircraft carrier battle group while in international waters. According to a Chinese media report, the Cowpens was 30 miles away from the Liaoning. The Chinese position is that the presence of the U.S. vessel violated a prior Chinese government declaration that foreign ships were not allowed in the sector where the Liaoning group was exercising.

As was well reported, the Chinese responded with the familiar tactic of intentionally placing one of their ships on a collision course with the U.S. ship. This was disturbing beyond the immediate issue of the Chinese using dangerous seamanship to make a political point. Beijing and Washington have a long-standing disagreement over the surveillance of China by U.S. aircraft and ships outside China's territorial waters and airspace, which ends 12 nautical miles off the Chinese coast. China opposes such surveillance even though it is allowed by the International Law of the Sea Treaty, of which China is a signatory. This dispute led to the aerial collision near Hainan Island in 2001 that resulted in a Chinese fighter pilot losing his life and China holding a U.S. aircrew hostage for 10 days while the two governments negotiated a U.S. apology.

The dispute resurfaced with the media reports of Chinese ships harassing the U.S. Navy's surveillance ships Victorious and Impeccable in 2009. During the May 2013 Shangri-La international defense dialogue, a PLA officer revealed that Chinese ships had recently surveilled U.S. Navy vessels near the American coast, raising hopes that the Chinese had accepted the American view that both sides should tolerate surveillance as a normal part of great-power relations. With the Cowpens incident, the Chinese position seems to have retrogressed, opening the possibility of continued incidents at sea as well as in the air.

## South Korea calling India

The Diplomat, 18.01.2014



The state visit to India by South Korean President Park Geun represents a significant opportunity to stretch New Delhi's two-decade-long "Look East" policy and cement strategic and economic relations with a major emerging power.

Traditionally, India has concentrated more on Southeast Asian countries as the lynchpins of its quest to spread political influence and profit from the region's economic dynamism. New Delhi's relative neglect of the geographically more distant Northeast Asia, of which South Korea is a pivotal country, is gradually being redressed with a spectacular warming of ties between India and Japan.

If Japan is entrenching itself as a close strategic partner of India, can its main neighbor South Korea stay far behind? To host Park as a state guest just before Japanese Prime Minister Shinzo Abe arrives for the Republic Day celebrations in India later this month is a propitious lineup of Northeast Asian powers who matter to India's national security and economic growth. It is also a sign that India is thinking bigger, eyeing a horizon further from its own immediate neighborhood, and seeking a broader footprint than just being a sub continental power nestled in South Asia. South Korea boasts a technologically advanced and cost-effective military industrial complex that could help India diversify its list of defense suppliers and R&D partners.

South Korean missile and naval combat systems are internationally accepted as state-of-the-art and are on offer for India to acquire. Before departing for India, Park mentioned that she would be treating her visit as the beginning of her "sales diplomacy toward the world's new growing economies." As a conservative politician whose father was a former military dictator of South Korea, she has the full backing of her defense establishment to woo India as a buyer. But as in the case of other partners in the defense sector, India would like to transcend the dependence of a buyer-seller equation and move towards joint development of weaponry. Recently, India's defense companies chose the South Korean capital Seoul to display their indigenously manufactured weapons for sale at an Aerospace and Defence Exhibition.

Defense sector cooperation leading to co-production of hi-tech weaponry and joint exercises of the two navies is gathering momentum. The joint references to "safety of the sea lanes" that India makes with South Korea have a signaling intent towards China, which has been riling its neighbors with assertive naval maneuvers in both Northeast and Southeast Asia. Despite being a treaty ally of the United States and a target of Chinese ally North Korea's destabilizing behavior, South Korea has a complex relationship with China, reflect a cultural affinity and a shared history of Japanese imperialism. When Abe visited the controversial Yasukuni Shrine in December, South Korea condemned it as vehemently as China did.



Beijing's trade and investment with Seoul have also expanded enormously. South Korea's economic vitality and rise has been aided by closer regional integration with China. The common front that the U.S. desires among all its allies in East Asia – South Korea, Japan and Taiwan – to pressure China often fails to materialize because of these new economic realities. Still, it is a fact that China is wary of India's growing strategic dealings with South Korea and Japan. China would naturally prefer Asia's other powers to remain divided. For instance, China's state-owned Xinhua news agency was no doubt pleased to report in the aftermath of Abe's December Yasukuni visit that Indian Foreign Minister Salman Khurshid had urged Japan "to humbly accept the criticism of the shrine visit by China and South Korea."

India's Defence Minister, A.K. Antony has described South Korea as an essential component of India's vision of the "emerging East Asian architecture." Park's visit to New Delhi offers a fillip to this concept and the implicit meanings it contains. Unlike Japan, South Korea is not inclined towards overtly countering Chinese power in the Asia Pacific. Seoul's more ambiguous approach towards Beijing may fit New Delhi's own misgivings about being drawn into an American-constructed phalanx to keep China in check. Regional troublemaker North Korea, a cantankerous ward of China and a mortal threat to South Korea, has also ruffled Indian feathers through illicit nuclear and missile commerce with Pakistan. As a trust enhancer, New Delhi should propose naval interdiction arrangements with Seoul to monitor and halt suspicious North Korean ships.

In 2009, India detained a North Korean vessel, the M V San, in the Indian Ocean archipelago of the Andaman and Nicobar Islands and frisked it for radioactive cargo. With the Indian Navy now bolstering its capabilities and taking part in simulated exercises with its South Korean counterparts, it is conceivable that the two countries could work to a plan to tackle North Korean smuggling across an arc stretching from the Arabian Sea all the way to the Yellow Sea. This kind of concrete contribution to South Korean national security could cement the bilateral relationship. India's ambassador to South Korea, Vishnu Prakash, has highlighted the potential for cooperation in space technology between New Delhi and Seoul.

South Korea's ambitions of becoming a spacefaring power match India's advanced capabilities in satellite launching. Only in the rarest of scientific fields can India claim to be somewhat ahead of a technological innovator like South Korea. Space is one such area where the two nations can develop a win-win partnership and India could earn valuable foreign exchange. Trade between India and South Korea has surged under the overarching framework of the Comprehensive Economic Partnership Agreement (CEPA). Seoul chose to sign this free trade agreement with India in 2009, its first with a BRICS country, given the complementarity of the two countries' goods and services. Seoul is keen to build civilian nuclear plants in India to power the latter's electricity generation projects.

Apart from defense, this is another big-ticket area where many countries view India as a market. But stringent liability laws have kept foreign corporations away, and South Korea may find entry into this field is neither quick nor easy. Attracting more South Korean investment in India's manufacturing and infrastructure sectors remains a keystone of the relationship. However, the interminable struggle over South Korean steel company POSCO's mammoth \$12.1 billion investment in the eastern Indian state of Odisha has been a dampener. POSCO has already been frustrated enough to withdraw a \$5.3 billion steel sector investment from the southern Indian state of Karnataka in 2013, following delays in securing raw materials and local opposition to land acquisition.

Like Japanese firms, South Korean companies are wary of the political minefield that awaits foreign direct investment in India. The decision of the Indian environment minister Veerappa Moily, to finally green-light POSCO's Odisha venture on the eve of Park's visit is a confidence booster that could bring in more South Korean capital to meet India's vast financing needs. Booming ties with South Korea will strengthen India's ability to be a potent player in East Asia, which remains the place to be for all great powers of the 21st century. As a highly contested space where regional and extra-regional powers are converging with the ambition of shaping and controlling economic and military trends, East Asia has both space and appetite for India. It is up to New Delhi to creatively fashion substantive relations with nations like South Korea and make its East Asian presence felt.

## Announcements & Reports

### ► *Energy-hungry Turkey*

**Source** : TESEV

**Weblink** : <http://www.tesev.org.tr/assets/publications/file/02012014160502.pdf>

### ► *The Perception of Turkey in the Middle East 2013*

**Source** : TESEV

**Weblink** : <http://www.tesev.org.tr/assets/publications/file/14012014171159.pdf>

### ► *Prevailing Debates Related to Natural Gas Infrastructure*

**Source** : Brookings Institute

**Weblink** : <http://www.brookings.edu/research/reports/2014/01/prevailing-debates-related-to-natural-gas-infrastructure-boersma-ebinger>

### ► *Civil G20 Turkey Report*

**Source** : TEPAV

**Weblink** : [http://www.tepav.org.tr/upload/files/1379085237-2.Civil\\_G20\\_Turkey\\_Report.pdf](http://www.tepav.org.tr/upload/files/1379085237-2.Civil_G20_Turkey_Report.pdf)

### ► *The Outlook for EU-Turkey Relations*

**Source** : TEPAV

**Weblink** : [http://www.tepav.org.tr/upload/files/1390554733-6.The\\_Outlook\\_for\\_EU\\_Turkey\\_Relations.pdf](http://www.tepav.org.tr/upload/files/1390554733-6.The_Outlook_for_EU_Turkey_Relations.pdf)

# Upcoming Events

## ► *Feeding the World Summit*

**Date** : 13 February 2014

**Place** : London - UK

**Website** : <http://www.economistinsights.com/sustainability-resources/event/feeding-world-2014?region%5B4%5D=4&region%5B7%5D=7>

## ► *The Lisbon Summit*

**Date** : 18 February 2014

**Place** : Lisbon - Portugal

**Website** : <http://www.economistinsights.com/countries-trade-investment/event/lisbon-summit?region%5B4%5D=4&region%5B7%5D=7>

## ► *Arctic Summit 2014*

**Date** : 4 March 2014

**Place** : London - UK

**Website** : <http://www.economistinsights.com/sustainability-resources/event/arctic-summit-2014?region%5B4%5D=4&region%5B7%5D=7>

## ► *The CFO Summit 2014*

**Date** : 6 March 2014

**Place** : London - UK

**Website** : <http://www.economistinsights.com/business-strategy/event/cfo-summit-2014?region%5B4%5D=4&region%5B7%5D=7>

## ► *The Azerbaijan Investment Summit*

**Date** : 11 March 2014

**Place** : Baku - Azerbaijan

**Website** : <http://www.economistinsights.com/countries-trade-investment/event/azerbaijan-investment-summit?region%5B4%5D=4&region%5B7%5D=7>

## ► *9th International Turkish - African Congress*

**Date** : 24 – 25 April 2014

**Place** : Turkey

**Website** : [http://www.tasam.org/en/Etkinlik/592/9th\\_international\\_turkish\\_-\\_african\\_congress](http://www.tasam.org/en/Etkinlik/592/9th_international_turkish_-_african_congress)

## ► *European Energy Horizons 2014*

**Date** : 8 May 2014

**Place** : Stockholm - Sweden

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

► *3rd World Turkic Forum*

**Date** : 28 – 30 May 2014

**Place** : Edirne – Turkey

**Website** : [http://www.tasam.org/en/Etkinlik/579/3rd\\_world\\_turkic\\_forum](http://www.tasam.org/en/Etkinlik/579/3rd_world_turkic_forum)

► *World Water Conference*

**Date** : 11 November 2014

**Place** : London – UK

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