Federalism or retreat? Eurozone is divided over its future

AFP, *Brussels*

The eurozone, having failed to contain a raging debt crisis for the past year, now faces stark choices for its future: a radical leap towards federalism or a step backwards in the European project.

Quarrels over crafting a new bailout for Greece -- technical disputes over debt restructuring or private sector involvement -- hide deep political divisions between nations over where to take Europe and the euro.

"The leaders of Europe are refusing to address the only real challenge: how do we move towards real federalism, that has become obligatory since the introduction of our federal currency, the euro, which is now demanded by the financial markets," said Jean-Dominique Giuliani, president of the Robert Schuman Foundation think tank.

Under the leadership of the then French president Francois Mitterrand and German chancellor Helmut Kohl, Europeans made a risky bet in the 1990s by paving the way for the creation of the euro.

The single currency area was born in 1999, but without a common budgetary policy, other than debt and deficit rules, to prevent wayward spending as each state jealously guarded its fiscal sovereignty.

A decade later, the global financial crisis plunged Europe into the worst recession since World War II and public deficits began to mushroom.

AFP

German Chancellor Angela Merkel, *left*, and French President Nicolas Sarkozy arrive for the EU summit at the European Council headquarters in Brussels yesterday. Eurozone leaders seeking to protect the stability of the eurozone have struck a deal which would cut debt owed by Greece but leaves a risk it will default.

The bloc's Stability and Growth Pact, designed to ensure governments keep deficits under 3.0 percent of national output, demonstrated it lacked the teeth to dissuade the type of over-spending that led to Greece's budget blowout.

The European Union and IMF were forced to rescue three eurozone nations: first Greece with a 110-billion-euro ($157-billion) bailout in May 2010, then Ireland in November with 85 billion euros and finally Portugal in June with 78 billion euros.

In addition, the eurozone created a 440-billion-euro financial stability fund in an effort to reassure markets that the single currency area will not let any of its members collapse into bankruptcy.

EU states also agreed to have their national budgets reviewed by the European Commission before they are adopted by national parliaments.

Nearly every time, Europe's leaders were criticised for moving too slowly, one step behind the markets.

"Today, moves seem to be somewhat late," said Polish Prime Minister Donald Tusk, whose nation is not part of the eurozone but is at the helm of the EU's rotating presidency.

Tusk pleaded for "solutions for the entire eurozone and not just Greece."

Pro-Europeans see the crisis as a chance to bring the bloc closer to a federal system through the creation of joint euro bonds.

This would allow eurozone nations to spread risk, allowing weaker nations to borrow at lower rates.

But Germany, which enjoys the bloc's lowest rate thanks to its sound finances, rejects any turn towards what is known technically as a transfer union.

"We must dare to finally open the debate on better (eurozone economic) integration," said Belgian Finance Minister Didier Reynders. "The Germans must understand this."

European Central Bank Jean-Claude Trichet even proposed the creation of a European-wide finance minister who would oversee budget and economic policies in the Union.

Eurosceptics, on the left and right side of the political spectrum, want the opposite: a return to national currencies.

But even renowned US economist Nouriel Roubini, who has repeatedly predicted the euro's demise, said a federal system appeared inevitable.

"Either the eurozone moves towards a different equilibrium -- greater economic, fiscal and political integration, with policies that restore growth and competitiveness, including orderly debt restructurings and a weaker euro -- or it will end up with disorderly defaults, banking crises, and eventually a break-up of the monetary union," he wrote this week.

Nokia reports heavy switch to loss in the second quarter

AFP, *Helsinki, Finland*

The world's top mobile phone maker Nokia reported a sharp quarterly switch into loss on Thursday, only the second quarterly loss since the company become world leader in 1998.

Nokia's share price rose by 3.1 percent to 4.21 euros on a Helsinki Stock Exchange down 0.7 percent.

"In this case, you have to look at the non-IFRS (accounting standard) result, which was actually a bit better than expected," FIM Bank analyst Michael Schroeder told AFP.

He said that in particular, a deal reached with Apple to pay Nokia royalties on technology used in iPhones had saved Nokia from an even worse result.

The Finnish company posted a net loss of 368 million euros ($520.5 million) compared to the 227-million-euro net profit it posted in the second quarter of 2010. The outcome was far worse than expectations of analysts polled by Dow Jones Newswires who had estimated a loss of 104 million euros.

Sales slipped 7.3 percent to 9.3 billion euros from 10.0 billion euros for the same period last year. "The challenges we are facing during our strategic transformation manifested in a greater than expected way in Q2 (second quarter) 2011," chief executive Stephen Elop said in a statement.

But he said that massive re-structuring had already begun to have a "positive impact on the underlying health" of the company.

The upheaval follows a radical shake-up launched by Elop in February, when he announced that Nokia, facing stark competition in the vital smartphone market from iPhone, Blackberry and Google, would abandon its own mobile operating system and start using one designed by Microsoft instead.

This strategy was coupled with plans to cut 4,000 jobs and outsource another 3,000 to Accenture, as part of a massive effort to slash operating expenses by one billion euros in 2013 compared with 2010 -- a target Nokia said Thursday it planned to exceed.

Obama holds new crisis debt talks

AFP, *Washington*

US lawmakers were scrambling Thursday to avert a disastrous early August debt default, after President Barack Obama met separately with his top Democratic allies and Republican foes to hammer out a compromise. But the negotiations wrapped up Wednesday without news of a breakthrough.

With an August 2 deadline looming, White House spokesman Jay Carney said Obama would accept a short-term deal to raise the debt ceiling but only to buy time as part of a broader arrangement to slash the ballooning US deficit.

"We would not support a short-term extension absent an agreement to a larger deal," said Carney, who specified later that he was referring to a stopgap lasting "a few days" if necessary to pass sweeping legislation.

The president in the past had rejected short-term measures, insisting on raising the $14.3 trillion US debt limit by enough to avoid another politically painful vote before his November 2012 re-election bid.

The crisis spooked Asian markets, which were mixed Thursday on nervousness about the progress of talks aimed at averting a US debt default.

Tokyo ended flat, Seoul closed 0.46 percent lower and Shanghai lost 0.72 percent, while Sydney and Hong Kong both added 0.14 percent.

Obama met with Democratic Senate Majority Leader Harry Reid and House Democratic Minority Leader Nancy Pelosi, and then Republican House Speaker John Boehner and Republican House Majority Leader Eric Cantor.

"We need to meet, talk, consult, narrow down what our options are and figure out, in fairly short order, you know, which train we're riding into the station," Carney said before the discussions.

"There is still time to do something significant if all parties are willing to compromise" on a "balanced" approach, he said, using Obama's term for a broad deal coupling spending cuts, including on social safety net programs dear to Democrats, with tax hikes on the rich, which Republicans have thus far opposed.

Largest US creditor China renewed its warning that Washington must protect investor interests.

"We hope the US government will take responsible measures to boost confidence of the international financial markets, respect and protect investor interests," its State Administration of Foreign Exchange said in a statement.

Washington hit its debt ceiling on May 16 and has used spending and accounting adjustments, as well as higher-than-expected tax receipts, to pay its bills and continue operating normally, but can only do so until August 2.

AFP

A Pakistani porter carries goods inside a textile shopping mall in Karachi yesterday. In its budget for the new fiscal year 2011-2012, Pakistan last month raised defence spending by 11 percent and government employees' pensions by 20 percent, leading to a deficit of four percent of GDP.

Taiwan to hike minimum wage by 5.03pc

AFP, *Taipei*

Taiwan said Thursday it plans to raise the minimum wage by 5.03 percent despite calls by labour groups for hikes in excess of 30 percent.

If approved by the Cabinet, the minimum monthly wage for workers will rise to Tw$18,780 ($625) from January, up from Tw$17,880, the Council of Labour Affairs said.

The hike, proposed by Council Chairwoman Wang Ju-hsuan, was a compromise after a 22-member panel of government officials, industry and labour representatives and academics failed to reach agreement on the pay increase.

"Since representatives from labour and industry failed to arrive at an agreement on the issue, the chairwoman decided to put up her proposal, which was adopted by most of the panel members," a council official said.

Labour representatives demanded an increase of more than 30 percent, compared with a 3.47 percent hike offered by industry delegates during five hours of discussions in Taipei on Thursday.

As the talks were under way, around 200 labour activists rallied outside the council in the Taiwan capital. "We're disappointed by the result. The planned pay hike will be of little help to people living on minimum wages," Yuan Kung-chi, a labour activist, told AFP upon hearing about the decision.

"It also failed to reflect Taiwan's impressive economic growth since last

Morgan Stanley beats second-quarter expectations

REUTERS, *New York*

Morgan Stanley reported better-than-expected second-quarter results on Thursday as the US investment bank outperformed rivals in tough trading conditions.

The bank reported a loss of 38 cents per share, much better than analysts' average forecast for a loss of 62 cents, according to Thomson Reuters I/B/E/S.

Morgan Stanley shares were up 7 percent in premarket trading.

The loss included a charge of $1.02 per share and a dilution of the bank's share base from the conversion of a $7.8 billion preferred stock investment by Japan's Mitsubishi UFJ Financial Group.

The bank earned $1.09 per share in the year-ago second quarter.

Net revenue climbed 17 percent from a year earlier to $9.28 billion and was 15 percent above the average estimate of $8.04 billion. Results were boosted by a strong increase in equity sales and trading revenue, up by more than a third from a year ago. The bank said the gains "reflected market share gains."

Stronger-than-expected results in the bank's fixed income, currencies and commodities (FICC) business, where revenue fell only slightly, to $2.1 billion from $2.3 billion a year ago, also helped.

In a statement, Morgan Stanley Chief Executive James Gorman said "global markets remained challenging this quarter."

Weak trading conditions caused by economic uncertainty and tepid client activity have weighed on banks across Wall Street. Tough markets combined with an overly risk-averse trading approach caused Morgan Stanley's chief rival, Goldman Sachs Group Inc, to badly miss expectations when it reported second-quarter results on Tuesday.

Gorman has been on an aggressive campaign to increase market share in FICC trading, trying to woo clients away from competitors and getting existing customers to trade more on Morgan Stanley's platform.

"This is definitely a beat. Morgan Stanley managed to out-Goldman Goldman Sachs on the investment banking and the trading side," said Matt McCormick, portfolio manager at Bahl & Gaynor Investment Counsel.

AFP

Labour activists hold placards during a protest outside Taiwan's Council of Labour Affairs in Taipei yesterday, as an official panel meets to discuss raising the island's minimum wages.