

Indian banks jittery as Enron heads for likely bankruptcy

AFP, Bombay

Leading banks and financial institutions here were jittery Friday over the expected bankruptcy of US energy firm Enron, which is behind the largest foreign investment in India, economists and analysts said.

Bankers are worried about the 60 billion-rupee (1.25 billion-dollar) loan exposure from the controversial Dabhol Power Co Ltd., which is owned by Enron and its associates along with the Maharashtra State Electricity Board (MSEB).

Independent power analyst Abhay Mehta, a key campaigner against the Dabhol project, said that while "there is no direct impact from the Enron crisis that has hit world markets, the future of the Dabhol project has been definitely affected."

He said he expected the planned sale of Enron's 65-stake in Dabhol would be delayed if the parent company goes bankrupt and that Indian lenders would take a hit as they would have to make provisions for non-performing loans.

If Enron files for Chapter 11, all of its assets worldwide, including Dabhol, would be taken over by a liquidator that would oversee the sale of the Indian plant.

Enron, once the largest United States trader of natural gas and electricity, began to unravel after revelations it overstated its earnings and con-

cealed money-losing operations in partnerships headed by its chief financial officer.

The Houston-based company needs massive amounts of cash for its daily operations to keep trading.

The first part of the Dabhol station began generating electricity in May 1999, but it stopped producing power in mid-2000 when the MSEB failed to clear its long-overdue power bills.

After the payment defaults, MSEB also refused to buy any more power following a dispute over tariffs.

India's Finance Minister Yashwant Sinha agreed Enron's situation created uncertainties.

"The bankers are working on a package, but when it will be ready cannot be said," Sinha was quoted by The Financial Express as saying.

Lenders to the project say they do not anticipate a crisis.

"I do not think that we as lenders will be in trouble as all the three foreign founders of Dabhol Power have pledged their shares with us," said IDBI chairman P.P. Vora.

"Also, we are undertaking negotiations between Enron and potential new buyers to expedite (the) sale of Enron's stake in the project," he said, saying a package was being worked out that will ease Enron out.

Grish Sant, a member of non-governmental organisation Prayas, called it "unfortunate that everyone has lost money in this project."

BOJ boosts current account reserves

AFP, Tokyo

The Bank of Japan (BoJ) said its current account reserves rose to 117 billion dollars Friday, the highest level since March 2000, to help ease credit concerns on the expected collapse of US energy giant Enron.

The level was well above the six trillion-yen level targeted in August, rising to 14.5 trillion yen (121 billion yen) in the morning before easing to 14 trillion yen in the afternoon.

"After the November 28 Enron shock, some Japanese money market funds could have losses because they had purchased securities issued by Enron," said a BoJ official.

"There was fear that customers of money market funds would withdraw cash," he said, adding the

government pumped six trillion yen into local private banks in a technical move, which also raised the total balance.

Enron's anticipated failure would cost four Japanese financial firms some one trillion yen an official from the Investment Trusts Association of Japan said earlier.

Enron is likely headed for the biggest bankruptcy in US history after Standard and Poor's and Moody's Investors Service cut its credit rating to junk bond status on Wednesday.

The BoJ reaffirmed its monetary policy Thursday after a day-long meeting, saying it aims to keep reserves in its current accounts above six trillion yen.

Moore holds talks on Vietnam's WTO entry

REUTERS, Hanoi

World Trade Organisation chief Mike Moore began talks in Vietnam Thursday on ways to speed up accession to the WTO, a day after Hanoi ratified an historic trade pact with the United States.

The World Bank's chief economist in Vietnam, Kazi Matin, said the country should try to join the WTO as soon as possible, saying: "It's the surest way of getting greater access to markets outside."

"If you don't have WTO membership, even full access to the Chinese market is going to be difficult. It's also good for the internal reform process and Vietnam's competitive efficiency".

Moore met Vietnamese Trade Minister Vu Khoan on Thursday and was due to hold talks with Prime Minister Phan Van Khai and Finance Minister Nguyen Sinh Hung on Friday.

"The purpose is to meet with ministers and the prime minister to talk about how we can speed up Vietnam's accession to the WTO," Moore told reporters.

"The WTO doesn't negotiate with countries for accession. It's not me, it's not an executive decision I can make, it's the 144 members. So we are in the middle of the process," he said.

"This of course is in the hands of Vietnam. If Vietnam wants this, and it does, let's see what we can do to accelerate procedures."

Moore said it was going to take a lot of political willpower and would be up to Vietnam to convince the

WTO membership.

"What Vietnam wants, it should work for Vietnam believes this is good for it, Vietnam will get there," he said.

The WTO director-general said Vietnam's ratification of the trade pact with the United States on Wednesday was "a good sign".

Khoan said Moore's trip was a very important sign of support.

"Now it is time for us to start substantial negotiations on accession to the WTO. We are finalising already initial offers for this purpose," he said.

Khoan declined to say what Vietnam's target date was for accession, but joked: "If it depends on myself, tomorrow I want to be a member of the WTO."

Diplomats say the detailed trade agreement with Washington, if properly implemented, should ease Hanoi's eventual accession to the global trade body.

Khoan is due to make a visit on Friday to fellow communist neighbour China, a country whose entry to the WTO was approved last month after a 15-year quest. Its full accession to the body is expected next month.

A World Bank report on Vietnam's development issued this week said China's membership of the WTO meant Vietnam would have to accelerate reforms towards accession to take advantage of opportunities to boost its exports.

However, it said it would also mean competition from China, especially when quotas on Chinese textiles were abolished in 2005.



PHOTO: AFP

A Thai Airline's jet sits on the tarmac as another flies by the tower of Bangkok's International Airport during landing Thursday. Thai Airways International has blamed the high cost of fuel and foreign exchange losses for a 59 per cent slump in earnings for the year to September. The flag carrier said net profit plunged to 1.92 billion baht (43.8 million dollars) in a statement released after the Stock Exchange of Thailand closed Wednesday.

Russia upbeat on economy

REUTERS, Moscow

Prime Minister Mikhail Kasyanov painted a rosy picture of Russia's economic prospects on Friday despite concerns that falling oil prices could hurt the country's plans to run its first ever budget surplus.

Kasyanov told deputies the gross domestic product growth would come in at 5.5 per cent in 2001, beating the government's 4.0 per cent forecast despite the global economic slowdown.

"Let's always be mistaken in our forecasts in such a way," Kasyanov told the State Duma lower house of parliament ahead of a vote on a third reading for the 2002 draft budget GDP grew a record 8.3 per cent in 2000.

The government and the central bank are sure that macroeconomic and national currency stability will be maintained further," Kasyanov added.

Russia's landmark finance bill for 2002 provides for revenues of 2.13 trillion rubles (\$71 billion) and spending of 1.95 trillion rubles, leaving a first ever budget surplus of 1.63 per cent of gross domestic

product. It also innovates with a special reserve fund to cover a 2003 peak in foreign debt payments, though some fear the safety net could fall victim to the sharp fall in world prices for oil, Russia's key hard currency earner.

The fall, and the ongoing tussle between Russia and OPEC over production cuts to boost flagging prices, has posed the first economic challenge to President Vladimir Putin's cabinet.

Since coming into office almost two years ago he has been able to increase payments to pensioners, the military and pay off debts as oil prices hovered around \$30 a barrel.

OPEC wants rival producers to follow its lead and slash output. Russia has so far offered only token cuts, although Deputy Prime Minister Viktor Khristenko signalled on Friday the country could increase its offer of a 50,000 barrels daily cut.

Kasyanov said Russia's oil policy would be independent of OPEC. "We are not OPEC members and are not going to be influenced by OPEC decisions," he said.

Alexander Zhukov, chairman of

the Duma budget committee said he expected the budget to sail through.

"Since there is a political majority in the Duma which has already spoken in favour of the budget, I think it will be passed with quite a lot of votes for," he told the NTV television station.

The Duma must approve the budget in four readings before passing it to the upper chamber. The fourth reading, set for December 13, is usually a formality.

Seven out of nine factions have pledged to back the budget, which requires at least 226 votes in the 450-seat Duma.

Zhukov said the government had room for manoeuvre as the budget could be sustained even if prices fell to \$15 per barrel. "Even under the current situation of lower oil prices the budget has enough resilience and should be passed today," he said.

It was not clear whether Zhukov referred to the price for the Urals blend, Russia's main export, or the benchmark Brent mix. Brent closed 28 cents down at \$18.38 a barrel on Thursday.

Germany unlikely to achieve balanced budget by 2004

AFP, Berlin

German Finance Minister Hans Eichel hinted for the first time on Friday that Germany might not be able to achieve a balanced public budget in 2004 as originally planned if global economic conditions deteriorate.

Eichel revealed that he has drawn up a scenario in which the euro-zone's biggest economy might not be able to bring its public finances -- including the federal, regional and municipal budgets -- into balance until 2006.

Nevertheless, Eichel insisted in a statement that this was only one possible scenario among many and that Berlin would continue to endeavour to achieve a balanced public budget by 2004.

But that would only be possible "if no further economic uncertainties emerge," the minister added.

Euro-zone governments regularly submit stability programmes, in which they set their own targets for budget consolidation, to the European Commission.

Berlin was scheduled to submit its programme to Brussels next Wednesday.

Until now, Germany has promised to achieve a balanced public budget by 2004 and a balanced federal budget by 2006.

And Eichel was sticking to those targets, the ministry insisted.

"As long as no further uncertainties emerge, we continue to assume

that with growth expected to reach 1.25 per cent next year and corresponding developments in subsequent years, a balanced public budget can be achieved in 2004," the statement said.

"Only if new, unexpected uncertainties arise will we meet that target in 2006."

However, the ministry noted that the stability programme to be submitted to Brussels entailed a scenario which included the possibility that growth prospects for Germany would deteriorate still further.

And that could raise a question mark over the timetable Berlin has set itself to bring its finances into order.

"But even in this scenario, Germany will attain its target of a balanced public budget by 2006 at the latest, as long as we stick to the path of strict budgetary consolidation proposed by Finance Minister Eichel," the ministry said.

A report in the business daily Handelsblatt on Friday said that Eichel was revising down his forecast for German growth next year to just 0.75 per cent and was cutting his growth forecast for 2003 through 2005 to an average annual rate of 2.25 per cent from 2.5 per cent.

But the ministry denied this.

"We're not revising our expectations for next year," it insisted.

Eichel argued that budgetary rigour was more important than ever in the current situation.

The Maastricht Treaty stipulates that euro-zone governments are not

allowed to run up deficits equivalent to more than 3.0 per cent of gross domestic product (GDP).

But with the world economy grinding to a halt, that very principle of budgetary rigour could soon prove to be a noose around Germany's neck as it grapples with the global slowdown and the economic fallout from the September 11 terror attacks in the United States.

It's a bitter twist of fate -- one of the model pupils in the European project appears to be turning into the bad apple poisoning the entire euro zone, while countries such as Italy, previously perceived to be the bad boys, could be among the few to have got their homework right.

So wary of its neighbours' spendthrift ways and fearful of inflation, it had been Germany that insisted on the need for fiscal and monetary discipline to safeguard price stability in the single currency area.

But with unemployment in Germany rising inexorably higher, leading economic experts are concerned that Berlin might soon be in danger of breaching the Maastricht criteria, a potential devastating blow to monetary union.

Only recently, Eichel was compelled to revise upwards his forecasts for the deficit ratio this year to 2.5 per cent from 1.5 per cent previously and for next year to 2.0 per cent from 1.0 per cent.



PHOTO: AFP

World Trade Organisation Director General Mike Moore (L) and Vietnamese Trade Minister Vu Khoan raise a toast prior to their talks held upon Moore's arrival late Thursday in Hanoi. Vietnam prepared to launch intensive talks on WTO membership, buoyed by the final ratification Wednesday of an historic trade deal with the United States.

Taiwan commercial activity suffers biggest monthly fall

AFP, Taipei

Taiwanese trade suffered its biggest monthly fall ever in September from damage caused by Typhoon Nari and the terror attacks on the United States, the economics ministry said Friday.

Commercial activity in all sectors of the economy -- already battered by the global slowdown -- fell 14.2 per cent year-on-year to 641.6 billion Taiwan dollars (18.62 billion US), it said.

"This is the largest drop ever in commercial sales since the ministry began collecting such data in 1994," a ministry official told AFP.

International trade posted the biggest contraction of 20 per cent to 241.2 billion dollars, due mainly to US-bound shipments getting stalled after the September 11 attacks, the ministry said.

Domestic commercial activity was also held up by blackouts and damage caused by Typhoon Nari, which brought the worst floods in a century to northern Taiwan and claimed at least 94 lives.

The food and beverage sector saw a 17.4 per cent drop in September revenues, the wholesale sector an 11.7 per cent decrease and retail trade fell 9.0 per cent.

Taiwanese exports and imports in September suffered record falls of more than 40 per cent year-on-year to 7.45 billion US dollars and 7.03 billion dollars respectively, according to the finance ministry.

Exports in the nine months to September were down 18.5 per cent at 89.59 billion US dollars, while imports were down 23.7 per cent at 80.34 billion dollars, it said.

Over the January-September period, the island's revenue from commercial activity totalled 6.86 trillion Taiwan dollars, down 7.2 per cent from a year earlier.

Republicans fight for Bush's trade promotion authority

AFP, Washington

Facing an uphill battle on winning trade promotion authority for President George W. Bush, Republicans Thursday turned up the heat on those opposed to giving the administration broad-ranging trade negotiating powers.

Republicans argue the need to grant the Bush administration the ability to negotiate wide-ranging trade agreements has taken on added urgency as a new round of global trade talks is due to start within a few weeks.

"We do need (Trade Promotion Authority) if we want the president and our negotiators to have credibility at the negotiating table," said a frustrated Republican Senator Charles Grassley.

The TPA would bind Congress to a yes-or-no vote on any trade agreement Bush signs, with lawmakers yielding their right under the US Constitution to have a role in the negotiations.

With the US economy in the dumps and a new round of World Trade Organization talks due to start in January, supporters of the legislation insist the administration be allowed to negotiate freely.

"It is very important for the presi-

dent to have this authority," said Republican Representative J.C. Watts. "America is officially in a recession, yet the president has one hand tied behind his back."

A number of legislators, most of them Democrat, are loathe to surrender that power, particularly as it affects controversial issues such as labor and environmental standards in future trade deals, as well as farm and export subsidies and anti-dumping laws.

But the administration and Republican leaders recently have turned up the heat, pushing the expanded trade powers as a means to ensure global security after September's devastating terror attacks and a means to revive the sagging US economy.

"This Congress must step up and say we want you to be a leader in international trade," said Republican House Majority Leader Dick Armey. "This is the moment of truth."

The House is scheduled to vote on Trade Promotion authority December 6. No vote has been scheduled as yet for the Senate.

"Instead of getting a commitment to have a vote this year on a matter that affects the majority of

workers and farmers in the United States, all we've had are delays and reasons that, in my view, don't have any merit," criticized Grassley.

The administration fears that without TPA, draft commercial agreements can get hung up and ultimately derailed by partisan political bickering in Congress.

Citing the economic benefits of trade to the United States, US Secretary of State Colin Powell said in the Wall Street Journal last month that trade "helps create a secure international environment within which Americans and everyone else can prosper."

"For America to continue to lead today's world to security and greater prosperity, we need TPA," he wrote in an opinion column.

But, backed by ecologists and trade unions, some Democrats in Congress have resisted Bush's plea on grounds that TPA would not guarantee the inclusion of provisions in trade accords to protect the environment and labour rights.

Nevertheless, Republicans in the Republican-controlled House are determined to hand Bush this victory before they adjourn for the Christmas holidays. The Senate is unlikely to follow suit.