NAFTA violates int'l trade rules, accuses Tokyo

TORYO, Aug 5: The North American Free Trade Agreement (NAFTA) violates international trade rules, a Japanese government research group concluded on Wednesday, reports

The study group on economic and trade policy in the Asia-Pacific region said in an interim report that the US-Canada-Mexico agreement on Tariffs, local content, and safeguard measures will discriminate against non-members.

The report said that a hike in the required local content of cars to 62.5 per cent from the current 50 per cent runs against the General Agreement on Tariffs and Trade [GATT] rules, which bans unfair treatment of non-member nations by a trade bloc.

The report also said NAFTA's safeguard measures on compensation duties and against dumping are preferential to NAFTA nations and against GATT rules.

"It is important to conclude

the Uruguay Round of global trade talks, to solve these problems," it said.

The three NAFTA nations have agreed to eliminate quotas and tariffs on goods traded between them. Most will be eliminated immediately or phased out over a five-to 10-year period. But some, including on some agriculture products, will be phased out over a 15-year

"This will be disadvantageous for other trading partners especially in textiles on which the United States maintains high tariffs," the report said.

However, Japan will be damaged less by the trade agreement than other Asian nations because American tariffs on most Japanese exports are low, it said.,

> Negotiators meet in Washington

Another report adds from Washington: US, Canadian and Mexican government ministers

met on Wednesday afternoon to try to push forward a North American Free Trade Agreement

(NAFTA). The meeting, originally expected to take place in the morning, was set for the afternoon after Canadian Trade Minister Thomas Hockin said he had to attend a cabinet meeting in Ottawa during the

His Mexican counterpart Jaime Serra Puche was consulting Mexican negotiators who were discussing labour, environment and trade issues with the American and Canadian

Hockin, Serra Puche and US trade representative Mickey Kantor were planning to get together at the hotel where their teams have been meeting nonstop since last Thursday for a progress review and further

The closed-door ministerial discussions are due to end on · Thursday, but Mexican sources

considering an extension until Friday. Kantor told the US Congress reports Reuter. on Tuesday that some progress was made in talks with Mexico over adding environmental and

labour saleguards to NAFTA. The Americans and the Mexicans seek to clinch a deal on funding the clean-up of their 2,000 mile (3,200 km) border.

Border pollution has become a major stumbling block on the road to setting up the huge free trade one. It has also given ammunition to NAFTA critics who fear the pact will lure US firms to the Mexican border, wrecking environmental havoc.

The issue of trade sanctions to enforce NAFTA is also thorny While Americans want a stiff enforcement mechanism, Mexicans and Canadians oppose Once in place, NAFTA will

ceive a 35 per cent discount Tickets bought between August 18 and August 31 will include a 30 per cent discount and those eliminate tariffs between the purchased from September three countries over a 15-year through September 15 will be period and create the world's cut by 25 per cent, Delta said. largest free trade zone.

Indian industrialists demand US airlines cut fares up to 35 per cent

NEW YORK, Aug 5: US air-BOMBAY, Aug 5: Indian inlines sliced fares up to 35 per dustrialists are demanding a cent for travel through cut in interest rates now that December 15 on Wednesday in the market-friendly government a move to lure Americans to the of Prime Minister PV Narasimha skies after the peak summer Rao has brought inflation under travel season draws to a close control, reports AFP.

Rao has notched up notable Delta Air Lines Inc. the successes in the battle against third-largest US airline, initirising prices since taking office ated the sale and it was quickly two years ago, but domestic matched by Continental Air lending rates have been stuck Lines inc. at more than 16 per cent, among the highest in the world. Delta said the sale, offered

on a sliding scale, will apply for Inflation was running at 14 travel between September 15 to 15 per cent and the miniand Detember 15 through most mum interest rate was as high of the United States including as 20 per cent when Rao took Alaska, Hawati, San Juan in power in June 1991 and Puerto Rico and the US Virgin launched a programme of mar-Islands. The sale also applies to ket -opening economic reforms. Canada, Bermuda and the Inflation has since been reduced to a manageable six per Bahamas, Delta said

> ecutives are demanding that interest rates be brought down Finance Minister Manmohan Singh, the architect of the ambitious economic reform programme has gradually reduced

cent and Indian corporate ex-

lending rates but industrialists

are demanding deeper cuts. When inflation was 14 per cent, interest rates were 20 per cent,' said V K Vishwanathan, the financial controller of food

giant Hindustan Lever Ltd. "Now when inflation is six per cent, lending rates are 16 per cent meaning real interest

rates are still very high," he Vishwanathan said interest rates should be between forehand five per cent above the in-

flation rate.

"In Britain, when inflation was 10 per cent in 1990-91, interest rates were around 14 per cent. Now inflation is down to three per cent, interest rates have been cut to seven per cent," he said.

"Interest rates have to be low if India is to be internationally competitive," said Ajit Sanghvi, the head of a leasing company.

"In Japan, lending rates are only four per cent, while in the United States they are between six and eight per cent," he said. Sanghvi said the gap between the deposit and lending

cut in interest rates rates of Indian banks was currently as great as six percentage

"When banks were paying depositors 13 per cent they were charging borrowers 200 per cent, he said, currently, the spread is still high with banks paying between 10 and 11 per

Sanghvi said that globally, the gap between deposit and lending rates is less than four

cent while ending out at 17 per

percentage points. Indian banks will have to follow suit. They will have to be more efficient to bring down the difference. Low interest rates have a significant impact on production costs, he said.

GS Rao, General Manager of Credit Rating Information Services of India Ltd, said interest rates are likely to come down in the near future because there is excess cash in the market.

He said extremely high operational costs are the cause of the broad spread between deposit and lending rates.

soft loan from Japan

ISLAMABAD, Aug 5: Japan agreed here Tuesday to a package of 402 million dollar in soft loans to cash-strapped Pakistan, the Japanese Embassy said, for use in five railway, communication and water

projects, reports AFP. The embassy said the loans would be extended on concessionary terms with an interest rate of 2.6 per cent per annum, repayable over 30 years including a grace period of 10 years.

The agreement, signed by Japanese Ambassador Kunto Muraoka and RA Akhund, a top finance ministry official, is expected to help shore up the country's economy after last year's massive floods and a recent political crisis.

Pakistan is also seeking 2.3 billion dollar from the World Bank-sponsored aid consortium made up of Western donors and Japan in aid for the 1993-94 financial year, which began last

The 28th yen loan package from Japan was negotiated during the government of former Premier Nawaz Sharif, who guit last month along with President Ghulam Ishaq Khan in an army-medicated deal to end political turmoil.

The negotiations then could not be concluded because of Japanese concerns related to nuclear proliferation in South Asia, though officials here denied any linkage between the

Japan's Overseas Economic Cooperation Fund will finance the five projects.

The most important is the second phase of a cross-country, 1,200 kilometre (750-mile) highway being built to open an alternate route from Karachi in the south to the northwestern city of Peshawar.

Another important project is the rehabilitation or replacement of 240 outdated diesel electric locomotives operated by Pakistan railways. The redundancy of nearly

half of the railway's 564 diesel locomotives has seriously handicapped its operations.

Pakistan to get \$402m [Japan's new govt inherits \$67.5b] current account surplus

TOKYO, Aug 5: The new government in Japan inherits a record current account surplus of 67.5 billion dollar in the six months to June - and the headaches that go with it, reports AFP.

Japan also enjoyed in the first six months its first ever invisible trade surplus over half-year period, the Finance Ministry said Wednesday.

The announcement came as Japan prepared for an end Thursday to 38 years of oneparty rule and signals that the legacy left by the Liberal Democratic Party (LDP) will become one of the first big headaches for the new coalition government, given continued trade friction with the United States and Europe.

The current account, which measures trade in goods and services plus certain financial transfer such as gifts and grants, had a surplus of 19.8 per cent from the first half of last year and exceeded Japan's previous record imbalance of 61 billion dollar in the second.

In June alone, the surplus was up 13.5 per cent from a year earlier at 10.7 billion dollar. Up from 9.6 billion dollar in May, it was record for the month of June and marked two years and three months of uninterrupted growth.

The trade surplus alone grew 8.8 per cent from a year earlier to 68.4 billion dollar in the six months with exports climbing 7.4 per cent to 170.9 billion dollar and imports edging up 6.5 per cent to 102.5 billion dollar.

Japan's invisible trade account, which includes services such as tourism and shipping but also investment income, posted a surplus of 2.1 billion dollar, the first ever, and reversing a deficit of 4.6 billion dollar a year earlier.

"This is unheard of," a ministry official told a news conference, conceding that Japan might post an invisible trade surplus for the full year.

Passengers buying tickets

now through August 17 will re-

The major factor was surge in net inflows of investment income from abroad. Such inflows, comprising dividend and interest payments, jumped 28.2 per cent to 24 billion dollar the ministry said

Japan's travel deficit meanwhile shrank four per cent to 10.8 billion dollar, in line with the decline in Japanese travelling abroad this year.

The country's transport deficit narrowed two per cent to five billion dollar while the deficit in other invisible trade, ranging from royalties to advertising, contracted 12 per cent to six billion dollar.

Japan's long-term capital deficit, measuring direct investment, trade credits, loans and securities transactions, was 27.3 billion dollar, up sharply from only 193 million dollar in the first six months of last year. Finance Ministry officials

to hit 18.2 billion dollar. The invisible trade deficit

movements in the external imbalance, given unpredictable factors such as the yen's sharp appreciation in recent months.

were at a loss to predict future

A stronger yen tends to boost the surplus in the short term by making exports more expensive before they become less competitive and contract in the longer term as imports pick up.

Signs of an increase in import activity emerged in the figures for June alone, however. The trade surplus expanded 2.2 per cent to 11.6 billion dollar, a record high for June. Exports advanced 9.4 per cent to 29.8 billion dollar but imports grew at a faster pace of 14.6 per cent

narrowed 67.7 per cent from June last year to 443 million dollars while the long-term capital deficit widened 15 per cent to 8.7 billion dollar the ministry said.

Singapore's GDP may grow by 6.8 to 7.3 pc

SINGAPORE, Aug 5: Singapore's gross domestic product (GDP) is forecast to grow between 6.8 and 7.3 per cent this year, higher than the official forecast of six to seven per cent, a study sponsored by IBM Singapore showed, reports

The forecast took into account the growth in previous recovery phases, a more mature economy and the attendant labour and other resource constraints, according to the study by the National University of Singapore's Centre for Business Research and Development.

The growth forecasts of countries with which Singapore is closely linked through trade and investment were also taken into consideration. The study predicted and in-

creased of 2.3 per cent for the manufacturing sector, with the commercial sector growing 3.3 per cent, both rates being higher than those obtained in

The financial and business

services sector was likely to perform better in 1993 but annual growth would show little gain from the 5.4 per cent achieved in 1992, the study

Growth in the transportation and communications sector was set to remain at 1992's 9.2 per

The trade and industry ministry said in May that GDP had

GDP grew 5.6 per cent last

reported Monday that investment commitments in Singapore were set to hit a record high, with nearly two billion Singapore dollar (f.24 billion US dollar) estimated to have been committed in the first half-year.

US economic activities continue to expand slowly, report says

WASHINGTON, Aug 5: Bank officials in the 12 US Federal Reserve districts report that economic activity continued to expand "slowly to moderately" in June and the first half of July, despite severe flooding in some areas of the nation, says a USIS press release.

"Flooding inflicted considerable damage in parts of the Chicago, St Louis, Kansas City and Minneapolis districts, but the effects of flooding were said to be highly concentrated and were not seen to threaten the overall economic expansion in any district," concluded a Federal Reserve report issued on Wednesday.

The latest in the Beige book series is based on information gathered prior to July 27. It finds that construction of single-family homes continued as a source of strength in many districts, that retail sales rose in most areas of the country, although rates of growth varied widely; that automobile sales increased in many areas; and that inflationary pressures were

Growth in manufacturing

output was described as "generally sluggish" in most regions of the country, although conditions varied.

"Most districts said that manufacturers have not increased employment and do not plan to for the remainder of the year," the report states.

The Cleveland district reported strong demand for steel and heavy truck components, while Chicago cited a modest slowing of industrial expansion. San Francisco reported weakness in aerospace and defenserelated industries and strength in textiles and apparel and in computer-related industries located outside of Silicon Valley.

Several districts noted weak export sales to Europe, which is still in a recession, but they said this was partially offset by strong exports to developing

Agricultural conditions were said to be generally favourable, but flooding and drought destroyed crops in several dis-Atlanta, St Louis, Richmond

and Dallas reported that hot, dry weather had weakened rangelands and damaged crops in their districts. Also heavy rains and flooding ruined some crops - notably corn and soybeans - in parts of the Chicago, St Louis, Minneapolis and Kansas City districts.

Retail sales increased in most districts during June and July. But Minneapolis and Chicago noted slow sales in flooded areas.

Minneapolis reported that residential and commercial construction was perhaps the strongest component of the district's economic performance, and housing activity continued to increase in Chicago and San Francisco. Dallas, Kansas City and

Atlanta reported that higher natural gas prices have led to an increase in drilling and a rise in activity for related service companies. Recent Alaskan oil discoveries were said to have improved economic prospects in the San Francisco district.

Many districts reported that demand for business loans was largely unchanged in June and July, while demand for auto and other consumer loans either rose or leveled off.

Three suspects are (C) at press conference in Bangkok on Wednesday with a haul of almost 330 kilograms of high-grade heroin, the largest amount ever seized overland in Thailand. The heroin was US-bound with a street value of 33 million dollar in the United States. In background are anti-narcotics officials among them US Drug Enforcement Agency official Donald Sturn (2nd from right).

Euro central banks eyeing

ERM limits

Asian gold demand rises to 4 pc

SINGAPORE, Aug 5: Gold demand in Asia's developing markets is estimated to have risen four per cent to 160 tonnes in the second quarter from 154.1 tonnes in the correspending 1992 period, the World Gold Council said, reports AFP.

The Council's Singapore branch, WGC (Far East) Pte. Ltd, said that second quarter demand in China, Hong Kong, Malaysia, Singapore, South Korea, Taiwan and Thailand was down 32.8 per cent from 238.3 tonnes in the first quar-

China's demand rose 14 per cent to 57 tonnes from 50 tonnes in the year ago quarter, dominated by demand for jewellery which accounted for 55 tonnes, the statements said.

it added that an unfulfilled demand potential for gold bars and coins as a more direct investment medium existed because of a supply bottleneck.

Taiwan was the second

biggest consumer, ranking 45

tonnes, an increase of one per cent, while Hong Kong's demand fell 57 per cent to 4.6 tonnes, its lowest level since the third quarter of 1990. In Taiwan, demand for gold jewellery fell 15 per cent to 34

tonnes while bar and coin demand rose 150 per cent to 11 Hong Kong's demand was affected by a "dishoarding" of

4.4 tonnes of bars and coins. South Korea's take grew three per cent to 19 tonnes, all in the form of jewellery, while Thailand's consumption of 25 tonnes, which was up 19 per cent, was mainly supported by a 20 per cent increase in jew-

ellery sales to 24 tonnes. Demand in Malaysia rose 10 per cent to 4.4 tonnes while Singapore's demand was five per cent lower at 5.3 tonnes.

Elsewhere in Asia, India's demand fell 19 per cent to 98 tonnes in the wake of the rise in prices while in Japan demand for gold investment fell 38 per cent to 11.2 tonnes.

expressed support for the decision by Latin American coffee producers to cut their output to improve prices, but said its own production would not be reduced, ministers said yesterday, reports AFP.

For the time being, Indonesia cannot reduce its (coffee) production but we support the proposal of Latin American," Trade Minister Budiarjo Yudono said at the

was aware that the only way out of low world coffee prices was to cut supply and it agreed with the Latin American proposal to cut down world supply

Syarifuddin Baharsyah told journalists at the palace earlier Wednesday that it was difficult for the government to control a crop which was mostly grown by individual farmers. The conversion was expected

to reduce the country's coffee planting area.

Jakarta unlikely to reduce coffee output

JAKARTA, Aug 5: Indonesia

Yudono said that Indonesia

Agriculture Minister

LONDON, Aug 5: Central banks, particularly those in northern Europe, are wistfully eyeing the old narrow Exchange Rate Mechanism (ERM) limits.

It is clear that Europe's political leaders were unhappy with the weekend decision effectively to float the system. Verbal and financial interventions since have indicated they are rightly uncomfortable with currency weakness.

currency, analysts said, reports

"The French, Belgians and the Danes all want to get their currencies so they are not far away from the old bands and if possible in the old bands," said Natwest's Robert Thomas.

Analysts said the recent attacks on the weaker ERM currencies reflected the dire economic need for interest rates to come down across Europe. "This was, and is an interest rate crisis, not a currency crisis," said one.

"I thought the reason you

agree to float is the immediate economic need to get interest rates down," said Thomas, who is head of research at Natwest capital markets. "Pushing your currency up with intervention and not cutting rates makes it doubtful that you satisfy that economic need.

The Belgian central bank has so far been alone in visibly intervening, moving in at levels between 21.38 and 21.40 per marks. But there is strong speculation that the Danish and Spanish central banks have also been quietly supporting their currencies.

The Belgian franc is now back within its old 2.25 per cent band, rising on Wednesday morning to 20.85/93 per mark which compares with its old floor of 21.0950.

3.35 franc per mark was its real

There has also been verbal intervention a plenty with French Finance Minister Edmond Alphandery saying the short-term. unchanged ERM central rate of

The weekend shake-up saw ERM limits stretched to 15 per cent with the exception of the guilder and the mark. Foreign exchange traders said while the Belgian authori-

ties are anxious the franc be seen as a quasi-Deutsche mark, it is possible many of the other central banks will soon follow suit and indulge in cover intramarginal intervention. The French franc, although well off its low, is still under the

old 3.4305 per mark limit at 3,4550 and the Danish crown is well down at 3,9685 per mark versus the old floor of 3.9016. The Franc's new floor is way down at 3.8948 per mark and the crown's at 4.42968 per mark.

Analysts are puzzled that governments are so worried about the currency levels in the

"A gradual cutting of rates while you have the exchange

rate flexibility seems to me to be the most sensible thing," said one Paris analyst. "Rate cuts can even prompt a capital flow across the exchanges because of the boost to the economy and actually push up a cur-

Analysts said after the current wave of short-covering has exhausted itself and operators have taken currency profits, ERM currencies will tend to weaken as monetary policy is eased. *

"You will see renewed weakness in most of the ERM currencies and the French franc in particular," said Nikki Nelson-Smith, treasury economist at Midland global markets.

"The central banks are anxious to send a signal to the markets that 15 per cent is too far to fall so they are going to be careful when they cut rates ... the French are at the extreme of that argument and will cut rates the most cautiously.

cent, while a slower growth rate was predicted for the construction sector which expanded 17.6 per cent last year.

expanded at an annual rate of 7.1 per cent in the first quarter

The Daily Business Times

BCCI scandal

Altman's lawyers start closing arguments

NEW YORK, Aug 5: Robert Altman's lawyers, presenting closing arguments in the BCCI bank fraud trial Wednesday, alternately mocked prosecution witnesses and appealed to jurors to use common sense in weighing four months of evidence, reports AP.

Altman's defence team employed a mixture of humour and outrage to persuade jurors that Altman, a prominent Washington lawyer and former law partner of former Defence Secretary Clark Clifford, should never been indicted in the BCCI scandal.

"The prosecution's case has been just that - a theory in search of the facts," defence attorney Mitchel S Ettinger said.

Altman and Clifford were senior executives at First American and also lawyers for BCCI. Altman faces a maximum 16 years in prison on four felony criminal counts. Clifford, who is recovering from heart surgery, is not standing trial.

Growing demand will increase oil price, says OPEC leader

JAKARTA, Aug 5: The secretary general of the Organisation of Petroleum Exporting Countries predicted Thursday that rising demand will bring higher oil prices by the fourth quarter of this year, reports AP.

minister for mines and energy. also said after a meeting with President Suharto that oil supply and demand will be balanced until the year 2,000. He said an increase in demand will be counterbalanced

Subroto, Indonesia's former

by additional supply from Iraq. "We don't know when Iraq will enter the world market, but it will," he said. He said he expected no leapfrogging increase in the demand for oil as the world's

sluggish until 2,000. He said an OPEC monitoring committee is expected to meet in. Vienna on August 10 to prepare a report for OPEC ministers about the real production

economic growth will, remain

of the cartel's members. Without mentioning names, Subroto said some OPEC members were not abiding by quota agreements.