

BRIEFS

Clinton supports free trade accord

MEXICO CITY, Nov 6: Mexico's stock market rallied late Thursday after President-elect Bill Clinton was quoted as saying he fully supports the free trade agreement between the United States, Canada and Mexico.

Kuwaiti oil output reaches 1.5m BPD

KUWAIT CITY, Nov 6: Kuwait has restored crude oil production to its pre-Gulf crisis level of 1.5 million Barrels Per Day (BPD), the Oil Ministry said Thursday.

Cigarette-liability case withdrawn

NEW YORK, Nov 6: The US Conglomerate Philip Morris Cos Inc said on Thursday that the Plaintiff Ina landmark cigarette-liability case has dropped the lawsuit.

Dollar mixed, stocks fall in Tokyo

Tokyo, Nov 6: The US dollar was moving in a narrow range against the yen Friday morning ahead of the release of US economic data, as share prices fell in early trading.

EC, Slovenia sign trade accord

BRUSSELS, Nov 6: The European Community and Slovenia signed a trade and economic cooperation accord Thursday, the first between the European Community and a former Yugoslav republic.

\$165m ADB soft loan for Pakistan

MANILA, Nov 6: The Asian Development Bank (ADB) headquarters here Thursday approved a 165 million-dollar soft loan to Pakistan for provincial highway projects that would benefit some 15 million people.

Jordan's bank debt talks suspended

AMMAN, Nov 6: Jordan and its major commercial bank creditors have suspended debt restructuring talks after reaching an impasse on interest rates.

Russia's new steps to cut bread prices

MOSCOW, Nov 6: Russia plans new measures to drive bread prices down, shaving about one cent off the price of an already subsidised loaf, local news agencies said.

Open conflict erupts as trade talks fail

BRUSSELS, Nov 6: Tension over failed trade negotiations between the European Community and the United States erupted into open conflict on Thursday, reports Reuter.

Washington said it would slap 200 per cent duties on 300 million dollar worth of EC goods and the EC's farm trade negotiator quit accusing European Commission President Jacques Delors of meddling.

The dispute between Washington and Brussels threatened to scuttle six years of talks on a new General Agreement on Tariffs and Trade (GATT) world trade pact worth 200 billion dollar to the world economy.

The EC called the US action illegal and said it would make it difficult to continue talks on GATT agreement.

GATT Director-General Arthur Dunkel said in Geneva

he was gravely concerned by the latest twist in the US-EC battle but pleaded to see that both sides had expressed determination to continue negotiations before the sanctions came into effect.

Washington's sanctions will bite on December 5 and the community has already said it will retaliate with unspecified measures.

On Thursday night Trade Commissioner Fran Andriessen said in a statement that the community was still ready to negotiate.

"It notes however that the methods used by the United States do not help the search for an agreement and endanger the whole of world trade."

"It is an illegal position under GATT rules and this decision will make it more difficult to continue talks which both and community and American negotiators agree, should be pursued," he added.

The EC's own internal battle over the negotiations, which collapsed on Tuesday in a row over the community's subsidies to oilseed farmers, burst into the open when officials said Ray Macsharry was quitting as top negotiator.

A senior commission official said Macsharry had told Delors "I don't want anything more to do with the GATT talks."

Macsharry's reason for pulling out of his vital role was "battles with Delors" for "undermining his position" during the last-ditch talks in Chicago with US Agriculture Secretary Ed Madigan.

A commission spokesman said Macsharry would stay on as farm commissioner but refused further comment.

Macsharry is the second senior commissioner after Andriessen to clash with Delors, Frenchman openly accused by Britain of having divided loyalties in the trade is-

sue, France being the main opponent of concluding a deal. Now, "Andriessen and Delors don't speak to each other," the commission official said.

He confirmed that Delors was deeply at odds with the two top negotiators for the commission, the EC's executive which negotiates on behalf of the 12-Nation European Community.

US Trade Representative Carla Hills said on Thursday the US tariffs would apply to European wines and farm goods. She also released a list of an additional 1.7 billion dollar in EC industrial products that may be targets for punitive tariffs if the dispute is not settled.

Although Andriessen's statement on Thursday did not mention retaliation, he said on Thursday he personally thought the community should do so.

France, which could suffer most from the US action, said on Thursday it regretted "that the United States has decided to resort to restrictions against some European exports."

The French government demands that the European (Community) council of ministers react very firmly to the US step by announcing its intention to take symmetrical measures," it said.

The oil seeds dispute at the centre of the row is not, strictly speaking, part of the GATT talks but has become the crucial element holding up agreement on the wider issues of freeing up trade into the next century.

GATT has twice ruled that the EC subsidies, despite modifications, violate world trade rules and the US has rejected EC offers of compensation.

Asians fret over trade war The possibility that a US-

European disagreement over farm trade might set off a protectionist trade war sent a chill Friday through Asian exporting nations.

Japanese officials fretted over the future of the global free trade system that has made their country prosperous, but gave no indication they might take the initiative in trying to end the stalemate by offering to ease their nation's ban on rice imports.

In South Korea, Park Young-kook, a director at the Ministry of Trade and Industry, said the possibility of an agricultural trade war was "bad news for the Korean economy."

"South Korea will have more to lose than win if the talks fail because its economy is heavily dependent on external trade," Park said.

Tokyo, Seoul will maintain link to overcome NAFTA pressure

SEOUL, Nov 6: Japan and South Korea have agreed to maintain close consultations in handling trade pressure or any discrimination in North America, a Seoul official said Friday, reports AP.

The agreement at a meeting of Japanese and South Korean trade officials in Seoul Thursday reflected mounting concerns in the two nations over possible protectionist moves by Washington.

"Both sides called for trade consultations, concerned about possible discriminatory actions from the North American Free Trade Agreement," a Foreign Ministry official said.

The North American agreement was signed by the United States, Canada and Mexico.

Yeltsin may not be invited to next G-7 summit

TOKYO, Nov 6: Russian President Boris Yeltsin may not be invited to the next summit of the Group of Seven, to be held in Tokyo in July, the Yomiuri Shimbun reported Friday, quoting a Foreign Ministry official, reports AP.

"Prime Minister Kitehi Miyazawa will fall into an extremely difficult situation if President Yeltsin comes to Tokyo with no concessions on hand" because of the continuing bilateral dispute over the Kuril Islands, the source said.

Even if the six other G-7 countries—the United States, France, Britain, Germany, Italy and Canada—favoured Yeltsin's inclusion, Japan is reserving the right "to be able to invited him or not."



WASHINGTON: US Trade Representative Carla Hills speaks to reporters Nov 5, telling them that Washington will slap 200 per cent duties on 300 million dollar worth of European Community exports beginning Dec 5. Hills said that the US regretted being forced to take such action, which followed the breakdown of US-EC farm trade talks Nov 3 in Chicago. —AFP/UNB photo

US economy needs stimulus to help move out of trough it is in

WASHINGTON, Nov 6: A top economic adviser to president-elect Clinton said the US economy will need some immediate government stimulus to help move it out of the trough it is in, reports Reuter.

Robert Reich, a professor at the Kennedy school of government at Harvard University who helped write Clinton's economic policy papers, said in a television interview that economic growth is first and foremost.

Reich, saying he had no in-

side knowledge of Clinton's plans, said any stimulus package would have to be accompanied by a budget deficit-cutting plan of equal size.

I would expect that if in January the economy is completely dead in the water, just nothing is happening, that some degree of resuscitation... at least mild resuscitation, some stimulus will probably be necessary so long as that stimulus is combined with a credible commitment to reduce the budget deficit by an equal

amount. Reich said economists were divided between those who argue the deficit must be reduced to spur growth and those who believe growth will help cut the deficit. "I'm in the latter camp," he said.

Reich said that getting out of the trough of the business cycle was a key goal. "You are going to have a tax increase at the top, Reich said of Clinton's proposal to raise taxes on those earning over 200,000.

You are going to have a military cut, but not right away because we are after all in this trough, he said.

Unemployment insurance falls AP adds: The number of first-time claims for unemployment insurance fell in late October to the lowest level in more than two years and Americans' productivity improved in the third quarter, the government said Thursday in two upbeat economic reports.

Spending cut can boost UK economy

LONDON, Nov 6: British Prime Minister John Major, fresh from winning a critical House of Commons ballot on Europe, got to work Thursday on a budget aimed at curbing state spending growth but at the same time boost the economy, says AFP.

The officials statement of government spending plans comes next Thursday from Chancellor of the Exchequer Norman Lamont, the first full statement of economic policy since sterling's collapse and withdrawal from the European Exchange Rate Mechanism (ERM) on September 16.

The negotiations on spending, which began last week and were continuing Thursday, are said to have been re-

"bloodiest" for years between the treasury and spending ministers and have been complicated by uncertainty in overall strategy.

Ministers and officials are hemmed in by a range of tax and spending pledges from the elections in April and by a floundering economy, about which the Bank of England said this week "it was 'more uncertain' than ever before.

Treasury officials, meanwhile, insist that cuts must be made as the public sector deficit balloons to its present 6.5 per cent of GDP, with the government overspending estimated at more than 30 billion pound this year.

Spending ministers insist that the continuing recession

means more has to be spent on unemployment pay and other benefits, raising demand at the same time as tax revenue falls.

Initially, the emphasis from Major was on the need to curb inflation—but in television interviews two weeks ago, under pressure over his proposals for coal pit closures, he changed track and promised priority to growth and employment.

"A strategy for growth is what we need: a strategy for growth is what we are going to have," he told interviewers.

In the new atmosphere, negotiations which were initially "certain" to keep government spending to its existing target figure for 1993/94 of 244.5 billion pound dragged on as

minister revelled against call for cutbacks.

Cuts are still expected however, with the axe most likely to fall on the public sector wage bill, where pay might be frozen across the board or any rise limited to around two per cent.

Attempting to assure business leaders that cuts will not affect capital spending projects, Major said last week that reductions would not hit government programmes which had a "direct impact" on jobs and growth.

Privately, government officials have warned reporters not to expect too much out of the official statement and give no hint of a substantial recovery package to offset the deflationary effect of cutbacks.

World economy to grow more slowly

MANILA, Nov 6: The world economy will grow more slowly than expected at 1.0 per cent this year, but a significant US recovery should push it back over 2.0 per cent in 1993, the Asian Development Bank (ADB) said today, reports Reuter.

Plans by US President-elect Bill Clinton to boost spending on infrastructure and other areas would probably lead to some revival of business confidence, William Thomson, ADB vice-president for operations told a news conference.

"There are plenty grounds for optimism in North America... you see an economy that is picking up."

Worldwide, the recovery from recession has been painfully slow, said Malcolm Dowling, ADB Assistant Chief economist.

OPEC firm to deal with excess supply soon

LONDON, Nov 6: Oil prices rallied on news that OPEC ministers were consulting by telephone and letter on what they might do to reverse the abrupt slide, reports Reuter.

December futures for the world benchmark crude oil, North Sea Brent blend, soon touched a high at \$9.38 per barrel. This was up 50 cents from the day's low.

OPEC which had begun to look like a paper tiger, simply twitched its tail to trigger the rally.

OPEC sources said ideas on what to do were being put to the current OPEC President, Oil Minister Yousuf Bin Omair Bin Yousuf of the United Arab Emirates.

A highly-placed delegation source said one proposal, for-

mally put by Algeria, was that something be done very soon to deal with what the market sees as excess supply.

Falling that, ministers should meet in the forum of a special session of the OPEC Ministerial Monitoring Committee (MMC) as quickly as possible.

This official said he did not know yet how key ministers had reacted.

But he could not imagine the OPEC would be able to gather before its scheduled session on November 25. He said, "others will say, let's wait, it's barely 19 days away."

Immediate reaction from the biggest producers, Saudi Arabia and Iran, was not available.

Costly violin bow

LONDON, Nov 6: A 19th-century French violin bow owned by a Swedish collector was auctioned on Thursday for 34,100 pounds 52,800 dollar after being given a pre-sale top estimate of 1,200 pounds (1,860 dollar) Sotheby's said, reports AP.

Neither seller nor buyer was identified.

"It's a bit of a mystery why the price went so high but there were two bidders on the telephone who were determined to have it," said Graham Wells, director of the auctioneers' musical instruments department.

"A good bow with fine balance and flexibility is very important to a violinist," Wells said.

He said he made his estimate on the low side because the bow had a blemish on the head which had been restored, without affecting the instrument's playability.

The bow was made by Dominique Peccatte of Mirecourt, who died in 1874. Another bow by him in the sale sold for 6,050 pounds (9,300 dollar).

Peccatte is regarded as second only to Francois Tours of Paris, who about 1820 made the bow which in 1988 fetched a world record auction price of 79,200 pounds (then 142,000 dollar).

"Bow-collecting is regarded as pretty esoteric but bows don't take up much space and they don't need such careful storage conditions as violins," Wells said.

Tehran urges Clinton to release Iranian assets

NICOSIA, Nov 6: A Tehran newspaper urged US President-elect Bill Clinton to release Iranian assets frozen by the United States in 1979, reports Reuter.

By Iranian estimates, Washington is holding 12 billion dollar in assets but the United States says the figure is in the millions. To show their good-will, the Democrats could return our assets, rethink their policies in the region, stop supporting terrorists and anti-revolutionaries, and in short refrain from a hostile attitude against the Islamic Republic of Iran, the Tehran

Times said in an editorial.

The daily, reputed to be close to the foreign ministry, said: "If that's the way they choose to go, it could pave the way for a better atmosphere."

Thousands of chanting Iranians — celebrating the November 4, 1979 seizure of the US embassy in Tehran — joined in a vocal death to America message to Clinton on Wednesday.

Washington froze millions of dollars worth of Iranian assets when militant students held embassy staff hostage for 444 days.

UAE to restrict entry of foreign workers

ABU DHABI, Nov 6: The United Arab Emirates (UAE) Labour and Social Affairs Ministry is seeking laws restricting the entry of foreign workers, mainly non-Arabs and illiterates, citing growing economic and social problems, reports AFP.

The restrictions, if enforced, will affect Asian states as they are the main suppliers of labour to the UAE and other Gulf states.

"Authorities should issue new regulations to curb the entry of foreign labour, especially non-Arabs and illiterates," The ministry said in a study presented to a labour

seminar last week and obtained Thursday.

"There should also be a binding political decision to streamline labour, train nationals and introduce quotas on import of foreign labour."

Asians, mainly from India, Pakistan, Sri Lanka, Bangladesh, and the Philippines account for more than 70 per cent of the UAE's 600,000-strong workforce and nearly half the 1.8 million population.

Officials have blamed foreigners for most of the crimes in the country while the bulk of 1,200 people infected with aids were reported to be expatriates.

Creditors look at the end of Third World debt crisis

HONG KONG: Lloyds Bank of London has written back the equivalent of 130 million US dollar in Third World debt provisions. This is only one example of a big bank discovering that its bad-debt estimates are turning out to have been too pessimistic.

Following the recent signing of a debt restructuring agreement between Argentina and its commercial bank creditors... Citicorp Vice Chairman William Rhodes declared that "we are looking at the end of the debt crisis."

The Argentina agreement comes after similar deals with other major indebted countries, such as Mexico, Venezuela, Nigeria and the Philippines. Chile, once a very large debtor, has been given a top-level borrower's rating by an authoritative US credit agency.

From the point of view of the big, middle-income indebted countries and the commercial banks holding their debt, the acute phase of the crisis may be over. According to John Shilling, Economic Adviser in the World Bank's Development Policy Group, as a result of these restructuring with major debtor countries, "the dagger which was pointed at the heart of the financial system has been re-

moved."

Now 12 of the 16 heaviest debtor countries in the world have successfully concluded refinancing agreements, and these account for 92 per cent of their outstanding commercial bank debt. So no major defaults are now expected.

Meanwhile, trading in so-called "Brady bonds" is very heavy on the big financial markets. What are these documents and what role have they played?

They are named after US Treasury Secretary Nicholas Brady's March 1989 proposal that banks exchange high-risk, high-interest debt for lower-interest bonds backed by US Treasury bills. Philippine officials say that adhering to the so-called Brady plan will save the country 1.1 billion US dollar in interest payments over the next five years.

The Philippine arrangements, typical of other debtor-country plans, involved some buying-back of debt at between 48 per cent and 57 per cent of original value, some swapping of old fixed-rate loans with new varying-rate loans, and some linking of old borrowings with US Treasury Bill guarantees with low interest rates. The new debt structure has had several effects — it has en-

abled the government to abolish nearly all its currency controls, and it led to an inflow of fresh foreign investment money. These in turn actually strengthened the value of the Philippine peso.

The global debt crisis actually began ten years ago when Mexico told the world that it couldn't pay its debts, and so precipitated the billions-of-dollar credit crisis which has persisted ever since. "Net resource transfers to 16 countries turned negative after 1984, with an annual net outflow of at least 20 billion US dollar since 1985 in contrast to a 40 billion US dollar net inflow in 1980.

Consequently, investment and economic growth declined in many debtor countries, with per capita incomes being lower than their 1980 levels by large margins. Reduced social expenditures, incomes and living standards were coupled with high rates of inflation.

But now, following on Mexico's success in restructuring its foreign debts, Brazil and Argentina have worked out agreements with foreign creditor banks which will improve their international credit worthiness considerably. Thus three of the world's heaviest debtors can look forward to better times.

In Asia the region's biggest debtors, India and the Philippines, have taken strong measures to solve their problems and, especially in India's case, have accomplished financial reforms with remarkable speed. The results is that the American banks, which were the biggest lenders to all the debtor countries during the loan-boom time (1978-83), will not be hit as hard as they thought at one time. They had set aside enormous sums as loan-loss reserves, and can now write back some of these values as book profits.

But how "real" is this situation? A little arithmetic may be enlightening.

A bank lends one million US dollar to a country. Ten years later the country fails to pay back interest or principal — in effect, it declares bankruptcy and asks for talks on restructuring the loan. Finally, three years after that, the loan is stretched out and the interest rate is lowered.

It is intended that the whole one million US dollar will be paid off. So what does the bank lose? That depends on the value of money. If the bank does not get the last bit of principal back for 25 years,

then the last single dollar will not be worth what it was when it was first lent.

If the inflation rate in the bank's home country has been an average three per cent a year, then the dollar is worth only 46 cent after that time. Suppose, also, that the restructuring agreement "forgives" the borrower 40 per cent of the loan, then in effect the bank finally receives only 276,000 dollar in spending power out of the original million.

But this kind of agreement is quite common. So how can the banks afford to lose so much? Surely they must collapse! The reasons why they continue in business, even after such fierce cutbacks, are several.

The banks have little alternative, because the borrower is genuinely broke (even though in many cases much of the money has been stolen, or used wastefully).

The banks enjoyed high interest rates over the lending boom period, and wisely set aside loss reserves from the prosperous times.

The banks will cut back their costs and — frankly — squeeze their good borrowers, make money from investment management fees, concentrate

on the very big account-holders, etc.

The banking scene is changing in the world. Instead of banks trying to do everything from cheque-accounts to million-dollar lending to mutual funds to security dealing, several are seeking a "niche" — one kind of activity where they seem to be most profitable.

This is especially so in Asia, where some banks concentrate on lending for foreign trade, others on lending for large industrial and commercial projects. Then there are the giant multinational banks with many branches across the globe, which run hundreds of thousands of current and deposit accounts, operating currency funds and remittance services, and lending short-term working capital for all businesses.

Another recent trend is that governments which took over their nation's banks in the 1940s and 1950s, when planned economies were preferred, are now selling them back to private hands. This is happening in France and also in India and Pakistan, for instance.

Banking is becoming more competitive across the world, because the central banks are losing control of the international flow of money. This

means that they cannot exert an effective control of either the rates of interest or the rates of exchange.

And the reason? The operations of about 90 "tax havens" countries where banking secrecy is strong, taxes and incorporation fees are low, and regulations are very liberal. Vast sums of currency are switched into and out of these places, making a great free market. And with instant electronic communications, the effects of these movements are quick and powerful.

Money is no longer a weapon for government. The global market for goods and services now tends to determine the rates by which money flows.

There has now arisen a great deal of academic analysis of the global debt crisis. There have been similar crashes before (in the US last century and in Europe this century) but never before have so many countries been involved.

However, one aspect of the crisis has not received much analytical attention — perhaps because it would embarrass too many important people. —Depthnews Asia