

Pound, lira withdrawn from ERM, peseta devalued: EC officials' emergency meet

BRIEFS

US to donate \$33.6m surplus corn

WASHINGTON, Sept 17: The United States will donate \$33.6 million dollar worth of surplus corn for humanitarian distribution in Africa, Agriculture Secretary Edward Madigan announced Wednesday. The Agriculture Department said priority would go to Somalia, Kenya and other African countries where civil strife, drought and refugee needs have strained local food supplies. "This donation reaffirms the United States' commitment to respond to emergency food needs wherever they arise," Madigan said. The donation will be available starting October 1. The United States will cover transportation costs, storage and handling. Distribution will be coordinated with the US Agency for International Development and the UN World Food Programme. Some private US organisations may also be involved, reports AP.

Saddam's son slates food price rise

BAGHDAD, Sept 17: Iraq's most outspoken newspaper, published by President Saddam Hussein's son, criticised the government Wednesday for failing to control soaring food prices and the skyrocketing black-market dollar exchange rate. The rate Tuesday night, the newspaper Babel said, shot up to 47 Iraqi dinars to the US dollar from 42 dinars on Tuesday morning. The official rate is three dollars to the dinar, and the unofficial rate ranged from 18 to 25 over the past few weeks before a sudden jump. Because of the two-year UN-imposed economic embargo, Iraqis are suffering acute shortages of food and medicine. The prices of all goods and services have increased dramatically, reports AP.

Industrial output in US falls

WASHINGTON, Sept 17: Industrial production fell 0.5 per cent in August, the government said Wednesday, due in part to the effects of Hurricane Andrew and a strike at a General Motors parts plant. But excluding the storm and the strike, output at the nation's factories, mines and utilities still dropped, the Federal Reserve said in the latest report suggesting the manufacturing engine that once drove the economy had lost its steam. "Hurricane Andrew... disrupted output of several major industries, particularly oil and gas extraction, petroleum refining and petrochemicals," the Fed report said. "Effects of the storm reduced industrial production by a little more than 0.1 per cent in August, reports AP.

Aid shipment to Mozambique stolen

MAPUTO (Mozambique), Sept 17: Shipments of food aid in several areas of Mozambique have been stolen or destroyed, the AIM national news agency reported Wednesday. It said criminals have stolen food in different regions for later resale, while anti-government rebels destroyed five trucks in a convoy in central Zambezia Province. Already ravaged by a 15-year-old civil war, the southeast African nation has been further wracked by the region's worst drought in a century. More than 3 million people are believed to face starvation without donated food. Government and rebel negotiators are trying to reach agreement on a ceasefire before an October 1 deadline set in previous negotiations in Rome, reports AP.

Sweden to raise interest rate

STOCKHOLM, Sept 17: The central bank said Wednesday it would raise the marginal interest rate to a record 500 per cent, the second increase in 24 hours as the bank struggled to prop up the value of the krona after a large capital outflow. The 500 per cent rate would take effect Thursday morning, the Riksbank said in an announcement just after the stock market had closed. It said a 75 per cent increase announced Wednesday morning was not enough to keep money from flooding out of the country chasing stronger currencies such as the German mark. Prime Minister Carl Bildt called a crisis meeting with all opposition party leaders. Several Cabinet members cancelled trips to attend the meeting. Ingvar Carlsson, leader of the biggest opposition party, the Social Democrats, flew home from a meeting of the Socialist International in Germany, reports AP.

Chaotic situation in European currency market

LONDON, Sept 17: Britain suspended the pound from the EC Exchange Rate Mechanism (ERM) on Wednesday after failing in a desperate struggle with speculators to prevent the currency sliding below its ERM floor, reports agencies.

German Finance Minister Theo Waigel, however, said he expected the suspension to be restricted to the pound and that it would rejoin the monetary system after a short period.

A British official said parliament, now in recess, was being recalled on Thursday next week to discuss the crisis, but rejected any suggestion that either Prime Minister John Major or Chancellor of the Exchequer Norman Lamont might resign.

Lamont rescinded a rise of three points in interest rates meant to take effect on Thursday, announced earlier as part of a rearguard action to avert devaluation. But a two-point rise to 12 per cent stood.

Earlier in the day, the Bank of England had announced two sharp increases in its base interest rate, first from 10 per cent to 12 per cent. When that failed to lift the pound, the bank raised the rate to 15 per cent.

Interest rates are a key tool countries use to defend the value of their currencies. Higher rates make a currency worth more but they stifle economic expansion by making it more expensive to borrow. When one country raises rates, it puts pressure on others to do likewise.

Britain's move was only part of an increasingly chaotic economic situation in Europe.

Following Britain's desperate moves to boost the pound industry and labour leaders said they feared that if higher

rates persist, Britain's recession-wracked economy would pay the price of more lost jobs, business failures and home repossessions.

A treasury spokesman said the announcement "should not be viewed as a devaluation of pounds sterling. It is a suspension of membership of the exchange rate mechanism only."

Economists said this was tantamount to a devaluation and the British currency's value plummeted on the news.

Although Prime Minister John Major has steadfastly said he will not devalue the pound, currency traders said Britain had effectively done so.

Efforts to prop up the pound by buying the currency had cost Britain billions on Wednesday alone.

The European Community on Thursday devalued the Spanish peseta by five per cent and temporarily removed the Italian lira from the exchange rate system of the European Monetary System (EMS).

The move came shortly after Britain abandoned the pound to the mercies of the market.

The chaos — plus the departure of two currencies from the EMS exchange rate system — has added to a sense of crisis about the European Community goal of forging a political and monetary union through the Treaty of Maastricht, which faces a crucial referendum in France on Sunday.

It is feared the French will vote "no," which would raise more doubts about Europe's plan to become one grand market and a single economic superpower, rivaling the United States and Japan.

Sweden's central bank on Wednesday raised a key leading rate to 500 per cent in a

desperate attempt to protect the value of its currency, the Krona.

Italy's central bank, meanwhile, bought lire to stabilise that currency's eroding value.

economies of its neighbours, by easing pressure on them the keep rates high.

The effect of that increase quickly wore off, however. High German interest

enjoy a better return on their money.

That pushed the dollar to record lows last month.

Top European monetary officials began crisis talks on Wednesday night on the European Monetary System (EMS) after Britain was forced to pull sterling out of its exchange rate mechanism (ERM).

Lamberto Dini, Director General of the Bank of Italy, told reporters that the EC's monetary committee did not face a deadline of the opening of the Asian currency markets to take its decision.

A senior British government official said in London that the government would welcome a complete suspension of all 11 currencies in the ERM grid at the Brussels meeting.

But German Finance Minister Theo Waigel said he expected the suspension to be restricted to the pound and that it would rejoin the monetary system after a short period.

The panel of EC central bank directors, who met for six hours in emergency session in Brussels, Belgium, did not say how long the lira would be suspended. It was also unclear how long the pound would be suspended.

The European Monetary System, in place since 1979, sets maximum fluctuations rates for all 12 EC currencies but the Greek drachma.

It forces members to spend billions to buy their own currencies so they trade within set parameters. The pound and lira will now gravitate to whatever level is determined by the global currency market.

In a statement following their meeting, the bank direc-

tors said all EC states "stress their unanimous commitment to the European Monetary System as a key factor of economic stability and prosperity in Europe."

Reaction of IMF

The current turmoil in foreign exchange markets is essentially a temporary phenomenon ahead of major events this weekend, a senior official of the International Monetary Fund (IMF) said here Wednesday.

"What we are clearly seeing this week is a crisis in foreign exchange markets in advance of events this weekend," Michael Mussa, director of the IMF's research department told a press conference.

"For the moment there really are no implications for the forecast in the world economic outlook" report on the world economic situation, released Wednesday, Mussa said.

Mussa warned that in the current world economic climate, the US Federal Reserve and other central banks should avoid "turbulence-causing" changes in rates which could upset the markets.

Asked about the likely effect on the markets of the French vote on the Maastricht European Union Treaty, Mussa said clearly a "no vote" is going to be a very different world from a "yes vote," but it was impossible to predict what the markets would do come Monday morning.

Turmoil spreads to Tokyo

Japanese Prime Minister Kiichi Miyazawa Wednesday labelled as "very small" a 0.5 per cent cut in Germany's official discount rate while the bank of Japan governor brushed off pressure to ease

credit at home. Miyazawa told Japanese reporters that the Bundesbank had to make a "difficult choice" while the German mark maintained strength against other key currencies.

Yasushi Mieno, the central bank governor, told a regular press conference that the German rate cut would "help stabilise international currency markets" but it would "have no direct impact on Japan's monetary policy."

Many Japanese traders were reluctant to venture into the volatile market, while dealers in Singapore and New York bought back the pound to cover short, or oversold, positions following the pound's plunge in European markets.

Around 0300 GMT, the pound was trading at 2.6793 marks in Tokyo, up from 2.6707 marks at the open but below the 2.7032 closing level in New York Wednesday. The pound was also trading at 1.7720 dollar, up from 1.7710 dollar. At the open but below 1.7855 dollar in New York. The British currency finished at 2.7793 marks and 1.864 dollar in Tokyo Wednesday.

Netherlands, Belgium cut interest rate

The Netherlands and Belgium on Wednesday announced cuts in key interest rates.

The Dutch Central Bank said it would lower its three key official rates effective from Thursday by 0.25 percentage points.

The Belgium Central Bank said it was cutting emergency lending rate to 10.75 per cent from 11 per cent and discount rate to eight per cent from 8.25 per cent effective Thursday.

EC, US call off talks on Oilseeds

GENEVA, Sept 17: The European Community and the United States on Wednesday called off scheduled talks on oilseeds, deciding instead to bring the acrimonious trade row to the ruling GATT council later this month, an EC spokesman said, reports Reuters.

The one-day discussions were to have focused on an EC proposal to compensate foreign producers of oilseeds.

"By common agreement, the talks have been postponed — suspended, whatever. We decided this is not the right time to talk," the EC official told Reuters in response to an inquiry.

"The next logical step is the council," he added.

"The council of the General Agreement on Tariffs and Trade (GATT), the ultimate arbitrator in rows between the 105 member nations, next convenes here on September 29."

A total of 10 producing nations, including the United States, have protested that EC subsidies on oilseeds give its farmers unfair advantage in the European market.

Washington has hinted at retaliating by placing punitive tariffs on EC food and drink imports.

Twice over the years independent GATT dispute panels have supported US formal complaints about EC oilseed subsidies — despite a complete revamping of the Community's regime after the first ruling against Brussels.

In recent bilateral talks here and in Brussels, the United States has rejected EC compensation offers, instead insisting the community modify its regime, according to the EC official.

The nine other nations arguing for better EC market access for oilseeds are: Argentina, Brazil, Canada, Hungary, India, Pakistan, Poland, Sweden and Uruguay.

Rich nations meet to decide aid quantum for poorest

WASHINGTON, Sept 17: Rich nations will meet here Thursday and Friday to try to narrow their differences on how much money to give the world's poorest countries over the coming three years, western officials said, reports Reuters.

But the looming US presidential election and disputes over how the money should be divided up are expected to prevent them from reaching a final agreement.

The World Bank is asking donor nations to contribute at least 18 billion dollar to its International Development Association affiliate for the

three years starting July 1, 1993.

That would ensure that IDA, which lends money to the world's poorest countries and charges them no interest, has the same amount of money, taking inflation and currency movements into account, as it did over the last three years.

Officials said European nations and Japan generally support the aim of at least maintaining the value of IDA in real terms, adjusted for inflation and currency changes.

But the US position is less clear. In the last IDA replenishment, the United States contributed some 22 per cent

of the 15.5 billion dollar the World Bank affiliate received.

But a drop in the value of the dollar since then means that the United States could have to put in relatively more in the next IDA replenishment.

Contributions are measured in terms of Special Drawing Rights, the artificial currency of the International Monetary Fund and World Bank.

Officials said other donors nations are pressing Washington to at least maintain its share to IDA contributions in the next replenishment. Some even want the United States to increase its share more in line with the size of its economy.

UN should foster closer ties with WB, IMF: Ghali

UNITED NATIONS, Sept 17: The United Nations should foster closer ties with the World Bank and the International Monetary Fund (IMF) in an effort to fully integrate developing countries into the world economy, UN Secretary General Boutros Boutros-Ghali said Wednesday, reports AFP.

In his first annual report on the status of the world body, Boutros Ghali said the United Nations had a "crucial responsibility" in supervising economic and social policies with a view to encouraging the integration of developing countries.

He spoke in favour of closer ties between the United Nations and the World Bank and IMF saying that "through such a closer relationship, the United Nations would bring to bear its overall global responsibilities in the political, humanitarian and socio-economic sphere."

Many developing countries

are wary of such a proposal, arguing that both the World Bank and the IMF are largely controlled by the richer industrialised countries.



They charge that these countries capitalise on their positions of strength to link the granting of aid and loans to poorer countries to the implementation of the reforms that they deem necessary.

"The United Nations still has a continuing obligation to put its weight behind those who are most seriously underprivileged and to address the root causes of the economic decline which still characterizes the situation of many countries in Africa, Asia, and Latin America," Boutros-Ghali said.

"Time has shown I was right," he declared. "Most of the population now see their ills in the disintegration of the Soviet Union... people did not agree with me, and Bolshevik measures were applied."

"We are now on the verge of a catastrophe," Gorbachev said, but added, "We are not too late. We need a new policy based on the agreement of all of society."

Gorbachev also sketched the idea of a strong, coherent world leadership that would "enforce law-abiding behaviour" among international renegades.

He made no specific idea, other than the transformation of the United Nations into an effective tool of cooperation that would not only quell conflicts "but prevent them arising."

Ex-Soviet states on verge of catastrophe, says Gorbachev

BERLIN, Sept 17: The break-up of the Soviet Union has left the economies of its member republics on the verge of catastrophe and most of their citizens yearning for the old ways, former Soviet President Mikhail Gorbachev warned here Wednesday, reports AFP.

Making the first speech by a Soviet leader to the Socialist International, the union of leftwing pro-democracy parties, Gorbachev lashed his erstwhile political rival, Russian President Boris Yeltsin, for using "Bolshevik measures" in his pursuit of reform.

Without naming Yeltsin, Gorbachev said the appeals for "gradual change" and a reformed political structure in the Soviet Union went unheeded.

The headlong dash for reform was now creating tension, nationalist friction and economic collapse, with many people now "nostalgic for the socialist guarantees that existed" in the Soviet Union, he said.

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Singapore to allow more foreign workers in construction sector

SINGAPORE, Sept 17: In an attempt to ease the shortage of workers in Singapore's booming construction industry, the government will again let contractors to hire more foreigners, reports AP.

Five foreign workers may be employed for each Singaporean on the payroll, the Labour Ministry announced Wednesday.

The ruling takes effect in November and changes one in effect since April that fixed the "foreign worker dependency ratio" at three skilled or unskilled foreigners to each local. Before that the ratio had been two to one.

The new formula could increase the number of foreign construction workers from the present 120,000 to 200,000, according to a spokesman for the Singapore Contractor Association, which welcomed the change.

In a separate development

last month, the government announced that contractors involved in public housing projects could bring in five additional foreigners for every million dollar (\$28,931 US dollar) in annual turnover.

The monthly levy for skilled guest workers in construction remains at 250 dollar (US dollar 157) and 400 dollar (US dollar 252) for unskilled hands.

A recent Economic Trends Report prepared by the US Embassy said the construction industry expanded by 22 per cent last year as a number of private and public sector projects got underway.

"Total construction demand in 1992 is estimated at 4.8 billion, US dollar of which approximately 2.7 billion US dollar will be accounted for by 75 Singapore government tenders to build 23,000 public housing units," the report said.

China opens seven cities to Japanese banks

BEIJING, Sept 17: The central bank, the People's Bank of China, has given approval to Japanese banks to set up wholly-owned subsidiaries in seven cities, a newspaper said Wednesday, reports AFP.

The cities are Dalian, Fuzhou, Guangzhou, Nanjing, Ningbo, Qingdao and Tianjin, the China Daily reported.

The banks would be permitted to conduct foreign exchange business and the move marked a "breakthrough" in Japan's wait-and-see attitude on investment in China to a more aggressive policy, the paper said.

Osaka-based Sumitomo Bank was poised to start business in Guangzhou while another unnamed bank would set

up a subsidiary in Qingdao, it said.

Bank of Tokyo and Industrial Bank of Japan were granted approval earlier this month to set up branches in Dalian.

Japanese financial institutions have been wary of jumping into the Chinese investment market due to concerns over the continuity of the country's reform policies.

Crack down on illegal tax breaks

China plans to crack down on illegal tax breaks given to foreign investors by some local governments eager to attract business from abroad, an official report said Thursday.

Cambodia — a land where people must buy rice in morning

PHNOM PENH, Sept 17: Rampant inflation that could top 300 per cent this year is threatening to turn Cambodia into a country where people must buy rice in the morning to beat price increases by afternoon, writes AFP.

And the UN Transitional Authority in Cambodia (UNTAC), despite a mandate for direct control over the four factions that administer this country, can do little to stop it, according to economists and financial analysts.

"They have a massive problem a long time in the making and they don't have the means to adjust it," said one economist. "They're stuck."

Just like the former Soviet Union which used to prop up this economy, Cambodia is attempting to shift from a communist to a capitalist system. But it has no foreign exchange or gold reserves, is running a budget deficit of 40 million dollar and owes more than 70 million dollar to foreign institutions.

off on their hands.

In July and August it printed 27 billion riel (13 million US dollar), according to International Monetary Fund figures.

As a result, the riel is plunging against the US dollar. From 350 to the dollar in December, it hit a low of 2,800 to the dollar last week and bounced back to 2,300 on Wednesday.

Inflation was 30 per cent in July alone — up from 20 per cent in June — according to the IMF.

"There's no chance of the inflation rate coming down until well after the election" in May 1993, said an economist with a western diplomatic mission.

Cambodia threatens to become a "banana republic-like economy where people say they better buy this morning because the price will go up this afternoon," he said.

If the government stops printing money, the economy will collapse, he said.

The only solution, economists say, is a massive capital infusion. In any other country, the IMF or World Bank would bail out the economy while a restructuring could take place.

But Cambodia's unique political situation — where the Phnom Penh administration with the most land and power is not acceptable to the United Nations because it was installed by Vietnam — makes any World Bank or IMF loan unlikely until after the UN-run election.

Roger Lawrence, the American in charge of finance at UNTAC, has been lobbying hard for such fast cash but has little hope of it being granted soon.

Instead, he plans a long-term strategy of helping the government impose taxes — which are presently nil — clamping down on smugglers and corrupt officials and urging patience.

"There are difficulties and we're simply going to overcome them," he said in an interview. "It can't be reversed in a couple of weeks."

While Cambodians in the capital and provin-

cial cities are feeling the pinch, Lawrence argues that there was "not much impact on the rice farmer in Kompong Cham."

About 80 to 85 per cent of Cambodians are living at a subsistence level off their farms.

But in the cities, the price of medium grade rice — every Cambodian's staple — has gone from 330 riel per kilogram two weeks ago to 400 riel (17 US cent) Wednesday. Both are the equivalent of 17 US cent, as the exchange rate was 2,000 riel to the US dollar at the beginning of September.

It now costs 80,000 riel (40 dollar) a month to feed an urban family of four, according to one embassy study.

Traffic policeman Doum Sovan, 36, earns just 13,000 riel (5.6 dollar) per month.

"I feel so upset with the daily inflation," he said. "The only thing I can do is depend on my wife. She sells (rice) cakes at central market, and sometimes I borrow money from my friends."

Dollar remains higher, stocks edge up in Tokyo

TOKYO, Sept 17: The US dollar remained higher against the Japanese yen Thursday morning as market players avoided risky European currencies, including the British pound. Share prices on the Tokyo Stock Exchange edged up, reports AP.

The dollar ended Tokyo's morning session at 124.75 yen. It opened at 124.83 yen, up 0.53 yen from Wednesday's close, and ranged from 124.70 yen and 124.95 yen.

The 225-issue Nikkei Stock Average rose 189.68 points, or 0.11 per cent, to finish the morning session at 18,134.38. The average, which fell 526.70 points or 2.95 per cent,