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St. Louis Hotels Livid Over Taxes

Greg Edwards, St. Louis Business Journal, Friday, September 10, 2010

Clayton, Richmond Heights and St. Peters have put hotel tax increases on the Nov. 2 ballot, riling the hospitality industry to the point that it plans to sue.

If the taxes are approved by the voters and implemented by the cities at the maximum amounts, they would be among the highest in the country, a Business Journal survey shows.

With the economy down, the municipalities are looking to raise money any way they can. Nationally, too, cities, counties and states are looking to raise taxes on hotel rooms to plug budget gaps and cuts in services.

Clayton wants the additional money to close a budget gap, St. Peters wants to use it to help pay for its RecPlex and Richmond Heights wants to begin promoting itself as a tourist destination, something it isn't doing currently.

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Missouri Among Top Ten Pro-Business States

Missouri Partnership, Thursday, September 16, 2010

Missouri is among the top ten states in which to do business, according to a new study by Pollina Corporate Real Estate, based in Park Ridge, Ill. Pollina's study, "The Top 10 Pro-Business States for 2010: The Great American Job Purge," based its rankings on 31 factors, including taxes, human resources, right-to-work legislation, energy costs, infrastructure spending, workers compensation laws, economic incentive programs and state economic development efforts. These factors, along with job retention and job creation, helped move Missouri into the top 10.

"Missouri is continually recognized as one of the best places to do business in the nation," said Governor Jay Nixon. "Our diverse economy, unique resources and low costs of doing business truly encourage companies to grow here in Missouri. Our state recently welcomed nine new companies who have chosen to expand or relocate to Missouri, signifying our strong economy and pro-business environment."

According to Pollina, Missouri's slow, but consistent approach to creating a pro-business environment is paying off, because the state continuously adapts and changes to fit the needs of business. Missouri got high marks for unemployment insurance rates, inventory taxes, electric rates, and incentives.

This is the first year Missouri has ranked in the Pollina Corporate Top 10, but its standings in this and other national studies have been climbing steadily since 2006. Missouri was ranked 3rd for Business Energy Costs by the Small Business and Entrepreneurship Council this year. It also ranked 5th for Lowest Business Costs and 7th for Best Transportation System, according to CNBC. In addition, many Missouri cities have been recognized as top U.S. cities for job growth according to NewGeography's 2010 BestCities rankings.

The Pollina Corporate report ranked Virginia as the number one state in which to do business, with Utah, Wyoming, and North and South Carolina close behind. California was ranked last for the seventh year in a row.

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Geithner to Signal Tougher Stance on China Currency

Sewell Chan, the New York Times, Wednesday, September 15, 2010

The Obama administration is moving to take a harder stance on the Chinese government's trade and currency policies, with anger toward China rising in both political parties ahead of midterm elections.

"We are concerned, as are many of China's trading partners, that the pace of appreciation has been too slow and the extent of appreciation too limited," Mr.

Geithner plans to say, according to excerpts of his statement released on Wednesday night by the Treasury Department.

The United States brought two cases to the World Trade Organization on Wednesday, accusing China of improperly blocking imports of a specialty steel product and denying credit card companies access to its markets. The move came just hours before House lawmakers demanded action on the currency issue.

The renminbi has risen about 1 percent against the dollar since Beijing promised new exchange rate flexibility in June.

In his testimony, Mr. Geithner is not expected to rule out declaring China a currency manipulator, a finding that could lead to retaliatory trade measures. The administration has so far refused to take such a step, relying instead on persuasion, though with little success.

The currency issue is increasingly likely to be a focus when leaders of the Group of 20 nations meet in November in Seoul, South Korea. A bill with support from 143 House members from both parties would allow the United States to impose tariffs and other penalties on countries that undervalue their currencies.

But many economists believe that China is unlikely to yield to American pressure, and they have called on the Obama administration to do a better job of enlisting support from the European Union and Japan.

The Chinese Foreign Ministry said Thursday that the pressure from the United States would not help resolve the currency issue and could even backfire.

“I would point out that appreciation of the renminbi will not solve the U.S. deficit and unemployment problems,” a Foreign Ministry spokeswoman, Jiang Yu, said at news conference in Beijing.

The office of the United States trade representative, Ron Kirk, said the timing of the new W.T.O. cases was unrelated to the other economic tensions with China.

In one case, the United States accused China of violating world trade rules when it imposed antidumping duties and countervailing duties on grain-oriented, flat-rolled electrical steel, which is used to make transformers and reactors used to generate electricity. The two largest makers of such steel are Allegheny Technologies, based in Pittsburgh, and AK Steel, based in West Chester, Ohio.

China imposed duties as high as 65 percent in April after concluding that the American manufacturers had sold the steel at less than fair value and had received improper subsidies from the United States. The Americans say the charges are false.

In the other case, the trade representative’s office accused China of illegally blocking American electronic payment companies from access to its markets, through its support of a state-financed company, China Union Pay, which has had a monopoly since 2001 over renminbi-denominated debit and credit card payments in China.

Mr. Kirk said his office was “fighting for the American jobs threatened by China’s actions, and insisting on the level playing field promised in our W.T.O. agreements.”

Leaders of the Senate Finance Committee, which oversees trade, applauded the filings. Its chairman, Senator Max Baucus, Democrat of Montana, called them “critical steps forward in our effort to enforce our market access rights in China.” The panel’s senior Republican, Senator Charles E. Grassley of Iowa, said, “It’s about time the administration decided to act.”

Mr. Grassley added: “The administration should go one step further and bring a case against China’s unfair currency manipulation at the W.T.O.”

On Wednesday, the House Ways and Means Committee began two days of hearings on China’s currency, its third set of hearings this year on the topic.

Its chairman, Representative Sander M. Levin, Democrat of Michigan, said “a multilateral approach would be the most likely to yield the broadest results.” Mr. Levin also called Japan’s move to weaken the yen, that country’s first intervention in the currency markets since 2004, “a deeply disturbing development.”

Mr. Levin said that the International Monetary Fund had little power to enforce its rules against currency manipulation, adding that the G-20 should take up the issue. But he warned that “there does not appear to be anything remotely approaching an international agreement to end predatory exchange rate policies."

Mr. Levin urged the administration to bring a case before the W.T.O. arguing that China's currency policy amounted to an illegal export subsidy. He said he thought the United States could impose countervailing duties against China without violating its own obligations under world trade rules.

More than 140 House members have signed onto a bill sponsored by Representatives Tim Ryan, Democrat of Ohio, and Tim Murphy, Republican of Pennsylvania, that would compel the administration to impose such duties.

The United States-China Business Council has said it believes such a move would antagonize China without yielding meaningful results, and the senior Republican on the committee, Representative Dave Camp of Michigan, expressed similar skepticism at the hearing.

Manufacturers, labor unions and politicians from the Midwest have been among the most vigorous in calling for sanctions, but there were indications on Wednesday that policy experts were increasingly in favor of tough action.

China permitted the value of the renminbi to rise about 20 to 25 percent against the dollar from 2005 to 2008, before the government reimposed a currency peg to support its export-centered economy after the global financial crisis.

C. Fred Bergsten, director of the Peterson Institute for International Economics, a leading research organization here, told House lawmakers on Wednesday that a similar increase over the next two to three years would create about 500,000 jobs. He said it would reduce China's current account surplus by $350 billion to $500 billion, and the American current account deficit by $50 billion to $120 billion.

The United States should seek to mobilize the European Union and countries like Brazil, Russia and India to press China to realign the renminbi, and should seek W.T.O. authorization to impose restrictions on Chinese imports if it does not do so, Mr. Bergsten said.

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China's Economy Resumes Acceleration

Andrew Batson, Wall Street Journal, Monday, September 13, 2010

China's major economic indicators picked up in August after slowing for several months, data issued over the weekend show, an unexpected rebound that could help prospects for global growth.

Industrial production, a major gauge of overall activity in China's manufacturing-driven economy, was up 13.9% from a year earlier in August, accelerating from 13.4% growth in July. The figure was well above market expectations, and reversed—at least for the moment—recent months' gradual slowdown from the 20.7% pace of the beginning of the year.

The positive news from China contrasts with the loss of momentum in other major economies. Data from the U.S. have been generally weak in recent months, with unemployment stuck at high levels. Concerns about the outlook in Europe are also rising despite better-than-expected performance from Germany, and Japan recently unveiled another stimulus package to support its flagging recovery.

The economic data didn't provide a clear signal about how China's government might allow its tightly controlled exchange rate to move, analysts said. Political pressure from the U.S., which is picking up as November midterm elections approach, could be more of a factor in the short term than economic fundamentals.

U.S. Treasury Secretary Timothy Geithner reiterated U.S. dissatisfaction with Beijing's resistance to allowing its currency, the yuan, to strengthen. "China took the very important step in June of signaling that they're going to let the exchange rate start to reflect market forces. But … they've let it move very, very little in the interim," Mr. Geithner said in an interview with The Wall Street Journal Friday. "It's very important to us … that [China] let it move up over a sustained period of time."

But a rapid, "one-way" rise isn't consistent with China's stated goal of having "two-way" flexibility in the exchange rate, said Galaxy Securities' chief economist Zuo Xiaolei. "The yuan will undergo a fluctuating upward trend in the future, but the pace of appreciation won't be too great. We expect the yuan to rise by 2% to 3% by the end of the year."

Chinese authorities have been moving for several months to rein in a frothy property market and risky bank lending, but have also been trying to avoid a sharp domestic slowdown, given the uncertain prospects in major export markets.

Output has now "stabilized," National Bureau of Statistics spokesman Sheng Laiyun told reporters Saturday as he announced the data. "We think this is a good phenomenon."

Clouding the picture in China is a continued pickup in inflation: The consumer price index rose 3.5% from a year earlier in August, official data showed, accelerating from a 3.3% increase in July for the biggest rise since October 2008.

Food prices, up 7.5% from a year earlier, were the main contributor; nonfood prices rose just 1.5%. Many economists think the pickup in inflation doesn't warrant government action, such as raising interest rates, since the increase in food prices, driven by heavy flooding this summer that hurt harvests, is expected to be a temporary.

Yet the inflation rate is still higher than the interest rates Chinese banks pay to their depositors, meaning that anyone who has kept their savings in a bank over the past year has lost money in real terms. Some economists argue that China's government, which tightly regulates interest rates, needs to address this mismatch.

"It is time now for the monetary authorities to normalize the interest-rate policy, first by raising the deposit rate to alleviate the losses suffered by the ordinary Chinese depositors," economists at Australia & New Zealand Banking Group said in a research note.

The government so far appears to have achieved its goal of a modest economic slowdown without resorting to interest-rate changes. Officials have in recent weeks repeatedly signaled that controls on housing purchases, put in place to cool speculation and corral prices, will remain in place in coming months.

Xia Bin, an academic adviser to the central bank, said the economic situation doesn't justify any sharp policy changes. The government should fine-tune macroeconomic policy but "won't and shouldn't" change the basic policy direction, he said Saturday.

However, some economists suspect the government achieved the stabilization in growth in August by quietly loosening controls on bank lending and speeding up approvals for infrastructure projects. Banks extended 545.2 billion yuan, or about $80.5 billion, in new loans in August, up from 523.8 billion yuan in July, central bank data issued Saturday show. The broad M2 measure of money supply at the end of August was up 19.2% from a year earlier, compared with 17.6% in July.

Those data indicate "an effective loosening of monetary policy in July and August," Goldman Sachs economist Yu Song said. Urban fixed-asset investment, China's benchmark measure of capital spending, also beat expectations—up 24.8% from a year earlier for the January-August period and hardly slowed from the 24.9% for January-July.

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Cuba Complains Restriction Unchanged Under Obama

Shasta Darlington, CNN, Wednesday, September 15, 2010

Cuba accused U.S. President Barack Obama on Wednesday of failing to keep his promise of a new start with the communist island, saying that far from easing the U.S. trade embargo, his administration has tightened some restrictions.

"The president has fallen far short of the expectations created by his speeches," Cuban Foreign Minister Bruno Rodriguez said at a news conference.

"The blockade has not changed a bit," he said, referring to the nearly 50-year-old embargo. "In fact, they have strengthened it when it comes to executing fines."

The comments came a day after a U.S. State Department official warned that Cuba¹s imprisonment of an American contractor is an "obstacle" to "certain measures" that Washington could take to improve bilateral relations.

Asked about the comment, Rodriguez declined to say anything on the case, but said the embargo is a unilateral action and "should be lifted unilaterally."

Alan Gross, a subcontractor working for the U.S. Agency for International Development, was arrested in December. Cuba says he was distributing illegal satellite equipment to dissidents. Washington says he was trying to help Jewish communities hook up to the internet.

Rodriguez presented Cuba's annual report on the embargo ahead of a vote at the United Nations aimed at urging the United States to lift the Cold War-era restrictions. Last year, the nonbinding vote was backed by 187 countries and opposed by three.

Rodriguez said the embargo has caused $751 billion in losses over the past half a century.

He said that even without lifting the embargo, there are a number of actions Obama could have taken to ease restrictions, such as allowing more academic and cultural travel between the two countries.

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World's Woes May Help Russia Investors

Michael Stott, Reuters, Sunday, September 12, 2010

Russia's near-pariah status among investors means its stocks sell at big discounts to other emerging nations, but markets could be missing something -- the global macroeconomic picture may yet favor Moscow.

That's the view of the Russia optimists, who say the country's poor image abroad and its patchy record on fighting corruption, protecting property rights and modernizing the economy overshadows some fundamental attractions.

"Everybody hates the damn place," said Jim O'Neill, the recently named chairman of Goldman Sachs Asset Management. "So it takes a lot of bad news for Russia to disappoint."

But O'Neill told Reuters Insider TV he was intrigued by the notion that Prime Minister Vladimir Putin and President Dmitry Medvedev may be making progress on tackling some of Russia's big structural challenges.

Medvedev has made the modernization of Russia's resource- dependent economy a key theme. He has promised a new future based on technology and innovation, though critics say results during the first half of his presidency have been meager.

Investor hopes in the near term center on fresh progress in Russia's long-running application to join the World Trade Organization and on an initiative -- led by widely respected former Kremlin administration chief Alexander Voloshin -- to make Moscow a more attractive regional financial center.

Precisely because expectations are so low, any positive news on these projects could help propel Russian stocks from their deep discount to BRIC peers to a rating which better reflects the prospects for a middle-income, moderately high-growth country well endowed with natural resources.

EXCEPTIONAL OPPORTUNITY

"Russia constitutes an exceptional trading opportunity," said Eric Kraus, global adviser at Moscow investment bank Otkritie and a long-time Russia expert in a presentation to investors at a Vancouver investment conference over the summer.

"Not because it is so perfect -- it is a long way from perfect -- but because I can find few places where foreign perceptions deviate quite so far from the reality."

Leading Russian business chiefs, bankers and officials will discuss the outlook for investment in Russia and progress on its modernization at the fourth Reuters

Russia Investment Summit from September 13-15 in a series of exclusive interviews.

For now, the country's political outlook appears stable.

Prime Minister Vladimir Putin enjoys a close, trusting and efficient working relationship with President Dmitry Medvedev, his junior partner in the ruling "tandem."

The pair face parliamentary elections next year and presidential elections in 2012, when Putin is widely expected to return to the Kremlin and shunt Medvedev into a lesser role.

Most political analysts say the "tandem's" basic policies -- which are closely aligned to the interests of the ruling elite -- will not change significantly whether Putin or Medvedev is president after 2012.

But the immediate economic signals are less rosy.

Economists are revising down growth forecasts for the second half after a disappointing summer, inflation is pushing upwards as a drought pumps up food prices and investment is low as Russian companies struggle to access dollar financing.

Reuters latest poll of economists at the end of August found an average forecast of 4.2 percent GDP growth this year, slowing to below 4 percent in the first half of 2011.

As ever, oil and commodity prices are key, and here the signals may be more positive.

Russia's benchmark Urals blend crude closed on Friday at $77.69 per barrel, more than double the lows plumbed at the end of 2008 and a healthy level for government revenues.

ANOTHER BOOM

The relative strength of the oil price has been a big factor this year in keeping the rouble trading in a band between 29 and 32 to the dollar. It closed at 30.91 on Friday and Moscow analysts expect it to stay in this range for the next 18 months.

Roland Nash, chief strategist at Moscow investment bank Renaissance Capital, believes the Russian economy may disappoint in the second half of 2010 as the effects of a fierce heatwave and fears of another global recession take their toll.

But he remains optimistic in the medium term, expecting another boom in the next few years.

"Russia looks quite likely to find itself in the right place at the right time," Nash wrote in a research note this week.

"A slow developed world recovery generating low global interest rates and a fast developing world recovery producing gradually rising commodity prices is a perfect global macroeconomic backdrop for Russia."

Whether or not this will allow Russia to cast off its status as a high-beta play on global markets and win a repricing on its fundamentals remains to be seen.

Moscow's RTS index closed on Friday at 1,487, down 11.2 percent from its year-high in mid-April and way below the peak of 2,498 it reached in May 2008.

"The Russian equity market and the rouble remain hostage to global trends and are not likely to significantly outperform or underperform until global markets break out of the summer trading range," said Uralsib strategist Chris Weafer in a note.

Rival Moscow brokerage Troika Dialog is prosaic, focusing on the risks that Russia will prove unable to deliver on economic modernization and reform.

"The most likely scenario for Russia is a sort of cynical muddle-through in the medium term, which will enable the country to deliver around 4-5 pct economic growth, not bad compared to many other countries but more moderate relative to the past decade's results," it wrote in its latest Economic Monthly.

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Yen Action Sparks Gain

Takashi Nakamichi, Wall Street Journal, Thursday, September 16, 2010

A wave of foreign-exchange market intervention by Japan estimated at $20 billion sent the dollar sharply higher against the yen Wednesday, a successful beginning to what appears to be a campaign by Tokyo to stop a soaring yen that threatens to cripple its fragile economy.

Although Japanese officials have for weeks signaled their unhappiness with the yen's more-than-10% rise since early May, currency markets were surprised by the exact timing of the operation and impressed by its size. Traders say that if their estimate for the size of the intervention is accurate, it would likely mark the biggest one-day effort on record by the Bank of Japan to cap the yen.

Japanese officials, who confer regularly with counterparts at the U.S. Federal Reserve and Treasury Department, alerted them to the intervention plan. The U.S. has been involved in past interventions, sometimes acting as Japan's middle man in U.S. markets and others, scooping up currencies for its own account.

In this case, the Fed and Treasury conferred with officials from the Bank of Japan but stayed out. U.S. officials would welcome an orderly decline in the dollar, because it could support exports, a needed driver of growth.

U.S. officials have been much more concerned about the strength of China's yuan—which they see as very undervalued—than they have been about the yen. Still, Japan's decision to stop the yen from appreciating raises concerns. One is that it could take pressure off the Chinese to allow their own currency to appreciate.

The initial barrage of yen-selling orders hit the market early in the Asian day as the dollar fell to a 15-year low below 83 yen, apparently a trigger point for authorities. The dollar jumped to 84.50 yen and then pushed higher as the Japanese authorities continued selling yen and buying dollars through European and New York trading hours. By late Wednesday, the yen had retreated nearly 3% and the dollar stood at 85.59 yen.

Japanese stocks were buoyed by relieved investors who had grown concerned in recent weeks about the impact of the yen's strength on Japan's export-dependent economy. The Nikkei Stock Average posted its biggest gain in over five weeks, rising 2.3% to 9516.56 led by exporters such as Toyota Motor Corp. and Sony Corp.

Bank of Japan Gov. Masaaki Shirakawa said in a statement he "strongly expects" the action "will contribute to a stable foreign-exchange rate formation."

Many in the currency market say that while the intervention had a big short-term impact, on its own the long-term effectiveness is questionable. But for now, "it seems there are very few people who are willing to take the other side and fight it," says Douglas Borthwick, a managing director at Faros Trading in Stamford, Conn.

"It's positive as a first move," Okasan Securities strategist Hideyuki Ishiguro said. "The timing came as a surprise," he said, for traders who had believed intervention was less likely after Prime Minister Naoto Kan was re-elected president of the Democratic Party of Japan on Tuesday. Mr. Kan was seen as less inclined to push back against the yen's rise than his opponent.

Corporate leaders in Japan, who had urged the government to act as profits from overseas markets shrank, applauded the news. Sony said it hopes the government will continue to take appropriate steps to stop the yen's rise.

Japan Chamber of Commerce chairman Tadashi Okamura said that had the government not waited so long, "the intervention would have been more effective." He also said that it would be "appropriate" for the dollar to rise to 95 yen.

It remains unclear whether Japan's intervention was a one-time step or the beginning of a longer campaign. If history is any guide, Wednesday's intervention was just the opening salvo.

"More likely than not, more intervention is coming," said Robert Lynch, currency strategist at HSBC Bank in New York. The Japanese government "wouldn't begin an effort like this without thinking it was going to have to be something more than a 'one and done' operation."

Adding extra weight to the intervention are signs that the Bank of Japan is leaving the yen it sold in the financial markets. In the past it has mopped up the extra liquidity—a process known as "sterilization."

A person familiar with the thinking of the Bank of Japan said the central bank sees "no need to absorb" the yen sold, since it would blunt the effectiveness of the government's efforts to weaken the currency.

Analysts saw this as an important measure to increase Japan's monetary base and a further weapon to fight a long deflationary spiral that has dragged down the economy. Financial analysts have criticized the central bank for refusing to take strong steps to end Japan's deflationary cycle.

But the Japanese government has a tough battle on its hands. Analysts attribute most of the yen buying to Japanese exporters repatriating profits, and a desire by global investors to park their money in a currency that appeared to have few risks amid a turbulent global economy.

"The yen is rising on the back of global moves to keep home currencies weak and amid continuing expectations for further monetary easing in the U.S.," said Yutaka Miura, senior technical analyst at Mizuho Securities. "Unless there are fundamental changes in these areas, it will not be possible to stem the yen's rise," he added.

Japan's intervention has other global implications. Just a few months ago, policy makers in many countries were considering ways to tighten their monetary policies with the financial crisis having passed and a recovery seeming to take hold.

Increasingly, with global growth disappointing, especially in developed countries, policy makers in many places are looking for ways to ease financial conditions. Allowing a currency to depreciate or preventing its appreciation is one step in that direction and could be a signal of a new shift toward easier money policies globally, particularly in the slow-growing developed world.

Many analysts say a recent increase in China's buying of Japanese government bonds also pushed up the value of the yen. Data from Japan show China's 2010 yen purchases have hit $27 billion, more than six times China's combined yen buying in the previous five years.

The Chinese yuan pared its gains against the dollar on news of the yen intervention. Beijing, which closely manages the value of its own currency, didn't comment on Japan's move Wednesday. China has long rebuffed foreign criticism of its currency practices by saying that countries should have the right to determine their own exchange-rate mechanisms.

Some analysts have speculated that China was intentionally pushing up the yen to aid its own exporters by making Japanese goods more expensive. But there is no evidence to support that, and the composition of their exports is quite different, with Japan more concentrated in capital-intensive goods like cars and advanced equipment than China.

"I don't think Japan's move will have any substantial impact on China's exports," said Liu Yuhui, a researcher on economics and finance at the state-funded Chinese Academy of Social Sciences.

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