Growth tumbles

Singapore faces technical recession

AFP, *Singapore*

Singapore's economic growth slumped sharply to 4.5 per cent in the first quarter, and a "technical recession" was possible in the near-term, the trade ministry said yesterday.

But while the outlook for the second quarter was bleak, and unemployment was expected to rise, the full year growth forecast remained within the 3.5-5.5 per cent official projection, the ministry said.

As Singapore remained at the mercy of a worldwide downturn, particularly hurting its vital electronics sector, the first-quarter gross domestic product (GDP) rise of 4.5 per cent year-on-year compared dismally against 11 per cent in the fourth-quarter of last year.

On an annualised quarter-on-quarter basis it turned negative for the first time since the 1997-98 Asian financial crisis, declining 11 per cent against 10 per cent growth in the previous quarter.

Trade ministry chief economist Tan Kong yam told a media briefing that second quarter GDP growth would be weaker than the first and said "yes" when asked if a technical recession was on the cards.

But he said there were signs of a recovery in the second half of the year and full year growth would be at least 4.5 per cent.

To highlight the impact of the global slowdown on Singapore's economy, the trade ministry produced figures showing worldwide semiconductor sales fell 4.5 per cent in the first quarter compared to growth of 22 per cent in the fourth quarter of 2000.

"Given that electronics make up about half of our manufacturing output, out manufacturing growth will be buffeted by the sharp downturn in global electronics," a ministry statement said.

"This will feed through to other related industries like airfreight and wholesale trade."

It also warned that with the weak economic outlook unemployment is expected to rise in the coming quarters.

Trading powers vow to help poor join WTO

WTO, EU urge poor nations to back new trade round

REUTERS, *Brussels*

Top officials from the World Traded Organisation (WTO) and the European Union Thursday tried to persuade developing countries their concerns would be dealt with during a proposed new round of global trade talks.

But the reaction of Tanzania's trade minister, who described the strength of the developed world's lobbying for a new round as "threatening," showed that many poor countries remain deeply sceptical of the benefits of further trade liberalisation.

Speaking at a United Nations Conference on the Least Developed Countries (LDCs), WTO Director-General Mike Moore made an impassioned plea for poor countries to support the launch of a new set of trade talks at a WTO meeting in Qatar in November.

Because the organisation operates by consensus, every WTO member had the power of veto, Moore said. "I urge LDCs and developing countries to use that power not to stop a negotiation, but to start one," he said.

A number of rich countries had taken steps to improve access to their markets for products from the poorest countries and development issues were at the centre of the agenda, he said.

Pointing out that 80 percent of WTO members were developing countries, Moore said: "No new round can start, and more importantly conclude, without LDC and developing countries' interests being addressed and resolved."

Developing nations have called for more time to implement agreements reached during the previous Uruguay round of trade negotiations, which lasted from 1986 to 1993, and have accused rich countries of neglecting their concerns.

Discontent among developing countries contributed to the failure to launch a new round at the last WTO ministerial meeting in Seattle in December 1999.

EU Trade Commissioner Pascal Lamy, speaking at the Brussels conference, also announced various measures that the EU was backing to help poor countries. He said the EU was proposing a multilateral initiative to stop anti-dumping duties being used against products from the poorest countries.

In a statement, Lamy – a strong advocate of a new trade round – said the proposals showed the EU's determination to do all it could to make sure the interests of developing countries were fully taken on board during a new round.

But Tanzanian Trade Minister Iddi Simba sounded sceptical about a new round.

"The type of situation which we are seeing in terms of another round, the way it is being proposed to us... is overwhelming. It is in some ways even threatening...," he told a news conference.

"We are approaching it with an absolutely open mind... We wonder whether we have any alternative to being open," he said.

"It seems to us that the developed world has already made up their mind. They want to have another round. They have had enough time to discuss among themselves a position. We have not," he said.

Momentum to launch a round seems to be gathering pace. The new US administration of President George W Bush has come out strongly in favour of a round and the "rich club" of OECD nations meeting in Paris this week also called for new WTO talks.

OECD seeks growth with ecological balance

AFP, *Paris*

The OECD, long a stalwart of orthodox market economics, embraced the ecology Thursday as ministers endorsed a pledge to pursue sustainable development.

The OECD ministers' meeting closed with a promise that its members would adopt new strategies in time for the World Summit on Sustainable Development, to be held in Johannesburg in September 2002.

"Sustainable development is an overarching goal of OECD governments and the OECD," ministers of the 30-member OECD said in a statement, coopting an idea which just a decade ago was the preserve of academics and ecology-warriors.

Sustainable development seeks to balance in needs of growth with environmental concerns, which an OECD report identified as resting on economic, environmental and social pillars.

French Environment Minister Dominique Voynet described the new commitment as nothing less than a revolution within the Organisation for Economic Cooperation and Development.

But underlying the new consensus, a breach opened up between the United States and the other OECD members over the refusal by Washington to adopt the Kyoto Protocol on controlling greenhouse gases.

The Swedish government, holding the European Union presidency, also spoke out against the new US energy policy, which was seen as undermining efforts to combat global warming.

And France called on the new US administration to stay on course with the OECD-backed initiative to crack down on tax havens and money-laundering.

But within the espousal of the new sustainable development approach, the OECD remained wedded to the market system and economic growth.

Growth in the OECD area was forecast to fall to around 2.0 per cent in 2001, half the rate seen last year, but the thinktank said "the foundations were in place for a return to stronger growth, and inflation is expected to remain low.

In the United States, the economy had experienced a significant slowdown but long-term fundamentals remained strong, said the OECD, which urged that monetary policy should continue to aim at sustained non-inflationary growth.

"Fiscal policy should focus in the medium term on economic efficiency and fiscal soundness, including encouragement of higher private savings.

The OECD called on Japan to adopt "a credible medium-term strategy for fiscal consolidation and structural reform in securities and real estate markets."

In Europe, "the introduction of euro notes and coins on January 1, 2001, will give a further impetus to economic integration, with potentially important benefits for both the euro area and the global economy."

PHOTO: AFP

US President George W. Bush (C) stands among bio-engineers at the Iown Energy Centre as he addresses guests in Neveda, Iowa on Thursday. Earlier in the day Bush unveiled his Energy Policy that calls for increased production of oil, gas, coal and nuclear energy, with tax credits for fuel-efficient vehicles and alternative energy supplies to help the US combat energy short falls.

Bush's energy plan ignites firestorm in Congress

REUTERS, *Washington*

President George W Bush's energy plan ignited a political firestorm on Capitol Hill Thursday, one likely to rage into the 2002 congressional elections.

Republican leaders vowed to move quickly to draft and enact legislation to help implement Bush's drive to meet the nation's energy needs, largely by eliminating barriers to gas and coal power and opening up land to oil drilling.

But Democrats lined up against much of the plan as an unwarranted giveaway to special interests that would provide no immediate relief to consumers faced with rising prices at the gasoline pump or residents of energy-starved California, Oregon and Washington state.

Texas Republican Rep Joe Barton, chairman of a House of Representatives energy subcommittee, dismissed the Democratic criticism saying, "This is going to be the 'Energy Congress'.

"We're glad to have the president's ideas on the problems we're facing and it's time to get the work done," Barton said during one of a series of dueling Democratic and Republican news conferences on Capitol Hill to debate Bush's proposal.

House Republican Whip Tom Delay of Texas blamed the "energy crunch" on eight years of inaction by President Bill Clinton's administration, and hailed Bush for moving to "unify our nation around a comprehensive energy strategy that protects our consumers and strengthens our national security."

House Democratic leader Richard Gephardt of Missouri shot back, "We think the president's plan makes the wrong choices for America and for the American people."

"It was crafted behind closed doors with a lot of input from energy executives and in a highly secretive way that doesn't serve the public interest," Gephardt said.

"It focuses on drilling and production at the expense of our environment and conservation, and it does nothing to help people who need relief right now," Gephardt said.

Ethan Siegal of the Washington Exchange, a private group that tracks politics and legislation on Capitol Hill for institutional investors, said, "This ain't going to be the 'Energy Congress' ... It will be very difficult to get any (energy) legislation through this sharply divided Congress."

He noted Bush crafted his proposal in a way that he can implement most of it through presidential executive orders or action by his own regulatory agencies.

Filipino foreign trade falls

AFP, *Manila*

Philippine exports and imports both fell in the three months to March, the government said Friday, reflecting a general economic slowdown.

The merchandise imports bill dropped 7.7 per cent to 7.267 billion dollars, while export receipts fell 0.5 per cent to 8.564 billion dollars, the National Statistics Office said in a statement.

The country's trade surplus widened 7.2 per cent from a year earlier to 1.297 billion dollars.

The statistics office released trade figures for March which showed exports falling four per cent to 2.87 billion dollars and imports shrinking 5.1 per cent to 2.602 billion dollars.

Imports of electronics and components, which made up 16.7 per cent of the total import bill, plunged 29.1 per cent to 433.95 million dollars.

Oil and mineral fuel imports also fell 22.3 per cent, while purchases of telecommunication equipment and electrical machinery slid 0.3 per cent to 243.09 million dollars.

Government officials say the US economic slowdown will hit Philippine exports. President Gloria Arroyo's government is pinning its hopes on reviving domestic investment and peace talks with communist guerrillas and Muslim separatists as alternate drivers of economic growth.

ING Barings Securities Philippines economist Joey Cuyegkeng told the AFP financial news affiliate AFX-Asia that exports could improve in the last three months of the year in line with an anticipated recovery in the U.S. economy.

Alcatel in talks to buy Lucent for $40b

AFP, *Paris*

French telecommunications equipment maker Alcatel is in advanced talks to buy Lucent Technologies for about 40 billion dollars, a US newspaper reported on Friday, as the French group declined to comment.

An Alcatel spokesman told AFP he had "no comment to make" on a New York Times report on the planned deal, that would signal a quantum leap in her offer for Lucent's optic cable business.

A deal would be based almost entirely on stock offering a 20-per cent premium for Lucent, the Times reported, quoting executives close to the discussions.

Alcatel's share price fell sharply on the report.

Chairman Serge Tchuruk said on April 26 that the French company had offered to buy Lucent's optic fibre business.

Last year, Alcatel bought Newbridge Networks of Canada for 7.1 billion dollars (8.0 billion euros) and in 1998, acquired the US maker of optical equipment, DSC Communications.

When Tchuruk took the top job at Alcatel in the mid-1990s, he inherited a sprawling industrial group with interests which ran from shipbuilding and power stations to railway stock, and reorganised it into a specialist in telecom equipment.

The report quoted the executives as saying that the talks, which the companies had held in fits and starts for more than a month, had reached a crucial stage and a decision about whether to proceed with formal negotiations was expected within the next week.

If the companies decided to move forward, a deal could be announced by early June, said the executives, who described the odds of the deal happening at 50-50, according to the report.

Oil steady despite revival of US gasoline futures

REUTERS, *London*

Crude oil prices moved sideways yesterday despite a revival on US gasoline after its retreat from recent record levels.

North Sea bellwether Brent crude added one cent to rise to $28.44 a barrel, while US benchmark light crude stood at $28.93 a barrel, seven cents higher.

US gasoline futures gained 3.34 cents a gallon to $1.021 but remained sharply lower than the record levels over $1.16 a gallon at the end of April. The gains were spurred in party by rumours of potential refinery maintenance in the United States.

US stocks this week were reported in a surplus versus a year ago for the first time since early March, easing concerns of a supply shortage in the peak demand summer driving season that kicks off the last weekend of May and peaks in early July.

The US Energy Information Administration reported national US gasoline tanks jumping by four million barrels in the seven days to May 11, double the two million barrel increase reported a day earlier by the American Petroleum Institute (API).

The API said gasoline inventories were now almost two million barrels above levels at the same time in 2000, when stocks proved insufficient to meet demand.

Lower prices should feed through to the pump in about two weeks, giving some relief to American drivers who have been paying record levels of more than $1.70 a gallon at retail outlets.

US President George W Bush released a long-awaited report on national energy policy, tackling high gasoline prices and consumption and the prospect of rolling blackouts in California.

The 163-page report focused on boosting domestic energy sources and reducing reliance on oil imported in the United States, which consumes about 20 million barrels per day, or more than one-quarter of daily global production.

"America in the year 2001 faces the most serious energy shortage since the oil embargoes of the 1970s," the White House said in an overview. "A fundamental imbalance between supply and demand defines our nation's energy crisis."

But the report did little to address lingering short-term supply worries, which encourage gasoline futures buying.

US Energy Secretary Spencer Abraham urged OPEC this week to reverse current output curbs well ahead of a seasonal demand surge this winter.

The International Energy Agency (IEA), the West's energy watchdog, said on Wednesday OPEC should raise crude output when it meets next month.

"It would be entirely reasonable to increase production again in June to match the normal increases in demand as we get into the third quarter," IEA Executive Director Robert Priddle said.

Indian PM defends tough labour laws

AFP, *New Delhi*

Indian Prime Minister Atal Behari Vajpayee vowed Friday to keep in mind workers' interests in the privatisation process, but defended amendments to labour laws "in the larger interest" of the country.

"Labour policies should not be seen in isolation. It should be viewed in a holistic manner keeping in mind the larger interest of the nation," the Press Trust of India (PTI) quoted Vajpayee as saying at a labour conference here.

Rebutting charges levelled by various trade unions that recent economic measures harmed workers, Vajpayee said: "To term these reforms as anti-labour, as some people are doing, is misleading."

The Indian premier conceded that though the reforms were meant to ensure more employment opportunities, "maybe, during the period of transition, there can be some teething troubles."

However, "no worker has so far been retrenched" and neither did the government intend to have policies which would lead to job losses, Vajpayee was quoted as saying.

His comments came in the wake of criticism from major trade unions and right-wing Hindu allies of the government.

In February, Finance Minister Yashwant Sinha had proposed far-reaching labour reforms, which included permission for a majority of industries to start large-scale layoffs without government approval.

In a recent hard-hitting statement, Dattopant Thengdi, head of the BMS trade union group, affiliated to the right-wing Hindu RSS, called Sinha a "criminal" for pursuing widespread free market reforms.

Qantas takeover of domestic rival passes last hurdle

AFP, *Sydney*

Qantas Airways Ltd. will go ahead with the takeover of its domestic rival, Impulse Airlines, after Australia's competition regulator removed the last obstacle on Friday.

But Australian Competition and Consumer Commission (ACCC) chairman Allan Fels said the commission had agreed not to oppose the acquisition only after significant undertakings were provided by Qantas.

The alternative would have been to allow the fledgling carrier to go into receivership, which he said would have meant even less competition in Australia's deregulated airline market.

"After taking into consideration the undertakings provided by Qantas, the ACCC considered that any anti-competitive detriment caused by the Qantas merger with Impulse will be minimised," Fels told reporters.

Indonesian growth posts 2.6pc rise

AFP, *Jakarta*

Indonesia's struggling economy grew 4.01 per cent year-on-year in the first quarter of 2001, up 2.6 per cent from the fourth quarter of last year, the Central Bureau of Statistics said Friday.

But bureau deputy chairman Kusmadi Salih predicted a slower second quarter GDP growth, saying it normally fell below first quarter growth and would be hit by the country losing 100 million dollars in interrupted liquefied natural gas (LNG) sales.

"What is further worsening the situation is the likely fall in investment due to the Exxon case," he said, referring to the March 9 halt of PT Exxon Mobil oil and gas operations in Aceh province due to security concerns.

Looking ahead, Saleh also said the weakness of the rupiah, which has hit 31-month lows against the dollar and driven up import costs, was the greatest concern for the domestic economy.

"We are more concerned about the rupiah than other issues like a fuel price hike," he said, referring to government plans to raise fuel prices by 30 per cent next month.

Detailing the first quarter rise, bureau head Sudarti Surbakti said that, at current prices, first quarter GDP was 355.4 trillion rupiah (31.3 billion dollars) compared with 337.9 trillion rupiah in the fourth quarter of last year.

According to constant prices first quarter GDP was 102.5 trillion rupiah compared with 99.9 trillion rupiah.

Household consumption rose 1.13 per cent quarter-on-quarter, and 4.7 per cent compared with the January-March period a year ago.

Government consumption fell 0.44 per cent from the fourth quarter of 2000, but was up 5.96 per cent year-on-year, Surbakti said.

Overall investment fell 0.14 per cent from the previous quarter, but increased 10.2 per cent year-on-year, he said.

Manufacturing output rose 0.61 per cent quarter-on-quarter, and 5.92 per cent from a year earlier, while mining output was up 0.1 per cent from the fourth quarter, and 2.95 per cent year-on-year.

Surbakti said agriculture production recorded the strongest gain, up 15.39 per cent from the fourth quarter and 2.27 per cent from the corresponding period last year.

The strong growth in agricultural output was attributable to the good harvest season in the first quarter, he said.

BoJ broadens its operations after failure of free money

AFP, *Tokyo*

The Bank of Japan said Friday it was diversifying its operations in a bid to lure commercial banks into borrowing free money and inject a cash transfusion into the anaemic economy.

At the end of a two-day board meeting, the bank said it was keeping monetary policy unchanged despite commercial banks' unwillingness to accept cash already being offered at an effective zero rate of interest.

The bank said its target level for money market operations would stay at around five trillion yen (40.65 billion dollars).

"Should there be a risk of financial market instability, e.g. a rapid surge in liquidity demand, the Bank will provide ampler liquidity irrespective of the guideline above," a statement said in unchanged wording from last month.

The Bank of Japan staged a U-turn in March when it effectively returned to zero interest rates to help prop up the sagging economy.

It said then it was shifting its target for money market operations from the overnight call rate - which governs inter-bank borrowing among commercial banks - to its current account for bank deposits.

The bank has raised the level of reserves in the account to five trillion yen from four trillion yen, allowing the call rate "to stay close to zero per cent under normal circumstances".

But Japanese banks, which are grappling to reduce their vast bad loans, have been shunning the free cash on offer from the Bank of Japan, leaving economists doubtful about the sustainability of the monetary policy.

With struggling Japanese companies unwilling to get saddled with more debt, the banks have found it difficult to pass on the credit being offered by the central bank.

Seeking to increase the appeal of its operations, the Bank of Japan said after the meeting that it would diversify the maturities of the Japanese government bonds (JGBs) it buys outright from the market.

From the current outright purchases of benchmark 10-year and 20-year JGBs, the Bank of Japan said it would extend the buying to bonds with maturities of two, four, five and six years as of next month.

It would also start buying treasury bills maturing in six months or less, rather than three months or less.

"We have decided to accept two, four, five and six-year government bonds because of strong demand for such bonds among market players," Bank of Japan official Atsushi Miyanoya told AFP.

"The decision allows market players to have more options in bond trading and it aims to support smooth operations," he said.

The official added the BoJ was merely broadening the range of bonds it buys from the market, rather than boosting the overall amount. "The supply remains the same but there will be more options in the market."

China sounds big warning over exports, but experts unfazed

AFP, *Beijing*

Chinese officials have sounded a note of panic over exports in the second half of the year, warning of a bigger threat than the Asian financial crisis, but analysts said the pain would be merely short-term.

Fu Ziying, a top planner at the trade ministry, painted an unusually gloomy picture of the challenges posed by US and European consumers who are becoming more fickle buyers of Asian goods, the China Daily reported Friday.

"The global slowdown (will) be even worse for China's exports than the 1997 Southeast Asian financial tumult because the United States and Europe, two trading partners that helped keep China afloat in 1997, are decreasing their imports," the paper quoted Fu as saying.

Economists said the comparison with the regional financial meltdown was a huge exaggeration that gave an unwarranted bleak view of the possible impact on China's economic growth this year.

In 1998, as the financial crisis sent ripples across the globe, China's export growth plunged to a 15-year low of 0.5 per cent, whereas this year even the Chinese trade ministry is predicting eight per cent export growth.

"We don't agree it could become as bad as during the Asian financial crisis," said Bob Zhang, an economist with BNP Paribas Peregrine in Beijing, which forecasts 10 per cent export growth in 2001, beating the government's prediction.

"In 1998, not only trade, but also foreign investment was affected."

This time around the net impact on the Chinese economy will be cushioned by foreign direct investment, which rose 12.4 per cent in the first four months of the year, he said.

As a result of the inflow of foreign money, as well as more active Chinese consumers and investors, most economists expect China's economy to grow about 7.5 per cent this year, down slightly from 8.0 per cent last year.

However there is no doubt China's enterprises are facing real problems in overseas markets, and even the most optimistic forecasts for this year are down steeply from the 28 per cent export growth recorded in 2000.

One major worry is that once there is a slowdown in the United States, the recipient of an estimated 35 per cent of Chinese exports, there is no other major market to pick up the slack.

"Japan is not going to provide much of an offset to the United States," said Robert Subbaraman, an economist with Lehman Brothers in Tokyo.

"Japan will be dealing with its structural problems, which will inhibit economic growth."

A recent report from China's foreign trade ministry, published Friday in the International Business Daily, the ministry's mouthpiece, struck an equally negative tone.

"The factors restraining export growth have increased markedly in 2001," it said. "The competitiveness of our export products has to be maintained and even improved."