

Price protests hit India

REUTERS, Kolkata

The most important ally backing the ruling coalition staged protests against high food prices on Monday, reflecting growing unease among government partners who fear voter anger in elections this year.

A wave of crises buffet Prime Minister Manmohan Singh but none is as pressing as high food prices which has hit millions of poor people, and angered regional allies such as Trinamool Congress and the DMK party, which give the coalition a parliamentary majority.

On Monday, thousands of people marched in Kolkata, a stronghold of Trinamool, protesting against food inflation in India which has been in double digits for most of 2010 and is the highest among major Asian economies.

High prices could not only affect the ruling Congress party's prospects in state elections, but also that of its allies, potentially reshaping the balance of power within the governing coalition ahead of general elections in 2014.

"We will not accept skyrocketing prices," read a giant banner at a rally organised by Trinamool, which is hoping to dislodge West Bengal's long-running communist government in elections due by May, and sees high food prices as a potential threat to its chances.

The party is a key constituent of the governing coalition which has a majority of just 16 seats in the 545-member parliament. It holds 19 seats and a breakup would throw the coalition into jeopardy.

"We are concerned and we demand that we should be consulted while taking steps like increasing petrol prices,"



AFP

Activists shout slogans as they burn an effigy of Indian Prime Minister Manmohan Singh to protest the price hike of petrol and diesel in Siliguri yesterday. The government announced a rise in petrol and diesel fuel prices saying its decision was forced by the increase in global crude oil prices.

Trinamool leader Sudip Bandopadhyay told Reuters.

"High prices are a burning issue and we cannot let the poor be hurt like this."

Governments around the world have been taking measures to tackle soaring grain prices and head off social unrest, with north African countries Libya, Algeria and Morocco cutting taxes on foods or regulating prices and stepping up supplies.

The DMK party also said it feared being punished by voters in local elections in Tamil Nadu because of high prices of foodstuff.

"Definitely we are concerned,

and whichever government is in power will be held responsible (during local elections). That is why we have expressed our concerns to the (federal) government," said DMK spokesman TKS Elangovan.

The protests come at a time Singh is considering reshuffling his cabinet, possibly as early as Wednesday. He is meeting the president on Monday evening to discuss the matter, an official source said.

Singh, facing the toughest time of his second term in office amid accelerating food inflation and corruption scandals, needs to fill several vacancies, some which

came about as a result of the departure of ministers over graft accusations.

Singh could just make cosmetic changes to fill vacancies or he could reshuffle some controversial ministers, such as Environment Minister Jairam Ramesh whose push for implementing green laws has triggered a row with industry.

The reshuffle could show the direction the government will take, either to back reformist ministers or bow to political expediency and industry pressures, in the run-up to important state elections this year and a general election due by 2014.

Hu upbeat, resists US pressure on yuan

REUTERS, Washington

Chinese President Hu Jintao urged an end to a "zero sum" Cold War relationship with the United States and proposed new cooperation, but resisted US arguments about why China should let its currency strengthen.

Indeed, in a sign that the future of the US currency continues to concern the most senior levels of the Chinese government, he said the dollar-based international currency system is a "product of the past".

Overall though, the president, who will visit Washington this week, struck an upbeat tone about ties with the United States in a rare written interview with two US newspapers, the Wall Street Journal and the Washington Post.

"We should abandon the zero-sum Cold War mentality," he declared, and "respect each other's choice of development path."

Hu suggested cooperation with the United States in areas like new energy sources, clean energy, infrastructure development, aviation and space.

He also reassured foreign businesses in China that Beijing would continue to improve laws and regulations affecting them.

And he spoke encouragingly about the outlook for resolving tensions on the Korean peninsula, an area of concern to both Washington and Beijing.

But the Chinese president also indicated he does not accept US arguments for Beijing to let its currency appreciate. Critics say China's undervaluing of the yuan gives it an unfair price advantage in international trade, contributing to the huge US trade deficit.

Analysts thought Hu's generally conciliatory tone augured well ahead of his Washington meetings with President Barack Obama and other officials.

"Hu makes it clear that China intends to move forward on opening its markets, freeing up its exchange

rate and restructuring its political system, but at its own pace and with little heed to external pressures for more rapid or broader reforms," said Eswar Prasad, a Brookings Institution economist and former International Monetary Fund official.

Last week US Treasury Secretary Timothy Geithner said China would be better off letting its currency strengthen to cap inflation.

But Hu said China is fighting inflation with a range of policies including interest-rate increases, and "inflation can hardly be the main factor in determining the exchange rate policy."

He suggested that inflation was not a big headache, saying prices were "on the whole moderate and controllable." Inflation in China hit a 28-month high in November.

"We have the confidence, conditions and ability to stabilize the overall price level," Hu said.

US lawmakers are among the biggest critics of China's exchange rate policy. Three Democratic senators -- Charles Schumer, Debbie Stabenow, and Bob Casey -- said on Sunday that they would propose legislation to try and fix the problem.

The legislation would impose stiff new penalties on countries that the Treasury Department designated as currency manipulators. The Treasury has not labeled any country a currency manipulator since July 1994 when it cited China.

Hu called the US-dollar-dominated international currency system a "product of the past." He added that it would be a "fairly long process" to make China's own currency an international one.

He also said "the liquidity of the US dollar should be kept at a reasonable and stable level." China has argued that the Federal Reserve's November decision to buy \$600 billion in US government bonds would undermine the greenback's value and lead to competitive currency devaluations by other countries. China, with foreign exchange reserves of \$2.85 trillion, is the largest holder of US debt.

The president's comments add to the sense that China intends to challenge the post-World War II financial order largely created by the United States and dominated by the dollar, the Wall Street Journal said.

India's central bank hints at rate rise

AFP, Mumbai

India's central bank governor gave the clearest sign yet on Monday that interest rates will rise later this month, saying the country faced "surging inflation."

"A lot of countries are still flirting with deflation. On the other hand, we are having surging inflation," the Reserve Bank of India (RBI) governor Duvvuri Subbarao told a group of university students in Mumbai on Monday.

India's annual inflation rate accelerated in December to 8.43 percent, led by rises in the cost of food, fuel and commodities.

The RBI had been widely expected to raise short-term interest rates by at least 25 basis points when it meets on January 25, with the latest comments likely to reinforce analysts' forecasts.

"Other central bank governors tell me: why don't you give us a bit of your inflation. That's how desperately they want some inflation and how desperate we are to control our inflation," Subbarao said.

The government issued new policy steps last Thursday to rein in food prices, the main component driving inflation higher, which were widely criticised as being too little and too late.

Indian shares have fallen to three-month-lows below 19,000 points due to hardening expectations of further interest rate rises, which will dampen economic activity.

The RBI was one of the most aggressive in 2010, raising the cost of borrowing on six separate occasions as the South Asian economy powered out of the global downturn.

The economy grew a forecast-breaking 8.9 percent year-on-year in the July-September 2010 quarter and is forecast by the government to expand 9.0 percent in the current fiscal year to March 31.

Airbus tops Boeing

AP, Toulouse

Airbus said Monday it took in 574 net new aircraft orders last year, beating rival Boeing Co. for the third year running as the international aviation market rebounded more strongly than expected from the steepest drop in its history.

The Toulouse-based plane-making consortium said 2010 orders were worth \$74 billion at list prices, that it delivered a record 510 aircraft last year, and predicted even more deliveries this year.

A year earlier, Airbus took in just 271 net orders as the global economic slowdown led airlines to cancel or delay existing orders and stop making new ones.

Boeing this month reported that it took in 530 net orders in 2010 and delivered 462 aircraft.

Airbus' 2010 order book was

boosted by a late-December order by Richard Branson's Virgin America for 60 A320 single-aisle aircraft. Airbus said half of the order is for its new version of the aircraft, the A320neo, which is being designed to save carriers money by being more fuel efficient.

Airbus CEO Tom Enders said the European jet builder will deliver between 520 and 530 aircraft this year, and said orders will be higher than that.

"We've made tremendous progress, it makes me more optimistic on 2011 than I was for 2010," Enders said in a statement.

Airlines that cut back during the downturn are now scrambling to add jets to handle rising traffic as the international economy rebounds. Soaring jet fuel prices are also forcing carriers to look for newer, more efficient planes to



AFP

Indian Finance Minister Pranab Mukherjee (L) shakes hands with South Korean Finance Minister Yoon Jeung-Hyun (R) prior to a meeting in New Delhi yesterday. The second Korea-India Finance Ministers' meeting serves as an economic cooperation channel between the countries.

European ministers to spar over bailout fund

AP, Brussels

Eurozone finance ministers will lock horns on Monday over how to fight their crippling debt crisis, which some fear could yet push Portugal to need a bailout and spread to infect the region's larger economies.

At the center of talks Monday and Tuesday in Brussels is the region's euro750 billion (\$1 trillion) bailout fund, set up last spring to convince financial markets anxious over some countries' mounting debt levels that the euro currency was safe.

The European Union's executive Commission - supported by the head of the European Central Bank and some finance ministers - has said the fund needs to be given more money and powers to quell any concerns that it could be overwhelmed if a big economy like Spain runs into trouble.

But Germany, the eurozone's economic powerhouse, has so far ruled out any substantial increase of the fund's size. German Finance Minister Wolfgang Schaeuble insisted Monday that bolstering the fund so it can actually lend out the advertised euro750 billion - which it currently cannot do due to technical reasons - is as far as his country will go.

Eurozone governments make their euro440 billion contribution to the region's bailout fund by guaranteeing bonds issued by the so-called European Financial Stability Facility. The remaining euro310 billion come from the European Commission and the International Monetary Fund.

To get a triple-A credit rating for the EFSF's bonds - and make them attractive to wealthy investors - governments had to guarantee 120 percent of their value, while bailed out countries have to deposit a certain portion of the loans they receive "as a cash buffer." That take's the EFSF's lending capacity down to only about euro250 billion.

"We have to discuss in the medium term what we can do there, but currently there is no need for this agitated discussion - it only unsettles



AFP

German Chancellor Angela Merkel poses for a group photo in Berlin recently. Debate raged in Europe to beef up a debt rescue fund as Germany clashed with Brussels ahead of a meeting of finance ministers.

the markets," Schaeuble said of the EFSF in an interview with Deutschlandfunk radio ahead of the meeting in Brussels.

The EU should instead "work calmly on implementing" decisions taken by its leaders' last summit - that members should reduce their deficit, strengthen competitiveness and improve economic coordination, Schaeuble added.

Everyone making a contribution "cannot consist only of Germany and France having to give more guarantees, but the debtor countries must solve their problems better - then we will achieve overall solutions," Schaeuble said.

But the Commission's demands go beyond merely giving the fund more money. It wants to widen the scope of the fund's activities, including giving it the right to buy government bonds on the open market to support their prices and keep interest rates in check.

That role has so far been fulfilled by the ECB, but the central bank's purchases have reached only about euro75 billion since May. That is a tiny amount compared with bond buying programs the US Federal Reserve and the Bank of England have embarked on to boost their

economies. Unlike the Fed and Bank of England, the ECB also sterilizes its purchases, a process which makes sure they don't increase the amount of money in the economy.

Most analysts say the eurozone's current strategy to deal with the crisis has failed. That approach sees countries bail out their struggling banks to then provide them with expensive rescue loans, conditioned on steep budget cuts, when they run out of money.

A euro67.5 billion bailout of Ireland - necessary after massive capital injections for big banks pushed the country's budget deficit to almost one-third of economic output - didn't succeed in containing the crisis. Most economists expect Portugal to also ask for help soon, while markets are worried about the financial health of much larger Spain. Spain's economy makes up about 10 percent of the eurozone's gross domestic product and bailing it out could easily overwhelm the existing facility.

French Finance Minister Christine Lagarde said last week that she and her counterparts were examining widening the fund's role to buy bonds. But Lagarde cautioned that discussions were at an early stage and happening in preparation for a meeting of European leaders in March.