

Business Briefs

Trade

Germany's exports to Russia lead collapse

Germany's Federal Statistical Office has announced a new record German trade surplus for November 1998, of 16.7 billion deutschmarks (about \$10 billion). Despite media headlines such as "Record-High German Foreign Trade" (in the *Frankfurter Allgemeine Zeitung*), the boom in exports has already come to an end, and the near-term prospects are rather grim. Leading the decline has been the drop in exports to Russia.

In the first half of 1998, year-on-year export growth was 15-20%, while imports showed growth rates of 10-15%. In November 1998, German exports were up by 4.9% compared to the year before, reaching DM 83.2 billion, while imports were actually shrinking by 2%, to DM 66.5 billion. In respect to Asia, German exports had already sharply fallen in the first nine months of 1998: South Korea, -46%; Thailand, -35%; Indonesia, -29%.

German exports to Russia started to crash in August 1998. In third-quarter 1998, German exports to Russia were down by 27%, hitting in particular the food industry (-47%), chemical producers (-36%), and machine-builders (-23%). This trend accelerated in October, when German exports to Russia collapsed by 63% on a year-on-year basis. Simultaneously, the times of huge growth rates in German exports to other European Union members and to the United States, have come to an end.

Malaysia

Mahathir says currency controls will remain

Malaysia's currency controls will remain in place for a long time, to protect the economy, Prime Minister Mahathir bin Mohamad said, in an interview with Japan's *Mainichi Shimbun* daily published on Jan. 13. Mahathir said in Kuala Lumpur that the controls imposed by him have worked well, protecting

the Malaysian economy against speculative attacks and allowing a process of recovery to begin.

Asked how long the controls will be maintained, Mahathir said: "It will take a long time for the international community to draw up a new international financial regime, so that currency traders will not destroy other people's economies. Until then, we cannot have an open currency. If we release the controls on the ringgit [Malaysia's currency], the currency traders will come back and attack the ringgit again."

Mahathir had said that he wanted to "do something to regulate hedge funds to make a new world order," at the last Asia Pacific Economic Cooperation summit in Kuala Lumpur, but he found that the United States, i.e., Vice President Al Gore, "is now using APEC to expand its domination over the Asia-Pacific region," which he thinks "is not a good idea—look what the United States did in Iraq." Rather, Mahathir said that using the summits of the Association of Southeast Asian Nations, but expanded to become an "ASEAN plus three, that is, including Japan, China, and South Korea . . . would be a better idea."

The *Mainichi Shimbun* reported that Mahathir will write a series of monthly essays for the publications of the newspaper chain.

South Asia

Pakistan, India welcome new bus link

A new bus route connecting Lahore, Pakistan to New Delhi, India was inaugurated on Jan. 12, and was warmly welcomed. The eagerly awaited Pakistan Tourism Development Corp. bus arrived in New Delhi on a "dry run," with an entourage of senior officials. The bus was received by a number of senior Indian transport officials and more than 100 reporters. There was a heavy police presence, because of threatening statements from the Hindu revivalist Shiv Sena group.

The leader of the Pakistani delegation and General Manager in Pakistan's Ministry of Communications, Dr. Taj-ul-Islam, was moved by the reception. "It is difficult to ex-

plain the happiness," he said. Dr. Islam said the delegation was overwhelmed by the reception it had been accorded right from the Wagah border. Radiant, with a rose garland around his neck and a vermilion tilak on his forehead, Dr. Islam said: "From Wagah to this place people have been very courteous and warm. I could feel the happiness on people's faces." The bus service, covering 650 kilometers between New Delhi and Lahore, is expected to become operational in the first week of February, according to an Indian official.

And now, after the successful inauguration of the bus service, it is the turn of the railways. According to Indian government reports, a proposal to restore rail traffic between India and Pakistan, from Khokrapar and Munabao, in Sind and Rajputana, respectively, is under consideration. If agreements are finalized, the train will begin operation by March 1999. The Khokrapar and Munabao railway was closed during the 1965 Indo-Pakistan War.

Infrastructure

Thailand's Kra canal project suffers setback

The committee within Thailand's Communications Ministry assigned to review the feasibility of the Kra Canal project across the Thai isthmus, has decided that the project, at 800 billion baht, would be too costly, and that no investor would seriously consider it. The committee, chaired by ministry Inspector-General Chaiyos Chaimankong, recommended that the government settle the debate on this issue to avoid further waste of public funds associated with various studies on the project's pros and cons.

The project is seen by sane economists and businessmen as an ambitious undertaking that could jump-start Thailand's recession-bound economy.

The committee, however, said that there is no compelling economic or financial reason to support the viability of the canal project. The proponents of the project believe this would help revitalize domestic industries, and would serve as an alternative inter-

STANLEY FISCHER, First Deputy Managing Director of the International Monetary Fund, said at an investment conference in Boston that Russia, already in desperate economic straits, should cut its subsidies and government spending and try to create a budget surplus of 3-4% of gross domestic product—in order to service its debts.

RAW STEEL production fell to 778.2 million metric tons worldwide in 1998, down 2.5% from 1997, the UN Economic Commission for Europe reported on Jan. 12. During 1998, steel output was increasing or steady during the first part of the year, but declined at a growing rate toward the end of the year, indicating the global downturn of many types of basic production, including steel, machine tools, and farm equipment.

JAPAN has slapped a 390% tariff on Australian rice, and reduced the quantity of rice foreigners are allowed to sell in Japan from 8% to 7.2% of total rice sold. Australian Trade Minister Tim Fischer, who had been expecting a 1,200% tariff increase, threatened retaliation.

ALANGREENSPAN is “panicked about the stock market’s behavior,” columnist John Crudele wrote in the Jan. 11 *New York Post*. “He’s petrified that the market will go much higher on his watch; even more horrified that the bubble might burst. He’s frozen with indecision.”

THE GERMAN construction sector expects another bad year, with the loss of at least another 50,000 jobs. In the first 10 months of 1998, some 3,500 construction firms in eastern Germany, and 4,500 firms in western Germany, declared bankruptcy.

IRAQ plans to purchase \$3 billion worth of Russian machinery, *Izvestia* reported on Jan. 13. An Iraqi delegation recently visited Nizhny Novgorod, and are interested in the output of the Gorky Auto Plant, Sokol Helicopter Plant, and Krasnoye Sormovo Works.

national shipping route linking Europe and the Far East. But the committee believes that “they do not or cannot back up their optimism with credible economic, financial, or technical studies,” the *Nation* reported on Jan. 15.

Finance

China’s closures seen as warning to foreign banks

The Chinese “government’s resolute closures of debt-ridden financial institutions is actually a warning to foreign banks: Do not indirectly collude with Chinese financial firms borrowing without state approval,” a commentary in the Jan. 14 Beijing *Economic Daily* stated. “Foreign financial institutions should not think that the Chinese government will repay debt for closed institutions. They must be prudent in making loans,” it said.

“A common problem shared by the closed institutions is that their internal management had been very lax and regulations were incomplete, while the systems of controls and responsibilities were unclear,” the commentary said. Guangdong International Trust and Investment Corp. (GITIC) “did not register its debt, but its overseas borrowing had amounted to several billion Hong Kong dollars.” GITIC’s trustees revealed on Jan. 10 that the company has debts of 36.17 billion yuan (\$4.37 billion) and assets of 21.47 billion yuan.

The People’s Bank of China, the central bank, “did not supervise these financial institutions strictly enough and lacked effective supervisory skills and measures, resulting in a relatively wider payment crisis,” the commentary said. “Some government departments have provided guarantees or obligations for loans of their Hong Kong-registered companies or their subsidiaries on the mainland. This has not only damaged the reputation and interest of the state and all levels of the government, but also helped breed illegal activities and irregularities.”

Wu Jiesi, assistant to the Governor of Guangdong province, said at a meeting of creditors for the Nam Yue (Group), Guang-

dong province’s company in Macau, that foreign bankers who had suffered losses in China had failed to adopt prudent lending policies. Nam Yue is now insolvent, with unaudited consolidated debts of \$333 million at the end of 1998, and \$250,000 in cash. Wu told the bankers that they might recover only 50% of their money if they did not agree to standstill arrangements until April 15, when most of Nam Yue’s debts are due. Wu told the bankers that they should be prudent in lending money and should bear the risks, the *South China Morning Post* reported.

Energy

France looking for non-nuclear sources

French Minister of Education and Science Research Claude Allegre said, in an interview with Europe 1 radio on Jan. 15, that France is going to be looking for more non-nuclear and “cleaner” energy sources, which could gradually reduce its reliance on nuclear energy. Today, 75% of France’s electricity is produced by nuclear power plants.

Allegre (who soon after taking up his education post called for the cancellation of all of Europe’s manned space programs) was quoted, “France will quicken the pace of looking for both cleaner nuclear energy and, secondly, for sources of energy other than nuclear.” He hastened to add that “there is no change in the energy policy of France.”

In addition to his anti-technology proclivities, his statement also reflects concern over the Jan. 13 announcement by the German government that it will no longer send its nuclear waste to France for reprocessing. The French government-owned Cogema company said that this will result in a loss of \$6 billion, from lost business for its La Hague reprocessing plant.

German Environment Minister Jürgen Trittin, in an interview with the French daily *Libération*, said that Bonn wishes France would abandon its nuclear power stations, as Germany is planning to do. Trittin said that the nuclear plants in Germany “worry” him. Trittin was recently in France to discuss the German nuclear shutdown plan with French officials.