

## EBRD: Turkey's growth remains below potential at 3 percent

Hurriyet Daily News, 14.05.2015



Turkey's economic growth will remain broadly unchanged at 3 percent in 2015 and 2016, significantly below the country's long-term potential, said the EBRD in its latest Regional Economic Prospects report.

"The positive impact of lower oil prices on growth will likely be offset by continuing weakness in external demand and developments in the euro-dollar exchange rate," it said. Turkey, which last year became the largest single recipient of EBRD investment, was a specific example of a country caught in the cross currents of diverging monetary policies in the eurozone and the United States.

Turkey's capital inflows, which largely depend on the Turkish Lira-dollar rate, may be squeezed, as the lira weakened to the dollar by 13 percent since the beginning of 2015 in expectations of U.S. monetary policy tightening, according to the EBRD. "Nevertheless, weakening against the dollar may not translate to gains in net exports, since Turkey's main trading partner is the eurozone, and the lira weakened to the euro by a more moderate 6 percent in the same period," it said. Diverging monetary policy in the two currency areas will likely continue to add to currency volatility in Turkey, although perceived domestic policy volatility may also play a role, it added. At the same time, the EBRD report predicted overall stagnation in 2015 across all 35 countries covered and meagre expansion of just 1.4 percent in 2016.

But this outlook masked stark regional differences. "This is a very diverse picture," said acting Chief Economist Hans Peter Lankes. "There is definitely a scope for optimism especially in countries closely tied to the eurozone. But the Russian recession is cause for concern in many other economies." In Central Europe and the Baltics (CEB), forecasts for Poland, Slovenia, Slovakia and Hungary have been revised up, mainly reflecting the stimulus from the eurozone monetary easing that has added to the earlier positive impact of lower oil prices. The CEB region is expected to see growth of 2.9 percent in 2015, compared with a January forecast of 2.6 percent. Expansion of 3.0 percent is seen for 2016.

Economic convergence with more advanced countries is set to continue in earnest, said the report. Quantitative easing (QE) by the European Central Bank (ECB), the weaker euro and lower oil costs are also benefiting economies in southeastern Europe. QE has allowed easier monetary conditions in countries with close economic ties to the eurozone. "However, any volatility related to Greece could dampen the outlook. Countries in the southern and eastern Mediterranean have also been aided by cheaper oil and by improving confidence in the region's largest economy, Egypt," said the EBRD.

Greece, the EBRD's newest recipient country, has been badly hit by fears that the country may default on its external debt obligations and even exit from the eurozone. "The EBRD's best case scenario is that Greece will 'muddle through,' avoiding drastic policy moves and with just enough reforms to start growing and securing the continued support of the international community," said the EBRD. In contrast to the recent launch of monetary easing in the eurozone, a tightening of monetary conditions in the U.S., now widely expected for early next year, will put increasing pressure on emerging markets that are dependent on capital inflows and have high dollar-denominated refinancing needs, according to the EBRD. "At the same time, the deep recession in the Russian economy is having larger-than expected negative spillover effects on countries with which it has strong economic links. The impact of the Russian downturn has worsened the outlook for eastern Europe and the Caucasus and for Central Asia," it added.

In Ukraine, the economic disruption in the east of the country, the negative impact of the depreciation of the hryvnia, tight economic policies, energy tariff hikes and a continued contraction of credit are expected by the EBRD to maintain pressures on the economy this year. GDP is now expected to shrink by 7.5 percent this year - a worsening of the outlook since January, when a five percent contraction was forecast, it added.

## Turkey's current account gap exceeds expectations at \$4.96 billion

Hurriyet Daily News, 12.05.2015



**Turkey's current account deficit rose by \$1.58 billion to \$4.96 billion in March from the same month of last year, exceeding expectations.**

**As a result, the 12-month rolling deficit increased to \$45,499 million from the deficit of \$43,924 million.**

**Current account stood at \$2 billion in January and at \$3.2 billion in February this year. The deficit is still much lower than the average monthly figures of previous years, mainly due to lower oil prices. The decline, however, also reflects a slowing in the economy as well as a decrease in buying imported goods, according to analysts.**

The recent increase in the current account deficit was mainly fuelled by the foreign trade deficit, which rose by \$1.5 billion to \$4.86 billion, while the services surplus fell by \$47 million to \$1.08 billion and primary income deficit rose by \$50 million to \$1.26 billion, over the same period, according to the Central Bank data. Net gold exports fell by \$427 million to \$822 billion in March, from the same month of the previous year. The direct investment items under primary income involving distributed profits recorded a net outflow of \$411 million, increasing by \$82 million over the same period. Direct investment recorded a net inflow of \$280 million with a decrease by \$622 million compared to the same month of the previous year.

# EU, Turkey announce modernization of Custom Union

Anadolu Agency, 12.05.2015



The European Union and Turkey have agreed to upgrade their decades-old Customs Union, bringing the economies of the two closer together even as Turkey's bid to become an EU member remains in deep freeze.

Turkish Economy Minister Nihat Zeybekci and EU Trade Commissioner Cecilia Malmstrom announced on May 12 a framework for updating the Customs Union, which was conceived as a prelude to Turkey becoming a fully-fledged EU member and has been unchanged since 1995. Turkey and the EU will now discuss how to broaden sectors covered by the deal, to include services and most agricultural goods.

"We aim to have no restrictions whatsoever," Zeybekci said during a press conference with Malmstrom, quoted by Anadolu Agency. Malmstrom underlined the need to modernize the Custom Union with Turkey. Turkey has long complained that trade deals that the EU signs with other countries do not take Turkey into account and costs the country billions of dollars. Zeybekci said a possible EU deal with the U.S. - known as the Transatlantic Trade and Investment Partnership, or TTIP - is too big for Turkey to ignore. Over the past two years, Ankara has repeatedly threatened to quit the Customs Union with the EU if Turkey does not become a party to TTIP.

Malmstrom said talks on TTIP would for now continue exclusively with the U.S., though the EU will regularly update Turkey on their progress, the Wall Street Journal reported. "TTIP negotiations right now are taking place now between us and the U.S.," she said. "We support when the agreement is done that Turkey can look into that." Turkey and the EU will now undertake their respective internal procedures to adopt this initiative and to seek the corresponding negotiating mandates, according to a note by the European Commission released. "Turkey is a candidate country, and accession negotiations to the EU are ongoing. The enhancement of bilateral trade relations is not an alternative to the accession negotiations of Turkey, but complementary to it," said the note. Turkey is the EU's sixth biggest trading partner, while the EU is Turkey's biggest trading partner. "There is huge potential, however, to further develop these trade relations and this is precisely what the new commercial framework will make possible," added the report.

# IMF: Growth in CEE, Turkey to remain strong

Hurriyet Daily News, 11.05.2015



The Countries in Central and Eastern Europe (CEE), including Turkey, are expected to see strong economic growth, while those in Southeastern Europe (SEE) will grow more slowly, according to “Mind the Credit Gap,” the IMF’s new Regional Economic Issues report released.

“The region’s countries have been diverging down three paths. The Baltic countries, Central and Eastern Europe, and Turkey are faring best, thanks to cheaper oil and a stronger euro area recovery,” the IMF said. However, the positive effects of cheaper oil and a stronger euro area recovery are likely to be limited for SEE economies.

The IMF forecasts that economies which are part of the Commonwealth of Independent States (CIS) will contract this year, as the largest economy of the region, Russia, has been hurt by falling oil prices and sanctions. Russia still poses risks for the near future. “Market volatility and geopolitical problems are the main risks that could negatively affect countries in emerging Europe. An increase in geopolitical tensions related to Russia and Ukraine, as well as a deterioration of the situation in Greece, loom on the horizon,” the report said.

Weak investment is a common challenge in a very heterogeneous region, according to the report. “Investment is being held back by still low demand growth in much of Europe and uncertainty both at the global and the euro area level, but also by an incomplete private sector balance sheet clean-up. While credit deleveraging is necessary, it tends to be more protracted and a drag on growth when debt problems are pervasive, macroeconomic policies are not sufficiently supportive, and institutional frameworks are not flexible enough,” said the report. “Central, Eastern, and Southeastern Europe [CESEE] countries face a challenging dilemma: strengthen private sector balance sheets that have been damaged by the slump in demand and employment caused by the financial crisis and, at the same time, again achieve investment levels that will support the growth rates their economies need to catch up with the more advanced European countries,” said Jörg Decressin, deputy director in the IMF’s European Department. Structural and institutional reforms are essential to raise growth potential, especially for countries with a private sector weighed down by debt, said the report. The IMF concluded that many SEE and CIS countries also face an extensive unfinished structural reform agenda to improve the investment environment, raise productivity and reduce long-term unemployment.



## TOBB: Turkish unemployment rising for 26 consecutive months

Hurriyet Daily News, 11.05.2015



In its latest report on employment trends, the Union of Chambers and Commodity Exchanges of Turkey's (TOBB) ETÜ Social Policies Research Center (SPM) has addressed the 26 consecutive months of rising unemployment in the country.

The center forecasted the unemployment rate to remain at above 11 percent in February 2015, for which the official data will be announced. Around 5.4 million people will be announced unemployed for the period, according to the report, which was prepared by SPM Director Serdar Sayan and a team of researchers.

The January 2015 rate was announced at 11.3 percent, the highest in four years. The employment rate also decreased in the same month by 0.4 points to 44.3 percent, the lowest employment rate in the last seven months. The number of jobless people saw a rise of 16.2 percent in the year up to February 2015, said the report. "The non-agricultural unemployment rate increased to 13.4 percent in January 2015 from 12.1 percent in the same period of 2014," added the report. The total workforce decreased to 28.7 million people in January 2015, a 0.3 percent decline from December 2014, according to the report.

## Turkish gov't to bosses: Resist opposition's minimum wage promises

Hurriyet Daily News, 12.05.2015



Ahmet Davutoğlu and several economy ministers of the government have criticized the opposition parties' economic plans, particularly promises to increase the minimum wage, inviting business and trade groups to reflect on how these promises are "unrealistic."

"Any opposition party may voice many unrealistic promises ... You, as the exporters of our country, have the full right to hear a clear comment about the minimum wages in terms of the rational economic context. The minimum wage is defined and negotiated by employers and employees on an optimum ground.

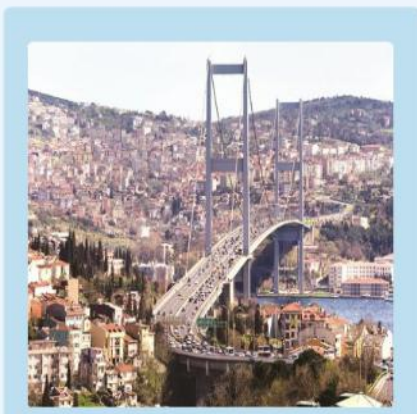
You know how any populist move to determine this wage may affect our country's exports negatively," Davutoğlu said at the Turkish Exporters' Assembly (TİM) meeting in Istanbul, quoted by Doğan News Agency. He said the government would continue to implement "rational economic policies." "We have no doubt that confidence and stability will last in Turkey. We have succeeded a lot over the past 12 years and you, exporters, are both architects and witnesses of our achievements," he said, adding that he believed the country would reach its \$500 billion exports target by 2023. The eye-catching economic promises made by the opposition parties ahead of the June 7 general election have also been criticized by several members of the government.

Economy Minister Nihat Zeybekci also called on businesses, trade unions and bosses to react against pledges to increase the minimum wage, saying increases would result in job losses."The addressees of [the opposition parties' pledges] are labor and employer unions in Turkey as well as industrialist and business associations, exporters and producers. As the government, we prefer to be silent about this issue, but these groups should voice their concerns about the opposition's promises to increase the minimum wage," Zeybekci said on May 10, according to Anadolu Agency. "Companies would need to cut jobs to be able to pay higher wages to their workers. Otherwise, they would go bankrupt," he added.

The main opposition Republican People's Party (CHP) has promised to raise the minimum wage to 1,500 Turkish Liras and also lift income tax thresholds. The Nationalist Movement Party (MHP) has pledged to increase the minimum wage to 1,400 liras and to give households whose total income is below minimum wage an additional monthly stipend for public transportation. The Peoples' Democratic Party (HDP), meanwhile, has vowed to raise the minimum wage to 1,800 liras. Turkey's minimum wage is currently under 1,000 liras. Finance Minister Mehmet Şimşek also described the CHP's pledge to raise the minimum wage to 1,500 liras as "unrealistic" in April. He also added that the current wage is higher than that of several countries in Europe. "Turkey's production of high-technology, value-added goods is low. It still produces and exports in traditional sectors.

## European bank to invest 2.5 billion euros in Turkey

Reuters, 09.05.2015



The EIB plans to invest around 2.5 billion euros in Turkey this year, EIB Vice Chairman Pim Van Ballekom has said.

"We invested 2.1 billion euros in Turkey last year and we plan [to invest] 2.5 billion euros this year. But everyone is focusing on figures. For me, this is less important. Speed matters much more. It all depends on the quality of the projects. We only finance 50 percent of a project. We always need other finances as well. If the project is good, it is no problem for it to find financing," he said. The EIB has financed around 11 billion euros in Turkey over the last five years, according to the bank's figures.

This is the highest level since the bank started its operations in Turkey in 1963 and represents a yearly average of 2 billion euros, more than a quarter of the bank's non-EU financing around the globe. "The bank was originally an infrastructure bank, so one-third of our portfolio is infrastructure, also in Turkey," said Van Ballekom. "We do one-third in healthcare and one-third on SMEs [small and medium-sized enterprises]. We do it along with the commercial sectors in any country, and Turkey is not an exception," he added.

The EIB and the European Commission launched a new generation of financial instruments to help innovative companies access finance more easily in 2014. In the framework of new program, named InnovFin, the bank will make more than 24 billion euros available to finance support research and innovation in Europe by 2020. The InnovFin, EU Finance for Innovators, program is just for European Union members, but Turkey is an exception, as it is included in the program even through it is not part of the union, another EIB official recently told the Hürriyet Daily News. The EIB will be providing loans and guarantees from 25 million to 300 million euros directly to European and Turkish companies to foster innovation, according to the bank's website.

According to Van Ballekom, Turkey has a very good track record economically and the country has overcome economic problems far faster than many countries in the European Union. "From that basis, to remain at such a high level of economic growth is not possible. There is always a curve in the growth rates due to elections or weather conditions," he said, adding reform processes and structural measures are part of a continuous process. "That is not the case, for example, in Germany to say we did what we had to 10 years ago and that is enough. It is not the case. This is a gradual process. We do not have the luxury to say we've done the reforms and let's expect a dramatic rise in the investment inflow. Competitiveness rules are changing constantly, but the Turkish government is flexible enough to get the answers. We can concentrate on the reforms after the elections," he said.

## Turkish banking watchdog certifies Ziraat Bank's Islamic branch for operations

Hurriyet Daily News, 14.05.2015



One of Turkey's largest state-owned banks, Ziraat Bank, was authorized by the country's banking regulator to begin operations in its Islamic banking division, according to the government's official gazette.

The Banking Regulation and Supervision Agency (BDDK) issued a certificate giving permission to Ziraat Bank to commence operations as an Islamic bank. On Oct. 15 of last year, the agency allowed Ziraat and its sister companies (Ziraat Insurance, Ziraat Savings, Ziraat Investment and Ziraat Technology) to establish the new Islamic bank as main shareholders with a capital of \$300 million.

Last August, Deputy Prime Minister responsible for the economy Ali Babacan disclosed government plans to establish three state-owned Islamic banks as subsidiaries of the state-run lenders by the end of 2015.

## Syrians lead investors in Turkish start-ups in 2015

Anadolu Agency, 15.05.2015



Syrians started-up 32 percent of the total number of new companies established in Turkey by foreigners in the first four months of this year, according to data from the TOBB.

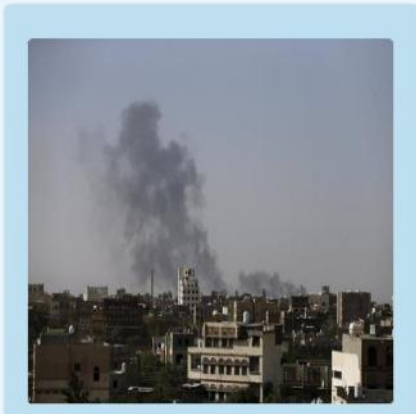
Syrians directly founded 491 companies, over 31 percent of the total number of start-ups by foreigners in the first four months of this year. The total number of new companies or associations started-up in Turkey was 24,094 in the first four months of this year. Of these, 1,557 were started with foreign investors. Out of the total number of foreign-funded companies 113 were funded by German investors and 97 were started by investors from Iran.

Of the foreign-investor start-ups, more than one-third, or 580, operated in wholesale, retail trade and motor vehicle maintenance. Manufacturing ranked second with 212 firms, while the construction sector came third with 169 companies, the data showed. A total of 6,022 new companies were established in Turkey in April, an increase of 22 percent compared with the same month of last year, while 894 companies went out of business. The TOBB also said 8,222 companies were shut down in the country, 32 percent fewer than the figures of the previous year. The number of companies established in Turkey with international capital in 2014 increased to 4,736, up from the 3,875 in 2013. Out of the total number of foreign-funded companies in 2014, some 1,257 were funded from Syria, 302 were founded by German investors and 275 were financed by Iranian investors.



# Experts: Syria war crimes justice unlikely despite evidence

AFP, 15.05.2015



The chances of anyone being prosecuted for Syrian war crimes are today smaller than ever, experts say, as realpolitik smothers an increasingly solid mountain of evidence accumulated during the often barbaric four-year conflict.

Rights groups have steadfastly documented atrocities committed on the ground, and a committee of renowned investigators said it had enough evidence to prosecute up the chain of command to President Bashar al-Assad himself. But while those dossiers, collected by the Western-backed Commission for International Justice and Accountability claim for the first time to be “trial ready,” the world is not.

For political reasons, there is no court able to judge the crimes committed in a conflict that has killed more than 220,000 people, including at least 67,000 civilians and 11,000 children. “It’s very likely that no conflict has ever received as much investigatorial attention of mass atrocities, war crimes and crimes against humanity, with so little justice,” said London-based international law expert Mark Kersten. The International Criminal Court, which judges the world’s most serious crimes, has no jurisdiction in Syria as it is not a member and ally Russia is expected to block the UN Security Council from authorising an ICC investigation.

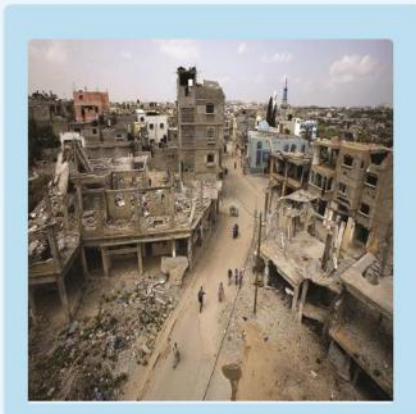
At the same time, many now consider Assad a “necessary evil” in any peaceful end to the conflict, so the international community is also unlikely to set up an ad hoc tribunal such as that created after the 1990s wars in the former Yugoslavia. “You have to wait for regime change in Syria, for a post-revolution truth commission, fact-finding and settling with the past by a new administration,” Olivier Ribbelink, senior researcher at the TMC Asser Institute in The Hague, told AFP. Some countries have universal jurisdiction laws that allow them to prosecute crimes not committed on their soil, but those would likely only be used against rebels, including European nationals fighting alongside the Islamic State of Iraq and the Levant (ISIL) group. “Western judicial authorities can perhaps use the evidence they’re finding now against returning jihadi fighters... but no one is going to start a trial against Assad’s regime or Assad himself,” said Ribbelink. Ad hoc tribunals such as those set up by the United Nations to judge crimes committed in Yugoslavia and the 1994 Rwandan genocide were “part of post-Cold War euphoria, things are different now,” he added.

Even without a court to bring cases to trial, the ICJA evidence has a role to play. “If we wait for the ICC, or if we wait for an ad hoc tribunal, a lot of this evidence is somehow going to be lost,” said Kersten. “There will be the opportunity to shred it, there’ll be the simple passage of time so people won’t be there to recall events as easily. The mere existence of the evidence is potentially damaging for Syria’s government as “it could become difficult for a number of states to continue to support the regime,” said Ribbelink.

But there is no certainty that the millions of documents, photos and videos collected by the CIJA, many at great risk, would be admissible in court. There have been precedents for independently collected evidence being used in international prosecutions, including at the ICC, but it could be deemed corrupted, said Jill Coster van Voorhout, researcher at The Hague Institute for Global Justice. “There can be a few obstacles, for example when the evidence has not been collected for the purpose of a trial,” said Van Voorhout. “In such a case, the evidence could be considered corrupted and therefore not accepted or given less evidentiary value before a court.” Law expert Kersten said that the CIJA evidence must be tested in court to know if it’s strong enough, but whether that happens depends on the international community. “It’s really not up to the law, it’s up to politics -- whether there’s political will or whether there’s a political context and it’s feasible to prosecute not just Assad but anyone, those most responsible from both sides of the conflict,” Kersten said.

## Israeli general sees common interests with Hamas

Reuters, 12.05.2015



Israel and Hamas share common interests, and the Palestinian Islamists must stay in power in the Gaza Strip to prevent the enclave descending into chaos, an Israeli general was quoted as saying.

Major-General Sami Turgeman’s remarks, reported in the top-selling Israeli newspaper Yedioth Ahronoth, cast Hamas in a more pragmatic light than comments about the group usually made by Prime Minister Benjamin Netanyahu’s government. Israel and Hamas fought a 50-day war last July and August, and Netanyahu has likened the group to Islamic State insurgents sweeping Syria, Iraq and elsewhere in the region.

But speaking to the heads of Israeli villages on the Gaza periphery, Turgeman said Hamas seeks stability and “does not want global jihad” -- an umbrella term Israel uses for Islamic State of Iraq and the Levant (ISIL), al Qaeda and their off-shoots. “Israel and Hamas have shared interests, including in the current situation, which is quiet and calm and growth and prosperity,” said the general, who is in charge of Israeli forces on the Gaza and Egyptian borders. “There is no substitute for Hamas as sovereign in the Strip. The substitute is the IDF (Israel Defence Forces) and chaotic rule ... and then the security situation would be much more problematic,” he said.

An Israeli military spokesman did not contest the accuracy of the quotes attributed to Turgeman from the private meeting on Monday with the municipal leaders. Netanyahu’s office had no immediate comment. Nor did Hamas officials in Gaza. Turgeman predicted a continued build-up of Hamas’s armed capabilities and renewed Gaza fighting “every few years”.

“The alternative is to try to find periods of quiet, as much as possible,” Turgeman said, arguing against rightist proposals that Israel, which withdrew from Gaza in 2005 after 38 years of occupation, retake the cramped and impoverished territory. Hamas, which took power in Gaza after a brief 2006 civil war with forces loyal to U.S.-backed Palestinian President Mahmoud Abbas, wants Israel’s destruction and has fought three Gaza wars against it. But Hamas, which reconciled with Abbas last year, has also voiced interest in a long-term truce with Israel. The dominant Palestinian Islamist group has sought to curb more radical organisations in Gaza that chafe at its authority and has ordered them to hold fire against Israel.

## Yemen Huthi rebels say they shot down coalition warplane

AFP, 11.05.2015



Iran Yemen’s Shiite Huthi rebels said that they shot down a warplane of the Saudi-led coalition, shortly after Morocco said one of its fighter jets had gone missing on a sortie.

“The air defence of the tribes shot down a warplane over Wadi Nushur, in Saada,” the rebels’ northern stronghold, Huthi news channel Al-Masirah said, broadcasting images of tribesmen celebrating around the wreckage of a plane. The television said it was an F-16 fighter jet while the footage showed a Moroccan flag on a broken rudder lying on a rocky patch. Morocco said contact was lost with the fighter and its pilot at 6 pm (1500 GMT) the official news agency reported.

“A second plane which was flying in formation was not able to see whether the pilot ejected,” it added. A Saudi official said that an investigation was trying to determine the missing plane’s approximate location. “It is definitely inside Yemen and it is a single pilot on board,” the Saudi official said, speaking on condition of anonymity. It is the first coalition aircraft to have been reported missing over Yemen in the more than six-week bombing campaign launched on March 26. According to Moroccan press reports, the kingdom has deployed a squadron of six F-16s for the operation. Riyadh is a close ally of Rabat and a major donor.

# Gaming the Ukraine Crisis

Bloomberg, 12.05.2015



If Russia is intractable on Ukraine and considers the West an adversary in most other areas of global policy, why has John Kerry come to Sochi to meet with President Vladimir Putin for the first time since Russia invaded Crimea?

Most likely, this isn't even a baby step toward a normalization of the Russia-U.S. relationship, but just a sign that the two countries' strategic interaction is close to what game theory calls the ultimate outcome. The game unfolding between Russia and the West is described in a paper published in the April issue of the journal *Peace Economics, Peace Science and Public Policy*.

Its authors, economists Richard Ericson and Lester Zeager, readily admit they have no particular regional expertise. To model the interaction using the theory of moves, they read the coverage of the Ukraine crisis in *The Wall Street Journal* and other major U.S. media. That makes their conclusions all the more remarkable. It seems the logic of the game doesn't really depend much on the personalities, history and emotional baggage. Moves in the game are unilateral policy changes - say, Russia invades eastern Ukraine and the U.S. toughens sanctions in response. Instead of making a move, a player can pass or refrain from changing policy. Two consecutive passes by either player end the game.

In Ericson and Zeager's model, Russia can pursue three basic policies: "let go" (cease interference in Ukraine), "destabilize" (keep aiding separatists as it does now or exert economic pressure) or "invade" (openly send in troops). The three possible Western lines are "business as usual" (turn a blind eye to Russian actions in Ukraine), "sanctions" and "military aid" (to Ukraine, that is). Putin supporters would challenge the authors' description of the starting point in the game: "destabilize" (for Russia) and "business as usual" (for the West), meaning the West wasn't involved in any strategic interaction when Russia started meddling in Ukraine after the overthrow of President Viktor Yanukovich. The official Russian line is that the West aided an illegal coup in Ukraine, forcing Russia to respond. In terms of the game, however, that's a moot point because we know how each side moved for the year following Yanukovich's ouster.

The authors infer from these moves -- correctly, I think -- that Russia is unwilling to "let go" and that it responds angrily to any signs of Western interference. The West, for its part, is generally prepared to react to escalation on Russia's part, but it will choose the weaker response whenever possible. Ericson and Zeager, however, experiment with reordering the sides' preferences. Besides, they noticed that actions by Ukraine -- generally an inert pawn in the big game -- can affect the order of Russian preferences: For example, the Ukrainian army's military successes against the Russian-backed insurgents in the summer of 2014 caused Russia to step up its destabilizing interference.

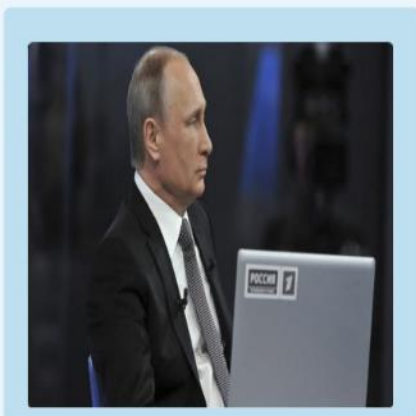


So the game theorists drew up matrices and decision trees for 13 different scenarios, taking into account all the more or less plausible combinations of moves. The idea is to assign an order of preference-based value to each of the policy lines and calculate the benefit of a series of moves to each player. If one assumes that both sides in the game are rational, they manage to avoid the “coordination trap” in which Russia begins a full-scale invasion and the West steps up military assistance to Ukraine. The assumption of rationality, especially on Putin’s part, is something of a leap of faith, but, like the paper’s authors, I am prepared to accept it. Rationality, after all, can be defined in terms of economic and geopolitical gain, and Putin is clearly thinking in these terms, whatever he may say on state TV. In all of Ericson and Zeager’s scenarios, the ultimate outcome is reached in just a few moves. In real terms, we may already be at the end of the game. After all, Russia continues to destabilize Ukraine, and the West doesn’t intend to lift sanctions. All that remains for the most likely scenario to be realized is the formal creation of a frozen conflict zone, like Transnistria in Moldova, with neither side prepared to let go or escalate any further.

Putin and Kerry are still talking, having kicked out the press immediately after shaking hands. It doesn’t matter, however, what the communique after the meeting will say. The outcome of the Ukraine crisis is practically a foregone conclusion if both sides’ analysis of possible moves is relatively rational. Kerry has come to Russia so the sides can agree to disagree on Ukraine and move on to other issues such as Syria and Iran, where constructive interaction is still possible. For Ukraine itself, the role of a pawn for bigger players may be somewhat humiliating, but it shouldn’t be. If the country successfully transforms itself into a Western-style democracy with a viable open economy, it can handle the continued Russian destabilization attempts and, in time, make them much less effective. Not being a player in the big strategic game is even, perhaps, to Ukraine’s advantage: Once it realizes it can have little effect on the outcome, it can concentrate on solving its internal problems.

## Russia to France: We’ll take \$1.32 billion instead of those warships

Reuters, 15.05.2015



Russia wants \$1.32 billion (1.163 billion euros) from France in compensation for canceling a contract to deliver two Mistral helicopter carriers, a Russian source close to the negotiations said.

French President Francois Holland has come under pressure from his Western allies not to deliver the Mistrals because of Russia’s role in the Ukraine crisis. He discussed the 2011 contract, worth 1.19 billion euros, with Russian President Vladimir Putin last month, and Moscow has said it is willing to accept financial compensation if Paris does not fulfill the deal.

The source said Russia was eyeing 1.163 billion euros, confirming a report Friday by the Russian daily Kommersant, which also said Paris was offering to pay 785 million euros. “The 1.163 billion euros figure is a touch below the value of the contract,” said the source, who spoke on condition of anonymity. “Both Mistral helicopter carriers were built for the Russian navy, for our helicopters, our control systems, our infrastructure. These vessels cannot be given away to some third country now under any circumstances; this is a matter of state security,” Russia’s Interfax news agency quoted senior defense ministry official Yury Yakubov as saying. Speaking separately in Belgrade on Friday, Russian Foreign Minister Sergei Lavrov said that Russia and France had agreed a basis for settling the dispute and that it was now being dealt with on a “legal and commercial” level. Rosoboronexport, Russia’s state-owned arms exporting firm, which signed the contract for the two Mistrals in 2011, declined to comment.

## Greece avoids default with IMF payment but warns of imminent crisis

AFP, 12.05.2015



Greece averted a default that could have seen it crashing out of the euro, but warned it faced another cash crunch within two weeks without a bailout deal with its EU financiers.

Athens’s radical new government managed to scrape enough cash together to place the order for the repayment of 750 million euros of IMF loans, the finance ministry said, pledging to honour both its international and domestic debt obligations. Greece won some support in the latest round of debt talks as it battles to keep itself solvent, but eurozone finance ministers demanded more key reforms before they agree to release the final 7.2-billion-euro tranche.

“We welcomed the progress that has been achieved so far... At the same time, we acknowledged that more time and effort are needed to bridge the gaps on the remaining open issues,” a Eurogroup statement said after the meeting in Brussels. But Greek Finance Minister Yanis Varoufakis -- leading the charge for the anti-austerity government of Prime Minister Alexis Tsipras -- admitted Athens faced an imminent crisis as it struggles to keep up repayments on its 240-billion-euro bailout. “The liquidity issue is a terribly urgent issue. It’s common knowledge, let’s not beat around the bush,” said the shaven-headed former economics professor, who has been at loggerheads with his international counterparts. “From the perspective (of timing), we are talking about the next couple of weeks.”

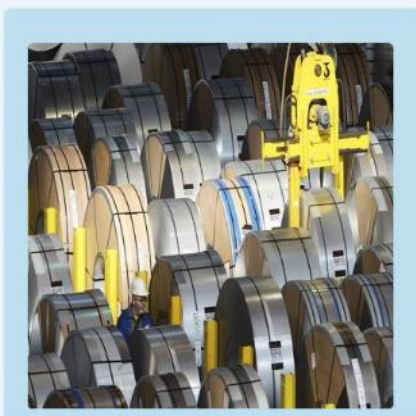
Greece faces a punishing debt repayment schedule in coming weeks, owing another 1.5 billion euros to the IMF in June and then another three billion euros to the European Central Bank (ECB) in July and August. Athens has been squeezing funds from the central and local governments to be able to meet its payments, but mayors are beginning to resist.

World stock markets fell in response to the news, with Asian shares dropping at the open after Wall Street snapped a two-day rally, while the euro was trading at \$1.1162 in Tokyo from \$1.1208. Led by Germany, the Europeans still expect a rigorous regime of reforms from Athens including cuts to pensions, but Tsipras's leftist government in power since January has so far refused to deliver on the terms of the bailout. Eurogroup chief Jeroen Dijsselbloem insisted that a full deal was needed for Greece to get its remaining bailout funds, but raised the possibility of breaking up the reform programme into steps and then making staggered disbursements. But the eurozone needed "more detailed proposals" from Greece, the Dutchman said, adding there was "a lot of work behind the scenes in Athens that needs to be done."

EU economic affairs commissioner Pierre Moscovici said that on issues like pensions and the labour market, Greece had to make "alternative proposals for areas of programme that it rejects." Varoufakis said he hoped for a deal in coming days. Meanwhile Germany raised the issue of a possible referendum, a prospect already mooted by the Greeks. "Maybe this would be the right measure to let the Greek people decide if it is ready to accept what is necessary," powerful finance minister Wolfgang Schaeuble said. While Varoufakis said the idea was "not on our radar at the moment," it revives a pledge made by Tsipras at the end of April that, if Greece's financiers push his government to a deal that contravenes their election promises, it would be put to a public vote. Greece was hoping that the symbolic statement of progress won from the eurozone May 11 will help persuade the ECB to keep emergency funds flowing to Greece's fragile banks. "The statement is a clear sign that the process is ongoing, and that's something," a European official involved in the talks said on condition of anonymity. "But will it be enough for the ECB? I don't know." Tsipras, whose hard-left Syriza party swept to power on an anti-austerity platform, has called for an "honourable compromise," and the government reportedly plans a number of concessions to win over its creditors. These include a new VAT rate, along with a restriction on early retirement and an

## Eurozone growth strengthens in first quarter

Reuters, 13.05.2015



Growth in the eurozone strengthened to 0.4 percent in the first quarter, official EU data showed on May 13, with a surprising performance by France where the economy exceeded powerhouse Germany's.

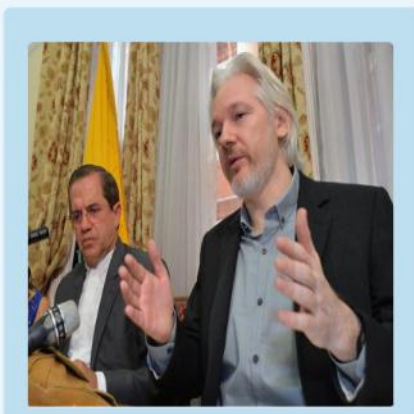
The official Eurostat agency's first estimate for the January-March period in the 19-nation eurozone was in line with analyst expectations, and was up from 0.3 percent growth in the fourth quarter of 2014. The eurozone has "benefitted from sharply lower oil prices, a weakened euro and increasing ECB stimulus," said Howard Archer, Chief European Economist at IHS Global Insight.

“All of the major eurozone economies saw improved economic performances in the first quarter except for Germany,” he said. Growth slowed in Germany, Europe’s biggest economy, to 0.3 percent in the first quarter of 2015. German GDP growth was “good but not good enough,” said ING DiBa economist Carsten Brzeski. “The German economy continued on its growth path, but at a slightly slower momentum” in the first quarter, Destatis said. The main growth driver was domestic demand, with both private households and the public sector increasing spending. Investment also increased, particularly in construction and equipment, exports increased slightly and imports rose more strongly.

On a 12-month comparison, GDP grew by 1.1 percent in the January-March period compared with the same three months a year earlier, Destatis said. The German economy was continuing to benefit from earlier structural reforms and was being given extra tailwind by the European Central Bank’s monetary policy measures, Brzeski argued. At the same time, French growth picked up to a vigorous 0.6 percent from zero growth at the end of last year. “Our growth perspectives for 2015 are today clearly comforting,” said French Finance Minister Michel Sapin. The Italian economy edged its way further out of recession with stronger than expected 0.3 percent growth in the first quarter which followed zero growth in the previous three month period. The news was far bleaker for debt-hit Greece where the economy fell back into recession with a contraction of minus 0.2 percent amid four months of deadlock in bailout talks between the radical Syriza-led government and its EU-IMF creditors. The eurozone’s northern-most nation Finland also sank into recession, contracting by 0.1 percent after losing 0.2 percent of its GDP in the fourth quarter last year. “Growth is clearly broadening across the Eurozone. That said, the jury is still out whether eurozone growth has reached enough escape velocity to see a self-sustained recovery,” said Peter Vanden Houte, of ING investment bank. Across all the 28 countries of the European Union, growth also hit 0.4 percent, the same as the previous quarter.

## Swedish Supreme Court rejects Assange appeal

AFP, 11.05.2015



Sweden’s Supreme Court said it had rejected an appeal by WikiLeaks founder Julian Assange against his arrest warrant for alleged rape and sexual assault.

Sweden issued the arrest warrant in 2010 following allegations from two Swedish women, one who claimed rape and another who alleged sexual assault. The Australian former hacker has been ensconced in Ecuador’s embassy in London since 2012 to avoid extradition to the Scandinavian country. “The Supreme Court notes that investigators have begun efforts to question Julian Assange. The Supreme Court finds no reason to lift the arrest warrant,” it said.



Swedish prosecutors offered in March to question Assange in London, dropping their previous demand that he come to Sweden to answer to the allegations, making a significant U-turn in the case that has been deadlocked for nearly five years. Assange, who faces arrest if he tries to leave the Ecuadorian embassy, has always vehemently denied the allegations and insisted the sexual encounters were consensual. He has refused to travel to Sweden because he fears the country would send him to the United States, where an investigation is ongoing into WikiLeaks' release in 2010 of 500,000 classified military files on the wars in Afghanistan and Iraq and 250,000 diplomatic cables which embarrassed Washington. Assange has agreed to be questioned by Swedish prosecutors in London, his lawyers said last month.

## Pakistan launches “massive” air and ground anti-Taliban offensive

Reuters, 15.05.2015



Pakistani troops began a “massive” offensive to try to push the Taliban from their last major stronghold in the mountainous northwestern region of North Waziristan, moving in from north and south, officials and residents said.

The heavily forested ravines of the Shawal Valley are pockmarked with Taliban hideouts and the valley itself is a key smuggling route. Pakistani jets began bombing the valley in the early hours, killing between six and 15 militants, four intelligence sources told. “It is a massive military action against the Taliban militants and their allies in the Shawal mountains,” said a government official.

The Pakistani Taliban controlled almost all of North Waziristan until troops launched a long-awaited offensive there in June. The Taliban still maintain control of Shawal Valley and have used it as a launching pad for attacks on Pakistani forces. A spokesman was not immediately available for comment. The Pakistani Taliban are allied with Afghan Taliban and share a similar jihadist ideology. But they operate as a separate entity, focused on toppling the Pakistani state and establishing strict Islamic rule in the nuclear-armed nation. NATO forces, which left Afghanistan last year, repeatedly urged Pakistan to take action against Taliban havens along its border. Residents said tanks and soldiers were approaching the valley from the north and south. “Hundreds of trucks and pickups full of soldiers and weapons...are moving towards Shawal,” said Zainullah, a telephone operator in Shawal Valley. “There are roadblocks everywhere, no one can come in or go out. There is a complete curfew and phones lines are also being cut.”

Several military officials told Reuters that the Pakistani military had requested help from Afghanistan to prevent militants from fleeing over the border. Any cooperation would be a significant step forward in a thaw in relations that began when Afghan President Ashraf Ghani took office last year. Neither the Pakistani nor the Afghan military responded to requests for comment. Government officials in the area said they were not authorized to comment. A resident said there had been heavy fighting between the militants and the military on the edge of the valley and civilians feared being trapped. "We are in fear, especially the kids," he said. "We are now preparing to leave the area and shift to safe places, because last night artillery shells were fired continuously."

## Minister: US, Cuba to meet in coming weeks on reopening embassies

AFP, 14.05.2015



The United States and Cuba will hold another meeting in the coming weeks in Washington on reopening embassies, the latest step in their historic rapprochement, Havana's Foreign Minister Bruno Rodriguez said.

"In the coming weeks, there will be a new round of negotiations in Washington on reestablishing diplomatic relations and opening embassies," he told. The exact date has not yet been set, he said. The two sides have held several rounds of talks since the landmark announcement by Barack Obama and Raul Castro on December 17 that the former Cold War foes would restore full diplomatic ties severed in 1961.

The negotiations are being led by US Assistant Secretary of State for Western Hemisphere Affairs Roberta Jacobson and Cuba's top diplomat for US affairs, Josefina Vidal. In Washington, a State Department official said "we expect to meet next week," adding no date has yet been set. Rodriguez said the talks had made "considerable" progress on the issue of allowing the Cuban diplomatic mission in Washington to open a bank account, which it has not been able to do because of the trade and financial embargo the US has imposed on the communist island since 1962. The last talks between the two sides took place on March 16 in Havana. It was followed in April by a highly symbolic meeting between Obama and Castro at the Summit of the Americas in Panama.

Obama then notified Congress of his intention to take Cuba off the black list of state sponsors of terrorism, a key sticking point in the negotiations. Removal from the black list will enable Cuba to access badly needed financing from the International Monetary Fund and World Bank. On May 11 the United States left open the possibility that Obama might visit Cuba next year. Castro said May 12 the talks were "going well," and that the countries could exchange ambassadors once Cuba is removed from the black list. That is set to take place after May 29, the expiration date of a 45-day period for Congress to oppose the move.

Obama's Republican opponents have until then to pass a joint resolution against it in both houses of Congress, but would likely struggle to muster the votes needed to override a presidential veto. Castro added however that while exchanging ambassadors is one thing, fully normalizing relations is another altogether. For that to happen, the trade embargo has to be lifted and the military base that the United States maintains in Guantanamo Bay has to be returned to Cuba, Castro said May 12. On another issue, foreign minister Rodriguez said France -- whose President Francois Hollande visited the island this week -- has played a leading role in trying to improve relations between Cuba and the European Union. These ties have stumbled in recent years over EU concerns about Cuba's record on human rights, including its treatment of political dissidents. The two sides are negotiating an accord to boost political dialogue and cooperation by the end of this year, and Rodriguez said in the interview he saw this timeframe as feasible.

# Announcements & Reports

## ► *Central Asia in a Reconnecting Eurasia*

**Source** : CSIS  
**Weblink** : <http://csis.org/publication/central-asia-reconnecting-eurasia>

## ► *Southeast Asia from Scott Circle: Washington Needs a More Holistic View of Myanmar's Elections*

**Source** : CSIS  
**Weblink** : <http://csis.org/publication/southeast-asia-scott-circle-washington-needs-more-holistic-view-myanmars-elections>

## ► *Japan Chair Platform: How Will the New U.S.-Japan Defense Guidelines Affect Regional Security?*

**Source** : CSIS  
**Weblink** : <http://csis.org/publication/japan-chair-platform-how-will-new-us-japan-defense-guidelines-affect-regional-security>

## ► *Saudi Arabia to Washington: A Royal Snub*

**Source** : Brookings  
**Weblink** : <http://www.brookings.edu/blogs/markaz/posts/2015/05/11-saudi-gcc-summit-obama-snub>

# Upcoming Events

## ► *Tackling Global Diets to Curb Greenhouse Gas Emissions*

**Date** : 16 May 2015  
**Place** : London - UK  
**Website** : <http://www.chathamhouse.org/event/tackling-global-diets-curb-greenhouse-gas-emissions>

## ► *Crime on the Internet: The UK Response*

**Date** : 17 April 2015  
**Place** : London - UK  
**Website** : <http://www.chathamhouse.org/event/crime-internet-uk-response>



► *Russia's International Networks: Impact of the War in Ukraine*

**Date** : 17 May 2015  
**Place** : London - UK  
**Website** : <http://www.chathamhouse.org/event/russias-international-networks-impact-war-ukraine>

► *The Implications of Decarbonisation for Business and The Financial Sector*

**Date** : 17 May 2015  
**Place** : Brussels - Belgium  
**Website** : <http://www.bruegel.org/nc/events/event-detail/event/515-the-implications-of-decarbonisation-for-business-and-the-financial-sector/>

► *Mapping European Competitiveness*

**Date** : 29 May 2015  
**Place** : Brussels - Belgium  
**Website** : <http://www.bruegel.org/nc/events/event-detail/event/517-mapping-european-competitiveness/>

► *Towards A Digital Single Market: The European Commission Strategy*

**Date** : 08 June 2015  
**Place** : Brussels - Belgium  
**Website** : <http://www.bruegel.org/nc/events/event-detail/event/522-towards-a-digital-single-market-the-european-commission-strategy/>