Business Briefs

Offshore Markets

Did British puncture Kuwaiti stock market?

A $92 billion speculative bubble has been shut down on the Persian Gulf. The bubble was the Kuwaiti "parallel" stock market, on which unregulated, semilegal trading in the shares of shady international companies had reached this tremendous volume prior to a collapse of values.

The collapse of the market appears to be working to the benefit of Great Britain's gameplan for the region, based on building up the Gulf Coordinating Council (GCC) as a supranational body which will oversee the region's financial and military policies.

According to Switzerland's *Neue Zürcher Zeitung*, the collapse of the parallel market has enhanced the prestige of the GCC, which the British helped to create in an effort to get more top-down control over petrodollar wealth in the region.

Great Britain's leading spokesman in Kuwait, Planning and Finance Minister Abdel Latif Hamad, has announced that he intends to imprison any of the speculators who refuse to meet their commitments. Hamad is a member of the British-created Brandt Commission on Third World issues, and a good friend of British banking houses. His first act upon being appointed minister in 1981 was to remove $4 billion in Kuwaiti deposits from Citibank and have them redeposited with Britian's Wall Street outpost, Morgan Guaranty.

The market collapse will help Hamad and his friends to steamline petrodollar investments in a way many Persian Gulf investors have resisted.

Protectionism

U.S. raises further controversy with Japan

The Reagan administration is on the verge of taking its complaints on Japanese trade restrictions to the General Agreement on Tariffs and Trade, Japanese government sources announced Nov. 24 according to the *Japan Economic Daily*. The contested restrictions are on some six agricultural products.

Japan, which has made concessions on imports of several U.S. agricultural products when Washington requested import liberalization, "is prepared to accept the U.S. challenge," according to the sources. The government does not intend to lift any of its restrictions on the six cited items, however, even if the United States does go to GATT. It was distinctly noted that the U.S. notification of its intention to complain to GATT came just prior to the formation of a new government in Japan.

The U.S. complaints will be discussed at meetings of U.S. and Japanese sub-cabinet officials the first week of December in Tokyo.

International Credit

Hong Kong bankruptcy to lead offshore collapse

Hongkong and Shanghai Banks, the central bank for the offshore Hong Kong market, announced emergency measures the week of Nov. 15 to bail out an estimated 30 local banks that have failed or are about to fail as a result of the collapse of the Hong Kong property market.

HongShang's intervention, following weeks of falling property prices and rising capital flight out of the British Empire's narcotics colony, is the first public admission that the Hong Kong financial system is in its worst crisis since the colony was founded to accommodate British opium traders in 1837. Since the island has no central bank, the HongShang issues the island's currency and acts as central bank.

The collapse of the speculative property bubble is apparently the result of a surprisingly tough line on the part of the People's Republic of China. The P.R.C. has threatened to refuse to renew the British lease on Hong Kong, which is due to expire in 1997. The crisis erupted into public view a month ago during British Prime Minister Margaret Thatcher's unsuccessful visit to Peking. Banking observers believe that the Soviet-Chinese discussions have led the Chinese to shift options away from the British.

The HongShang lending bought some time for the smaller banks, but the big institution itself has run into trouble raising funds on the market. Starting in August, HongShang began accumulating cash by liquidating its deposits in other international banks and buying U.S. Treasury securities. As the *Wall Street Journal* suggested in a banking-collapse scenario published two weeks ago, the HongShang itself will be subject to a run by its international funders as the crisis continues.

A former Bank of England employee who specializes in offshore centers said, "The whole system is stretched to the breaking point, and Hong Kong is the weak point."

The *London Economist* commented in a survey on Far East finance Nov. 13, "Singapore and Hong Kong are, however, not merely convenient staging posts in a 24-hour market. They also launder money from the opium growers and the pirates who have prospered in the region for centuries."

Asked whether drug-enforcement pressure against Hong Kong was a factor in the present crisis, the former Bank of England official said, "I've just had the monetary authorities of several of the offshore centers through my office, and their immediate worry is not a crackdown; they are going bankrupt."

Third World Debt

Brazil is and is not at the IMF

David Rockefeller may have imagined he was creating a *fait accompli* when he announced in Rio Nov. 19, "Brazil is engaged in active conversations with the IMF."

Brazil's second largest creditor motivated his pressure for Brazil to sign with the IMF by stating, "There are certain unpopular measures which must be taken and which end up being better accepted when they are dictated by the Fund instead of by the government. Since that is precisely what the IMF is there for, it provides a good opportunity for Brazil to solve its economic difficulties."

Finance Minister Ernane Galveas politely suggested that Rockefeller shut up. Such overt violation of sovereignty would only make it more difficult for Brazil's military chiefs, including President João Figueiredo, to put their cash-short country under IMF tutelage.

With elections out of the way, debate is beginning on the expected IMF insistence on wage-gouging, the elimination of subsidies to agriculture, and the scrapping of many of Brazil's vital development projects. Rio Senator Saturnino Braga, reelected on Governor Leonel Brizola's slate, says, "Brazil is a country which cannot stop, and the IMF recipe is to stop the country."

The oligarchic liberal *O Estado de São Paulo* makes only one exception in its demand that heavily centralized government powers be shared with the recently elected legislative body: "It would be wrong to let Congress decide whether or not the country should go to the IMF, since it is a question liable to demagogic manifestations."

Trade Minister Camilo Penna had the last word: "Brazil is and is not at the IMF. Brazil has already adopted those measures which the Fund recommends to countries with balance of payments deficits; is withdrawing what it has the right to; but is not yet subject to the conditionalities they impose on creditors, because that depends on how the economy performs. . . .

If there is a resurgence of growth in the United States, especially; if interest rates stabilize; if raw material prices recuperate; if tariff barriers to free trade imposed by the industrialized countries are eliminated, then manifestly we will not have to go ahead in the process of negotiating with the Fund to get more money."

Domestic Credit

Congressional fire over Volcker's perspective

Testifying before the Joint Economic Committee Nov. 23, Federal Reserve Chairman Paul Volcker ran into fire from Sen. William Proxmire over Volcker's speech the week before, in which the Fed chairman argued for measures to ensure a continuing flow of loans to the developing-country debtors now on the verge of default.

"Aren't we just throwing good money after bad?," the Wisconsin Senator asked Volcker, who tried to explain that the stability of the international financial system depends upon continued investment of private resources.

The London *Financial Times* of Nov. 19 editorially attacked Volcker from the opposite standpoint, arguing that his proposals—looser criteria for bank country limits and some more money from the International Monetary Fund—undershot the magnitude fo the problem.

In other testimony at the same hearings, Volcker endorsed the proposed gasoline tax for an infrastructure fund. In a long exchange with Rep. Henry Reuss, the former chairman of the House Banking Committee, Volcker agrees with Reuss's prompting to use whatever monetary indicator "works best." Volcker said, "That's more or less what we are doing now."

Trade

New India-Bangladesh economic accords

India and Bangladesh have decided to increase bilateral trade and improve political relations. A joint commission announced at the end of its first meeting on Nov. 18 that India has decided to give Bangladesh a trade credit of $100 million.

Relations between Bangladesh and India started to improve when Bangladesh President Gen. Ershad visited New Delhi in October for talks with Indian Prime Minister Gandhi. During Ershad's visit to New Delhi, both leaders pledged closer economic ties. Specifically, feasibility studies will be prepared for management of the Brahmaputra River, which would benefit both nations' agricultural development.

India announced that it would import at least 50,000 tons of fertilizer and 20,000 tons of newsprint annually from Bangladesh for the next three years. It will also import 20,000 tons of bitumen, and some coal. This is expected to help Bangladesh's balance of payments problems.

Briefly

● **U.S. DURABLE GOODS** orders fell 4.9 percent in October, the largest drop in a year, due to declines spread across all basic industries, and despite an 8 percent rise in defense orders. The orders figure and the .8 percent industrial-production fall in October indicate the economy is on precisely the track *EIR* predicted Nov. 2, a 10 percent annual rate of industrial production decline.

● **STEEL** output reached an 11-year low in the United States for the week ended Nov. 19 at 997,500 tons, 4.6 percent off from the previous week.

● **ARMAND HAMMER** is in Moscow hoping to sell the Russians a liquefied coal pipeline that would dwarf the natural-gas project.

● **GEORGE SHULTZ** has made a "tentative" move toward a world recovery program, according to the Nov. 21 London *Observer*. Sources close to Shultz say the "last-chance saloon" will be a Group of 10 meeting Dec. 9, in the context of the OECD's Working Party Three.

● **THE OECD's** Economic Policy group Meeting in Paris on Nov. 19-20 produced no agreement at all among the leading industrial nations, conference sources reported.

● **ETIENNE DAVIGNON,** has called for another cut in EC steel output, this time by 35 million tons, by July 1983.

● **THE JAPANESE YEN** has been rebounding very sharply over the past few weeks. It closed Wednesday, Nov. 24 at 252.9 yen per dollar, up almost 10 percent from the low level of 278 per dollar it had fallen to in August. Japanese traders attribute the rise to the decline in U.S. interest rates, and say the yen will continue to do well unless U.S. rates begin to rise again.