Business Briefs

U.S. Airlines

Shrinkage of Major Carriers Accelerating

The airline industry employed 53,000 fewer people (10% of its workforce) in the third quarter of 2002, compared to a year ago, and has since seen announcements of another 20,000 job cuts. The major carriers have lost nearly $8 billion this year. "All the airlines are on very thin ice right now," warned an *Aviation Daily* editorial Nov. 4, with some "likely to cease operations" unless more cuts are made.

UAL, parent of United Airlines, to stave off bankruptcy, received a postponement from Germany's Kreditanstalt für Wiederaufbau, of $500 million in debt payments due by the end of the year. The world's second-largest carrier still must come up with another $450 million in debt payments over the next two months. United's pilots' union has tentatively agreed to an 18% pay cut; flight attendants, mechanics and other employees have tentatively offered $5.8 billion in pay cuts over five and one-half years.

US Airways, already in bankruptcy, must make deeper payroll cuts as it faces a severe cash crunch, after having cut flights by about 13% since August. Other airlines are taking parts of its route network. And the management of American Airlines, after losing $3 billion in the first nine months of this year, is publicly jawboning workers for more cuts, and warning of more layoffs.

Argentina

Duhalde Won't Give World Bank Reserves

Use of Argentine reserves to pay $800 million to the World Bank on Nov. 14 would risk throwing the country into chaos, warned President Eduardo Duhalde in a Nov. 5 press conference, with Finance Minister Roberto Lavagna.

According to *Clarín* of Nov. 5, Lavagna said that if Argentina defaults on the $800 payment, it should be taken as a simple "fact of reality." While underscoring that negotiations with the IMF will continue, no matter what happens on Nov. 14, Lavagna said that the government's decision not to use its reserves, is an objective fact. "If the government were to pay everything coming due through May 25 [2003], it would have to use 100% of its reserves, and that would be unsustainable." The situation should be dealt with calmly, he added. The consequences of an eventual default "will depend on the attitude of the political class. If it becomes hysterical and thinks it's the end of the world, the impact will be negative. But if it takes this as just a fact of reality, everything will remain the same, although in a different context."

Gold

Demand Soaring in Saudi Arabia, Gulf

The English-language daily *Arab News* reported Nov. 1 that "The demand for gold in the [Saudi] Kingdom is expected to increase by more than 20% during the last quarter of this year; market analysts . . . attributed the increase to a growing trend to invest in gold amid fears of an imminent U.S. attack on Iraq."

The daily cited Osama Al-Wazir, director of World Gold Council (WGC) for the Persian Gulf countries, as saying that he expected an increase in gold sales over the coming months as a result of new developments in the region. Muhammad ibn Saeed of Al-Amoudi Currency Exchange Center said there was big demand for gold coins and biscuits in recent months as many people, especially expatriates, wanted to preserve their money in the form of gold as a safe investment. The WGC reported recently that there was a 16% increase in gold sales in the Kingdom and other Gulf states during the first half of this year.

Meanwhile, the Saudi Arabian Monetary Agency (SAMA) said Saudi banks are experiencing a dramatic increase in deposits and assets. Its report, published in *Asharq Al-Awsat*, compares deposits and assets of Saudi banks of September 2002 to September 2001. The increase in all types of private and governmental deposits and savings is dramatic, totalling about $30 billion. There is a detailed account of the increase of the different types of deposits and assets, but SAMA does not report were the increase is coming from. It is obvious that the repatriation of funds from the United States is playing the main role in this increase.

Russia

Firm's 'Strategic Partnership' With Saudi

Russian and Saudi Arabian corporations announced their first "strategic partnership' in gas production and water desalination, according to *Arab News* and other press Nov. 5. A high-level delegation from Stroytransgaz, a Russian company that is a leader in the field of pipeline projects, visited the Saudi Kingdom for three days, beginning Oct. 29. First Vice President Leonid Bokhanovsky, who led the delegation, was accompanied by his deputies Alexander Lavrentiev and Konstantin Dudarev. The visit follows Saudi Minister of Finance Ibrahim Al-Assaf's official trip to Russia in early October with a delegation representing various public- and private-sector institutions and companies representing Saudi Arabia. Assaf signed a memorandum of understanding between Stroytransgaz and Saudi Oger Ltd, a Riyadh-based construction company founded in 1978.

The Russian delegation met officials at Saudi Aramco, the Saline Water Conversion Corporation (SWCC) and the Ministry of Finance. They also held talks with Saudi Oger General Manager Saad Hariri, and both parties committed themselves to concluding a partnership deal in the near future.

"The delegation found the governor of the SWCC greatly encouraging. He explained to them its future projects," Gahssan Taher, Saudi Oger's assistant general manager of investment, told *Arab News.* "Aramco also gave them its pipeline specifications. This collaboration falls in line with the general guidelines to enhance economic ties between the Kingdom and Russia, with the emphasis on the private sector level."

In statements to the Arabic daily *Asharq Al-Awsat,* Hariri said that two companies were in the process of establishing a "joint Russian-Saudi company" working in the fields of construction, gas exploration and transportation, water and pipeline building. *Asharq Al-Awsat* reports that this company will be active in the Middle East and expand its activities into Africa. Hariri also stated that Aramco and the SWCC have expansion plans and major projects for gas production, power generation and water desalination, and that this agreement came just in time for implementing these projects.

Asharq Al-Awsat states that this quick announcement of the partnership between Stroytransgaz and Saudi Oger, enhances the ambitions of the first Saudi-Russian Joint Commission, which resulted in the signing of a protocol outlining the directions of cooperation between Riyadh and Moscow. This includes the establishing of a "Saudi-Russian council" to follow up and implement the recommendations of the Joint Commission. As reported earlier, the two sides will sign an agreement on protection of investments and prevention of double taxation, in January 2003.

Asharq Al-Awsat cited a Saudi Finance Ministry official who said that Saudi Arabia was looking forward to increasing the currently meager trade volume and joint investments, and also that Saudi Arabia was "keen on benefitting from Russian expertise in oil and gas and Russia science and space technology."

Indonesia

No Further Debt Moratorium Sought

Indonesia, which played the "debt card" last year, telling the Paris Club of creditor nations that it simply couldn't pay the debt—neither principal nor interest—has committed not to seek a further debt moratorium or restructuring now. The effective debt moratorium was granted, partially by necessity, but also due to the fact that Asia was being treated gingerly while the push for war on Iraq was being promoted.

Now, according to Coordinating Minister for the Economy Dorodjatun Kuntjoro-Jakti: "Despite what has happened in Bali [with the terrorist disco bombing on Oct. 12], our commitment that we will not seek a fourth edition of debt relief from the Paris Club remains." The assumption that the country would experience a zero deficit in its budget for the 2004 fiscal year has been blown away, so to speak, and the government now expects the deficit to be 2% of GDP, while state debt still sits at 90% of GDP, or $131 billion.

Finance Minister Budiono announced that the International Monetary Fund, World Bank, and the Asian Development Bank have withheld a total of $925.8 million in pledged loans since 1999, complaining that Indonesia has not met "reform" targets (i.e., selling off its state-sector companies for a fraction of their worth).

Mexico

Employment in Manufacturing Sinks

Already in August, manufacturing employment in Mexico had fallen, year on year, by 4.3%, according to *El Norte* on Nov. 3.

Much of what is called "manufacturing" in Mexico, however, is not real manufacturing, but rather low-wage reassembly, the cancerous *maquiladora* assembly plants, which produce for export only. Employment in the *maquiladoras,* for more than a decade the only growth "industry" in Mexico, was 7% less in August 2002, than in August 2001.

The worst hit were the electronic and clothing components of the *maquiladoras,* where 43% of the *maquila* workforce is employed. Employment in electronics assembly fell nationally by over 17%, and in textiles and clothing, by 10.5%. These latter two drops hit nine states really hard—among the most affected being Baja California Sur and the State of México, where maquiladora employment fell by about 40%; and Sinoloa and Aguascalientes, where the fall was about 20%.

Briefly

BOEING sales of aircraft to Beijing are a huge lifeline for the company. Boeing anticipates that China will purchase 1,912 new aircraft over the next 20 years. Purchases in 2001-2021 are projected at $165 billion, Boeing President Fred Howard said in a forecast issued at the China International Aviation and Aerospace Exhibition in Zhuhai Nov. 2. Boeing currently has 392 jets in service in China, or 65% of market share. With internal air traffic expected to rise 7.6% per annum, most of the 1,550 new planes will be used for domestic service.

JOB CUTS in the U.S. economy returned to high levels in October, rising 151% to 176,010, after September saw a 22-month low. Total job losses for 2002 are now at 1,180,627—below the 1,613,880 at this time last year, but accelerating. The Commerce Department reported new factory orders down for the second straight month, together with the fall in manufacturing activity announced Nov. 1.

MORGAN STANLEY chief economist Stephen Roach wrote Nov. 1 that the world economy and financial markets are "at the most dangerous point in 70 years," with a great risk of a worldwide deflationary spiral. In particular, the U.S. economy is at risk of undergoing a Japanese-style dynamic, due to excesses such as the low savings rate, a possible balance of payments crisis, and the record-high debt among corporations and consumers.

INDIA is donating 1 million tons of wheat to ease Afghanistan's food shortage; the UN World Food Program (WFP) on Nov. 5 called it the largest single pledge in the WFP's history. The first tranche of the donation—40,000 tons—would be converted into 9,526 tons of high-energy biscuits destined for the school food program in Afghanistan. About 1 million Afghan schoolchildren, mostly in rural areas, will be given these high-energy biscuits in the winter months.