India, China's rivalry and a tale of two ports

REUTERS, *Singapore*

India and China's quest for clout and resources extends across the globe, but perhaps the best manifestation of this fierce competition, and possible sign of who will ultimately win, lies in a tale of two ports.

The port of Chabahar in the southwest corner of Iran, which India is hoping will win it access to Central Asia and Afghanistan, is barely 72 kilometres from Pakistan's deep-water Gwadar port which China has built to secure its energy supplies.

The duelling ports on the doorstep of Gulf shipping lanes are another strand in the race between the Asian giants to project influence beyond their shores, and seek resources to feed their fast growing economies, that has seen them compete for contracts from Africa to Latin America to even Afghanistan.

"These civilian ports are about China and India trying to advance their interests and diversify their trade and access points," says Rory Medcalf, a specialist on international security at Australia's Lowy Institute.

"But these could well become elements in a wider competitive dynamic between China and India."

In trying to develop the two strategic ports, India and China are up against unsettled regional conditions in both Iran and Pakistan and their own limited resources and influence, more so in the case of India than China.

For years, Indian officials say they have been urging the Iranians to expedite work on the Chabahar port facilities to handle specialised cargoes, warehouses and proper disembarkation arrangements so it can become a trading hub.

While the port is functional, it has a capacity of only 2.5 million tons per year, against the target of 12 million tons. Iran has declared Chabahar, located in its Sistan-Baluchestan province, a free trade zone.

At their last meeting in July, the Indian side told Iran a thriving port near one of the world's fastest growing regions was in the interest of Tehran, the Central Asian republics, Afghanistan and of course India. The Iranian side said they were committed to its development.

"But this is exactly what we said four years ago," said an Indian government official.

REUTERS

A ship is anchored at Pakistan's Gwadar port on the Arabian Sea.

"There has been hardly any movement since then," the official, said on condition of anonymity because he was involved with the discussions.

Indian officials now believe that Iranian reluctance to move faster on Chabahar may linked to its anxieties about the troubled Sistan-Baluchestan region where Shi'ite Muslim Iran is trying to put down a Sunni Muslim insurgency.

"We think at the back of the mind there are some concerns that the external influences a thriving port will bring may percolate to the region," the Indian official said.

India, meanwhile, has completed its end of the trilateral arrangement with Iran and Afghanistan. Indian engineers braved militant attacks to build a 200km-long road from Nimroz province in Afghanistan to the Chabahar port, offering landlocked Afghanistan an alternative supply route and reducing its dependence on trucking goods through Pakistan.

Indian officials say they're willing to put in more money into Chabahar to get it going.

"We are ready to go the extra mile to get this going because this is in everyone's interest, especially Afghanistan whose only access at the moment is Karachi and which is subject to the vicissitudes of Afghan-Pakistan relations," the Indian government official said.

A key factor driving India to promote the port in Iran, despite pressure from the United States, is the growing anxiety over the all-weather Gwadar port that the Chinese have built on Pakistan's Baluchistan coast.

Beijing financed more than 80 percent of the initial development cost of $248 million for the port on the Arabian Sea, as part of a plan to open up an energy and trade corridor from the Gulf, across Pakistan to western China.

So in theory China needn't ship all its oil supplies from the Gulf through the Indian Ocean and then up to Shanghai. Instead the oil tankers would drop off at Gwadar, and from there the supplies would be trucked through Pakistan and into China through the Karakoram Highway that China is trying to expand.

It also gives China access to the Indian Ocean where India has long been the main player, after the United States.

More worryingly for New Delhi, the strategic location of Gwadar, 180 km from the mouth of the Straits of Hormuz, offers Pakistan the chance "to take control over the world energy jugular and interdiction of Indian tankers," according to former Indian navy admiral Sureesh Mehta.

"Gwadar has the potential to move much faster than Chabahar because the Chinese are involved. It will depend on how fast they can double the capacity of the Karakoram Highway," the Indian government official said, pointing to the pace with which China completed a port on Sri Lanka's southern coast last year which has added to India's fear of encirclement.

With the Chinese completing the first phase of development in 2007, Gwadar port became operational shortly afterwards. But its progress, although faster than Chabahar, has been affected by worsening security in Baluchistan, a dispute with the port operator PSA of Singapore and the slow pace of road links.

The port handled about $700 million in cargo in 2009, less than half of its cargo capacity. Under the agreement, the Baluchistan government was to develop a free-zone for warehouses and export processing zone and establish road and rail links.

"Pakistan has not really worked on the infrastructure. It was built with a view to connecting the region. It is going to take off when the Afghan situation calms down - then countries will benefit from it with greater access," said Sakib Sherani, a former advisor to Pakistan's finance ministry.

"There are a few commercial ships that come here, but it has not been fully developed yet. I think they planned a second phase to deepen the port to make way for larger ships," he said.

A growing Baluch insurgency has added to the port's problems with several Chinese engineers attacked and kidnapped. Baluch nationalists see the port as another exploitation of the province's rich mineral resources by Pakistan's powerful Punjabi elite without any local benefit.

The provincial government of Baluchistan, struggling to contain the insurgency, has meanwhile approached the Supreme Court seeking the cancellation of the contract with Singapore state-owned PSA International Ltd to run the port on the grounds that it is a "one-sided" deal.

The Singapore company which was given management and operational control of the port in 2007 had neither brought in trade nor expanded the port, the local government said. PSA declined comment.

Local media say Pakistani officials are in favour of the Chinese running the port in addition to helping expand it, which will only further feed Indian anxieties.

"India will be watchful for any militarisation of Gwadar, though for now there are no signs of that," Metcalf said.

'Oracle of Omaha' Buffett dispenses wisdom in India

AFP, *New Delhi*

He came, he saw, he charmed.

Warren Buffett, known as the Oracle of Omaha for his legendary investment acumen, dispensed his trademark homespun wisdom and market savvy to Indians on his first visit to the fast-growing South Asian giant this week.

The 80-year-old Buffett was in India to join his close friend, Microsoft co-founder Bill Gates, to prod India's super-rich to part with some of their wealth as part of the charity drive the pair launched last year.

Buffett, worth an estimated $50 billion through his investment company Berkshire Hathaway, told Indian business leaders bluntly there was no conflict between making money and being philanthropic.

"You can create jobs and be Santa Claus at the same time," joked Buffett, who has pledged to donate 99 percent of his wealth.

"When I give away my Berkshire Hathaway shares, they have no utility to me and great utility to others (who are poorer)."

"Mr Buffett is a man with a great humanity and puts the human face far above business considerations," said Analjit Singh, managing director of the Max India conglomerate, after attending a meeting with Buffett.

Buffett, who made his billions by buying stocks at bargain prices, also handed out some tips to eager Indian investors.

"My advice is to invest in what you understand -- and when you're not paying the right price don't buy," said Buffett, who got wall-to-wall Indian TV coverage.

Large and small investors hang on Buffett's every word -- and for sound reasons. If an investor invested just $1,000 in the shares of Berkshire when Buffett took control in 1965, they would be sitting on millions of dollars now.

On world recovery and the Japanese earthquake and tsunami disaster, he was sanguine.

"The economy of America, United States and others around the world are improving month-by-month," he said. "It might not be quite as fast as everybody would like but it is happening."

Buffett added that he thought global economies would only be "slightly affected" by the deadly earthquake and tsunami in Japan.

He said the Japanese disaster will set the country "back for a while" but "they will come back."

The investment guru praised fast-growing India, a country of 1.2 billion people, as a "dream market."

"The number of people, the buying power they are gaining, the ability to produce things, everything is getting better," he said.

Buffett said he pleaded "guilty to being late in visiting India."

"I should have come sooner but I've been a sort of stay-at-home fellow for most of my life," he said.

"We hope to spend some money here," added Buffett, who has declared he is ready for some big acquisitions.

Political crisis pushes Portugal to brink of bailout

AFP, *Lisbon*

Portugal faced intense market pressure Friday over its debt following the resignation of prime minister Jose Socrates and has been pushed to the brink of asking for a financial bailout, analysts said.

Two of the top three ratings agencies, New York-based Standard and Poor's and London's Fitch Ratings, on Thursday slashed their ratings on Portugal's sovereign debt by two notches and warned further downgrades could be made soon.

Fitch downgraded Portugal's long-term rating by two notches from A+ to A- while S&P cut its rating from A- to BBB, bringing Lisbon's credit standing closer to 'junk' status.

Both said Socrates' resignation on Wednesday after parliament rejected his latest package of austerity measures had heightened the risk that Portugal, one of the poorest members of the 17-member eurozone, would be unable to refinance its debt.

Fitch said the failure to pass the new austerity plan "and the ensuing policy uncertainty ... therefore significantly increased the chances of Portugal requiring multilateral suppport in the near term, given its impaired ability to retain affordable market access."

Luxembourg Prime Minister Jean-Claude Juncker, who chairs the group of eurozone finance ministers, said Thursday that should Portugal require assistance, aid of some 75 billion euros (almost $100 billion) would be "appropriate," but only "under strict conditions."

Greece and Ireland had to be bailed out by the EU and International Monetary Fund last year after they could no longer raise fresh funds in the money markets to cover maturing debt.

The ratings downgrades caused the already high interest rates which the Portugal must pay to investors to hit new record highs on Friday.

Portugal's 10-year bond rate touched 7.78 percent, a record since the country adopted the common

AFP

Portuguese Prime Minister Jose Socrates attends a presser after an EU summit on Friday at the European Council headquarters in Brussels. Portugal's outgoing Prime Minister Jose Socrates insisted that his country does not need a financial rescue, as a political crisis raised fears of a bailout.

euro currency, and up from 7.557 percent at Thursday's close. Rates above six percent are typically viewed as exorbitant in the bond market and anything above seven percent is unsustainable for long.

"The market is already treating Portuguese bonds as junk notes, so we should expect further downgrades to happen," Alessandro Giansanti, strategist at ING bank in Amsterdam, said in a research note.

ING expects Portuguese bond rates will continue to rise until Lisbon taps the European Financial Stability Fund (EFSF), set up after Greece nearly defaulted in May 2010, he added.

Higher rates will make it even more difficult for Portugal to meet its financing requirements totaling 4.2 billion euros by April 15 and another 4.9 billion euros by June.

"The Portuguese finance minister will probably not be able to borrow these funds at acceptable conditions on the capital market," Frankfurt-based Commerzbank said in a research note.

Socrates insisted Friday at an EU summit in Brussels that Portugal does not need a financial rescue.

His outgoing government has vowed to "do all it can" to avert a bailout.

In January, China bought one billion euros in Portuguese debt in a private placement and Lisbon has sought to carry out more such operations with nations with sounder finances in its effort to avoid a bailout.

A Chinese foreign ministry spokesman said Thursday the Beijing wants to "strengthen its ties" with Lisbon.

Brazilian President Dilma Rousseff will visit Portugal next week, which has led to media speculation that Lisbon might approach its fast-growing former colony for aid.

Daniel Gros, the director of the Centre for European Policy Studies, a Brussels-based think tank, said private placements would not solve Portugal's woes.

"This is always the same story. Whenever a country is in difficulties some Chinese delegation comes and is supposed to provide billions. China did not save Greece, it will not save Portugal," Gros said.

"The key problem is the banks which may run out of cash long before the government. This was also the case in Ireland," he added.

Japanese crisis, oil prices hit German business sentiment

AFP, *Berlin*

High oil prices, Middle East unrest and the Japanese earthquake and nuclear crisis have weakened German business confidence for the first time since May, the Ifo institute and analysts said Friday.

Ifo's closely-watch indicator of business confidence edged lower following nine increases running, to 111.1 points from 111.3 in February, the economic research group said.

The fall was however not as steep as feared by economists, who had forecast on average a drop to 110.5 points.

"Almost half the responses (for the survey) came in after the disaster in (Japanese nuclear plant) Fukushima," the Ifo institute said in a statement. "All in all, however, firms in Germany remain very confident. The business situation is even better than before ... Germany is in an upswing," it said.

Jonathan Loynes, chief Europe expert at Capital Economics, said that "while the economy retains a considerable amount of momentum, there are tentative signs that the rate of recovery may have reached a peak."

He cautioned not to read too much into the fall, however, retaining his forecast of three-percent growth in Europe's biggest economy this year.

"Nonetheless, coupled with declines in other recent survey indicators such as the ZEW, the fall perhaps provides the first sign that the super-strong recovery in the Germany economy is starting to lose a little bit of steam."

Analysts in general were not too worried about the strength of the German economy, noting that a sub-index that measures business leader's assessment of current conditions had increased to 115.8 points from 114.8 in February.

However the sub-index for the six-month outlook declined to 106.5 from 107.9 which pulled the overall index lower.

But when considered alongside purchasing managers indices for Belgium, France and the Netherlands released on Thursday, the data "suggest that the eurozone recovery remains on track for the time being," Berenberg Bank senior economist Holger Schmieding said.

In Germany, the manufacturing sector continued to provide the most support and planned to keep hiring, Ifo found, while sentiment was a bit weaker in the retail, wholesale and construction sectors.