

World Focus

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VIEWPOINT

The Year of the Dragon, a Year of Politics

Here we are almost at the end of 2011. It is the season of year-end parties, which are called *bonenkai* in Japanese, literally meaning “forget-the-year parties.” And for many people 2011 has been a year they would indeed like to forget. It was in any case a year of major upheavals, notably the “Arab Spring,” the euro crisis, and of course the Great East Japan Earthquake.

The global economy has been on a roller coaster. In the first half of 2011 it was enjoying a recovery centering on the emerging countries, and inflationary concerns were serious, but in the second half the European sovereign risk problem shook the financial markets, and the sluggishness of demand in the advanced countries gradually came to be felt by the emerging countries, producing an increasing sense of deceleration as we approach the new year.

The coming year will be the year of the dragon and the 29th in the 60-year oriental cycle. It is traditionally said to be a time of great brightness and vigor. The previous such year was 1952, a momentous one in Japan’s postwar history, when the San Francisco Peace Treaty and the Japan-US Security Treaty went into effect. With the end of the postwar Allied Occupation, Japan regained

its independence; it was admitted to the International Monetary Fund and the World Bank, and key facilities like Haneda Airport reverted to Japanese control.

What sort of year will 2012 be? One point that we can be sure of is that it will be a year of politics. Major countries like France, Russia, and the United States will be holding presidential elections, as will South Korea and Taiwan, Japan’s close neighbors in East Asia; China will also be replacing its top leaders. In response to the 2008 financial crisis and subsequent economic downturn, many governments pulled out all the stops with massive stimulus packages, and economies’ fates became tightly linked to government actions. But as globalization proceeds at an accelerating pace, politics has become dysfunctional, incapable of keeping up with rapid developments in the economy, and this has raised questions about the shape of democratic government, which seems to take too much time to reach agreements. It is of note that both Greece and Italy have now turned to technocrats rather than politicians to head their governments as they grapple with the current euro crisis. The choices that major countries make in 2012 as they select new

leaders will have a great impact on the future course of global affairs.

Here in Japan, as we work to rebuild after the March 2011 earthquake, politics is also playing a bigger role. Recently we have been hearing talk about the six big difficulties that Japanese companies face: the extremely high value of the yen, high corporate taxes, stringent labor legislation, tardiness in concluding free trade agreements, tough targets for reducing greenhouse gas emissions, and electric power shortages. Companies must hone their competitive strengths in order to cope with these conditions. But the difficulties cannot be overcome by companies’ efforts alone; strong action from the government is needed and desired.

As we enter a new year beset with many serious problems, let us hope for political stability and the restoration of properly functioning government here and around the world.

■ *Akio Okawara, December 16, 2011*

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ECONOMIC OUTLOOK

World economy

The world economy in 2011 experienced growing concerns about inflation as the price of crude oil rose and later a heightened sense of deceleration due to the European sovereign debt problem, particularly in the developed countries. In the emerging countries as well, monetary tightening measures adopted to ward off inflation made their effects felt, and in some countries the pace of expansion slowed.

In 2012, though the slowdown from the second half of 2011 will likely persist, we expect the underlying strength of the global economy to reemerge, provided the countries involved in the European debt problem can reach some sort of agreement on the future course, thereby alleviating the uncertainty about what lies ahead. The coming year will be a “year of politics,” with presidential elections coming up in major countries like the United States, France, and Russia and a change of top leaders due in China. Governments will thus be apt to strengthen their emphasis on growth-oriented policies, and the power of economies to recover will be tested.

In the developed countries, the ongoing effects of the European financial crisis will be accompanied by pressure for balance-sheet adjustments in the face of factors like the poor performance of the housing market; the major Western economies are thus likely to fall below their potential growth rates. In the United States, business activity will be supported by high corporate profits and the depreciation of the dollar, but uncertainty about future prospects remains strong, and it is unclear whether increased produc-

tion will lead to improvement in the employment situation. In Europe, while the north-south gap in performance will persist, overall conditions are likely to be close to recession, with financial institutions having limited ability to take on risks. On the policy front, we can expect to see ongoing attempts to support economies with looser money, including a third round of quantitative easing in the United States and additional lowering of interest rates in Europe, but moves to restore fiscal balance will act as a drag on economic performance.

In the emerging and developing countries, as fears of inflation recede and monetary tightening policies are phased out, expansions will continue, led by consumer spending, capital investment, and other domestic demand. But delays in the recoveries of developed countries’ markets may act as a drag on the emerging countries’ economies by causing export growth to lag and capital inflows to slow. In Asia, the effects of earlier interest rate hikes are likely to linger in some countries, and there are fears that inventory trimming may continue in the information-technology sector, but growth is expected to continue, supported by consumer spending against a backdrop of increased employment. In Latin America, instability in European financial markets may have a negative impact, but domestic demand, including infrastructure investment, should support growth. In Central and Eastern Europe, the poor economic performance of the euro area will have a negative impact on trade and finance, and growth seems bound to slow.

The European sovereign debt

problem shows increasing signs of turning into a financial crisis, and the danger remains that it will lead to a vicious cycle, with restraints on bank lending, particularly in the euro area, causing economies to deteriorate further, making fiscal consolidation more difficult, and thereby causing further loss of confidence in government bonds and in the financial system as a whole. This could lead to another round of global credit contraction. In order to clear away this problem, the euro area should come up with a system of fiscal adjustment to go along with the integrated currency, but it is likely to take considerable time to arrive at a fundamental solution, and in the near future we are liable to see repeated spikes in worries reflecting developments in Greece and other countries facing difficulties in repaying their debts.

Japanese economy

During 2011 the Japanese economy experienced a sharp loss of speed following the March 11 Great East Japan Earthquake. The slowdown continued through midyear, but the economy picked up sharply in the second half, benefiting from recoveries in production and exports made possible by the restoration of supply chains, along with the drafting of supplementary budgets in stages and the pickup in consumer spending resulting from the fading away of the post-earthquake mood of self-restraint and from the special demand generated by the switch to digital terrestrial television broadcasting and by the power-saving drive. From summer on, however, the economic prospects were darkened by the slowdowns in overseas economies and the sharp apprecia-

tion of the yen, and the pace of export and production growth slowed.

The government drew up three supplementary budgets in succession, consisting mainly of appropriations for earthquake recovery and reconstruction. They came to a total of ¥18.6 trillion, and to raise the necessary funds the government decided to issue reconstruction bonds to be paid off with temporary hikes in the income tax and corporation tax, along with cuts in the child allowance. And in response to the appreciation of the yen, the government intervened three times in the foreign exchange market, first in coordination with other countries in March and then independently in August and October. Meanwhile, the Bank of Japan moved in concert with the government to further loosen monetary policy by increasing the size of its asset purchase program.

In 2012, a gradual recovery should continue powered by public investment as reconstruction demand gets into full swing. In the second half of fiscal 2012 (year through March 2013) the effects of this demand will shrink, but a pickup in exports, particularly to emerging countries, should help the economy to return to positive growth, with gross domestic product expanding by 1.6% over the previous year (after a decline of 0.4% in fiscal 2011).

Consumer spending should recover gradually thanks to improvement in the employment and income pictures, but cuts in the child allowance and higher taxes will act as a drag on household finances. Residential investment will be supported by the extension of government incentive programs, and it should keep up the strong performance it has shown in 2011. Capital investment should grow, powered by improved corporate earnings, but the persistence of the strong yen and higher costs resulting from limits on the

The IMF's World Economic Outlook

(annual growth, %)

	2009	2010	2011	2012
World	-0.7	5.1	4.0	4.0
Advanced economies	-3.7	3.1	1.6	1.9
Japan	-6.3	4.0	-0.5	2.3
United States	-3.5	3.0	1.5	1.8
Euro area	-4.3	1.8	1.6	1.1
United Kingdom	-4.9	1.4	1.1	1.6
Other	-1.1	5.8	3.6	3.7
NIEs	-0.7	8.4	4.7	4.5
Emerging market and developing economies	2.8	7.3	6.4	6.1
Asia	7.2	9.5	8.2	8.0
China	9.2	10.3	9.5	9.0
India	6.8	10.1	7.8	7.5
ASEAN-5	1.7	6.9	5.3	5.6
Sub-Saharan Africa	2.8	5.4	5.2	5.8
Central and Eastern Europe	-3.6	4.5	4.3	2.7
Commonwealth of Independent States	-6.4	4.6	4.6	4.4
Russia	-7.8	4.0	4.3	4.1
Middle East and North Africa	2.6	4.4	4.0	3.6
Latin America	-1.7	6.1	4.5	4.0
Brazil	-0.6	7.5	3.8	3.6

Source: International Monetary Fund, World Economic Outlook, September 2011.

Notes: Figures for 2011 and 2012 are projections. Figures shown in italics for 2012 are those that we assess as being too optimistic and likely to need revision. The assumed price of oil based on future markets (simple average of prices of UK Brent, Dubai, and West Texas Intermediate crude oil) is \$79.03 a barrel in 2010, \$106.30 in 2011, and \$105.25 in 2012.

electric power supply, along with companies' priority on overseas outlays, will mean that the recovery power of such domestic investment will be weak. Public investment will grow as implementation of the third supplementary budget causes reconstruction outlays to get fully underway. Exports will lag in the first half on sluggish overseas demand but should pick up in the second half, powered in particular by demand from emerging countries.

Consumer prices will lack upward momentum overall as the yen continues to be strong and progress in closing the demand-supply gap remains slow. The impact of the 2010 cigarette tax hike and of increases in property and casualty insurance premiums will come to an end, but electric power rates are expected to be hiked to cover the increased cost of fuel for thermal power generation to replace the power from halted nuclear plants, and the overall price level for the year is expected to be flat. On the monetary policy front, as there is little chance of reaching the policy bench-

mark of a 1% rise in consumer prices, the zero-interest-rate policy will likely remain in place.

Looking at the risks the Japanese economy faces in 2012, many fear a dip may lie ahead, and there is particularly deep uncertainty about future movements in overseas economies and financial markets. On the external front, risk factors include a possible further worsening of the European sovereign debt problem and a global economic slowdown; turmoil in financial markets could transmit negative effects to the Japanese economy. On the domestic front, we face risks including further appreciation of the yen and limitations on power supplies, leading to higher costs; such developments could pull down exports and capital investment.

■ *Fumio Oi and Eri Senaga,*
December 13, 2011

MARKET OUTLOOK

2011 in review

Global commodity markets entered a correction phase from the middle of 2011, amid a global economic slowdown and financial turmoil. Crude oil and gold managed to post yearly gains, while industrial metals and agricultural products ended with significant losses.

Crude oil and oil products stayed in positive territory, with production bottlenecks like the interruption of Libyan crude supplies continuing throughout the year. In contrast, agricultural products shifted to a downward trend as supply worries alleviated during the course of the year. The US export market share eroded as Russia and Ukraine lifted their grain export bans and South American production increased. Gold rose on investment demand on the back of prolonged monetary easing in advanced countries and inflation in emerging countries, but industrial metals fell as the demand outlook deteriorated.

The year saw different developments depending on product and region even within the same sector. In the case of crude oil, the annual average price of Brent topped \$100 a barrel on production hitches in North Africa and the North Sea, but America's WTI underperformed due to increased production of unconventional crude. The turmoil in financial markets made investors leery of risk assets, and each commodity tended to reflect its own fundamentals.

Prospects for 2012

In 2012 commodity markets may well remain volatile. On the one hand, an uncertain outlook for the global

economy and ongoing instability in financial markets will keep the market vulnerable; on the other hand, there will be a need for increased supplies as long as the emerging countries continue to record strong economic growth and increased demand for commodities, as they have done in past years; thus long-term bulls remain. It will probably be a year of watching for the timing of bottoming out in the markets based on the degree of improvement in real economies and the environment for investment in risk assets.

Current projections forecast the growth of the world economy to linger in the mid-3% range. Global activity has weakened and become more uneven, confidence has fallen sharply recently, and downside risks are growing.

Markets have already factored in slower growth in demand, but they will be on edge over the possibility of even weaker demand performance. On the supply side, progress on new projects will contribute to larger supplies, but resource nationalism in countries seeking to increase their social expenditures and their public revenue (for example, by imposition of mining taxes and/or promotion of domestic added value), along with the need for expansion of infrastructure, will work to push up production costs.

Hopes remain for additional monetary policy easing, but the environment for speculative funds is becoming harsher because of moves to strengthen financial regulation and impose more stringent capital requirements, and also because of the extreme volatility in financial markets. It is thus unlikely that we will see any steady upward movement in commodity prices.

Here is our outlook for some specific commodities:

Crude oil: Demand growth will slow as global economic growth decelerates. The price gap between WTI and Brent will continue to narrow. But the risk of a spike due to supply disruption in the Middle East, such as from Iran, cannot be excluded.

Base metals: Expectations of slower economic growth worldwide are depressing hopes for demand growth as strong as in recent years; however, China still can underpin the market as it focuses on achieving sustainable growth rather than taming inflation.

Precious metals: Though the growth of industrial demand will probably slow, concerns over currency depreciation and rising inflation will support demand for precious metals as real assets, and investment demand will work to keep prices from falling; it is thus likely that markets will move within a high range.

Agricultural products: A combination of low inventories, strong demand from emerging countries, and the risk of supply shortages due to bad weather will continue to support prices, which are likely to rebound from their troughs. But the decline in the US share of the export market due to increased South American production and exports will act to cap prices on the US futures markets.

■ *Market Research Team,
December 10, 2011*

INDUSTRY OUTLOOK

Global M&A: Focus on cash-rich companies

Global cross-border mergers and acquisitions activity surged in the first half of 2011, with the value of such transactions reaching \$428.9 billion, up 42.6% from the same period a year earlier (based on figures from Thomson Reuters). Looking at the regional breakdown, we find that the increase was led by European companies, whose M&A activity had been sluggish in 2010 but grew by a multiple of 2.4 year on year in the first half. By industry, increases were seen in acquisitions of companies in the fields of resources and energy (rising from 20% of the total in 2010 to 22% in the first half of 2011) and electric, gas, and water utilities (rising from 5% to 11%).

Acquisitions by Japanese companies (based on figures from Recof) dipped in the wake of the March earthquake, and the figure for the first quarter of 2011 was down 19.0% year on year, but activity picked up from April on, as the appreciation of the yen encouraged Japanese firms to step up their international M&A activity with the aim of strengthening their overseas operations. The figure for January–September 2011 was up 38.7% from the previous year. Activity was especially lively in domestic-demand-oriented industries like pharmaceuticals and beverages, where firms have moved to develop new markets in emerging countries, particularly in Asia. Acquisitions within Asia accounted for 42% of the total number of cases in the first half of 2011, up from a share of 37% in 2010.

In the year ahead, it is feared that investment may shrink as a result of

worries about the impact on the global economy from the worsening financial crisis in Europe, along with deterioration of the fund-raising environment due to the introduction of new rules by the Bank for International Settlements. Investment by private equity firms accounted for 22% of the total number of M&A cases in 2010, but in January–May 2011 the share fell to 17% (according to an UNCTAD survey), and there is a strong chance that this decline will continue. In this context, cash-rich companies taking advantage of their money at hand to make acquisitions are seen as the potential driving force for M&A activity. In addition to moves by companies in advanced countries to develop business in emerging countries, we will be watching M&A by companies in Middle Eastern and African countries flush with oil earnings and by companies in the emerging countries of Asia as they seek to gain footholds in advanced countries' markets.

■ *Michiko Imuta, December 8, 2011*

Automobiles: Competition to sell “eco cars,” reexamination of supply chains

In 2011 full-fledged use of electric vehicles got underway in countries around the world. The year also brought the emergence of supply chains as an issue within the automobile industry in the wake of the Great East Japan Earthquake and the serious flooding in Thailand, both of which disrupted the flows of key supplies for automakers.

In 2012 the competition to sell “eco cars” will enter a new phase and may well become even more intense. Automakers will be adding to their

lineups of hybrid models and undertaking full-scale launches of plug-in hybrids; meanwhile, compact gas-powered cars boasting high fuel efficiency, made possible by reductions in size and weight and by various forms of technological innovation, such as idling stop systems, may raise their profile. Compacts are leading the rapid growth of demand for cars in emerging countries, and mass production of them facilitates lower costs. Both hybrids and compacts are likely to be strong rivals for electric vehicles.

We can also expect to see moves to review the supply chains within the automobile industry. Before the March 2011 earthquake automakers were so determined to cut costs that they concentrated their production facilities to an extreme degree, and apparently in many cases they had supply contracts with just a single company. The need to diversify these sources has become an issue.

Automakers can be expected to implement standardization and sharing of parts and design operations among different models within the same company, and we will likely also see moves toward adoption of common parts by multiple companies. Also, the moves toward formation of global alliances in the field of eco cars (involving joint research and sharing of technologies) are expected to accelerate.

Key areas to watch in the year ahead are fuel-efficient gas-powered compacts and the review of supply chains.

■ *Eiki Tagami, December 7, 2011*

Steel: Slower growth in the works

Global demand for steel is estimated

to have grown for the second straight year in 2011, increasing by 6.5%. But the pace of the increase is down from the 13.1% rise recorded in 2010, reflecting decreased demand in the advanced countries. Prices of coking coal rose in response to the large-scale flood damage in Australia, which put a crimp on supplies. Iron ore also reached higher price levels than in 2010 because of China's appetite for imports.

In 2012, the pace of increase in demand for steel from emerging countries, which have been driving the market, is likely to decline as a result of the deterioration in European economies and the turmoil in financial markets; global demand is seen rising 5.4% from the level in 2011. In China, excess supplies and the slowdown of infrastructure and private-sector real estate investment are likely to cause the market for steel products to soften, and this in turn is likely to mean narrower price margins for such products.

The year ahead is likely to bring a return to equilibrium between supply and demand for steelmaking material, with the conclusion of the flooding in Australia that affected the supply of coking coal and progress in projects to expand production of iron ore in Australia and Brazil. However, we will need to keep an eye on how the rise of exploitation costs will affect future raw material prices; the costs of supplies, equipment, and labor are rising due to the boom in resource exploitation, and Australia will be introducing new carbon and resource taxes.

One change in the global picture for the steel industry is the emergence of countries like Russia, South Korea, and India as exporters of steel products with supplies to spare and competitive strength. China's exports of steel products have also been trending upward as domestic demand softens. In Japan, by contrast,

the rise of the yen has worsened conditions for exports, and this harshness is expected to continue in 2012. And in Europe, in response to deteriorating economic conditions and the financial crisis, moves are being taken to reduce steel production, including the closing of ArcelorMittal's steel mill in Europe.

■ *Mikiko Tate, December 7, 2011*

Energy mix: Three types of strategy orientation

According to the International Energy Agency, global consumption of energy is expected to keep growing at a rate slightly under 2%, averaging 1.8% from 2009 through 2020, driven by the emerging countries. Reliance on fossil fuels will remain virtually unchanged, accounting for 81% of total energy supplies in 2009 and 80% in 2020. Even in the wake of the March 2011 nuclear plant accident in Japan, the share of nuclear power is expected to stay steady at 6% from 2009 to 2020, and renewable energy sources to be almost unchanged, edging up from 11% to 12%.

Amid ongoing large-scale consumption of fossil fuels, particularly in emerging countries, there is increasing interest in natural gas, which places a relatively light burden on the environment by comparison with other fossil fuels, and which is in ample supply, thanks in part to the development of unconventional sources like shale gas. Natural gas is expected to come into increasing use as a substitute for oil. Demand growth is expected to be led by China, which is seeking to diversify its energy sources, with the supply side being led by Qatar and other countries in the Middle East and by Russia, which is the world's biggest producer.

The medium-term energy strategy orientations of major countries can

be classified into three major types according to expectations for growth of energy consumption and for the share of increased consumption to be met by fossil fuels: (1) fossil-fuel-dependent, (2) balanced, and (3) renewable-energy-promoting. The countries with fossil-fuel-dependent orientations include China and India, which are large-scale consumers of energy, Russia and other resource-rich countries, and Japan, which is reconsidering its nuclear energy program. Those with "balanced" orientations are the United States, Brazil, and other countries working at development of both fossil and non-fossil fuels. In the renewable-energy-promoting camp are the countries of Europe, which have relatively low rates of growth in energy consumption and are not particularly well endowed with fossil fuel resources, meaning that they are prone to feel incentives to switch to nuclear power and renewable energy sources.

■ *Yasukatsu Takei, December 9, 2011*

Large-capacity storage batteries: Growing needs in a variety of fields

The demand for storage batteries is growing. They are needed as power sources in electric vehicles, and there is also an increasing need for them to provide emergency supplies of electricity amid concerns about nationwide power shortages here in Japan. In addition, they have an important role to play in enabling use of renewable energy sources like solar power and wind power to generate electricity. These renewable energy sources are subject to major variations depending on the weather, season, and time of day. Including large amounts of such power in the electricity-generating system is liable to result in temporary imbalances between supply and demand. Batteries can serve as

a buffer to even out the fluctuations and keep the power flowing steadily. Attention is now focused particularly on the development of storage batteries with large capacities, which can offer efficient solutions to meet needs of this sort.

The lithium-ion battery, which has a high energy density—meaning a large capacity—is currently seen as a promising candidate in the field of rechargeable batteries. As its cost performance improves, it is likely to come into greater demand. The so-

dium-sulfur battery was also considered a contender as a large-capacity storage device, but its use has been halted in the wake of a September 2011 fire at Mitsubishi Materials. It needs to operate at a high temperature (around 300°C), and so it must be improved to assure safety. Another candidate is the redox (reduction-oxidation) flow battery, but its energy density is low, meaning that a large area is required to install such a battery capable of providing large-capacity storage; further improve-

ment is required to make it a practical option.

In addition, pumped-storage hydroelectricity is attracting attention as a large-capacity storage technology not involving rechargeable batteries. This involves using surplus nighttime electric power to pump water that has been used in hydroelectric power generation back up into a reservoir to generate power again. This technology is already in practical use.

■ *Kouichi Akimoto, December 15, 2011*

INTERNATIONAL AFFAIRS

Middle East and North Africa: After the Arab Spring and US pullout

The “Arab Spring” that started last January in Tunisia has caused major changes in the Middle East and North Africa. Meanwhile, the US military forces that have been in Iraq since 2003 are to pull out by the end of 2011; the US withdrawal may lead to a heightening of tensions between Iran, whose regional clout is growing, and Saudi Arabia, which is seeking to hold Iran’s expanding power in check.

The Arab Spring has affected virtually every country in the Middle East and North Africa to a greater or lesser degree. In countries like Tunisia, Morocco, and Egypt, where elections have been held, Islamic political parties have achieved notable advances thanks to their superior organizational strength, and the secular forces composed largely of young people who played a leading role in the campaign for democracy have had to settle for second place

or less. But the impact has been only slight on the members of the Gulf Cooperation Council, which continue to be relatively stable, with the exception of Bahrain, where the majority Shias have launched an antigovernment movement seeking better treatment for themselves.

In Iraq, Shias may come under increasingly strong influence from Iran following the complete withdrawal of US forces. Iran is aiming to extend its clout as far as the border of Israel by making allies of Iraq, Syria, and Lebanon, where Shias hold the upper hand. Meanwhile, Saudi Arabia and other GCC members are seeking to resist Iran’s expanding reach by strengthening their own military capabilities and allowing the stationing of US forces. And in Syria, which has been a key ally for Iran, the Arab Spring has set off a popular movement of opposition to the government, which has become prolonged and fierce. The opposition is made up mainly of the country’s Sunni masses, and if it succeeds in overthrowing the regime of

President Bashar al-Assad, which is led by members of a Shia sect, the region’s geopolitical balance may shift substantially.

■ *Kunio Tsurumi, December 14, 2011*

Russia and Central Asia: Looking east

Russia and the countries of Central Asia have been seeking to diversify the destinations for exports of their energy resources, and they have been expanding their shipments of oil and gas to Asian markets. Russia previously sent more than half of its oil and gas exports to Europe, but it has been increasing its exports to Japan and other Asian countries since 2006, while working on the Sakhalin-1 and Sakhalin-2 projects to develop oil and gas fields in the continental shelf. In 2009 it started operations at its first liquefied natural gas plant, located in Sakhalin, where production has now risen to about 10 million tons a year, of which more than half are going to Japan. And at the end of 2009 the first stage of the Eastern

Siberia–Pacific Ocean oil pipeline system came into service; phase two is due to come on line in 2013. Using this set of pipelines, Russia expects to expand its annual exports of oil to Japan and other Asian countries from the current level of 15 million tons to about 80 million tons by 2020. In another aspect of Russia's eastward gaze, work is now underway on large-scale infrastructure projects in Vladivostok, where Russia will host the 2012 summit of the Asia-Pacific Economic Cooperation forum.

Meanwhile, the countries of Central Asia, which are richly endowed with natural resources, have been expanding their exports of natural gas to China and adopting a stance of working to strengthen their economic ties with that country. Turkmenistan has agreed with China to supply the latter with an annual maximum of about 65 billion cubic meters of natural gas by 2015. Kazakhstan is also working on closer economic ties with China, as seen in moves including the construction of a new gas pipeline and the establishment of a jointly administered free trade zone.

■ *Anton Goroshnikov,*
December 14, 2011

Myanmar: After the shift to civilian government

After many years of rule by a mili-

tary regime, Myanmar (Burma) shifted to a civilian government in March 2011, and to the surprise of many observers, it has since then achieved a major transformation. Following the launch of the new administration, senior officials have resumed dialogue with Aung San Suu Kyi; in September the government decided to halt construction on the Chinese-led Myitsone hydroelectric dam construction project; in October the authorities released a number of political prisoners; and in December the government hosted a visit by US Secretary of State Hillary Clinton. Early in 2012 elections will be held to fill vacancies in the federal legislature, and Suu Kyi has declared her intention of running.

Myanmar's trade figures for 2010 showed a total of \$8.93 billion in exports and \$6.46 billion in imports. The top five export destinations were Thailand, Hong Kong, China, India, and Indonesia, in that order, while the top sources of imports were China, Singapore, Thailand, South Korea, and Indonesia.

The country is rich in resources, notably zinc, gold, silver, chromium, tin, tungsten, copper, lead, nickel, and manganese, and it also produces oil and natural gas; it thus has the potential to develop as a major resource-exporting country in the period to come.

Myanmar has developed close

ties with China; the volume of bilateral trade was \$4.4 billion in 2010, and the figure is estimated to have grown to \$6.6 billion in 2011. Also, the oil and gas pipeline currently under construction between the two countries is scheduled to start operating in 2013. But with its decision to halt work on the Myitsone hydroelectric dam (the biggest of seven hydroelectric plants that China was planning to build in the upper reaches of the Irrawaddy River), which had been the target of popular discontent, the new administration has signaled its intention to reconsider the bilateral relationship.

In relations with Western countries, meanwhile, the recent visit to Myanmar by US Secretary of State Clinton was the first such event in 57 years. This showed that the country is on the road toward improved ties with the United States, and there are hopes that this will be followed by progress in winning the lifting of the economic sanctions that have been imposed on Myanmar.

■ *Yutaka Kitamura,*
December 14, 2011

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