

# Business Briefs

## Finance

### Offshore crisis coming onshore, Schmidt warns

The crises in offshore banking are going to set off "domino" crises in the private commercial banking sector, warned former West German Chancellor Helmut Schmidt in a speech to May 23-26 Inter-Action Council annual plenary meeting in Seoul, South Korea. According to an individual who was present, "Schmidt was absolutely scathing about the ridiculous offshore banking situation."

"Schmidt is very concerned about the banks in which there is an absence of a lender of last resort," the source said. "That is the case with all the offshore banks. If something happens where there is no lender of last resort . . . this will set off a domino in the commercial banking sector. If one of those offshore banks goes under the ice, this will hit the private banks, who have funds tied up in the offshore facilities, but who are not covered by their respective national banks for these funds."

"The Chancellor is worried that we have more and more of this offshore banking, under conditions of growing fragility of the international financial system. The quantitative growth of offshore banking might evolve into a qualitative disaster, especially given the overall fragility of the system," he added. Schmidt has been arguing without success for strong regulatory authorities at the international level to deal with this problem. Inside the Bush administration, he noted, no one seems to be concerned about the problem.

## Insurance

### Another S&L-type disaster lies ahead

The insurance sector could become another financial disaster along the lines of the savings and loan collapse, warns Melvin L. Schweitzer of the law firm Rogers and Wells in a June 8 *New York Times* commentary.

Like the thrifts, Schweitzer warns, insurance companies are caught in a payments vise:

the intensely competitive atmosphere in a shrinking market pressures insurers to offer low-cost policies and to offer very high rates of return on investment instruments; but the quality and liquidity of the investments have deteriorated. Like the strapped S&Ls, many insurance companies respond by trying to attract additional premium income by writing policies with an inordinate amount of risk.

Overall, insurance companies hold 30% of all junk bonds, compromising 6% of their assets, and have 24% of their portfolios in illiquid commercial mortgages. In the context of an economic downturn, "consumers could rush headlong to cash in these new products. This, in turn, could produce a 'run on the bank' mentality that could cascade into widespread insolvencies. . . . It is a frightening—but realistic—scenario."

## Banking

### Semiconductor maker criticizes the banks

A devastating indictment of the policies of U.S. bankers and financiers was delivered by Sheldon Weinig, chairman and chief executive officer of Materials Research Corp., in the June 10 *New York Times*. Weinig was recently forced to sell MRC, which manufactures equipment for the semiconductor industry, to Sony, to gain the capital needed to develop the next generation of technology in semiconductor manufacturing.

"American banks do not understand technological cycles," Weinig wrote. "At the very time we needed more money for new development, they pressed us for repayment and restructuring. . . . We explored other sources of capital. . . . We turned to Wall Street financiers and found two varieties—those who were prepared to raise money for bottom-of-the-barrel buyouts with dismemberment plans for the company, and those who were prepared to sell 'junk bonds' for the company at costs beyond our ability to generate profits."

Weinig wrote that when he approached his customers, such as IBM, for investment capital, "we were met with a wall of silence." When Sony showed up with the promise of

new capital, Weinig embraced Sony as a "white knight." "After we were purchased by Sony there was an outcry about how MRC, an American national treasure, had slipped into the hands of a foreign company. No one said we were a national treasure before we were sold," Weinig noted bitterly.

## Asia

### Three nations consider 'growth triangle'

Singapore is discussing a plan with Indonesia and Malaysia to create an industrial, commercial, and tourist "growth triangle," the *International Herald Tribune* reported June 9.

Malaysian Prime Minister Mahathir Mohamad said, after talks with Indonesian President Suharto, that they have agreed to work with Singapore because "it will be beneficial to all of us." Malaysia and Indonesia could gain from "the prosperity and spending power of Singapore and the spillover effect of the tourist industry." Mahathir said a joint development authority linking the three countries is now under consideration.

## Environmentalism

### ASEAN nations unite to defend their economies

The Association of Southeast Asian Nations (ASEAN) are mounting a joint defense against environmentalist organizations who are trying to stop their logging operations, an important part of their economies. The ASEAN nations will send delegations to the U.S., Europe, Australia, and New Zealand in July, Malaysian Primary Industries minister Lim Keng Yaik announced May 21.

Western environmentalist groups are urging bans on tropical hardwoods—of which Malaysia and Indonesia have the biggest supplies outside Brazil—but both these nations have government-sponsored forestry programs. Lim said the delegations would meet

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with the environmentalist groups "to tell them the real situation about our tropical forest management policy." He also announced that Malaysia will limit exports of rubber wood timber to 70% of last year's exports. The curb will ensure timber supplies to local industries while cutting exports to Japan, Taiwan, and South Korea.

A report by an international mission called in by the Malaysian government to look into the logging industry in Sarawak, reported that forest management techniques in Sarawak are "without doubt of a much higher standard than in most other tropical timber producing countries, and even in some developed countries," the London *Daily Telegraph* reported May 21.

### Debt

#### Japanese report sees P.R.C. debt flashpoint

Communist China may fall into a political crisis under the weight of huge government debt, the result of loans it took out in the early 1980s, a Japanese private think tank, the Nikko Research Center, predicts.

In a report quoted by Kyodo news service, the Nikko Center says China is set to enter an era of principal repayments on its outstanding government bonds now that it is already under pressure from interest payments on the national debt. The debt burden is likely to force the Chinese government to raise taxes and re-schedule debt payments to its people, a move which may lead to political turmoil, it says.

### Political Economy

#### Economist sees struggle over choice of model

With the Cold War over, the struggle is now between brands of economics, Iwao Nakatani, professor of economics at Osaka University, Japan, said in the June 7 *Journal of Commerce*.

In a commentary entitled "Japan's Black Sheep Capitalism," Osaka wrote, "The victo-

rious West will be less unified in the 1990s. Varieties of capitalism will battle like medieval sects," Nakatani asserts, noting that "Japan's future as an economic superpower depends on its form of capitalism being accepted as valid. Otherwise, our exports and overseas investments will be labeled unfair and targeted for sanctions."

Nakatani contrasts the Japanese model of economics with U.S. capitalism "driven by violent market forces."

### Britain

#### Collapse of R&D creates 'national emergency'

Britain faces a "national emergency" because its basic research and development has been obliterated, Ivor Owen, director general of a British scientific and engineering group, has warned. "There is no strategic debate about what to do about the failure in high-volume, high-technology, high-value-added products, and many still hold the view that manufacturing is not necessary to the health of the economy," Owen said, decrying the post-industrial outlook of British elites.

Britain spends less per capita on R&D than any other major industrialized country. George Gray, a British professor who pioneered liquid crystal display technology, told the June 7 *Financial Times*, "Some of the best ideas develop from fundamental research and they are in danger of being starved out in a climate which certainly would not have allowed me to follow the path I did."

A group of British industrialists is similarly urging investment in transportation infrastructure. The June 7 *Financial Times* reported that Sir Brian Corby, newly elected president of the Council of British Industry, attacked the financiers of the City of London at the annual Lord Mayor's City Banquet. Corby denounced the short-term outlook forced upon industrialists by financiers demanding quick returns. "Any visitor to France or West Germany will confirm that our apparent allergy to thinking strategically about infrastructure could place the U.K. at a very serious disadvantage," Corby said.

● **JAPAN** has unveiled a plan to build 40 nuclear power plants over the next 20 years and almost double the country's reliance on nuclear power, the Bangkok daily the *Nation* reported June 6.

● **THE ENERGY** Department announced the week of June 8 that its oil and gas R&D programs will be "refocused" out of long-term and basic research into "near-term" technologies such as "reversible plugging" of wells so they can be reentered.

● **CZECHOSLOVAK** Deputy Prime Minister Valtr Komarek, who was recently relieved of his leadership of the cabinet's economic team, has attacked the "free-market" reform policies forged by Finance Minister Vaclav Klaus. The Polish-modeled reforms would create a wave of inflation and unemployment, he said. "People would be disappointed. . . . It would then be very difficult to muster any enthusiasm for reform ever again."

● **BRAZIL** will spend \$1 billion over the next 10 years to prepare satellites for launch in 1993 which will, among other things, be used for Earth remote sensing to study the Amazon, according to NASA.

● **THE EARTH** has cooled by one-third of a degree in 70 years, according to a study released in May. Sherwood B. Idso, a physicist in the USDA Agriculture Research Service, said that the study does not prove that Earth is either cooling off or warming up. "We have not yet begun to feel global warming due to the greenhouse effect," he said.

● **THE U.S. COMMERCE** Department warned that the U.S. electronics industry will be eclipsed by Japan in the next few years, the June 9 *New York Times* reported. The report begins with a disclaimer that it only reflects the views of the Commerce Department and not the Bush administration.