Economics in Brief

Nuclear Power

German Energy Summit Continues 'Exit' Policy

Jan. 22—The German government did not make any commitment at the "energy summit" in Berlin yesterday to extend the operating licenses for the nation's existing nuclear power plants, but scaled down the event afterwards to a "workshop," with numerous others to follow, between now and the Autumn.

By contrast, South Korea confirmed its intent to build 18 more nuclear power plants for the domestic power supply, by 2030, plus 80 reactors for export; Russia will build six or eight reactors in India; and China plans to produce pebble-bed reactors in an assembly-line mode.

The leading German coalition parties, Chancellor Angela Merkel's Christian Democrats (CDU and CSU), are on a general retreat now from nuclear technology, not questioning the "nuclear exit" policy, and refusing to commit to extend nuclear operating licenses for up to ten years (CSU), or only four years (CDU), past the presently projected shutdown date of 2021. And, if they agree to extend licenses, it will not be for all of Germany's 19 nuclear power plants, but only for half, because the others are deemed "not safe from plane crashes," and hardening them against such crashes would require costly investments.

Automotive Sector

GM Kills Antwerp Plant; More Layoffs To Come

PARIS, Jan. 22—The word is out among European economists, that if 2009 was the year of John Maynard Keynes (bailouts), 2010 will be the year of Joseph Schumpeter ("creative destruction" of jobs).

GM announced in Brussels, Belgium yesterday its decision to close its plant in Antwerp, its oldest production site still operational in Europe, dating back to 1924. It is one of the sites where Opel's Astra is produced. The workforce there fell from 12,300 in 1981 to 2,600 today, and now many more jobs will be lost. Walter Cnop, from the Christian trade union CSC, denounced the decision as "based on politics and not on economics," an allusion to Opel's lobbying to avoid closing its plant in Bochum, Germany. The Belgian government said the decision is "an unprecedented economic catastrophe for the Antwerp region and its inhabitants."

The Antwerp case is just the start. Opel plans to cut 8,300 jobs, 4,000 of which are in Germany, slightly fewer than announced earlier. Of these, Bochum would lose 1,800 jobs, Ruesselsheim 860, and Eisenach and Kaiserslautern 300.

Over the first nine months of 2009, car production in Europe dropped by 26%, compared to 2008. Already in 2006, many claimed there was 20% overcapacity. Saab will be liquidated by GM, losing another 3,400 jobs. In addition to GM, Fiat announced recently that it would close a factory in Sicily, hiring 1,400 workers "after 2011." According to Fiat CEO Sergio Marchionne, only 65% of existing European capacity will be used this year, as compared to 75% in 2009, because sales are expected to drop another 8-10%.

To deal with financial losses, automakers are outsourcing to South and Eastern Europe. Renault plans to go to Turkey, Ford went to Romania, and Hyundai, with funding from the European Investment Bank, fled to Slovakia.

International Credit

Russia's Biggest Bank Expands in China

Jan. 23—Vneshtorgbank, the biggest bank in Russia, is planning to expand business in China, its president, Andrei Kostin, told Xinhua news agency yesterday. Vneshtorgbank established itself in Shanghai in 2008, and has signed credit-granting agreements with several Chinese banks, to support Russian importers of Chinese products with long-term financing and insurance services.

Kostin said that the Russia-China oil-for-loan deal reached in February 2009 was "a very important and necessary decision." It provided for China to grant Russia a loan of $25 billion for a term of 20 years, in exchange for 15 million tons of Russian oil deliveries per year for that period. Kostin said that the Russian oil company Rosneft and the oil pipeline enterprise Transneft were spending the loan on projects that will ensure Russian oil supplies to China. "I believe this is beneficial to both sides. Russia got financial resources needed for domestic companies' development at the critical moment [amid the global financial crisis], while China secured long-term energy supplies from Russia," he said.

Trade

China, India Vow To Make Cooperation Work

Jan. 21—China has agreed that its trade with India must be balanced, a key issue for India, since trade is now heavily weighted in China's favor. The two nations signed a memorandum of understanding on Expansion of Trade and Economic Cooperation, which calls for balanced trade, when Indian Minister for Commerce and Industry Anand Sharma was in Beijing Jan. 19. Sharma was there for the first meeting in four years of the Joint Economic Group.

Both Chinese Prime Minister Wen Jiabao and Commerce Minister Chen Deming assured Sharma that China would take steps to reduce the trade surplus and increase Indian imports. Chen Deming wrote in the *People's Daily* last week, that the two nations "have to jointly let one-third of the world population enter modernisation.... We'll be faced with common difficulties and we need to learn from each other and draw from each others experiences even more today than any other time."

The two sides want to reach $60 billion in bilateral trade this year, which would be an almost 50% increase. Their bilateral trade was worth only $3 billion in 2000, but expanded rapidly to $50 billion in 2008. China is India's biggest trade partner, and India ranks ninth for China, up from tenth in 2008. China has built $10 billion worth of infrastructure projects in India.

This is the first time China has officially recognized the problem for India. Some 75% of India's exports to China are raw materials.

Physical Economy

Industry, Infrastructure Still Growing in China

Jan. 21—Chinese industrial production and infrastructure investment all grew significantly in 2009, despite the worldwide financial crisis. China is making the strategic shift to expanding its enormous internal economy, but there is still an incredible amount of work to do.

As the export sector and processing trade continued to contract in 2009, after the implosion in late 2008, the RMB4 trillion ($586 billion) national stimulus, and generous bank lending, have had a big effect on China's economy. Almost half that amount is going into infrastructure construction.

National Bureau of Statistics director Ma Jiantang gave a press conference today, to announce that China's industrial production had risen 11% in 2009 from a year earlier, although this growth rate was much lower than the 17%-18% growth rates achieved before 2008. Industrial production makes up 43% of China's GDP. Growth was very low at the beginning of 2009, just 5%, but increased steadily over the year. These figures are based on 430,000 big enterprises.

Fixed-asset investment was up over 30% last year, due to government-led investment in building railroads, roads, housing, and other infrastructure. Overall investment was worth RMB22.5 trillion ($3.3 trillion), and almost 5% higer than in 2008, Ma Jiantang said. Investment in primary industry, agriculture, fishing, and raw materials extraction was up almost 50% from a year ago; it and was up 27% in manufacturing.

A key issue is expanding employment for the 200 million migrant workers from the countryside. These accounted for 40% of rural sector income. The export sector, where many of them worked, revived in December, as China surpassed Germany as the world's biggest exporter, but for the year as a whole, China's trade was down 14% in 2009, and the trade surplus down 34%. Exports were worth $1.2 trillion, down 16% from a year ago, and imports, of which a lot are components for the re-exporting processing trade, were worth $1 trillion, down 11%. Exports to China's two biggest markets, the European Union and the United States, were down to less than half of the total.

While the figures were encouraging, Chinese economists expressed caution. A tight rein is being held on the expansion of credit, with the recent hike in reserve requirements.

Health Care

Germany Debates 'Clandestine Rationing'

Jan. 19—Joerg-Friedrich Hoppe, the president of the German Medical Association (Bundes Ärztekamer), charged on Jan. 16 that there is "clandestine rationing" of health care in German hospitals, under the impact of budget restraints. This kicked off an intense public debate in Germany.

Birgit Fischer, director of the BEK health insurance fund, today denounced Hoppe's charges, saying that he was just spreading panic among the insured citizens. The ongoing practice, she said, is how to find the kind of treatment to "exactly fit" the individual patient, and that there was "always a medical assessment" preceding the treatment, which she denied is rationing.

However, she added that "treatment research" was required to "make a really individual treatment possible," which would also "allow the reduction of expenses." Her arguments indeed seemed to go into the direction of rationing.

Briefly

LITHUANIA'S lone nuclear power plant at Ignalina, which provided up to 70-80% of the nation's power needs, was shut down on Dec. 31, upon the European Union's request, without any alternative arranged. Lithuania now has to try to buy electricity from Russia, Finland, Poland, and Belarus, and gas and oil on the costly spot markets, which could inflate electricity bills by up to 30%.

GENERAL RE CORP., owned by Warren Buffett's Berkshire Hathaway, reached a $92 million settlement with the U.S. government, to avoid prosecution for its role in a fraud scheme involving AIG. General Re agreed to pay $92 million to settle charges that it helped to concoct sham deals that allowed AIG to overstate its financial strength.

ALISTAIR DARLING, Britain's Chancellor the Exchequer, demanded that President Obama not proceed with any banking reforms without British approval. In an interview to the London *Sunday Times* on Jan. 24, he said, "If everyone does their own thing, it will achieve absolutely nothing."

SOUTH KOREAN President Lee Myung-bak will make a state visit to India Jan. 24-28. The trip is expected to lead to strengthening of economic and energy ties between the two nations. South Korea is keen to enter India's nuclear power plant market, in line with Seoul's ambitious plan to become the world's third-largest nuclear plant exporter by 2030, following the deal it recently struck with the United Arab Emirates.

GENERAL ELECTRIC signed a deal with Romania's Nuclearetectrica to modernize that nation's nuclear power plants. GE will provide maintenance and repair services for the Cernavoda nuclear power plant (southeast of Bucharest); the value of the contract stands at a maximum of $146 million, over an eight-year period.