US-EC deadlock on trade

Heavy trading push up stocks in

NEW YORK, Feb 5: The stock market surged ahead to new highs in heavy trading Thursday, extending Wednesday's raily with encouragemen from falling interest rates both ing inflation, reports AP. at home and abroad. Japan's central bank cut its discount rate overnight from 3.25 per cent to 2.5 per cent. The US bond market opened strong Thursday morning. Prices of long-term US government bonds rose about 2.50 dollar for each 1,000 dollar in face value, lowering their yields to around 7.18 per cent, says AP.

US, French firms win contract

WASHINGTON, Feb 5: The US desence department said on Tuesday it had awarded a 724 million dollar contract for about 300,000 desktop computers to the French computer giant Groupe Bull and to an American firm, government Technology Services Inc. The joint contract went to Zenith Data Systems of Herndon, Virginia, which is owned by Groupe Bull, and government technology services of Chantilly, Virginia, according to Reuter.

US sold \$ 443 m worth gold to Taiwan

TAIPEI, Feb 5: The United States was Taiwan's biggest gold supplier in 1992, selling 40 tones (1.4 million ounces) worth 443.6 million US dollar to the Island, Finance Ministry officials said Thursday. Taiwan's gold imports in 1992 surged 63 per cent from a year earlier to 180 tonnes, the officials said, with 22 per cent coming from the United States. Following the US. Switzerland sold 25 tonnes of gold worth 288.7 million US dollar to the Island, one of the biggest gold importers in the world, they said, says

OPEC chief leaves for talks in Africa

CARACAS, Feb 5: Alirio Parra, President of the Organi sation of Petroleum Exporting Countries (OPEC) left Thursday for Nigeria, Gabon and Libya for talks on reducing of production to boost prices Parra, who is also Venezuela's Energy and Mines Minister, visited OPEC producers in the Middle East last week for similar talks. After his return last weekend, he said the producers tentatively ageed to reduce OPEC production by one million barrels a day, 23.58 million barrels a day, by March 1, says AP.

Dollar closes mixed, gold falls in NY

NEW YORK, Feb 5: The dollar was mixed against other major currencies Thursday, posting moderate gains against the German mark after the Bundesbank moved to cut key interest rates. Gold prices declined worldwide. On the New York Commodity Exchange, gold for current delivery settled at 329.00 dollar a troy ounce, off 30 cent from Wednesday, Republic National Bank said gold lost 15 cent to a late bid price of 328.35 dollar, says AP.

Drought hits Morocco

RABAT, (Morocco), Feb 5: A prolonged drought has left Morocco's reservoirs less than 30 per cent full, Public Works Minister Mohamed Kabbaj said Thursday. The country's 70 dams were only 28.4 per cent full, compared with 43.4 per cent a year ago, Kabbaj said. The drought has affected the country for the last 18 months. Kabbaj said the government would take a series of urgent measures against the water shortage, including importing grain to feed livestock and watering farmland that is not currently under irrigation, says

Friendly dry cleaning machine

BOCA RATON, Feb 5: An ecologically friendly cleaning process used in a London tailor shop for 70 years has been imported for Americans seeking a solvent-free method of dry eleaning. The method borrowed by Richard Simon from his family's business has intrigued the Environmental Protection Agency, Greenpeace, and the cleaning industry. The cleaning system used at Simon's Ecoclean shop was tested against conventional cleaning for a month at New York School of Dry Cleaning in Manhattan, and results are due in March, says an AP reports.

Yeltsin delivers biting attack on ministers for significant economic failures

MOSCOW, Feb 5: President Boris Yeltsin delivered a bitting attack on his won Cabinet Thursday, blaming his top ministers for "significant economic failures" and skyrocket-

Officials said consumer prices jumped 30 per cent in January, after a 2,000 per cent risc last year. Yegor Gaidar, former architect of Yeltsin's reforms, warned that hyperinflation was coming and was fraught with political danger.

At a Cabinet meeting behind closed doors in the Kremlin, Yeltsin cut short a report by Economics Minister Andrie Nechayev on the economic results of 1992 and plans for 1993, Russian news agencies

Nechayev's ministry "is responsible for significant economic failures . . . There has been a lot of talk, but nothing has been done," Yeltsin said, according to the Interfax news

German Central

Bank comes to

rescue krone

Feb 5 : The German Central

Bank came to the rescue of the

Danish currency Thursday,

cutting two key interest rates

and relieving pressure that

threatened a forced devalua-

"It has been a good day for

solidarity between EC nations

and against currency specula-

tors," Prime Minister Poul

Nyrup Rasmussen told

Parliament after four foreign

banks shored up the krone by

buying the currency, and the

Bundesbank announced cuts

long-sought by its European

The Danish krone, hit by

two days of pressure toward a

forced devaluation, firmed

Thursday after Bundesbank

WASHINGTON, Feb

Americans' productivity

climbed 2.7 per cent last year,

the most in two decades, ac-

cording to a government re-

port that raised hopes that a

long-awaited rebound in the

nation's competitive standing

In a torrent of good eco-

The nation's retailers had

US factories in December

nomic news Thursday, other

surprisingly strong sales in

enjoyed their biggest surge in

straight weeks, new claims for

unemployment benefits finally

some help from overseas as

The US economy even got

NEW YORK, Feb 5: Germany

and Japan applied the tonic of

lower interest rates Thursday

to stimulate their ailing

economies, above that sent

positive ripples throughout the

world and could have a

particularly beneficial impact

in the United States, reports

the two most important US

trading partners were modest,

but they came as the American

economy was showing em-

phatic signs of expansion any-

way. The US stock market hit

rates would help keep lending

rates low in the United States.

If they are followed by further

cuts, the results eventually

could translate into greater

foreign demand for US goods

and services, further ensuring

Economists said the lower

a record high on the news.

The cuts in lending rates by

is at hand, reports AP.

orders in 17 months.

eased a bit late January.

reports showed:

Community neighbours.

announcement.

tion of the krone, reports AP.

COPENHAGEN (Denmark)

Yeltsin also lashed out at the Cabinet for soaring inflation. "Somebody has to be held accountable for this," Interfax quoted him as saying.

Yeltsin partially blamed the monetary polices of the Cabinet and the Central Bank, saying 3.5 trillion rubles (6.1 billion dollar) had been loaned to ailing state enterprises without proper control.

"Nobody, not the finance ministry, not the economics ministry, knows how these credits were distributed," he said, according to Interfax and the ITAR-Tass news agency.

The president also blasted the Foreign Economic Relations Ministry for failing to boost industrial exports. He said East European countries were turning to the West for trade because of the ministry's

Yeltsin's attack on Nechayev and Sergei Glazyev, the minister of foreign economic relations, could be linked to

siege for almost ten months.

Germany's powerful central

bank lowered two key interest

rates hours after a similar rate

cut in Japan. Analysts said the

foreign rate cuts should spur

the world economy and US

exports while at the same time

sent the stock market surging

to new highs Thursday. The

Dow Jones industrial average

climbed 42.95 points to

3,416.74, surpassing the pre-

vious closing peak set last June

President Clinton, still work-

nomic revival programme, said

the good news was encourag-

ing but that the bottom line

the domestic economy's re-

sands of jobs are tied to ex-

ports, which account for an

estimated 12 per cent of US

economic activity. Exports

have slowed in recent months,

partly due to the economic

problems in Japan and

tial if US trade markets are to

be improved, and Michael

Hutchison, economics profes-

sor at University of California

at Santa Cruz and a visiting

scholar at the Federal Reserve

Bank of San Francisco." This

signals good news for US ex-

rate cuts could ease the insta-

bility among neighbouring cur-

rencies, which have been bat-

tered by speculative selling

For Europe, the German

"Those markets are essen-

Germany.

porters.

In the United States, thou-

"I'm happy that the produc-

was increased jobs.

After rising for three ing on the details of his eco-

At the White House,

All the good economic news

helping to keep US rates low.

US productivity records 20-yr high

Germany, Japan cut interest rates

to stimulate ailing economies

mounting political tension in advance of a nationwide refer-

The April 11 referendum will decided the outline of a new Russian Constitution and the division of powers between the president and parliament. Parliament speaker Ruslan Khasbulatov.

Yeltsin's main political ad versary, also wants the referendum to call early presidential and parliamentary clec-In that contest. Yeltsin

could be looking for culprits or scapegoats - for the country's economic chaos. Nechayev, however, denied

that Yeltsin's criticism had a

political motive. "I think it was prompted by sincere concern over the general situation in the economy, which is nearing a critical point," he told a news confer-

Nechayev is associated with

SARAJEVO: A Bosnian woman carries a beam for firewood from a destroyed house as she

passes by a sign welcoming tourists to Sarajevo Feb 4. The Bosnian capital has been under

tivity rates picked up, and I'm

glad that people are able to fi-

nance their homes at lower in-

terest rates. But I'm still not

convinced that this country is

yet set on the right course in

terms of generating jobs. And

that's the key thing - jobs,"

They said that unless job

growth picks up considerably

in the months ahead, the

surge in consumer spending

that has powered the economy

so far will falter. A critical

piece of jobs information will

come Friday when the gov-

ernment releases its employ-

see an increase in payroll jobs

of at least 100,000. That would

be double the anemic rate of

since last summer due to the

German mark's strength, said

Larry Kantor, chief European

economist for J P Morgan and

Germany's central bank, the

Bundesbank, to reduce rates.

That would lower the value of

the mark, Europe's dominant

currency, and make other cur-

The Bundesbank cut two

interest rates: The Lombard

fell from 9.5 per cent to 9.0

per cent, and the discount rate

fell from 8.25 per cent to 8.0

per cent. The Lombard rate is

an emergency overnight lend-

ing rate and the discount rate

is a loan fee to banks. Both in-

the Bank of Japan cut its dis-

count rate by 0.75 percentage

Earlier Thursday in Tokyo,

fluence other lending rates.

rencies more stable.

Germany's neighbours re-

had called on

Co. in London.

peatedly

Economists were hoping to

ment report for January

Private analysts agreed.

Clinton said.

the former "Gaidar team" of young reformers. He survived a government shakeup last December, when Yeltsin bowed to hard-liners in the Congress of People's Deputies and replaced Gaidar with conservative Viktor Chernomyr-

Nechayev said the Cabinet would tighten its monetary policy, reexamine tax incentives given to regions and enterprises, and try to reduce subsidies to the food and coal industries.

Meanwhile, Gaidar, writing in Thursday's issue of the Rossiiskiye Vesti newspaper predicted that by the end of March, "we will formally reach the level of hyperinflation." which he defined as 50 per cent a month.

"A landslide fall of the ruble rate as against the dollar is starting . . . The monetary system's collapse is taking shape,"

Gaidar warned. The political consequences

-AFP/UNB photo

the past several months but it

still would not be enough to

push the unemployment rate

down from the 7.3 per cent

level where it has been stuck

job growth in the months

ahead if we are to sustain con-

sumer spending and keep the

recovery from stalling out,"

said David Wuyss, an economist

The nation's major retailers

reported strong sales gains in

January, defying predictions

that over-spent consumers

would pull back after a torrid

December. Wal-Mart, the na-

tion's biggest retailer, said to

tal sales were up 10 per cent

over the same period a year

mints to match an all-time low

cut was less significant than

the German move because the

Japanese rates weren't an el-

ement in the currency market

turmoil. But the cut still sig-

nalled Japan's determination

to stimulate its economy, a

move that had been sought by

Germany and Japan coordi-

nated their actions, but the

timing was fortuitous for the

United States, where it com-

bined with a spate of positive

news about the economy to

incite a powerful rally in the

stock market. The Dow Jones

average surged nearly 43

points to a record of 3,416.74

in some of the heaviest trading

It was unclear whether

Analysts said Japan's rate

of 2.5 percent.

the United States.

in years.

at DRI-McGraw Hill Inc of

"We have got to see faster

since November.

Lexington, Mass.

of such a course of events are dangerous to the extreme," he

In other economic developments Thursday.

The Cabinet rejected a proposed programme for conver sion of military plants to civilian uses. Yeltsin, according to Interfax, said he had doubts whether conversion was being carried out "the right way." He said it should be done 'in a reasonable manner, without creating any vacuum in our arms trade.'

Vice President Alexander Rutskoi accused the Cabinet of trying to ruin the Russian economy, and said it would take at least eight years to recover. He called for a return to a fixed exchange rate for the ruble, now trading at 572 to the dollar. "Otherwise, we shall utterly destroy the national currency and reduce the worth of Russia to 10,000 dollar he

Malaysia to disinvest broadcasting

KUALA LUMPUR, Feb 5 Malaysia's public Department of Broadcasting, which runs two TV channels and several radio stations, will be made into a corporation this fall, Information Minister Mohamed Rahmat said Thursday reports AP.

department

The new corporation, to be called Penytaran Nasional, or PEN, will be created on Sept and fully privatized some time later, he told the National News Agency Bernáma.

Not all parts of the department will be privatised and the scheme was still under consideration, he said.

The only other TV channel in Malaysia is owned by the ruling party.

Mahathir Mohamad, who became Prime Minister in July 1981, wants to privatise as many government agencies as possible to cut down government expenditure and to promote the free enterprise sys-

Malaysian Airlines and Malaysian International Shipping Corporation are among 57 enterprises that have been privatised or corporatised.

One million dinar note!

BELGRADE, Feb 5: Yugoslavia may soon have to issue a one-million-dinar banknote to cope with hyperinflation which is devastating the economy. senior central bank official said on Wednesday, according to

government printing presses have gone into overdrive since May when the United Nations slapped trade sanctions on Yugoslavia, now just the two republics of Serbia and Montenegro.

The 5,000-dinar note will now buy you just a newspaper and a pack of cigarettes, said Vojo Tomic, Treasury Director of the national bank of Yugoslavia.

"The 10,000-dinar banknote was issued on December 17, the 50,000-dinar note on January 20, if inflation continues at its present pace, we will soon see a 500,000 dinar and even a one-million-dinar banknote, he told the Tanjug news

At the end of 1992, we had a total of 544 billion dinar (cash) in circulation. In January alone we issued 160 billion, he said.

UN sanctions have caused another headache for the central bank - a shortage of quality banknote paper. He said the bank had enough paper to last only until the summer.

reach a high inflation plateau.

deal unlikely to end soon BRUSSELS, (Belgium), Feb 5: The European Community's trade chief on Thursday played

down chances for a break through in world trade talks at a meeting nest week in Washington, reports AP.

Sir Leon Brittan, the EC's top trade official, described his meeting on Feb 11 with US Trade Representative Nickey Kantor as a "First encounter" that was unlikely to solve a series of transatlantic disputes.

"At the moment, we have to understand it's a new administration with many large policy questions," he said.

He told reporters that he didn't think the Clinton ad ministration had decided whether to push for a quick end to the Uruguay Round, sixyear-old negotiations to reduce barriers to trade worldwide. The 108 nation bargaining is under the auspices of the General Agreement on Tariffs and Trade, the world trade

"I don't believe the "US administration has decided whether that's their policy or

isn't their policy, he said.

Brittan said an agreement in the Uruguay Round 'is in reach," adding, "If the United States wishes to proceed urgently to the kind of deal the whole world needs, I don't see

why it can t be done." The world trade talks have been snarled by bitter disputes between the United States and the community, mostly over farm issues.

The community also has been angered in recent days by American threats to bar the federal government from buying European utility goods and services and impose stiff duties on certain European carbon steel products.

Brittan criticized a statement by US Commerce Secretary Ron Brown that the preliminary steel duties were imposed as part of an administrative procedure, not a policy decision.

"I don't find that an acceptable excuse," he said, "those at the receiving end who are losing their market are hurt,"

China plans to lay off 500,000 coal miners that, it was cutting 80,000

BEIJING, Feb 5: China s national coal mining conglomerate and a major state steel factory have announced plans to lay off nearly half a million workers to increase efficiency, official news reports said Thursday, reports AFP.

The China General Coal Corp, will "transfer about 400,000 redundant coal miners to other industries in the next three years in a bid to improve efficiency," the English-language China Daily reported.

About 100,000 miners will be given jobs this year in other industries, corporation official

The corporations' mines account for about a third of

China's coal output. The human iron and steel complex announce separately

workers, a full two-thirds of its workforce, in the face of increased market competition. "The bloated workforce of

120,000 and all-inclusive management have made the annual per capita output of iron and steel well below both the domestic and world average," the Xinhua news agency quoted General Manager Liu Qi as say-Referring to the need to

provide child care, education, medical care and food services for all its staff. Liu said: "it is quite obvious that it is impossible for this cumbersome giant burdened down with all the trifle things to compete in the market.

Some 700,000 redundant workers were expected to be transferred by the year end.

ECO may okay action plan for Islamic common market

ISLAMABAD, Feb 5: Foreign ministers of 10 nations are expected to approve this weekend an action plan for developing an essentially Islamic common market in central and western Asia, reports AFP.

Officials said the two-day meeting starting in the South Western Pakistani city of Quetta on Saturday would be the first regular session of the Economic Cooperation Organisation (ECO) since it was enlarged in November.

The disintegration of the Soviet Union set the stage for expansion into the newly-independent central Asian republics by the organisation, formed by Iran, Turkey and Pakistan in 1985.

The Soviet breakup held out

the possibility of a revival of Islamic ties broken in the 19th century by Russian conquest.

Pakistan, Prime Minister Nawaz Sharif is to open the ministerial meeting, to be attended by Azerbaijan, Turkeministan, Tajikistan, Kazakhstan, Kirghizstan and Uzbekistan, as well as Afghanistan and the three founding members.

Official sources said the session would be a landmark in the member states' efforts to develop the grouping into a central and western Asian common market.

The Gulf Council of Cooperation of the oil-rich Arab nations has shown interest in working with the ECO.

Gulf states welcome more US exports

ABU DHABI, Feb 5: Gulf Arab states are willing to give more access to US exports but are set to reject its requests to lift a long-standing economic boycott of Israel and ease offset conditions on western companies, reports AFP.

Official Gulf sources said the six-nation Gulf Cooperation Council (GCC) was preparing a response to a formal US white paper which listed the boycott and offset deals among the barriers for trade between the two sides. "GCC countries welcome US

efforts to expand economic links," said a Gulf official, who requested anonymity.

the boycott of Israel can not be met at least for the time being. We will be the last Arab countries to break the Arab League consensus on the boycott."

"But the demands related to

The 21-nation league has

cott only after Israel halts settlements in the occupied territories and progress is achieved in the Middle East peace negotiations. The boycott has cost Israel nearly 50 billion dollar and has

said it is ready to lift the boy-

forced several world companies to shun Israel because Arab countries blacklist firms doing business with the Jewish In the white paper, dis-

tributed recently to GCC states, the United States said the enforcement of the ban was depriving the 12-year old Gulf group of the products and services of a wider range of American firms.

Saudi Arabia introduced the offset programme a decade ago while the UAE followed suit in 1989. Other GCC members are planning to join them.

Real exchange rates generate concern among L American policymakers

WASHINGTON, Feb 5: Recently in most Latin American countries real exchange rates have experienced rapid real appreciations, generating considerable concern among policymakers and political leaders. Since competitive real exchange rates have been at the centre of the vigorous performance of most of Latin America's external sectors in recent years, some observers have argued that these appreciations are hurting the most dynamic sectors in these economies, slowing growth and stunting the expansion of employment, says an USIS re-

These real appreciations have been the result of two basic factors: the use in many countries of the exchange rate policy as an anti-inflationary tool and the massive capital in-

flows into Latin America that have made foreign exchange "overabundant."

In the late 1980s some analysts, including the International Monetary Fund staff, argued that the crawling per regimes adopted by most of Latin America after the debt crisis had become excessively inflationary. With a crawling peg, a currency's pegged exchange rate with a major currency such as the US dollar is adjusted by a small amount on a regular basis until an equilibrium level that balances the country's external accounts is reached.

The crawling peg skeptics argue that exchange rate policy in the developing countries should move towards greater rigidity - and even complete fixity — as a way to introduce financial discipline, provide a

nominal anchor, and reduce A number of Latin Ame-

rican countries have, in fact, decided to use an exchange rate anchor as a way to reduce inflation. They have done this by either slowing down the rate of the crawl - as in Mexico and Chile, to some extent — or by adopting a completely fixed nominal exchange rate — as in Argentina and Nicaragua. Much of the recent enthusi-

asm for fixed nominal exchange rates is intellectually rooted in the modern credibility and time consistency literature. According to this approach, governments that have the discretion to alter the nominal exchange rate - such as in a crawling peg system will tend to abuse their power, introducing an inflationary bias into the economy. An example of this could be that, faced with labour market rigidities that preclude the economy from reaching full employment, a government would find it optimal to "surprise" the private sector through unexpected devaluations that, among other effects, increase the price of imported goods.

By engineering (unexpected) devaluations the government hopes to induce a reduction in real wages and, thus, an increase in employment and a boost in output. Naturally, in equilibrium the public will be aware of this and will react to it by anticipating the devaluation surprises and hence rendering them ineffective. As a consequence of this strategic interaction between the government and the pri-

vate sector, the economy will

The adoption of a fixed exchange rate, it has been ar gued, will constrain govern ment's ability to surprise the private sector through unexpected devaluations. Promises of fiscal discipline will become more credible and because the authorities know that if they undertake overly expansive

and devalue. This view, however, has, in its simplest incarnation, some serious problems. One is that in these simple settings exchange rate policy has a very limited role. In fact, in most of these models its only effect is to alter the domestic rate of inflation and, through it, the government perceives it as altering real wages.

Also, in economies subject

to unpredictable shocks, contingent exchange rate rules can, at least in principle, be superior to fixed rates. Another problem is that, under almost every circumstance, once the exchange rate is fixed, other prices — including wages - will continue to increase, generating a relative rise in prices of nontradables. credit policy they will be forced to abandon the parity

The second cause behind the recent generalised real appreciation of currencies in Latin America, the large increase in capital inflows during the last two years, has affected the real exchange rate through increased aggregate expenditure. A proportion of the newly available resources has been spent on nontradables, putting pressure on their relative prices and on domestic inflation. An interesting feature of the recent capital movements

is that a large proportion corresponds to portfolio investment and relatively little is direct foreign investment.

Real exchange rate appreciations generated by increased capital inflows is not a completely new phenomenon in Latin America. In the late 1970s most countries in the region were flooded with foreign resources that led to large real appreciations. The fact that this previous episode ended in the debt crisis has reinforced the concern about the possible negative effects of the current capital flows.

There is no easy way to handle real appreciation pressures. Historical experiences shows that there are at least two possible avenues that the authorities can follow