Business Briefs

Industry

Study ties R&D to productivity, profit

A Singapore government study, carried out jointly by the National Science and Technology Board, the Economic Development Board, and the Department of Statistics, shows that R&D spending correlates directly with higher value added per worker and higher profit margins, the Singapore *Business Times* reported on April 24.

The study focussed on five industrial groups, comparing value added in dollars per worker in companies that spent heavily on R&D, versus industry averages. In life sciences, for example, with an investment variance as high as 240%, R&D-intensive firms earned S $127,800 per worker, compared to S $53,200 per worker for the industry as a whole. In information technology, with a variance of 210%, R&D-intensive firms grossed S $236,200 per worker, versus S $112,200 per worker overall. The variance was also marked in relatively low-technology sectors such as chemicals (154%), electronics (153%), and engineering (133%).

Singapore needs to increase its rate of investment per capita in R&D, and increase the ratio of scientists and engineers, the *Business Times* says. The article seconds the study's conclusion that if investment in R&D significantly increases profits and productivity during good times, "it stands to reason that when times are tough, R&D ought to be the last post to be axed."

Asia

Possible default by CP Pokphand causes tremors

On April 23 and 24, the stock of Hong Kong-listed manufacturer CP Pokphand lost 18% and 20%, following an announcement that the firm could default on a $92.8 million floating-rate note with a year 2000 due date, after noteholders asked for early redemption. CP Pokphand is the first Hong Kong-based manufacturing firm to signal serious problems, following the failure of investment firm Peregrine Group and brokerage CA Pacific. CP Pokphand is the Hong Kong branch of Thailand's biggest diversified conglomerate, Charoen Pokphand Group (CP Group), which in turn is one of the largest foreign investors in mainland China, with over $1 billion in diversified projects, the leading component of which is chicken farming.

The aftershocks of the CP Pokphand announcement could have serious effects on leading banks. CP's bankers include Bankers Trust, which arranged the year 2000 note; Standard & Chartered led arrangements for two other floating-rate notes, valued at $285 million, due in 1999 and 2001. According to the April 25 Singapore *Business Times*, Standard & Chartered and Hongkong and Shanghai Bank "have a huge exposure to CP Pokphand," but both declined to discuss how huge. On April 2, CP Pokphand met with 90 banks to discuss its debts, and to ask all noteholders to revoke all redemption notices in view of needs for working capital and cash flow.

Economic Policy

Mahathir tells IMF: no more austerity

Responding to the International Monetary Fund (IMF) annual review, Prime Minister Dr. Mahathir bin Mohamad asked ruling UMNO party leaders, "How much tighter do they want [monetary policies] to be? We have tightened them so much that businesses are screaming because they cannot breathe." Also, he asked, exactly what does the IMF mean by a bailout? "If a company is badly managed and we move in using public money, then it is wrong. However, if they devalue the ringgit [Malaysia's currency] and depress the value of the shares, any company will collapse. For example, when Chrysler lost almost 50% of its share capital and the U.S. dollar was depressed, the U.S. government stepped in to help. Of course, it was not a bailout, because it was not in Malaysia. But if it had happened in Malaysia, it would have been called a bailout." As for the IMF's recommendation to jack up interest rates, a Finance Ministry official told reporters that Malaysia would leave that "to the markets."

Mahathir told reporters that UMNO leaders wanted to know when the crisis would end. He answered that it was quite difficult to know, "because there were external factors that we had to contend with," such as "those who dictate whether to impoverish or enrich the country."

The IMF's annual report on Malaysia, released April 20, emphasized "improving corporate governance and transparency," urged Malaysia to steer clear of government-backed bailouts or guarantees, and to avoid using public funds for such purposes. (The recent rescue of Sime Bank drew on funds from the national pension fund.) The IMF recommended that Malaysia rely on "forceful use of interest rate policy" to deal with currency market pressure, and speed up the sell-off of the financial sector to foreigners by raising the current 30% limit. While praising Malaysia's intention to lower domestic credit growth of 28-30%, the IMF says the lower end of 12-15% would be more appropriate. The IMF predicted that these measures would lead to recovery in the "medium term."

Eastern Europe

French philosopher calls for new 'Marshall Plan'

French philosopher André Glucksmann challenged both Germany and France to break with their provincial political views and undertake a new "Marshall Plan" to help build up eastern Europe, including the member-states of the Commonwealth of Independent States (CIS), in an interview with the *Berliner Morgenpost* on April 29.

"Around us there are countries which since the end of the Cold War are threatened with sinking into dramatic poverty," Glucksmann said. "There is so much work to do, and the fact that we have such high unemployment is proof of the fact that we did not use our industrial capacities to serve the other half of Europe which suffers and wants freedom. When the Americans helped Europe with the Marshall Plan, they also helped themselves economically by creating a market for their products. We have to do the same with eastern Europe and North Africa."

Such a program would not come a moment too soon. Under International Monetary Fund-enforced conditionalities, the industrial output of Russia and 10 of the 11 other nations of the CIS has gone straight down. Figures prepared by the UN Economic Commission for Europe, reported in the April 29 *Washington Post,* show that the 1996 industrial output of nine of the CIS nations, based on an index of 1989 = 100, is less than 50% of their 1989 industrial output: Uzbekistan, 107.7; Turkmenistan, 79.5; Belarus, 62.4; Ukraine, 49.7; Kazakstan, 47.8; Russia, 47.0; Moldova, 43.6; Armenia, 43.3; Azerbaijan, 41.6; Tajikistan, 35.2; Kyrgyzstan, 35.1; and Georgia, 17.1.

Iran

President pushes for increasing production

In a speech delivered to a conference at Tehran University, Iranian President Seyyed Mohammad Khatami called for increasing national productive growth as the means to achieve social and economic justice. He focussed on creating manufacturing jobs, as the driving force of the national economy, and stressed the need to increase non-oil exports, including engineering services. Oil revenues should be used for infrastructure investments, he said, for the good of future generations, which are "the actual inheritors of the country's oil resources."

Meanwhile, several reports in the Iranian press on April 22 indicated further worsening of the domestic economic situation. The price of bread has risen 20-50% as a result of the increase in the price of flour, decided in March. The parliament discussed the problem in a closed session on April 21.

On April 20, President Khatami met with representatives of consumer protection agencies and "instructed price-control officials to take stronger measures to confront economic saboteurs," according to the Iranian News Agency. Khatami suggested that there has been manipulation of prices. "The rise in price of certain goods and services is the work of a handful of opportunist elements following the rise in the price of oil," he said.

Member of Parliament Alireza Mahjoub was quoted saying that many factories were contributing to worker layoffs, and that many production facilities are "running at 40% of their full capacity." He said that 390 trillion rials ($130 million) in investments would be required to create jobs, instead of the 227 trillion allocated. Unemployment, officially 9.1%, is actually 12%. And, 44.5% of the labor force, according to the statistics center, is employed in the service sector.

Banking

France's Crédit Lyonnais demands bailout

The chairman of France's state-run Crédit Lyonnais bank, Jean Peyrelevade, stated on April 27 in Paris, that comments by the European Commission have further damaged the troubled bank, by precipitating withdrawals of 1 billion francs (about $200 million), the London *Financial Times* reported on April 28.

Karel van Miert, the European Commissioner responsible for "competence" matters, who has taken a hard-line against government subsidies for German industrial companies, has given the French government an ultimatum, that it must present more far-reaching proposals to reorganize the bank, or the EC will declare all previous bailout measures for Crédit Lyonnais illegal. In that case, Crédit Lyonnais would have to repay about $9 billion in subsidies. According to the German daily *Frankfurter Allgemeine Zeitung,* the bank, formerly the biggest in Europe, would be unable to meet such a requirement, and would inevitably have to file for bankruptcy.

Peyrelevade attacked the EC figures, which estimate that the overall cost of the bailouts as approaching $35 billion, as fraudulent. In an interview with the French daily *Le Monde,* Peyrelevade asked, "What would the world say if a high public authority like the IMF [International Monetary Fund] caused the bankruptcy of the Japanese banks, which have or will receive more state aid than Crédit Lyonnais?"

Briefly

SOUTH KOREAN domestic car sales in the first two months of the year were down 70% compared to the year before, Hyundai group head Mong-Gyu Chung stated in Seoul in April. For 1998, he estimates a 50% drop in domestic car sales, to 800-900,000, and the layoff of about 20% of the 500,000 workforce.

POLISH Deputy Labor Minister Janusz Galeziak said nearly 6 million people, or 13% of the population, were given welfare assistance in Poland in 1997, *Gazeta Wyborcza* reported on April 29. Galeziak said that he believes that the welfare system is too big a burden for the state, and local government agencies should take over more of the burden.

KAZAKSTAN has signed deals with foreign banks to sell shares in oil and gas companies, the *Wall Street Journal* reported on April 27. Earlier in April, President Nursultan Nazarbayev had opposed privatization of oil and gas for the next two generations.

AUSTRALIAN banks were given control over their liquidity on April 24, when the Reserve Bank of Australia eliminated the prime asset requirement, which mandated that banks hold a minimum of 3% of assets in high-quality instruments like government securities, as an emergency source of liquidity.

THE MONT PELERIN Society, the British-run free trade outfit, will hold its general meeting on Aug. 30-Sept. 4 at the Capitol Hilton in Washington, D.C., under the theme of "Free Markets and Free People." The host of the meeting is Edwin Feulner, head of the Heritage Foundation.

PHILIPPINES central bank Gov. Gabriel Singson on April 30 warned speculators that the bank would "take necessary actions" to defend the peso. But Deputy Gov. Edgardo Zialcita said that dependence on hot money is "the price you now have to pay," because it is the "new reality of globalized, open economies."