

Business Briefs

Mexico

'Free Trade Model' Keeps Losing Trade

With 90% of its trade carried out with the collapsing U.S. economy, Mexico's overall trade dropped by 3.5% in April 2003, over April 2002, and was 4.3% less, year on year, in May 2003.

The International Consultants firm reported on July 23 that nearly 370,000 jobs were lost in the country between January and May. Unemployment hit its highest level in nearly five years in June, the government reported. The actual statistics given by the government are worthless. The government claims unemployment stood at 3.17% in June (up from 2.72% in May), but the government calculates unemployment as anyone over 12 years of age who looked for work, but didn't work for more than *one hour during the month*. Thus a Mexican who found two hours' work during the most recent month, is considered "employed."

The Catholic Church in Mexico says 75 of Mexico's 100 million people live in poverty; whereas the government of President Vicente Fox claims that "only" 53.7 million people are poor. Yet, the International Monetary Fund is again demanding that the government must impose a value-added tax (VAT) upon food and medicine. When the Fox Administration tried to ram through a 15% VAT tax on food and medicine in 2001, Mexico's Congress refused. Now, the Treasury Secretary is considering trying to get Congress to buckle, and accept a tax of 5-6% on the basics needed by the population to survive.

Brazil

VW Workers To Strike As Auto Cuts Mount

After Volkswagen announced plans to lay off 3,933 workers at its São Bernardo and Taubete plants in Brazil, its workers voted to "prepare themselves for war" at a July 22 meeting of the Metalworkers' ABC union, charging that the company is violating job

stability contracts that are supposed to remain in effect until 2006. In São José dos Campos, meanwhile, General Motors has laid off 450 workers, but many expect that figure to go higher. Auto companies say they have huge inventories, and must fire "surplus" workers, because there is no demand for new cars. Renault also recently announced that it is "losing a lot of money" in Brazil, and that at present, "sees no way out" of the situation.

Industry Minister Luiz Furlan has spoken of the need for emergency measures to help auto firms reduce their inventories (tax reductions on cars for example), but indicated that any program of this type would have to be approved by Finance Minister Antonio Palocci, who is known to oppose them.

Currency

China Says Renminbi Will Be Held Stable

Chinese Commerce Minister Lu Fuyuan told the Asia-Europe Meeting (ASEM) of economic ministers' in Dalian on July 24, that the value of China's currency will remain stable, in the interest of China's population and its development. "China's major task at present is to maintain stable economic growth," Lu Fuyuan said. "The current policy of maintaining the value of the currency does not rule out future adjustments or changes."

U.S. Federal Reserve Chairman Alan Greenspan, Treasury Secretary John Snow, Sen. Charles Schumer (D-N.Y.), and other U.S. spokesmen have demanded that China revalue its currency, the renminbi-yuan, by ending its fixed peg against the drastically weakening dollar. The real problem is the vast U.S. trade deficit with China. China kept its currency at a stable exchange rate during the Asian financial crisis of 1997-98, when the dollar rose dramatically. This had serious effects on the Chinese economy. Now that the dollar is crashing, the United States is demanding that the renminbi be allowed to "float"—i.e., rise—against the dollar. China sees this as forcing another "Plaza Accord," as was forced on Japan in 1985, on China.

Lu Fuyuan said the currency policy ad-

justment should be based on the domestic situation of a nation, rather than just the international situation. China's position has been clearly stated by People's Bank of China Governor Zhou Xiaochuan, who reaffirmed China's policy favoring a stable yuan in a speech delivered on July 14. China will work at its own pace to "promote reforms to liberalize interest rates, maintain the fundamental stability of the yuan foreign-exchange rate, and continue to perfect the foreign-exchange rate system," Zhou said.

China's own imports are increasing rapidly, 44% faster than its exports, and the country might even face a trade deficit for 2003. China has not had an overall trade deficit since the 1997 Asian financial crisis. China is importing large amounts of raw materials and parts, and is also paying much more for oil due to the war on Iraq. In his statement at a press conference at the end of the ASEM economic ministers meeting, Lu Fuyuan predicted that "China will import \$1 trillion in the next three years, and become the world's second largest purchaser in 20 years, only after the United States."

Pensions

Funds Face '1980s S&L-Type' Crisis

According to a U.S. General Accounting Office (GAO) report of July 23, not only are American corporate pension plans underfunded by about \$300 billion, but the main insurer of retirement plans—the government-sponsored Pension Benefit Guaranty Corp. (PBGC)—does not have enough assets to pay promised future benefits. The GAO designated the PBGC's pension insurance program for large companies as "high risk," calling for "urgent attention" by Congress. PBGC's "single-employer" program takes over pension plans that bankrupt firms have defaulted on, but pays only a portion of the retirement benefits due 34 million workers enrolled in private "defined-benefit" plans.

Pension plans, warned Treasury Secretary John Snow in July, are in danger of a financial meltdown "not unlike" that of the savings and loans institutions in the 1980s.

'DUMPING' catfish in the United States was ruled against Vietnam on July 24 by the U.S. International Trade Commission, as the Department of Commerce had earlier. Tariffs of 36%-64% are being imposed, which will blow out the Vietnamese catfish industry, which employs 400,000 and exports one-third of the catch to the U.S. The ruling is based on the idea that Vietnam is a "non-market economy." Vietnam and other Southeast Asian countries fear a repeat against the shrimp industry, which is nearly ten times bigger.

EUROPEAN Investment Bank on July 22 announced a regional branch in Egypt. EIB Vice President Philippe de Fontaine told *Al-Ahram* that Egypt was selected for its vital role in the Middle East and Mediterranean. The EIB cooperation budget for the office is 1.5 billion euros, he said, adding that the EIB wants to develop infrastructure projects in Egypt.

MALAYSIA issued its first golden dinars on July 28, paying part of its employees' July salaries if they chose. One dinar was set equal to \$47.63. For now, however, the dinar will not be available for trade, but the head of the Royal Mint said that an exchange window for the dinar could be developed. The Mint will approach four Islamic banks to promote the dinar in August. Currently 1 gold dinar is set at 4.25 grams of gold of 91.7% clarity. The Mint will soon add 2 dinar and 4 dinar denominations to the one-quarter dinar and 1 dinar.

U.S. TREASURY on July 28 announced plans to borrow \$104 billion during July-September—one-third higher than its previous estimate—to finance the growing Federal budget deficit, officially projected at \$455 billion for the year. The increase, up from a \$76 billion estimate in April, was blamed on lower-than-expected income-tax receipts, and higher spending. During October-December, Treasury expects to borrow a record \$126 billion. This would bring total borrowing to \$230 billion for the second half of 2003.

"Defined-benefit plans are under more pressure than at any time in a decade," cautioned PBGC Executive Director Steven Kandarian, adding that the agency's program could require a "general revenue transfer"—i.e., taxpayer bailout.

As of April 2003, the PBGC's unaudited deficit had soared to an estimated \$5.4 billion—the largest in the program's history—a marked change from its \$9.7 billion surplus in 2000. The major cause of the deficit, was the massive increase in large, underfunded pension plans of bankrupt companies in the steel and airline sectors, taken over by PBGC. Moreover, PBGC likely faces "additional severe losses," the GAO warned, as the financial weakness of firms increases.

Railroads

Beijing-to-Shanghai Maglev Line Possible

The long-distance magnetic levitation rail project, designed by Germany's Transrapid, has a good chance, wrote the German daily *Die Welt* in a special feature from Beijing on July 29. The report notes that the German maglev technology in recent years received very strong support from then-Prime Minister Zhu Rongji. After he left office in Spring 2003, there were some critical statements about the Transrapid by supporters of traditional high-speed rail within the Chinese Railway Ministry, states the report. This culminated in the announcement by the ministry in early July that a decision on the technology—either Transrapid, or high-speed rail like Japan's Shinkansen or France's TGV—for the 1,300 kilometer route between Shanghai and the capital Beijing, would most likely be for the Shinkansen.

The announcement, however, drew an unprecedented storm of protest inside China, and by July 10, the Chinese government said that there will be no near-term decision. Nevertheless, an Internet-based initiative called "10,000 signatures against the use of the Shinkansen on the high-speed railway line from Shanghai to Beijing" was formed and now has attracted more than 80,000 participants.

Now, states *Die Welt*, the new Chinese

Prime Minister Wen Jiabao has for the first time directly intervened into the debate. He called on all the relevant institutions "to collect assessments from all sides, to make scientific comparisons, to draw conclusions, and to come up with detailed plans."

There has been an argument between the Transrapid consortium and the Chinese about a special cable that is being used for the maglev tracks. The German side claims the problem is minor. But, as the current Shanghai-Pudong maglev route is the first commercial line ever, the Chinese don't want to take the risk, and insist that 920 kilometers of cables will be replaced. This creates now huge orders for the cable-producing company Nexans in Hanover. About 150 Thyssen-Krupp specialists will then be flown to Shanghai to get the job done in round-the-clock work between early October and year-end, so that on Jan. 1, 2004, the route can be opened on schedule for commercial traffic.

Futures

'Terror Futures' Was Crazy, But Typical

Adm. John Poindexter's now-squelched "terrorism and assassination futures market" was nuts, but valid under prevailing economics and information theory. According to a July 29 release by the Defense Advanced Research Projects Agency (DARPA), the "market method" is superior to other methods in predicting terrorist actions and other overt activities. "There is potential for application of market-based methods to analyses of interest to the DOD. These may include analysis of political stability in regions of the world, prediction of the timing and impact on national security of emerging technologies, analysis of the outcomes of advanced technology programs, or other future events of interest to the DOD. In addition, the rapid reaction of markets to knowledge held by only a few participants may provide an early warning system to avoid surprise." Is this different from the idea that the financial markets determine the true value of financial assets based upon what speculators are willing to pay for them?