Pakistan lifts ban on govt recruitment

ISLAMABAD, Apr 9: Pakistan on Thursday lifted a five-year-old ban on recruitments in government departments, officials said, reports AFP.

Education Minister Syed Ghous Ali Shah said the federal cabinet decided that recruitment of junior staff will start Friday.

The ban was imposed as part of an austerity drive launched five years ago.

Shah said the government would follow a "transparent and merit-based policy."

The recruitment process would be completed in the next two months, he said, adding there would be no "nepotism and favouritism."

Thai SEC asks police to probe share price manipulation

BANGKOK, Apr 9: Thailand's Securities and Exchange Commission has asked police to investigate two individuals suspected of manipulating the share price of Thai Coating Industrial PCL in 1994, says AP.

The SEC didn't name the two individuals in a statement released late Thursday, but said it has enough evidence to believe they were manipulating the share price of the maker of plastic sacks and plain sheet fabrics.

The alleged manipulation occurred between Aug. 11, 1994 and Sept. 27, 1994. An SEC official, speaking on customary condition of anonymity, said it took the commission a long time to collect financial evidence.

As a rule, the SEC does not reveal the names of individuals accused of wrong-doing unless and until a court finds them guilty.

Malaysian stocks up on Mahathir's TV appearance

KUALA LUMPUR, Apr 9: The prices of shares on Malaysia's stock exchange strengthened Friday following Prime Minister Mahathir Mohamad's television appearance the day before, alleviating prolonged market speculation about his health, reports AP.

Mahathir, 73, disappeared from sight seven days ago after he was sequestered in the National Heart Institute for a lung infection. He appeared pale-faced with a shaky voice on national television Thursday evening, sitting on a couch in the hospital and thanking Malaysians for wishing him a speedy recovery.

On Friday afternoon, Malaysia's benchmark Kuala Lumpur Stock Exchange rose by 2 per cent to 567.79, spurred by active buying from institutional investors, market observers said.

"Investors' sentiment remains firm, particularly after Mahathir's television appearance," said a dealer at a local brokerage firm on customary anonymity.

The prime minister's office says that Mahathir is in the hospital for a lung infection. But it has not released any details of the treatment and very little about his condition. Even top politicians have not been allowed to visit him.

"Although I want to go back to work as soon as possible, the doctors advise me to rest," Mahathir said Thursday, after television cameras showed him walking slowly to a couch in the hospital. "I wish to return to work, God willing."

While Mahathir has been away from public eye, many Malaysians have wondered just how ill their leader of 18 years truly was. The local media has been printing reports saying Mahathir, Asia's longest-serving ruler, is well on the road to recovery.

On Friday, the national news agency Bernama said the prime minister's office has confirmed that Mahathir would be visiting the southern Johor state on May 20.

Sydney Water can't guarantee full supply on Y2K dates

SYDNEY, Apr 9: After struggling to clean the city water system of microbes last year, Sydney Water said Friday it cannot guarantee uninterrupted water supplies over "millennium bug" dates, reports AP.

The corporation's managing director, Alex Walker, said it has been working since 1996 to identify and rectify millennium bug problems with its software and equipment.

But Walker said Sydney Water could not guarantee its suppliers will be able to offer uninterrupted supply.

"Sydney Water could not guarantee that its suppliers, including electricity suppliers, would be able to offer uninterrupted supply at any time of the year, including on Y2K critical dates," he said.

But we can aim to ensure that we are ready to deal with these types of situations when they occur, including possible Y2K-related service interruptions."

He said testing and rectification of systems critical to water supply and treatment, sewage treatment and waste water management were nearing completion.

Today 92 per cent of day-to-day customer service systems are Y2K compliant and Sydney Water aimed to have all systems compliant by June 1999, he said.

ADB sees strong recovery prospects for Asia

MANILA, Apr 9: The Asian Development Bank expects East Asia's battered economies will start to mend in 1999, with growth resuming in the following year, its president said Thursday, reports AP.

"The recovery prospects look strong," said Tadao Chino, the Manila-based development bank's newly-appointed president.

He predicted in an interview that the Asia-Pacific region as a whole would grow by at least four per cent this year, up from 2.6 per cent in 1998. The region includes East, South and Central Asia as well as the Pacific islands.

He made clear, however, the pace of recovery would depend heavily on the success of current reform initiatives and the mood of international financial markets.

Chino said the economic slump in East Asia appears to have touched bottom, with a recovery expected to start in the second half of this year and positive growth seen in the 2000.

Chino's forecast for the region appears to be more bullish than an assessment by the World Bank released Wednesday. Surveying trends in global emerging markets, not just in Asia, it said it expects the global financial crisis will deepen and persist for longer than forecast, with a full recovery unlikely before 2001.

Chino warned that political and social stability in the Asia region was "crucial" for it to withstand future economic shocks. Without naming specific countries, Chino said it is "hard to conduct reform programmes in conditions of extreme political and social unrest."

Chino, a former Japanese vice finance minister for international affairs, has put boosting the ADB's financial base and forging a new poverty-alleviation strategy at the forefront of his strategy for the bank.

The ADB plans soon to open negotiations with the governments of its 57 share-holding countries to replenish its Asian Development Fund, a low-interest rate fund open only to the poorest countries in the Asia-Pacific region, such as Vietnam and Bangladesh.

Chino said the existing four-year capitalisation, which runs until the end of next year, has been severely depleted by adverse currency movements caused by the crisis.

Some $6.3 billion was pledged to the fund in 1997, but the funds' value has been eroded to around $4.7 billion, largely because of the dollar's rise and the yen's fall since the outbreak of the currency crisis nearly two years ago.

The diminished lending power has already caused cutbacks in loan programmes to some needy Asian countries, according to ADB officials.

The ADB has faced criticism for not pushing poverty alleviation, and instead placing emphasis on becoming a broader-based lending agency to promote economic growth in the region. Chino said the bank aims by the end of this year to complete a new strategy to cope with the region's immediate needs to combat poverty, such as providing loans to set up social safety nets, but also forge a longer-term plan.

"Poverty reduction is one of the most crucial targets for the ADB," Chino said, noting around one-third of Asia's population, or one billion people, still live in grinding poverty.

European Central Bank cuts key rates to 2.5 pc

FRANKFURT, Apr 9: The European Central Bank cut key interest rates half a percentage point Thursday to 2.5 per cent in the first reduction since the euro currency was launched Jan 1, reports AP.

Weak economic data released earlier Thursday in Germany, Europe's biggest economy, raised expectations that the central bank would cut rates for the 11 nations that adopted the euro.

But the measure exceeded analyst predictions of a cut of a quarter of a percentage point — matching the rate reduction earlier Thursday by the Bank of England.

Gloomy growth forecasts across much of Europe, low inflation — and the resignation last month of the bank's biggest critic, German Finance Minister Oskar Lafontaine — already had fuelled speculation of a cut.

New figures from Germany showing a drop in manufacturing orders and little improvement in unemployment "are just another reason," said Otmar Lang, senior economist at Deutsche Bank. "These figures fit right into the scenario."

The reduction is the first since Dec 3, when key rates fell to a coordinated 3 per cent among the 11 euro nations to prepare for the new currency's Jan 1 introduction.

Since then, alarm at the European Central Bank over economic stagnation in much of Europe has grown, judging by recent comments by central bankers, while concerns about the euro's steep slide against the dollar in its first 100 days seem to be taking a back burner.

The euro has lost about 9 per cent of its value against the dollar, a drop attributed to everything from the surprising continued strength of the US economy to investor jitters over the fighting in Kosovo.

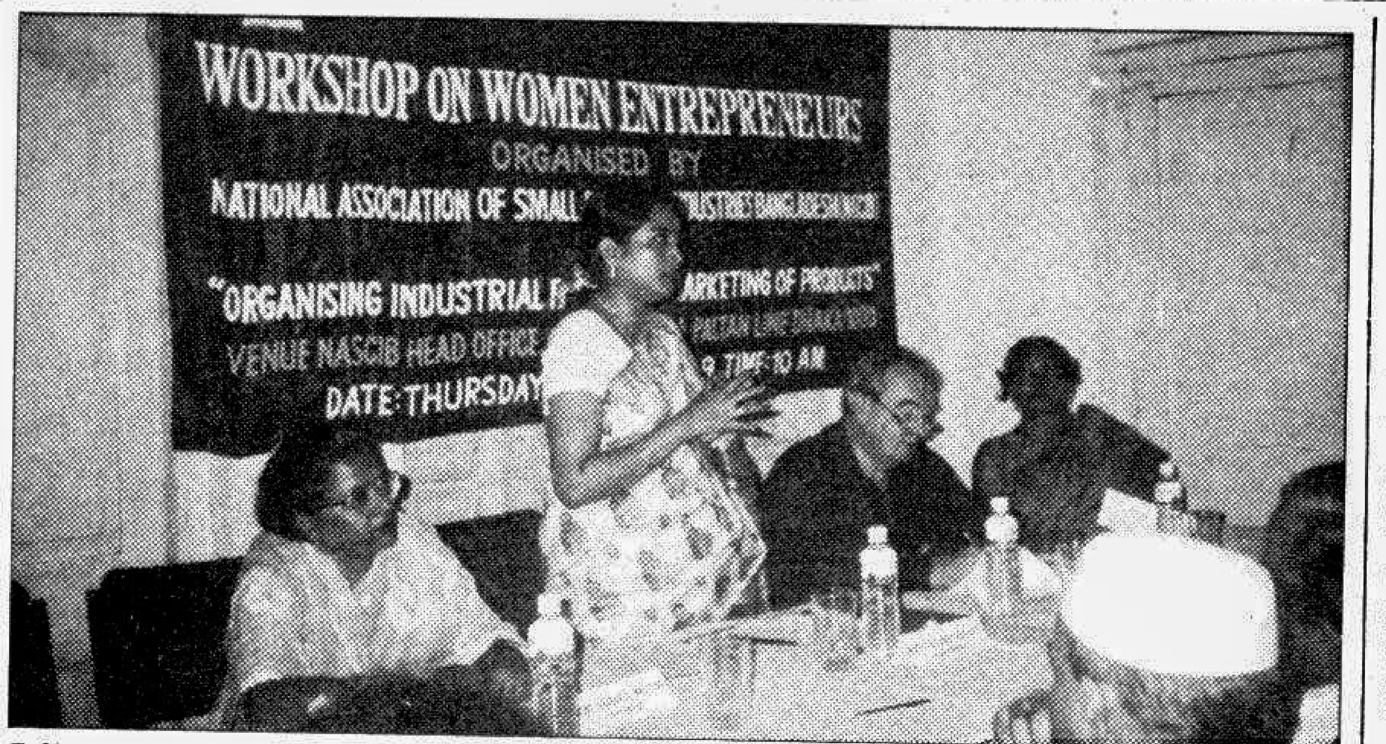
Although a rate cut traditionally weakens a currency because investors earn less, analysts said in this case, it could actually boost the fledgling currency if investors believe it will spur growth.

Lafontaine, Germany's left-wing finance minister until last month, had led a vocal campaign for rate cuts on just such grounds.

Ironically, his departure made it easier for the new bank to take such a step, since it wouldn't be interpreted by financial markets as caving in to political pressure or compromising its independence.

With interest rates already low, however, analysts said the benefits of a cut would likely be more psychological than direct, helping to improve sagging business confidence and spur investment and growth in countries like Germany, which has Europe's biggest — and one of the sickest — economies.

Key economic data released Thursday in Germany was worse than analysts had predicted: New manufacturing orders fell an adjusted 1.7 per cent in February, after a big drop in January, and seasonally adjusted unemployment in March was basically unchanged.



Selima Ahmed, Director of the Federation of Bangladesh Chambersof Commerce and Industry, addresses a women entrepreneurs workshop as chief guest in the city on Thursday. Also seen in the picture are Anthony Dalgleish, Consultant, JOBS programme of USAID, Sabera Begum, Vice-President of NASCIB, and Sufia Khatun, EC member, NASCIB.

— NASCIB photo

Currency Roundup

Asian units end mixed against dollar

SINGAPORE, Apr 9: Asian currencies ended mixed against the US dollar today, with the yen holding steady against the greenback, dealers said, reports AFP.

The yen ended at 121.25 against the dollar, around the same closing level in New York late Thursday.

Alson Seng, an analyst with US investment house Standard and Poor's, said the dollar-yen rate hardly moved as concerns over the Kosovo crisis were balanced out by strong Japanese share prices.

"At the moment it's between the war and the Nikkei," Seng said.

Only the Thai baht showed notable weakness in pre-weekend trade, easing to just under 38.00 per dollar from 37.77 the day before.

Seng said players felt Thai exports needed a boost from a lower currency.

The Singapore dollar was lower at 1.7343 from 1.7312. The Indonesian rupiah rose to 8,725 from 8,733 and the Taiwan dollar to 33.09 from 33.118. The South Korean won was unchanged around 1,233 per dollar.

Philippine markets were closed for a holiday.

Dealers in Tokyo were cautious over the central bank of Japan's Policy Board meeting, said Ko Haruki, Manager of Foreign Exchange at Midland Bank in the Japanese capital.

In recent weeks the Bank of Japan has pushed short-term interest rates down close to zero to stave off deflation but has kept the official discount rate at a record low 0.5 per cent.

US calls upon Japan to deregulate economy

TOKYO, Apr 9: Japan should not postpone efforts to deregulate its economy because of fears that opening markets would deepen its recession, US Ambassador Thomas Foley said Friday, reports AP.

Foley, who praised recent Japanese efforts to jump-start its economy with spending and tax cuts, said it would be "wrong" to hold off on reforms until the country's business climate improves.

"Japan's unprecedented, high level of unemployment is precisely the reason why deregulation is needed now," Foley told reporters at the Foreign Correspondents' Club of Japan.

In recently months, Japanese economic officials have suggested that planned reforms would have to be set aside until Japan pulls out of its worst recession since World War II.

Tokyo is concerned that opening industries to increased competition when they're at their weakest could be a shock to the economy.

But Foley, who has long urged Japan to spur its economy, said cutting red tape has boosted the cellular phone, finance and aviation industries by creating jobs and providing more services for customers.

"These are the sorts of benefits that come with deregulation," he said. Japan has made some progress in this area, but much more remains to be done."

The US envoy said the Japanese telecommunications and health care industries — especially ripe for reform.

Foley also discussed the U. Japan security alliance. Some Japanese have complained about the inconvenience and noise connected with US military bases in Japan, but Foley said that training is needed for the forces to be ready for action.

Thai GDP shrinks 11pc in third quarter of '98

BANGKOK, Apr 9: Thailand's state planning agency said Friday that gross domestic product shrank 11 per cent year-on-year in the third quarter of 1998, but grew 1.4 per cent over the previous quarter, reports AP.

The National Economic and Social Development Board said in a report that GDP during the first three quarters of 1998 contracted 9.6 per cent from the same period of 1997.

The Thai economy spun into a deep recession after the currency was floated in July 1997, triggering the Asian Crisis.

The agency revised its estimate of the year-on-year contraction in GDP during the second quarter to 12 per cent, from 11.1 per cent. The first quarter contraction was 5.8 per cent.

Thailand's government has estimated that GDP shrank 8 per cent over the full year in 1998. It predicts recovery in year-on-year GDP growth by the second half of 1999 and 1 per cent growth for the full year.

The forecast assumes positive results from a 130 billion baht ($ 3.6 billion) fiscal stimulus package announced last week that comprises tax cuts and new spending.

The government has said it will implement further stimulus measures if export performance remains poor.

UN lauds Lankan growth

COLOMBO, Apr 9: A United Nations survey released Thursday found Sri Lanka's economic growth below target but lauded the government for steady growth in the face of global economic downturn, reports AP.

A survey conducted by the UN Economic and Social Commission said a realistic estimate of Sri Lanka's growth rate last year would be about 4.5 per cent, against the government claim of 5.5 per cent growth in 1998.

Sri Lanka registered 5.3 per cent in 1997.

The survey said the 1998 growth rate was satisfactory when compared with the sharp downturn in the global economy, with global growth dropping to 1.7 per cent from the previous year's rate of 3.2 per cent.

The survey noted that Sri Lanka was successful in containing inflation to about 10 per cent for the second successive year. It forecast a growth rate of 5.7 per cent for Sri Lanka in 1998.

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Dushni Weerakoon, an analyst with the independent Institute of Policy Studies, said Sri Lanka had to struggle with the aftershocks of the financial turmoil in East Asia and Russia during 1998. Several international investors had also withdrawn from the region following the nuclear tests in neighbouring India and Pakistan.

Volatile markets, falling capital flows offer lessons for developing world

By Joseph Stiglitz

A new report released this week by the World Bank shows that long-term capital flows to developing countries plummeted some 19 per cent in 1998.

The drop, from $338 billion in 1997 to $ 275 billion last year, is roughly equal in size to the economies of Ireland, or Egypt, or Ukraine.

Even this decline understates the real magnitude of the slumping flows. It does not include the shrinkage of the so-called "hot money" or volatile short-term flows, nor does it reflect that the most dramatic downturn in flows occurred only after Russia's crisis last August. In the second half of 1998, new bond and loan financing to developing countries dropped to roughly half their average levels in the previous six months of the year.

These shocks to international financial markets have had a huge impact. While forecasting economic prospects for the developing world is always risky, it is especially difficult amid the turmoil of the past 21 months. Still, there is general consensus that growth prospects in developing countries are bleaker than they have been in years.

Global Development Finance — an annual bank report which tracks the movement of capital flows to developing countries — estimates an average growth rate of just 1.5 per cent for developing and transition economies in 1999, the lowest since the 1982 global recession. This contrasts with the robust growth of 4.8 per cent in 1997, before the full impact of the Asia crisis was felt. It is also a full percentage point below levels widely anticipated as recently as late 1998. Many countries, including some Latin American, former Soviet Republics, and Middle-Eastern and African oil-exporters, face stagnation or even falling output. The East Asian countries saw their output fall by an estimated 7.7 per cent last year.

While some countries, such as the United States, have enjoyed low inflation because of falling commodity prices, many poor countries which depend heavily on primary commodity exports have been devastated. Others have seen their economic prospects dampened as world trade saw a growth of just 4.6 per cent last year, down from over nine per cent growth in 1997.

The bank's report highlights another disturbing trend: development aid is stagnating at its lowest recorded level in over 50 years. At $33 billion worldwide, aid from wealthy donors has fallen to less than one-quarter of one per cent of the combined GNP of industrial countries, a 38 per cent decline since the beginning of the decade.

As another recent bank study, "Assessing Aid: What Works, What Doesn't, And Why," shows, improved policies in many low-income countries have meant that aid is more effective than ever in reducing poverty. It is a cruel irony that just as the sudden drying-up of volatile private flows makes aid more urgent than ever, aid is shrinking.

The one heartening development is recent statements by G-8 leaders calling for faster debt relief for the world's poorest nations under the Heavily-Indebted Poor Countries (HIPC) initiative, launched in 1996 by the World Bank and the International Monetary Fund.

On a broader front, many lessons can be drawn from recent adverse developments in international financial markets. For example, of the world's five largest emerging-market economies, the only two with sustained growth in 1998, China and India, have chosen a more selective approach to liberalising their financial sectors and capital account transactions. These two countries alone account for 40 per cent of the developing world's population.

Recent studies suggest that rapid capital account liberalisation, where financial institutions are weak, often exposes a country to greater risk. At the same time, evidence of its contribution to increased growth or investment is less than compelling. By contrast, as this year's Global Development Finance shows, flows of foreign direct investment (FDI) have proven much more stable, falling only slightly last year, from $163 billion to $155 billion.

FDI can also deliver access to markets, technology and human capital. Developing countries will benefit by ensuring that robust macroeconomic and legal systems can attract FDI and maximise its effects throughout their economies.

When the East Asia crisis struck, there was a rush to blame borrowers. Over time, a more balanced perspective has emerged. For every borrower, there is a lender, and lenders, too are accountable for their failure to act prudently — that is, to do due diligence. Lenders' incentives were distorted, not only through moral hazard problems arising from bailouts, but as a result of inadequate and inappropriately designed financial regulation within developing countries. As a result, they offered loans on terms that were "too good to refuse."

As governments, workers and small businesses contemplate the consequences of these recent episodes, there is a danger that they will take away the wrong lessons — that they will shrink from the real opportunities that joining the global economy brings. Instead, the key lesson here is that risk posed by volatility in capital flows, commodity prices and exchange rates (including that between the major developed countries), must be carefully managed. Policies designed to respond to these turbulent external conditions need both government and private sector involvement.

Good corporate governance can help develop equity markets to distribute risk better. Comprehensive safety nets help cushion the poor from the full impact of crisis. But the international community must recognise that even in industrial countries, small businesses often rely on debt. Unemployment insurance coverage is weak in agriculture and among the self-employed, sectors that loom large in developing countries.

Volatile markets are an inescapable reality. Developing countries need to manage them. They will have to consider policies that help stabilise the economy, and help it absorb some of the shocks that volatile markets impose. These could include Chilean-style policies on capital flows and sound bankruptcy laws, able to address the kind of systemic bankruptcy now confronting some of the countries in East Asia. It is also imperative that developing countries be wary of forms of financial market regulation which can actually worsen fluctuations.

The magnitude of the crisis, and the difficulty in devising the right responses, should prompt caution and humility in all of us. We should welcome experiments — even those that seem unorthodox — that aim to protect countries from capital market instability. In judging these reforms, as well as the value of previous responses, we should be careful not to confuse means with ends: stable exchange rates, or particular levels of exchange rates, are not ends in themselves. Our objective should be to ensure sustainable, stable, and equitable growth.

For more than sixty years, we have recognised that maintaining an economy at or near full employment is one of the primary responsibilities of government. By the same token, we should not salute recovery in East Asia and elsewhere until growth has been restored, unemployment has fallen and real wages have increased, at least to levels that existed prior to the crisis. Today, the crisis countries appear nowhere near those goals.

People in developing countries cannot wait for reforms to the international economic architecture to protect themselves. As one observer put it, "a lot more than interior decorating is required." At this stage, there is little confidence that even this is in the offing.

Meantime, the need for aid is pressing. It must be boosted to complement private flows which are currently ten times the levels of development assistance. Private capital, especially FDI, creates jobs. But aid helps build the schools, clinics and water systems that will ensure that healthy, educated people can fill them.

Joseph E Stiglitz is Chief Economist and Senior Vice President of the World Bank in Washington, DC.