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Concessions for Indian wives

Own Correspondent
DURBAN — The Government will allow foreign brides of South African Indians to enter the country in certain cases.

The Minister of Interior, Dr Conrie Mulder, agreed to the concession as a result of representations to his department by the executive of the Indian Council.

An executive member, Mr Amichand Rajbans, said although the Minister was not in a position to make a general declaration on the issue, "he was prepared to make concessions when it came to old-established cases."

"In the case of minority Indian groups, like the Parsees, who are forbidden by custom to marry outside their own group, the Minister has told us that there are certain problems."

"He is, however, prepared to have further discussions with the council on this," said Mr Rajbans.

He said the Department of Interior would also consider applications for entry into South Africa by overseas-born widows of South African Indians.

The council is making arrangements for further meetings with Dr Mulder.
Gloom for SA’s export hopes in the OECD report

Financial Reporter

A sombre warning to South Africa not to expect too much help in its efforts to stage an export-led economic revival has been sounded by the Organisation for Economic Cooperation and Development.

The OECD says in its twice-yearly economic outlook report that the industrialised nations face sky-rocketing unemployment, slow growth and monetary market upheaval in 1978 unless the United States, Japan and West Germany take speedy action to correct their uneven economies.

The OECD reports forecasts a gloomy growth rate of only 2.5% among its 24-member nations. The sluggish rate can only be headed off, says the report, if and when the three key countries take quick restorative measures.

Growth rates of that order among countries which represent South Africa’s major customers for exports of primary products are hardly encouraging for South Africa’s prospects and lend weight to the growing belief that any substantial revival in South Africa must come from an internal stimulation of the economy.

On a more promising note OECD officials praised Japan’s plan to stimulate domestic demand through tax cuts and the United States’ plans for stimulating its economy and cutting the American trade deficit by decreasing oil imports.

“The United States trade deficit is not due to a lack of competitive power of United States products but to the lack of energy policy,” OECD officials said.

“Economic stimulation measures must be taken next year. Time is not on our side.”

The forecast on existing policy is that unemployment could soar in the industrialised nations to well above the 1975 recession level, reaching 5.8% or 17 million in the second half of 1978 unless the three key nations push through their plans.

The OECD said a 4.5% growth rate is needed to keep unemployment from rising in the industrialised nations in North America, Western Europe and Asia.

Last June OECD member nations decided on a 4% growth rate for 1978 on the basis that the 1977 rate would be 4%. But economic growth in OECD countries rose by only 2.5% in 1977, the report said.

“Total OECD growth weakened markedly in the second quarter of 1977 and has since remained sluggish,” the report said.

“Industrial production has broadly stagnated since April. There has been a general slowdown in consumer spending and this is the main reason why 1977 growth has been lower than forecast in the July OECD economic outlook.”

In the view of OECD economists, if the right thing is done in 1978, the outturn of the economy will be much better than that which is forecast now.

The OECD said its call for quick action referred mainly to the United States to stimulate its economy and to Japan and West Germany to top up their lagging trade surpluses by tax cuts and other measures to stimulate domestic demand for goods so the nations will import more items and export fewer — UPI.
Monetarist salvoes

At this week's annual ministerial meeting of the Organisation for Economic Co-operation and Development (OECD) in Paris, the major industrial countries will probably commit themselves to a higher rate of economic growth in 1978 than is likely this year.

Although these countries will not bind themselves to any specific numbers, they are expected to agree to an average target growth rate higher than the 4% forecast for 1977 and closer to the 5.5% they set themselves last year as their annual goal for the years 1976 to 1980.

Such an acceleration in economic growth, intended to curb rising unemployment, would probably involve Germany, Japan and other strong countries adopting more expansionary policies of the kind they have resisted so far.

According to diplomatic sources, the OECD Ministers probably will agree to hold a special meeting later this year to oversee their progress towards faster economic growth.

This week the Ministers are also expected to agree to publish annual targets for the growth of their national money supplies. These targets would be discussed within the OECD.

Many countries, including the US, Germany and Canada, already try to keep monetary growth within prescribed targets. But the decision to adopt this practice uniformly in the OECD is significant.

It shows the increasing influence of monetarist economists in the industrial countries of Europe. The monetarists hold that the only way to secure high employment and low inflation is by rigid limits on the amount of new money allowed to enter the economy each year.

But the decision to give a measure of formal endorsement to monetarist policies at this week's OECD meeting is also intended to reassure conservative-minded countries like Germany. For it signifies that the industrial countries do not believe the fight against inflation must be sacrificed in the drive to lower unemployment through faster growth.
World faces oil crunch

SA unlikely to be isolated, but prices expected to rocket

Senior spokesmen for Shell and BP in London and Amsterdam said yesterday that the squeeze on the Republic's oil supplies would almost certainly lead to higher prices for petrol. The situation in Iran, it was feared, could lead to a shortage of oil in South Africa, already heavily dependent on the Middle East for its oil needs.

Shell said it had managed to make up for some of the Iranian shortfall by buying oil on the spot market through brokers in Rotterdam.

Cutback

This is good news for Shell and BP, as well as political analysts, say South Africa is not likely to continue to enjoy its "special relationship" with Iran.

The feeling is that the Shah will not be more vulnerable to pressure from London and the OAU to join the boycott. Anti-West demonstrations in Iran, aimed at the overthrow of "the American Shah" have lasted weeks without effect.

The question then is whether the oil companies - and the United States - will supply South Africa in defiance of Opec and thus jeopardise their own supplies.

They said that Opec could indeed spoil the party by raising the price of oil. This would mean that the oil companies would be forced to raise their prices for petrol. The United States, it was feared, could lead to a shortage of oil in South Africa, already heavily dependent on the Middle East for its oil needs.

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The situation in Iran, it was feared, could lead to a shortage of oil in South Africa, already heavily dependent on the Middle East for its oil needs. 
OECD has high hopes for 1979

LONDON — Prospects for sustained economic recovery by industrialised countries were at last improving because the United States, Japan and West Germany would radically reduce huge imbalances in their balance of payments next year, the Organisation for Economic Co-operation and Development reported.

The US deficit and the Japanese surplus might be roughly halved in 1979, and the West German surplus substantially reduced, the OECD forecast in its economic outlook for 1979.

But unemployment for the 34 OECD nations, the leading economic powers in the non-communist world, could edge up to 5.1% of the working population, and the rate was likely to remain high for some time.

Not before further significant cuts were made in inflation — now 6.7% — throughout the OECD area, would it be possible for governments to trim the numbers of jobless.

In contrast to recent surveys, the OECD report was relatively optimistic about the long-term outlook because efforts by governments to coordinate economic policy were producing results.

OECD chief economist, Mr. John Fay, said, "I am not saying we will reach the broad parity umbrellas yet, but prospects are very much better than we had any right to expect six months ago."

The survey was completed before OPEC decided to raise prices by 14.5% next year, and was based on the assumption that the increase would be only 5%.

OECD experts quickly reworked their sums to take account of the unexpectedly steep rise in the area's oil bill.

Mr. Fay said, "The increase is regrettable but not disastrous — we can live with it."

The oil price rise would mean an increase of 0.6% in the OECD's annual rate of inflation, and when fully implemented would add $1.6 billion a year to the oil bill. Mr. Fay said that because the OPEC countries expected to buy more from the industrialised countries, the adverse effect on trade balances would be about half that sum.

The OECD survey again called on governments to resist pressures to resort to trade protectionism, which it suggested could put the group back to the trade wars of the 1930s.

"Unless the trend towards protectionism is reversed, the world could risk slipping back half a century to conditions in which non-inflationary growth is impossible and inflation is uncontrolled," the report said.

In the immediate future, no improvement was expected in growth of gross national product which over the whole OECD area was likely to be a sluggish 3% in 1979 compared with 3.5% this year.

But the report said this masked a potentially encouraging development.

In Japan and West Germany, domestic demand and therefore spending on imports was growing strongly and would continue to do so in 1979. At the same time there was a slowdown in domestic demand in the United States.

The Japanese and West Germans would be able to make spectacular cuts in their payments surpluses, while the United States would be able to slash its import bill and reduce its huge deficit.

The survey said, "This combination, backed by the effective appreciation of the yen and depreciation of the dollar is likely to produce a more balanced international pattern of payments posture."

"With the help of an unexpectedly large terms of trade gain, price increases have been reduced and the OECD area's current account deficit brought virtually into balance."

One particularly encouraging sign was the number of countries where firms stabilisation policies had been rewarded by greatly reduced inflation and external deficits.

"With these developments, capped by the recent international financial arrangements to help the dollar, many factors seem to be running in favour of less turbulent conditions in exchange markets and better business confidence."

Tables prepared before the OPEC price rise showed a reduction from $2.05 billion to $1.4 billion in the Japanese surplus and from $6.6 billion to $2.25 billion for West Germany.

The US deficit — one of the main causes of the dollars weakness in 1979 — was expected to fall from $18.25 billion to $8.7 billion in 1979.

By the time the oil price rise had been fully implemented in October next year, the US would be facing an additional annual oil bill of $6 billion with an extra $3.5 billion burden on Japan and $2 billion for West Germany.

Noting these figures, OECD experts stressed that the overall effect on balance of payments would be reduced by half because of increased spending by the oil producers on goods and services by the three most powerful industrial countries — the US, West Germany and Japan — before the energy crisis.
The myth of community.

A mistake that new people involved in development are likely to make is to assume that every country is made up of small groups of people who are eager to work together for the common good. In reality, there are often significant barriers to cooperation, such as cultural differences, language barriers, and economic status.

One of the most important aspects of community development is the ability to work together. However, this is not always easy. Often, people are too busy with their own lives to think about the needs of others. In addition, there may be a lack of leadership or a lack of resources to help people work together.

In all the projects I mention there is at least one person, and usually a small group, who really believes in the project. One generally finds that this group is involved in all the projects in the area and are on the committees. Most of these people obviously believe that with concerted effort their areas can progress along a Western path of development.

In all areas there is a large number of people (still not the majority however) who consider the ideals cited, when a new project is discussed, as good. They say they would like such a
Big payments surplus in Britain expected

PARIS — Britain’s balance of payments will swing into a huge £2 900 million annual surplus next year, the Organisation for Economic Co-operation and Development (OECD) has forecast.

The change in Britain’s ability to pay its way in the world was explained by growing North Sea oil production and an expected improvement in the terms of trade — the relationship between import and export prices.

In its latest economic outlook, the OECD noted that the British current account balance of payments this year was likely to be £585 million in surplus after being £2 125 million in the red in 1976.

Again on the bright side, the review said better demand prospects, relatively low interest rates, improved company liquidity (funds readily available) and a need to replace old equipment could give a strong boost to manufacturing investment.

However, the margin of slack in the economy was likely to remain substantial, and recovery moderate. The OECD forecast 11.25 per cent growth in manufacturing investment next year, compared with seven per cent on 1977.

Availability of jobs was expected to improve slightly after the first quarter of 1978, and unemployment should level off in the first half of next year at a little less than 6.5 per cent.

The review, which assesses prospects for the 24 industrial countries in the OECD, said Britain’s Gross Domestic Product was expected to grow by about three per cent in 1978, with only a relatively modest recovery in manufacturing output.

On the pay front, the OECD assumed that wages would on average increase by 14 per cent in Britain after the return to free collective bargaining.

This would involve agreements limited to the Labour Government’s 10 per cent guideline in the public sector, and a departure from it in private industry because of workers’ pressure to make up for the decline in spending power over the past two years of voluntary restraints.

The OECD also assumed that 12 month interval between wage rises accepted by the Trades Union Congress would be observed.

Real disposable personal income — allowing for taxes and the effects of inflation — was expected to rise roughly 2.25 per cent next year — SAFR
PARIS — The overall inflation rate in the 24 nations of the Organisation for Economic Co-operation and Development — the leading Western industrial States — rose strongly in January at 0.8 percent, the OECD said.

Above the rate individually were Britain, 1.1 percent, and the United States and France, 0.9 percent.

The overall increase compared to 0.5 percent in December and 0.4 percent in November and gave a 12-month rate to end in January of 8.4 percent. — (Sûpê-AF)
London

Bright and dull sides of the economic coin

John Cavill

TWO-ARMED economic forecasters are a familiar breed with their characteristic caveat: "On the one hand this may happen, on the other, however..."

But at the headquarters of the Organisation for Economic Co-operation and Development (OECD) in Paris a new mood of confidence seems to have been spawned.

For such is the fragility and complexity of the Western World's economy, OECD's latest prediction for the prospects in 1979 for South Africa's most important trading partners may well have been written by a hydra-headed octopus.

To start off, the OECD, which collects the official forecasts of the biggest economies in the West, is reasonably optimistic.

While economic growth for the whole OECD area should slow from 3.5 percent to three percent, chiefly because of a drag in the United States, growth there from 3.75 percent to two percent, the trading accounts of the international nations should come into a healthier balance.

Government stimulation will lift domestic demand in Japan by 7 percent and in Germany by 4.75 percent. But these countries are expected to increase gross national product by only 4.75 percent in Japan and four percent in Germany.

Thus they will have to import more while the fall in the US demand growth to 1.5 percent (from 3.75 percent) means America will be exporting more.

In terms of current accounts, this SHOULD reduce the US payments deficit from 18,000 million dollars to eight million dollars. The rebalancing will also reduce the surpluses of Japan (from 20,000 million dollars to 12,000 million dollars) and Germany (from 6,000 million dollars to 2,500 million dollars).

At the same time, improvements in Britain, France and Italy should lift their combined surplus slightly, from 7,000 million to 8,500 million dollars.

This is the basis for the hope that the currency traumas which have rocked trade and investment for two years now will not be repeated.

That said, however, the OECD emphasises that unemployment is likely to increase. The forecast for the whole OECD area is a rise of some 800,000 to 1.6 million in the number of jobless, and if Turkey and Portugal are included, the total rises to 19 million. A bleak situation, especially for those countries with political problems.

The OECD sees two main dangers in this:

- Some countries may be tempted into taking expansionary measures and will so refuel inflation at a time when it is edging down from an overall average of 6.75 percent to 6.5 percent;
- Others will continue to follow the trend of protectionism to save jobs — a trend which "continues means "the world could risk slipping back a century"

The consequences of either would be disastrous. As the OECD points out: "These are not new dangers."

And it counsels governments to keep their heads and maintain the slowly moving rates of non-inflationary progress. Even if politically unpopular measures are needed, a "primary condition for economic progress may be in a further important reduction in the general rate of inflation and the disparities between individual inflation rates," the OECD says.

"This will require, in most OECD countries, that governments and electorates persevere in the counter-inflationary efforts on which they are embarked."

One problem has already arisen. The OECD forecast was drawn up before the Organisation of Petroleum Exporting Countries (Opec) decided on its step-by-step 14.5 percent oil price rises.

The OECD had assumed an increase of five percent and had not accounted for the Iranian crisis. And, as it says itself: "Every 10 percent rise in the price of oil adds... nearly 0.6 percentage points to the (OECD) area's inflation rate... 12,000-14,000 million dollars to the oil import bill."

Its forecast, therefore, that the total OECD deficit will amount to only 500 million dollars could be severally billion out by the end of this year.

What the Opec price increase will do to inflation is also open to serious questioning.

But in warning against the dangers of inflation the forecast added: "It is a different but not unrelated field. Insufficient progress has been made by most countries in reducing dependence upon imports of oil from traditional suppliers (Opec), and this could constitute an additional discouragement to a business initiative and sustainable expansion."

In effect, the OECD's highly qualified report seems to come to a conclusion that even though the Western economy has laid the foundations for calmer conditions in the next 12 months, the uncertainties remain as thick as ever.

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THE US faces a 1.25 percent decline in gross national product next year, but this will be accompanied by a slight slowdown in inflation and, for the first time for many years, a current account surplus.

This forecast is contained in the latest annual survey of the US economy by the Organisation for Economic Co-operation and Development.

The organisation's secretariat forecast of a 1.25 percent decline in GNP next year would compare with the rise of two percent expected for this year.

However, after a sharp fall of three percent at an annual rate in the first half of next year output is then expected to recover and to rise by 0.75 percent in the second half.

The report stresses that, in the present difficult economic circumstances, the US Administration must continue to give top priority to the reduction of inflation. There is little scope at the moment for monetary or fiscal measures to stimulate demand, of the kind adopted during previous periods of recession.

They would probably be perceived as a reduction in the priority given to curbing inflation, could lead to a weakening of the dollar and might well have adverse effects on confidence and activity,' the report adds.

After stressing that, in spite of the acceleration in price rises over the past 12 months, the upward trend in wages had remained surprisingly moderate, the OECD warns that there is a risk that wages will begin to catch up. A major objective of US policy should be to counter this tendency.

If wages do not rise as fast as prices, the OECD expects that, by the second half of next year, the rise in prices could be brought down towards the present underlying rate of inflation of 8.5 to 9 percent. But consumer prices are still forecast to rise by 8.5 percent in the first half of next year, after jumping by 12.25 percent in the second half of this year.

The OECD also emphasises that tighter monetary policies adopted recently by the US authorities are essential, both as a counter-inflationary measure and as a means of stabilising the dollar. If some further tightening proves necessary on the same grounds, it would have to be accepted.

The report says that high short-term interest rates coupled with slack economic activity might lead to a further weakening of demand. Thus, it adds, is a risk which would have to be taken in the interests of the US and world economies.

The Financial Times, London
Opec: Now for the far from good news

The news, reached from the Geneva International Hotel to the impecunious oil-jobbers in the United Arab Emirates, was not the worst. But it was on a economic basis.

In the past, the oil-shock and the Arab-Israeli war have driven crude oil prices up to almost $10 a barrel. Even now in the market place for 10 dollars a barrel in the West can be seen. Opec was in effect saying that it had already taken the decision to act against the cartel, that it had already driven its prices up to 10 dollars a barrel in the market place for 10 dollars a barrel in the West. But it was not alone. The market place for 10 dollars a barrel in the West can be seen. Opec was in effect saying that it had already taken the decision to act against the cartel, that it had already driven its prices up to 10 dollars a barrel in the market place for 10 dollars a barrel in the West.

The average oil price increase in terms of 1978 levels is now more than 50 percent.

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With non-Opec oil discoveries it is estimated that energy supplies could rise by 15 percent over the next five years. Against that, the OECD area's requirement is four percent annual economic growth to hold unemployment steady.

There is, however, some hope in the market place for 10 dollars a barrel in the West can be seen. Opec was in effect saying that it had already taken the decision to act against the cartel, that it had already driven its prices up to 10 dollars a barrel in the market place for 10 dollars a barrel in the West.

For South African consumers, already paying among the highest prices in the world for their petrol, the immediate impact is likely to be devastating. They, in fact, have faced the inevitable more quickly than most.

As the Opec action takes effect, the market place for 10 dollars a barrel in the West can be seen. Opec was in effect saying that it had already taken the decision to act against the cartel, that it had already driven its prices up to 10 dollars a barrel in the market place for 10 dollars a barrel in the West.

Debate now revolves around the forthcoming reduction in Opec oil as a margin of 0.37 percent.

Taking Stock

Colin Campbell
Europe saddled with glut of migrants

DURING the economic boom of the sixties, millions of foreign workers from North Africa, Greece, Portugal, Italy, Spain, Yugoslavia and other poor countries flocked to the wealthier European countries to carry out menial jobs.

While the going was good, labour-hungry Germany, France, Sweden and Switzerland embraced these workers who were prepared to do the dirty jobs.

The motivation of the workers was similar to the men who arrive from the homelands to work in Johannesburg and on the mines. They would send cash to their poverty-stricken families living in the villages back home.

But then came the recession of the early seventies and with companies laying off employees, unemployment among the immigrant populace increased.

The governments of the wealthy European countries decided to discourage the migrants from staying.

Some governments refused to allow foreigners into the country if they indicated that their stay would be longer than a vacation.

This aggravated the problem because the migrants already employed were worried that if they returned home to visit their families, countries would refuse them re-entry rights.

Instead, they sent for their wives and children and the immigrant community grew.

By NEIL BEHRMANN: London

Switzerland was one of the few countries which successfully reversed the flow of these migrant workers. Temporary work permits were refused and life was made so uncomfortable for the migrants that many decided to leave.

A recent survey done by the Organisation for Economic Co-operation and Development (OECD) points out that in countries such as Luxembourg, foreign workers still represent 22 per cent of the labour force, followed by Switzerland 16 per cent, Germany 10 per cent, Belgium 8 per cent, France 7 per cent and Sweden 5 per cent.

The International Herald Tribune describes the situation as a "fast-licking time bomb". It adds that the growing ghettos of immigrant workers who have come to stay burden European cities from London to Berlin and from Paris to Stockholm.

The OECD says foreigners represented 15 per cent of the Swiss population in 1977, 12 per cent of the French population, 9 per cent of the Swedish and Belgian populations, 7 per cent of Germany's populace and 6 per cent of the population of Britain.

With the exception of Switzerland, the migrant population has tended to increase rather than decrease.

The OECD says that the unemployment rate among foreigners is higher than the nationals in all countries and the tendency is for this gap to increase.

This contrasts with the early seventies when immigration was halted when foreigners were less affected by the unemployment situation than nationals. The current situation reflects that the children of the immigrant workers have become vulnerable in economies where it is increasingly difficult to find jobs for the youth.

With the number of immigrants estimated at almost 15 million, this is hardly an insignificant problem.

The OECD survey says that most of these European countries have decided to integrate foreigners who have been resident for a long time, to encourage the learning of languages and provide housing facilities. Migrant conditions are being surveyed and foreigners are being given varying degrees of political rights.

The International Herald Tribune, however, reports that there is resentment and friction. A Paris trade union official is quoted that French workers were quick to quote 2-million unemployed with "2-million migrant workers."

Immigrants are blamed by many Europeans for rising crime, drug traffic and vandalism, urban decay and the general dearth of jobs.

However, manpower planners appreciate that they need immigrant labour to do the menial chores in factories, sweep the streets and help aged people with their domestic chores.
Killing sacred cows (23)

The speed with which heresy becomes conventional wisdom (and vice versa) is nowhere more bewildering and apparent than in the field of economic policy.

Armored with the hindsight of four decades of unparalleled economic and political development, the zealots of monetarism have, in the last 10 years, consigned to the flames the ideas of Keynes in the name of purging the ultimate economic vice — inflation.

The monetarists have undoubtedly proved correct in the battle to quench the runaway inflation that followed from the confluence of the economic booms of the 1960's and the quadrupling of oil prices in 1973. Virtuous economies (Germany, inflation rate two percent) have been rewarded while the fools and the profligate (Turkey, Italy, Portugal, Britain, the United States and so on) have learned their lesson, or so it is hoped.

That lesson says, in essence, that economic growth more jobs and higher standards of living bought at the price of inflation have a short, unhappy life. When the inevitable crunch comes, when money loses value, when real returns on capital collapse, and when governments retrench to counter inflation, then economies end up worse off in net terms.

And even when the bitter pill of monetary and fiscal restraint has been swallowed the danger of a relapse is ever constant during the convalescence, vide America's return to double figure inflation after a period of economic recovery and Britain's similar plight.

The question affects all major industrial economies. And looking at the 24 member-nations of the Organisation for Economic Co-operation (OECD), Oppenheim and Posner make the point thus: "An OECD economy that limps painfully for five years or more through a sort of monetarist purgatory in order to redeem its inflationary sins of the last two decades may suffer a puritan conscience or two, but it also poses a mountainous threat to world trade and international investment."

They argue that the pendulum of opinion has swung too far in favor of quiescence and inaction by governments in the face of slack demand and low output. Even though previous activist policies may have been carried to reckless extremes.

The OECD group, which is the Western industrial world, now faces a growth rate of 2.5 percent after 3.5 percent in 1973. But even at this low level of growth, with unemployment still hovering around 10 million, the OECD faces a new period of inflation.

In the less industrialized, non-OECD countries, dependent on the richer group for exports of raw materials, the position is worsened because they cannot afford to stand still.

Thus Oppenheim and Posner argue: "Unless OECD governments, individually and collectively, take additional expansionary action in the months ahead, the growth of output over the next few years is likely to be only half the rate achieved in the decade before 1973."
The rich don’t get richer

The OECD countries are thought to have done well in their trade with oil-producing nations. The exports by the industrialised countries to the OPEC nations are thought to have grown by an annual rate of 6% this year, and OPEC countries are expected to increase their imports by 20% over the next year. The OECD oil bill in 1980 will be up by $50 bn over 1979, but its exports to the oil producers should rise by $50 bn over the same period.

Other raw material prices are expected to show “no more than a modest decline” over the next year or so. In the previous oil crisis, the fall in the price of these commodities amounted to almost 30%, but inadequate investment in mining and farming during the intervening years, coupled with the higher fuel costs and political uncertainties, have held back production growth.

Developing countries (excluding oil producers, who do not count for the purpose of this comparison) have had more rapid growth in their GNP than the OECD members over the past six years. This has stimulated world trade, but over-borrowing in the Third World may slow down its growth.

Interesting though these forecasts are, they should be taken with a pinch of salt. After the 1973 oil crisis, the OECD predicted annual increases in output of 5.5% in the five years leading up to 1980. As it happened, the growth rate was 3.5% a year.

But there is mounting evidence that the OECD is accurate in at least one of its main conclusions: unemployment among young people will be a serious political and social problem in the immediate future. For the area as a whole, the rate of youth unemployment will rise to 13% next year — and that excludes school leavers and adult students.

In the US, it will be 16% (mainly blacks and Chicanos) while it will be 16.5% in France. In the UK, it is expected to reach 14% in 1981, compared to 10.75% this year and 8% last year — the sharpest increase among OECD members.

The OECD report is headed, optimistically, “Towards more balanced growth,” and the review has based its predictions on the assumption that consumer confidence can be maintained and that wage settlements will continue to be moderate.
Teachers threaten 'work to rule'  

Special Correspondent  

GRAAFF-REINET. — Delegates attending the 93rd conference of the South African Teachers' Association (SATA) here today decided in favour of using a withdrawal by teachers from extra-mural activities as a strategy in salary negotiations.

The subject caused much heated debate and the motion was eventually carried by 60 votes to 42.

The full motion asked that conference request the Federal Council of Teachers to use a withdrawal by teachers from all extra-mural activities as a strategy in salary negotiations with the Minister of National Education and that they request the Federal Council to advise the Minister of the radical changes the South African schooling system would undergo as a result of such a step.

BLAME

It blamed the Minister and the Cabinet for the totally unacceptable salary structure which had driven teachers to consider such a drastic step and it called on the Federal Council to implement such a withdrawal if progress towards a fair deal was not made.

The proposer of the motion, Mr André de Beer of East London, said previous negotiations with the Government had failed, and it was now time to 'negotiate with a bit of muscle.'

'All we will get if we sit around the table again is a six-month wait for another letdown,' he said.

NOT STRIKE

He said that when one withdrew from something voluntarily it did not constitute strike action. Extra-mural activities by teachers were undertaken on a voluntary basis.

Mr de Beer said it was not the intention to deprive children. The Government had already deprived children by paying teachers 'a peasant's wage.' Teachers were leaving the profession because of inadequate pay, he said.
OECF FORECASTS (23-1)

Downward revision

The Western industrial world was served up with another dollop of gloomy economic news last week. In Paris, the Organisation for Economic Co-operation and Development (OECD) reported that it is scaling down its 1982 growth forecasts for its 24 Western industrial member countries, as a result of persistent high interest rates throughout the world.

The OECD now expects Western economies to grow by only 0.5% this year, as opposed to the 1.2% growth rate it was forecasting last December. This virtual stagnation contrasts with a 1.5% growth rate in 1981 and means that unemployment — now averaging 8% of the OECD’s labour force — will creep higher. Inflation is also likely to stabilise at about 8%.

A very mild recovery is expected to get underway later this year leading to an overall average growth rate of about 2.8% in 1983. But the OECD secretariat describes this upswing as “technical,” reflecting mainly the decline in real oil prices.

The OECD is the second international institution recently to revise downwards its growth forecasts as a result of continuing high interest rates. Last month, the Brussels-based Commission of the European Common Market warned that growth in the 10-nation community is likely to average only 0.5% this year, against earlier forecasts of 1.5%.

The OECD secretariat produced its revised forecasts at last week’s meeting of its economic policy committee, which brought together top policy officials from member countries for their last private discussions before the organisation’s ministerial meeting later this month and the Western economic summit in Versailles in early June.

As expected, Mr Murray Weidenbaum, the chairman of President Reagan’s council of economic advisors, came under heavy pressure to bring down American interest rates by closing the Federal budget and thus easing the upward pressure on other countries’ rates as well. Unfortunately, the meeting coincided with the apparent breakdown of the talks between the White House and Congress on reducing the deficit, deepening many delegates’ exasperation with the course of American economic policy.

The Europeans argued that the root cause of high interest rates throughout the world is the US deficit, which has forced up American rates.
Outlook Rosy for OECD Nations
Youth hardest hit as jobless toll rises

By NEIL BEHRMANN

LONDON. — Unemployment remains the scourge of Western economies even though they have recovered from the worst recession since the 1930s.

A study by the Organisation of Economic Co-operation and Development (OECD) forecasts that the jobless total in its 24-member nations will rise from 31-million this year to nearly 32-million by the end of 1985.

European unemployment of almost 20-million could reach a new record rate of 11.6% next year.

The 24 member nations of the OECD include all the major western industrial nations and Greece, Portugal, Iceland, Turkey, Australia and New Zealand.

The OECD concludes that employment growth will remain strong in America, but "there is unlikely to be a significant fall in unemployment outside the US."

Figures issued by the OECD show an unemployment rate of 15.3% in Belgium; 9.1% in France; 8.6% in West Germany; 10.4% in Italy; 13.9% in The Netherlands; 2.8% in Japan; 11.1% in Canada; 7.4% in the US; 3.4% in Greece; 9.1% in Australia; 4.3% in Austria; 3.2% in Norway; and 19.7% in Spain.

The report shows that youth unemployment remains at tragically high levels.

In the US, Japan, major European countries and Australia, Finland, Norway, Spain and Sweden 10.8-million young people were unemployed last year compared to 8-million in 1980.

This year the youth unemployment rate in these countries may decline from 17.7% to 16.75% but there will still be 10.25-million young people out of work.

Unemployment rates this year are 13.5% in the UK; 11% in Canada; more than 10% in France and Italy; 8% in West Germany; 7.75% in the US; and only 2.5% in Japan.

Australia has an unemployment rate of 8.75% and New Zealand 7.25%.

Of the total youth labour force — 15-24 years of age — nearly 43% are unemployed in Spain; 34% in Italy; 25% in France; 24% in Britain; 19% in Canada; 13% in the US; and more than 10% in West Germany.

About 16% of youths are without work in Australia.

The OECD predicts that youth unemployment will fall in several European countries next year but could rise in Italy, Spain and France.

Most unemployed youths find jobs relatively quickly provided they are prepared to accept what they are offered.

The incidence of long-term-unemployed defined as a year or more is highest amongst adults aged more than 50.

"It is noticeable in recent years that long-term unemployment is affecting a much higher proportion of unemployed men and women in all age groups.

"The long-term unemployed often have low or outdated skills and more health problems compared to the short-term unemployed.

"Thus, employers are often reluctant to hire significant numbers of the long-term unemployed in the early stages of a recovery.

The OECD estimates that the out of work for a year or more will, as a proportion of total unemployment, approach 45% in France and could exceed 40% in the UK and 30% in West Germany.

The US is the only nation which has been successful in raising employment significantly.

In the 1983 first quarter the unemployment rate was 10.2%. It has since fallen to 7.75% but the OECD predicts that it will remain stable well into next year. Nearly 13-million people were jobless in North America in the first quarter of 1983. There are now 8.75-million without work.
Europeans optimistic over growth outlook

LONDON. — Steady and sustainable is how European governments tend to describe the growth outlook for their economies.

An observer comparing Europe's slow haul out of recession with the vigorous upsurge in activity and jobs in the US, however, might well characterise it instead as feeble and arthritic.

It is perhaps understandable that Europeans, especially the British and West Germans, are allowing themselves a measure of self-congratulation. After the horrors of the post-1979 recession, the prospect of continuing growth — albeit at only around 2.5% a year — combined with a further steady decline in inflation can justly be claimed as a real achievement.

To that can be added a reasonably impressive productivity performance, substantial progress by many countries in tackling structural budget deficits and an improving trade outlook.

The recovery, which the Organisation for Economic Co-operation and Development (OECD) estimates will generate growth of about 2.25% this year and next, is also showing welcome signs of spreading from consumption into exports and investment.

Inflation, which was running at over 10% in 1981, should be down to 4.5% by the end of next year in the ten European Community countries.

Economists also expect a broader diffusion of growth among the larger European economies.

Germany, France and Italy will provide the main engine, but the smaller countries, with more buoyant growth in 1983, are also likely to show more buoyant growth in 1984.

The outlook, however, looks less rosy when measured against the scale of the problems still facing European economies.

Growth of between 2% and 3% will be barely sufficient to hold unemployment steady in most European nations.

While the US recovery pushes the jobless rate down towards 7%, the rate in the European Community is likely to climb further next year to nearly 11.5%.

In Western Europe as a whole, nearly 20 million people will be looking for work by the end of 1985, the OECD forecasts.

And though industrial investment is now reviving quite strongly, Europe has inherited the legacy of years of neglect of its capital stock.

The European commission estimates that usable capital stock in the 10 European Community countries may have actually declined between 1975 and 1983. And, as a share of gross domestic product (GDP), total investment has fallen steadily since 1970.

Growth rates in real investment of between 3% and 5% this year and next can hardly be expected to repair the damage and to erode the lead secured by Japan and the US in high-technology industries.

Most European governments, backed by international organisations such as the International Monetary Fund and the OECD, are convinced that the dangers of a renewed inflationary spiral are real and that the possibility of reflating their economies to provide faster growth is remote.

Monetary and fiscal policies in virtually all countries are thus destined to remain tight, with many, taking an even tougher line on public spending and budget deficits.

The IMF has no doubts that this is the only tenable strategy.

"The foremost requirement for consolidation of the recovery is the firm application of monetary and fiscal policies, continuously geared to maintenance of an anti-inflationary environment," it says in its annual report.

It is a view shared by the governments of Britain, West Germany, France and Italy, and by virtually all of the smaller European states.

With the budget on the rule out, governments are putting their hopes on structural adjustments to their economies to provide the platform for faster growth — transfers of resources from the public to the private sectors and greater flexibility in labour, goods and financial markets.

It is a policy prescription that the OECD, long wedded to the idea of governments giving a mild stimulus to demand, has embraced with vigour.

Central to the view is that despite the rapid improvement in unemployment since 1979, European labour markets remain rigid and workers unwilling to adapt to changing conditions.

Government hopes that the recession would bring a permanent shift in wage behaviour and a more responsive attitude among trade unions have gone largely unfulfilled — witness the recent industrial strife in Britain and West Germany.

What is needed, the OECD believes, are further uproots into entrenched trade union power, slower growth and, if necessary, cuts in real wages and the removal of minimum wage and other protective labour legislation.

That should be combined with tax and regulatory reforms to provide greater freedom for industrial innovation and vigorous efforts by government to roll back the tide of protectionism.

It is not a strategy, however, which holds out the prospect of a rapid quickening of the recovery. It is against this background that governments are showing increasing concern about the prospects for the US economy.

The current surge in US imports will probably provide more than a third of the increased demand in other industrialised nations this year. Growth in countries like West Germany is increasingly dependent on exports.

...
Dogs disperse crowd at trial

terms of the emergency regulations

The crowd cheered wildly and began chanting and singing freedom songs after seeing the 12 defendants arrive and later when they appeared at the windows of the second-storey temporary courtroom.

Sapa reports that Mr W.C. Viljoen, the state, told the magistrate, Mr M.J. Jolken, the men would be charged under the Internal Security Act with a main count of treason and furthering the aims of the ANC.

The accused are Mr. Oriel Kau, 32; Mr. Joseph Malusa Monga, 30; Mr. Quinton Michael, 27; Mr. Mthokozile Douglas Msanyana, 30; Mr. Reuel Zweluhluka Mogomana, 30; Mr. Neville Michael van der Heeck, 31; Mr. Joseph Sudan Mbonakwana, 31; Mr. Thembu Lucas Tshabalala, 23; Mr. Oli Lwazi Livingston Veldman, 29; Mr. Anderson Ndaka, 24; Mr. Leto Nqangwana, 20; and Mr. Theophilus Thembimbon Mchase, 25.
Pan-African force postponed again

ADDIS ABABA — African Foreign Ministers meeting here yesterday postponed a decision on setting up a pan-African defence force after Ethiopia, Nigeria and Kenya opposed the idea, conference sources said.

Ethiopian Foreign Minister Mr Goshu Wolde said the proposal, a perennial issue at Organisation of African Unity (OAU) meetings, was premature and would be prohibitively expensive.

Mr Goshu cited the case of the pan-African peacekeeping force sent to Chad in 1981, made up of Nigerian, Zairean and Senegalese troops, which withdrew without carrying out its mission and with the participants complaining of the high costs.

"Such a force could, even backfire and destabilise the very purpose for which it was established," Mr Wolde added.

OAU calls for the cash

ADDIS ABABA — African countries are to be called on to pay up about R37 million in arrears which they owe the Organisation of African Unity (OAU) for insurgent fighting the South African Government in South Africa and Namibia.

OAU sources said the money is unpaid dues to the Liberation Committee in Dar es Salaam, which for the past 15 years has co-ordinated the so-called liberation and anti-colonial struggle in Africa.

A resolution expected to be adopted by Foreign Ministers from the 50 OAU countries meeting this week in Addis Ababa demands settlement of outstanding contributions by the end of the year. — Sapa-Reuters

CREDIBILITY

The Nigerian and Kenyan delegations advised the OAU ministerial council, which is preparing for an African summit here next week, not to jeopardise the OAU's credibility by setting up a defence force which would not work.

OAU sources said yesterday that African countries would be called on to pay some $15 million (about R37.5 million) in arrears they owe the OAU "Liberation Committee" for insurgents fighting in South Africa and Namibia. — Sapa-Reuters
Glut economy puts the lid on prices around the world

By Neil Behrmann

LONDON — Average inflation in the 24-member nations of the Organisation for Economic Co-operation — the Western industrial leaders — is running at an annual rate little above 1 percent.

But the economic scenarios are highly mixed.

Around the globe, prices of grain, sugar, metals and steel are depressed. Discounts are widely offered on cars, computers, TV sets and a variety of other goods.

Among the OECD countries, more than 30 million people are without jobs — 8.5 percent of the workforce.

Chronic shortages of the affluent 1960s and 1970s have turned to glut. Manufacturers are producing more goods than consumers can buy and a surplus of labour is curbing the power of trade unions.

The glut economy has precipitated a dramatic decline in inflation in countries from South America to Australia, but there is no uniformity in price cuts.

In Britain and the US, for example, house prices rose in tandem with share markets. While financial and real estate markets boomed, prices of other goods declined.

INFLATION IN REVERSE

Despite the anomalies, major industrial nations are now reporting regular falls in producer, wholesale and consumer price indices. Wholesale prices in the US, France, West Germany and Japan are plunging by 5 to 10 percent a year.

Among these countries, inflation has actually turned to deflation on current month-to-month price comparisons. Even Britain predicts inflation will be down to almost zero by next year.

Nations have been successful in conquering inflation largely because of the way they applied tight monetary policies from the late 1970s to the mid-1980s.

The most important contributor to this year's sharp fall in inflation is the collapse of oil prices, which in turn also brought down the cost of coal and the cost of energy in general.

RAND-DOLLAR EXCHANGE RATE

While the decline has pulled down oil prices from $40 to only $10 a barrel for the big Western industrial nations, the cuts have reduced prices paid by South Africa no more than from R33 to R25 a barrel because of the tumble of the rand-dollar exchange rate.

Also, though devaluation in theory makes rand exports more competitive, South African exporters have encountered resistance from overseas buyers because of the political factor.

Conditioned by inflation for several decades, international economists have mixed feelings about the first signs of emerging deflation. Some believe that deflation will be accompanied by a prolonged period of economic expansion. Others worry that it will set off a debt crisis and bankruptcies.

Says Mr. Brendan Brown, chief economist at Courtauld Bank: “It is premature to assume we are in a deflationary cycle.

“The statistics say that prices are falling, but wages are still increasing. The decline in oil prices will, like a change in sales tax, have only a once-off effect on prices.”

“In the past year there have been sharp increases in money growth in the US and in Europe which cannot be deflationary.”
Someone who was dishonest

Chapski is a TeKota

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by Monk

The Union - Tribune

Lake Union, Seattle, Wash., Oct. 17, 1958

The editor has received a letter...
Metals traders rapped for withholding stocks

By Neil Behrman

LONDON — The London Metal Exchange has warned members it will take action if traders squeeze the market by withholding supplies from the market.

A meeting with member firms took place last Friday because officials feared that several firms had deliberately withheld metal from the market to drive prices up.

Exchange officials were not prepared to make a full statement.

PRICE LIMITS

Yet dealers said that if warnings were not heeded, the exchange would impose price limits on daily trading.

A shortage of supplies has created such a strong market that exchange officials fear a possible "squeeze" in aluminum, copper, nickel and zinc trading.

Such is their consternation that in their bid to scramble for available supplies, dealers have bid cash prices of aluminum to a premium of 43 percent over futures prices.

Spot copper quotes are at a 17 percent premium over futures, nickel at 11 percent, zinc at 9 percent and lead at 8 percent.

With the exception of nickel, which has seen its cash price slump by 32 percent from its heights of $10.84 a pound at the end of March, all metals are priced at or near their peaks.

Cash aluminum prices at $4,190 a ton and zinc at $1,497 a ton are at their highest levels for the year.

Spot quotes of individual metals trade at premiums over futures prices from time to time, but this is the first time since the early Seventies that this rare market discrepancy is happening to all metals on the exchange.

Metals futures, like other commodities, should normally trade at a premium over cash quotes because of finance, insurance and inventory costs.

Several metals traders and analysts, however, contend that the critical shortage will soon end as producers take advantage of higher prices and deliver more metal to the exchange.

This is beginning to happen.

In the past four weeks, London Metal Exchange copper stocks have risen by 72 percent to around 71,000 tons, lead by 50 percent, aluminum by 51 percent to around 61,000 tons, and zinc by 23 percent to 37,500.

SHORT SUPPLY

Even inventories of nickel, a metal that dealers say is in critical short supply, have begun to rise.

And in coming weeks, nickel stocks will increase further because Falconbridge, a Canadian producer, has reached a settlement in its dispute with the Dominican Republic. Its unit there will be exporting nickel to Europe.

Reg Eccles, a director of Minerals & Metals Research and Ord Minet fears that there could be a sharp price setback, especially since speculators are jumping onto the bandwagon.

But economies are so strong, he says, that demand for metals will underpin the market this year.

Even if there is a setback, average prices of metals are likely to remain much higher this year than last, Mr Eccles says.

Despite jittery financial markets, the latest bi-annual report of the Organisation for Economic Co-operation and Development (OECD) says that fixed investment in Japan, the US and Europe is rising.

When capital goods industries do well, the demand for metals rises sharply. The OECD warns, however, that fixed investment will slip in 1989 because of world economic uncertainty and high real interest rates.

Although the OECD says it is worried about inflation, its report has had little impact on precious metals markets.
World waits to see how $ jumps

LONDON — Investors worldwide worry that Americans still spend too much on imports, and financial analysts say if US trade figures due tomorrow do not show a slowdown in the buying spree, money markets could tumble.

The same worries helped set off last October’s stockmarket crash.

Last week, even as the Organisation for Economic Co-operation and Development (OECD) in Paris said it was surprised at how well the global economy had weathered the crash, it warned against complacency.

Multi-billion-dollar imbalances in international money flows are a continuing strain, the OECD said.

The problem seems to be that the US economy is doing so well.

“The persistence of the present strength of US activity would slow the reduction of the current account deficit and would pose a risk of accelerating inflation,” the OECD said.

If the US payments deficit is high, investors could see it as a signal that Americans are spending more dollars than the rest of the world wants to own.

In a glut, prices fall. Too many unwanted dollars means the value of the dollar in foreign currencies could tumble.

A key measure of whether there is still a glut will be the US report on its merchandise trade for April, due tomorrow.

“This market is not going to go very far until we see the trade figures,” says Nigel Green, assistant director for foreign exchange at EBC Amro Bank, London.

Last month, the dollar jumped when the US reported a sharp drop in its March trade deficit to $9.75 billion. Last Wednesday, the figure was revised to $11.95 billion, taking account of seasonal factors.

Many traders fear April’s number will be still higher.

“We have many clients who expect the dollar to be sold on a number of $13 billion to $14 billion,” says Toshio Sudo, a dealer at Nippon Credit Bank, Tokyo.

If the dollar falls, share prices in Europe and Asia tend to drop too.

A weak dollar can price foreign goods off the American market — it is, in fact, one way of cutting a big trade deficit. It can also give US firms a big pricing advantage overseas. Both can mean lost sales for European and Japanese firms.

If the dollar softens, US markets also suffer — foreign investors play a major role financing the US government budget deficit and their buying is key to any stock market rally.

A big trade deficit could also suggest a spending spree on imports which may signal a rise in inflation.

With dealers already afraid dry weather in the US Midwest and Canadian prairie provinces will threaten this year’s grain harvest and so push food prices up, inflation has become a major worry.

On the stock market, investors fear the US central bank, the Federal Reserve Board, will push up interest rates to dampen inflation. Costlier borrowing could also eat into business profits.

This weekend, Fed vice-chairman Manuel Johnson told a West German university group the bank was prepared to do so if necessary. But maybe not now.

“I think the economy is performing quite nicely now. The recent data do not indicate an acceleration of inflation,” he said.

The dollar is just about where it ought to be, US Commerce Secretary William Verity told some Virginia businessmen last week.

“The very magnitude of the trade and current account deficits will help to keep the dollar at a realistic exchange rate,” he said. But for business executives outside the US, many of whom have been hoping for a rise in the dollar to ease the pressure on their export sales, Mr Verity had unsettling news.

“Overvalued currency debilitated our manufacturing sector and a devalued dollar has produced an export boom and manufacturing revival,” he said.

“Since we have paid for the lesson and we better have learned it, we must never again allow our currency to become overvalued,” he said — Sapa-Reuters.
Untangling complexities of the leading indicators

The slump in America's index of leading indicators in late 1987 triggered fears of recession. The index has since rebounded good news for growth, bad news for inflation.

In contrast, Britain's index of longer leading indicators has been falling steadily since the middle of last year, suggesting a slowdown in 1988.

Financial markets pounced on each indicator the second it is released. While statistics such as industrial output and GDP simply reflect the current state of economic activity — or, more usually, that of several months ago — some indicators have a past record of providing clues about the future.

The value of these so-called leading indicators is that they tend to start falling well before the peak of an economic cycle is reached and start rising before the economy bottoms.

Many industrial countries publish their own leading economic indicators. America's index includes 11 individual series ranging from share prices to stockbuilding. The OECD has developed a system of leading indicators for 22 of its member countries.

Indicators are chosen as follows: First, there must be a good economic reason for thinking that a certain indicator might lead the economic cycle. A statistical correlation by itself is not good enough. Second, the length of time (or "lead") by which an indicator precedes turning-points in output should be fairly constant. And third, indicators should be published with minimum delay and be subject to little revision.

The indicators the OECD finds to be most often the best predictors of the business cycle are surveys of business expectations and monetary and financial indicators, such as stockmarket prices and interest rates.

To combine these diverse series requires some statistical juggling. Some series, such as interest rates and stocks, need to be inverted so that they move in the same direction as industrial production.

Next the secular trend is stripped from each indicator to reveal purely cyclical movements. The OECD then smooths the series to eliminate erratic monthly movements and adjust them so that all series have cycles of similar amplitude. This is to ensure that an indicator with a pronounced cycle is not given undue weight. Finally, they are combined with equal weights in a composite index.

How good is the forecasting record of leading indicators? In a study last year the OECD examined the accuracy of its own indicators in predicting movements in industrial production.

Generally, the OECD concludes that its composite leading indicators have performed well.

The indicators have rarely failed to signal turning-points. In most countries they lead industrial production by about six months. In Britain the lead is as long as 13 months.

The snag is that when the leading indicators are first published some of the components are unavailable or are only provisional, so the index may subsequently be revised over the coming months.

Despite this close historical fit between leading indicators and industrial production, it is difficult to spot turning-points on the basis of the composite indicators alone because average leads give only a rough guide.

The OECD suggests several further measures which may help the six-month change in the index of leading indicators, the ratio of the leading indicator to industrial production and the ratio of the six-month change in the leading indicator to the six-month change in industrial output.

Between 1960 and 1983 these derived measures have successfully predicted all cyclical turning-points. They have also given a number of false alarms.

So when is the next recession? After rising almost continuously since the early 1980s, the OECD's leading indicators have fallen in most of the big economies since mid-1987 — mainly because of the fall in share prices.

Two of the three derived measures also signal that the peak of the cycle is past. A slowdown in growth looks likely next year, perhaps. — The Economist
PARIS — Western industrial nations yesterday drafted an upbeat assessment of the world economic outlook, but several governments admitted their unease about the risk of higher inflation, particularly in the US.

A draft communiqué prepared ahead of the conclusion of Paris today of the annual ministerial meeting of the Organisation for Economic Co-operation and Development (OECD) noted that economic growth and world trade were strong despite last October's stock market crash, inflation rates were low and trade imbalances were narrowing gradually.

The optimistic mood at daylong talks between finance, foreign and trade ministers of the 24nation Paris-based group of industrial countries was also reinforced by the news on Tuesday of the sharp improvement in the US trade deficit in March.

The reassuring atmosphere was disturbed, however, by warnings from several ministers that a combination of rapid growth in the US domestic economy and booming US exports could trigger inflationary overheating in the country.

Mr Nigel Lawson, Britain's Chancellor, acknowledged that concerns over the outlook for inflation had superseded the fears of too-sluggish growth in the world economy which had characterised the first reactions to the stock markets' fall.

He was careful not to advocate an immediate rise in international interest rates, but said that the situation had to be watched carefully. There was a risk that uncomfortably fast domestic demand in the US might choke off a further improvement in the trade position.

Senior officials said that the general view among governments was that financial markets had exaggerated the risk of accelerating prices, but that some further tightening of monetary policy in the US might be needed.

Mr Beryl Sprinkel, President Ronald Reagan's economic adviser, insisted, however, that there were no significant signs of intensifying inflationary pressures. The US Administration is thought to be anxious to avoid any interest rate move which might provide a justification for other industrial nations, particularly West Germany and Japan, to raise their borrowing costs.

Most of the debate among trade ministers at yesterday's talks focused on the search for an acceptable compromise on the issue of agricultural subsidies.
OECD urges Portugal to restructure economy

By Paul Betts

PARIS — Structural adjustments in the Portuguese economy have become increasingly urgent as a result of Portugal’s entry into the European Community, the Organisation for Economic Cooperation and Development (OECD) says in its annual report on the Portuguese economy.

To improve its international competitiveness, the OECD adds that Portugal must work towards bringing down and keeping the country’s inflation rate at levels prevailing in other European countries.

Although inflation has fallen from over 25 percent in 1983 and 1984 to 9.5 percent last year, Portugal’s inflation rates still about 5 percentage points higher than the average in Western Europe.

Wage moderation must thus remain an essential component of economic policy, even though the OECD acknowledges that this may be more difficult to implement than in the last two years.

After rising by 17 percent in 1986, nominal wages rose by 12 percent last year. However, the implementation of an incomes policy was made easier by a substantial growth in real wages and by the payment of wage arrears.

The Paris-based agency also encourages Portugal to pursue its more market-oriented policies and adopt a stable longer term stance, rather than the "stop-go" approach of the past. The Portuguese authorities should not be inhibited to adopt a number of macro-economic policies for fear of their short term impact on prices and costs, it says.

Tax reform

The OECD believes tax reform is an urgent priority and that reducing the budget deficit is essential if domestic savings are to be put into more productive use. The agency also urges that investment funds be concentrated in areas where returns are highest.

But the OECD also notes the big improvement which Portugal has achieved in economic performance since 1985 with stronger growth reducing unemployment, the reduction in inflation, and a current external surplus which has enabled some net repayment of external debt. However, it also warns that this improvement is in large measure the result of special factors and policies which cannot be repeated or sustained.

The OECD forecasts GDP growth of 4 percent this year and 3.25 percent next year after growth of 5 percent last year.

Stimulated by tax incentives and EEC transfers, investment is expected to continue to increase at a rate of over 9 percent this year. Consumer price inflation is forecast to decline from 9.5 percent last year to 6.5 percent this year and 5.75 percent next year.

The OECD figures also expect the deficit of the trade balance to increase from $3.2 billion last year to $4.5 billion this year and $5.3 billion next year.

After a surplus of $700 million last year, the current balance of payments is expected to show a deficit of $100 million this year rising to $300 million next year. — Financial Times.
World oil supplies boosted in August

LONDON — The International Energy Agency (IEA) this week reported a 500,000-barrels-a-day increase in oil supplies outside the communist world in August, although spot market prices firmed.

Most of the rise came in the developed countries, which are members of the Organisation of Economic Co-operation and Development (OECD), the IEA's sponsoring body.

UK North Sea production reached 2.2 million barrels per day (BPD) as repair and maintenance programmes ended.

Production rose in Alaska on a month-to-month basis.

Despite the month-to-month increase, OECD member-country production was still slightly below levels of a year ago, largely due to a rapid decrease in US oil production resulting from a faster depletion rate and to low Alaskan oil production.

Oil output by members of Opec rose during the month by 200,000 BPD to 21.6 million.

In the developing countries, production rose 100,000 BPD to 9.5 million BPD, due to an increase in Colombian production.

The IEA said that Iraq's export capacity would increase this month with the opening of a new pipeline through Saudi Arabia, which would have a capacity of 1.65 million BPD when fully operational, probably sometime next year.

Iraq's export capacity is expected to reach three million BPD by year-end and could increase significantly next year.

OECD oil consumption rose by just under two percent in the second quarter of the year, led by a six percent increase in the Pacific area.

The IEA expects oil consumption in the OECD to rise by three percent in the third quarter, but by less than two percent for the entire year.

Excluding the communist countries, world oil consumption is expected to rise 2.4 percent in 1999 to 52.1 million BPD — Financial Times.
PARIS — Economic growth in the industrialised world will continue for an eighth straight year at the start of a decade that promises far-reaching if unpredictable changes, says the Organisation for Economic Co-operation and Development (OECD).

The 24-nation think tank said in its semi-annual outlook released yesterday, that economic reform in Eastern Europe should benefit both East Bloc countries and their trading partners in the West.

"The challenge here is daunting, but the potential benefits are far-reaching, both for the countries concerned and for the world economy," the OECD said.

David Henderson, head of the organisation's economic statistics unit, said at a news conference to launch the report that OECD trade was unlikely to be affected in the next two years by changes in Eastern Europe.

"But that may change... it's very likely that trade flows will increase," he said, noting that West German exporters would probably be the first to benefit from East European reforms.

In a broadly optimistic report, the Paris-based study group stood by the forecasts it made in June that there would be no recession next year.

It predicted the average gross national product (GNP) growth in its area would be near three percent in both 1990 and 1991. That would be below this year's 3.6 percent growth, but at a level where inflation could be contained, it said.

The OECD expected average price rises of 4.5 percent in the next two years, little changed on this year's 4.3 percent.

That would still be too much and would require that interest rates be kept high, especially with wage demands becoming a potential inflationary threat, it warned.

Slower growth, new technology and more productive workforces were expected to leave unemployment at this year's rate of 6.5 percent in both 1990 and 1991.

But given the OECD's tendency since 1987 to under-estimate growth, the agency acknowledged that economic activity could be faster than it projected.

Structural economic reforms to open up markets might already be boosting activity more than OECD economists had calculated.

Further changes, notably the creation of the European Community single market, could spur more investment and growth.

But it cautioned: "Sustained, satisfactory economic performance cannot be taken for granted."

Besides inflation, the main risk in the early 1990s would come from huge world trade imbalances, with little sign they could be reduced in the next two years.

Among major nations whose exports would continue to exceed imports, the OECD expected West Germany to overtake Japan in the next two years as the world's biggest trade surplus country.

Both nations should record roughly equal trade surpluses of about $63 billion this year, but Germany's exports are then forecast to grow rapidly as its competitiveness improves.

The OECD expected the US trade deficit would remain little changed from this year's $113 billion.

While international investors might be willing to fund US shortfalls, the trade gap would require continued international co-operation to keep the dollar down and US goods competitive on world markets, it said.

Central banks from the Group of Seven leading industrial nations — the US, Japan, West Germany, France, Britain, Canada and Italy — had made several multi-billion-dollar-sorries on foreign exchanges earlier this year to fight the dollar down.

The OECD said their efforts should not be sapped by "battle fatigue" if future co-operation proved tough. — Sapic-Reuters.
PARIS -- Deputy finance ministers and central bank governors from 10 leading industrialised nations (G10) agreed this week that now was not the time for governments to relax their monetary policy cooperation.

But the officials, meeting at the Organisation for Economic Co-operation and Development (OECD), were divided over the severity of the problem posed by the large external imbalances of some countries, participants said.

They said the current levels of exchange rates, interest rates and the braking effect of the high US dollar on reducing the US current account deficit were among the topics raised, but no conclusions were reached.

The meeting of the OECD's Working Party Three (WP3) on monetary, fiscal and exchange rate policy co-ordination was chaired by Japanese finance ministry senior official Toyosuke Gyohten, and gave the officials a chance to harmonize their positions before top-level monetary talks later this month in Washington.

Gyohten said after the meeting "Instead of decrying the failure of policy, there was an even stronger determination to maintain strong policy co-ordination among the major countries."

Other officials who attended the WP3 meeting stressed that the talks did not focus on currency issues.

There was general agreement there would be a gradual slowdown in the rate of growth of economic activity to a more sustainable level, without any serious re-hurdling of inflationary pressures.

Growing

Gyohten said some delegations reassured the WP3 they were still making headway in reducing their external imbalances.

"The sense of urgency over the need to rectify (imbalances) wasn't underestimated," he said.

Finance ministers and central bank governors of the G7 countries are expected to meet on September 23 in Washington.

Participants at Wednesday's meeting are scheduled to get together again on Thursday at the European headquarters of the IMF in their capacity as deputy governors of the G10.

Subjects slated for discussion include the debt strategy, an increase in the IMF's quotas, or member country subscriptions, and repayment arrears of countries that have borrowed from the fund.

Officials said that the way things stood at present, they did not expect a decision on the quota increase at the IMF meeting because of foot-dragging by the US and some other countries including Britain.

AP-DJ
BERNE — Major industrial nations gave broad backing at the weekend to a US plan to slash the Third World’s $1.300 billion debt but they warned commercial bank lenders not to expect a bail-out by taxpayers.

Endorsement by the Group of 10 (G-10) was a welcome boost for US Treasury Secretary Nicholas Brady after strong criticism of Washington’s trade and budget policies at the Organisation for Economic Co-operation and Development (OECD) in Paris last week.

Further support for Brady’s controversial initiative, which aims to spur economic growth in developing countries by persuading banks to forgive part of their loans, is likely at a seven-nation economic summit in Paris this month.

“I think we’ve made a good start” with the debt plan, Italy’s deputy central bank governor, Lamberto Dini, told a news conference.

Some officials fear if debt reduction is not handled properly, taxpayers in rich countries will end up assuming the burden of debt instead of bankers. “Official creditors should not substitute for private lenders,” the G-10 said bluntly.

Talks in political groupings like the G-10 and the OECD have smoothed the way for the Brady Plan, but it faces its first real test in negotiations now taking place in New York between Mexico and its bank creditors.

Progress has been slow with Mexico, the Third World’s second biggest borrower with external debts estimated at $107 billion, demanding concessions that the banks have so far refused to make.

But Dini saw a good chance of an agreement before too long, and John Reed, chairman of Citibank, the biggest US bank, said in a French newspaper interview that a deal could be struck within the next two weeks.

Dini was the author of a report on the debt strategy that was approved here last Friday by finance ministers and central bank governors of G-10 countries.

The G-10 in fact comprises 11 countries. In addition to the powerful Group of Seven — the United States, Japan, West Germany, Britain, Canada, France and Italy — its members are Belgium, the Netherlands, Sweden and Switzerland.

The debt reduction envisaged by the Brady Plan “could make an important contribution by reducing financing needs and the stock of debt to more manageable levels over time and provide a stimulus for stronger growth and sustained reform efforts” the G-10 ministers said in a communiqué — Sapa-Reuters

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This is how the Third World looks if countries are shown in proportion to the size of their foreign debt. The size of a country’s debt, of course, is not necessarily an indicator of a problem: the large South Korean square need cause less worry than the Chinese box next door, which looks comparatively small. Many of the countries with the highest debt-to-export ratios have debts of less than $20 billion and are not shown on the map. They are concentrated in sub-Saharan Africa, which has a total debt little bigger than Brazil’s. For bankers, the bigger they are the harder they fall. For Africa even a small debt may be too big.
OECD stresses need for open markets

PARIS — Ministers from the world’s 24 leading industrial countries yesterday parted over their quarrel about US moves identifying Japan, India and Brazil as unfair traders under the Super 301 clauses of last year’s trade act.

Although the US action had been widely criticised by its major trading partners as a threat to the multilateral trading system, the member states of the OECD agreed on a joint communiqué committing themselves to the system’s further strengthening.

In the communiqué, the ministers said they “firmly reject the tendency towards unilateralism, sectorialism and managed trade which threatens the multilateral system and undermines the Uruguay Round” of trade liberalisation negotiations.

They also agreed “to avoid any discriminatory or autonomous actions which undermine the principles of the General Agreement on Tariffs and Trade”, the agreement that polices the multilateral trading system.

The ministers underlined the need for a successful outcome to the Uruguay Round to strengthen multilateralism in international trade in goods and services and to open markets.

After two days of sometimes difficult discussions, the US’s trading partners appeared therefore to have accepted Washington’s contention that recourse to Super 301 provisions was a move to expand global trade by opening markets rather than restrict it.

Mr Jon Sigurdsson, the Icelandic commerce minister who chaired the meeting, told a press conference afterwards that he did not expect the US to modify its Super 301 decisions in the light of the OECD communiqué. But he said he expected the spirit of the OECD statement, which the US accepted, would influence the way in which it dealt with the nations listed as unfair traders under Super 301.

The Super 301 clause in the trade act provides for bilateral negotiations between the US and named trading partners and could lead eventually to retaliation by the US for supposedly unfair trading practices. Indicative of the fudge that ended the meeting, Mrs Carla Hills, the US trade representative, said afterwards that she would not rule out unilateral action by the US in pursuit of its demands.

The row over trade marred a meeting where there was considerable agreement over economic policies to be pursued by the major industrial countries in the 1990s. The OECD statement outlined a joint strategy to ensure sustained, job-creating, non-inflationary growth in the years ahead — Financial Times
Japan swipes at US

PARIS — Japan yesterday rallied the support of Western nations against the threat of US trade sanctions and accused Washington of undermining confidence in global trade.

Japanese Foreign Minister Sosuke Uno, who is to succeed Noboru Takeshita as prime minister, went on the offensive at a two-day meeting of the Organisation for Economic Co-operation and Development (OECD).

The gathering was held against a backdrop of rising concern over the dollar's strength.

But the early sessions revealed there was no common approach on how to tackle the problem.

Mr Uno, addressing trade and economy ministers from the 24-nation OECD, said it was imperative to build confidence in world trade, adding in a thinly veiled reference to Washington. "Protectionist pressures, particularly certain moves to seek unilateral measures, could undermine such confidence." — Reuter.
Price increases slow down

PARIS — The rate of increase of consumer prices in the Western industrialised nations slowed in November to a monthly rate of 0.2% from 0.5% in October, the Organisation for Economic Co-operation and Development (OECD) said yesterday.

November’s increase brought the annual rate of increase over the year to November to 4.3%, compared with 3.7% over the year ended in November 1987.

The OECD commented that energy prices continued to exert a moderating influence on consumer prices in November with a fall of 0.5% recorded following a 0.8% drop in October. Over the 12 months to November, energy prices showed a decline of 0.5%.

Food prices exerted upward pressure on consumer prices in the OECD area between July and October, although a 0.1% decline was recorded in November.

Excluding food and energy prices, the underlying rate of consumer price growth in the OECD slowed to 0.3% in November from 0.5% in October. Over the 12 months to November, the annual rate of increase in most OECD member countries averaged 3.5%, or 0.2% more than in the 12 months to November 1987. — AF-DJ.
Gold was the worst performing metal of 1988

It was the year when base metals were most precious

By Neil Behrman

LONDON — Those ancient alchemists who claimed that they could turn base metal into gold were quite right, but not in recent years. The gold rush of the 1970s has been one of the most pronounced trends in commodity markets in recent years. In the early 1980s, however, the trend reversed, as gold prices fell sharply and base metals rose in value. This year was no exception, with gold prices continuing their downward trend.

Platinum, after all the massive sales campaigns by Johnson Matthey, managed to raise its price by more than 10% on par with short-term dollar interest rates. Indeed, the base metals looked prices in 1988 with nickel prices moving by 100% from 25% to 30%, copper by 25% and lead by 20%. That is the second year running that they have been the top of the league tables.

Will the alchemists be proved correct in 1989? The odds are against them, but before we peer into that muddy ball, what were our forecasts like last year?

We failed to achieve the perfect rule, to borrow a golfing term, we were still managed to best par.

Forecast

This is what was written ahead of Christmas 1987:

"The prospects for 1988 are that copper, nickel and aluminum could rise even higher in the first quarter. The price of white goods and zinc will also rise."

The iron shot, however, was the weakneing of the dollar in the first half of the year. But in the second half, the US dollar recovered, and the prospects for a strong US dollar in the second half of the year would be for a higher price of base metals. The dollar could weaken in the second half of the year.

The extent of the decline will depend on whether stock markets fall further and a downturn becomes a full-scaled international recession. Instead of a recession, major world economies continued to boom. Base metals prices gyrated wildly, but at the end of the year copper, nickel and zinc in particular remained strong, helped by tight supplies.

This year, however, the outlook is not as promising. The US dollar has weakened, and the prospects for a strong US dollar in the second half of the year are not as bright. The prospects for a full-scaled international recession in the second half of the year are not as bright.

Copper, along with nickel and zinc, was one of the star performers, price-wise, in 1988 due to reduced supplies and greater demand.
PARIS—Following are summaries of the economic forecasts for the leading industrialised countries in the latest half-yearly outlook of the Paris-based Organisation for Economic Co-operation and Development (OECD):

- **United States** — Chef OECD economist David Henderson says figures in the past month point to recession.

- **Japan** — Japan’s trade surplus will narrow this year to $56 billion, but grow again in 1991 and 1992. GDP growth should reach 6.1 percent in 1990, falling back to 3.7 percent in 1991.

- **Germany** — Interest rates will probably move even higher in 1991, causing economic growth to slow to three percent from 4.3 percent this year and pushing up unemployment in the former West Germany.

- **France** — Recession in some leading countries will cause French growth to faller, but only temporarily, in 1991. A rise in inflation due to high oil prices will also be temporary, and less marked than in most other countries, but unemployment will rise in 1991 and 1992.

- **Britain** — Economic activity will stagnate until mid-1991 as credit policy is kept tight to combat inflation, though the OECD does not foresee a recession.

- **Italy** — Italy will experience slower growth and higher interest rates in 1991 and will probably not manage to cut its budget deficit as much as planned.

- **Canada** — The economy will experience a short recession, but recover by the middle of next year, and growth over the whole of 1991 should measure 0.9 percent.

- **Good export potential will help output, but a new seven percent consumption tax from January 1991 and high oil prices will strangle hopes of a strong recovery.

- **The country is particularly vulnerable to higher oil prices, but inflation could fall to an average five percent in 1991 from 6.5 percent in November.**

The OECD’s forecasts are based on an average oil price of $27 a barrel from the second half of 1990 and exchange rates prevailing on November 5.

Its forecasts are also based on the assumption of a non-military solution to the Gulf crisis. – Reuters
The best-laid plans.

Rehearsal for conflict with Iraq, the US Desert Shield force in Saudi Arabia is finding that the Apache anti-tank helicopter needs repairing after two-and-a-half hours flying. The Apache is the balancing factor in countering the numerical superiority of Saddam Hussein’s armoured forces, so some consternation, especially as real battle conditions would be much more strenuous.

One- and two-year projections of the path of the global economy are a little more durable. But each passing month of the stand-off in the Gulf, plus the unfinished problems caused by the massive erosion of financial assets, requires revision of forecasts. The goalposts keep moving.

The consensus rule-of-thumb for the 24 main industrialised economies in the Organisation for Economic Co-operation and Development (OECD) — which account for almost 75% of world GDP — is that a sustained US$10 a barrel rise in the price of oil generates a half-point fall in aggregate growth and adds 0.75 points to the inflation rate.

In June, the OECD’s soft-landing scenario postled growth slowing from 3.6% to 2.9% this year and next with inflation running a tenth of a point higher at 4.1% on the basis of a US$17 a barrel oil — in line with the 1989 average. That was shelved on August 2.

The range of oil prices which should now be factored into calculations is wide and the free market’s jitters offer no sound basis for rational planning. The benchmark North Sea Brent blend crude hit US$40.50 a barrel (for December delivery) two weeks ago but has been retreating since. By Friday it had lost 20% to US$32.35 a barrel.

Sir Peter Holmes, chairman of Shell Transport and Trading, recently put the equilibrum price — with most of the loss of Iraq-Kuwait output made up by Saudi Arabia and other Opec members — at around US$25 a barrel. A return to normality, on Holmes’s reckoning, would put it below US$20 and ex-Saudi Oil Minster Sheikh Ahmed Zaki Yamani has said oil could drop to US$15.

Cambridge Energy Research of the US takes into account the seasonal stock build in the northern hemisphere and comes up with an average of US$32, perhaps rising US$3 by December. After that, it should stabilize as inventories are drawn down ahead of spring. Even so, it is not simple. In the case of the US, Britain, Canada and Australia, the oil straw landed on a camel’s back which was already creaking.

The slowdown which started last year is proving worse than expected. Recession has replaced inflation — even though, excluding oil, the underlying rate is worryingly high — as the priority in the US. The Federal Reserve has indicated it will lower interest rates and risk the effect of a weaker dollar Britain hopped into the Exchange Rate Mechanism with surprising alacrity to enable it to shave a point off base rates and buoy hopes of more to come as the next election looms.

Adding to the shadows of uncertainty, is the impact of the slump in equity and property values, especially in the US and Japan, with bearish implications for bank balance sheets and consumer confidence. With cheap money no longer available in the equity market, Japanese banks have been forced to shore up their capital ratios through costly subordinated debt; and in the US banks are contracting as property values slump, threatening a crisis which goes far deeper than the Third World debt crisis.

While the Third-World crisis mainly affected the big “money centre” banks, the overbuilding in the US has affected all. It is estimated in the US. The banks have an average exposure to property equal to 25% of their loan book and provision against this is forcing them to rein in lending to bona fide industrial and business borrowers.

Then there is the loss of wealth effect. After the 1987 October Crash, forecasts for the next year pointed to a sharp decline in consumer spending as the equity slump compounded other problems such as the US budget OECD growth for 1988 was projected to fall from 2.8% to 1.8%.

Instead, central banks around the world pumped money into the system. And, helped by a 1% drop in the price of OECD oil imports, 1988 recorded growth of 4.6%, the best year of expansion in the past decade, without driving up inflation.

The chickens of that protective reflation, however, came home to roost: commodity prices rose 21% in terms of Special Drawing Rights with metals 34% up in 1988 and with oil regaining ground, OECD inflation pumped up from 3.5% to 4.3% in 1989. The brakes were applied, with varying degrees of severity and have been felt for most of this year as inflation proved slow to grind down.

There does not seem much chance that governments will repeat what turned out to be an inflationary mistake. And, as long as oil supplies remain abnormal, any easing of interest rates in the high inflation economies will be cautious — especially in the US, facing a budget deficit of US$270bn which excludes the cost of intervention in the Middle East.

A middle-of-the-road projection by the National Westminster Bank, the UK’s biggest, is downgrading OECD growth from 2.9% to 2.5% this year and to 2.1% in 1991. Conversely, inflation is projected at 5.1% this year and 5.3% next.

Recession — that is falling GDP, in the US, UK, Canada and Australia among the OECD members — will be seen for at least six months, but offset by relatively strong though muted growth in Europe and Japan. Germany, especially, will benefit from reunification investment, though Europe as a whole slows from 3.5% in 1989 to 2.3% next year.

The OECD current account could deteriorate from a deficit of US$87bn to US$117bn and US$141bn Opec, naturally, swings the other way, from being US$11bn in the red last year to a surplus of US$22bn in 1990 and then forging on to US$53 in the second.

De Beers’ share price has dropped 38% to US$16.50, tracking the Dow Jones Industrial Average fall of 18% from the historic peak in July — indicating sentiment about the outlook for jewellery sales. And with investor interest in gold limited, to say the least, bullion offtake will be increasingly reliant on the jewellery market.

The Commodity Research Bureau index of 21 commodity markets is down 6.4% since May in spite of oil (which makes up 11% of the index). Excluding energy, the Economist SDR index of all commodities shows a fall of 8% from the end of July — and 16.4% over the last 12 months.
WHITE FLAG OF MARKET PANIC

THE hysterical message being shrieked from the world stock markets this week was The Apocalypse is now!

While the main Western powers, backed by the Soviet Union, urged their ions to roll back President Saddam Hussein of Iraq, the financial markets ran up the white flag.

Once again sophisticated investment institutions exhibited their well-known trait of panic-buying in mison

They are discounting little short of all-out war, destruction of the Saudi Arabian oilfields, crude prices of $30 a barrel and a global recession.

Paradoxically, gold’s foot-dragging performance also suggests the deflation scenario has wide currency and that a burst of inflation will be followed by a long downturn and high real interest rates.

The facts seem a little different. In 1973, when the second oil shock was breaking, the average landed price paid by members of the Organisation for Economic Co-operation and Development (OECD) — the 24 industrialised nations of the West — was slightly more than $21 a barrel.

REALITY

End it kept pace with US inflation, it would now be $32. Crude “costs breached $30 a barrel last week — up 80% since Iraq invaded Kuwait.

In real terms, energy costs have not moved. Exchange-rate movements complicate that reality. At the pre-crisis $1.90 to the yen, the yen itself, since 1979 and energy in 1979 means the Japanese were paying 33% less for oil. Even $50 represents an increase in 10 years of only 4%.

The truth is that economic forecasts are based on money prices. The OECD’s latest projections of gently slowing but sustainable growth for the main Western economies were based on average crude import prices of $17 a barrel as well as the dollar holding about 159 yen and Deut.$1.

Oil is now 76% higher and the dollar has fallen by 8% against both the yen and the mark.

None of this looks good and crude’s rise to 75, representing an annual switch of $300 billion out of the pockets of the world’s oil consumers to its producers.

But there is no shortage of oil — which is why it fell to under $16 this year — and energy efficiency has improved dramatically.

The US needs 20% less energy to generate $1,000 of output than in 1979, the reduction in Japan is 23%.

There are wide variations in oil’s effect on growth rates. It will be negligible in the strong economies.

German output may be 6.7% less than expected if oil stays at $30 between now and 1992, but Germany’s growth rate will remain a healthy 3.5% until then.

WORST

But it will worsen a situation which was already looking bleak in the US and Britain. The North Sea oil promises to pose problems against for Britain, keeping the pound high, reducing export competitiveness while interest rates — already hobbling the economy — are maintained to hold down inflation.

The US will be worst hit. At $39 a barrel its oil import bill will add $70 billion to the total, more than doubling the trade deficit.

To make matters worse, internal consumption will be blighted by the need to fund a ballooning Federal deficit.

The additional cost of the military build-up in the Gulf — running at an estimated $20 million a day — will increase there are real fears that the intervention plus the likelihood that planned defence cuts will be watered down could drive the deficit towards $300 billion as revenue falls with economic growth slowing to nil. This can only mean higher taxes and if US consumers remain in their spending as well, GNP could actually fall — as it did in 1974-75, by 1.8%.

Outside the big economies suffering threatens to be even more acute. As commodity prices fall, developing countries plunge into deeper debt and can no longer borrow. Central and Eastern Europe will find the pain of transition to the free market almost untenable.

Even the Soviet Union, the world’s largest crude producer, will not benefit because its oilfields are suffering from years of under-investment and exports are declining.

NOSEDIVE

All of this derives from one single assumption that oil will remain at $30 a barrel. Nobody expects this to happen.

If crude slips up to $60, the consensus is that it will be back to $25 by the year-end and gradually retrace to $15-20 by 1991.

The cross could be over. But in the short run the loss of wealth in the financial markets’ collapse must be considered.

After this week’s nosedive in Tokyo, the cumulative drop in the value of shares quoted on the West’s equity markets had fallen by as much as $1.4 trillion. Add the damage done to bond markets and the total could be nearer $2.5 trillion, which is close to 10% of world gross domestic product.

It threatens to wreak havoc on asset values and loan collateral. In particular, the Japanese banks have received 45% of its unrealised losses on their equity portfolios as part of their capital base face an anxious time. But it is unlikely by the Tokyo government will allow it to develop into a catastrophe.

Even so, it is not a new problem and many investors are standing by for a bounce in the next few weeks.
Even massive aid no ‘quick fix’ for East bloc

LONDON – The economies of Eastern Europe are in such poor shape that even massive infusions of Western aid will not put them right quickly, the Organisation for Economic Cooperation and Development (OECD) says in its biannual economic outlook.

The OECD, comprising the West’s 24 leading industrial nations, says of the Eastern bloc: “The eventual needs of these countries for foreign resources to facilitate domestic reconstruction are, on the most conservative estimates, well in excess of anything that could be absorbed efficiently or that is likely to be forthcoming over the next several years.”

Investors

Key problems are the overhang of debt and the inability to produce goods which will earn foreign exchange.

The OECD believes that, initially at least, most of the money flowing to Eastern Europe will be provided by official lenders and private investors taking direct stakes in the economies.

Official flows are expected to rise sharply. The IMF, the World Bank and government donors will, be-

between them, put up roughly $6bn during this year and next.

And the newly created European Bank for Reconstruction and Development in London is also likely to become “a substantial supplier of funds”.

However, the scale of official aid will fall far short of what is needed, the OECD warns.

Eastern Europe is likely to be attracted to foreign private capital because of the technology and managerial knowhow that comes with it. But not all such investment is benign, the OECD warns.

It fears that countries desperate for cash could be “vulnerable to asset stripping and transfer-pricing practices”, selling off national assets on the cheap.

East Germany is in a special position because union with the West “fundamentally alters the basic parameters”, says the report.

Other East European regimes will take much longer to make the transition to market-based economies.

The OECD paints a grim picture of how far they have fallen behind the West Living standards, even on official definitions, range from one-third of the Western equivalent in Romania to two-thirds in East Germany – but in reality, the OECD believes the gap is far wider.

The official figures do not allow for the poor quality of goods and services and for bad living and working conditions, the OECD points out.

Ironically, Eastern economies have spent more on investment than their Western counterparts but the money has been wasted.

The OECD believes that economic transformation requires high levels of domestic saving, just when the temptation to spend is likely to increase.

Availability

“Saving has generally been strong in these countries – but in conditions of limited availability.

“In the absence of such constraints, positive incentives to save will need to be stronger.”

The loss of heavily subsidised raw materials and energy currently supplied by the Soviet Union will be a major blow, amounting to roughly $6bn a year.

Just replacing this subsidy could absorb all the additional capital flowing in from the West — Daily Telegraph.”
### STEADY AS SHE GOES

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* Non oil producers

Source: OECD Economic Outlook

Repeal of the 1986 collapse in oil prices, when it fell below 3% though unemployment remains stubbornly at 6.5%—the problem is structural—shortages of skilled labour keep wage increases above inflation (around 6%).

Gross fixed investment growth is projected to decline from 8% last year to 4.8%, followed by 4.3% in 1991. Japan, down from nearly 17% to 5% over the period, shows the most marked slowdown.

This is one aspect that concerns the OECD. Tight monetary policies are still needed to counter inflation. The situation is finely balanced for "there is virtually no scope for more rapid, sustained expansion of demand unless the supply potential of economies can be improved." Any further rise in interest rates will inhibit increases in capacity and investment to improve productivity.

While fiscal balances are improving, the US budget deficit is forecast to fall from 2% of GDP to 0.9% in 1991— the OECD says this can still be done to take State spending pressures off demand for savings. The so-called peace dividend of lower defence budgets will help. But the rebuilding of the formerly communist economies of Europe will intensify competition for savings.

Some official funds will be available, such as the US$6bn earmarked mainly for Poland and Hungary, from the IMF, World Bank and other sources. But this is small in relation to needs and primary requirements for development will come from internal changes and direct foreign investment.

Foreign investment, however, requires the creation of the right economic climate, which is a slower process. Indeed, the OECD warns eastern European countries against a wholesale rush to privatise and attract foreign exchange by selling assets.

One of the legacies of communism is that information about the real value of these assets is grossly inadequate and makes some countries "vulnerable to asset-stripping and transfer-pricing practices."
The linchpin of growth

Sustained if lower growth in the majors should help global reconstruction

Projections differ by the odd half point here and there but there is a quality of serenity about the main industrialised economies. They account for 73% of world GDP and are sailing into the eighth consecutive year of growth. This has been the longest period of sustained expansion since World War 2 and is set fair to continue.

As Michel Camdessus, MD of the IMF, which is where global economic ills come home to roost, noted recently “So far the industrial countries have been able to steer a safe passage between the Scylla of recession and Charybdis of accelerating inflation, though with uneven success.”

With no external threats, such as the oil and commodity price explosions which put the final cap on growth in the last two upswings of the Seventies, inflation is now a domestic problem for the leading economies. Co-operation at the level of the Group of Seven (the US, Japan, West Germany, France, Italy, Britain and Canada) has helped to iron out potentially disruptive exchange rate swings.

But essentially each is in command of its own destiny which is determined by fiscal and monetary policy at home. This explains the unevenness and why the 24 nations in the OECD no longer resemble a convoy moving
at a pace chiefly dictated by the US. The idea that if the US catches a cold the rest of the world goes down with pneumonia seems to be obsolete. Higher interest rates are slowing growth everywhere, most notably — among the majors — in Britain and the US where inflationary pressures are worst and self-generated.

Yet the bonus of the German unification factor is not slackening and Japan is still showing the fruits of adjustment towards greater consumption. In spite of historically high real rates of interest (nearly 5% in Japan and around 6% in Europe — against under 4% in the US) both consumption and fixed investment are moving along at a healthy clip.

The upshot is that while the OECD area's rate of expansion will drop this year, the range of projections, from 2.7% to 3% (by the IMF and OECD respectively), are cause for celebration at this stage of the cycle. And 1991 looks brighter overall (see table) as US and UK disinflationary measures grind through to permit monetary easing and some recovery in growth.

Concerns about the current account imbalances — which have pushed US external debt to US$700bn, just over half that of the whole of the Third World — no longer seem to cloud discussions. The international financial markets have shown they can cope with the funding of deficits without a crisis. So less is heard of protectionism. In fact the US has removed Japan from its list of countries deemed to employ undesirable trade policies.

At the recent half-yearly meeting of the IMF Interim Committee, US Treasury Secretary Nicholas Brady was emphatic about the success of co-ordination. Even though IMF figures show the US deficit widening, and the surpluses of Japan and West Germany moving in the opposite direction, Brady seems convinced the trend is towards improvement and more balanced patterns of growth.

German reunification would add to its domestic demand (an imponderable which has not been factored into forecasts) while Japan's restructuration would produce results. If anything, Brady suggested, future meetings of the Group of Seven would no longer make big news. "We're into the less spectacular part of policy co-ordination: making the prescriptions actually turn into results in making the adjustments pass through the system."

A start of convergence also seems to be expected outside the mature industrialised economies. The newly industrialised quartet of the Pacific Rim (South Korea, Taiwan, Singapore and Hong Kong) saw their double-digit gallop of 12% a year slow to an enviable trot of just over 6% in 1989 and a projected 5.5% this year.

In line with the general rally in 1991, however, they are expected to pick up as export markets improve and could accelerate if their domestic consumption starts to follow the route of Japan.

The term "developing economy" now embraces Warsaw Pact countries as they move towards free-market systems and an inevitably painful period of transition.

Outside the Soviet Union price inflation in what is now called Central (formerly Eastern) Europe averaged 232% last year, nearly three times the 1988 rate. It will slow sharply as the once-off effects of ending subsidies are absorbed but little is expected in the way of growth.

This year they will be lucky to register zero increases in output and for 1991 predictions of an actual decline go as high as 2%. Modernisation of these old, centrally planned economies will absorb vast amounts of credit as well as capital goods exports from the OECD — providing, if all goes well, a new platform for growth from a low base in the mid-Nineties. Even if their GDP per capita doubled it would still fall well short of the average for the 12-nation EC.

The contribution of the rest of the developing world — containing three-quarters of the global population but accounting for less than 15% of its GDP — remains a quagmire. With Third-World debt at $1.3 trillion, interest rates of 9% plus will hobble expansion and the capacity to import.

Commodity price weakness (the Economist index shows an overall fall of nearly 14% on 1989 levels with metals 22% lower) will hit hard currency earnings. Nonetheless, there is hope on the inflation front as adjustment policies bite, especially in Latin America where prices rose by an average of 350% last year (with Peru at 3 400% and Argentina at 3 080% leading the pack).

This destructive fire shows signs of abating. The IMF is projecting 28% in 1991 and real GDP should inch ahead, though not in per capita terms.

The IMF, however, finds little reason to be complacent about the relatively smooth waters ahead. Camdessus said the experience of the past few years suggested that underlying potential growth rate for the industrialised countries was in the 2.5%-3.5% range.

Anything faster ran into the limitations of capacity and inflationary labour market pressures, even though unemployment has stayed stubbornly high in the OECD as a whole at 6.6%. "We cannot be fully satisfied with the performance of the Eighties," he said. "Growth has been at rates that were lower than could have been achieved."

His prescription higher national savings to ease pressure on interest rates caused by deficits (such as the US budget) and to "improve the quality of investment" — especially in "human capital" through productivity and flexibility. It would also help the Third World which, overall, is losing its own savings via net capital exports to repave debts.
The MINISTER OF FOREIGN AFFAIRS

(1) No

B949E

(2) and (3) fall away

SADF: applications from non-Whites

413 Lt-Gen R H D ROGERS asked the Minister of Defence

How many Black, White, Coloured and Indian persons, respectively, (a) applied to join, and (b) were accepted into the Permanent Force as members of the South African (i) Army, (ii) Air Force, (iii) Navy and (iv) Medical Services in 1989?

623 1 428 1 452 1 451 1 453

B964E

The MINISTER OF DEFENCE

(a) Separate statistics for race groups are not held in respect of applications to join the SA Defence Force

(b) and (c) fall away

(2) South Africa is not a member of the OECD and recommendations of the OECD are only applicable to member states

(3) In connection with South Africa's compliance with international norms I wish to refer to my reply to the hon member's question No 5 of 24 April 1990 in connection with the Basle Convention which is the most comprehensive international Convention of its kind

(4) The importation of hazardous wastes is a matter for the Department of Environment Affairs

The MINISTER OF FOREIGN AFFAIRS

(1) whether South Africa is complying with the said agreements, if not, (a) why not and (b) in what specified ways are we not complying with it.

623 1 428 1 452 1 451 1 453

B964E

(2) whether his Department has any information on whether South Africa imports any hazardous wastes from any of the signatories to this agreement, if so, from which signatories?

231 215 215 215 215

B964E

417 Mr R J LORIMER asked the Minister of Foreign Affairs

(1) Whether there is an international Organisation for Economic Co-operation and Development (OECD) agreement regarding the import, export and handling of hazardous wastes, if so, (a) what is the name of this agreement, (b) when was it agreed to and (c) who are its signatories?

B950E

(2) whether South Africa is a signatory to this agreement, if not, why not, if so, when did we sign this agreement,

SAAF, resignations

420 Lt-Gen R H D ROGERS asked the Minister of Defence

(1) How many (a) pilots and (b) technical personnel resigned from the South African Air Force in 1989,

B965E

(2) whether any steps are being taken to prevent further resignations, if not, why not, if so, what steps?

The MINISTER OF DEFENCE

(a) 97

(b) 544

HOUSE OF ASSEMBLY

403 Mr C W EGLIN asked the Minister of Foreign Affairs

(1) Whether any guarantees or sureties were given directly or indirectly by the Government or any Department or agency of the Government to any person or organisation for (a) loans granted, (b) lines of credit granted and (c) other specified financial services rendered to (i) the Government of, (ii) any Government Department of, (iii) a development corporation in and (iv) any other specified person or organisation in Venda in the 1989-90 financial year, if so,

B950E

(2) what amounts were involved in each case and (b) what was the total amount outstanding in terms of such guarantees or sureties, if so.

HOUSE OF ASSEMBLY

The MINISTER OF EDUCATION

(1) Year

1985 5 310

1986 6 518

1987 7 826

1988 8 870

1989 9 487

Pupil/teacher ratio in PWV area

539 Mr A GERBER asked the Minister of Education

What was the pupil/teacher ratio in (a) all schools under the control of his Department and (b) the PWV area as at the latest specified date for which information is available?

B952E

The MINISTER OF EDUCATION

(a) all schools pupil/teacher ratio 38,31

(b) the PWV area pupil/teacher ratio 36,81

The statistics were compiled on Tuesday 6 March 1990

Venda: guarantees/sureties

402 Mr C W EGLIN asked the Minister of Foreign Affairs

(1) Whether any guarantees or sureties were given directly or indirectly by the Government or any Department or agency of the Government to any person or organisation for (a) loans granted, (b) lines of credit granted and (c) other specified financial services rendered to (i) the Government of, (ii) any Government Department of, (iii) a development corporation in and (iv) any other specified person or organisation in Venda in the 1989-90 financial year, if so,

B950E

(2) what amounts were involved in each case and (b) what was the total amount outstanding in terms of such guarantees or sureties, if so.

HOUSE OF ASSEMBLY
GLOBALISATION

When sanctions go

When, at some future date, SA is free to rejoin the world community, it will find a strengthening trend towards globalisation. Co-ordinated economic policy, deregulated financial markets, growth in world trade and cross-border company alliances — all of these will shape the Nineties.

This global economy is being created at several interconnected levels and their interaction will determine the context for business.

☐ Economic policy. The 1987 Louvre Accord on exchange rate stability has evolved flexibly but leading industrial powers seem likely to maintain their commitment to the sort of policy co-ordination which helped the recovery from the stock market Crash of 1987. The strength of that commitment may be tested by lower growth. After 4.1% growth in industrialised countries in 1988, growth in the OECD slowed to 3.5% last year. Both the IMF and OECD expect a further slowing this year to 3%.

☐ Financial markets. The questions economic policymakers grapple with — from the volatility of equity markets, exchange rates and interest rates to the Third-World debt crisis — are often transmitted across national borders.

☐ Trade. In the past few years world trade has grown more strongly than industrial output, thus being a return to the dominant post-war pattern. Last year world trade in goods increased by about 7%, more than double the rise in production. Its continuation may hinge on whether the Uruguay round of Gatt, due to be completed at the end of the year, prevents a slide into bilateralism and protectionism.

☐ Industrial restructuring. The economic growth of the past few years has stimulated a widespread business investment boom, which should maintain productivity growth.

Since 1986, international direct investment has grown about three times as fast as trade in industrial goods within the OECD, reflecting far-reaching changes in patterns of production.

International direct investment has risen markedly during the 1980s. Outward investment from the top five OECD economies has risen from $244.6bn in the 1970s to $419.3bn between 1981 and 1988. Their inward investment has increased from $79.9bn to $107.5bn.

But investment is only one aspect of internationalisation.

International companies are now the most global of all institutions. Will political systems evolve into an orderly international system to match internationalisation of the economy?
ago and, when he died last year, Stals asked her to stay on the day he got the job "They are two different personalities with two different ways of managing the bank. Stals is a very relaxed person. I don't know if I could have gone the other way around, from Stals to De Kock."

Roy McAlpine, chairman of Liberty Asset Management, and his personal assistant, Debbie Kearns, have worked together for more than 10 years. She believes that finding the right combination of personalities makes it "very much like the dating game. With all the hours, days, years we work together, we have to be close. We have a good business relationship."

Though most secretaries proudly declare that it is they who really run the office, most will also tack on the caveat that they do not run the company. The boss is still the boss. It has to be that way. "You're nobody yourself," says Conradie, without a trace of rancour. "People do not think of Estelle Conradie. They think of Estelle Conradie, Chris Stals's secretary. You get a little status because your boss has status."

Van Rensburg says she is respected because Ferreira is respected. "He creates the thunder and I enjoy it."

Maurice Sullivan

WORLD ECONOMY

NEW PROBLEMS, OLD HABITS

NATIONAL JITTERS ARE POSTPONING PROSPERITY'S RETURN

At the start of the abortive "final week" of the Uruguay round negotiations of the General Agreement on Tariffs & Trade (GATT) in Brussels this month, the managing director of the International Monetary Fund (IMF), Michel Camdessus, sounded uncharacteristically alarmed.

It was not only important that the Gatt talks succeed, he said. There should also be an early meeting of the Group of Seven (US, Japan, Germany, France, Italy, UK and Canada) to discuss the world economy as the longest unbroken postwar period of growth threatens to sag into a full-blown recession.

Camdessus did not mention the price of oil when he spoke of global "deterioration," adding that the world economy is at a turning point. Obviously, the longer the Gulf situation continues, the more fear-driven crude markets will fluctuate. So, too, will inflation rates, creating a short-term nightmare for policymakers as they try to smooth the impact of a growth slowdown entering its third year in 1991.

But the Gulf crisis, however resolved, is temporary. Even after the cumulative loss of 650m barrels of Iraqi-Kuwait output, the world is glutted with crude.

With the other 11 Opec members pumping flat-out, the cartel's production is up to 22.9m BPD, only 100,000 short of the excess pre-crisis level - and world stocks are about 10% higher than normal.

Such is the fear of a collapse in the price of crude to US$15 a barrel or below, when a solution is found to Iraq's President Saddam Hussein, that Opec's meeting of oil ministers was presented with a demand from Iran for reinstatement of the 22.5m BPD quota without waiting.

Clearly, it makes a difference if oil is $17 a barrel (the 1989 average), or $21 (Opec's target) or $27 (the current level used in projections by the Organisation for Economic Co-operation and Development (OECD)).

The difference between the top and bottom of that range equates to a half point of OECD growth and 0.75 points of its inflation rate - as well as, for example, $16bn in Japan's oil bill, more than 70% of last year's total.

The malaise which worried Camdessus runs deeper than a blip in crude prices - which, in any case, are at around $11-$12 a barrel in 1980 dollars now, where the price peaked at $44 during the second oil explosion and precipitated two deep years of recession.

Other inputs are well down. The Reuters Commodity Index is 5% below last year's level and 11% below 1988, the peak year of OECD growth during the decade.

Monetary and fiscal policies are being thrown off balance by political and economic developments. The US is seeking to limit its recession by relaxing credit as the collapse of the property market forces banks to rein back lending, worsening industry's plight.

Fixed investment fell 0.6% this year and is not expected to grow by more than 0.4% next year.

The US Federal Reserve has eased equity asset ratios and clipped interest rates. At the same time, however, the costs of the Gulf war plus the rescue of the savings and loans industry could push the Federal deficit to $120bn next year, more than doubling to 6.2% of GNP. 1992 may be worse - and the US will become more dependent on foreign savings.

Yet real returns on Euromarket dollar deposits are the lowest in international terms. The inflation-adjusted three-month dollar rate offers 2.3% against the Deutsche mark's 6.5%, the yen's 5.3% and sterling's 4%

Camdessus specified the present "very special, very rare interest-rate differential between Germany and the US" as cause for G-7 concern.

The question arises: who is going to fund the US's Conventional wisdom is that this will be a shallow recession with GNP falling by no more than 1.5% between mid-1990 and 1991 and second-half recovery producing some real growth overall - unlike the 16-month declines of 1973-1975 and 1980-1982.

But much depends on assumed oil prices, interest rates and the dollar's value. Within the average forecast of 0.5% GNP growth next year (see table) lie projections of zero and even minus 0.9%.

They suggest that the
Fed’s relaxation of credit could have the effect of Keynes’s phrase, “pushing on a piece of string.”

The other so-called Anglo-Saxon economies, Britain, Canada and Australia, will find 1991 plainly bleak. With the US their downturn is responsible for most of the 1990 decline in OECD growth from 3.3% to 2.4%.

Canada could finish this year in the sub-1% club and do little better in 1991 while Australia limps along at less than half 1989’s 4% rate.

In Britain, the pegging of the pound to the D-mark and consequent reduction in interest rates is expected to take at least six months to reverse the fall in GNP. November’s sharp drop in the annual rate of inflation (from 10.9% to 9.7%) should continue and allow an easier monetary policy — providing the Bundesbank does not answer the costs of German reunification with higher interest rates.

Consumer spending may respond this year but confidence threatens to erode by retrenchment in industry as stocks are run down and unemployment rises to 2.4m. Business investment spending is forecast to drop by 8%.

The climate, however, should see pay demands dropping and exports improving to chip away at the current account deficit. But the economy will be patchy — construction is likely to plunge into depression with commercial building down by 30%.

In world terms, however, the chief anxiety is over the powerhouse economies Japan’s tight money policy (the discount rate up from 2.5% to 6% since 1989) which is compounding the ills of the stricken property and banking sectors and feeding into industry no longer able to shore up profits through zai-tekku — making money on the stock exchange.

Corporate earnings are dropping rapidly as export markets (US, Australia) weaken and slash the current account surplus with the help of costlier oil. Honda recorded a 28% fall for the first half and the top four steel groups were 26% down. Business investment is predicted to rise by only 2.5% against 19% in 1990.

Germany is feeling the pinch of reunification. Looking at rising inflation and the $100bn budget deficit which is being run up to incorporate the old East Germany (its output will fall by up to 10%), the Bundesbank is squeezing credit.

Some critics argue the Bundesbank policy is too tough, but that has carried little weight with its president Karl Otto Pfeil, though he recently asserted no further interest rates were planned. Even so, German inflation is still rising and high real interest rates will continue, flattening the political honeymoon.

Growth in German spending on plant and equipment and construction could more than halve to 5% and 3% respectively in 1991 while retail sales, which shot up from a rise of 2.2% last year to 7%, cool off. Imports, which benefited the European Community trading partners and cut the current account surplus, will still grow, though by 6.5% after 9%.

Germany’s more pedestrian pace will be reflected in most of its EC partners, whose growth downturn this year was softened by the reunification boost. Nor is any help likely yet to flow from the reforms in the former communist economies of central and eastern Europe.

On top of the pain of restructuring and modernising — which means contraction — they have been among the worst hit by the new Soviet policy of charging world prices and demanding hard currency payments for oil.

None of them is energy-efficient, having been shielded from the past two oil price shocks by Soviet crude supplied on a barter basis and Poland, Czechoslovakia, Hungary and Bulgaria are facing devastating current account deficits which will make further calls on stretched international reserves, even with the IMF’s extra finances.

With OECD growth forecasts whittled back to an average of 1.7% (only six months ago, 2.9% was projected), developing countries are already suffering. Depreciation of the dollar has propelled primary product exporters from the worst, but in terms of Special Drawing Rights commodity prices are showing a 14% decline on last year.

In aggregate, the big five economies of Latin America shrank by up to 1.5% this year as they adjusted and reformed and while some recovery is expected in 1991 it will barely restore them to the 1989 level of GNP. And relatively twinkling performances among the dynamic but small Pacific Rim economies of South Korea (7.5%), Taiwan (5%) and Hong Kong (3.5%) will pale beside previous years.

With a looming credit crunch and shortage of liquidity — nobody is talking about Opec recycling its surpluses to Western banks this time — it is clear that expectations raised by the revolution in Eastern Europe and the end of the Cold War face short-term disappointment. Prosperity could be slow to follow peace, itself put on hold by Iraq.
Although the Gulf crisis has led to severe economic sanctions and trade disruptions, the Western economies are expected to experience relatively modest impact. This is because the Western economies are less dependent on exports to the Gulf region compared to the Middle Eastern economies. Moreover, the Western economies have diversified their economies, reducing their vulnerability to economic shocks in the region.

However, the situation is not without its challenges. The Western economies are facing increased competition in the global market, which is expected to intensify due to the Gulf crisis. This could lead to a decrease in demand for Western goods and services, which could negatively impact exports. Additionally, the Western economies are also facing increased uncertainty due to the political instability in the region. This could lead to a decrease in investment, which could further impact the economic growth of the Western economies.

In conclusion, while the Gulf crisis is expected to have a modest impact on the Western economies, it is important to monitor the situation closely to ensure that the economies are prepared to应对 any potential challenges.
Improved mine safety for ICI cities automation for

**NEWS IN BRIEF**

**Unemployment on the rise**

The claimant's spokesperson said the government's economic policies had contributed to the rise in unemployment. The spokesperson called for urgent action to address the issue and ensure a stable job market.

**Acetone look for whining way**

According to the assistant general manager, the introduction of a new acetone-based product had led to a significant improvement in efficiency and production. The manager emphasized the importance of continuous innovation to stay ahead in the competitive market.

**Incorporation of mine safety**

The ICI cities automation project was designed to enhance mine safety by integrating advanced technology. The project aimed to reduce accidents and improve working conditions, contributing to a safer mining environment.

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The text includes various segments of information, such as economic analysis, product introduction, and safety improvements in industry contexts.
Socab nails the high cost of inputs

By CURT VON KEYSERLINGK

SOUTH AFRICAN manufacturers are on average at a 15% cost disadvantage to those in Organisation for Economic Co-operation and Development countries. Their cost disadvantage to manufacturers in newly industrialising countries is even greater.

These are the findings of a study by the SA Chamber of Business (Socab).

The report says SA manufacturers pay more than their foreign counterparts for all but one of their cost items — electricity. But this does not hold them much because electricity accounts for only 23% of their costs. They get no cost advantage from the mining sector in SA because in most cases they pay world prices for minerals mined here.

Socab says inputs bought by manufacturers from their SA - counterparts have the highest cost-raising effect. This is because import surcharges and high tariffs raise the prices of these goods above international levels.

Reasons

The most important SA - made inputs to the manufacturing sector — fabrics and yarn, chemicals and plastics, fabricated metals and motor vehicles — receive high protection.

Iron and steel and paper and pulp have medium levels of protection. Only SA-produced non-ferrous metals receive low protection.

The report says the cost of capital in SA is another important cost-raising element. There are several reasons, including:

- Investors in SA expect a higher rate of return because of the what they see as a high risk element.
- Nominal corporate tax of 56% is among the highest in the world.
- Real interest rates and inflation are high.
- Debt-equity ratios are high, leading to greater demand for top short-term yields.

The cost-raising effect of labour is also high. SA's exports as a percentage of world trade show a large decline in recent years. In 1981, exports, including gold, accounted for 1.7% of the world figure. By 1989, they had fallen to 0.5% of world trade.
since 1988 with an acceleration to 3.1%.

This will be echoed by the OECD as a whole as oil prices weaken and investment confidence returns on the back of lower inflation, though historically high real interest rates won’t permit anything like a boom.

The fly in the OECD’s comforting balm is Germany. Apart from the slump into current account deficit, the OECD has decided not to project the impact on the German economy of re-unification and the virtual collapse of the former communist East.

Its reasons will doubtless be explained in its full assessment later this month. But consolidated data for Germany must look worse than the listless scenario projected by the OECD, which reflects the drag of higher taxes to pay for upgrading the eastern laender and the tight money policy of the Bundesbank to counter inflation.

Even so, the OECD puts German inflation for the next 18 months at its highest since 1982—after the second oil price shock. And its optimism about the restoration of Germany’s current account surplus next year after the first deficit for a decade is not shared by other forecasters.

The London Business School (LBS)’s latest International Economic Outlook says the transfer of resources to the East will keep German imports on a rising trend which will be matched by current account deficits through until at least 1995. The LBS reckons Germany will be in the red to the tune of US$80bn next year, climbing to $20bn over the following three and says there will be a net importer of capital in the Nineties.

As the PM went to press, it remains to be seen whether the US will again repeat its familiar exhortations for more active growth policies and lower interest rates among the other leading economies.

Both aspects were of keen interest to ministers from Poland, Czechoslovakia and Hungary, attending the meeting as observers for the first time. They have also added a new acronym to the OECD’s official vocabulary, being designated “partners in transition” — which makes them the Pts.
"Sharp recovery" expected in OECD area

PARIS — A sharp economic recovery in member states of the Organisation for Economic Co-operation and Development is forecast in the second half of this year.

The Paris-based agency's latest economic projections, "issued" in time for a two-day meeting of OECD ministers here, envisage the industrial world recovering to an annual growth rate of around 2.4 percent in the second half, after virtual stagnation in the first six months. An annual rate of 3.2 percent is expected in the second half of 1992.

OECD economists in particular pronounced a turnaround in the US, where real total domestic demand should grow by around an annual 2.9 percent in the second half of this year, after falling at an annual rate of 3.2 percent in the first half.

Real gross national product is expected to grow at an annual 2.7 percent in the second half after falling at 1.8 percent in the first. Growth next year should top 3 percent.

Senior OECD officials base their generally upbeat outlook for the world economy on the recovery of business confidence since the Gulf war, the easing of monetary policy this year in the US and Europe and relatively low inflationary pressures.

However, this is unlikely to deter the US delegation from pressing for more active growth policies and possibly lower interest rates from its OECD partners this week.

OECD ministers will this week discuss the issue of immigration flows from the developing world to the industrialised countries. The topic has been placed on the agenda for the first time, signaling that immigration is seen as a growing problem in many, if not most, member states.

Virtually all OECD countries have now become recipients of immigrants from outside the area. — Financial Times.
Minimum wages have rarely achieved their intended effect.

Output and unemployment are not likely to reduce with wage regulation.
Slow upturn in US economy

The federal government continues to send

...
No relief for unemployed in French GDP's recovery

PARIS — The French economy should start growing again soon after a marked slowdown since mid-1990, but it will not be enough to stem rising unemployment, the OECD said yesterday.

It said France's gross domestic product (GDP) would grow by 1.4% in 1991, rising to 2.7% in 1992.

But the Paris-based economic think-tank added: “Such an outlook for GDP growth is not sufficient to generate enough employment to prevent the unemployment rate from rising, despite expanded job-creation programmes.

"By 1992 it could reach 9.75% — about one percentage point above the lowest level seen in 1990," it said.

Unemployment in May reached a record 2 698 900, or 9.5% of the workforce, by the Labour Ministry's calculation.

The reverse side of the coin for the OECD was that slack in the labour market would help limit wage rises which, with a cyclical rise in productivity, would help reduce cost pressures in industry. This would also allow a substantial recovery in company profits. Investment was also likely to recover by the end of 1991.

The 24-nation OECD released a full country report about France only a month ago, and, structural problems in the labour market aside, it generally regards the economy as sound. — Sapa-Reuters.
Eastern Europe's reforms show first signs of success

PARIS — The first signs have appeared that the tough economic reform programmes adopted by Poland, Hungary and Czechoslovakia are working, the OECD said on Wednesday.

But it warned that economic transformation of the former communist countries would take years, and that the region's output would continue to fall this year.

Bulgaria and Romania, which did not adopt reform programmes until much later, have so far experienced only the economic decline caused by the collapse last year of the old command economy, the OECD said in its report.

"In central and Eastern European countries, excluding the Soviet Union, the decline of output owing to the cessation of unprofitable production should be increasingly offset by expanding private sector production," it said.

Poland, alone in the region, would show a positive growth rate this year, to be joined by Hungary in 1992, it forecast.

But tight monetary and fiscal policies would continue to restrain growth on the demand side in all countries, at least until price adjustments had worked themselves out and inflation had stabilised at tolerable rates.

The slump in regional trade, caused by the shift to hard currency pricing in the defunct Comecon system and the collapse of the Soviet market, would be met by a mix of foreign financing and domestic adjustments, it said.

The main risk was that rising unemployment would erode political support for economic stabilisation policies and undermine the consensus on the need for reforms, it said.

The private sector in Hungary, Poland and Czechoslovakia grew strongly in 1990, as a result of stabilisation and reform policies, although no precise figures were available.

Government subsidies to consumers and state enterprises were cut, reducing pressure on the budget, and exports by Hungary and Poland to OECD countries grew sharply — Sapa-Reuter
Confusion reigns over situation in Soviet Union

PARIS — With authorities debating market reforms but reasserting central control over industry and foreign trade, the economic situation in the Soviet Union remained confused, the OECD said yesterday.

In its report it said a "misguided currency reform" — a reference to January's confiscation of 50 and 100 ruble notes — and a series of price rises had failed to correct substantial economic imbalances.

"In the Soviet Union, where no basis has been laid for a turnaround, the slide of output could steepen," it said.

The Paris-based OECD forecast a drop of 8% in Soviet output this year after 4% in 1990.

"It is not clear at this stage whether the anti-crisis plan which was agreed in April between the union government and nine republics will lay the basis for stemming the decline and prevent hyperinflation."

The Soviet Union would benefit from the switch to hard currencies and world prices in regional trade, enjoying a terms-of-trade gain of about $50b.

That would be partly offset by a fall in oil exports and in prices for Soviet exports to other countries, it said.

The Soviet current account was likely to show a small surplus this year, after a stronger than expected surplus in 1990 due to higher oil prices and import restraint. — Sapaj-Rester.
Britain passes worst of recession

LONDON - Britain should recover gradually from recession in the second half of 1991 as lower inflation and interest rates restore consumer confidence, the OECD said yesterday.

The OECD, citing a recent rise in bond and share prices and a small upturn in retail sales, said the worst of the economic downturn in Britain may be over.

But it also warned full recovery could be delayed if households and businesses took more time than expected to stabilise their finances after a bout of heavy borrowing in the late 1980s.

The current downturn, which started in the summer of 1990, is expected to be shorter than the recession of 1980/81, when output fell for more than a year and a half, the Paris-based economic think tank of 24 industrialised countries said.

But the current recession probably will end leaving unemployment at the high level of around 10% of the labour force in 1992. Meanwhile, the growth in real gross domestic product (GDP) is expected to remain below the growth of potential output until the end of next year.

"Such an outlook for output and employment entirely reflects the stubbornness of core inflation," the OECD said.

The OECD said Britain's rate of retail price inflation should drop to 4% by the end of the year, in line with the government's own inflation forecast. But it added that total unit labour costs could still be increasing at a rate of 5% to 6% by the year's end.

"Nominal wages are responding relatively slowly to high unemployment," the OECD said. --EFE-Reuters.
Brakes are on growth in Germany

FRANKFURT — German economic growth would slow to about 2.5% next year as expansion slowed in the west and output stabilized in the east, the OECD said yesterday.

It said west German GNP would rise 2.8% this year and 2.2% next year, after a rise of 4.8% in 1990.

The fall in east German GNP this year would remain at 1990's level of 15% to 20%. Upward movement could not be expected before early 1992, but the report gave no forecast for eastern German GNP growth next year.

Wages in the region continued to rise too fast and chances of a turnaround in the east's industrial sector appeared remote.

A rise in unit labour costs, the introduction of higher indirect taxes this month, an increase in import prices and tight industrial capacity limits would push up inflation this year.

It expected west German consumer prices to rise 3.3% in the whole of 1991, with a further acceleration to 4% seen in 1992. Prices rose 2.5% in 1990.

The OECD expected no further deterioration in balance of payments despite continued strong growth in imports. It expected German exports to pick up again in the first half of 1992, pushing the trade balance further into surplus after lower surpluses in 1991.

Warning about east German wage developments, the OECD said preliminary estimates showed that between July 1 1990 when German economic, monetary and social union began and the end of last year, unit labour cost in eastern Germany rose 40% to 50%.

The steep increases added to the loss of competitiveness that followed the introduction of the Deutschemark in the east. The OECD did not expect the growth in east German productivity to equal the growth in wages until 1995.

The high wage cost made it unlikely that unemployment in east Germany, including short-time workers paid by the state, would stay below 2.5 million in the coming 18 months, it said.

But it expected the jobless rate in western Germany to ease to 4.8% this year from 5% in 1990.

In 1992 the rate is seen crawling up to 4.9%, the OECD report said. — Sapse-Reuters.
Germany and Britain are exceptions to the OECD's picture of moderate recovery, starting in the second half of this year and accelerating in 1992, in the 24 leading industrial economies as the US rebounds.

Its half-yearly Economic Outlook (for the next 18 months) takes a broadly sanguine view. Inflationary pressures are receding, oil prices seem to be stabilising and rising unemployment (up from 6.2% to 7.1%) is cooling wage demands and prices.

In addition, while nominal short-term interest rates are retreating, real rates are sufficient to curb excessive demand. Most Western firms were prepared for the 1990-1991 recession and went into it with leaner inventories. Hence "a pick up of final demand should translate quickly into higher output."

Governments are commended for fiscal restraint and "most importantly, the fundamental conditions have not weakened from those which sustained eight years of expansion" up to mid-1990. If anything, macro-economic conditions for stability and confidence have been reinforced.

United Germany, however, presents the OECD with the problem of welding its two unequil halves. In its projections — of everything except the fiscal deficit which will hit 5.2% of GDP this year before shipping to 3.8% in 1992 — the OECD has ignored the eastern states. Though it does attribute much of the slowing of West German growth to a decline in "exports" to the East.

Taking independent German figures, however, it puts the fall in GNP of the former East Germany at 15%-20% (industrial output slumped 50%) last year and a similar figure in 1991.

The unified package, therefore, recorded GNP growth of 2.5%-3% in 1990, against 4.6% in the West. And the 1991 figure of 2.8% comes down to a mere 0.5%-1%.

The effect on unemployment is equally dramatic with the collapse of the old East German industries leading to a surge from 10% to 25% this year. Unemployment in the West of 3% in 1990 thus rises to 6.3% and the 1991 rate of 4.8% jumps to 9.8% for the whole.

No attempt is made to blend the rise in consumer prices (3.3% in the West, 10%-15% in the East) and, oddly, in the light of the huge migration across the old dividing line, the OECD sees German business sector

unit labour costs up sharply. From only 0.4% in 1989 the rate of increase went to 2.6% last year. It is forecast at 4.7% in 1991 and 4.6% in 1992, chiefly because of wage equalisation between the two halves.

Britain, hardest hit by recession, with GDP down 1.8% in spite of the boost to North Sea oil prices, will be the weakest sister of the recovery. The OECD is looking for only 0.3% growth in the coming six months and a slow improvement to an annual rate of 2.4% in the second half of 1992 to produce a figure of 1.6% for the full year.

Unemployment, however, will worsen from 5.5% last year to nearly 10% for most of 1992. The OECD is also less hopeful about the underlying rate of inflation than the UK Treasury which is confident that the consumer price index will rise only 4% within the next few months, in time to bolster the Conservatives' chance of a fourth term.

The OECD does not foresee that being achieved until the latter half of 1992.
Upturn predicted in fourth quarter

LONDON — A moderately optimistic international economic forecast by the Organisation for Co-operation and Development (OECD) points to a revival of the South African economy from the fourth quarter onwards.

The OECD, which represents 25 countries, including the major industrialised countries, says conditions are favourable for a resumption of growth.

South Africa is not a member of the OECD, but now that international doors are opening, it could well apply for membership alongside countries such as Australia.

The OECD says that after a sharp slowdown in the world's major economies in the past 12 months, which was the weakest performance since 1982, easier monetary conditions, lower interest rates and inflation should boost economies moderately.

International corporations have generally managed to keep inventories at a low level.

"A pickup of final demand should therefore translate quickly into higher output." says the report.

From a South African standpoint, this implies that there should be an increase in demand for metals and minerals when Northern Hemisphere factories build up production after their summer holidays.

The OECD predicts that average real growth of member countries will rise to 2.4 percent in the second half of this year from only 0.3 percent in the first half. Growth will then accelerate to 3.1 percent in 1992.

The main motor for recovery will be the US. After 1.6 percent negative growth in the first half of 1991, the US economy will revive sharply to 3.2 percent positive growth in the final six months of the year and will average 3.3 percent in 1992, it says.

Japan's growth will decline slightly from a splendid 4.8 percent in the second half of 1990 to 3.2 percent in the six months to December 1991 and then revive to 3.8 percent by the end of 1992.

The European economy, led by Germany, will slow down to 1.4 percent growth in 1991 from 2.6 percent in 1990, but will then recover to 2.9 percent in 1992.

"Fundamental conditions have not weakened from those that sustained eight years of expansion through to the middle of last year," says the OECD.

Indeed, three important economic conditions for stability and confidence have been reinforced. They are stable monetary policies in the face of inflationary pressures, renewed emphasis on fiscal controls and the narrowing of current account imbalances in OECD countries.

While the revival continues, average inflation in OECD countries will decelerate to four percent in 1992 from 4.6 percent in 1991.

This implies that annual inflation will continue to be around 10 percent less than in South Africa.

While economies are expected to grow, the number of people out of work will also grow.

At the end of 1990, almost 25 million people in OECD countries were without jobs and the annual unemployment rate, which was then 6.4 percent, is expected to be 7.1 percent in the next two years.
Some different international institutions and organisations suggest a new framework is needed for this situation both to stimulate inward investment and protect the legitimate fiscal interests of developing countries.

The OECD model generally grants to the investor’s country of residence the right to tax the most significant forms of income, while granting the country of source the right to tax only certain types of trade income. In certain instances treaties provide for a shared right to tax which is, however, limited for the country of source. Double taxation is generally prevented by means of a unilateral tax credit in the investor country.

It must be remembered that many developing countries, including SA, tax on the basis of territoriality, not on the principle of worldwide income and, consequently, do not tax income from foreign sources.

Recommendations made to address the imbalances between developed and developing countries in a treaty include the method of total tax exemption by the country of the investor or the allocation of exclusive and unlimited taxing rights to the country where the source of income is located.

In negotiating tax treaties, a developing country should incorporate the advantage of tax sparing, especially where the country is seeking investment from countries that tax on the worldwide basis, but grant taxpayers a credit that can be offset against their own local tax to compensate for the tax paid on the foreign source income.

A treaty with tax-sparing provisions would allow the tax, which would have been levied by the developing state in the absence of special tax reliefs, to be offset against the liability of the foreign investor in its home country.

Such a provision is clearly of great benefit to both the developing state and the foreign investor, since the investor’s home country is effectively subsidising the investment by surrendering its taxing right on income that is already subject to preferential tax treatment in the developing state. The conclusion is that, to be effective, investment incentives should at least be accompanied by tax-sparing provisions in a double tax treaty.

In granting a tax-sparing credit, developed countries will evaluate its effect on investment and measure this against revenue forgone. Japan, which is one of the countries with which SA does not have a double tax treaty but is potentially a large foreign investor, uses the following criteria to determine the kind of tax incentive measures for which to grant tax sparing:

- Not be too broad – they must be characterised as special development measures
- Not cover manufacturing industries which have close ties with the local economy and not financial or other industries that tend to specialise in external transactions
- Be of limited duration, so that a certain ceiling is set on the amount of revenue forgone. Otherwise, a limitation on the period of applicability will be placed on the tax-sparing credit itself
- Be simple, so that the amount of the tax-sparing credit can be calculated without much difficulty. Such measures include a tax exemption or a reduction in the amount of tax at a certain percentage, while measures such as accelerated depreciation do not usually qualify for tax sparing because of their complicated calculation.
Peering out of the ruins

Revival of the East bloc presents massive opportunities and challenges

The reason it is difficult to find a job at the USSR and its satellites this year, in a special Deutschebank study found. "The Eastern European economies are in a desolate state.

The states are particularly suffering. The political mood of communism was easy - requiring only the threat of Soviet tanks from Poland, Czechoslovakia, Hungary, Romania and Bulgaria. But their aspirations with market economies is proving agonising and slow.

In essentials, that is clear. To open up to Western industrialisation, the old Eastern bloc economies are being forced to destroy before they can be reborn. The official death of the Gorkachev regime is forecast to be the first step in a move to free consumption. There are signs, growing rapidly, that they are 1% up year on year and sales to the EC region rose by 44%, helped by EC trade concessions. Exports to the EC jumped 5% and were running at a higher rate. The Russian ruble was at the crucial point in the new agrarian economy.

Some 8-700 firms - but only those which are state-owned enterprises - have been privatised by 1992. Those have been privatised and the aim is to stabilise the non-agricultural economy over three years. Direct foreign investment had produced 2,460 joint ventures by the end of 1990 but external capital committed was only $400m and there is heavy weighting towards the service sector.

Yet the private sector is the only strong growth area (State industry output dropped 29% and with industry) at an average of 5% a year, Poland is likely to attract more inward investment once concerns about the debt outstanding and the coming general elections are resolved.

Capitalism is being placed in quick steps both in Czechoslovakia and Hungary - the strongest of the East bloc economies relative to the EC, and while the pace of restructuring is being softened neither will achieve real growth in the short term.

In Czechoslovakia, privatisation has been derailed by legal problems of the rights of the owners of assets and property. It is moving ahead, however, and with foreigners allowed to buy and restructure 100% of the profits. Czechoslovakia has been given extensive American aid at Skoda and Proctor & Gamble. The number of cross-border joint ventures has galloped ahead. Only 10 were registered in the first quarter of last year but the final three months produced 1,200, bringing the total to 1,660 foreign capital involved amounts of up to $650m.

Insurers, however, have to cope with obsolete plant and pollution which is among the worst in Central and Eastern Europe. A third of Proctor & Gamble's $50m investment will be devoted to making the Czech detergent plant environmentally safer.

The speed of growth in small businesses matches foreign investment. Tax incentives - two years' exemption if profits are reinvested and rapid depreciation - has seen the number of craft and small enterprises leap from 15,000 to 300,000 in the past nine months. Hungary's former communist bosses started their own form of proclaimed in 1968 as a mixture of central planning and socialism at an inflation level. This had the foundation for the real reforms brought in last year - for example, the Budapest Stock Exchange reopened last June.

By 1993, State ownership of enterprises will be cut from an average of 55% to under 50%. The State monopoly on foreign trade has also gone, so that 90% of imports are now fully identified.
LEADING ARTICLES

that because of "systematic fabrication of statistics during the Ceausescu era, it is virtually impossible to establish the actual state of the economy."

Now there is a radical programme under way. The bulk of State Industrial assets - 1,300 - are to be gradually denationalised. In 50% of their shares reserved for employees and 70% sold through the stock market.

Over three years, half of "national property" will be privatised this way To ward off high unemployment rates, enterprises with high debts will be subsidised for a maximum of four years.

Foreign joint ventures, which were permitted 20 years ago, had dried up but resumed in the second half of last year when nearly 1,300 were established. Romania, however, is the least well endowed among the Eastern European states in terms of infrastructure. Deutschebank rates it as an underdeveloped country but Romania's debt is the lowest among the former communist countries.

Without Gorbachev none of this would have happened. Yet the Soviet Union itself is proving the most tardy in implementing the promises of perestroika that it enunciated six years ago.

It has gone part of the way reducing subsidies, moving towards convertibility of the rouble, shifting trade into competition with the world and nominally decentralising control of industry, so that Western companies trading with the USSR now find themselves confronted with 40,000 operations instead of 40 agencies.

Co-operatives have mushroomed. There are now 215,000 employing 5.2m people, though that is only an eighth of the state's industrial pay roll. And there is no shortage of anecdotal proof of the enthusiasm with which Soviet citizens have embraced capitalism within the "shadow economy."

One Soviet newspaper claims there are 150,000 rouble millionaires. But as one million roubles is equal to between $25,000 and $50,000 on the free market, their wealth is relative and stems largely from activities on the fringe of legality - commission agents, video pirates, makers of fake denim - which thrive because of the ineptitude in the state sector.

Foreign investment in joint ventures, which kicked off in 1987, continues apace. 2,000 signed up last year bringing the total to 3,000 involving hard currency input of $4.6bn - 63% of all funds so far committed to the six countries.

Yet the OECD complains: "The situation in the Soviet Union remains confused. While market-oriented reforms are again being debated, central control over production and foreign trade has been reasserted and a misguided currency reform and price adjustments have not corrected the substantial macro-economic imbalances."

Hence the USSR is running into hyperinflation, consequent labour unrest and worshipping nationalist tensions. The Group of Seven heard Gorbachev out and were highly supportive of his objectives.

Five years ago, Gorbachev claimed the West's backing as his policies would open up a market of nearly 400m people. That promise is still true and their propensity to consume is enormous if the incomes gap can be closed. Central and Eastern Europe could yet be an engine of growth for the rest of the world without parallel - if they get it right before social unrest triggers the restoration of truly bad old ways.

John Cunill
'Population growth big challenge facing SA'

Political Staff

His appointment as Deputy Minister of National Health and of white health and welfare came as a "great surprise" to Fanus Schoeman, MP for Sunnyside.

Mr Schoeman said he viewed his appointment as "a very nice challenge as health is one of the very important issues of the future".

A former teacher, Mr Schoeman said he knew Dr Rina Venter and was looking forward to working with her.

Mr Schoeman served as a diplomat in London at the time of Dr Dawie de Villiers and is chairman of the joint committee on Trade and Industry.

He feels this experience in this field will also help in determining the economic implications of one of the major problems facing South Africa — population growth.

Other challenges facing health at the moment, Mr Schoeman said, were "Aids and making health acceptable to the people".
An announcement that the biggest Swiss trade union will seek full compensation for price rises, in negotiations on 1992 wage levels, was followed by an OECD warning that high wage increases for 1991 already carried a risk of refuelling price inflation in Switzerland.

Last year, for the first time in more than a decade, Swiss inflation exceeded the weighted OECD average (excluding Turkey) and has been significantly higher than inflation in Germany, its main trading partner.

The latest figure is an annual rate of 6% in August, down from 6.6% in July.

By now it is generally accepted that the central bank made a mistake when it eased monetary policy immediately after the stock exchange crash in October 1987. Consumer price inflation accelerated from a trough of 0.6% in 1986 to an average of 5.4% in 1990.

In the short term, there is no alternative to the restrictive monetary policy of the National Bank, says the OECD. For the longer term it recommends:

- A revision of the mechanism which ties housing rents to mortgage rates;
- Reform of the federal tax system;
- Further dismantling of domestic cartels; and
- A cut in subsidies to agriculture.

The OECD forecasts a GDP increase of only 1% this year and 1.7% in 1992. However, there are also some underlying strengths and the OECD says industrial output will grow by 2% this year and by 3% next, exports, benefiting from strong demand in Germany, will increase by 3% each year, while growth in imports should pick up from 2.5% this year to 3.2% in 1992.
SA is the pivot of African progress

AFRICAN countries must strengthen relations with South Africa.

This country will become Africa’s centre of development, says Jean Bonvin, director of the Paris-based Organisation for Economic Co-operation and Development.

He paints a gloomy— but not hopeless — picture of Africa as an economic disaster area.

Mr Bonvin warns African countries with their “inefficient public sectors, overprotected and unstable economies” that they have to “reform to allow freer business activity”.

The OECD, a powerful ad agency, represents 24 donor nations.

Mr Bonvin spoke at a Cameroon-SA business conference in Yaounde last week.

Running

He says African nations should “restructure, liberalise and privatise”.

Private money in Africa and Latin America accounts for 60% of investment in those countries with debt.

“The past five years direct private investment in Africa has stagnated. Capital is running away from Africa.”

Mr Bonvin says political instability and disastrous economic policies resulted in a $4 billion capital outflow from Africa in 1987 — half of the continent’s foreign debt. Latin America, on the other hand, has received a huge inflow of capital since it began liberalising its economies.

The development of the private sector is a priority.

It is a mistake for Africa to rely on outside investors to rescue it.

“Foreign investment can bear fruit in three years in Europe, but in Africa it takes far longer.”

Nonetheless, Mr Bonvin believes Africa is in a better position to attract foreign investors than Eastern Europe.

Some poor nations like Mozambique and Guinea-Bissau depend on aid for more than 70% of their income.

“If aid was reduced, consumption and development in those countries would crumble. Thus gives power to the donors which can amount to interference.”

Mr Bonvin says Africa has the world’s highest failure rate for development programmes.

“The World Bank has a 70% success rate for Africa compared to 98% for Asia and 61% for Latin America.”

“If we want to make aid effective, we should stop putting it in government parastatals which have a high failure rate.”

“Africa must seek other solutions. It will increasingly find difficulty in obtaining external financing. It has to rely on its own development and its private sector. Thus has to include streamlining the public sector and reducing external indebtedness.”

Reform

External debt is crushing African economies. In 1981, Mr Bonvin says, the long-term debt of Africa amounted to 70% of continental gross domestic product.

“The ratio between debt service and exports is 25%. Sixty percent of interest due is not paid. A state which cannot honour its debts does not inspire confidence and will not obtain direct investment.”

“It also discourages internal investment and prevents economic reform.”

Africa’s GDP increased by 4.2% between 1985 and 1989, but in the past decade the rate dropped to 2.1% while population soared.

“A Swiss Nobel Prize-winning economist said South-East Asian states had no hope of developing rapidly on Western models. Fewer than 10 years later South-East Asia has proved him wrong.”

“Africa has to look within itself for the resources of its development.”

— By CHARLENE SMITH

“Eastern Europe has to start from scratch. Their factories are good for the scrapheap, their managers have to learn how to operate in a market economy.”

“In many ways some African countries would be more attractive if they liberalised their economies and had proper market policies.”

It is important for African countries to study the impact of the informal sector on their economies — 30% of economic activity in most developing countries is from the informal sector.

It is also vital to engender trust in banks and to get rural people in particular to take their money from under mattresses and place it in banks.

His view is backed by Tetteh Kofi, a Ghanaian professor of economics at the University of San Francisco.

Professor Kofi says development takes place when a nation saves and invests at least 15% of its income annually.

Savings in Southern Africa are only about 11% compared to 24% in developed countries.

“Africa has a savings gap that can be filled by direct foreign investment. But that investment is not only inadequate, it is unevenly distributed. The five African countries that account for 90% of direct foreign investment in Africa are all oil producers.”

Professor Kofi says “Africa will have to come up with its own initiatives. Foreign investment is too erratic.”

Mr Bonvin warns that aid is a fickle friend. Public development aid amounted to $15 billion in sub-Saharan Africa in 1989, a minimal rise over the $11 billion the region received nine years before.

“Africa receives 30% of the world’s development aid, even though it has only 11% of the population of developing countries.”
Setting the standards with consumer labels

LONDON - "Green labels" awarded to consumer goods that meet environmental targets are fast gaining favour in industrialised nations.

They are a way of encouraging environmental awareness through free market forces rather than legislation.

Granted to products that measure up to a set of government-established standards, green labels are currently offered in only nine countries, led by Germany, Canada and Japan.

But labelling programmes could be in place in at least 22 countries by the end of 1992, according to the Organisation for Economic Co-operation and Development (OECD).

On December 10, European Community environment ministers are widely expected to approve a Community-wide programme to start next year.

EC Environmental Commissioner Carlo Rupaldi Meana said the plan represents a new phase of EC policy that will emphasise market forces.

"Up to now we have taken the legislative approach" of establishing mandatory pollution limits, he said when proposing the so-called Eco-label programme.

"By using market forces, we will attempt to influence market realities."

"Market forces" is the favoured approach of government officials in several Western countries, led by the United States and Britain. These officials would prefer to foster voluntary environmental compliance by industry rather than impose more legislation.

Green labels are a leading strategy for the free marketeers, because they tap into a rising tide of "green consumerism" and are designed to prevent pollution before it happens. Most legislative approaches penalise a polluter rather than reward prevention efforts.

But the OECD, in a recent survey of labelling programmes around the world, warned that "their role must be viewed as a modest one as a part of a broader environmental policy."

It found that labelling programmes do not run smoothly and multiple trade-offs are involved.

Angel

Germany was the first country to enact a labelling programme - its "Blue Angel" scheme dates from 1978 - but sees it as a soft approach amidst some of the toughest environmental regulations in the world.

The German plan demonstrates some of the pitfalls. More than 3,600 "Blue Angel" labels have been awarded to products in 94 categories but over half of these fall into only four product categories - low-emission vans, low-emission gas burners, strapping agents for waste water treatment and recycled paper.

Japan reported the same phenomenon of a small group of products accounting for more than half the labels, indicating that many industries largely ignore the label.

"The German experience shows that eco-labelling does not eliminate the need for other regulations, especially in regards to production and disposal," said Franz Joseph Fraunhofer, of Arthur Little management consultants.

The OECD said a rising green consumer movement in the 1990s should spur industry involvement in eco-labelling schemes. Most official labelling schemes have a precise set of criteria for each product category and take a "cradle-to-grave" approach - every aspect of a products life cycle from production through disposal is considered when awarding a label.
Falling inflation among many of SA’s major trading partners is widening SA’s inflation differential with the main industrial economies and posing questions about the Reserve Bank’s management of the rand.

The authorities’ “stable rand” policy already means that the rand is stronger against a basket of trading partners’ currencies than it would be if the inflation differential was fully reflected in the exchange rate. If the authorities continue to pursue exchange-rate stability as SA’s adverse inflation differential widens further, industry will be under pressure as higher domestic costs are not offset by a weakening rand.

Figures released last week showed continued falls in the US and UK inflation rates. The year-on-year rise in the US consumer price index slowed to a four-year low of 2.9% in October, and the annual rate of UK inflation as measured by the retail price index dipped to 3.7%, its lowest in more than three years.

Last week’s figures underscored the most significant feature of current inflation rates among SA’s trading partners: they are coming down in real terms. Over the past decade, average inflation among these same trading partners was higher than it is now because one or two of the countries concerned would always have sharply above-average inflation rates. The spates of French or Italian inflation could always be countered on a periodic basis by a hike in the red-trade-weighted rand during the same year.

New Zealand, France or Italy could always be counted on periodical to stoke up double-digit inflation to wreck the low trading-partner-average created by the much abstemious Germans and Japanese.

In 1980, for example, when SA inflation averaged 13.8%, average inflation among the seven biggest economies in the OECD was 14.4%, and the adverse inflation differential was about 10 points. But because the trade-weighted rand adjusted only 7% downwards during 1980, it failed to reflect fully the inflation differential. Exporters were therefore not fully compensated for their higher domestic costs.

This year, average inflation among the OECD big seven will decline further while SA’s inflation rate rises again. The difference now from the situation 10 or even five years ago is that OECD big seven inflation is likely to stay down. The era of double-digit inflation rates in the major countries that always used to supply them — the UK, France, and Italy — is over. SA will no longer be able to count on rogue, double-digit inflation rates among some trading partners to haul the partners’ inflation average up and contain the adverse inflation differential.

The watershed for the UK, France and Italy in these countries’ own private battles against inflation has been membership of the European monetary system (EMS). Since the EMS is effectively a Deutschmark bloc whose monetary policy is set by the central bank, the German Bundestag, the system’s great attraction is that it offers German-style monetary discipline and the prospect of lower, German-style inflation.

When France pitched the franc into the EMS at the beginning of the 1980s, the country was in the middle of a nightmare stretch of four consecutive years of double-digit inflation averaging 12.5% between 1979 and 1982. EMS membership has substantially reduced the French inflation rate. In July this year, French inflation dropped below the German rate for the first time since 1973.

In October last year, the UK weathered a third consecutive year of above-average inflation. Full EMS membership was conferred upon sterling with the same overall result of lowering inflation and keeping it low. With the help of some technical factors, UK inflation has also fallen steeply in the months since the announcement of the EMS. The Bundesbank’s monetary discipline will probably restrain even UK inflation in the years ahead through the EMS constraints. Indeed, before the end of the year, the UK inflation rate is likely to fall below the German rate for the first time since 1965.

Italian annual average inflation was in double figures between 1973 and 1984. Italy’s personally high budget deficit (about 10% of GDP) makes Italy one of the most inflation-prone of SA trading partners, but the lira’s EMS-related constraints have neutralised even that powerful contributor to inflation.

The months prior to sterling joining the EMS at the end of last year were, therefore, likely to be the last in which an aberrant inflation rate among SA’s trading partners pulled the partners’ inflation average up. In October, the projected rate for select partners from either deflationary or swing-up domestic cost-cutting.

The past 12 months have shown what lies ahead for SA’s inflation differential with major trading partners.

Simon Willson
FINANCIAL MARKETS

Equities: crack or crash?

The 1989 crash derived from the slump of the junk bond market and its implications for take-over activity. But with the S&P 500 down 14 and dividend yield at 3%, equities were perceived to be fair value and quickly resumed the DJIA's march towards 3,000.

This time, while the reverse yield gap of 5.2% compares with 7.7% in 1987, the growth prospects are lacking. Hence the doubts about Monday's rally while the high volume (238m shares against 236m during Friday's dive) was encouraging, only 1,019 issues gained in price while 2,161 declined.

Reflected reactions around the world showed no consistency. In Japan the Nikkei Dow lost 3% and a further 0.3% when Tuesday's rebound turned negative — in spite of the fact that the Japanese economy, with projected growth of 3.5%-4% in 1992, shines brightest in the OECD.

Other markets seemed to treat the dip as a cheap buying opportunity, even though some have outperformed New York in the past year. Falling 30% were limited to under 2% in London (up 25% in the year), Amsterdam (up 25%), Hong Kong (up 42%) and Sydney (up 43%). In Frankfurt the equity index came off 1.1% — having climbed 12%.

Paris is an exception. To defend the franc's position in the European Monetary System, the Banque du France raised its intervention rate by half a point to 9.25%, which accounted for much of the 3.3% drop in shares.

Gold had already moved up $4 to attack $360/oz again on a fresh crop of reports from the Soviet Union, where it was announced that its bullion reserves — reportedly 240 t with another 150 t outstanding against currency swaps — are to be divided up among the republics. The turbulent Russian Federation, which accounts for 67% of gold output and 90% of oil production, says it may suspend all exports of crude.

Then came a statement from Alexander Orlov, head of the Soviet parliament's audit commission, that "there is no gold at all in the Soviet State bank." While London analysts are now hugely wary of claims from the dismembering Soviet Union, the Orlov story cancelled worries that the Russian oil move may force it to sell more gold — it would lay claim to 80% of central reserves.

The Wall Street equity plunge combined with technical factors to push down bullion at $360.25 before casing back to $359.85 on a small recovery in the dollar as the FM went to press. Dollar weakness, if the US economy does falter, is expected to hold bullion in its recent trading range. But with little...
Global commerce set to
revive in next two years

Investment in front of a high-speed elevator at the Hong Kong International Transportation Hub in China. The world economy is expected to pick up pace next year, with growth expected to reach 3.8 percent, according to the latest World Economic Outlook report from the International Monetary Fund. The report projects a global recovery, with growth expected to be stronger in emerging markets and developing economies. In contrast, developed economies are forecast to grow at a more modest pace.
LEADING ARTICLES

WORLD ECONOMIC OUTLOOK  

That lingering afterburn

Even dim prospects of recovery are clouded by uncertainties

The recession of 1991 turned out to be twice as bad as expected 12 months ago. Recovery, a pale echo of previous upturns in the business cycle, will be a year late. Even this cheerless prospect is pitted with uncertainties and risks.

Making economic projections is always a hazardous enterprise and 1991 was an especially difficult vintage for the OECD, the Paris thinktank which monitors the performance of the 24 leading industrialised nations in detail and the rest of the world more broadly. The data cut-off date of mid-September proved embarrassingly early for the OECD's survey of the US published in late November.

Little over four weeks later the OECD, in its half-yearly Economic Outlook, which celebrates its 50th edition, had revised the contraction in US GNP for 1991 from up 0.2% to 0.3% while the projection for growth this year declines from 3.1% to a pedestrian 1.2%.

While, thanks to stronger activity in western Germany, the OECD's July estimate of 1.1% growth last year survives, the 1992 number is pared from 2.9% to 2.2%. That, however, conceals the impact of the reunification of Germany.

The OECD's projections (see table) account for only the free-market economy laender of the old Federal Republic. However, in its more detailed analysis of Germany, the survey shows non-OECD secretariat figures covering both sectors.

With the 20% fall in eastern Germany's GNP as restructuring took its toll, the all-German economy grew by only 2% in 1991 against an expected 3.2%. Conversely, the 13% climb forecast for the east this year will lift all-German growth to 2.5%, a level which the OECD predicts for 1993.

That, however, will leave total German unemployment, with one in five of the eastern work force on the dole, at 8.5% — a level not seen since the end of World War 2.

For the OECD bloc overall, the real recovery will not start until the second six months of this year and it will be fully felt in 1993. It will be a more gentle affair than its predecessors expansion of 3.3% compared with 4.6% recorded in both 1976 and 1984 as the world picked up from the first and second oil price shocks.

"The fundamental conditions for renewed growth at a moderate pace are in place," said the Economic Outlook Slowdown in (western) Germany and Japan should be balanced by gradual improvement in the recessionary Anglo Saxon economies, the US, Britain, Canada and Australia — with the growth gap between the strong and weak closing, especially next year.

It should happen Interest rates are under downward pressure. That applies even in Germany where the inflationary pressures caused by the reunification binge saw the Bundesbank tighten credit and whose president Helmut Schlesinger made the perplexing statement "Economic conditions should not determine monetary policy.

Consumer demand should respond and, as corporate profits reflect this, investment spending should begin to climb, with the added incentive of the longer-term prospects offered by a bigger, more integrated European market where the barriers come down at the end of the year.

While the increase in OECD investment will be hobbled by a quietening in Japan (average growth of 13.7% over the past three years) and Germany (10%), powerful performances are expected from the US, UK, Canada, France, Italy and others where capital formation has declined.

From virtually zero last year for the OECD area in total, investment is projected to rise by 3.3% in 1992 and 6% in 1993.

However, the OECD has to admit the closing months of 1991 were worrying "Uncertainty attaches to the timing and strength of the recovery of growth, given the recent softness of indicators," it said.

The missing, and least tangible, factor is confidence. This recovered after the Gulf War but has since levelled and in some economies dipped. Consumers and businesses are not reacting with Pavlovian predictability to cheaper money. It is inhibiting borrowing while brused banks, rebuilding their capital ratios in the wake of property disasters in the US, UK and Japan, are increasingly cautious about lending.

The hangover from the profligate Eighties has yet to be cured. Bank credit growth in the US has slumped from an annualised 8% at the beginning of 1990 to shrinkage of almost 1%, in Japan it is down from 11.5% to 6%, in the UK from over 30% to 7%.

Yet the OECD insists that "the main force shaping the outlook is interest rates." Reaction may lag cheaper money but "the experience of the past 40 years is that monetary policy runs a greater risk of overstimulation than of failing to boost activity.

In the US, however, the debate is about whether the US Federal Reserve has simply been pushing on a string with interest rate cuts. Some analysts argue that America is now having a balance sheet recession without parallel, with the banks in worse shape than at any time since the Thirties.

Empty properties are dubious assets and there is talk of the effects of the baby bust of the Seventies which has reduced the 25-34 age group from 23% of the population to under 20% while the ageing sector increases.
And, if unemployment is not as bad as at the end of earlier recessions, much of that is because people have simply dropped out of the job market.

Structural forces may be at work which are reducing the speed at which the US could normally hope to growth — a problem for George Bush in the run-up to the presidential election. Significant fiscal help is ruled out. The Federal deficit is set to rise from US$87bn to $136bn in 1993, or to 6.5% of GDP, which will underpin long-term interest rates and inhibit investment.

Confidence is also in short supply in Britain, where pre-election spending increases will push the Budget deficit to 3.5% of GDP. Unemployment is set to keep climbing to 10% (from 6% in 1990). Business failures were up 60% to $2,000 in 1991 and could reach 70,000 this year. House repossessions are expected to soar and 10% of all mortgage borrowers are in arrears on payments. The commercial property sector, heavily bank-financed, is in ruins because of speculative overbuilding.

Deep discounting ensured retail sales volumes were up 1.2% in November, reversing the falls, but early Christmas shopping was expected to be followed by a frost. The Confederation of British Industry reported dismal export orders books — rubbished by the fact that Rolls-Royce, the carmaker, has run into heavy losses and may be taken over by Germany’s BMW.

Prospects in Germany are also blunted by falling exports while the income tax increase will whittle back the costs of modernising the east — which have pushed the federal deficit to 3.5% of GDP — produced a 2% contraction in third-quarter private consumption.

The Bundesbank is more concerned about inflation, expected to peak at 4.8% in the (northern) spring, and sees the negative growth expected for two consecutive quarters — the US definition of recession — as more than a deceleration.

The final quarter was expected to show further slippage and Deutschebank warned that, without a surge in exports, “a full-blown recession is just around the corner.”

Germany’s biggest European trading partners face, at best, a muted year, having sagged in 1991. Interest-rate flexibility is limited by their exchange rate ties to the D-mark and the demands of fiscal prudence, notably in Italy, will also operate as constraints.

Even so, France, Italy, the UK, Benelux and Spain should produce an average of 2.2% growth this year (after only 1%) and perhaps 2.9% next year.

In the Far East, Japan again hold pole position among the leading economies in 1991 with GNP up by 4.5%. But almost all of it was in the first six months. A sharp slide in the second six months in investment and exports cut the rate to an annualised 0.8% as output fell for the first time since 1986. Overcapacity combined with a tight money policy — only easing towards the year-end — and problems faced by banks as the fall in equity and property prices puts strains on their capital ratios, will keep investment in check. In spite of relatively buoyant domestic consumption, Japan faces a brake on growth this year.

Concerns are also resurfacing about the ballooning current account surplus. This was helped last year by lower gold imports and a hiccup in the normal flood of Japanese tourists because of the Gulf War plus reparation of profits from overseas operations to bolster parent companies’ liquidity.

But even with the low-key recovery forecast for the US and Europe, Japan’s surplus will climb again, raising the ogre of protectionism — even though Japanese funds are an important source of saving for America.

In the six dynamic economies of the Pacific Rim — South Korea, Taiwan, Hong Kong, Singapore, Thailand and Malaysia — average real growth is cooling after the third successive year in the 7%-8% range. Internal demand, added to sustained exports which were up 8%, has created tight labour markets and inflationary pressures. Korea’s current account deficit quadrupled to 3% of GNP and measures to rein in demand should moderate its growth rate to 7.5%.

China’s 30% devaluation against the dollar two years ago continued to help exports, lifting GNP by 6%-7%, it looks sustainable for 1992. But should the current account fall back into the red, the OECD fears a return to stop-go management.

Other developing economies — excluding Africa, which the OECD does not mention — offer a mixed picture.

In India, the foreign exchange crisis, a budget deficit exceeding 8% of GNP and 13% inflation forced the new government to bring in a series of reforms. Subsidies have been cut, the rupee devalued by 13%, taxes increased and a limited privatisation programme instituted. These are expected to reduce growth to below 1990’s rate of 6%.

Latin America witnessed the big economies struggling with debt and inflation with varying degrees of success. Brazil, the largest, is in disarray following the failure of its stabilisation plan and inflation was marching upwards to over 500% towards the year-end with the economy contracting — though a trade surplus of $7.2bn was recorded in the first half.

Much hangs on Brazil’s securing a $22bn standby loan from the IMF and rescheduling $52bn of commercial debt. But the OECD fears the friction between its federal and state governments is creating uncertainty which will jeopardise foreign confidence. Forecasts of 1.5% growth this year are questionable.

Mexico, Chile and Venezuela win plaudits for sustaining their adjustment programmes. Their average rate of inflation was down from 35% to 20% and growth was sustained, in spite of weaker oil prices (Venezuela and Mexico) and copper prices (Chile), at between 4%-5%. Private forecasts expect the same in 1992.

Argentina is slowly grinding down price increases — they only doubled last year — while also turning the budget deficit into surplus, liberalising trade by halving import tariffs. Full convertibility of the austal and privatisation has brought back flight capital and attracted foreign direct investment. Growth could be 4% this year, from 1.5% and two years of falling GNP.

The biggest unknown in the world economic equation is the former Soviet Union. In 1988 it accounted for 8% of world GDP.
with the six former allies in the Warsaw Pact adding another 4%.

Over the past two years the collapse of trade between them, combined with the introduction of free-market policies and spending cuts, has produced a frightening melange of galloping inflation, falling output and rising unemployment. Some of the old East bloc economies — those which started first — are beginning to turn the corner.

Poland's rate of inflation — 250% in 1989 and 550% in 1990 — was down to 65% last year and the projection for 1992 is 45%. GDP shrinkage should be only 1% this year after 20% over 1990-1991.

The change has been better managed in Czechoslovakia where inflation of 55% may change to only 10% this year. Reorganising will still produce GDP contraction of 5% (after 12%) but positive growth is expected in 1993.

Hungary is expected to move back into growth of 1% this year and 2% next year after a 12% decline since 1989. Inflation, however, is likely to remain at 35%-38%.

The Soviet Union embarked half-heartedly down the same road in 1990 and stepped up the pace last year. The price has mounted net material product (approximate to GDP) fell 4%, followed by 12.5%, consumer prices rose 10% in 1990 but 300% last year.

What happens now that the last vestiges of centralised government have been swept away defies projection. Independent forecasts for the old USSR saw a further GDP fall of 20% this year while inflation moderated to 200%.

But the republics are under new national management and the chances of coherent reforms seem remote, even if the commonwealth agreement between them maintains the old intra-Soviet trade flows. Economic output, resources and population are heavily weighted towards the Russians, Ukrainians and Byelorussians — but they now have their own domestic political priorities.

All that seems certain is a period of acute misery which may last for three years even if investment floods in from the West — and the portents for that are not good.
A leading Swedish observer looks at the economic changes of the past year

All of my gloomy forecasts in the FM a year ago on the economic future of the Swedish Model have come true. Stockholm's Bureau of Statistics and the OECD paint a dark picture of a year with 0.9% negative GNP growth and rising unemployment.

Modest growth could occur this year, predicts the OECD, but the vital export sector will remain sluggish right into next year.

In January 1991, the Swedish Federation of Industry presented a cheerful prognosis for the year — and the latter half of 1990 had proven that the chief economist of the federation, Ola Yrvin, was totally out of touch with harsh reality.

Yrvin warned that never before in the history of federation forecasts had so many companies been forced to cut production. Domestic demand would remain weak and so unable to neutralise this development. Accordingly the federation demanded that the so-called investment funds be unleashed — the Swedish economy is full of accumulated funds, from industry itself, for improving working conditions and on to the basis of full-fledged nationalisation.

However, the international recession was considered so grave that any domestic step such as freeing US$3bn (from the investment funds pool) was deemed insufficient, though still necessary to coax companies to invest in Sweden at all.

In the first quarter of 1991 Swedish GNP decreased by 0.4%, according to the Bureau of Statistics, compared to a year ago. Car sales were down 40% while the public sector declined by 3%. However, public consumption rose 0.5% at local level and a whopping 3% for governmental agencies in a country where one-third of all employees are in public service.

Investments in general went down 7.3% with a high for machinery of 12%. Exports sank 4% but imports decreased even more — 8.5%. For hotels and restaurants the downward trend intensified because of Sweden's high rate of value-added tax — currently 25%. The decline of this sector amounted to 10%, which in turn hit travel. The only choice, if one is to travel VAT-free in Sweden is if you have a foreign destination. Thus Swedes are more or less entranced by the tax laws to include the nearest foreign destination in their itinerary if they are to beat VAT.

Thus is the background against which the latest OECD Economic Outlook's positive economic trend applies to all industrialised countries in the West — except Sweden. They will have at least a small growth of GNP, but Sweden faces a reduction of 0.9%. Only Finland is on thinner economic ice. Sweden's GNP this year will rise by only 0.4%, but inflation won't fall much from 8%.

Some national banking forecasts predict a slightly faster turning of Sweden's economic wheels this year but the change into a higher economic gear will be postponed until 1993. The blame for this sluggish performance lies with the former Social Democratic government and its obsession with the construction sector and not with export-oriented businesses.

The change after the Social Democratic loss of power in September has prompted a totally altered attitude towards economic growth. Every tax-reducing effort must, however, be matched by other means of fiscal or profitable activity by the new coalition government. The only possibility of reaching a rapid result, former Finance Minister Kjell-Olof Feldt points out, is by slashing budgets.

Ever since World War 2 the flagship of the Swedish economy has been Volvo but, in its 1990 balance sheet, the truck and car maker had a loss of nearly US$65m from a $1bn-plus profit a year earlier. At least 5,000 employees have been laid off in Sweden along with thousands more in countries like Holland and Belgium where Volvo also has vehicle plants.

The Electrolux company has been hit just as hard by recession and plans to lay off about 15,000 workers in the next two years. A profit collapse hit the SKF bearings company last year. Production must now be cut 20% in Sweden and 2,500 workers will be laid off in US and Brazilian markets, where SKF has invested heavily, profits have plunged.

During 1990 a quarter of Swedish investment was made abroad. No other country puts such a large percentage of its investment cash into foreign economies. The main reason for this outflow is high labour costs at home. German workers are the best paid in the world, followed by the Swiss, Swedes, Norwegians and Danes. In the US, Japan, the UK and France, employees get much lower wages.

Harvard research Michael Maccoby complains that Swedish trade and industry lack visionaries. Sweden is no longer in a position to strengthen its competitive edge just by cutting costs, motivated people and innovative organisations are missing. Swedes are good at technology but bad at generating hi-tech. In the US, for example, there is an element of fear of losing your job, but in Sweden this factor has been replaced by total womb-to-tomb security for every citizen. The results are all too visible.

The light at the end of the Swedish economic tunnel is very faint indeed.

Lars-Erik Nyman

☐ This is the first of two articles on the Swedish economy
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OECD's investment policy a model for SA

It is of utmost importance that the future investment policy of South Africa meets international standards and compares favourably with existing policies of competing countries, says the SA-German Chamber of Commerce and Industry chief executive Klaus Schuurman.

Mr Schuurman made particular reference to taxation, nationalisation and equal treatment of foreign and domestic companies in a statement at the weekend.

He suggested that the Declaration on International Investment and Multinational Enterprises of the OECD countries should serve as an investment policy model for a future SA government.

"This means the creation of an environment that is conducive to investment, not only foreign, but also for domestic funds," he said.

To create this environment Mr Schuurman pointed out that political as well as economic factors would have to be considered.

"Political stability is as important as stability in labour relations." Taxation in SA, he said, had to be favourable for enterprises and with specific guarantees with regard to the repatriation of capital and dividends.

He also strongly voiced his opposition to the possibility of nationalisation.

Nationalisation

"Nationalisation of whole industries has failed to reach positive results all over the world and thus must therefore be a taboo in the New South Africa." Mr Schuurman said that in return for a favourable investment environment South Africa could expect German companies to take into account the general objectives of the host country.

"They consider South Africa's aims and priorities with regard to the urgently needed economic and social progress, industrial and regional development, the creation of employment and the protection of the environment and consumer interests" — Sapa
Wealth tax can contribute little to sound fiscal policy

MARIUS VAN BLERCK

In SA, a similar trend is evident. In 1975 property taxes at a general government level amounted to 1.6% of GDP and by 1985 this had dropped to 1.3%. By 1997 property taxes were again edging up to hit just above 1.3% as a consequence of an increase at the central government level. An inspection of the makeup of central government property tax indicates this has come about because of an increase in tax on capital and financial transactions from 0.23% of GDP in 1985 to 0.39% in 1987. A further indication of the decline in the importance of wealth tax is that, in the OECD, this category of tax has declined as a percent of GDP from 0.41% in 1960 to 0.14% in 1994. In SA, gift and death duties have also declined in importance, from 0.14% of GDP in 1976 to 0.11% in 1986, and still further to 0.08% in 1987. It is clear that SA is following the OECD trend of reducing reliance on property tax (including wealth taxes) but it is equally clear that, at a general government level, SA leaves less property tax than the OECD average — 1.3% of GDP versus 1.8% of GDP for 1985 respectively. It is thus apparent that as SA’s economy continues to develop, there will be some capacity to increase the contribution of property taxes. To supplement the comparisons with OECD countries it is essential to compare our position with non-OECD countries, as the OECD is composed exclusively of developed economies, while the SA economy is better classified as a developing economy, and has much in common with the average non-OECD country. At a central government level, the SA property tax burden is somewhat higher than that in non-OECD countries. Non-OECD countries experienced a burden of 0.36% of GDP in 1975, declining to 0.33% in 1997, SA experienced an increase from 0.40% to 0.47% in the same period.

If far more important is that we should not allow less important issues such as tax base, unnecessarily heated emotional debate and absorb a disproportionate amount of time. The national tax system has direct urgent attention to the major fiscal factors influencing successful economies — simpler tax systems with lower tax rates.

Empirical evidence indicates that, because such systems generate economic growth and discourage tax avoidance and evasion, they tend to generate higher government revenue at a time when SA has been embraced by most industrialised countries and an increasing number of developing countries which Tanzania is a significant recent addition.
No quick fix for world economy

PARIS - Policy-making officials from 18 leading industrial countries have agreed that the industrial world is headed for economic recovery within the next few months but saw "no real room" for an early general easing of monetary policies.

They concluded that government policies would broadly have to "stay the course", a senior European official said.

Meeting in a high-level committee of the Organisation for Economic Co-operation and Development (OECD), the officials said they felt there was "now a well founded hope of a world-wide recovery", although it might not be "a very buoyant one", the panel's chairman, Hans Tietmeyer of Germany, told reporters.

"A lot of people would like to see lower interest rates, but the question is whether this would be appropriate in the current situation", he said.

He stressed that in Germany, there was at present no room for a relaxation of monetary policy and no changes were in the pipeline.

Interest rates

US Treasury Secretary Nicholas Brady said here earlier he was looking for an easing of interest rates to stimulate growth in the industrial world.

"I have been saying that for over a year," he told reporters after talks with his former French colleague, Pierre Bérégovoy, who became premier last week. French officials said they had agreed on the need to accelerate world recovery.

Commenting on the conclusions reached in two-day talks in OECD's exclusive working party number 5 (WP5), Mr Tietmeyer, a senior director of the German Bundesbank, said the group had discussed briefly what could be done to reduce Japan's trade surplus but had not specifically called for a stronger yen.

Questioned on the recent stock market turbulence, he said the impact of market developments would be discussed by the officials at their next meeting.

The focus this time was on growth prospects, and the group noted some signs of recovery in the United States, and improving prospects in Japan and Germany.

The latest US signs were mixed, but on the whole more positive, he said. "One has to be cautious," he added, stressing that "no one can predict precisely what the outcome will be".

Japan

In Japan, he said, there will be a recovery from the second quarter with a further pick-up in the second half following the recent adoption of a fiscal package, after a first quarter that was not positive.

For Germany the expectation was one of positive growth from the first quarter, accelerating throughout the year. Bonn foresaw an average growth rate of two percent this year for Germany as a whole, with the former east Germany growing by 10 percent and the western part by 1.5 percent.

The group welcomed an improved growth performance by developing countries overall as a positive element for the world economy, noting they were expected to grow by four percent this year and next, double this year's projected OECD rate.

The officials agreed that former East bloc countries were still facing a very difficult situation, but Mr Tietmeyer did not elaborate.

He said the panel, comprising deputy ministers and central bank officials of the Group of Seven (G7) countries— Britain, Canada, France, Germany, Italy, Japan and the United States—plus the Netherlands, Sweden and Switzerland, agreed there were "no quick fixes".

The officials saw budgetary consolidation—cutting deficits and running in on public spending—as probably the best contribution to sustainable growth in the industrial world.

He cited a general understanding that there was no real room for a more stimulative monetary policy, and that structural policies, including cutbacks in subsidies and privatisation, should play a bigger role.

Integration

The group also recognized that continued growth in developing countries and the integration of Eastern Europe into the world economy required access to Western markets, and a successful conclusion of the Uruguay Round trade negotiations.

Questioned by reporters, he said he had heard no criticism, but a lot of praise in the WP5 for the Bundesbank's firm stance against inflation triggered by German unification. This had forced other European countries to maintain higher interest rates than warranted by domestic factors.

But he said the group felt Germany needed to improve the mix between its fiscal and monetary policies, and welcomed Bonn's intention to cut its budget deficit—Sapa-AFP.
Africa on course to grow poorer, Safto event told

THE West had confidence in SA's future despite the volatile situation, OECD Development Centre director Jean Bonvin said yesterday.

Speaking in Johannesburg at the SA Foreign Trade Organisation (Safto) conference on investment in Africa, Bonvin said, however, all economic indicators pointed to Africa slipping deeper into poverty - when most other regions in the developing world were prospering.

More than two thirds of sub-Saharan Africa is classified by the World Bank as low-income - or having a per capita income of below $500 a year.

Bonvin said Africa's main burden of the past was its external debt, but conceded this debt was perhaps not as large as that of Latin America. In 1960 African long-term external debt amounted to $23bn, equal to its GDP - with $141bn for sub-Saharan countries.

Official Development Assistance now exceeded 15% of GDP for more than half these countries with two thirds of imports being financed by aid.

Bonvin said the results of aid had been less satisfactory in Africa than elsewhere. It was clear aid favoured the exaggerated growth of the public sector - without making its expected contribution to growth.

He stressed a complete overhaul of public finance in Africa was essential for any revival of the economy.

Solutions included:

- Liberalising economies and bolstering political stability to attract foreign investment,
- Encouraging local investment by mobilising savings, restructuring the financial system and privatisation; and
- Creating an environment for private enterprise

But Bonvin said the prospect of direct foreign investment in the Third World appeared uncertain - due to a looming world shortage of capital in the 90s.

He said there was the danger that Africa would become the forgotten continent since capital was being pumped into the restructuring of eastern Europe and the Middle East. "The fundamental problem is that Africa needs to change its image so that the investor sees it as a politically stable region, safe for his capital."

Bonvin gave the assurance that if this was achieved, investment capital would flow into Africa under the same yield conditions as in Asia.

Addressing the conference, Zimbabwean businessman Eddie Cross said transport was a vital ingredient in generating economic growth in southern Africa, and 60% of regional trade was carried by rail.

Cross, chairman of Cross Holdings and director of the Indian Ocean Export Company, said SA played an important role in the region's transport infrastructure.

"SA has as many as 10 000 wagons and 50 locomotives north of the Limpopo at any one time, and carries 15% of the region's exports and 50% of its imports," he said.

The total rail capacity of the Southern African Development Conference Committee's (SADCC's) member states was half that of SA's, he said.

Angolan ambassador to Namibia Alberto Ribeiro-Kabula told the conference Angola's infrastructure was in a poor state and there were opportunities for SA businesses to help in Angola's rehabilitation.

Ribeiro-Kabula outlined transport, energy, telecommunication and urban renewal as the areas where Angola needed infrastructural aid... - Sapa
OECD expresses faith in S.A.'s future

By Steven Landsky
There is little to shout about in the IMF 1992 forecasts for the world economy. Like other macro-economic soothsayers, such as the OECD, IMF forecasters have had a chastening 12 months. While there are marginal differences between the OECD and IMF (for example 0.2% of US GNP, about $US11bn), both organisations have had to do the same thing: take the pruning fork to previous projections. The recession’s bite was worse and recovery will be slower and later than expected.

The IMF’s World Economic Outlook poses an even drearier picture than that presented by the OECD only four months earlier. It also highlights the. decrease in US pressure on the older leading economies of the Group of Seven (G7) to do more to foster. growth when they met in Washington at the weekend.

US Treasury Secretary Nicholas Brady earlier told British Chancellor Norman Lamont that “an inordinate emphasis” with inflation would hold growth below satisfactory levels. Japan has already been asked to bring forward more State investment in addition to the recent stimulatory package announced when its discount rate was cut to 3.75%. This attitude, however, is at odds with the IMF’s main concern over the high level of fiscal deficits in Germany, the US, Britain and Italy in particular, which threaten to undermine long-term interest rates.

The IMF looks at the world. This gives it a different perspective to the OECD which covers 24 industrialised nations accounting for more than 74% of global GDP. The most interesting differences concern the developing countries and transitional economies of the former communist bloc (see table).

It shows how the near collapse of the old centralised economies and negative growth performance of two G7 countries, the US and UK, reduced world GDP by 0.3%.

No material improvement is on the cards in what was the USSR but the other ex-members of the Warsaw Pact are showing a swift turnaround and nearly 4% growth is projected for next year.

The lesson for the 15 members of the Commonwealth of Independent States is that they should emulate the “bold and comprehensive reforms” implemented by the Poles, Czechs, Hungarians and other erst-while Soviet satellites, says the IMF.

The developing world, however, did much better than was foreseen last year by avoiding the worst effects of the industrialised nations’ slowdowns and weak commodity prices with real GDP up by 3.3%. While the 1992 growth figure of 6.7% is distorted — the Middle East’s rebound to 15% reflects the return of Kuwait as an oil producer, plus, possibly, its old enemy Iraq — the IMF is optimistic.

Africa’s growth rate should almost double in spite of drought in the subcontinent. Asia is shown as maintaining a fast clip of 5.3% and more Central and South America are expected to produce a surge of 4.2% in 1993.

The IMF notes that the developing countries remain heavily dependent on activity in the OECD’s 24, it has become clear in the past few years that much of their fate lies in their own hands. It cites the obvious examples of the tiger economies of the Pacific Rim but also commends those which are following suit with free-market and prudent fiscal policies in Romania, Mauritius, Morocco and Tunisia in Africa plus Mexico and Chile in Latin America.

Much, of course, is due to the horrors of the debt crisis of the 1980s, the consequent net outflow of capital and destruction wreaked by hyperinflation — now, and hopefully only temporarily, the preserve of ex-communists. By year second, World inflation should be more halve to SA levels.

“The developing world would appear to be at critical juncture,” says the IMF “if reforms take hold and the external environment is favourable, the rest of the decade could see sustainable growth in per capita GDP.”

But any backsliding from reform will mean “growth is likely to remain elusive.”

The IMF’s forecast is liable to prove no more accurate than most others — there are imponderables which can wreck even its modest projections. Chief among these is the erosion of the capacity of Japan’s banks to lend (see page 25). There is also the course of German inflation over the next few months — though the IMF is looking for a sharp decline from the present 4.7% — and hence the Bundesbank’s monetary policy which threatens growth in the rest of Europe.

### World economic outlook highlights

<table>
<thead>
<tr>
<th>Output (Real GDP)*</th>
<th>1991</th>
<th>1992</th>
<th>1993</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>-0.3</td>
<td>1.4</td>
<td>3.6</td>
</tr>
<tr>
<td>Industrial countries</td>
<td>0.8</td>
<td>1.8</td>
<td>3.2</td>
</tr>
<tr>
<td>US</td>
<td>-0.7</td>
<td>1.6</td>
<td>3.5</td>
</tr>
<tr>
<td>Japan</td>
<td>4.6</td>
<td>2.2</td>
<td>3.9</td>
</tr>
<tr>
<td>Germany</td>
<td>1.2</td>
<td>2.0</td>
<td>3.0</td>
</tr>
<tr>
<td>EC</td>
<td>0.8</td>
<td>1.8</td>
<td>2.8</td>
</tr>
<tr>
<td>UK</td>
<td>-2.2</td>
<td>0.8</td>
<td>3.1</td>
</tr>
<tr>
<td>Developing countries†</td>
<td>3.3</td>
<td>6.7</td>
<td>5.4</td>
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<tr>
<td>Africa</td>
<td>1.4</td>
<td>2.7</td>
<td>3.0</td>
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<tr>
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<td>5.7</td>
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<tr>
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<tr>
<td>W Hemisphere</td>
<td>2.8</td>
<td>2.7</td>
<td>4.2</td>
</tr>
<tr>
<td>E Europe</td>
<td>-16.6</td>
<td>-1.0</td>
<td>3.6</td>
</tr>
<tr>
<td>Former USSR</td>
<td>-17.0</td>
<td>-17.5</td>
<td>n/a</td>
</tr>
</tbody>
</table>

**Consumer prices**

| Industrial countries | 4.4  | 3.3  | 3.2  |
| US                | 4.2  | 3.1  | 3.1  |
| Japan             | 3.3  | 3.2  | 2.4  |
| Germany           | 3.5  | 3.8  | 3.7  |
| UK                | 5.8  | 3.7  | 3.1  |
| Developing countries† | 4.1  | 17.6 | 16.1 |
| E Europe          | 134.7| 95.0 | 44.0 |
| Former USSR       | 86.0 | 1000.0| n/a |

**Unemployment rates (%)**

| Industrial countries | 7.0  | 7.3  | 7.0  |
| US                | 8.8  | 8.7  | 6.2  |
| Japan             | 2.1  | 2.1  | 2.2  |
| Germany           | 6.5  | 7.6  | 7.6  |
| EC                | 9.1  | 9.7  | 9.8  |
| UK                | 8.1  | 9.7  | 8.7  |

**Current account ($bn)**

| Industrial countries | -24.0| -48.0 | -68.0 |
| US                | -9.0 | -63.0 | -68.0 |
| Japan             | 73.0 | 93.0  | 88.0  |
| Germany           | -21.0| -14.0 | -9.0  |
| UK                | -8.0 | -16.0 | -16.0 |
| Developing countries† | -85.0| -71.0 | -72.0 |
| E Europe          | -7.07| -7.0  | -6.0  |
| Former USSR       | -2.0 | n/a   | n/a   |

**World trade volume**

| 3.3 | 5.0 | 6.3 |

* Annual percentage change † Excluding eastern Europe and former Soviet Union

Source: IMF World Economic Outlook, April 1992
AFRICA will slip into deeper poverty while the developing world thrives.

This is according to Jean Bonvin, senior official of the Organisation for Economic Co-operation and Development, which groups top Western nations.

Speaking in Johannesburg at a conference on investment in Africa organised by the SA Foreign Trade Organisation, Bonvin said more than half the countries in Africa rely on foreign aid to finance two-thirds of their imports.

Unfortunately Africa has developed a bad name in the investment world as in the past aid has been used to finance the creation of large bureaucracies which contribute little to economic growth.

Any real revival in Africa depends on a new approach which includes a complete overhaul of public finance.

Bonvin said it would be tough to obtain foreign aid for Africa as capital was being pumped into the restructuring of Eastern Europe and the Soviet Union.

Africa needs to boost investor confidence and provide investors with real value for money.
PARIS — The burning issues of how to boost world growth and conclude global trade talks are likely to take a back seat to a detached look at the causes and destructive effects of high unemployment, at this week's Organisation for Economic Co-operation and Development (OECD) annual meeting. Because many countries have little room to juggle monetary and fiscal policy, the OECD wants to refocus attention on what it sees as structural impediments to job growth, officials say.

The OECD, a think tank of 24 rich countries, has long advocated greater emphasis on "active" labour market policies, such as better training and job-matching, rather than passively doling out unemployment benefits.

But the issue has acquired greater urgency because of a rise in the number of people out of work in the OECD's 24 member countries to about 30 million from 28 million two years ago.

There's a feeling that some governments have not done all they can to encourage employment," said a US official involved in the preparations for the meeting, to be held today and tomorrow.

If Germany, for instance, had more flexible labour markets, the wage pressures burdening economic and monetary policy might not be so intense, he said.

The need for deep-rooted reforms is seen as particularly acute in Europe, where the ranks of the long-term unemployed continue to swell. In France alone, 900,000 people have been jobless for more than a year.

But getting workers in dying industries to retrain and perhaps uproot their families to move to a new job is easier said than done.

The same is true of instituting more flexible work practices or getting governments to reduce payroll taxes.

***Sensational***

That is why ministers, unusually, will touch on some of the social consequences of economic change, such as immigration, xenophobia and — an issue that was on the agenda before the recent Los Angeles riots — inner-city decline.

For all the concern that the munturers — of finance, trade and foreign affairs — will express, no one is labouring under the illusion that there is a miracle cure waiting to be found.

"There won't be any sensational discoveries," said OECD secretary-general Jean-Claude Paye.

Underpinning the worry about entrenched unemployment is the acknowledgement that the economy is picking up too slowly to create enough jobs to shorten the dole queues by much if at all.

The general theme of structural reform is all well and good, French Finance Minister Michel Sapin said on Tuesday. "But it will not, by itself, create growth.

OECD researchers are forecasting growth of about 1.8% this year, a weak step up from last year's anemic 0.9% pace, but with an acceleration to 3.2% on average in 1995.

Sapin will press his campaign for a better mix of policies in Europe aimed at creating room for lower interest rates.

But officials said the communiqué that emerges from the meeting will not go beyond the recent statement issued by the Group of Seven (G-7) finance ministers, which essentially left it to each country to plough its own furrow as it saw best.

"In terms of macroeconomic policy, you shouldn't expect any spectacular change," Paye said.

Japan, which largely resisted G-7 pressure last month to boost public spending, will stick to its guns in Paris, a senior foreign ministry official in Tokyo said.

Last year, treasury secretary Nicholas Brady, who will again head the US delegation, pressed Europe to go for growth.

This year, Washington remains concerned that the pace of economic activity in Europe remains sluggish but seems unwilling to go to the mat over it — not at the OECD at least.

"Policies will be discussed, but I don't think you'll see an outright call by the US or by any other country for a change," said President George Bush's chief economic adviser, Michael Boskin.

Nor is the gathering likely to see a repeat of the heated exchanges over the Uruguay Round of GATT world trade talks that were a feature of the past two meetings.

"The round is at such a serious stage that we're not interested in scoring debating points," a US official said — Sapa-Reuters.
Little optimism for jobless Europeans

PARIS — The pace of economic growth would pick up this year and next but it would not be enough to shorten Europe's dole queue, the Organisation for Economic Co-operation and Development (OECD) said yesterday.

In a series of forecasts released to coincide with the start of its two-day annual ministerial meeting, the think-tank of 24 industrial nations said output in the OECD area was likely to expand by 1.8% this year and by 3% in 1993.

That would be an improvement on 1991's sluggish growth rate of 1.1% and should trim overall OECD unemployment to 7.8% of the work force in 1993 from 7.5% this year.

But in Europe, the outlook for long-term unemployment is bleak.

The jobless rate in Europe is projected to jump from 8.7% in 1991 to 9.3% this year and to stay at that level on average in 1993. The OECD is even forecasting a deterioration to 9.4% in the first half of next year.

Economy and trade ministers will make the fight against unemployment the centrepiece of this week's get-together.

But preparatory meetings of top officials have yielded a consensus that little can be done in the short term to lower interest rates or boost public spending to create more jobs.

US and Japanese interest rates are already low, he noted, while the cost of money is being kept high throughout Europe by the German central bank's determination to crush inflationary pressures unleashed by unification.

Germany's partners in the European monetary system have been pleading for relief, but the OECD officials expressed understanding for Germany's tough anti-inflationary stance.

Although they had imported high interest rates from Germany, European countries had also benefited from unification by stepping up exports to Germany.

"Being in the same boat has drawbacks as well as advantages," a senior OECD official said.

In the absence of ready short-term solutions, the ministers are expected to concentrate on how to overcome deep-seated obstacles to job creation such as poor education and training.

Other so-called structural barriers to stronger growth, ranging from stalled world trade talks to high farm and industrial subsidies, will also be debated.

Perhaps because major nations have decided on a low-key agenda, a number of senior ministers will be absent this year.

Other highlights of the OECD's forecasts are:

- Growth in the US is likely to accelerate to 3.6% next year from 2.1% in 1992.
- Japan, under pressure from its partners to boost its economy, will grow by no more than 1.8% this year after 4.5% in 1991.
- Inflation in the OECD area is likely to fall to 3.5% this year from 4.1% in 1991 and to ease further next year to 3.2%.
- Inflation in western Germany is probably peaking. It will average 4.5% this year, after 4.6% in 1991, and fall back to 3.8% in 1993. — Reuters
It would rather help Africa hurts those for World Bank aid for

BEN TRANKR

[Image of a diagram or illustration]
World recovery on track, says organisation's report

PARIS — A recovery in the world economy was finally taking hold after several false dawns, but many risks remained and the pick-up would be too sluggish to make much of a dent in stubbornly high unemployment, the Organisation for Economic Co-operation and Development (OECD) said yesterday.

The 24-nation OECD, which has pumped the gun more than once in heralding an end to the global slowdown, said doubts about Japan had grown and Germany's imbalances were greater than expected.

Nevertheless, the think-tank's half-yearly Economic Outlook said the forces necessary to bring about a recovery were beginning to be felt, especially in the US.

Positive indicators of the US economic situation were now more numerous and confidence in a recovery was spreading, which could alleviate the wait-and-see climate prevailing in the rest of the area, it said.

Growth of just 1% in 1991, output in the OECD area accelerated to a 1.6% rate in the first half of 1992 and should pick up further to 2.8% in the second half and 3.1% in the first six months of 1993.

The OECD was similarly upbeat in July 1991, announcing that "conditions appear favourable for a resumption of growth".

It attributed the delay in the recovery to an erosion of business confidence in Japan as the speculative bubble of the '80s burst, a further rise in German interest rates to crush inflation and a deeper than expected recession in Britain.

Businesses and consumers also had to work off heavy debts.

Although the outlook was brightening, the OECD warned of "a number of risks, concerns and uncertainties". Germany would need to keep interest rates high. Firms and consumers in several countries were still burdened by debt.

The impasse in world trade talks was contributing to uncertainty. Fear of unemployment was also sapping confidence.

The OECD area's jobless rate is set to rise to 7.5% in 1992, from 7.1% last year, before easing to 7.3% in 1993.

The OECD's new chief economist, Kumaharu Sugehara told a news conference that unemployment would remain "intolerably high" in most OECD member states.

Although prices in many countries were rising at the slowest pace in 20 years, inflation remained a risk and policy makers could not afford to drop their guard, he said.

In North America, central banks had to be alert in case growth and inflation picked up briskly, the Outlook said. German monetary policy, too, had to continue to bear down on inflation.

Even in Japan, where inflationary pressures were ebbing, sizeable further cuts in interest rates were unlikely.

Because many governments were already running huge budget deficits, the OECD also saw little leeway for more relaxed fiscal policies if the recovery faltered again.

At first sight, only Japan appeared to have room to boost spending.

Among other points made in the OECD report were:

- Economic strains were growing in Eastern Europe, testing the will of governments to stick to the path of reform.
- The slide in Tokyo shares was dampening Japan's economy but should not have much impact on the rest of the world.
- Many members of the EC would struggle to meet the conditions set for joining a single EC currency.

— Sapa-Reuters
Asia's 'Little Dragons' defy sluggish trends

PARIS — Sluggish growth in the world's leading economies has not held back Asia's "Little Dragons" which will record average growth rates of 7% in both 1992 and 1993, the OECD said.

The "Little Dragons", or the Dynamic Asian Economies as the OECD calls them officially, are South Korea, Taiwan, Hong Kong, Singapore, Thailand and Malaysia.

Growth averaged 7.5% in these countries for the third successive year in 1991, powered by buoyant domestic demand and soaring exports.

"Growth in the dynamic Asian economies continues largely unaffected by the sluggish performance of the OECD area. The China-Hong Kong-Taiwan triangle is emerging as a major growth area," the OECD said.

But this performance was not without problems in some of the six countries.

South Korean consumer prices rose 9.7% in 1991 after 5.6% inflation in 1990, and inflation of 9% is likely this year. Heavy imports of investment goods led to a record current account deficit in dollar terms in 1991 of $8.6bn.

Monetary policy was tightened as a result and 1992 budget plans aimed to hold spending increases to 6%. Malaysia posted a trade deficit in 1991 for the first time since 1982, and the current account shortfall reached $4.4bn. Inward investment fell sharply, but was adequate to fund the gap.

In Hong Kong, inflation touched 14% at one point in 1991 before slipping back to 10% at the end of the year.

The OECD said exports grew almost 17% in volume terms in 1991.

A major increase in trade with China helped boost Taiwan exports by 13% in value terms in 1991.

The OECD noted a labour shortage in Hong Kong and Singapore, encouraging some firms in the latter to shift production elsewhere — Sapa-Reuters
Economic assistance programmes for developing countries or are not new. After all, the product that accounts for the long-range, efficient, effective use of funds from international sources is the country's own economy. The government and the people of a country, in cooperation with the international community, can create a balanced economic environment that will attract foreign investment and develop local industry. This approach is not only a sound economic policy, but it also ensures self-sufficiency and stability in the long run.

A particularly interesting example is the case of Japan, which has effectively used its human resources and natural advantages to diversify its economy and increase its exports. Japan has managed to maintain a high level of economic growth and stability, and this has been achieved through a combination of sound policies, technological innovation, and the development of a strong manufacturing sector.

In conclusion, economic assistance programmes should be viewed as a means of fostering development and promoting economic growth, rather than as a form of aid that merely perpetuates poverty and dependence. The key to success lies in the ability of the recipient countries to use such programmes as a stepping stone to self-sufficiency and stability, and to focus on the development of their own economies.
Antipodesan Smirks at the Bureau de Change
Reformers will get aid

PARIS — The bulk of aid to poor countries in the next decade will go to those attempting democratic, free-market reforms, the Organisation for Economic Co-operation and Development (OECD) says in a report.

Both government and private donors would become more discriminating in their foreign aid, the Paris-based OECD said in its annual survey on debt and financing for poor countries.

"To a much greater extent than in the last decade, resource flows are likely to go to those countries making progress on the economic and political fronts," the report said.

The OECD groups the world's 24 largest industrialised democracies.

The report said that with development funds becoming ever tighter in wealthy countries, aid recipients would be scrutinised closely to see if they merit donations or refinancing.

Governments would remain the chief source of aid, it said, but were not likely to increase expenditures much. Private donors would become more important.

The survey said net aid from its members last year totalled $137.6bn, almost the same as in 1990, but represented a 3% decline after adjustment for inflation and exchange rate fluctuations.
Developing world's growth thwarted

WASHINGTON — Income per head in sub-Saharan African countries will fall again this year for the third year in a row, a new World Bank forecast says.

The Bank also predicts 1992 will be a third successive year of falling per capita GDP for the world's developing countries as a whole. This would be the developing world's longest fall in living standards since World War Two.

Presenting the forecast at the weekend, bank chief economist Larry Summers acknowledged that special factors had thwarted the efforts of some sub-Saharan economies to adapt and restructure.

"Growth in southern Africa continues to lag because the drought in parts of the region has offset the beneficial effects of policy reforms in many countries," he said.

After falling by 1.7% in 1990 and by 1.4% last year, income per head in sub-Saharan African countries is forecast to decline by 0.4% this year before recovering to 0.5% next year.

Income per head in all developing countries is expected to fall by 1.4% this year after declines of 0.3% in 1990 and 1.7% last year. The bank forecasts a recovery to 1.7% next year.

Summers isolated three principal ways in which the developing world was affected by industrialised economies. The most important was that developing countries' growth was directly associated with their export performance to industrialised markets.

A one percentage point increase in average OECD growth would, according to a new World Bank study, mean an extra $20bn a year in export revenues for the developing world.

The study indicated a one-point increase in OECD growth would boost sub-Saharan Africa's total exports by $1.5bn a year, and would raise region's exports to the EC by $700m, to North America by $500m and to the rest of the OECD by $300m.

A second major link between growth in the industrial and developing worlds was through industrialised countries' trade barriers, the bank found.

A 50% reduction in trade barriers among major OECD countries, of the type sought by the GATT, would boost developing countries' exports to the OECD by $50bn over time. More than half of such an increase would be accounted for by higher textile exports to industrial countries.

The third way in which the developing world was affected by industrialised economies was in the behaviour of commodity prices, Summers said. Higher growth and lower real interest rates in the industrial world meant stronger commodity prices.

The bank found average commodity prices were set to fall this year for the third consecutive year, and would have fallen by a total of nearly 25% in the '89-'92 period. Any resumption in global growth would lead to a strengthening in commodity prices.
NEVER FEAR: Its role in our future revenue harvest likely to be small

Wealth tax need not be frightening

THE very words "wealth tax" make local investors twitch, but an expert argues they need not be that anxious, reports LEIGH HASSALL.

W E A L T H taxes will have a role to play in future fiscal policy, and while there is some scope to increase these taxes, their role will remain a small one, says Marius van Blerk, chairman of the SA Fiscal Think Tank.

His comments are likely to soothe the frayed nerves of local investors, mainly white, who jump every time the word "wealth taxes" are used.

The term "wealth tax" generally includes the following categories

Gifts, death

Annual net wealth tax, and capital transfer taxes such as gift tax and death tax. South Africa already has the latter two taxes.

Internationally, in the highly developed OECD countries, there is a trend away from wealth taxes because their collection has not proved to be cost-efficient.

Van Blerk cites the example where in 1985 property tax (which includes wealth tax and taxes on property transfers) in OECD countries averaged 2 percent of gross domestic product while this figure had dropped to 1.8 percent by 1985.

He says a similar trend has developed in South Africa. In 1975 property taxes at a general government level amounted to about 1.8 percent of GDP and by 1985 this had dropped to 1.3 percent.

Van Blerk notes that while South Africa is following the trend of reduced reliance on property taxes, South Africa levies less property tax than the OECD average. However, at a central government level, South Africa levies more property tax than the non-OECD countries.

Thus, as South Africa's economy continues to develop, there will be some capacity to increase the contribution of property taxes.

Does the decline in the importance of property taxes mean that they should be abandoned? The answer is no, says Van Blerk, because, with regard to the existing wealth taxes, there already exists an infrastructure to collect the tax. These taxes are then reasonably efficient as there is little extra collection cost.

However, this does not hold true with the introduction of new wealth taxes, particularly annual net-wealth taxes. Such taxes have been found to be inefficient in that they require excessive administration costs and generate disproportionately negative perception in relation to the revenue they subsequently generate.

Declining

Van Blerk notes that while property taxes are generally declining in importance, it is clear that the more highly developed economies are more successful in using these taxes as a source of revenue than their less developed counterparts.

Accordingly, as the South African economy becomes more developed it will be in a better position to extract property taxes.
GATT: hard political decisions are needed

GENEVA — Six years ago in the Uruguayan resort of Punta del Este, ministers from nearly 100 countries agreed to launch a most ambitious effort to liberalize world trade. When they convened, market economies were booming in Europe, North America and Japan and new players were emerging in Asia. Now economists say a new GATT could provide the boost needed to end a prolonged global recession.

US and EC trade negotiators met in Brussels on Sunday and yesterday to resolve bitter differences over farm subsidies blocking a GATT deal.

The Paris-based OECD says a GATT accord would pump almost $200bn a year into the world economy as freer trade stimulates production to meet mounting demand from a richer world. But hard political decisions must be made by key leaders in the face of fierce opposition from EC and US farm lobbies.

The September 1986 Punta del Este declaration setting in motion the Uruguay round of talks included sectors such as farm, produce, service industries and the trading of intellectual property.

This was largely a trade-off providing developing countries seeking wider and more stable markets for their agricultural produce with the incentive to open up to services mainly based in the developed states. In December 1988, trade ministers meeting in Montreal set an average target of 30% for tariff reductions. Difficulties on agriculture already loomed as a potential barrier to accord. The EC, with a broad range of farm support, firmly resisted a US proposal to end all state agriculture subsidies within 10 years of the round’s conclusion. A year later, what was to have been a triumphant finale to the round ended in near disaster as EC and US ministers found themselves still far apart on farm support.

GATT director-general Arthur Dunkel put the talks back on track, cutting the original 15 negotiating groups to seven. G-7 leaders at a summit in London in July pledged support for an agreement by year-end. But by December 1991 draft texts were not written.

Dunkel’s version of a final deal, including proposals for compromise on agriculture, was accepted unenthusiastically by Washington and rejected by the EC.

Further months of fruitless bilateral talks followed, and again a G-7 summit called for agreement by the end of 1992. But political pressures on key governments were mounting fast. — Sapa-Route
Protest teachers in court

Staff Reporter

SEVEN teachers of the South African Democratic Teachers' Union have appeared briefly in the Cape Town Magistrate's Court on a charge of holding an illegal demonstration.

The teachers were not asked to plead and the hearing was postponed to November 23.

The appearance follows a placard demonstration outside the offices of the Department of Education and Culture.

The seven who appeared are Musavia Galile, 36, Kay Bailey, 26, Anthony Dietrich, 36, Stanley Shuma, 36, Theodore Camburuk, 25, Pearl Whittle, 25 and Granville Whittle.
GOVERNMENT was negotiating with its trading partners and blocs such as the EC to have SA reclassified as a "developing" country, a status which could bring various economic and developmental benefits, Finance Minister Derek Keys said yesterday.

Speaking at a news briefing after meeting German Economic Co-operation Minister Karl-Detlev Spranger, Keys said the reclassification was expected to be completed by February.

Acceptance of SA as a developing country would make it eligible for assistance from the Organisation for Economic Co-operation and Development (OECD). In addition, SA would also be able to obtain political risk guarantees from the Multilateral Investment Guarantee Agency.

"It would affect our relationship with foreign investors from any country who wanted to be assured they were covered against the risks of nationalisation, inability to remit currency and political unrest," Keys said.

He added that capital flight had been "all" during the first quarter of this year, but during the second quarter it had grown drastically to R2bn when Codesa 2 broke down and mass action began.

It is understood government was also trying to convince development agencies and their member countries that SA qualified for "developing country" status.

In a recent document, Trade and Industry director-general Stef Naude said that the successful conclusion of applications to the agencies would depend entirely on the willingness of the developed trading partners to recognise the status granted.

However, once SA was given developing status by the OECD, the World Bank and GATT there would be little opposition from the developed world.

Spranger said if SA were classified as a developing country, Germany would have the task of ensuring the country was not left alone with its problems.

Keys told visiting German journalists the process of disinvestment had stopped but the process of investment had not yet started.
PARIS — Economic recovery has begun in the US and will become apparent next year in the rest of the developed world, says OECD secretary-general Jean-Claude Paye.

Addressing a French association of financial journalists, Paye said he expected consumer and business confidence to provide the catalyst for growth in coming months.

"The American recovery is in the process of showing itself, it’s the suntan before the summer," he said. All the same, he did not expect any "roaring recovery" in the 24-nation Organisation for Economic Co-operation and Development area.

Figures published last week revised US third quarter GDP growth up to 3.9% from 2.7%.

Paye said quarterly data should be taken with some scepticism, especially when trying to make longer-term forecasts, but added "There’s no doubt that the situation is in the process of getting better."

Paye said Germany was not falling into recession and he expected lower interest rates to aid recovery soon.

"Probably, inflationary pressures there ought to subside in the next few months and open up the prospect of lower interest rates in the next few months," he said.

One reason for his optimism was that German officials thought employers and unions would negotiate salary increases compatible with price stability in future years.

High German interest rates are often blamed for keeping rates up elsewhere and therefore holding back European growth.

Paye said the economic situation throughout the OECD area remained unsure, but conditions for recovery were in place.

He conceded that people had heard this before from the OECD and other eminent forecasters, and he had instructed his economists to address the question of why they had been so "obstinately mistaken" over the past 18 months.

The economic consequences of financial market deregulation was something they had not fully accounted for and confidence was not easily factored into computer models.

The OECD’s next formal crack at predicting the recovery will be in its half-yearly economic outlook, due out on December 16 — Sapa-Reuters
Strong signs of recovery in US

LONDON — Further indications of gathering momentum in the US economy emerged as the Organisation for Economic Cooperation and Development predicted the incipient US recovery would spread to the rest of the industrial world next year.

A batch of US economic indicators suggested that signs of economic revival in the third quarter have continued.

There was a decisive increase in the index of manufacturing performance issued by the National Association of Purchasing Managers.

The NAPM November survey showed the index rising to 55 percent from 50.6 percent in October, firmly above the point at which a manufacturing recovery is projected.

The rise in the index was led by production and new orders, which were the highest for six months. Even employment, which remained below the 50 percent mark at which recovery is at risk, was the highest since last May.

A similar survey for the Detroit area showed an even more marked recovery in November, regarded as a key month in signalling economic performance in the coming year.

The Detroit Purchasing Management Index of business conditions bounded ahead to 62.1 percent, from 52.8 percent in October and just 43.2 percent in November last year.

The index was pulled higher by better conditions in the auto market and other parts of the local economy.

Construction orders in the US as a whole jumped a much-stronger-than-expected one percent in October while September orders were revised upwards to show a gain of 1.5 percent.

The US index of leading indicators, a rough guide to short-term future economic trends, rose 0.4 percent in October, after falling in three of the four previous months.

The news coincided with a prediction by Jean Claude Paye, OECD secretary-general, that "the US recovery is in the process of showing itself. It's the swallow before the summer."

Forewarning the forthcoming OECD Economic Outlook, out on December 16, Paye said growth in the US should improve business and consumer confidence elsewhere in the 24 industrial country members of the OECD, although he was careful to rule out a "roaring recovery."

The OECD official, who was speaking before the release of the latest US statistics, said the sharp upwards revision in third quarter US gross domestic product to 3.9 percent might not prove an entirely reliable guide to future economic trends. But he added "There is no doubt that the situation is getting better."

As a result, despite the uncertain economic outlook throughout the OECD area, recovery could now be confidently predicted — The Independent.
IMF set to cut back its 1993 growth forecasts

LITTLE ROCK — The IMF was set to slash its forecast of world economic growth next year as hopes for solid recoveries in Europe and Japan faded, international monetary sources said on Monday. (LITTLE ROCK) (31)

The sources said currency turmoil and high interest rates were holding back growth in Europe, while Japan's economy was hobbled by declining corporate investment and growing bad debts at Japanese banks.

The only bright spot in the world economic outlook was the US, where the long-awaited expansion finally seemed to be taking hold.

The new IMF forecast was expected to be discussed by the IMF board later this month.

In September the IMF predicted growth in the industrial world would rise to 2.9% in 1993 from 1.7% this year. Since then the outlook had turned more gloomy.

The Organisation for Economic Cooperation and Development (OECD) last month lowered its forecast for growth in the industrial world next year from 3% to 2.1%. The IMF's forecasts are usually in line with those of the OECD.

The IMF normally only makes a full-scale forecast of the world economy twice a year to coincide with its semi-annual meetings.

But it has decided to update its forecast now to take account of the currency turmoil in Europe that took hold as its last outlook was released in September.

The Fund then forecast economic growth in the EC would pick up to 2.3% next year. Sources said growth in the EC next year now looked more likely to be only about 1% to 1.5%.

The picture is not much brighter in Japan. The IMF predicted in September the Japanese economy would expand by 3.5% next year, but growth of around 2.5% — in line with the latest OECD forecast — now seems more likely.

Only in the US is growth likely to be close to 3% in 1993 — Sapa-Reuters
IMF now gloomier on world growth prospects

WASHINGTON — The International Monetary Fund is set to slash its forecast of world economic growth next year as hopes for solid recoveries in Europe and Japan fade, international monetary sources say.

The sources say that currency turmoil and high interest rates are holding back growth in Europe, while Japan's economy is hobbled by declining corporate investment and growing bad debts at Japanese banks.

The only bright spot in the world economic outlook is the United States, where the long-awaited expansion finally seems to be taking hold.

The new IMF forecast, which is still being worked on by fund economists, is expected to be discussed by the international organization's board later this month.

Monetary sources say they expect the IMF to try to avoid being overly pessimistic about the outlook out of fear that might further undermine global confidence.

In September the IMF predicted growth in the industrial world would rise to 2.3 percent in 1993 from 1.7 percent this year.

Since then the outlook has turned more gloomy, as speculative attacks by currency speculators have left the European Monetary System in shreds and Japan's economy has turned in its weakest performance in more than three years.

The Organisation for Economic Cooperation and Development (OECD), the Paris-based think-tank for rich countries, last month lowered its forecast for growth in the industrial world next year from three percent to 2.1 percent. The IMF's forecasts are usually about in line with those of the OECD.

The IMF normally makes a full-scale forecast of the world economy only twice a year, in April and September, to coincide with its semi-annual meetings.

But it has decided to update its forecast at this time to take account of the currency turmoil in Europe that began to take hold just as its last outlook was released in September.

At that time the fund forecast economic growth in the European Community would pick up to 2.3 percent next year.

Monetary sources say growth in the EC next year now looks more likely to be only about one to 1.5 percent.

That is what the 12-nation EC itself expects and compares with growth this year of as low as 1.1 percent.

Europe's economy is being dragged down by continuing high interest rates in Germany which has fallen into recession.

The Bundesbank, Germany's independent central bank, is keeping rates high to combat inflation brought on by a huge increase in the budget deficit to pay for the cost of the unification of east and west Germany.

The picture is not much brighter in Japan. The IMF predicted in September the Japanese economy would expand by 3.6 percent next year, but growth of around 2.5 percent — in line with the latest OECD forecast — now seems more likely.

Japan's gross national product shrank by 0.4 percent in the third quarter, the first decline in that measure of economy since the second quarter of 1989.

Only in the United States is there much grounds for optimism. Growth there looks likely to be close to three percent in 1993. — Sipa-Reuters
OECD sees slow recovery in major world economies

PARIS — The Organisation for Economic Co-operation and Development (OECD) yesterday predicted a slow recovery in the economies of the world's leading industrialised nations after the slump in growth this year.

Following are the main forecasts for the economies of the Group of Seven (G7) leading industrialised nations made by the OECD in its half-year outlook issued yesterday:

United States
Growth will pick up slowly as low interest rates and improving consumer confidence boost spending. Gross Domestic Product (GDP) will expand by 2.5 percent in 1993 and three percent in 1994 after 1.75 percent in 1992.

Inflation will fall to two percent, the lowest rate in over 25 years.

Japan
The economic slowdown may have bottomed out, but recovery will be long and slow GDP will grow by 2.3 percent in 1993, rising to only three percent in 1994.

Weak tax revenue and the government's package to stimulate growth are expected to result in a budget deficit in 1992 and 1993.

Germany
Growth in the whole of Germany will remain low at one percent in 1993, but may rebound vigorously in 1994 as inflation slows and interest rates fall.

Growth in eastern Germany may reach double-digit rates by 1994. Reducing the budget deficit and wage moderation are crucial for growth.

France
Growth will top the European Community average in 1993, but a rise in GDP of 1.6 percent will not prevent unemployment from rising to 10.3 percent in the second half of the year from 10.4 percent now.

Strong exports fuelled growth early this year, but have since fallen off.

Britain
Recession will end as the economy expands by 1.3 percent next year. There are already signs that consumer spending is picking up.

Inflation will rise in the near term after sterling's devaluation, but is expected to recede again, given the slack in the economy.

— Supa-Reuter.
US on track for slow recovery, says OECD

WASHINGTON - The US economy would gain momentum slowly over the next two years as low interest rates and improving consumer confidence lifted spending, the Organisation for Economic Co-operation and Development (OECD) said yesterday.

In its half-yearly economic outlook, the OECD said it expected US GDP to expand about 2.5% in 1993 and 3% in 1994.

"With an improvement in confidence which may just now be getting under way, households should be willing to begin to spend more."

US government data showing an improving economy persuaded private economists to adjust estimates for growth next year slightly higher to about 3%.

President-elect Bill Clinton has promised to deliver an economic package that is likely to include greater tax breaks.

But the improving economy will have little effect on the unemployment rate, the OECD says. The jobless rate, now at 7.2%, is expected to fall by only three-quarters of a percentage point in the next two years.

Rising economic activity is unlikely to have much impact on wages and prices US inflation performance is likely to be the best since the mid-80s, dropping from the current 3% to about 2%.

However, the OECD assumes the Federal Reserve will tighten credit policy.

The report expresses concern about the US budget deficit, saying it will widen again by the middle of the decade.

It says Britain's economy, which has gone through its longest recession since the 1930s, will begin a slow recovery in the first half of next year, expanding 1.3%. The official estimate is 1%.

The OECD has already spotted twitches of improvement, with retail sales and consumer credit figures indicating a revival of consumption.

Italian economic activity has stabilised since the start of 1992, the report says, but recovery has been held back by interest payments on household debts.

Many Britons went on a borrowing binge in the boom of the late 1980s, only to find they could not keep up with repayments when the government boosted bank interest rates to 15% for more than a year.

By the end of the year, the EC's exchange rate mechanism on September 16, the cost of borrowing has fallen to 7%.

Britain's propensity to import more than it exports remains a problem, the report says.

The government is also borrowing heavily, largely to finance the cost of recession.

The OECD expects the government deficit, excluding privatisation receipts, to rise to about 7.5% of GDP in 1993 but to fall to 6.3% in 1994, the same level as in 1992.

In Japan's economy, the OECD says its slowdown may have bottomed out, but recovery will be slow. GDP will grow 2.5% in 1993 rising to only 3% in 1994.

Weak tax revenue and the government's package to stimulate growth are expected to result in a budget deficit in 1992 and 1993.

Germany's economic growth will remain low at 1% in 1993, but may rebound vigorously in 1994 as inflation slows and interest rates fall. Growth in eastern Germany may reach double-digit rates by 1994.

Raising the budget deficit and wage moderation are crucial for growth, the report says. - Sapa-Reuters
OECD price rises steady

Consumer price growth was steady in October in the main industrialised countries at the 0.3% rate observed in September, the OECD said in Paris last week. Prices for the year rose 3.1%, down from 3.2%. Excluding food and energy prices, the underlying inflation rate was 0.4% in October, compared with 0.3% in September.
Such bright lights as there are in prospect for the world economy in 1993 flicker clearest on the fringes, like candles around a stagnant pool — in China, the "tigers" of the Pacific Rim and south-east Asia, India, Argentina and Chile.

For the rest, accounting for 80% of global GDP, emergence from the quagmire will continue to be a leader, uneven lurch, notwithstanding drooping inflation. Twelve months ago, the Organisation for Economic Co-operation & Development (OECD) revised downwards its projections for the 24 leading industrial nations and postponed real recovery from 1992 to 1993.

In July, it again dampened expectations but churlily maintained that next year would see the OECD economies lift GDP by 3%, now the December issue of the bi-annual OECD Economic Outlook warns of "relatively sombre" short-term prospects for the 24 economies as a whole — and something probably worse in the Commonwealth of Independent States (the ex-USSR).

Growth is projected at a feeble 1.9% (see table), a full third slower than foreseen six months earlier, and instead of falling to 6.5%, unemployment will leap to 8.2% — 34m in total.

It will stay close to that level even though the revival once scheduled for 1992 may arrive in 1994 — for which the OECD has pencilled in growth of 2.9%.

The OECD was also quick to admit it could be wrong again America's unexpected third-quarter bounce "might" presage a return of consumer confidence which could add half a point to US GDP next year raising it by year-on-year 3% instead of 2.4%.

Equally, however, the drab overall outlook for the coming year may be worse OECD forecasters were surprised by the sharp declines in Japanese and German output.

The Economic Outlook had barely been printed when the leading Munch research institute Ifo warned of a full-blown recession.

West Germany's economy will contract by 0.5% in 1993 and while the eastern länder will show growth of 3%, the total impact will be zero — not the 1.2% formally posted by the OECD which conceded, after publication, that the out-turn could be only 0.7%.

The grim prospect is that next year there could be 3.4m Germans looking for jobs, said the Ifo, but added it would be "wrong to get into a panic now."

Stronger language emanated from IBM, Ford, Volkswagen and Daimler Benz, all of which announced substantial reorganizations in Europe VW, slashing capex by DM3bn, forecast a fall of 20% in its domestic market next year after a slump which started "suddenly and dramatically" at the end of September.

IBM had a similar tale to accompany its 12% workforce layoff in Europe. "Our European business declined precipitously and unexpectedly since the beginning of October," said IBM's European chairman Edzard Reuter, predicting 12,500 car job losses at Mercedes, with more to come in 1993, was explicit: "The German economy has burst like a soap bubble."

Accounting for 30% of the EC's GDP, Germany is to Europe what the US is to the world — only more so. The pan-European growth rate, historically, is identical to Germany's. The portents bode ill for the whole continent as it opens up into the great single market from January 1.

Leaving aside the chaos in Russia and the other newly independent ex-Soviet States — where output fell 20%, inflation hit 2,000% in 1992 and the OECD will not even hazard a guess about the future — Europe is the sick man of the international economy.

Germany's reunification hangover and the Bundesbank's tight monetary policies to counter inflationary pressures caused mayhem in currency markets. The break-up of the exchange rate mechanism (ERM) of the European Monetary System followed, with the UK and Italy pulling out while Spain and Portugal devolved within it.

Real short-term German rates are 5.3%, keeping up the pressure on economies which stayed linked to the D-mark via the ERM. French inflation is the lowest in Europe at 2% yet holding the franc's parity means real short-term rates of 9%. The same is true for Spain, despite devaluation, and for temporary outsider Italy.

The Irish, with unemployment heading for 20%, are sweating on 14% and even EC aspirant Sweden, which floated the kronen after being forced to give up its attempt to track the D-mark, has to maintain real rates at almost 10%, despite 2% inflation and facing the third year of negative growth. "Escape" from the ERM enabled the British to chop the costs of short-term money to 7% — from 15% a year earlier — and real rates are now down to the 4% mark. But sterling's devaluation is already stoking industrial input prices while wages continue to rise faster than inflation — despite the rise in unemployment — which will threaten the competitive edge given to exports.

That will also inhibit interest rate cuts and consumer confidence remains battered by job losses, which will lift unemployment to 11%, and the blight of the property slump. Even though mortgages are the cheapest for 20 years, private residential investment will drop again next year after a cumulative 35% decline from 1989 levels.

But if Germany stumbles, the export performances of the UK and all European economies will struggle. Hence the urgings of the OECD, reinforced by the International Monetary Fund, for an early relaxation by the Bundesbank, even if disinflation is not fully under way.

Even when it does not have a dramatic impact as expected, the OECD is looking for German rates to notch down by only three points to 6.5% over the next two years as inflation (for the combined country) eases slowly from 5.5% to 3.3%.

Fiscal assistance is ruled out for Germany and all other big economies apart from Japan which has already launched its US$86bn spending plan, 2.3% of GDP, in harness with lower short-term interest rates. Germany's federal deficit is expected to slip below 3% of GDP but the OECD points out that off-budget borrowing to fund the eastern states' reconstruction will continue to balloon.

Japan has other problems. After the bursting of the "asset bubble" has come the sight of the "bicycle economy" — which runs smoothly at speed but wobbles when it slows down, and the second consecutive quarterly slip in output, bringing it down by 6%, was the first since the oil crisis recession of the Seventies.

In addition, consumer caution has flattened demand even though housing starts picked up and inflation, thanks to the strong yen, was a mere 1% and producer prices fell by 1.3%. Apart from property and finance sectors, Japanese industry has a healthy balance sheet but the dash for market share around the world has increased cost gearing from 75% to 88% of sales.

The volume downturn of the last three years in export markets has slashed profit margins this year, corporate Japan's profits will fall by another 20%, losses are rising, bankruptcies among manufacturing companies are up 47% on 1991 and the net return on fixed assets has more than halved to little over 5% since 1989.

And the cost of capital — negligible when
G-7 boffins should have drawn on the Asian experience

SAMUEL BRITTAN

The recession is not as deep as populyarly beleived. The output shortfall compared with trend is less than it was in the past two recessions in the G-7 countries. Only in the UK and Japan has it been substantially greater. And it is only in these two countries that has turned out to be the longest post-war recession.

On an international scale, we have so far seen only a growth slowdown and not a classical recession. But in contrast, in 1975 and 1982 the growth of real GNP came to a complete halt in the G-7 countries taken together.

It is true that this time round the US and Canada experienced an absolute drop in output, as the UK did in both 1990 and 1992. But these were offset by other countries that did not begin their recession until rather later.

Another way of looking at the matter is to track nominal GDP, which is made up of real growth plus underlying inflation. This has decelerated from an exogenous 6% a year in 1988 to about 4.5% in 1992. It is expected to fall to only 3.5% by 1994. Moreover, because of the expected drop in inflation, more of this expected output increase will represent real growth.

But at no stage in the recent past have the recorded figures shown anything like genuine depression. The OECD is rightly concerned that the relatively weak recovery may not now be strong enough to prevent unemployment rising further. But the OECD also predicts that the projections of the recovery in 1995 and 1996 are pessimistic. The growth in the G-7 group continued to ease during the first year of recovery by even more than the OECD expects it to do in 1995 and to a higher level.

Unfortunately, the OECD economists do not have the central projections but the downside risks. The "alternative scenarios" involve lower growth. The first of these is "stagnation in the US and Japanese private sectors". The main effect here is expected to be a reduced growth in the two countries with only modest spillover effects. Developments in these projections were prepared to suggest that the countries are not on a par.

While the US seems at last to have embarked on a real recovery, the outlook for Japan has become clouded indeed.

The other two scenarios show higher wages in Germany and slower than expected progress in reducing the German budget deficit. In each case the effect is deleterious to European growth, as well as to German growth, mainly because it will delay the expected drop in the German short-term interest rate. As all goes well, this is expected to fall from an average of 9.5% in 1992 to below 4% in 1995 and past above 6% in 1994.

The OECD looks at the case for fiscal stimulation for countries which still have either low budget deficits or low debt ratios. It is clearly not keen on stimulation even for these, and remarks that any such package should be "both temporary and accompanied by a credible commitment to unwind it when the economy picks up".

There is also a lot of emphasis in the outlook on improving the quality of existing public sector spending to obtain better value for money. But surely this is something which should be done in any case, there is some evidence that the UK autumn statement, between public investment as a long-term supply measure and as a component of demand.

Reading as best one can among the qualifications and in the OPEC report, the basic view seems to be that while there is a modest recovery in prospect which will probably be artificially boosted, there is also a downside risk of genuine deflationary forces. Of course, governments should be prepared for the latter. But the OECD does not call them by.

Its main suggestion on monetary and exchange rate policy is to "provide market participants with more systematic information about underlying trends in relative inflation performance in Germany and elsewhere". The hope is that they will then realise that France and some other countries have a better chance than the Federal Republic to change rates to normality. It is no surprise to argue with the markets in this way, but the question is whether it would do much good.

If one wants to cheer up, the place to look at is at the new section of the outlook dealing with the "East Asian economies", excluding Japan. Even in these countries output growth has been "drawn up like a string to relieve inflationary pressures".

But in the case of the four "tigers" - South Korea, Taiwan, Hong Kong and Singapore - the slowdown is from an average of 7.5% to 6.5%, with an expected recovery to 7% in the next two years. The stand in China, where growth is expected to average 11% and even the Indian growth rate is put at 3%, higher than any G-7 country, as the recovery accelerates in 1995. If OECD analysts had reflected more on the Asian experience we would have been better able to draw a moral.

Financial Times
Africa loses out to eastern Europe

AFRICA was losing annual earnings of more than $130bn as a result of foreign assistance being directed to eastern Europe, Organisation for Economic Co-operation and Development (OECD) development centre president Louis Emmerij said.

In a report in the Development Bank of Southern Africa's latest newsletter, Emmerij said Africa was becoming increasingly cut off from the global economy, largely as a result of political and economic restructuring in eastern Europe.

Foreign direct investment, food aid and commercial credits from the developed countries to Africa had dwindled, said Emmerij. The IMF had continued to siphon financial resources away from Africa. This had amounted to $4bn in the past seven years, he said.

Although the amount of development assistance to the southern countries was about $30bn annually, the number of export barriers in developing countries, especially for agricultural products, and the trade barriers regulating multilateral meant these countries had foregone annual earnings of more than $130bn — almost three times the amount of development assistance.

The UN Development Programme's report had included other items, such as international migration, bringing the total foregone earnings to $500bn a year.

Africa had been further marginalised by the developed OECD countries of the world because of "disturbing" human and natural tragedies.

In addition a marked failure in economic, social and political management over the past 15 years had resulted in an external debt burden of more than $270bn in 1991. But there was no satisfactory solution in sight, nor did creditors have the political will to take action.

"This has led some Africans to believe the debt situation is being used by creditors to control African countries politically and economically, leading to hardly disguised neo-colonialist practices," said Emmerij.

Not only were African countries young by comparison to developed nations, but independence came when there were sharp ethnic divisions, little or no education for the majority of the people and virtually no trained African administrators.

Taken together, the extent to which the African nations had held themselves together after independence had been a major achievement, he said.
Equity markets take a backseat to bonds

LONDON — The year-end wave of euphoria which has propelled the UK equity market to another all-time high — the FTSE 100 index has now up 14 percent this year — is not typical of markets around the world.

In fact, another poor year for the global economy in which overall growth of the 24 nations in the Organization for Economic Cooperation and Development is estimated to have been only 1.5 percent, has formed the backdrop for a generally dreary 12 months for the world's capital markets.

In these conditions fixed-interest securities have often outperformed equities although rapidly expanding government financial deficits have had the effect of subduing the bond markets too.

Some spectacular events in the currency markets have underlined this year and provide the more speculative investors with some handsome returns at limited risk, mainly because of the European central banks.

As the year draws to a close, hopes for a global recovery look a bit thinner. The OECD has just knocked down its 1992 growth forecast from 3.6 to 1.9 percent.

And although some of the countries are also into the recession, the recovery in the US — as shown by the trend of its leading economic indicators — looks a bit better than for many of the others.

Investors are having to grapple with the evidence that we are not just another business cycle but that long-term structural changes are afoot.

When leading industrial companies such as IBM are shedding scores of thousands of jobs while the only rapidly growing area of the global economy is in regions such as southern China and parts of Latin America, as it is a foolish portfolio manager who continues to extrapolate long-term charts from the past.

Certain shareholders have had doldrums in stock markets such as Hong Kong and Mexico this year in order to achieve returns that were all interesting in local currency terms.

The best-performing national market in dollar terms has been Malaysia with a gain of 33 percent.

Overall, however, the World Index is down 7 percent this year and is up just 12 percent for investors who prefer to do their calculations in sterling.

On Wall Street it has been an amazingly steady year with year-to-year improvements of only 4 percent.

Moreover 1992 has been the least volatile year for the US stock market in living memory, essentially because of the growth in the economy and therefore corporate earnings which was already discounted in 1991.

Since then there has been a flow of money into equities from private individuals buying long-term deposit rates and buying large quantities of mutual funds.

But on the other hand there has been a sharp rise in stock prices and a certain amount of selling by foreigners who generally feel that Wall Street is overpriced. The net result has been flat.

As for Tokyo, the well-managed slow motion stock market meltdown has gone a stage further.

This year's index fell has been 25 percent (only Denmark has performed worse in local currency terms), and the Japanese equity market now accounts for only 16 percent of world market capitalization, against about 45 percent in 1987.

The problem of deflation in Japan, property and equity market prices in the postwar recovery have seen a severe trend to the country's fiscal system with the capital losses being understated.

But Japan is a better placed than most other countries in terms of fiscal balance and bond yields. Two-year Japanese government bonds (GBIs) now yield only 1.5 percent, virtually the lowest rate for any leading currency.

In the UK the bond market has enjoyed a great year and are heading the list of best-performing bonds.

But it looks very different in the US where the strength of the dollar against foreign currencies in the past few months has caused many US investors to lose money and sometimes even negative.

Generically speaking bond yields have dropped in 1992, because the impact of the recession in the US and the influence of lower inflation rates has outweighed the increasing flow of government deficits as fiscal deficits widen.

Average inflation, according to the OECD will fall this year from 3.5 percent in 1991 to 2.5 percent, but the average budget deficit is running at about 4 percent of gross domestic product this year and next.

Brochure Jarras Capital has calculated that new borrowing by the Group of Seven leading industrialized nations will total a large $750 billion.

Real interest rates apart in Japan and Germany (where inflation is still running) are remarkably high. This ought to make bonds very good value as they indeed have been this year. But there

World markets: the returns of recession

FT-Actuaries World Index

Government bond returns

% change (since Jan 1)

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<th>Country</th>
<th>FT-Actuaries World Index</th>
<th>Government bond returns</th>
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All changes and returns calculated from Jan 1 to Dec 31 1992.
OECD rethinks growth forecast

LONDON — Chastened by the failures of its economic forecasting team over the past few years, the Organisation for Economic Co-operation and Development (OECD) has decided to offer alternative scenarios for growth.

Its baseline forecast suggests a modest world recovery over the coming year. Although most of the rise in growth rates is expected to occur outside Europe,

But the organisation has also provided gloomier alternatives for the pessimists.

Its baseline forecast is hardly optimistic. The US economy is expected to grow by 2.4 percent, a mere 0.6 percentage point higher than last year. Japanese growth is also expected to pick up to 2.3 percent. But Europe is the laggard, with growth of just 1.4 percent.

The main downside risk, according to the OECD, is that the effects of debt deflation, which have undermined the organisation's forecasts over the past year, may persist and even intensify in the short term.

Its baseline projections assume that the recent caution of US and Japanese consumers will taper off this year.

But this could well prove too optimistic, particularly in Japan where the adjustment process started later. In the OECD's alternative scenario, Japanese domestic demand weakens by 1 percent of gross domestic product (GDP), while US private consumption also falls by 1 percent of GDP, equivalent to a half percentage point rise in the US household savings rate.

The effect on overall growth is assumed to be mitigated by a larger-than-expected fall in short-term interest rates as inflationary pressures remain subdued.

The OECD currently expects US short-term interest rates to fall to 3.1 percent in 1993, from an average 3.4 percent in 1992, before rising to 4 percent in 1994.

But its pessimistic scenario assumes a fall to 2.9 percent in both 1993 and 1994.

The result is to reduce US growth rate by 1.1 percentage points relative to the baseline forecast for 1993, and Japanese growth by 0.9 percentage point.

The spillover effects from this sluggish growth are assumed to reduce the German growth rate by 0.2 percentage point and growth in OECD Europe, excluding Germany, by 0.1 percentage point. — Financial Times
LONDON — Metals producers are bracing themselves for another punishing year.

Among the metals traded on the London Metal Exchange only copper is priced at a level that gives efficient producers a reasonable return.

For the rest, prices are not high enough for producers to survive in the long term.

They are cutting investment, stopping exploration and postponing projects in a way that is stoking up trouble for the future. But most analysts believe there will be no substantial rebound in 1993.

"Prices will remain soggy unless there is a significant upturn in the world economy," says Philip Crowson, chief economist at RTZ, the world's biggest mining company.

He does not believe base metal prices will fall much further but thinks they will not improve until well into 1993.

"In important areas such as construction and automobile production and many capital goods sectors, activity will remain below the levels of the late 1960s, even as we go into 1994." More production cuts by aluminium, nickel, lead and zinc producers are needed if prices are to show a short-term recovery, he says.

Crowson is not alone in this belief. LME prices have been on a run-up trend in the last weeks of 1992 and the first days of the new year but this is not good news for the industry, according to Neil Burton at the Metal Bulletin Research consultancy organisation.

"It means the industry will delay the production cuts needed to reduce stocks and raise prices," he says. Stocks of aluminium, lead, nickel and zinc in LME warehouses are at record levels and those of copper and tin are uncomfortably high.

Demand for metals will not increase enough to cut stocks appreciably, Burton suggests, and it is also unlikely that the flood of metal from the Commonwealth of Independent States which is creating havoc in Western metals markets, will ease in 1993.

Germany and Japan together have become more important consumers of metals than the US and the slowing of their economies is expected to offset any pick-up in US consumption.

These comments are echoed by Thomas Baack, chief economist for Germany's Metallgesellschaft mining and metals group.

"The underlying situation of the non-ferrous metals markets hardly changed at all in the course of 1992 and in all probability will not do so in 1993 either," he says.

"Production and consumption in the western world are stagnating or growing at an equal rate. However, the imbalance caused by east-west trade persists and at this moment there are no prospects of improvement in this respect."

Most metals market forecasters subscribe to the view held by the 24-nation Organisation of Economic Co-operation and Development, which is forecasting only a very weak recovery in 1993.

The OECD's central projection is that economic growth in 1993 will be about 1.9 percent, a substantially lower figure than the 3 percent it was forecasting six months ago.

Growth last year is estimated to have been a lowly 1.5 percent. When growth is as low as this in the OECD countries, there is a strong chance that growth in manufacturing output will be lower still.

As the Economist Intelligence Unit comments in its latest World Commodity Forecasts "Even allowing for a higher rate of growth among the less developed countries, world manufacturing output may well rise slowly enough to make any increase in world consumption of metals very doubtful."

The only good news in the OECD forecast is that the US economy — the most important in the world for metals consumption — is picking up at a slightly more rapid pace than previously expected.

But this is being offset by the bigger-than-forecast fall in Germany and the slowing of growth in Japan.

But this is being offset by the bigger-than-forecast fall in Germany and the slowing of growth in Japan.

Euan Worthington, head of the mining team at SG Warburg, points out "Together Germany and Japan are even more important metal consumers than the US."

Most forecasters assume there will be no easing of the pressures arising from the sudden swing in east-west metals trade seen since 1990.

Import demand for lead, tin and zinc in the former eastern bloc countries dried up while the region's exports of aluminium, copper and nickel to the west grew at a frightening rate.

Much of the extra exported metals were the main factor in the collapse of base metals prices since 1991 — Financial Times
Signs point to slow output growth in UK

LONDON — Britain's output could start to grow modestly in the first half of this year on the back of a slow recovery in consumer spending, the Organisation for Economic Cooperation and Development said yesterday.

In its latest economic assessment the OECD said a more broadly based pick-up might begin as confidence improved.

It expected GDP to rise gradually through 1993/94 to perhaps the trend rate of 2.5% in 1994 and 3% in 1995.

The British authorities have cut interest rates sharply to 8% since sterling left the European exchange rate mechanism in September in an attempt to drag the economy free from the clutches of a two-year recession.

The rate reduction would help alleviate debt problems, but there was still a big overhang from the late '80s credit boom and paying this off might prove protracted, further delaying economic recovery, the OECD said.

Also, the cuts meant the risk of Britain losing inflation gains over the medium term was not negligible, now that the exchange rate discipline imposed by the exchange rate mechanism was absent.

One of Chancellor Norman Lamont's biggest headaches is Britain's burgeoning public sector deficit which has hit record levels mainly because the recession has lowered tax receipts and raised unemployment benefit claims.

The OECD estimated that 70% of the increase in the budget deficit from 0.8% of GDP in 1990 to 5.5% in 1992 reflected the fact that the economic cycle was at a trough.

But it said the British Treasury believed the cyclical downturn was responsible for the rise in public sector debt.

It expected that the general government budget deficit, excluding any income from privatisation, could rise to around 7.5% of GDP by calendar 1993 before falling back to 5.5% in 1994, the same level as in 1992.

Underlying inflation, which excludes mortgage interest payments, is currently 3.7% and the public sector borrowing requirement stands at £20.2bn ($29.5bn) for the first seven months of the 1992/93 fiscal year.

Latest data on growth showed a tiny 0.1% rise in GDP in the third quarter of last year but excluding North Sea oil and gas output it fell 0.3%. — Sapa-Reuters.
OECD model mooted for southern Africa

A leading South African economist has called for the setting up of a non-executive expert economic forum for the sub-continent run on the lines of the developed world's Organisation for Economic Co-operation and Development.

Nedbank's chief economist Edward Osborn says in the bank's latest quarterly "Guide to the Economy" an Organisation for Southern African Co-operation (OSAC) would be in the best interests of all the countries in the region.

His call follows the recent key conferences held by the Preferential Trade Area and Southern African Development Community — both of which ended without reporting significant progress towards better economic flows in the region or the thorny issue of South Africa's membership.

Osborn says OSAC, an idea originally put forward by Dr Erich Leistner of the Africa Institute, would be the least likely regional economic body to encounter friction and tensions.

This would be ensured as OSAC would have no executive functions or pretensions. Its purpose would be to bring to the attention of the countries advice on actions or policies for the benefit of members and the region.

South African membership of the PTA or SADC would be likely to generate mistrust because of the country's economic size and strength.

Osborn envisages OSAC operating in a similar manner to the OECD and points out the latter body "has no executive functions, and accordingly is not a political body with internal power relationships, all members enjoy equal status, and its work is confined to analysis and recommendation in the interests of members."

Membership of OSAC would be on an equitable basis and would probably be Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, South Africa, Swaziland, Zambia, Zimbabwe and Zaure.
Turning officers into social workers

Desperate times for the Red Army as manpower needs are slashed.
Few companies willing to increase staff levels

A recent survey by Drake International shows that only six percent of South African companies are expecting to increase their staffing levels in the next six months.

A blow to job hunters, 13 percent are looking to decrease their employee levels — some by up to 30 percent. Around 80 percent have frozen their current staff complements.

The results were determined from a survey of more than 500 companies covering a broad spectrum of commercial, financial and industrial enterprises.

The survey included manufacturing, construction, engineering, import/export, transport, wholesale, service and retail organisations, as well as insurance, banking and government institutions.

"The survey points to business remaining in a 'holding' pattern, with moves to stimulate the economy — like lower interest rates — not yet influencing hiring intentions," says Mike Coppin, Drake's chief operating officer.

Coppin says the majority of companies planning to increase staff are found mainly in the import/export and insurance/assurance fields.

"With the recession expected to continue well into 1993, people should realise that a job is to be valued. Employees who do not contribute to a company's viability are in a high risk category," he says.

According to Coppin, the results of the survey represent bad news for the unemployed, particularly in the banking and wholesale fields which have forecast the largest staff decline for the next six months.

"These are closely followed by the manufacturing, construction and transport fields, with companies, predicting significant staff cuts. Coppin says the current economic climate is putting a premium on skills for job hunters, while making the selection of new employees critical for employers.

"It is our experience that many companies are turning to flexible staffing strategies and labour outsourcing options to overcome workload peaks while maintaining a streamlined permanent workforce," he says.

Ashton planning to become world player

Star Foreign Service

MELBOURNE - Australia's up and coming diamond miner, Ashton, has unveiled plans to become a world player in international markets with a big emphasis on expanding global exploration projects.

It said it would move away from its gold mining activities and concentrate instead on its diamond interests.

Last year Ashton produced 39 million carats from its operation in the Kimberley district of Western Australia, which sold for R330 million, with record profits of R77 million.

Ashton also disclosed that it had just discovered commercial-size diamonds in the Northern Territory with a much higher gem content than the Kimberley field. It also had prospects in the United States and Canada which it regarded highly.

PARIS - Consumer price inflation in Western industrial countries and Japan, excluding Turkey, slowed at an average annual rate of three percent in January, despite sharp monthly increases in Germany, the United States and France, the OECD said on Wednesday.

"Consumer prices rose by 0.3 percent on average in January, excluding high-inflation Turkey, after remaining flat in December, the 24-nation Organisation for Economic Cooperation and Development (OECD) said in its monthly survey.

Prices were down by 0.1 percentage point in Japan to 1.3 percent over 12 months, and by 0.6 percentage point in Britain to 1.7 percent.

Among the other Group of Seven countries, Germany faced a 1.1 percentage point jump lifting its rate over 12 months to 4.4 percent, mainly because of increases in indirect taxes.

In the US and France prices were up by 0.5 of a percentage point in January, for a US 12-month rate of 3.3 percent, while France's rate was further down to 2.2 percent. Canada recorded a 0.4 percent monthly rise, lifting its annual rate to 2.0 percent.

Saps-AP
Managed markets
a cure for national health care systems

JOHN WILLMAN

MANAGED MARKETS: A CURE FOR NATIONAL HEALTH CARE SYSTEMS

John Willman

The common elements of these mechanisms are:

- Decentralised purchasing agencies to buy health services for customers in the light of local needs.

- Competition among “providers”, such as doctors, hospitals and other community health services. Payments have been restructured to reward those who are more efficient, so that money follows the patient.

- A mixture of private-sector and public-sector providers to meet market forces in Britain. The entrepreneurial spirit is provided by the independent, self-governing National Health Service trusts.

- Self-regulation on quality assurance — leaving it to professionals and purchasing agencies to regulate the market, rather than heavy-handed interference from above.

Within the managed market, paying for health services through a contract for services is more cost-effective than reimbursement of fees for each service. In France, for example, where health care was mostly paid for by reimbursement, during the 1980s the share of GDP consumed by health care rose from 7.6% in 1980 to 8.2% in 1989. The share was static in Germany and the Netherlands, which used the contract method throughout this period.

There is evidence that countries which pay doctors fees for services have higher constraint rates, longer consultation times and higher prescribing rates. When Ireland switched from fee-for-service to a fixed annual contract for each patient on the doctor’s register, doctors’ consultation rates fell by a fifth. Fixed payments per head reduce the incentive to over-treat to earn fees — a big problem in the US.

The good news for US reformers where “socialised medicine” has traditionally been viewed with suspicion — is that none of the seven is moving towards a centralised, command economy-type health service. The best example is in the UK. Until the recent reforms, the NHS was largely organised around local health authorities, which were accountable to local government. Health care was not a national service.

The OECD says this has improved the responsiveness of hospital services, although it has not been possible to cover 15% of health costs.

The balance of health finance comes from a central health fund which collects income-related premiums paid by employers and employees. This money is distributed to purchasing centres according to the profile of their customers, and health care is allocated according to need.

Selection and cream-skimming are avoided by a requirement of schemes to accept all applicants.

The OECD accepts it is too early to make a final assessment of the British or Dutch reforms. But the creation of managed markets in health care in each of the seven European countries appears to have extended towards about 30% of the population in all countries, but less than those in the US — Financial Times.
The eagle has lifted

The US and Britain are recovering better than Europe

The divergence of short-term trends within the international economy widened sharply during the first three months of the year. Acceleration in the US has seen the American eagle finally lift off with its close satellites of Canada and Latin America in tow. By comparison, with the darkening pull over Europe, the US is flying high. Among the leading economies east of the Atlantic seaboard, the only good news comes from Britain, where the green shoots of recovery are now showing real signs of sprouting, more than a year after they were prematurely hailed by a Conservative government seeking re-election.

The big picture (see table) is that US economic growth is reckoned to be moving at a full point faster than was estimated in December. By contrast, the outlook for western Germany and the rest of Europe, which was lacklustre four months ago (Leaders December 25), has crumbled into a full-blown recession.

None of Europe’s economic leaders will show positive growth in the current 12 months — with Switzerland and Sweden respectively facing their second and third successive years of GDP shrinkage, according to projections by Salomon Bros and National Westminster Bank. The big drag comes from western Germany, where GDP is expected to decline by 1.5% to 2.3% and the 8% growth rebound in the five eastern states will not be enough to compensate.

Japan is the joke in the pack of OECD heavyweights. Its 1993 prospects have been downgraded by a full point, notwithstanding the effect of the US$94bn fiscal injection announced in August — raised this month to $115bn.

Officially, Japan is sticking to its projection of 3% GDP growth in the fiscal year to March 1994, on the basis that the budget boost will add 2.6% to nominal economic activity. But private-sector economists put the impact at more than 1% (on average) and few have significantly increased estimates for the current calendar year — in spite of the Tokyo equity market’s spurt in the past two weeks, which has increased the paper level of investors’ wealth by $39.5bn.

In the US, where optimism had blown hot and cold, most forecasts are positive about the prospects for moderate expansion, albeit slower than the annual rate of 4.7% seen in the fourth quarter of 1992. Total factory orders have risen in each of the last six months, with February’s 1.4% gain setting a record.

President Bill Clinton, whose $16bn public investment package, aimed at creating 500,000 jobs, remains stalled in Congress, is warned “Jobs just aren’t coming through. No recovery in my lifetime (47 years) has been as weird as this one,” he said recently. The 7% US unemployment rate has remained unchanged since the middle of the recession, despite the 365,000 surge in nonfarm employment in February, yet earnings are up by 4%. The apparent anomaly is explained by a rise of 2.8% in productivity, the best gain for more than 20 years, and the accompanying downsizing of workforces which has been the price of the massive restructuring of industry, where investment spending is running 10% ahead of 1992.

Some analysts are concerned about a revival of inflation. The picture is mixed: Wholesale prices are up 1.3%, the biggest increase since early 1990, but commodities are not showing the kind of advance associated with previous recoveries, due to the weakness in other economies and factors such as the dumping of metals by Russia and other former Soviet states. That, however, is not expected to last much longer.

Meanwhile, the Federal Reserve continues to keep down interest rates and consumption is picking up. Consumer debt has risen for six months in a row and shows an annualised increase of 2%.

Germany: the vortex

Retail sales growth had a setback, after the 5% sprint in the final three months of last year. This is partly due to a relapse in consumer confidence but the March decline of 1% was largely the fault of storms and blizzards. Early data for April show a recovery — notably in car sales — and consumption is still expected to rise 3.5%.

Little help, however, is likely from exports and climbing imports will worsen the trade deficit.

Mainland Europe’s woes are multiplying around the vortex of unified Germany, which generates more than 30% of the Continent’s GDP. The man at its heart, Helmut Schlesinger, president of the Bundesbank, seems to concede the seriousness of the position last week when interest rates were cut for the third time this year — the discount rate by a quarter point to 7.25% and the Lombard rate by a half point to 8.5%

Yet a fortnight earlier Schlesinger was insisting it was too early for further cuts in short-term interest rates — pointing out the more significant cost of long-term money at 6.5%, was historically low. At Harvard University Schlesinger listed inflation, stubbornly at 4.2%, and a public sector deficit which will rise above 6% of GDP, as justification.

None of that has changed.

The Bundesbank has recognised that the latest German data makes a catalogue of unmitigated depression unemployment up to 3.4%, car output down 20%, manufacturing off 11% and retail sales plunging 8% in February (after 10% in January, when VAT increases were implemented).

The future holds no early relief. Slowing wage hikes —4% against 7% last year — and rising unemployment will reduce aggregate real disposable income by 1.5% in Western Germany. More will be lost next year as the deal between the federal and state governments on funding the eastern lander comes into effect and will absorb incomes and profits by the equivalent of more than 2% of GDP.

Levelling the economic playing field — which will go on for the rest of the decade — is producing higher inflation of 9% in the east, while there are concerns that it will take a few more months to lower it in the west. Some independent estimates foresee another period of negative growth looming in 1994 for western Germany, which will force mon-
ey costs down further.

Last week's action by the Bundesbank has taken some pressure off currences and economies still linked to the D-mark via the exchange mechanism, and allowed central banks of trading partners to ease monetary policy. But it is uncertain how much the move will alleviate the malaise.

In descending order of magnitude, contraction is forecast in Sweden (-1.8%, bringing the cumulative decline since 1990 to 5%), Belgium (0.9%), Holland (0.8%), Spain and Switzerland (0.5%), Italy, France, Iceland and Denmark (0.4%) = all estimates being averages of the predicted ranges.

In France, the new right-centre coalition government has taken the chance of shaving a key short-term interest rate by two percentage points to 10%, still a penalising 8% in real terms.

Rising unemployment and political wobbles have produced fiscal flex in Spain and Italy. In Italy, growth hit a chronic defec (10.9% of GDP this year), Italy is spending $4.5bn on public works while Spain, with the worst unemployment in Europe at 20%, is laying out $2.6bn.

Britain's contrasting mild springtime - GDP growth of around 1.0%, but only 0.7% excluding North Sea oil, following two negative years - seems well rooted. The index of manufacturing production has risen 3.6% in three months, the moribund housing market is moving with sales gaining 15% on last year's depressed figures and the price trend has turned, car sales are 14% higher in the first quarter while the rest of Europe registered a 16% drop.

The headline figure for inflation is the lowest since the Sixties, at 1.9%, but shorn of the impact of mortgage interest rate reductions the underlying rate is 3.5% - uncomfortably close to the top end of the government's 1% - 4% target range.

It could creep nearer. Sterling's devaluation and input costs have raised producer prices 8.3%, which will filter through to the retail price index - though the pound's recent recovery should cool pressures. Unemployment has yet to peak - indeed it threatens to become a structural problem in the medium term - keeping down wage pressures so that with productivity up by 7.3%, unit labour costs have fallen by 2%.

A healthier exchange rate should also give a further fillip to disposable incomes and the house market.

The UK will continue to face constraints on unemployment, plus the battle to reduce the budget deficit (8.5% of GDP) which was postponed until next year when tax increases will come into play. The deficit will continue to be high for the next five years. Few economists foresee any resumption of strong growth but the worst is over.

The eastern hemisphere is a patchwork quilt of prospects Japan still reels from the bursting of the bubble economy, in spite of some indicators that it has bottomed.

Higher orders are flowing into the construction and capital goods sectors as a result of the fiscal action. The Bank of Japan has sliced the discount rate to 2.5% and allowed the monetary base (cash in circulation plus commercial bank reserves held with the central bank) to rise 4.3%.

However, Bank of Japan governor Yashu: Meno has warned the ebullient stock market there is unlikely to be anything better than a gradual recovery starting late this year. Manufacturing investment, which dropped 14.5% in 1992-1993, is likely to drop by a further 10% as industry streamlines after a decade of over-expansion. Industrial output in February was 5.4% below the comparable 1992 level. The slump in consumer spending has continued February's 6% drop in sales by department stores was followed by 11% in March, for the 10th successive month of decline.

Exports are still growing - thanks to robust growth among Japan's neighbours - but the rate is flattened by the appreciation of the yen and subsidence of European market. Conversely, costs of imports are falling.

The upshot is an uncomfortable upswing in the current account surplus. Other OECD members in the Asia-Pacific region, Australia and New Zealand, are both enjoying an extension of the recovery from 1991 recession. Forecasts put GDP for each at 3% this year and the leaders in disinflation. Australia's retail price index is a mere 0.3% higher than last year with New Zealand registering 1%.

The real excitement, however, emanates from the Chinese and south Asian economies. While some of the so-called tigers - South Korea and Taiwan - are suffering from currency appreciation and falling export performance, this is more than made up by others in the region.

Fuelled by foreign direct investment which has followed the new political dispensation on economic policy, China's 1992 expansion of 12.8% was being matched in the early months of this year. And it was causing concern as inflation in the big industrial cities moved towards 15%.

After a visit to Beijing, World Bank president Robert Preston reported that Chinese authorities want to dampen activity and slow the rise in GDP to a sustainable 7.5% - 8% range, to prevent recurrence of the stop-go cycle and retain investor confidence.

Meanwhile star performers such as Malaysia and Thailand expect GDP to climb 8% - 8.5% in 1993. But Vietnam, with 73m people the second largest in south east Asia, now seen as the last bargain in Asia.

International investors have moved in behind the renovation policy, which has transformed Vietnam in the last five years, attracting $4bn in foreign commitments. Its human resources are equally alluring - 88% of the population is literate and wages costs are half those in Thailand or Malaysia.

Hence, there is a race to establish manufacturing footholds for exports but also for a burgeoning domestic market as standards of living rocket. Last year foreign investment rose 80% in the first quarter surplus was recorded and GNP per capita doubled to $400. Vietnam aims to double GNP by the end of the century with average annual growth of 7%. This is likely to fall as the US embargo is lifted when it is reviewed in September and will give Vietnam access to the resources of the IMF, World Bank and the Asian Development Bank.
Growing call to change SA status

THE ANC and economists aligned to the organisation are emphasising the need to have SA reclassified as a developing country at a time when government has no progress to report in negotiations on the issue.

A Trade and Industry spokesman said at the weekend no formal negotiations on reclassification had been started yet, although informal discussions with interested parties were continuing.

He did not wish to elaborate, but it is understood potential problems in achieving reclassification include vested interests in Europe opposed to the move and the need for a more representative government in SA.

ANC president Nelson Mandela asked Britain last week to support SA in persuading the OECD, GATT, the UNDP and similar organisations that SA should be treated as a developing country.

He called on the British government and opposition parties to use their influence to get the EC to enter into a mutually beneficial agreement with the new SA, "as soon as is practicable and feasible."

The ANC-aligned trade policy monitoring project takes up the issue in its Trade Monitor, to be published this week.

The Monitor says a new trade pact with Europe is likely to stimulate investment in SA since it would give investors signals about SA's serious commitment to exports.

It would also encourage foreign investors to take advantage of SA's duty-free access to the EC under the Lomé convention.

The monitor says Lomé status, compared with other available options, could be the most beneficial trade arrangement for SA.

The Lomé regime provides for duty and quota-free access of developing countries' manufactured goods and 80% of their agricultural goods to the EC.

While the immediate advantages to SA should not be over-estimated — less than 20% of current exports would be affected — a Lomé arrangement would provide scope for future export potential. It could stimulate intra-regional trade and an increase in exports such as clothing, car parts and horticulture.

The Monitor said the impact of gaining preferences for the deciduous fruit industry in SA, which was less important as a foreign exchange earner but a major employer, could be significant.

Lomé status could also imply significant gains for SA manufacturers that proved to be internationally competitive.
Delay in govt, Sadtu meeting

JOHANNESBURG. — A meeting between Sadtu and the Department of National Education has been adjourned until tomorrow. Department of Education and Training spokesman Mr Corrie Rademeyer announced last night.

Mr Rademeyer said the adjournment was by "mutual agreement".

The meeting between Sadtu and the government was called to address the education crisis. — Sapa
Optimism over world trade pact

PARIS — Leading industrial nations have agreed that a world trade pact could be ready for consideration by their summit in July, European Commission vice-president Leon Brittan said yesterday.

"It is realistic to aim for an outline of an ambitious market-access package by the time of the G-7 (Group of Seven) summit in early July," Brittan said. "This is an important step forward on GATT."

The G-7 summit will take place in Tokyo from July 7-9.

Negotiations to liberalise world trade have been going on under the Geneva-based General Agreement on Tariffs and Trade (GATT) for more than six years.

Brittan was summing up so-called quadrilateral talks between the EC, Japan, the US and Canada held yesterday on the sidelines of a ministerial meeting of the Organisation for Economic Co-operation and Development.

He said work was still needed on areas of dispute, which would be conducted through bilateral contacts and at a new quadrilateral meeting in Tokyo on June 23 and 24.

All sides would have to make hard changes in bargaining positions.

Brittan said GATT director-general Arthur Dunkel attended the start of the quadrilateral meeting to underline the fact that any world trade deal had to involve many more countries.

Once the G-7 had agreed on an outline package, the debate would shift back to multilateral talks in Geneva, Brittan said.

Earlier French Industry and Foreign Trade Minister Gerard Longuet said a trade pact was possible by the end of the year "if everyone shows some good will."

He told French radio from the town of Beaune during regular Franco-German summit talks that an accord would raise confidence among world investors and help boost an economic recovery.

"It will not change the face of the world from one day to the next but at least investors will regain trust," he said.

On Tuesday, French officials in Beaune said French President Francois Mitterrand, Prime Minister Edouard Balladur and German Chancellor Helmut Kohl, and their agriculture ministers meeting separately, had moved closer on agriculture and towards a joint European stance in the trade negotiations.

The two countries were expected to issue a joint statement on the world trade talks, noting progress in EC farm reform and calling for global trade talks that did not single out agriculture.

France's rejection of a US-EC farm trade deal struck last November has been one of the major blocking points in the talks — Sapa-Reuters
Joblessness are also stakeholders in the economy.

JOHN KANE-BERMAN

Bklyn 11/8/93
SA competitiveness rating falls

SA has dropped from eighth to 11th place in the 1993 World Competitiveness Report's survey of 15 non-OECD economies.

SA was featured for the first time last year in the report, a joint venture by the World Economic Forum and a European business school. The 730-page publication is not yet available in SA, but a summary of key findings was released yesterday by ISG subsidiary Business Futures Group.

Factors pushing down SA's competitiveness included "harmful" international trade policies, protectionism, state involvement in the economy, "deterrent" taxation, low productivity growth and very low overall skills levels.

SA's weak spot remained its human resources. It was at or near the bottom of the non-OECD group in worker attitudes, competitive values, educational structures and availability of skilled labour.

Singapore was again the top non-OECD country, winning seven of the report's eight key measurement categories.

It analysed 37 OECD and non-OECD economies in terms of internationalisation, domestic economic strength, role of government, finance, infrastructure, management, people and science and technology.

SA scored a lower rating than last year in four of the categories — internationalisation, government, finance and science and technology. It remained stagnant in two (management and people) and registered a slight improvement in two (domestic economic strength and infrastructure).

Singapore's business environment outperformed the others in competitiveness, which was enhanced by socio-political stability, partnerships with foreign firms, education, in-company training, worker attitudes and "competitive values".

Hong Kong was second, followed by Taiwan and Malaysia. Brazil was second worst and Pakistan last. Japan was the top OECD country, followed by the US.

World Competitiveness Project director Stephane Garelli said a key feature of the 1993 study was the increasing levels of structural blue-collar and white-collar unemployment in world economies.

"The prospect that a future economic recovery may not necessarily regenerate employment produces all the ingredients for a formidable social time-bomb," he said in the preface of the report.

New tariff structure 'can reduce costs'

The new refuse removal and street sweeping tariff structure could reduce costs to business by as much as 50%, Johannesburg City Council rates and services director Andy van Zyl said yesterday.

The council now charging separate tariffs for street sweeping and bulk waste removal. The entry for street sweeping appeared on this month's statement and has drawn criticism from businessmen who feel the bulk waste charge is unfair.

Van Zyl said the new structure was intended to spread the cost of street sweeping more equitably and to reduce waste removal charges.

Previously, council bulk waste disposal charges were used to subsidise street sweeping. However, as many businesses used private contractors for waste removal, they were getting the street sweeping service free.

This also meant that businesses using council waste removal services were subsidising the street sweeping services for those using private contractors.

Rent action 'is still on'

A REPORT that Soweto's rent and service boycott had ended was not true, Soweto Civic Association publicity secretary Fat Lebunyu said yesterday.

Lebunyu was quoted at the weekend as saying the boycott was over, and that Soweto would soon be administered by Roodepoort and Johannesburg.

He said negotiations taking place were making progress, but agreement had to be reached on tariffs and amalgamation.

The Greater Soweto crisis committee is to meet today, although the ANC will not attend. ANC local government deputy head Matole Motshela said the organisation had to clarify its position in the chamber.
SA dropped from eighth to 11th place in the 1993 World Competitiveness Report ranking of 15 non-OECD economies. This is the second time it has featured in the report published annually by the World Economic Forum and the Institute for Management Development, Europe’s second-largest business school.

Among the negatives cited as being responsible for the fall were harmful international trade policies, protectionism, State involvement in the economy, high taxation, low productivity gains and low overall skills levels.

SA’s rating was down in the first four of the eight key areas listed as: internationalisation, government, finance, science & technology, infrastructure, management, domestic economic strength and people.

The quality of its human resources remains its greatest weakness. It ranks near the bottom in worker attitudes, competitive values, educational structures and the availability of skilled labour. On the other end of the spectrum SA headed the list of countries from which well-educated people were emigrating.

Once again Singapore was the outright winner in the non-OECD category, followed by Taiwan and Malaysia. Brazil was second from the bottom and Pakistan was last.

The significance of the report’s findings will be outlined at leading SA business people when Prof Stephane Garelli, director of the World Competitiveness Project, discusses the survey results at two Global Leadership business breakfasts hosted by the Business Futures Group and the FM’s sister publication, Leadership.

The breakfasts will be held at the Sandton Sun on July 13 and the Cape Sun on July 14. The cost is R180. For more information contact Sue Trencham or Heather Hayes, telephone (011) 463-4437 or fax (011) 463-3680.
OECD reports boom in aid

PARIS — Financial flows to developing countries rose 23% in 1992 to a record $176bn on an explosion in bank lending, the Organisation for Economic Co-operation and Development said yesterday.

With direct investment also rising, private money flows reached $29.8bn and exceeded official aid for the first time since 1985, the OECD’s development assistance committee said in its annual report.

The committee welcomed the increase, but cautioned that the boom might not be sustainable and that, in any case, only a few better-off developing countries were benefiting from the sudden interest.

“The ability of the vast number of the poorer developing countries to attract external resources, particularly private flows, is little changed. For them, official development finance remains the backbone of resource provision,”

Here, too, the picture was encouraging, committee chairman Alexander Love told a news conference. Despite budget constraints, the volume of grants and soft loans rose 1.1% in real terms to $60.8bn, which Love described as “a positive response to continuing challenges.”

About half of the rich nations that make up the committee boosted their official development assistance in 1992, with Switzerland, Spain, Sweden, Denmark and Italy all reporting big increases. The US was the biggest donor in money terms, providing $11.7bn, followed by Japan with $11.1bn, France with $8.3bn and Germany $7.8bn.

But for the 21 committee members as a whole, the volume of aid was unchanged from 1991 at 0.33% of GNP — well short of the target of 0.7% and below the 0.54% average recorded between 1979 and 1989.

Among big donors, Japan cut back by 5.6%, Britain by 4.6% and Germany by 2.1%, the report said.

“International bank lending increased to $46bn from $11bn. Short-term lending accounted for over half the rise. As a result, the total debt burden of developing countries grew 3% in 1992 to $1.53tn. The cost of servicing the debt was unchanged at about $15bn,”

“Love said he was confident there would not be a repeat of the Latin American crisis of the early ’80s, when a string of countries burdened by heavy debts were forced to halt repayments.” — Sapa-Reuters
OECD gloom over Europe

AST week's cuts in German interest rates have come too late to head off the deepest German recession in post-war history, according to forecasts prepared by the OECD, and thus to prevent a general fall in output across continental Europe.

In its latest six-monthly Economic Outlook, the Paris-based economic secretariat of 24 industrialised countries has again revised downward its growth projection for 1993. It now expects growth of just over 1 per cent this year compared with a forecast of 2 per cent six months ago — the "third successive year of unsatisfactory growth performance".

Unemployment in the industrialised countries is projected to rise in the first half of next year to 36 million, the highest absolute figure and highest percentage rate since the war, before declining gently thereafter — while OECD inflation at 1.2 per cent is at the lowest rate in almost three decades.

But the black spot is continental Europe, where output is expected to contract this year by 0.3 per cent. France, Germany and Italy will experience falling output, the OECD says, while Britain — with growth of 1.8 per cent — will be second only to Ireland in the strength of its rebound.
The welfare state begins to fray as costs spiral up

JOHN WILLMAN

The welfare state, the glue that holds the social fabric of the world’s advanced capitalist economies, is coming unstuck. The immediate cause is its increasing cost at a time when budget deficits burden most of the 24 member states of the Organisation for Economic Co-operation and Development (OECD).

Rising welfare spending has been a significant factor in the average increase in net state borrowing of three percentage points of GDP across the OECD from 1989 to 1992.

In the longer term, there are fears that the cost of the welfare state could become unsustainable at a population age over the next 50 years. While short-term measures may ease the immediate budgetary pressures, more fundamental reforms will be needed if the welfare state is not to undermine the economic performance which has underpinned its enormous expansion since the Second World War.

Reform of national welfare systems to control costs is now on the political agenda throughout the OECD, as countries struggle to rein in government spending. Total government spending in OECD countries has risen from 38.1% of GDP in 1990 to 43.8% in 1990.

The biggest element in this growth has been the cost of pensions, health care, unemployment benefits and family support. Social security payments more than doubled during this period, from 7% of GDP to 15.4%. Health expenditure also doubled, from 3.9% to 7.6%.

The largest single budget item in most welfare states is the cost of publicly provided pensions.

The growth is largely attributable to three factors: the increase in coverage as pension schemes introduced after the Second World War mature, the rise in the number of elderly people, and improvements in pension benefits.

As with pensions, health systems have become more generous in the wake of economic growth and increasing life expectancy, with more and more rigorous conditions for qualifying.

Some countries have succeeded in stabilising their welfare costs by measures such as these. But what might be described as a “social insurance” system of public finances is the strength of underpinning pressures on welfare spending, which will push costs upwards in the future.

The most important of these demographic changes will come on pensions, where costs will increase in every case. Ongoing pressures on welfare spending are likely to increase pension burdens and encourage changes to the system. The number of over-65s in the OECD member states rose from 61 million in 1960 to more than 100 million in 1990.

The growth rate of the elderly population is on health care costs, with many more people living longer and more medical care needed. While more might be required for the very elderly, less might be needed for younger people as chronic diseases become less common.

Additional costs of new drugs and advances in medical technology could be as high as a third of the population aged 65-66. For the OECD as a whole, the age dependency ratio is predicted to rise from about 19% in 1990 to 28% by 2020 and 37% by 2040.

The most immediate impact of these demographic changes will fall on pensions, where costs will increase in each case. The OECD estimates that the pension burden could double over the next 50 years. Real economic growth rates of up to 1.5% a year would be needed to pay for pensions alone — and that on the assumption that the pensions do not increase in real terms.

The impact of an ageing population on health care costs is less clear-cut. Experts differ on whether increased longevity inevitably means more medical care. While more might be required for the very elderly, less might be needed for younger people as chronic diseases become less common.

The strains this will put on the welfare state can best be seen by looking at expected trends in the number of people of working age.

The standard measure for this is the age dependency ratio, which is the percentage of the population aged 15-64. For the OECD as a whole, the age dependency ratio is predicted to rise from about 19% in 1990 to 28% by 2040.
SA’s child death rate high

SA’s child mortality rate was more than double what it should be in terms of the country’s GDP, and was one of the worst in sub-Saharan Africa, national health director-general Coten Slabber told business leaders on Friday.

Addressing the Johannesburg Chamber of Commerce and Industry, Slabber said SA ranked 18th out of the 29 countries assessed. In terms of its GDP, SA’s child mortality rate should be expected to be 34, but it had reached 72.

The child mortality rate — according to the under-five child mortality rate per 1,000 — was internationally used as an indication of a country’s development. It reflected the prevalence of disease and malnutrition, availability of clean water and the efficiency of health care services.

He said the strong link between health and development of communities had made it clear that SA could not afford to ignore the need for a broader health care strategy.

This meant SA would have to improve the efficiency and effectiveness of its health care services.

A recent World Bank report showed that the child mortality rate was a significant predictor of economic performance and, as child mortality rates rose, economic performance decreased.

Slabber said reasons for the poor child mortality record included fragmentation of the health services with 11 autonomous departments of health, and an overemphasis on high technology instead of on preventative health care.

Maldistribution of resources was also a factor. As long as SA spent 67% of its total health expenditure on 25% of the population, and as long as 55% of doctors served only 50% of the population, health services would not improve.

Referring to the cost of health care, Slabber said government, business and individuals were faced with runaway medical inflation, with private and public health care services running out of funding.

“In SA we find a rapid rise in medical aid contributions when compared with the CPI or salary increases, and health inflation exceeds general inflation by 3% to 6.5%,” he said.

He said an investment in health care could be justified on purely economic grounds, as improved health care contributed to economic growth in terms of gains in worker productivity, improved utilization of natural resources and reduced cost of health care.
Unemployment issue to top OECD agenda

LONDON — With 35-million unemployed in the industrial world, it is no surprise that jobs will be topping the agenda of this week's annual ministerial meeting in Paris of the OECD and the economic summit of the G-7 nations in Naples in July.

Underpinning the discussions of ministers of finance, labour, trade and foreign affairs from the 25 OECD member states tomorrow and Wednesday will be an in-depth study by the OECD secretariat, containing 57 recommendations, intended to form the basis of tailor-made policy programmes for member states.

Virtually all OECD member states face unemployment problems of some sort, which the OECD believes rest in an insufficient ability to adapt to a fast-changing world economy.

The OECD study, two years in the making and to be published late tomorrow, puts the jobless problem in the context of globalization and technological change, forces which have undermined many traditional patterns of work and overwhelmed many long-established responses to unemployment.

The paper's main recommendations are expected to detail how to:

- Enhance creativity and diffuse technical know-how. The OECD believes in the need to encourage high-wage jobs with high productivity, and that it is more important to diffuse new technologies than create them.
- Increase flexibility of working hours. The paper will stress that many workers no longer need to work traditional hours in office or factory because new technology allows them to work from home. Many households have two earners and not all workers want to work full time. But the study will warn against governments imposing work-sharing.
- Encourage a more entrepreneurial climate. The OECD has been struck by the ease with which companies can be set up in the US compared with parts of Europe.
- Increase flexibility of wages and labour costs. Potentially, this is one of the most contentious areas. The US has created far more jobs than Europe, but at the cost of creating poverty in work for the unskilled.
- Focus on non-wage labour costs, such as employers' social security payments, which are very high in many European countries which also have inflexible wages.

The OECD believes employment can be created in such countries if non-wage costs are cut and the resulting gap in government finances plugged through other taxes. But in the US, where wages are flexible and non-wage costs are low, increased levies to cover health care, for example, should not hit employment.

- Weaken employment protection legislation, which has the perverse effect of discouraging job creation. This is a particular problem in some European countries such as Spain, Ireland, France and Italy.
- Encourage active labour market policies that link unemployment benefits with seeking a job or training. The OECD is convinced paying people for doing nothing is damaging.
- Improve the overall competence of labour. This extends back to school curricula, and
- Overhaul, where necessary, the interaction of the labour market and social benefit systems to ensure help is targeted where it is needed and benefits do not act as a disincentive to job seeking and job creation.

The OECD paper will tell governments to maintain solid macroeconomic policies based on low inflation, sound public finances and sufficient savings to sustain investment.

Financial Times.
Next boom in sight, says OECD in revised projection
Jobs get top priority

THE Organisation for Economic Co-operation and Development (OECD) has laboured hard for two years to produce its jobs report. And the document that was presented to the media and public this week is just the tip of the iceberg of its efforts. Fifty pages long, it makes a deliberate attempt to avoid economic jargon. Perhaps because of this, it goes some way to making clear just how dangerous and damaging the current high levels of joblessness are in the industrialised nations.

The organisation says that 35 million unemployed in the 24 nations covered by the report represents an enormous waste of human resources, reflects an important amount of inefficiency in economic systems and causes a disturbing degree of social distress.

Underemployment in the form of involuntary part-time work, short-time working and discouraging of job seekers from looking for new employment could add 40% to 50% to the jobless total.

Today’s unemployment is causing damage in ways that cannot be measured by the sheer numbers, the report says. It brings with it unravelling of the social fabric, including a loss of authority of the democratic system and its risks resulting in the disintegration of the international trading system.

Although the report does not focus on the issue of a link between unemployment and crime, it notes that unemployment is associated with health problems, lowers self-esteem, demotivates and creates insecurity and resistance to organisational and technical change.

The central problem, according to the OECD, is an insufficient capacity among the industrialised nations to adapt to change. This must be rectified if the OECD member countries are to overcome the jobs problem.

The study makes clear that Europe’s weak employment growth but high productivity and the US experience of creating large numbers of low-skilled, low-productivity jobs over the past two decades are two sides of the same coin. Neither pattern of job creation is desirable.

Only Japan has adjusted relatively well to such changes as globalisation and the spread of new technologies but it, too, is now having to deal with substantial problems.

The OECD stresses that Europe faces a much more difficult task than the US or Japan. It has to deal with rapid labour markets, a failure to encourage entrepreneurship and private sector jobs, and social security systems that in many cases hamper the creation of new jobs.

Although Germany and Sweden, along with Japan, are considered leaders in the use of information technologies for advanced manufacturing, most European countries have failed to increase the share of production and exports taken by high tech products. On this score, Japan has been well ahead, creating a 4% increase in manufacturing employment in the 1970s and 1980s.

US manufacturing employment increased 1.5% over the same period while in the European Union countries it fell by a fifth.

The importance of adapting to new technologies explains why there is great emphasis on improving skills and learning in the OECD’s long list of policy recommendations.

The report sets out to slay some misconceptions and the idea that there are any quick fixes. There is no evidence that technological change is destroying jobs. The idea of jobless growth, popular a couple of years ago, seems wrong. It also takes issue with the idea that imports from low-wage countries in Asia are responsible for much of today’s unemployment. In practice, most of the competition in OECD countries comes not from low-wage countries but from the OECD countries themselves.

The OECD’s message is that change will have to be promoted throughout its member economies and societies to overcome unemployment. There can be no taboo areas social security systems and labour markets and some cherished rights will have to come under review.

— Financial Times