Politics & Economics Bulletin

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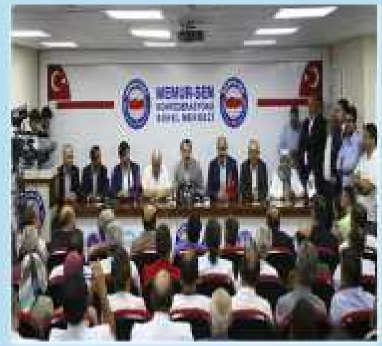
Gov't, unions agree over salary rise for Turkish civil servants

Hurriyet Daily News, *22.08.2017*

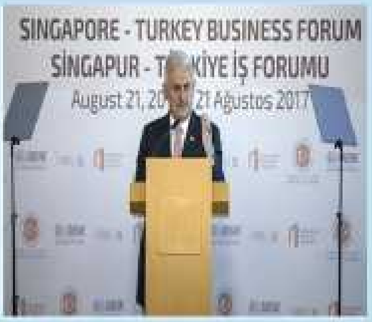


The government and unions have come to an agreement over a salary rise offer for millions of civil servants and retired civil servants in Turkey, covering 2018 and 2019.

According to a statement by the Labor Ministry, both sides agreed on the 4 percent salary rise for the six months of 2018 and another 3.5 percent for the remaining six months of the year. In 2019, civil servants will get 4 percent rise for the first six months of the year and 5 percent for the other six months, the statement said. It added that the signing ceremony between the two sides will be held on Aug. 22.

Turkey still hopeful about 'mutually beneficial' Customs Union update with EU: PM Yıldırım

Hurriyet Daily News, *15.08.2017*



Turkey still believes that an update of the Customs Union deal with the EU, from which the economies of all sides have benefited over the years, can be achieved, Prime Minister Binali Yıldırım has said, amid a bitter ongoing row between Ankara and Germany.

"Turkey is the only candidate for the European Union membership within the Customs Union area. Thanks to this deal, our mutual trade volume has reached the $146 billion level.

We aim to double this volume by updating our Customs Union deal with the EU. We believe this can be achieved," Yıldırım said on Aug. 21 during a visit to Singapore. German Chancellor Angela Merkel had stated earlier that Berlin would not pursue an update of the Customs Union with Ankara.

"We are not opening new chapters in Turkey's [EU] accession bid and we have lowered membership preparation aid to a minimum. Also, for the time being, the Customs Union deal with Turkey will not be changed or updated," Merkel said. In response, Yıldırım said on Aug. 18 that

Ankara was not pushing for an update of the Customs Union. Speaking to reporters after Friday prayers in the capital Ankara, he also said the Customs Union update is “not an issue Germany can decide on unilaterally.”

“The Customs Union is not a unilateral agreement. Turkey is not in the mood to suggest a change in the Customs Union as soon as possible. Turkey will make a decision according to what its interests require. No matter what happens, we are not in a situation that aches for an update of this Customs Union. They should not worry or get too excited,” Yıldırım said.

World Bank’s IFC invests in pharma firm to improve access to high-quality medicine in Turkey

Hurriyet Daily News, *21.08.2017*

The International Finance Corporation (IFC), a member of the World Bank Group, has said it is providing a $25 million loan to Nobel İlaç, a leading pharmaceutical company in Turkey and the country’s only net exporter in the sector, to help meet the growing demand for innovative, affordable, and high-quality medicine in Turkey.

IFC’s loan will support Nobel İlaç’s research and development efforts and help the company ramp up production, according to a statement released by IFC on Aug. 21. Turkey is largely dominated by branded generic products.

IFC’s support will also allow Nobel İlaç to expand its product portfolio to include specialized generic medicine, and this will enable millions of the company’s customers in Eastern and Central Europe to obtain affordable and high-quality medicine, read the statement.

“Biotechnological drugs provide opportunities for sustainable health care systems. In our country, it is urgent to shift to production of biotechnological drugs in parallel with the developments in the world. Nobel İlaç considers biotechnology as a strategic priority and with the support of IFC’s investment we aim to develop at least one domestic biotechnological drug by 2023,” Nobel İlaç Chair Hasan Ulusoy said. “Our investment in Nobel İlaç is in line with our strategy in Turkey to support the export-oriented growth and international expansion of Turkish companies. Nobel will introduce locally produced, high-value-added medicines to local and international markets and, at the same time, help to close the pharmaceutical trade deficit in Turkey,” Dimitris Tsitsiragos, IFC Vice President of New Business, said.

IFC’s support is part of a $48 million investment plan developed by Nobel İlaç, according to the statement. The program will also be financed by İş Leasing and the company’s own funds. The Scientific and Technological Research Council of Turkey (TÜBİTAK) is also supporting the investment program with grants and technical assistance, read the statement. Turkey is currently the second-largest country in IFC’s global portfolio with $5 billion in commitments.

Turkey signs trade agreement on agriculture with Serbia

Hurriyet DailyNews, *22.08.2017*

Turkey and Serbia signed a trade agreement on agriculture on Aug. 22, the first since 2011. Ahmet Eşref Fakıbaba, the Turkish minister of food, agriculture, and livestock, and Branislav Nedimovic, the Serbian minister of agriculture, met in Serbia’s capital Belgrade to discuss ways to improve import and export between the two countries.

The agreement aims to boost the export of sunflower oil, fruits, and vegetables between the two countries, and increase bilateral trade to $1 billion. Fakıbaba, in a joint press conference after the signing ceremony, said.

Serbia had a decisive role to play for peace and stability in the Balkan region. “We give great importance to improving our relations in every area, especially in the economy,” he said. He asked Turkish businessmen to increase investment in Serbia, adding that Serbia should provide them incentives.

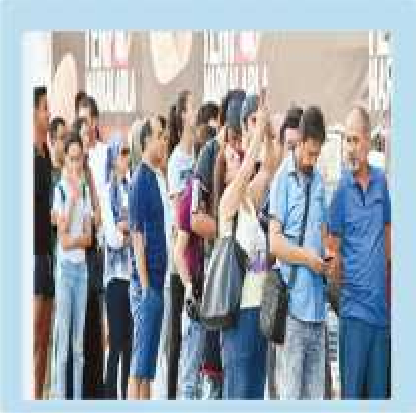
“Serbia is very important for us, Serbia is our great friend. We need to put a little more effort to reach $1 billion in trade volume—our common goal,” he said. Fakıbaba said if Belgrade allows a free trade zone to Ankara, it could enter markets in Russia and the European Union, with which it has free trade agreements.

In return, he added, Turkey could open its market to Serbia. Nedimovic said they had focused on three main issues—updating the Free Trade Agreement, creating new quotas for various agricultural products, and investment in the livestock and fruit sector—during their talks. “Of course, this must satisfy the two sides. Our offer was beef and sunflower oil exports. This way we aim to increase production,” said Nedimovic.

He said they were open to Turkish investors, and that Turkey could be a milestone for them in the Middle East and Asian markets. Nedimovic estimated that the free trade agreement signed eight years ago between the two countries had made a fivefold increase in trade in the agriculture sector. There are 75 Turkish private investments in Serbia’s textiles, food, and construction sectors, totaling around $110 million.

Turkish consumer confidence index slips in August

Hurriyet Daily News, *23.08.2017*



Turkey's consumer confidence index saw a slight decline month-on-month in August, according to data from the Turkish Statistical Institute (TÜİK), released on Aug. 23.

The index decreased by 0.3 percent to 71.1 in August from 71.3 in July, TÜİK said. The consumer confidence index is seen as a vital gauge of the overall health of the economy, indicating people's sentiments about spending their money, which in turn gives clues about economic vitality. Among all sub-indices of the main index, Turkey's general economic situation index was the best performer, increasing by 2.3 percent to 97.9 in August, up from 95.7 in July.

"This increase shows the number of consumers expecting a better, general economic situation in the next 12 months has increased compared to the previous month," the report read.

However, the probability of saving index—indicating people's expectation of earning enough money to save—showed the sharpest decline, decreasing by 4 percent to 22.4 in August from 23.3 in July. The number of people unemployed expectation index—a gauge of sentiment about the health of the labor market—also decreased by 2.6 percent to 72.4 in August.

"This decline stemmed from the decrease in people expecting a fall in the number of unemployed persons in the next 12 months," TÜİK stated. The financial situation expectation of household index remained the same this month, standing at 91.9 in August.

Turkey's foreign direct investment close to $5 bln with EU being top investor

Hurriyet Daily News, *23.08.2017*

Turkey received over $4.9 billion in net foreign direct investment (FDI) during the first half of 2017, with the European Union being the top investor again, Economy Ministry data released on Aug. 22 revealed.

Foreign investment in Turkey decreased by 8 percent during the January-June period this year compared with the same period of 2016, it showed.In the first half of the year, 2,429 new companies funded by international capital were established in Turkey while 93 domestic firms received capital from foreign participants from the wholesale, retail trade, property renting and construction sectors.

As of June, some 40 percent of the nearly 55,639 companies that benefited from foreign funds or participation were linked to EU states. Direct investment from EU countries to Turkey rose by 61 percent year-on-year in the first half of 2017. Investment from the 28 EU states leapt to $2.72 billion between January and June, up from $1.69 billion over the same period last year, the ministry reported.

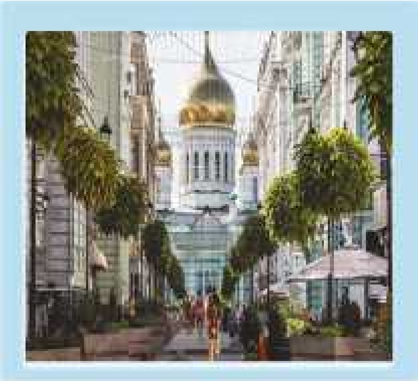
The rise follows government incentives offered to foreign investors. EU countries made up two-thirds of all foreign investment over the first six months of the year. The figures do not account for foreign investment that left Turkey over the same period. Investment from the Netherlands saw the sharpest increase, rising to $821 million from $403 million in 2016 while German investment dropped to $170 million from $181 million.

Investors from other parts of the world also increased their stake in Turkey. Asian countries invested more than $1.1 billion, a 138 percent rise on the previous year. This included a 322 percent jump in investment from Gulf states. Financial intermediaries received the most FDI with almost $1.2 billion, followed by electricity, gas and water supply sectors - $918 million - between January and June.

The manufacturing industry received more than $644 million in FDI during the same period. In June, Turkey received minus $282 million net of FDI as liquidation outflows stood around $1.52 million while direct investments were almost $1.24 billion.

Russia settles last Soviet debt

Hurriyet Daily News, *22.08.2017*



More than a quarter of a century after the Soviet Union collapsed, Russia on Aug. 21 announced it had settled the last foreign debt it had inherited from the Soviet era.

In a statement, the finance ministry said the government had paid Bosnia $125.2 million, which was due under trade deals between the Soviet Union and another now-defunct state, Yugoslavia. “On August 8 2017, the Russian Federation settled the debt with Bosnia-Hercegovina,” the ministry said in a statement. “Bosnia-Hercegovina was the last foreign state creditor of the former USSR.

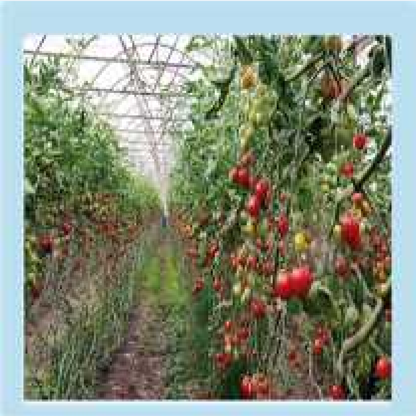
Russia and Bosnia signed an agreement to settle the debt in Moscow on March 21, it said. The deal took effect on July 20. Russia assumed the entire foreign debt of the Soviet Union after it dissolved on December 26 1991 and its remaining republics became independent.

The debt was estimated at around $70 billion, most of which was accumulated during the final six years of the Soviet regime. In 1998, Russia was forced into a humiliating default on debt repayments after the contraction of its economy in the early post-Soviet years. But in 2006, bolstered by a windfall in oil and gas prices, Russia reimbursed more than $20 billion in advance to 17 creditor countries in the Club of Paris group.

President Vladimir Putin has placed a big emphasis on maintaining strong state finances, despite the two-year-long impact on the Russian economy from western sanctions over Ukraine and a fresh slump in oil and gas prices.

Belarus becomes top tomato importer from Turkey's Antalya amid Russia ban

Hurriyet Daily News, *22.08.2017*



The Mediterranean resort of Antalya, Turkey's leading tomato producer, made $88.3 million from tomato exports to 46 countries in the first 7.5 months of the year, according to data compiled by Anadolu Agency on Aug. 22.

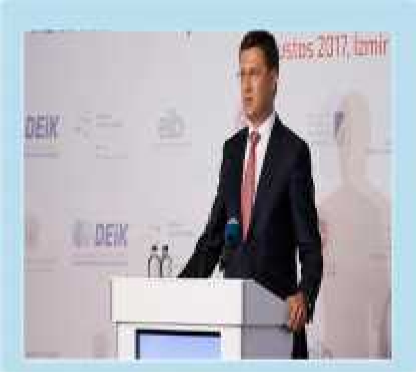
Belarus became the top importer of the province's tomatoes with $20.3 million in the mentioned period, followed by Romania with $18.9 million, and Bulgaria with $9.5 million Antalya's tomato exports to Belarus saw a 36.7 percent year-on-year increase. Tomato exports to Germany, Macedonia, Lithuania, and the Netherlands also rose in the mentioned period.

Antalya's tomato farmers exported their products to Italy, Dubai, Belgium, and Qatar for the first time in a bid to diversify their markets after losing Russia, their former top market. Ties between Ankara and Moscow have since largely normalized after the jet crisis but the Russian ban on Turkey's tomatoes still remains in place.

The head of the Western Mediterranean Exporters Union (BAİB), Mustafa Satıcı, told Anadolu Agency that their aim was to increase their tomato exports. "Our exports should have been much higher. In an effort to boost our sales, we attend many agriculture and food fairs abroad. A delegation from the Gulf countries paid a visit to examine our products and packaging facilities," he said, adding that a Turkish delegation visited Saudi Arabia to give information about their products.

Russian minister calls Turkey ‘crucial’ trade partner

Hurriyet Daily News, *18.08.2017*



Ankara is a “crucial” trade partner for Moscow, Russian Energy Minister Alexander Novak said on Aug. 18. “Multidimensional cooperation of our countries is developing,” Novak said, as quoted by state-run Anadolu Agency.

Addressing the 86th İzmir International Fair on its opening day, which Russia is attending as a partner country, Novak said Russia and Turkey were enhancing cooperation in several fields including industry, transport, agriculture and construction.

“For instance, [bilateral] trade volume increased by 28 percent in the first half of this year,” he said. Turkish President Recep Tayyip Erdoğan frequently reiterates that Turkey’s desire is to increase mutual trade volume with Russia up to $100 billion. After Turkey shot down a Russian military jet over an airspace violation in November 2015, Moscow took several measures against Ankara, including banning imports of Turkish agricultural products and ending visa-free travel for Turks.

In June, Moscow lifted the ban on some agricultural produce and Turkish companies involved in construction, engineering and tourism. Novak noted that Turkey and Russia faced a tough period, adding that both sides could be said to have overcome these problems.

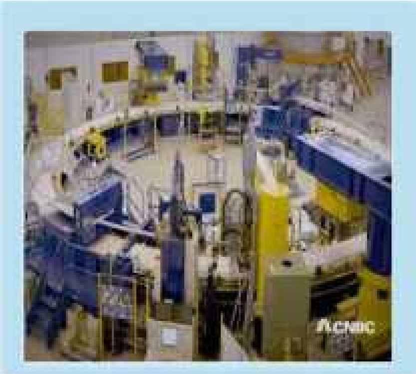
“Russia meets most of Turkey’s gas demand. This is quite important for us. The Turkish Stream project has been going very well. Another crucial joint project between Russia and Turkey is the Akkuyu Nuclear Power Plant, which will cost $22 billion and is based on a build-operate-transfer [BOT] model,” he said, while reiterating that the project was planned to be completed in 2023.

“There is a multidimensional cooperation between Russia and Turkey… Our joint cooperation witnessed a tough period. We can say that we had overcome these difficulties,” he said, adding that the main partnership of Russia at the İzmir International Fair would create further cooperation opportunities. Turkish Economy Minister Nihat Zeybekci said Turkey and Russia complemented each other and they were not rivals. He also noted that both sides lost big time with bans and restrictions. “I want to forget all those times we had lost with the restrictions,” he said, adding that both sides have a lot in common.

The main theme of the İzmir International Fair is energy this year. Five cooperation sessions were held between Turkey and Russia on the topics of energy, industry, contracting, special economic zones and tourism, according to officials.

The US, China and Russia are working on a fusion project which could transform energy

CNBC, *24.08.2017*



At a research facility in the south of France, 35 countries, including the U.S., China and Russia, are working together on a project that could transform the way we think about energy.

Known as ITER – an acronym for the International Thermonuclear Experimental Reactor as well as Latin for 'the way' – the collaboration is constructing a magnetic fusion device known as a tokamak. The ambition for the project is big. The tokamak has been designed to prove that fusion is a feasible large scale, carbon-free source of energy based on the same – and slightly mind boggling.

The difference between fission, which is used to produce nuclear energy today, and fusion is significant. "Fission is taking a very large atom like uranium, you hit it and it splits it apart into two pieces," Mark Henderson, a physicist at ITER, told CNBC's Sustainable Energy. "Fusion takes… two (very) small particles, it fuses together and give(s) off energy," he added.

The potential of fusion is huge. According to the World Nuclear Association, fusion power "offers the prospect of an almost inexhaustible source of energy for future generations." Henderson said that the Sun was around 15 million degrees Celsius, and that the aim at ITER's tokamak was to generate 150 million degrees Celsius.

"The objective there is (that) you need it to be really hot to take two charged particles and slam them together to fuse," he said. "The two charged particles are both positive. Normally they don't want to touch and you have to give them the energy so that they can actually combine and fuse together." The ITER facility is currently under construction. European Union countries are responsible for the largest portion of costs, with the remainder shared by China, India, Japan, South Korea, the U.S. and Russia.

When it is up and running, those behind the project say that it will be the first fusion device to generate "net energy". This term, according to ITER, refers to what happens when the total energy produced during a fusion plasma pulse exceeds the amount of energy needed to power the machine's systems.

This concept of “net energy” is an exciting, tantalizing one. Is fusion, though, just a pipe dream? “ITER is our countries coming together to answer that question once and for all: can fusion play a role in the future,” William D. Magwood IV, director general of the OECD’s Nuclear Energy Agency, said. Magwood IV added that once it was operating, the tests performed at ITER would help to answer that question.

Fitch upgrade Greece debt, sees steady improvment

Hurriyet Daily News, *20.08.2017*

Credit rating agency Fitch has upgraded Greece’s debt by a notc, citing what it called an improving outlook and amid expectations the country’s debt sustainability will steadily improve.

A month after Athens returned to credit markets with a bond issue for the first time in three years, Fitch boosted the debt rating to B- from CCC, with a positive outlook, which indicates the possibility of further upgrades. “Fitch believes that general government debt sustainability will steadily improve.

Underpinned by ongoing compliance with the terms of the European Stability Mechanism (ESM) programme,” the agency said. It also cited “reduced political risk, sustained GDP growth and additional fiscal measures legislated to take effect through 2020.”

“The successful completion of the second review of Greece’s ESM program reduces risks that the economic recovery will be undermined by a hit to confidence or by the government building up arrears with the private sector.”

The upgrade is good news for the crisis-beset country that came close to default. Early last month, eurozone finance ministers approved the latest 8.5 billion euro ($9.9 billion) disbursement of the bailout, just in time for Athens to meet major debt repayments.

The ESM will keep feeding the country with low interest rate loans until the end of the bailout programme in July 2018. The Greek economy nearly collapsed in 2010 under a mountain of debt and it had to be bailed out by its eurozone partners three times to prevent it bringing down the single currency bloc. And it was locked in talks for years with the eurozone and the International Monetary Fund over the need for further debt relief. The EU has promised to provide debt relief but the specifics have not yet been agreed.

Fitch noted that the Eurogroup in June "confirmed its commitment to implementing a set of debt relief measures." "This should support market confidence, which will help support post-program market access," the agency said. It added that "the political backdrop has become more stable and the risk of any future government reversing policy measures adopted under the ESM program is limited."

Germany bets on second time lucky with migrant workers

Hurriyet Daily News, *20.08.2017*

As Germany struggles to absorb more than a million migrants from the Middle East and Africa, the government is hoping to avoid the mistakes it made half a century ago when it brought in a generation of guest workers from Turkey.

In the 1960s, hundreds of thousands of Turkish men were invited in to fill labour shortages. But Germany made no attempt to help them learn the language or upgrade their skills. The result is that three million Turks in Germany are still struggling today. They are the least integrated minority, with an unemployment rate of about 16 percent.

Now, two years after it threw open its doors to the latest migrants, Germany has devised an integration strategy based on language and job training intended to get the newcomers into work and off welfare. Among the changes are 600 hours of mandatory language lessons and fast-tracked work permits.

These measures are starting to show signs of success: a growing number of migrants are joining a labour market where a record 1.1 million jobs are unfilled. "Things are very different here," said Merhawi Tesfay, a 32-year-old Eritrean who was hired by Kremer Machine Systems, an engineering company in the town of Gescher in western Germany.

"In Eritrea you find work through word of mouth. Here you have the Job Centre and online job sites. Everything comes with too much bureaucracy and my German wasn't good enough." Tesfay was hired initially as a trainee and then full-time, through ELNet, a government-funded project run by charities who assign mentors to refugees. He had been looking for work for almost three years.

Waves of migrants, many forced to flee Syria's civil war, began arriving in large numbers two years ago, one of the biggest migration movements Europe had seen since World War Two. The challenge now for Germany, which took in the largest number of the incomers in western Europe, is to integrate them into society over the long term.

With its strong economy, Germany is better placed than many European countries, especially in southern Europe, to accept migrants. German unemployment is at its lowest since 1990 and seven straight years of growth mean the government can afford to put aside more than 10 billion euros a year for refugees. “The lesson that Germany learnt is that integration is something you work on,” said Herbert Bruecker of Humboldt University of Berlin. “It doesn’t happen on its own”. When the first Turkish guest workers arrived in the 1960s, German politicians, still preoccupied with rebuilding the economy after World War Two, regarded them as a temporary measure. The perception was that Turks were guests who would go back home.

The Turks of course did not go home. And their wives and children began following them, just as the oil crisis of the early 1970s pushed Germany into a recession that cost many guest workers their jobs. With low skills and little grasp of the language, many found it hard to find work again as Germany shifted away from industry toward automation and services.

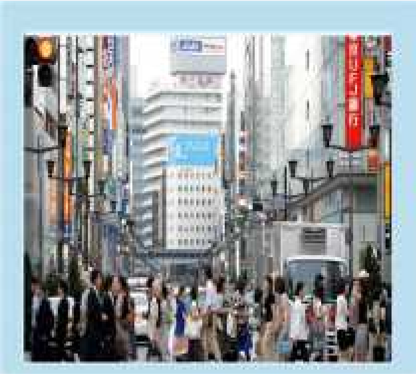
This time, Germany has taken a different approach. One month after her decision to open Germany’s borders to refugees fleeing war and persecution, Chancellor Angela Merkel told parliament in September 2015 that Germany should learn from its mistakes with the Turkish guest workers and seek to integrate asylum seekers from day one. Since then, her government has focused on language and vocational training to help 1.2 million asylum seekers get into a manpower-hungry labour market and wean them off Germany’s generous welfare system.

Under legislation approved in August 2016, integration courses including language learning were made mandatory for all refugees and asylum seekers from countries such as Syria, Eritrea and Afghanistan. The new rules also included a “Give and Take” clause giving authorities powers to cut financial aid to asylum seekers if they don’t attend language courses. The government speeded up work permits for asylum seekers, and scrapped a rule under which Job Centres had to prove they couldn’t find a European Union citizen for a vacancy before they could offer it to a refugee.

There are several signs that the measures are working: Some 203,000 migrants from Syria, Afghanistan, Iraq, Eritrea, Iran, Pakistan, Nigeria and Somalia were employed in May, according to the Labour Agency, 23,000 more than in February. “The employment numbers leave much to be desired,” said Thomas Liebig of the Organisation for Economic Co-operation and Development. “But clearly many of the measures that have been taken are in the right direction.”

Japan’s July consumer prices rise for 7th straight month

CNBC, *24.08.2017*



Japan’s core consumer prices rose 0.5 percent in July from a year earlier to mark a seventh straight gaining month, a sign the economy is making slow but steady progress toward meeting the central bank’s 2 percent inflation target.

But the increase was still largely driven by higher fuel bills as subdued wage growth discouraged consumers from increasing their spending, underscoring the challenge the Bank of Japan faces in achieving its ambitious price goal. The rise in the nationwide core consumer price index (CPI),

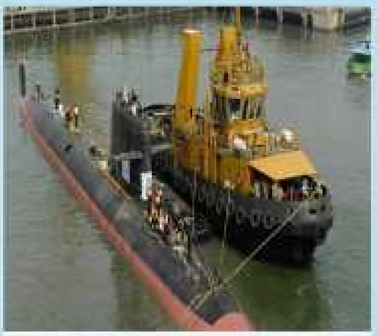
Which includes oil products but excludes volatile fresh food prices, matched a median market forecast and followed a 0.4 percent gain in June. Core consumer prices in Tokyo, available a month before the nationwide data, were up 0.4 percent in August from a year earlier, against a 0.3 percent gain projected in a Reuters poll.

Japan’s economy expanded at the fastest pace in more than two years in the second quarter as consumer and company spending picked up. But price and wage growth remain stubbornly weak with firms still wary of passing more of their profits to employees, raising doubts over whether the second-quarter’s bounce can be sustained.

The BOJ has had to push back the timing for reaching its price target six times since it deployed a massive stimulus program in 2013. It now expects inflation to hit 2 percent in the fiscal year ending in March 2020, arguing that a tightening job market and solid economic growth will gradually push up prices.

Defense firms eye billion-dollar chance for ‘made in India’

Hurriyet Daily News, *20.08.2017*



India has drawn up a shopping list for tens of billions of dollars of foreign fighter jets, armored vehicles, submarines and helicopters but it will only sign the cheques if they are made in India.

The world’s largest defense importer has announced a new policy inviting foreign defense manufacturers to set up shop as minority partners in India. It initiated the bidding process for submarines in July. Such deals would boost job creation and bring key defence technologies into India. Foreign companies say the opportunity is too good to miss.

Europe’s Airbus Group, angling to sell its Panther helicopters, has said that if it wins a contract worth several billion dollars and expected to span at least a decade, it would make India its global hub for the multi-purpose choppers.

The company currently builds them at Marignane in France. Lockheed Martin says if its F-16 fighter jets are selected -- it will likely compete with Saab for that order of close to $15 billion -- it will “support the advancement of Indian manufacturing expertise.” Germany’s ThyssenKrupp Marine Systems and France’s Naval Group are eager to compete for a contract of up to $10 billion to build submarines in the South Asian country.Luring foreign defense companies to build in India would be a major and much-needed boost to the economy.

Prime Minister Narendra Modi, with less than two years to national elections, is under intense pressure to create more jobs for the hundreds of thousands of people joining the workforce every month. Growth in the first three months of 2017 slowed to 6.1 percent. Experts expect further disruption as businesses adjust to a new nationwide goods and services tax launched in July. India is seeking to follow other countries which created defense sectors by backing a few big players with long-term defense orders and allowing smaller businesses to develop around them.

“Countries that have a robust defense industry have a few large companies that are supported by their government with large, long-term defense orders,” Amber Dubey of the KPMG consultancy in India told AFP. “They in turn create an eco-system of large and small suppliers to stay competitive.” India currently imports at least 90 percent of its defense equipment including parts for assembly. It is banking on foreign companies to bring in new technology. The lowest bid is one key selection criteria that worries some of the competitors.

“We’d like to see the Indian government work with the US government to ensure that these acquisition policies don’t disadvantage US companies just because we can’t get the lowest price,” Cara Abercrombie, former US deputy assistant secretary of defence for southeast Asia, told a recent panel in New York. Under the strategic partnership policy, India will line up domestic companies that foreign players have to choose from to set up local plants.

For the Indian companies, which would hold the majority stake, it is a big win, says Dhiraj Mathur, an aerospace and defense specialist for the PwC consultancy. “You know nothing about defense manufacturing and you’re going to partner with a global leader to make highly sophisticated equipment and the only reason they’re talking to you is because the government has told them to,” he said. The Indian government wants to bring the local companies up to global standards to compete for the next round of orders. China also built up local defense equipment manufacturing by forcing international firms to link up with Chinese companies and to hand over technology.

In India’s case, the foreign players are still pushing for ownership. “Let us take a lead, let us be the majority,” said Ashish Saraf, vice president for industrial development at Airbus. “Or let the Indian guys assume full liability (as per the policy). Assuming liabilities on an aircraft is not easy.... If a product fails, we are talking about hundreds of millions.” His suggestion is a middle road where foreign companies can hold the majority stake, which can be pared back over time as the Indian partner gains in knowledge and experience.

“It takes years to transfer [technology] and to get proven products. These are complex products that need to perform in battles,” said Saraf. The other hurdle in the policy is that transferring defense technology requires government approval. In a strategy similar to one followed by the United States, India puts the onus on the foreign partners to get the green light from their respective governments, a challenging task for them. “But if you want indigenization, this is the only way you’ll get it,” said PwC’s Mathur.

Britain calls on EU to move Brexit talks forward

Hurriyet Daily News, *20.08.2017*

After Brexit minister David Davis called on the European Union on Aug. 20 to relax its position that the two sides must first make progress on a divorce settlement before moving on to discussing future relations.

After a slow start to negotiations to unravel more than 40 years of union, Britain is pressing for talks to move beyond the divorce to offer companies some assurance of what to expect after Britain leaves the EU in March 2019. This week, the government will issue five new papers to outline proposals for future ties.

It is included how to resolve any future disputes without “the direct jurisdiction of the Court of Justice of the European Union [ECJ],” Davis said. “I firmly believe the early round of the negotiations have already demonstrated that many questions around our withdrawal are inextricably linked to our future relationship,” Davis wrote in the Sunday Times newspaper. “Both sides need to move swiftly on to discussing our future partnership, and we want that to happen after the European Council in October,” he wrote, saying the clock was ticking.

EU officials have said there must be “sufficient progress” in the first stage of talks on the rights of expatriates, Britain’s border with EU member Ireland and a financial settlement before they can consider a future relationship. That has frustrated British officials, who say that until there has been discussion of future ties, including a new customs arrangement and some way of resolving any future disputes, they cannot solve the Irish border issue or financial settlement, two of the more difficult issues in the talks.

“There are financial obligations on both sides that will not be made void by our exit from the EU,” Davis wrote. “We are working to determine what these are - and interrogating the basis for the EU’s position, line by line, as taxpayers would expect us to do.” He said the Brexit ministry would “advance our thinking further” with the new papers next week. On the role of the ECJ, Davis said Britain’s proposals would be based on “precedents” which do not involve the “direct jurisdiction” of the court, which is hated by many pro-Brexit ministers in the governing Conservative Party. EU officials say the court should guarantee the rights of EU citizens living or working in Britain after Brexit. “Ultimately, the key question here is how we fairly consider and solve disputes for both sides,” Davis wrote.

US workers have low hopes for higher pay: Fed survey

CNBC, *23.08.2017*

U.S. workers see little hope for higher paychecks, and while they are increasingly searching for new jobs, they expect fewer offers to fall into their laps, according to a Federal Reserve survey published on Monday.

The first-of-its-kind New York Fed study, to be published three times per year, paints a gloomy picture of U.S. workers’ aspirations. Even though the unemployment rate, at 4.4 percent, is near a 16-year low after more than eight years of economic recovery, national measures of wages have shown only modest growth.

Survey respondents on average said in July that the lowest annual salary they would accept in a new job would be $57,960, down from $59,660 only four months earlier. This measure has declined since November, with most of the changes coming from older and higher-income Americans.

Asked what salary they expected in job offers over the next four months, the average response declined to $50,790 from $54,590 when the last survey was taken in March. The survey, conducted since early 2014 but published for the first time on Monday, also showed 22.7 percent of respondents searched for a job in the last four weeks, up from 19.4 percent in the previous report. Young people accounted for most of the increase. The respondents saw a 22 percent likelihood of receiving at least one job offer in the next four months, down from an average response of 25 percent eight months ago.

US did not detail request for auto rules of origin at NAFTA talks

Hurriyet Daily News, *20.08.2017*

In the opening NAFTA session of talks, the United States did not give precise details of how much it wanted to boost North American content for autos, a source directly familiar with the negotiations said on Aug. 19.

Robert Lighthizer, President Donald Trump's top trade adviser, this week said Washington wanted tougher rules of origin for autos, which determine how much of a vehicle must be built in the three NAFTA nations. He also said the United States was seeking new measures to ensure "substantial U.S. content" for autos.

Companies wishing to take advantage of free trade in goods guaranteed by NAFTA must currently meet the 62.5 percent North American content requirement for autos and 60 percent for components.

But during the opening four-hour round of talks on rules of origin on Friday, the U.S. delegation did not give details of how much it wanted the requirements to be lifted by. It also did not give a specific figure for what substantial U.S. content for autos could mean, said the source, who asked not to be identified because of the sensitivity of the matter. U.S. officials said they could not confirm the source's account. Agreement on a revised NAFTA agreement could pivot on the autos sector given its weight in trade.

The United States had autos and auto parts trade deficits of $74 billion with Mexico and $5.6 billion with Canada last year, both major components of overall U.S. goods trade deficits with its North American neighbors. The United States, Canada and Mexico opened on Aug. 16 talks in Washington to modernize the North American Free Trade Agreement, which was signed in 1994. Trump has denounced NAFTA as a "disaster" that encouraged firms to shift production to Mexico.

Administration officials say strengthening the rules of origin for autos will help boost well-paid jobs in the United States as well as cut the trade deficit with Mexico, another key Trump goal. Auto industry groups from Canada, Mexico and the United States are pushing back against the demand for higher U.S. automotive content, saying it would be too complex.

Record output drives up Premier's revenues

Upstream Online, *24.08.2017*

UK independent Premier Oil posted a fall in first half profits despite record output driving up revenues and leading the company to raise its full year production guidance.

Premier posted a profit of $40.7 million for the six months to 30 June, falling from last year's first half profit of $167.1 million which benefitted from one-off gains. Revenue for the first half of the year rose to $566.3 million, up from $393.8 million in the first half of 2016. Premier attributed the rise largely to a 34.5% jump in production, to a new record average of about 82,100 barrels of oil equivalent per day.

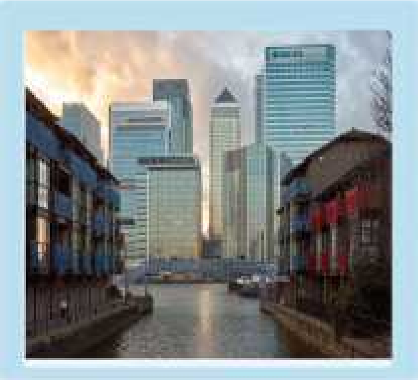
Driving the rise in output was high operating efficiency, better than predicted reservoir performance on certain fields and a full period contribution from the assets it acquired in a $120 million deal from E.On. Following the record production figures in the first half of the year, Premier has increased its 2017 production guidance from 75,000 boepd to a range of between 75,000 – 80,000 boepd. "At the same time as increasing production, we continue to focus on managing our operating cost base and our committed capital expenditure," Premier chairman Mike Welton said in the company's financial report on Thursday

"Our operating costs in the first half were $14.7 per boe, 11% lower than the corresponding period and our full year capex guidance of $325 million remains well below our original budget. Significant cost reductions have been achieved over the last two years and we continue to see opportunities for further savings from collaboration initiatives and competitive re-tendering."

Premier's focus for the remainder of 2017 will be on the Catcher development in the UK North Sea which it says remains on schedule for first oil before the end of the year and under budget. It said Thursday that the sailaway of the field's floating production, storage and offloading vessel was imminent, with the vessel in the final stages of commissioning off Singapore.

UK public finances notch up first July surplus since 2002

The Guardian, *22.08.2017*



Falling The government ran the first July budget surplus in more than a decade last month, as Britain's public finances recorded an unexpected leap back into the black with help from an increase in self-assessed tax payments.

Public sector net borrowing last month, excluding the nationalised banks, was in surplus by £184m, the first surplus in that month since 2002, the Office for National Statistics (ONS) said on Tuesday. City economists had expected the government to record a £1bn deficit. Receipts from self-assessed income tax increased by £800m to £8bn last month.

While the increase reflects rising numbers of self-employed workers, January and July are typically busier months for self-assessed returns. Howard Archer, chief economic adviser at EY Item Club, said the figures were a welcome boost for the chancellor, Philip Hammond, who now had a "very decent chance" of undershooting his 2017-18 fiscal target.

"While a struggling economy and higher interest debt payments look likely to hamper the public finances over the coming months, the chancellor does look to have a very good chance of having some wiggle room in November's budget," he said. However, Britain is still in the red for the current financial year, as public sector net borrowing excluding state-owned banks increased by £1.9bn to £22.8bn in the four months to July, compared with a year ago.

Analysts at Capital Economics expected the improvement last month to be a "temporary blip". "Despite July's strength the chancellor may still find that he has little scope for any easing back on the planned fiscal squeeze in his November Budget," said Ruth Gregory, UK economist.

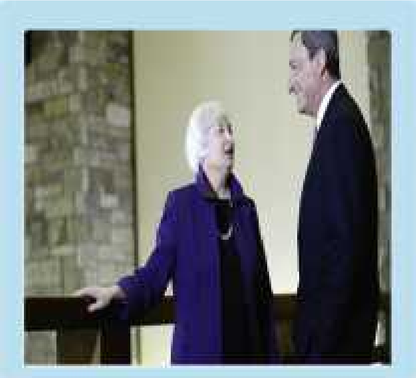
The Office for Budget Responsibility, the Treasury's independent forecaster, expects the public sector will borrow £58.3bn during the current financial year, an increase of £13.2bn on the year ending March 2017. Public sector borrowing excluding the banks equated to 87.5% of GDP at the end of July, according to the figures.

The borrowing figures come amid rising dissatisfaction with austerity. The chancellor faces increasing pressure to lift the cap on public sector pay, though he may have limited room for manoeuvre if he sticks rigidly to the government's deficit reduction plan.

Hammond has stated that he remains committed to the fiscal rules he set out at the autumn statement, which aim to lead to a balanced budget by the mid-2020s. A spokesperson for the Treasury said: "We are making good progress in strengthening our public finances and living within our means. Our national debt, at £65,000 for every UK household, is still too high. That is why we have a clear fiscal plan to reduce our debts and build a stronger economy for every household."

At Jackson Hole, the death of an economic model may concern central bankers

CNBC, *24.08.2017*



As central bankers gather at the annual Jackson Hole symposium on Friday, analysts think the death of a major economic concept could dominate discussions.

Known as Phillips curve, an economic concept developed by New Zealand economist William Phillips, it shows that inflation and unemployment have a stable and inverse relationship. However, in the recent months with central banks using artificial ways to pump money into the economy, this inverse relationship is seen to be dying.

A number of analysts have warned that this could be risky for the global economy and discussions around the death of the Phillips curve could dominate the Jackson Hole symposium. “The inverse relationship between unemployment and inflation is dead. The proliferation of low-wage, irregular and insecure jobs means that wage pressures - and therefore spending power - are subdued even as unemployment falls,” Edward Smythe, an economist at Positive Money, told CNBC via email.

Smythe added that this is bad news for policymakers wishing to unwind quantitative easing, and bring interest rates back to their pre-crisis levels.Central banks around the world have pegged their monetary policy on unemployment and inflation growth. Major banks such as the U.S. Federal Reserve, the European Central Bank and the Bank of England have been hoping to see unemployment levels go down and inflation go up with some central banks setting a target of 2 percent. Recent economic data, however, shows a downward movement in unemployment rates but inflation lagging gains.

“Earlier this year, U.S. inflation appeared to be grinding higher in the context of steady economic growth and a tight labour market,” Michael Hood, global multi-asset manager at J.P. Morgan Asset Management, told CNBC via email. “The core CPI inflation rate, which excludes food and energy prices, hit 2.3 percent year-on-year in February. And the core PCE deflator, the index targeted by the Federal Reserve, ran at a 1.8 percent year-on-year clip in that same month, within shouting distance of the Fed’s 2 percent goal. Our forecasts called for ongoing, gradual acceleration. Instead, inflation has gone into reverse during the past several months, with both indices dipping well below 2 percent in year-over-year terms. By some measures, wage inflation has also cooled recently.”

ECB struggling with the Phillips Curve?
The ECB too recently cut its inflation outlook in June. Mario Draghi, president of the ECB, said that the central bank now anticipates inflation levels of 1.5 percent in 2017, 1.3 percent in 2018 and 1.6 percent in 2019. This is down from the forecasts released in March, which saw inflation reaching 1.7 percent in 2017, 1.6 percent in 2018 and 1.7 percent in 2019.

Meanwhile, minutes from July's ECB meeting showed a lengthy discussion of the disconnect between inflation and employment. The ECB attributed this to a number of factors that were likely to be of a more structural nature.

"These included changes in labour markets, work contracts and wage-setting processes, benefiting from the reforms introduced in previous years, which could imply a structural break in the Phillips curve," according to the minutes. On inflation, several analysts have said that there are a number of structural factors responsible for keeping inflation down in developed markets. Alberto Gallo, head of macro strategies and manager of the Algebris Macro Credit Fund, told CNBC earlier this week that these factors include the scars left on the economy and labour markets by the recession, misallocation of resources due to prolonged low-interest rates, new technologies maximising resource-sharing and stagnant demographics.

Is QE exit the answer?

Gallo thinks central bankers should still look at removing artificial stimulus, for three reasons. "First, it is becoming less useful. Persistent low-interest rates can become deflationary over time, as today's ageing populations save more, while firms focus on cost savings following a balance sheet recession. The second is QE has side-effects, including the formation of asset bubbles, which may endanger the financial system. The third is to build an adequate policy buffer to face any future risk."

He, however, warns that coordinating an exit will be very difficult as it requires agreement among central banks, with the additional uncertainty coming from fiscal policy in each country. Central bankers gathering in Wyoming have a lot on their plate this weekend and markets are all ears for any hints coming out of the Jackson Hole Symposium. One analyst has warned that schizophrenia will be the biggest theme at Jackson Hole this weekend. "The central bankers will want to say they are still in charge and have done a great job …….while being evasive on subjects like the Phillips curve and possible major adverse reactions in the equity and bond markets to their policy changes," Alastair Winter, chief economist at Daniel Stewart, told CNBC via email.

Announcements & Reports

► *Towards EU-MENA Shared Prosperity*

Source : Bruegel
Weblink : http://bruegel.org/2017/08/towards-eu-mena-shared-prosperity/

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

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

► *Actualising East: India in a Multipolar Asia*

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

Upcoming Events

► *13th Asia Europe Economic Forum (AEEF)*

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

► *Emerging Markets and Europe: Time for Different Relationships?*

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

► *What future for Europe's Social Models?*

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

► *Challenges for Growth in Europe*

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

► *Global Governance of Public Goods: Asian and European Perspectives*

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

► *The Future of the Welfare State*

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

► *Vision Europe Summit 2016*

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