BRIEFS

US firm discovers oil, gas in Pindi

ISLAMABAD, Jan 17: US oil firm occidental (OXY) has discovered natural gas some 100 kilometres (60 miles) southwest of here in the attack district, the official Associated Press of Pakistan (APP) said Saturday. A well drilled down 16,400 feet (5,000 metres) at Ratana produced gas at a rate of 23.0 million cubic feet (690,000 cubic metres) a day and oil at 938 barrels daily, the agency said, says AFP.

CDB to lend $ 12m to Barbados

BRIDGETOWN, Jan 17: The Caribbean Development Bank (CDB) will lend Barbados' government 12 million dollar (US) to help restructure the island's sugar industry, a senior CDB official said Saturday. CDB Project Department Manager Arnim Eustace said the bank wants to have the financing finalised by the end of the first quarter of 1993. The funds could be used for purchases of machinery and possibly to cover other capital costs, Eustace said, reports AFP.

Trading takes place at Bombay stock

BOMBAY, Jan 17: Financial institutions stepped in and sellers beat a retreat to spur a turnaround on the Bombay Stock Exchange after bloody Hindu-Muslim rioting restricted the trading week to just two day. In the one hour each of trading on Tuesday and Friday, the exchange's sensitive index of 30 blue chip shares belied popular pessimism and gained a healthy 104.87 points. It finished the week on 2,525-54, reports AFP.

EC-Japan agree to hold talks on trade

BRUSSELS, Jan 17: The European Community and Japan have agreed to hold annual talks on industrial cooperations, the European Commission said on Friday. The agreement was announced following talks in Brussels between Japanese Minister for International Trade and Industry (MITI) Yoshiro Mori and EC Industry Commissioner Martin Bangemann, reports Reuter.

Pak import declined in Dec 1992

ISLAMABAD, Jan 17: Pakistan's imports during December 1992 registered a decline of 4.4 per cent and of 6.7 per cent in comparison with those in November 1992 and the corresponding month 1991, respectively. The imports in the month declined to 798 million US dollar from 835 million dollar in November 1992 and from 855 million dollar in December 1991, according to the latest provisional figures issued by the Federal Bureau of Statistics, reports Xinhua.

Nigeria supports new UN cocoa deal

LAGOS, Jan 17: The Nigerian Secretary of Commerce and Tourism, Mohammed Bakari, has expressed support to negotiations by the United Nations Cocoa Conference for a new agreement that would bind producer and consumer nations together. At a meeting with the visiting president of the conference, Peter Lai, in Nigeria's new capital of Abuja on Thursday, Bakari said that he was impressed with the conference's efforts and that consumer countries should be involved in issues concerning cocoa production and processing, says Xinhua.

Trade fair ends in Myanmar

YANGON, Jan 17: A 13-day cooperative trade fair ended here Saturday. Good valued at about 11 million US dollar were sold by the trade fair and articles valued at over 320 million kyat (about 53 million US dollars) were also sold. More than 1,000 items, including agriculture produce, marine products, forest products and industrial goods were on display at the fair, according to a Xinhua report.

Does new trade theory require new policy ?

By Paul Krugman

WASHINGTON: Despite the near-complete political triumph of free-market economics, there is a growing trend in economic analysis toward models in which markets get it wrong. The new trade theory is probably the piece of that trend that has received the most attention. The essence of the new trade theory is that countries specialise and trade not solely to take advantage of their differences but also because of increasing returns to large scale production, which makes specialisation itself an advantage.

The new trade theory intellectually goes along with the revival of the ideas that linkages with suppliers and customers play a key role in development, that increasing returns play a key role in growth, and that economic policy coordination failures play a key role in business cycles. All of these ideas provide a legitimation of government intervention.

If policy could be made without politics, the new trade theory and related developments elsewhere in economics would point quite clearly to a broad-based programme of government intervention in the economy. Suppose that we ignore the strategic trade issue and focus on external economies, or unpaid side-effects of economic activity. What new theory tells us is that these side-effects occur not only when there are direct technological spillovers, but in any situation in which there are increasing returns and the size of the market matters.

That means almost everywhere an expanding industry raises the demand for skilled labour as well as for education and training, gives rise to specialized supply and service industries, and may induce improvements in transportation and communications infrastructure. In other words, the marginal social benefit of a dollar's worth of resources in a competitive economy is not, as conventional theory would have it, equal in all activities except for a few exceptions. Divergence between rates of return for society as a whole are pervasive. There are good industries and bad, good jobs and bad, and the optimal policy is to subsidize the good and tax the bad.

Of course, we do not know very well which are the good activities and which are the bad, nor do we have a good idea at all of how large external economies really are. It is often imagine that this uncertainty is an argument against any action. But it is not clear why, at least on pure economic grounds. If one is not sure whether a dollar's worth of resources in an industry yields $1.10 or $2.00 of benefits, it does not improve matters to throw up hands and offer the industry no subsidy at all.

If a benevolent dictator were setting economic policy, she would make her best guess and establish a set of taxes and subsidies based on that guess: her guess may typically involve subsidies at the rate of 20 per cent or so for favored sectors.

As pointed out above, however, trade and industrial policies — like any microeconomic policy — are not made by benevolent dictators. They are made by legislators and underpaid bureaucrats, both of them subject to severe pressure from special interest groups. Thus any recommendation about trade policy must take into account the political economy of the policy process as well as the strict economics of trade itself.

Some years ago a fourfold distinction among intellectually legitimate views on trade policy was offered by the author. This division, which still seems useful, runs as follows:

First, there are strong non-activists. These are economists who believe that the potential gains from any sort of deviation from laissez-faire are small, and that only a strict rule of hands-off can defend against political abuse.

Second, there are cautious non-activists. They share the doubts of the stronger opponents of government intervention, but are willing to reconsider. In particular, they are willing to take seriously charges of predatory strategic trade policy by competitors.

Third, there are cautious activists. They think that we know enough to do some good with an activist trade/industrial policy, but think that it should be small-scale and restricted to only the very clearest cases, in order to limit the risks that the programme will turn into pure pork barrel.

Finally, there are strong activists, who would call for an immediate move to a general industrial policy.

Perhaps the fundamental point is that the structure of trade policy is in fact in flux. The GATT is far from dead, but it seems unlikely to regain its one-time vitality. The United States and other countries will be groping for new answers, answers that will almost surely involve substantial degrees of industrial policy under some name. This industrial policy can be made well (or at least not terribly) or it can be made badly; the new trade theory can, perhaps, help provide the guidelines for making policy that is not too bad.

Paul Krugman is a professor of economics at Massachusetts Institute of Technology.

— Washington Economic Reports

ADB approves $ 152.7 m loans for Pakistan

ISLAMABAD, Jan 17: The Asian Development Bank (ADB) has approved three loans totalling 152.7 million US dollar for Pakistan, reports Xinhua.

The loans are for flood damage restoration project (100 million dollar) teacher training project (52.1 million dollar) and technical assistance for Punjab irrigation water conservation project (600,000 dollar), according to ADB sources here Sunday.

The first loan in response to Pakistan's need for emergency assistance will be used to restore vital infrastructure destroyed or damaged by floods in September last.

The project is designed to bring about universalisation of primary education by improving the quality and flexibility of training programmes and increasing training opportunities in rural Pakistan. About 195,000 teachers will be trained under different programmes.

Gulf Arabs to set up another project

ABU DHABI, Jan 17: Gulf Arab states plan to set up another joint venture to encourage industrial investment as part of their bid to diversify sources of income, the official Omani news agency has reported, says AFP.

It said on Friday that the Doha-based Gulf Organisation for Industrial Consultancy (GOIC) proposed the 104-million-dollar company at a conference of Gulf Cooperation Council (GCC) industrialists in Kuwait this week.

"The new company will contribute to boosting the industrial sector in the GCC through investment, establishing or owning projects and companies, extending industrial services and carrying out marketing activities," it said.

The venture, to be based in the Omani capital Muscat, would be open for public and private investors from GCC states.

JAPAN: Workers from the electric power company trying to remove a collapsed electrical pole in Kushiro city January 16 after a strong quake hit northern Japan late January 15. Two people died and more than 370 were reportedly injured in the incident. — AFP/UNB photo.

Indian economy poises for 4 pc GDP growth

BOMBAY, Jan 17: The economy is poised for a Gross Domestic Product (GDP) growth at around four per cent in real terms during the current financial year amidst recoveries both in industrial and agricultural sectors during the current financial year, Reserve Bank of India (RBI) said Sunday.

The RBI quarterly review of developments in the Indian economy, for July-September 1992 prepared by its Department of Economic Analysis and Policy, projects a two per cent growth rate in agricultural production, and four to five per cent in industrial output.

The RBI review says this is expected to usher in a gradual recovery in GDP growth rate at around four per cent in real term during 1992-93. Industrial production rose by 2.1 per cent during April-July 1992 showing signs of revival.

The agricultural sector may also show some improvement inventory position due to satisfactory harvests of both foodgrains and cash crops coupled with wheat imports by the central government. Deceleration in inflation rate during the period under review would help sustain the recovery progress.

Bonn still faces dangers of inflation

FRANKFURT, Jan 17: Dangers of inflation in Germany have not been averted by the slowing economy, Bundesbank board member Otmar Issing said in a newspaper article published on Saturday, reports Reuter.

Issing wrote in the Frankfurter Allgemeine Zeitung that inflationary pressures had accelerated, with the rate of inflation rising in recent months to a year-on-year level of 3.7 per cent compared with 3.3 per cent in mid-1992.

"Without doubt the German economy is showing signs of a slow phase, but ... the danger of inflation has not by any means been averted," Issing said.

Chancellor Helmut Kohl ruled out any rise in taxes in the near-term, telling a meeting of his Christian Democrats (CDU) an increase would only hamper the push that the economy needs.

But the magazine focus reported that Finance Minister Theo Waigel had agreed to reintroduce a 10 per cent "solidarity income surcharge tax" from 1995 and raise value-added tax (VAT) to 16 per cent from 15 per cent.

In January VAT was raised from 14 per cent and a one-year solidarity income surcharge tax expired on July 1.

A spokeswoman at the Finance Ministry said to decision no tax increases had been made.

Issing said the increase in VAT would add to inflationary developments this year. Economists expect the year-on-year rise in consumer prices to hit 4.5 per cent in January, more than double the Bundesbank's two per cent target.

Japan to work with South Asia for a prosperous free trade zone

BANGKOK, Jan 17: Japan will work with the leaders of South East Asia, including Indo China, to build a secure area in which countries dedicated to free trade can prosper, Japanese Prime Minister Kiichi Miyazawa said Saturday, reports Reuter.

"Japan will think and act together with ASEAN, "he said at the end of a week that saw him in the capitals of three member states of the Association of South East Asian Nations (ASEAN).

The Prime Minister, in a speech to the foreign correspondents club of Thailand, said the end of the cold war had sharpened the concerns of South East Asian over the security of their region.

"It is important for the Asia-Pacific countries to share this interest and to enhance the transparency of their respective policies as well as their sense of mutual reassurance, "Miyazawa said.

Miyazawa said the region's peace and prosperity was underpinned by the United States and that he believed Washington's role would continue.

The Prime Minister called for the further expansion of the Asia-Pacific Economic Cooperation (APEC) grouping, but said the region must maintain its open markets.

"A scenario we must avoid at all costs is a replay of the 1930s, in which the vicious spiral of mutual distrust and egoism led to narrow-sighted protectionism and the formulation of trade blocs, "he said.

He said Japan would continue to push the dynamic growth of the ASEAN economies.

He said ASEAN leader were concerned about the future flow of investment and technology transfers from Japan.

"Japan will continue to further promote these flows by such means as using officials credit facilities," he said.

Miyazawa said the Cambodian peace accords meant that country as well as Vietnam and Laos could be included in the growing prosperity of their regions, a long-time goal of the Japanese.

"It thus makes it possible for South East Asia, which consists of the countries of ASEAN and Indochina, to develop as integral whole, "he said.

The Prime Minister who has offered to host an international forum on Indochinese development, he said.

"Japan intends to extend its cooperation to the improvement of infrastructures, human resources development and other areas to assist in particular the socio-economic development of Indochina."

He said that the forum proposal has been greeted favourably by the leaders of Indonesia, Malaysia and Thailand.

Talks on to end strike in Cathay Pacific Airways

HONG KONG, Jan 17: Representatives of flight attendants and management were locked in talks for a second day Sunday, trying to end a strike that has caused Cathay Pacific Airways Ltd to cancel or delay scores of flights, reports AP.

Neither side has disclosed details of the negotiations since they began at noon Saturday.

Maisie Shun Wah, a spokeswoman for Cathay, said the airline canceled a news conference scheduled for Sunday because there were no development in the talks, arranged by Hong Kong's Labour Department.

She said that of 43 flights scheduled for Sunday, nine were canceled and the passengers transferred to other airlines. Cathay operated 19 flights and chartered planes to operate another 15.

"We plan to move everyone out today," she said.

Airline official have not disclosed the cost of the strike, which began Wednesday night. Some airline analysts say the dispute is costing the airline 20 million Hong Kong dollar (2.5 million US dollar) a day.

More than half of the 3,800 members of Cathay's Flight Attendants Union have joined the walkout to demand better pay and working conditions, and many other Cathay staffers in various Asian countries also are striking.

Russia, Ukraine to talk with creditors on debt repayment

MOSCOW, Jan 17: Russia and Ukraine were due to start negotiations with creditors of the former Soviet Union on Friday, but have yet to agree between themselves how to repay debts worth about 80 billion dollar, a senior Russian official said, reports Reuter.

Speaking after a summit between the two countries' leaders, Russian First Deputy Prime Minister Alexander Shokhin told journalists Ukraine wanted to repay its share of the debts separately, a deal he feared creditors would find unworkable.

"If it turns out that shared debt servicing by Russia and Ukraine is acceptable to the creditors, we will accept that with pleasure because it is more advantageous for us," said Shokin, who is also Russia's chief debt negotiator.

But he doubted that Ukraine's position would be acceptable to the Paris Club of creditor nations and the London Club of commercial creditor banks.

A later report adds: Foreign creditors back Russia in its argument with Ukraine on how to repay the former Soviet Union's foreign debt of 80 billion dollar, the Russian Information Agency (RIA) said on Saturday.

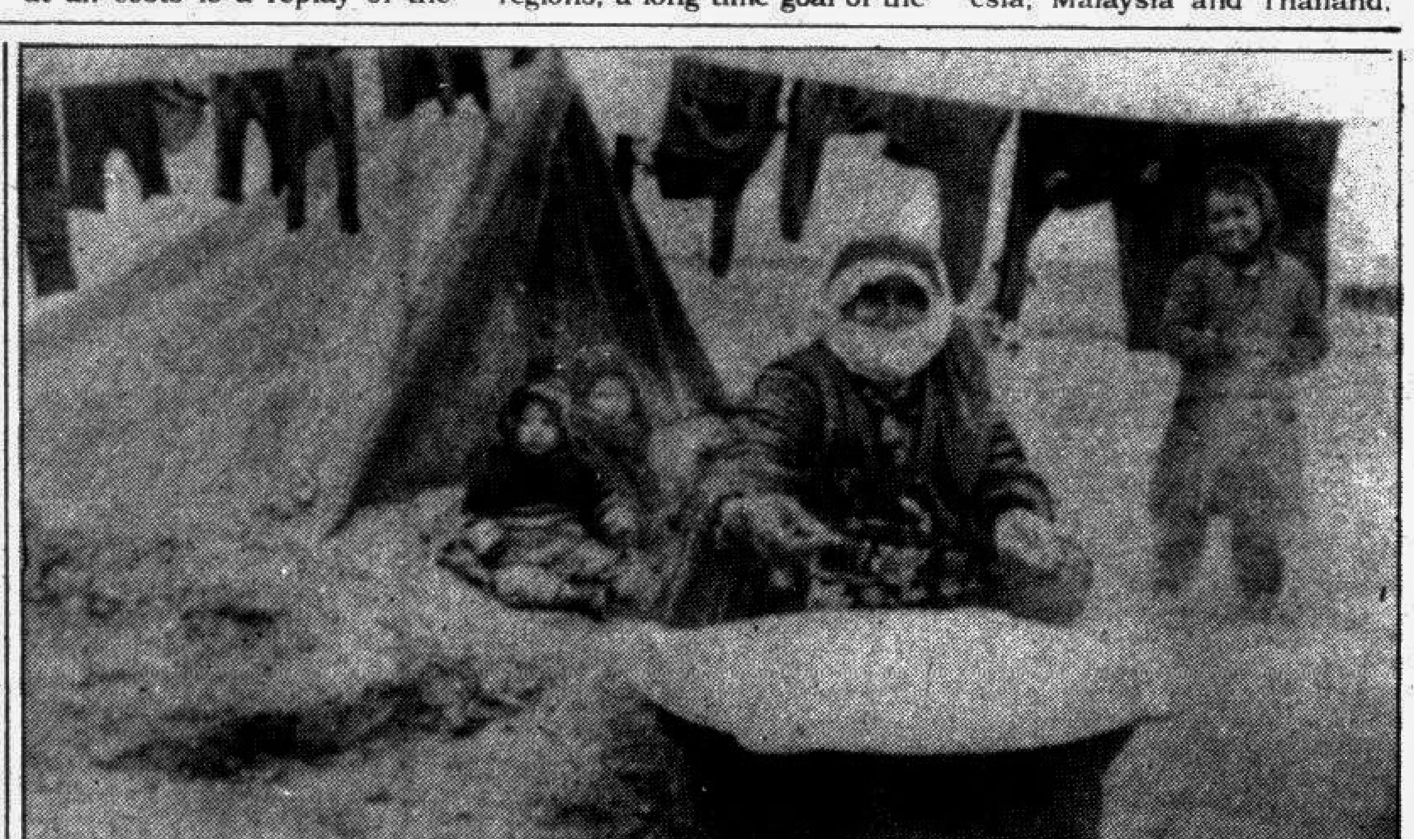
Russia wants to repay the debts on behalf of all other former Soviet Republics but Ukraine insists on settling its own share independently.

Taiwan passes landmark trade law

TAIPEI, Jan 16: Taiwan has passed a landmark trade law committing the island to continue opening its markets while giving it legal authority to impose trade sanctions against other countries, officials said on Friday, reports Reuter.

The law, passed by parliament late on Thursday, will aid Taiwan's application for membership in the General Agreement on Tariffs and Trade (GATT), the officials said.

"Our trade law is designed to satisfy the spirit of GATT and bring us into line with international trade practices," said Hsu Chao-Ling, Deputy Director-General of the Board of Foreign Trade (BOFT).



AFGHANISTAN: A Tajik refugee mother preparing lunch for her children outside a camp in northern Afghanistan January 13. Refugees from Tajikistan are getting assistance from the United Nations. — AFP/UNB photo

ROK will take steps to boost sagging economy

SEOUL, Jan 17: Bowing to business demands, the government will take emergency measures soon to boost South Korea's sagging economy, news reports said Sunday, reports AP.

Quoting a top executive at the Bank of Korea, all Seoul newspapers reported that the central bank finally had agreed to lower its key lending rate by one or two percentage points next month.

The moves would come at about the time President-elect Kim Young-sam is inaugurated on Feb. 25, they added.

Kim, succeeding President Roh Tae-woo for a single five-year term, had promised during the election campaign to revive the sluggish economy.

Although the nation's economic growth had slowed to its lowest rate in a decade, the central bank had insisted on a tight monetary policy, mainly to hold down inflation.

Bank of Korea officials were not available on the Sunday holiday to comment on the newspaper reports.

The reports also quoted government officials as saying the government would offer special financial support for small and medium-size companies and export-oriented industries.

At least five small businessmen have committed suicide in about a month because of financial troubles caused by poor sales both at home and abroad.

The reports added that the government will phase out its control on some bank interest rates.

Commodity prices drop as dealers await signs of US recovery

LONDON, Jan 17: Prices on world commodity markets, particularly those linked to the industrial sector, dropped this week as dealers awaited concrete signs of economic recovery in the United States, reports AFP.

Gold, trading at its lowest level for seven years, was just one victim of the nervous mood in dealing rooms, with traders not yet ready to get to grips with the trends.

The announcement by the Dutch Rental Bank that it had sold off 400 tonnes of gold, 20 per cent of western annual supply, left dealers speechless and questioning the metals age old value as a place of refuge.

The price of brent, the benchmark North Sea crude oil, was again hit by worldwide oversupply and only briefly lifted by news of the US and allied strike on Iraq.

Hoes of a cutback in OPEC production and a short-term reduction in the output of some north sea fields because of foul weather limited the losses.

On the London Metal Exchange (LME), copper and nickel both dropped after previous months rises, falling 6.5 per cent and five per cent respectively, as dealers engaged in profit-taking and assessed high stock levels.

Soft commodities, however, gave some rare signs of optimism, with coffee prices up five per cent after statistics showed Brazilian stocks down, while the approach of the next International Coffee Organisation meeting and speculative buying added to the upward momentum.

A slowing up of Ivory Coast deliveries of cocoa and increased demand for cocoa grindings in Germany, Britain and the US boosted prices with dealers predicting an agreement on higher prices at the next meeting of the International Cocoa Organisation in Geneva in February.

Gold: Weak. The price of gold dropped to its lowest level for seven years, hit by the news that the Dutch Central Bank had sold 400 tonnes in the second half of 1992, 20 per cent of the total western annual production.

The news from the Dutch government that it had cut its level of gold reserves so sharply left dealers speechless. They did not know whether to see it as positive, signifying that there was now, at least, less for banks to sell off, or negative — showing the way for other banks.

Platinum: Slightly lower. The price of platinum dropped because of the weakness of gold and because of profit-taking after the rises of previous weeks.

Platinum had risen sharply after palladium, one of its family of precious metals, shot higher last year on fears of tightening world supply and a fall in exports from the world's leading producer, Russia.

Silver: Higher. The price of silver strengthened, hopeful of a recovery in industrial demand in the United States and elsewhere in 1993.

Prices weaken 12 per cent in 1992, depressed by the lack of orders and the high level of stocks.

Copper: Lower. The price of copper dropped by just over 100 dollar per tonne (6.5 per cent) over the week, affected both by sterling's strength and a heavy bout of Chinese selling.

The combined effects of sterling's rise and a heavy sell-off by Chinese buyers saw the copper price plunge over Monday and Tuesday, recovering only slightly Wednesday as sellers turned into buyers at lower prices.

Lead: Quiet. The lead market, meanwhile was particularly quiet with little trading taking place and little news emerging to excite buying or selling interest.

Leads stock were unchanged on the week before at 230,050 tonnes.

Zinc: Higher. The price of zinc trade quietly for most of the week but rose lightly on Thursday when dealers engaged in options-related buying.

However, the metal's fundamental picture remains gloomy, according to market specialists, and unless there is an options-linked surge, the likely trend in prices is down.

Aluminium: Higher. The price of aluminium rose slightly over the week after two US smelter's confirmed that they will have to reduce output by around 150,000 tonnes over the next six months due to hydro-electric power shortages.

But the surge was limited by the fact that cutback were seen as small, had already been anticipated, and were not enough to reverse the steady buildup in stocks that has taken them to record levels worldwide.

Vegetable oils: Weak. Most vegetable oils fell in price over the week following a fall in the soya price.

According to a monthly report from the US department of agriculture, US soyabean production will reach 59.78 million tonne in 1992/93, up on its previous estimate of 58.98 million tonne and both higher than the 54.06 million tonne harvested in 1991/92.