The Daily Star BUSINESS

BOJ chief upbeat on economy

TOKYO, Oct 8: Japan's bullish central bank chief said the economy was recovering under its own steam, his strongest language yet, but suggested another interest rate hike was still some way off, says Reuters.

In his first comments since a key Bank of Japan report on Tuesday found Japanese companies growing more confident, BOJ Governor Masaru Hayami said even worrisome areas in the economy such as jobs and personal spending were improving.

But in the wake of an August interest rate hike, the first in a decade, Hayami stressed that BOJ policy remains aimed at supporting the recovery.

"We can say that a self-sustaining recovery led by the private sector has begun," Hayami told a gathering of business people in Tokyo. "I believe there is no doubt that a moderate recovery led by the private sector will continue."

Emerging this year from its sharpest postwar downturn, Japan's economy surged at a 10.3 per cent annual clip in the first quarter and 4.2 per cent in the three months to June.

Economists in a recent Reuters survey see gross domestic product squeezing out another sliver of growth in the July-September quarter, led by brisk industrial output and climbing corporate profits.

But the government and some economists fear the recovery could yet falter in coming months with personal consumption still weak, unemployment high and bankruptcies surging amid painful economic restructuring.

The government is preparing its 10th economic stimulus package of the post-bubble decade, a 3.5-4.0 trillion yen ($32-37 billion) supplementary budget.

On monetary policy, Hayami reiterated that the August rate hike, which ended an 18-month policy of essentially free money, was merely a fine-tuning of an ultra-easy monetary policy.

Asked when the BOJ might raise interest rates again, he said: "As for when we can return monetary policy to normal, I cannot say anything until we see how things develop."

Economists generally believe the still-spotty economic improvement portrayed by the tankan results mean that the BOJ will remain on hold until well into next year at the least.

Fuel price hike may not shoot Malaysia inflation

KUALA LUMPUR, Oct 8: Malaysia's move to raise petroleum prices for the first time in nearly two decades was long overdue but unlikely to spur a rise in inflation, economists said, reports Reuters.

Opposition politicians doubted the government's ability to rein in inflation and urged authorities to keep a close watch on prices.

The finance ministry said on Saturday the price of unleaded petrol would rise 9.1 per cent, or 10 cents, to 1.20 ringgit per litre, effective October 1.

It also announced an increase in the price of diesel by 7.7 per cent, or five cents, to 70.1 cents per litre. The price of liquefied petroleum gas was raised 8.5 per cent, or 10 cents per kg, to 1.28 ringgit per kg.

"The increase is not much. It is within market expectations and would not create much inflationary pressure," said Manokaran Mottain, economist at SBB Securities.

The small increase in pump prices would have little impact on inflation in Malaysia as the fuel and power sub-group accounted for only about five per cent of the consumer price index (CPI).

Malaysia is a non-OPEC oil producer and net exporter of crude oil, producing about 630,000 barrels per day (bpd). It consumes about 400,000 bpd of petroleum products.

"We know that an increase in fuel price stimulates price increase in other goods. Can the government cope with this inflationary pressure?" asked Tan Seng Giaw, vice chairman of opposition Democratic Action Party (DAP).

He urged the government to step up its vigil on prices and ensure supply of goods to keep a check on inflation.

Bus operators and consumers had urged the authorities not to raise oil prices.

The finance ministry allayed fears of rising prices by saying that the fuel price increase would push up year-on-year inflation by just 0.41 per cent to 1.81 per cent in October.

Inflation for the full year is expected to increase 0.10 per cent to 1.9 per cent against 2.8 per cent in 1999.

Malaysia's inflation, measured by the CPI, rose marginally to 1.5 per cent in August from 1.4 per cent in July.

A recent Reuters poll of 10 research houses forecast inflation at two per cent on the year and 3.2 per cent in 2001.

"The oil price hike has already been factored into inflationary expectations and interest rate outlook," said an economist with a local investment bank.

The government has pledged to keep a strict vigil on prices and asked traders and transport operators not to indiscriminately raise prices.

The increase in fuel prices, the first in 17 years, would help to trim government subsidies following a surge in global crude oil prices.

China's WTO entry hangs over Asean free trade zone

CHIANG MAI, Thailand, Oct 8: The 32nd economic ministers meeting of the Association of Southeast Asian Nations (ASEAN) wound up over the weekend with eyes focused on China, whose pending entry into the World Trade Organisation (WTO) looms ominously over Southeast Asia's smaller economies, says DPA.

At Saturday's ASEAN Economic Ministers (AEM) talks with their main Asian trade partners – China, Japan and South Korea – the Chinese foreign trade minister was conspicuously absent, due to schedule conflicts, and represented by vice minister Zhou Keren, instead.

Zhou kept mum when pressed on what his minister's absence implied for ASEAN-Chinese relations and follow-up questions on the economic consequences of China's pending entry into the WTO on the region.

The AEM+3 meeting, however, did launch a study on China's WTO impact on Southeast Asia, the results of which will be revealed at the upcoming ASEAN summit in Singapore next November.

Non-ASEAN participants at this year's AEM, which was held in Thailand's northern city of Chiang Mai on October 5-7, stressed that China's looming WTO accession should be viewed as an impetus for pushing through economic reforms and getting a comprehensive ASEAN Free Trade Area (AFTA) in place fast.

ASEAN, which includes Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar (Burma), the Philippines, Singapore, and Thailand, is only beginning to recover from its worst economic crisis in decades.

The crisis has already taken the bloom off ASEAN as an international darling for foreign investments.

The same crisis has forced South Korea to liberalise its market to greater foreign participation than previously allowed, while China and India are both opening up access to their two billion consumers, compared to ASEAN's collective 500 million population.

Foreign investment inflows to the ASEAN amounted to 16.9 billion dollars last year, a drop from 19.6 billion recorded in 1998.

The US-ASEAN Business Council, which also met in Chiang Mai, warned that ASEAN would need to continue to push through reforms and integrate its markets if it hopes to attract more investment flows from multinational companies.

"As other large, developing markets open up their economies, deregulate and liberalise, the competition for this capital can only be expected to increase," said Ken Richardson, Executive Director of the US-ASEAN Business Council.

Richardson noted that foreign direct investment in China last year reached 40 billion dollars, the lion's share of the Asian total.

"This is a sharp turnaround from the beginning of the 1990s, when ASEAN was the recipient of 61 per cent of the investment flowing into Asia, with only 18 per cent directed to China," said Richardson, who warned that Southeast Asian governments needed to accelerate rather than backtrack on AFTA to bring investments back to the region.

It may still be too early to judge whether developments at the AEM in Chiang Mai amounted to backtracking or not.

The meeting agreed to set up a protocol for dealing with member countries' difficulties in slashing tariffs under the AFTA scheme, which seeks to turn the six most developed member economies into a free trade area for one another's exports by the year 2002.

The need for the problem-solving mechanism arose over Malaysia's reluctance to include its automobile sector in AFTA, thwarting Thailand's exports of vehicles and auto parts to its neighbour. Under the protocol Thailand can now seek compensation from Malaysia.

Western observers are reserving judgement on the protocol until they see how it works in the Thai-Malaysian case.

"Any sort of backward move could break the credibility of the whole thing," said a European Union official. "If the result of the Malaysian case is that they pay compensation, then fine, but if the result is that Malaysians can buy time by making others retreat, that's not fine."

A Shanghai woman chats with her friend at a coffee shop in Shanghai yesterday. China has a total of 330 million working woman, accounting for 46.7 per cent of the total workforce in the world's most populated country. – AFP photo

French Suez Lyonnaise eyeing Asia's untapped water market

MANILA, Oct 8: A year after going on a mammoth acquisition spree, the world's top water services company Suez Lyonnaise des Eaux of France is eyeing the largely untapped Asia-Pacific water market to boost revenue, reports AFP.

Over the next 15 years, 300 billion euros ($260 billion) in investments will be needed to meet the drinking water needs and demands for other water-related projects in the Asia-Pacific region, company officials said.

Most water systems in the region are run by governments and state-linked agencies which have started to privatise them.

"This for us is a market that can be enormous but it takes time to develop," Gerard Payen, chief executive officer of Suez Lyonnaise's water division, told AFP.

Payen, who was in Manila for the launch of a water project for poor households, said the global trend for water projects was private financing "because investments in water are huge and public budgets are not increasing."

"International experts do think more than half of future water investments will have to be funded by private industry," he added.

Payen said Suez Lyonnaise's expansion in Asia-Pacific was boosted by a three-way integration last year in the company's water division, involving core company Lyonnaise des Eaux and acquired firms Nalco of the United States and Degremont of France.

Degremont and Nalco are world leaders in water treatment, among other services, while Lyonnaise des Eaux is a water management specialist.

Suez Lyonnaise is banking on the new integration in its 100 per cent-controlled water division subsidiary to battle arch rival Vivendi of France and British firms which are aggressively tapping the Asian market for contracts.

Suez Lyonnaise supplies water to more than 100 million people, making it the world's top water company in terms of population coverage but Vivendi is the leader in terms of turnover, officials said.

Suez Lyonnaise's turnover for water projects makes up 20 per cent or 6.3 billion euros of total group turnover of 31.6 billion euros.

Payen said Suez Lyonnaise was open to boosting its joint ventures in Asia but did not give specific details although he indicated China was tops on the list.

"I do think the next big step will be in China," he said. "It is a very large country. We have 100 water plants there already, we are bidding for additional production contracts," he said.

Southeast Asia was another growing water market, Payen said, adding that the water contracts Suez Lyonnaise had in the Philippines and Indonesia were among the largest in the world.

"The largest water supply contract in the world is in Buenos Aires for 10 million people and just after that are the contracts in Manila and Jakarta for more than six million people each," he said. Suez Lyonnaise's joint venture with Benpress Holdings Corporation in the Philippines is undertaking a 25-year-long, 4.5-billion dollar water project launched three years ago.

Payen said providing water to the remote areas in Asia was a key challenge for the company.

"Poor people without clean and potable water buy from street vendors at prices which are 10 to 40 times higher than that of tap water. So, it is a big savings for them when they are connected to clean, potable and affordable water," he said.

Japan's electronics giant Sanyo employee Yoko Kawada displays the prototype models of Bluetooth mobile phone BT-2000 (R) and Bluetooth thermal printer during the CEATEC, Japan's largest electronics and communication trade show at Makuhari, suburban Tokyo, on Saturday. The BT-2000,equipped with small video camera, enables wireless communication between PCs and wireless printer with maximum speed of 1Mbps. – AFP photo

China has 330m working women

BEIJING, Oct 8: The number of working women in China has reached 330 million, accounting for 46.7 per cent of the total working population in the country, according to sources from the All-China Women's Federation, says Xinhua.

According to the All-China Women's Federation, the number of female cadres accounts for one-third of the total of number of cadres, and the number of female officials in governments and organizations of the Communist Party of China (CPC) at various levels has witnessed a substantial increase in past decades.

The number of female scientists and researchers account for 36.9 per cent of the country's total.

China also has 70 female academicians of the Chinese Academy of Sciences and Chinese Academy of Engineering.

According to the All-China Women's Federation, the number of female graduate students and female university students account for 30.35 per cent and 36.4 per cent of the totals respectively.

Japan agrees to release $69m loan to Iran

TEHRAN, Oct 8 : Japan and Iran exchanged notes here Saturday for Tokyo to conclude a major low-interest loan to Tehran for the construction of a hydroelectric plant, that was suspended more than seven years ago, says AFP.

Embassy officials here said Japan had committed itself to providing 7.5 billion yen (68.8 million dollars) for the plant at the Number 4 Karun dam in southwestern Iran to finish off the loan payments.

The money is expected to be delivered in the coming two or three weeks, the officials said, and follows up on more than 350 million dollars given to Tehran in the last payment in May 1993.

After that the deal was frozen by Tokyo under pressure from the United States, which accuses Iran of supporting international terrorism but in recent months has softened its stance toward Tehran.

An embassy official said there was no link between the resumption of the loan and a recent Tehran visit by a Japanese trade delegation as Tokyo seeks to expand its sources of oil and energy in the Middle East.

Iran provides Japan with nearly 10 per cent of its oil and the two are major trade partners. Iranian President Mohammad Khatami will visit Tokyo later this month.

GM makes surprise bid for Daewoo Motor

SEOUL, OCT 8, US giant General Motors Corp (GM) has sent an official bid to take over South Korea's bankrupt Daewoo Motor Co., reports said Sunday, reports AFP.

Lee Keun-Young, head of the financial Supervisory Commission, South Korea's state financial watchdog (FSC), said GM's letter of intent was sent Saturday to creditors, Yonhap news agency reported

GM agreed in the letter to start immediate negotiations on acquiring Daewoo.

FSC officials refused to confirm the report, but said there would be an announcement from Korea Development Bank (KDB), the main creditor in charge of the new auction following the Ford Motor Co's withdrawal from a 6.9 billion dollar deal last month.

Yonhap said earlier that GM officials were in Seoul and ready to begin due diligence, that should take between four and six weeks.

GM has been seen as the only possible suitor to take over Daewoo since South Korea's leading Hyundai Motor Co. confirmed last week it would not cast a new bid.

Hyundai had previously been allied with DaimlerChrysler. But its withdrawal followed remarks by DaimlerChrysler chairman Jurgen Schrempp that the US-German group was "absolutely not interested" in Daewoo Motor.

Ford was chosen as preferred bidder in June. But it withdrew on September 15 after a detailed inspection of Daewoo's troubled accounts.

The withdrawal severely shook market confidence in South Korea's economic reform programme as well as forcing creditors to seek new offers.

Yonhap quoted the FSC chief as saying GM wanted to take over Daewoo's plants in South Korea and other countries. Daewoo has plants in India and Poland.

But creditors refused to give up the idea of breaking up or nationalising Daewoo if the auction collapsed again, it said. GM pulled out of negotiations earlier this year after creditors refused to lower the takeover price.

Analysts have said nationalisation would be the best solution as the manufacturer might attract higher bids later.

Following Ford's dramatic pullout, GM had expressed worries about Daewoo's mounting losses.

Daewoo asked last week for a 734-million-dollar new lifeline from creditors to sustain the company.

End to bitter aviation dispute

Taiwan carriers resume Philippines flights

TAIPEI, Oct 8: Taiwan's flag-carrier resumed flights to the Philippines on Sunday, ending a bitter aviation dispute that severed air links between the two close neighbours for a year, says AP.

Two China Airlines flights left early morning for Manila from the capital, Taipei, and the southern port city of Kaohsiung following a ribbon-cutting ceremony in Taipei.

The event was attended by Rodolfo Reyes, director general of Manila's de facto embassy in Taipei.

Both the China Airlines MD-11 from Taipei and Boeing 737-800 from Kaohsiung were fully booked, mostly with Filipino workers stationed in Taiwan, said airline spokesman Scott Shih.

ChinaAirlines has scheduled ten round-trip flights on a chartered basis between the capitals from Oct. 8 to Oct. 27. The airline will be flying MD-11 aircraft, Shih added.

Regular passenger service would resume with 14 flights weekly on both the Taipei-Manila and Kaohsiung-Manila routes from Oct. 29. By December, CAL will fly 18 round-trip passenger and cargo flights per week, with 3,866 seats available in each direction.

Taiwan and the Philippines signed a new aviation agreement on Sept. 25. Manila unilaterally scrapped an air services agreement and severed air links in October 1999, accusing Taiwanese carriers of poaching passengers from Manila and flying them to third countries via Taipei.

The new air agreement effectively gives Taiwanese airlines what they wanted: 9,600 passenger seats a week and the right to transport people and cargo to third countries, known in the aviation industry as the "sixth freedom right."

US$2.65b spent

55m Chinese travel during Nat'l Day vacation

BEIJING, Oct 8: Some 55 million Chinese travelled during the week-long National Day holiday which ended Sunday, spending some 22 billion yuan (2.65 billion dollars), state press reported, says AFP.

More than 24 million travellers took trains, while some 15.9 million travelled by air, said the People's Daily, citing statistics from the China National Tourism Administration.

Income from tourism, including travel costs as well as hotels, restaurants and other cultural activities, was expected to be greater than during the last seven-day holiday in May, it said.

The report added that despite the large numbers of travelers, tickets and accommodation were easily obtainable compared to the May Day holiday when vacation destinations were filled to over capacity and services in many areas broke down.

The report varied slightly from earlier reports Saturday that only 25 per cent of China's biggest tourist sites were "full," as Chinese appeared reluctant to make trips following the "chaotic" period in May.

Since last year's National Day, China has experimented with extended vacations in an effort to spur domestic demand and get consumers to spend some of the 722 billion dollars they have stashed in bank accounts.

The People's Daily said consumer spending during the holiday was brisk, with retail income in Shanghai's 1,800 large and medium retail outlets bringing in 977 million yuan (117 million dollars) in sales, up 16.3 per cent over the same period last year.

Meanwhile sales at 93 stores in the shopping district of Tianjin city, east of Beijing, were up 20 per cent over last year to 40 million yuan and sales in the five largest department stores in Guangzhou city in the south were up 8.6 per cent to 75 million yuan, it said.

EU seeks close coordination on energy policies

STRASBOURG, France, Oct 8: The European Commission called yesterday for EU countries to closely coordinate their energy policies to avoid a "cacophony" of divergent national measures to cope with events such as the recent oil crisis, says Reuters.

Loyola de Palacio, head of energy matters at the European Union executive, told a news conference the 15-country bloc needed a coherent strategy in areas such as negotiating with producer countries, the use of oil reserves and energy tax.

Presenting a discussion paper on energy policy to a news conference in Strasbourg, de Palacio said: "This document does not claim to be a panacea for all the problems affecting the world economy and the EU ... but it makes proposals for a strategy at EU level."

The document said the Commission would examine ways to reinforce the mechanism of strategic oil stocks held by European governments by bringing their use into the EU framework.

"To combat speculation, means of intervention need to be found, like the techniques used on the money markets, to limit price volatility," it said without elaborating.

The document did not make any recommendation to release strategic oil reserves as the United States has done to combat high world prices.

De Palacio said her strategy was to counteract what she said had become "a cacophony of responses" from member states to the rise in oil prices.

Faced by highly disruptive industrial action by hauliers and farmers angry at spiralling fuel costs in recent weeks, many European countries decided to cut fuel taxes to soften the financial hardship on their industry and consumers.

The new Commission strategy is aimed at encouraging EU countries to avoid such unilateral moves and act in concert, especially over fuel tax policy.

The paper says cutting fuel excise duty achieves little more than encouraging OPEC to maintain high prices and it repeats the Commission's long-held view that the EU countries should harmonise excise duty upward.

The paper suggests the impact of such tax rises could be offset by capping VAT (sales tax) on fuel so that the percentage of VAT would drop after a certain price ceiling was breached.

The document is sceptical whether a mechanism agreed by OPEC will be successful in stabilising prices within a target price band of $22 to $28 per barrel.

"There is nothing automatic about this mechanism. Its effectiveness in stabilizing prices is very relative. It should also be noted that it is extremely risky, if not impossible, to set production quotas to achieve a target price," it said.

Although agreement on the mechanism should make it possible to stop prices rising and staying about $35 a barrel, it does not guarantee stabilisation at the target price of $25 a barrel even in the long term, it said.

Asia's IT-led economic recovery seen on track

HONG KONG, Oct 8: Information technology is expected to continue as one of the main drivers of Asia's economic recovery despite wild share market gyrations and concerns about slowing growth in personal computer demand, reports AFP.

Industry leaders and analysts said the growth of personal computer demand was expected to remain strong. Any slackening would be taken up by explosive growth in other IT sectors, including mobile communications, they said.

Confidence in the IT sector had been dented by the fall from grace of technology stocks on the Nasdaq, which had plummeted around 30 per cent from its March peak.

Reports of slowing growth in demand for PCs, falling prices for dynamic random access memory (DRAM) chips -- the basic chip used in PCs and some other electronic appliances -- and profit warnings from leading players including Intel, Apple and Dell have depressed sentiment further.

The fall in the Nasdaq had rocked markets around Asia. The market capitalisations of 18 major electronic components stocks in Japan had fallen around 20 per cent since the end of 1999.

In South Korea, share prices of semiconductor firms dropped 32.7 per cent in the first three weeks in September alone.

In the DRAM sector, crucial to South Korea and Taiwan in particular, the picture was mixed despite the fact South Korean selling prices for 64m DRAM chips fell to 6.40 dollars this week, down from 7.80 dollars in September and 8.30 dollars in August.

Park Pal-Hyong, an analyst at LG Economic Research Institute, said: "Exports of South Korean microchips, which account for more than 40 per cent of the global market, will remain strong at least until the end of this year."

He said South Korean microchip firms could sell their products at 7-8 dollars at year-end because of contracts based on fixed prices, although their long-term outlook was not so bright.

Semiconductors account for around 15 per cent of all South Korean exports.

Park said the drop in spot microchip prices was due to seasonally slow PC demand, and because US-based Micron Technologies and Taiwanese companies had dumped their inventories on the spot market.

Some analysts said the clearing of inventories should abate by the end of the year and underlying demand for DRAM chips remained strong while others fear the low prices will persist.

However, analysts from RobertsonStephens in the US said after a visit to Asia that concerns about DRAM spot prices "have overshadowed the supply and demand imbalance that continues to exist".

They reiterated their view that the DRAM industry needs to add "significant" capacity.

In Japan, the fragile recovery from a decade-long recession had been led by information technology exports. The main players there are confident of their future.

Fujitsu Ltd. and NEC Corp., the world's second-biggest semiconductor maker behind US giant Intel, said investors were failing to recognise an industry shift away from personal computers (PCs).

"Fujitsu is moving away from commodity chips. We have already withdrawn 100 per cent from DRAMs for PCs," Fujitsu executive vice president Kazunari Shirai told reporters this week.

Fujitsu was diversifying into flash memory used in mobile telephones and digital audio-visual products, such as video cameras, as the global PC market on which Intel is reliant shrinks, Shirai said.

"This year and next year will see very healthy semiconductor growth. After that, we could face a supply-and-demand imbalance," he said.

NEC spokesman Aston Bridgman said: "The market gets excited about Intel and Apple, but I think these are exceptions to the rule."

"These predictions of doom and gloom are coming from some people who want to say they were the first to predict the slump. But from where we're standing, it's all sunshine."

Like their Japanese counterparts, South Korean chip makers are looking to diversification to reduce their vulnerability to volatile DRAM prices.

Samsung Electronics plans to lower the portion of 64-megabit DRAM chips in memory chip production below 20 per cent, while Hyundai will expand its business scope to wireless communication memory.

Talk of slowing PC demand has been fueled by slower than expected back to school sales in the US following summer holidays and signs of slowing demand growth in Europe.

But even in this sector, some Asian producers are standing by predictions of strong growth.

Taiwanese computer makers may have experienced lower-than-expected growth in the third quarter but analysts said the island's overall computer output would post higher growth this year.

"It is true that the third quarter has been slower than we had expected, but it has been offset by the performance in the first two quarters, during which sales were higher than anticipated," said Chen Wen-tang, analyst at the Institute for Information Industry, a semi-official research organisation.

"Besides, the fourth quarter is when the world's computer demand peaks," he said.

The institute forecasts Taiwan's desktop computer production to grow 49 per cent this year to some 30 million units, compared to 37.8 per cent growth in 1999.

The island's notebook computers, which make up more than half of the global market, are also expected to soar 51 per cent to 14.66 million units, only slightly lower than a 57 per cent rise in 1999.