

UN revises forecast

World economy to grow by just 1.4pc this year

AP, United Nations

The world economy will grow at just 1.4 per cent this year because the terrorist attacks on the United States have sent "shock waves" through an already slowing economy, the United Nations says in a revised forecast.

Only three months ago, the United Nations was forecasting global economic growth of 2.4 per cent.

Even before the Sept 11 attacks, a to UN economist said, that forecast was too optimistic because the global economy was already slowing more rapidly than anticipated.

But the economic slowdown has been "aggravated and exacerbated" by the economic "shock waves" following the attacks on New York's World Trade Center and the Pentagon near Washington, said Ian Kinniburgh, the top economic policy analyst in the UN Department of Economic and Social Affairs.

"The shock is expected to reverberate through the world economy

and global financial markets in the coming months," said the new UN report prepared by Kinniburgh's team.

In its admittedly "gloomy outlook," the United Nations said the global economy is now growing at its slowest pace in a decade, with a number of economies already contracting and some others on the verge of doing so.

With economic growth rates now expected to be near or less than population growth rates, Kinniburgh said, "it is inevitable that three will be... an increasing number of poor this year."

In monetary terms, Kinniburgh said, a 1 per cent drop in the economic growth rate this year from 2.4 per cent to 1.4 per cent would mean a \$350 billion loss to the dollar 35 trillion global economy.

Next year, the United Nations said it is now expecting only "a dilatory and tepid recovery" in mid-2002 with global economic growth of just 2 per cent next year.

At the same time, the volume of international trade is expected to register "virtually no growth" in

2001, the United Nations warned, but trade is forecast to increase by 4 to 5 per cent in 2002.

With a decline in foreign investment as well as trade, Kinniburgh said developing countries will lose two key engines for economic growth. This will have "profound effects" on their efforts to combat poverty in the long-term, he said.

Before Sept 11, the weakness in the US economy had spread to more and more countries, hitting those with substantial trade and production links with the United States hardest, the report said.

Against this backdrop, it said the terrorist strikes caused about \$40 billion in physical destruction, seriously disrupted airlines, insurance companies, travel agents and financial traders especially in the United States, and hurt consumer and business confidence.

As a result, the United Nations forecast that US economic growth will decline in the third and fourth quarters of this year, with overall growth of 1 per cent for 2001 likely to be the lowest for a decade.

Only a mild recovery is

expected in 2002, with economic growth forecast at 2 per cent.

The most seriously affected developing economies are expected to be in south and east Asia, where economic growth projections for 2001 have been dropped from 4.1 per cent to 1.7 per cent, according to the report.

In Africa, UN growth projections for this year have been revised downward from 4.3 per cent to 3 per cent, and in Latin American from 3.1 per cent to 0.8 per cent.

Among developed countries, the report said Canada is expected to feel the greatest impact of the significantly weaker US economy, but Japan's performance is expected to be the weakest, with its economic growth now forecast to decline 0.5 per cent this year.

In the European Union, Kinniburgh said, the impact of the US economic slowdown was stronger than expected.

The United Nations revised its forecast of 2.7 per cent economic growth in 2001 down to 1.8 per cent, and predicted growth of just 1.75 per cent in the EU next year.

Toyota, Peugeot looking at sites in Poland

AFP, Warsaw

Automakers PSA Peugeot Citroen of France and Toyota of Japan are looking at three sites in Poland to produce a line of small cars, a senior Polish official said here Thursday.

"The investor has today begun consideration of three potential sites for an automobile plant that were proposed by the Polish Economy Ministry," Deputy Economy Minister Edward Nowak told the PAP news agency.

"Poland is competing with the Czech Republic and Hungary," he added.

A Citroen spokesman, Marc Ferrand, told AFP a decision would likely be made in December or January.

PSA Peugeot Citroen and Toyota recently announced a joint investment of 1.5 billion euros (1.36 billion dollars) aimed at turning out about 300,000 low-cost small cars a year destined for the European market from 2005.

Toyota is also to begin the production of gear boxes in Poland in the second quarter of 2002. The factory, located in the Walbrzych special economic zone in south-eastern Poland where investors enjoy tax breaks, will produce 250,000 units year for assembly plants in Britain and France.

Peugeot Citroen is also considering expanding its activities in central Europe, an area where it is now absent, according to Polish press reports.

They added that Poland offers Peugeot Citroen a chance to make significant cuts in production costs. The two companies want to offer their new models for less than 8,000 euros (7,250 dollars), prices that would be lower than those currently charged.

African ministers start development talks with EU

AFP, Brussels

African foreign ministers on Thursday began talks with government members from European Union nations to take stock of progress on Africa's development since an EU-Africa summit in Cairo in April last year.

The ministers will assess the extent to which eight priority cooperation programmes laid down at the Cairo summit have been carried out, Belgian foreign ministry officials said.

The issues on the agenda in Cairo were: regional integration, measures against AIDS, food security, human rights, conflict prevention, African debt, the environment and the safeguarding the continent's cultural heritage.

Thursday's talks came on the heels of a meeting between top EU officials and five African presidents promoting a New African Initiative (NIA) which was on Wednesday assured of strong support from the European Union.

Senegalese President Abdoulaye Wade, back in Dakar after that gathering in Brussels, said late Wednesday that African leaders behind the NIA wanted ties between the continent and the EU to be adapted to the new economic plan.

Until now, Wade said, the European Union has dealt with African nations "as states" under the terms of the Cotonou Convention on trade and economic ties between the EU and its African, Caribbean and Pacific (ACP) partners.

IMF chief confident of US recovery in '02

AFP, Moscow

The director general of the International Monetary Fund, Horst Koehler, said here on Thursday that he is "quite confident that the US economy will recover in the first half of next year."

"The global economy will recover" after the shock of the September 11 attacks in New York and Washington, Koehler also said during talks with Russian President

Vladimir Putin, before adding:

"There is no reason for panic." Koehler added that according to IMF estimates the price of oil was likely to fluctuate in the region of 20 dollars a barrel, though he did not specify which period he was referring to.

Brent North Sea oil for November delivery, the benchmark on the London International Petroleum Exchange, was selling Thursday for 22.21 dollars a barrel.

ECB shrugs off recession fears to hold rates steady

AFP, Vienna

The European Central Bank held its key interest rates steady, refusing to bow to pressure to cut them in face of the overwhelming global economic uncertainty and fears of a worldwide recession following the terror attacks in the United States on September 11.

Most economists had last week been expecting a cut again this week as inflation in the single currency region appears to be slowing and growth prospects growing dimmer by the day.

But the markets had not appeared quite so convinced earlier on Thursday and the euro lost ground on the foreign exchange markets in the run up to the decision.

The announcement that the ECB was leaving euro-zone interest rates where they were, at least for the next two weeks, therefore had little additional effect on the euro, which was holding steady at around 0.9063 euros immediately after the announcement.

The ECB, meeting this time in the Austrian capital rather than its home town of Frankfurt, said it held the minimum bid rate on its regular "refi" refinancing operations steady at 3.75 per cent.

It also left its two other key rates, the deposit rate and the marginal lending rate, unchanged at 2.75 per cent and 4.75 per cent respectively, the bank said.

The ECB had only recently sliced half a per centage points off all three rates on September 17 in a gesture to boost market confidence shell-shocked by the terror attacks a week earlier.

Since then, ECB officials have suggested that the bank would now return to business as usual and that the last move was purely an exceptional measure in exceptional circumstances.

Nevertheless, inflation in the euro area appears to be going in the

right direction, with the latest data from both Germany and Spain confirming an easing of price pressures.

In Madrid, the National Statistics Office said that Spanish inflation slowed to 3.4 per cent on a 12-month basis in September from 3.7 per cent in August.

And the German federal statistics office published final consumer price data for the euro zone's biggest economy which showed inflation stood at 2.1 per cent last month, only fractionally above the 2.0 per cent maximum tolerated by the ECB.

Slower growth in the 12 countries which share the single currency will also help keep inflation down in the months ahead.

In Brussels, Eurostat announced that gross domestic product (GDP) in both the euro zone and the 15 countries of the European Union grew by just 0.1 per cent in the second quarter of this year, much slower than the 0.5 per cent recorded in the first quarter.

Growth could deteriorate even further and the EU Commissioner for economic and monetary affairs, Pedro Solbes, said earlier this week that he could not rule out a contraction in economic activity in the third quarter.

The decision on Thursday could therefore raise the hackles of euro-zone governments, strapped for cash as the economic slump deepens.

They have so far refrained from putting a great deal of pressure on the ECB in public to ease credit conditions.

Furthermore, they remain outwardly committed to their goal of not letting budget deficits spiral out of control, despite the deterioration in global economic conditions, in what economists saw as a bargaining ploy to persuade the ECB to cut.

Used car dealer distrust theory earns Nobel prize in economics

REUTERS, Stockholm

Three Americans shared the 2001 Nobel economics prize Wednesday for explaining why many people distrust used car salesmen and why governments doubt the accuracy of citizens' income-tax forms.

The Royal Swedish Academy of Sciences rewarded economics professors George Akerlof, Michael Spence and Joseph Stiglitz for their analyses of how markets function when some people know more than others -- a concept called asymmetric information.

The term means, for example, that the managers and board members of a corporation know more than shareholders about that corporation's profitability, just as borrowers know more than lenders about their debt repayment prospects.

"During the 1970s, this year's laureates laid the foundation for a general theory of markets with asymmetric information," the academy said in its citation.

The trio's contributions "form the core of modern information economics" and have led to practical applications in areas ranging from traditional agricultural markets to modern financial markets, the academy said.

What the winners' work boiled down to, said Anders Borglin, economics professor at Lund University in southern Sweden, was the theory behind many people's instinctive distrust of used car salesmen, who usually know more than buyers about the vehicles.

"In the same way citizens know more about their private finances than the tax authorities, this is asymmetric information," Borglin told Reuters.

Akerlof, 61, an economics professor at the University of California at Berkeley, said he was "just totally thrilled and unbelievably surprised" at the news, which caught him asleep. "My family is equally thrilled and surprised."

Spence, 58, is a former dean at Harvard and Stanford universities, and Stiglitz is a professor of economics, business and international affairs at Columbia University.

Spence said he was "thrilled" when someone from Stanford's business school called to tell him the news at 4 am while he was vacationing with his wife in Hawaii.

"It was a cross between joy and stunned disbelief," he said. "I wasn't expecting it, so it came right out of the blue. It is a huge honour."

Stiglitz welcomed the recognition for work on information economics that he said revolutionised thinking about virtually every market.

"Obviously I'm very pleased about it," Stiglitz, a former White House adviser and former chief economist of the World Bank, said in a telephone interview.

"I think the set of ideas that we've developed on how imperfections of information and asymmetries of information profoundly affect every aspect of the market economy have really revolutionised thinking about virtually every market and probably most important capital markets."

George Perry, senior fellow at the Brookings Institution in Washington, said the great contribution of Akerlof and his colleagues was to break apart the idea that all economic behaviour was governed by rational expectations about the future.

They showed, instead, that imperfect information affected economic decisions.

A field close to the 2001 laureates' area of expertise was last recognised by the Nobel academy in 1996, when James Mirrlees and William Vickrey of Britain won the prestigious \$1 million prize.

"What we have now isn't something that directly affects the man in the street, but a toolbox that lets us economists understand the effect of asymmetric information and how one can improve such a situation," Umea University economics professor and academy member Karl-Gustaf Lofgren said.

In what his peers have described as groundbreaking work, Akerlof showed that asymmetric information can give rise to so-called adverse selection on markets.

One practical example was how sellers of low-quality used cars might crowd everyone else out of the market.



Two brokers place orders at the Karachi Stock Exchange after indices rose by over 21 points on Thursday. Rumours kept depressing the market but early rallies remained bullish as these rumours died down.

US to appeal WTO ruling over export tax breaks

REUTERS, Washington

In a move aimed at delaying sanctions on up to \$4 billion worth of US goods, the United States said Wednesday it will appeal a World Trade Organisation ruling in a long-running dispute with the European Union over tax breaks for exporters.

"We have decided to appeal because we believe the decision was in error," US Trade Representative Robert Zoellick said in a statement. "We have discussed our concerns with the EU, with which we'll continue to seek to cooperate to manage, and, ultimately, resolve this dispute."

US business groups welcomed the decision, which buys the United States at least 60 more days before the EU can begin proceedings under the WTO to impose sanctions.

Following a WTO panel ruling in August, the United States had until Oct 19 to decide whether to appeal.

"If we didn't appeal, we would have gone straight to a sanctions

phase, which needless to say nobody wanted to happen," said Kimberly Pinter, director of corporate finance and tax for the National Association of Manufacturers.

In August, a group of 74 chief executives of leading US companies urged President George W Bush to appeal the ruling if the United States could not negotiate a settlement.

The top executives included Philip Condit of Boeing BA.N, Allen Andreas of Archer Daniels Midland ADM.N, Lee Raymond of Exxon Mobile XOM.N, GR Wagoner, Jr, of General Motors GM.N and Michael Eisner of the Walt Disney Co DIS.N.

The case dates back to November 1997, when the European Union challenged the US Foreign Sales Corporation (FSC) program as an illegal export subsidy under WTO rules.

At the time, Brussels was on the defensive in beef and banana trade cases brought by the United States at the WTO.

In October 1999, WTO panel

agreed with the EU and gave the United States one year to bring its export tax legislation into compliance with WTO rules.

The United States appealed the panel's decision, but lost again. To comply with the ruling, the Clinton administration worked closely with Congress to push through a new system of tax breaks for exporters known as the US Extraterritorial Income Exclusion Act (ETI).

The EU challenged the ETI legislation, saying it was just as bad as the FSC programme.

It also requested permission from the WTO to impose sanctions on up to \$4 billion worth of US goods in the dispute and then agreed to suspend that action until the WTO had ruled on the ETI Act.

In August, the WTO again sided with the EU, ruling the new US legislation amounted to an illegal export subsidy.

Zoellick said the decision to appeal reflected a broad cross-section of opinion.

EU disappointed at US decision

REUTERS, Brussels

The European Union voiced disappointment Wednesday at a US decision to appeal a World Trade Organisation (WTO) ruling in a multi-billion-dollar dispute over a US system of tax breaks for exporters.

"We are disappointed that the US has decided to appeal the WTO panel report... which we judged to be pretty clear and well reasoned," European Commissioner trade spokesman Anthony Gooch said after US trade officials announced their decision to take the case to the WTO's appellate body.

"This will only serve to further delay the compliance process. However, the decision to appeal or not was for the US to make and we fully respect it," Gooch told Reuters.

A WTO dispute panel ruled in August the US system broke global

trade rules, judging it was an illegal subsidy.

The controversial US system, which grants billions of dollars a year in tax breaks to major US exporters, replaced the earlier Foreign Sales Corporation (FSC) scheme that was also struck down by the WTO.

Since August, European officials have been waiting eagerly to see if the United States would accept the ruling or appeal, while expressing hope Washington would comply with the panel ruling.

"We believe that the WTO appellate body will once more rule in favour of the EU and confirm the incompatibility of the FSC replacement act with WTO rules," Gooch said.

The EU has threatened to impose up to \$4 billion of sanctions on US goods if it ultimately wins the

WTO case a step US Trade Representative Robert Zoellick has likened to using a "nuclear weapon" on the trade system.

The WTO's appellate body now has 60 days to reach a decision on the merits of the US appeal. If the EU won again, it would then have to decide if it was serious about its threat to seek sanctions against US goods.

Trade analysts have pointed out that a US appeal has the benefit of pushing the decision beyond a crucial WTO ministerial meeting set for Doha, Qatar between Nov. 9 and 13, which will discuss launching a new round of global trade talks.

The EU and United States both want to see a new trade round launched and delaying a showdown in the FSC case removes a potential obstacle in Doha.

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