

## G7 vows to boost global growth, preserve financial markets

AFP, Washington

Group of Seven powers warned Saturday that the September 11 terrorist onslaught against the United States threatened to delay a worldwide economic recovery.

But the finance ministers and central bank governors said they remained confident in the future, and promised to step up measures to accelerate growth and preserve financial markets.

"Last month's terrorist attacks could delay the resumption of strong growth in our economies," the G7 ministers and central bank governors said in statement after a one-day meeting here.

"Decisive action has already been taken to support a robust recovery. Notwithstanding remaining short-term uncertainties, we are confident about our future prospects," it added.

"We are strongly committed to bringing forward needed measures

to increase economic growth and preserve the health of our financial markets."

The policymakers from Britain, Canada, France, Germany, Italy, Japan and the United States said emerging markets and poor countries had been hurt by slower growth in the G7.

Those countries could now be buffeted by uncertainty following the attacks, they said.

"The prospects of the poorest countries could be damaged and we will take the necessary steps to mitigate these impacts," it added.

"Those countries adversely impacted by recent developments should also create the conditions for strong economic growth and sustained private capital flows, and the international financial institutions stand ready to assist."

The G7 countries defended the benefits of global economic integration. Raising productivity and increasing potential growth rates

were the keys to lifting people out of poverty.

"We will do so by promoting free trade and regulatory reform, strengthened capital markets, and enhanced educational opportunity," the joint statement said.

"We thus reaffirm our support for the launch of a new round of trade negotiations at the upcoming WTO ministerial." Trade ministers are to meet a World Trade Organisation conference in Doha, Qatar next month.

The G7 ministers promised to try to spread the benefits of economic integration to all, including through a debt-forgiveness program known as the Highly Indebted Poor Countries initiative.

US Treasury Secretary Paul O'Neill earlier met with a cautious response from Europeans to his call for all G7 members to help propel economic growth after the attacks on New York and Washington.

German Finance Minister Hans

Eichel said shortly before the meeting that the 12 euro-zone countries must hold fast on spending.

"We must not deviate from the stability and growth pact," Eichel told a news conference.

Under the stability pact underpinning the euro, the euro zone states agree to limit their public deficits to three per cent of gross domestic product.

O'Neill said he wanted to hear from his European and Japanese partners about steps they are prepared to take, including the possibility of fiscal and monetary stimulus.

The attacks, in which 19 terrorists commandeered four planes, destroyed the twin World Trade Center towers and wrecked part of the Pentagon, would lead to a US contraction in the third quarter and delay a recovery by "a quarter or so," O'Neill said Friday.

## Japan extends weak hand to help world growth

AFP, Washington

Japan, teetering on the brink of recession, said Saturday it would try to get in shape to contribute to the world economy one day by deregulating and cleaning up its bad debts.

Finance Minister Masajuro Shioikawa made the pledge after a meeting of Group of Seven finance ministers and central bank governors to address the fallout of the September 11 terrorist assaults.

Few experts had expected Japan to contribute much to the global economy, reeling from the impact of the attacks on the United States, as it struggles to keep its own head above water.

After a decade in the dumps, Japan's economy shrank by 3.2 per cent in the three months to June on an annualized basis and many analysts expect a further contraction in the third quarter.

But Shioikawa told a joint G7 news conference that Japan would try to help the world economy by getting to the roots of its own problems so that it could one day contribute again.

And he promised to take the fight to choke off terrorist financing networks to Southeast Asia.

"Recently looking at the economic track record of Japan, the term ending in June showed a slight decline but we hope our economy can start to rebound once again," Shioikawa said.

"We will continue to deregulate ... in the hope that housing investment and capital investment can be revived."

The Bank of Japan had been

pumping liquidity into the financial system to ensure there was no lack of funds, he said.

Non-performing loans would be tackled gradually while liquidity was kept high, Shioikawa said.

The Japanese authorities would also seek to provide financial assistance to ensure that the viable parts of Japanese businesses can be revitalised, he added.

"We hope with these measures that that our economy can pick up once again in the hope it can contribute to the rest of the world economy."

Shioikawa also promised to help crack down on terrorist funds.

Tokyo would host a regional meeting at the end of this month of the Financial Stability Forum, to be attended by many Southeast Asian countries, he said.

The forum of different national authorities was convened in April 1999 to promote financial stability by exchanging information and cooperating in financial supervision and surveillance.

"We can solicit the help of Southeast Asian countries so that we can fight against terrorism and the funding of terrorism," Shioikawa said.

The G7 finance chiefs from Britain, Canada, France, Germany, Italy, Japan and the United States released an action plan calling for stricter use of United Nations sanctions on terrorists' funding and for a world money-laundering task force to be beefed up to combat terrorist financing.

## Asia returns to skies, but US destinations clipped

AFP, Singapore

The travel industry, which was tossed into turmoil by the tragic events of September 11, is already bouncing back but finding clear changes to previously established travel patterns.

There were no innovative cut-price gimmicks to win back travellers -- airlines and hotels held their fees -- but "people just feel it's safe to travel again," said May Ang at Chan Brothers Travel in Singapore.

"Initially, we were fearful that business would be affected by the attacks but after observing consumer trends, we see it's business as usual," she said.

As thousands of people flocked to a weekend travel fair in Singapore, Global Travel managing director Peter Choo said sales had noticeably picked up in the past two weeks without the need for the 50 per cent discounts on offer in the United States.

"Compared to the week of September 11, sales have been coming in this week and last but ... if security is the issue, would you choose to travel even if I drop my prices by 50 dollars?" Choo said.



PHOTO: AFP

Financial leaders of the G-7 countries (from left to right) -- French Finance Minister Laurent Fabius, German Hans Eichel, US Treasury Secretary Paul O'Neill, Canadian Finance Minister Paul Martin, Italian Finance Minister Giulio Tremonti, Japanese Finance Minister Masajuro Shioikawa and British Chancellor of the Exchequer Gordon Brown -- pose for a photo Saturday on the steps of the US Treasury in Washington, DC, after their private morning meetings and just before their group meeting.

## US urges Europe to help boost world economy

AFP, Washington

European economic powers should do everything they can to help stimulate global economic growth after terror attacks in the United

States, US Treasury Secretary Paul O'Neill said Saturday.

The call came as the Group of Seven finance ministers struggled after a meeting here to present a united front on how to tackle the global economic devastation caused by terror attacks in the United States last month.

O'Neill was asked at a joint press conference after the one-day meeting if European nations should heed Washington's call for more aggressive relaxation of their monetary and fiscal policies to simulate world economic growth.

But the US treasury chief, who had called for worldwide fiscal and monetary stimulus steps to prevent the world economy from slipping into recession in the aftermath of the attacks, conceded that a single

global policy to spur growth was unfeasible.

"Each one of our individual countries should take those actions necessary for it to play a role in accelerating the realization of a higher rate of growth in your individual country and for the world and the circumstances of the individual country will determine what specific monetary and fiscal policy is appropriate for each individual country," he said.

O'Neill, who this week unveiled a massive economic stimulus package for the United States, had said earlier he wanted to hear how his European and Japanese partners would help spur growth, including the possibility of fiscal and monetary stimulus.

## Investors' safe haven China poses domestic risks

AFP, Singapore

China is Asia's safe haven for investors as its smaller neighbours succumb to the US-led global economic slowdown, but domestic risks remain, Dutch-based bank ABN Amro said in a report.

The risks come from a projected fall in exports to the United States as consumer confidence plummeted following the September 11 terror attacks, and a slowdown in investment demand, it said.

"Relatively speaking, China is still the safe haven in the region thanks to a less trade-dependent economy. However, investors should not ignore the risk within," ABN Amro said.

China's low reliance on high-technology industries has insulated it from the fall-out of the slump in the world's electronics industry, even as the down-swing hammered its neighbours like Singapore, Taiwan and Malaysia.

Its gross domestic product (GDP) growth far exceeds the rest of Asia and domestic demand is still robust.

But China sells a lot of consumer goods such as toys, sporting goods and footwear to the United States and a fall in US consumer spending after the attacks on New York and Washington is likely to affect these exports.

"It is worth noting that among the toys, sporting goods and footwear imported by the US, 60 per cent are from China," the report said. The three items accounted for one fifth of the US's total imports from China.

"We expect China's exporters to be more seriously hit amid the slowdown of consumption demand in the US," it said.

Consumer spending accounts for two-thirds of US economic activity and has so far been the strongest pillar of growth.

ABN Amro said it has chopped its year 2002 export growth forecast for China from 15 per cent to 3.5 per cent.

China's projected GDP growth this year was also trimmed to 7.2 per cent from 7.5 per cent. In 2002, GDP is forecast at 7.0 per cent, down from the original 8.5 per cent.

"Apart from the expected slowdown in external demand, we also see initial signs of a slowdown in investment demand, which has been supported by the government's pump-priming over the past few years," the bank said.

Profit growth of industrial enterprises rose by 15.8 per cent in the eight months to August this year, sharply down from 86 per cent in the same period last year.

"Weakening profit growth is not able to support another year of strong investment growth. Furthermore, facing a slowdown in the global economy, people are more cautious about business expansion, leading to a slowdown in investment demand," it said.

Meanwhile, Standard Chartered Bank said China has carried out reforms better than the rest of the region and this was the main reason why it has attracted the bulk of foreign investments into Asia.

"The argument that China has been gaining foreign investment at the expense of the rest of Asia is flawed," Standard Chartered said in a report.

## France sees ECB room for cutting rates

AFP, Washington

Europe has room to move in cutting interest rates, French Finance Minister Laurent Fabius said here Saturday after a Group of Seven meeting to limit the fallout of the September 11 terror attacks.

Fabius was speaking at a news conference after the one-day meeting here of the G7 finance ministers and central bank governors.

"The United States has a very aggressive policy of lowering rates. Europe has cut its rates again," Fabius said.

"My own feeling is that inflation is under control and should come down further while oil prices are weak and wage pressures are not high," the minister added.

"I think for my part there is room for action in this area," he said.

The European Central Bank (ECB) meets Thursday to decide on interest rate policy for the 12-country euro zone.

The ECB has cut its rates three times so far this year, lowering euro-zone borrowing costs by a full per cent point in all.

The latest move was a surprise half-point cut on September 17 to

boost market confidence in the aftermath of the terrorist attacks in the United States a week earlier.

It brought the ECB's central "refi" refinancing rate down to 3.75 per cent.

The US Federal Reserve Tuesday slashed interest rates for the second time in 15 days by half a per cent point -- bringing the key federal funds target to a 39-year low of 2.50 per cent.

ECB president Wim Duisenberg told a separate news conference after the G7 meeting that the euro zone should pull out of its economic downturn at the end of this year.

Inflation would also ease off, he said.

"Our monetary policy stance is consistent with the outlook for price stability," he added. "Our monetary policy will continue to be forward looking."

Top ECB officials have been keen to stress the exceptional nature of the latest rate cut, and have said the bank will now return to business as normal when setting interest rates for the single currency area.

