Business Briefs

Foreign Exchange

Malaysia Considers Breaking Dollar Link

Malaysia is considering de-linking its currency, the ringgit, from the dollar, if the decline of the U.S. currency continues, the *Malaysia Star* reported on Jan. 21. The "breaking point" could come before year's end, said the executive director of the Malaysian Institute of Economic Research, Dr. Mohamed Ariff Abdul Kareem. This would be especially likely if the Chinese yuan were re-valued, or if the euro continued to rise against the dollar. He said the "breaking-point indicators" included the euro hitting $1.40 or the dollar falling below 100 yen.

The ringgit has been pegged at 3.80 to the dollar since September 1998, when Prime Minister Dr. Mahathir bin Mohamad shut down George Soros and his speculator allies by imposing currency controls. The Malaysian currency is estimated by some economists to be some 15-20% undervalued, and has been depreciating against other world currencies in tandem with the dollar.

Ariff challenged the presumption that a weak ringgit was good for the economy, since Malaysia is less dependent now on exports, and for instance, the auto industry was facing problems of rising production costs due to its high imported content. It is not clear whether Malaysia would re-peg to the dollar, or peg to a basket of currencies, as has been discussed in China. It is highly unlikely that Malaysia would allow a float.

In a related development, Prime Minister Mahathir urged Saudi Arabian officials on Jan. 19, to consider using another currency to sell oil, rather than dollars, in a speech at an economic conference in Jeddah, Saudi Arabia. "The price of oil is $33," Mahathir said, but the U.S. dollar has declined by 40% against the euro, so you're effectively getting $20. So you're being short-changed."

He again presented his proposal that countries should tally their total annual imports and exports and then settle the difference at the end of the year in "gold dinars." Mahathir also warned Saudi Arabia against joining the World Trade Organization: "Everybody should be careful before joining the WTO because it is not all positive. It can be very negative if you don't handle it properly. They try to impose their agenda without regard for some other countries."

IMF Conditionalities

Bolivia To Announce Huge Budget Cuts

Bolivia's government will announce a suicidal austerity program on Jan. 31, guaranteed to blow up the very precarious situation in that country. At the moment when border tensions are heating up between Bolivia and Chile, the government of Carlos Mesa is preparing to announce measures intended to reduce the current budget deficit, which is close to 9% of GDP. This involves "severe" cutbacks in government spending—eliminating some Deputy Secretary positions, merging ministries, etc. Other measures include eliminating the subsidy for liquefied gas, which will hit the population very hard. Note that this is a measure "recommended" by the International Monetary Fund (IMF) in a study last year, to increase revenue.

There is talk of imposing more taxes on businesses, as well as an income tax on "large" salaries, which in Bolivia means anything above $520 monthly. Most ominous is a proposed "pension reform," about which there are few details available. Following the Jan. 16 meeting in Washington of the "Support Group" for Bolivia, in which multilateral lenders, the IMF, and representatives of 19 nations pledged no financial aid, Minister to the President José Galindo explained that the austerity program is the way that Bolivia is "doing its part."

Already, labor, peasant, and other organizations are threatening to oust President Carlos Mesa, for failing to change the previous government's policies. Juan Melendez, leader of the COB labor federation, based in El Alto, site of last October's violence, demanded that "the landowners be punished, not the people." Business leaders are also angry, protesting that new taxes on them are unfair.

Consumer Debt

Millions 'At Risk' In Britain, Spain

Millions of Britons are "at risk" due to high debt levels, warns Britain's Financial Services Authority (FSA), in its "Financial Risk Outlook for 2004," released on Jan. 20, according to the London *Financial Times.* The report states that a large number of British households have overestimated their ability to repay their debts, and even a one percetage point rise in interest rates could force families to cut spending or sell their homes. There is mounting evidence of financial stress, such as an increase in cash withdrawals on credit cards, and this could get much worse, once interest rates or unemployment rise. "There are signs that some households have already borrowed more than they can comfortably afford," the authors state. "Households may begin to reach the limits of their ablity to borrow relative to their income and a small change in borrowing costs or household outgoings may have a significant impact."

On the same day, the Organization for Economic Cooperation and Development (OECD) put out its latest "country report" on Britain, warning that the real estate bubble is about to burst, and this could lead to a "dramatic decline in private consumption."

Meanwhile, the Spanish daily *El Mundo* on Jan. 21 cited the Bank of Spain, reporting that Spanish household debts rose for the first time in history above 500 billion euros, in the third quarter of 2003, a 14.7% rise compared to the same period the year before. As in other countries where such a phenomenon is occurring, the increase was induced by low interests rates and the rise in home prices, luring people into expanding consumer credit and mortgages.

Transportation

Debate on Maglev Continues in China

The Chinese Ministry of Railways on Jan. 16 denied a widely cited report in the *Beijing*

Times the day before, that the government had finally decided that it would not use magnetic levitation technology for the Beijing-Shanghai route. China's maglev from Shanghai to its airport is the first functioning maglev line in the world.

The *Beijing Times* was citing a Rail Ministry report on its long-term plans for railway construction, which was approved by the State Council on Jan. 7. This report does not announce which technology will be used for the Beijing-Shanghai railroad, as the paper had claimed it did.

Also on Jan. 16, China's Ministry of Foreign Affairs told a press conference that feasibility studies on the railroad have yet to be conclusive.

The *China Daily* on Jan. 19, however, notes the costs involved in building a maglev from Beijing to Shanghai, and states that "even Germany and Japan, two of the world's wealthiest countries and leaders in researching magnetic levitation, have not yet put the technology into commercial operation," and even scrapped plans to build relatively short maglev projects. *China Daily* also called for public hearings on the project, due to its enormous cost—no matter what technology is used—and national importance.

As *EIR* has reported, Germany's decision not to build a maglev—even though it was developed by the German company Transrapid—was based on phony environmentalist objections. Although maglev is expensive, as is any breakthrough transportation technology, it has enormous advantages, and would function as a science-driver for the economy.

Development

Russian Minister Has New Regional Policy

Russian Deputy Prime Minister Vladimir Yakovlev, who is in charge of reform of the "natural monopolies" (raw materials enterprises), gave an interview to *Izvestia* on Jan. 15, revealing some of what his team will be submitting to the Cabinet in February: a Spatial Development Concept of Russia, with a new government research institute attached. The institute will be staffed by experts from Russia's regions.

In 2003, he said, the development of a national transport strategy represented a step toward such a national concept. In addition to dealing with population migration within the Russian Federation, "there is a need to determine other lines, too: transportation, industry, construction of ports, and development of mineral resources. However, these issues should not be settled separately, by a regional or sector principle, but comprehensively, which a general plan for spatial development actually makes possible."

Yakovlev pushed aside the interviewer's wish to draw a parallel with Soviet Gosplan, the State Planning Commission, saying that it was simply a matter of the national interest, to overcome the "patchwork quilt principle," by which regional economic planning is currently done in Russia.

Science & Technology

Brazil's Amaral Forced Out on Nuclear Issue

Brazil's outspoken Science and Technology Minister, Roberto Amaral, resigned on Jan. 21, amid an international campaign against him. He had fiercely defended Brazil's right to develop all advanced technology, including the full nuclear fuel cycle.

In an interview published by BBC on Jan. 6, 2003, Amaral had declared that Brazil must master "all scientific knowledge," including "the technology of the atomic bomb"—not to build weapons of mass destruction, he said, but to apply nuclear technology in all areas of scientific endeavor. Nuclear energy is "strategic" for the country, he said. As Minister, he pressed for the completion of Brazil's third nuclear plant, long stalled by opposition from environmentalists.

Amaral was forced out of the government in the midst of an international campaign to shut down Brazil's program to produce commercial-scale uranium enrichment, scheduled to begin in a few months.

Briefly

CALIFORNIA payroll employment contracted in 2003, the third year in a row. Between December 2000 and December 2003, non-payroll employment plunged by 310,000; which included a loss of more than 100,000 manufacturing jobs.

WAL-MART has locked employees into its stores from closing time until 6:00 a.m., the *New York Times* reported on Jan. 18. Often no one in the building has a key, and fire exits have been chained shut. One worker had to wait until 6:00 to go to the hospital, after shattering his ankle in an accident.
The store seems to have modified these practices, since it learned on Jan. 1, that the *Times* was investigating them.

GERMANY'S construction sector expects additional loss of jobs because of low corporate and public sector investments, the association of German construction sector firms said at a press conference on Jan. 20. Forty percent of its firms expect no improvement in 2004, and the association forecasts that 36,000 jobs in the sector, and the same number in supplying industrial sectors, will be axed this year.

U.S. PENSION FUNDS and university endowments are pouring money into risky hedge funds, to increase their yield on investment, *USA Today* reported on Jan. 20. Harvard University's endowment has put 12% of its assets into high-risk hedge funds, while Calpers, the nation's largest public pension fund, has allocated $1 billion to hedge funds.

THE U.S. BUDGET deficit rose to $128.67 billion for the first quarter of Fiscal 2004 (October-December 2003), up 18.9% from the budget gap in October-December 2002. This level corresponds to an annual deficit of more than $500 billion. In December 2003, the Treasury Department said the U.S. government posted a $16.15 billion budget shortfall.