

# Business Briefs

## Africa

### Namibia, China plan new water pipeline

A water pipeline, funded by China, will give "Namibia's drought-stricken but most economically productive central regions, a new lease on life," according to a report in the June 13 South African *Mail and Guardian*.

The Namibian cabinet has decided on a feasibility study to pipe water from the Okavango River bordering Angola in the north. The project would involve completing the Okavango-Grootfontein link of the Eastern National Water Carrier with a 250-kilometer pipeline to the river. The pipeline's capacity is expected to be 15- to 25-million cubic meters per year. Inflow to the three dams supplying the central area has been well below average over the past 10 years; chances are that two of the three dams will be empty by the end of 1996.

## Japan

### Banks ante up as part of bailout scheme

Japanese banks on June 20 agreed to contribute \$4.6 billion to a government fund to bail out Japan's bankrupt *jusen* real estate banks, to assuage public fury against the use of \$6.3 billion of taxpayers' money in the bailout, wire services reported. Japan's bankrupt agricultural cooperatives (*nogyo*) and the Bank of Japan (the central bank) will put an additional \$1.9 billion into the fund. Finance Minister Wataru Kubo announced June 19 that the Diet (parliament) would finally recess, after a marathon session on the bailout, because the banks had agreed to pony up.

At least \$120 billion of the *jusen*'s \$140 billion in outstanding mortgage loans are rotten, due to Japan's 1985-94 "bubble economy," which Prime Minister Ryutaro Hashimoto called "Wall Street's financial AIDS" in 1990, shortly before he was sacked as finance minister for attempting to stop the scheme.

The *jusen*, however, in turn owe over \$100 billion to Japan's commercial banks

and about \$10 billion to the agricultural banks, which are the backbone of Japan's independent food production and of the Liberal Democratic Party's political base.

Japan's top 21 commercial banks have about \$500 billion in bad loans, out of \$3 trillion in loans. The top ten banks said they would write off over \$50 billion in bad loans in March.

Finance Minister Kubo said that in July, the Deposit Insurance Corp. of Japan will set up a special "bad loan bank" to inherit the bad assets of the mortgage firms. The government bank will be given special powers to investigate the financial condition of any borrower and to collect on the loans. This means that many real estate agents and land developers, who have borrowed massively from the mortgage firms, would lose the financial backing needed to keep going. That in turn could bankrupt many small financial institutions that have made loans to the real estate sector, so Japan is in for a big shakeout.

## Eurasia

### China urges construction of continental pipeline

A pan-Asia continental pipeline that would transport oil and gas among China, Central Asia, Russia, the Middle East, Japan, and South Korea, is being proposed by China, the *Singapore Business Times* reported. The proposal parallels the land-bridge revival of the "Silk Road." According to experts cited by China's official Xinhua news agency, the pipeline would help develop regional cooperation between East and West. They stressed that cooperation between Asian countries in terms of energy resources, particularly oil and gas, was crucial to economic development in the region into the next century.

Prof. Li Dai, of the Chinese Academy of Sciences, one of the main advocates of the project, said it would link up oil and gas pipeline networks in eastern and western China with Russia and countries in Central Asia and the Middle East. It will also extend, via China, to South Korea, Japan, Taiwan, and other major East Asian oil and gas markets.

According to Wang Tao, president of the

China National Petroleum Corp., the key parts of the project—the laying of oil and gas pipelines from eastern to western China, and between China, Russia, and Central Asia—are either under way or about to start construction. Wang said he would be heading for Russia in late June to sign formal contracts on joint construction of gas pipelines extending from eastern Siberia to China.

## Economic Theory

### 'Shareholder value' called vulgar liberalism

Swiss banker Hans-Dieter Vontobel attacked the so-called shareholder-value concept as an outdated form of Anglo-Saxon capitalism, in the Swiss daily *Neue Zürcher Zeitung* on June 19. The "apostles of the spirit of the times" perceive today's world economy as being dominated by "Darwinian logic and a breathtaking globalization, reducible to a fight of each against the other." The slogan of this kind of "vulgar liberalism," says Vontobel, has become "shareholder value," which means that every aspect of the society has to be controlled by "nothing but profit."

This kind of thinking is not new, he says. However, the sense of proportion has been completely lost. "These excesses reveal a fundamental conflict: the clash between the familiar, long-term oriented business tradition, and the impatient capitalism of Anglo-Saxon character, based upon short-term, and often short-sighted seeking for the maximization of profits." In the Anglo-Saxon hierarchy, "speculative genius" ranks much higher than the person involved in "manufacturing industry." Therefore, "making money" is conceived of as better than "earning money."

Whoever is "glorifying shareholder value" is "shaking the very foundations of our economical-social order and the political system." People should realize that in the Anglo-Saxon countries, public opinion has turned formerly "glorified reformers" into the "murderers of industry." The "egoistic," "short-term" orientation and the "boundless greed for profit" is destroying the identification of employees with the company, which is necessary for first-class performance.

"This is in particular true in banking, because this business relies upon long-term partnership with the clients, upon honesty, and mutual trust. This capital should not be carelessly given away."

### **Economic Policy**

## **Atlantic Monthly warns of economic depression**

Thomas Palley, professor of economics at the New School for Social Research, outlined the collapse of the U.S. physical economy, in the July *Atlantic Monthly*. "Were the U.S. economy to enter a new recession, it would be likely to experience deflation," he said. And, the 1981-82 recession showed that unemployment rates in excess of 10% are still possible. Thus, "the twin characteristics of depressions are therefore now potentially in place."

Current economic beliefs, meanwhile, are dangerously mistaken, because they will cause the government to curb its spending at the same time that households are curbing theirs. "The pressure to cut government spending . . . derives from a misunderstanding of government deficits. Though deficits can be extreme and dangerous, at less than 3% of U.S. national income, our deficit is neither. Just as individual households borrow to finance homes and cars, we should expect government to borrow to finance highways, sewers, schools, airports, public buildings, and the like."

The true rate of unemployment, Palley warned, is already almost 14%, once discouraged workers and underemployment are taken into account.

"Perhaps the single most important factor in the growing fragility of the economy is developments in the labor markets," he said. "When trade rests exclusively on wage differentials, as does most trade with the Third World, it implicitly becomes an instrument for pushing down wages and pushing up profits. Free trade promotes competition not only between individual products but also between different economic systems. . . . Ill-considered free trade can promote a 'race to the bottom' that lowers wages, job security, and social welfare standards."

He attacked the International Monetary Fund and World Bank for imposing "financial reform programs" on countries which "lock a country's domestic economic policy into a contractionary stance, rather than promoting adjustments that encourage sustainable growth."

Palley also attacked the economics profession: "Most economists support policies of zero inflation achieved by high real interest rates, fiscal austerity, balanced budgets, limited social and infrastructure spending, free trade, and the globalization of financial markets. Since economists act as policy advisers around the world, the economics profession has become a de facto means for coordinating and implementing deflationary policy on a global scale."

### **Trade**

## **Iran offers economic cooperation to Germany**

Iranian Ambassador to Germany Sayed Hossein Musavian outlined the economic benefits for Germany if trade relations were improved, in an interview with the *Bonner General Anzeiger* on June 20. "The relations are not good, because the German government is not utilizing the enormous potential, particularly in economic cooperation," he said. "Germany could receive a 25% share in Iran's second five-year plan, as it had in the first plan. That would represent a volume of \$25 billion for Germany."

According to June 13 *Iran Report*, "forty-two leading German banks have joined, to offer long-term credits in unlimited quantity, for projects which should be approved in the context of the second Iranian five-year plan." The deal, characterized as a "breakthrough in Iran's attempt to reestablish international credit-worthiness," reportedly originates with the AKA export credit agency and involves ten Iranian banks. The amount of credit to be made available will depend on whether the Hermes export credit authority lifts its credit ceiling, currently at \$67.6 million. Due to the embargo, Germany's trade with Iran dropped from \$5.3 billion in 1992 to \$1.66 billion in 1995.

## **Briefly**

**IRAN** announced 2,000 infrastructure projects in Karadj and Shahrjar, the South African *Mail and Guardian* reported June 13. Construction Minister Gholamresa Forouesh said projects completed last year included housing units for 350,000, and that now 75% of rural villages have electricity and 86% clean drinking water.

**SWISS BANKS** are threatened by risks in the foreign exchange markets, Hans Meyer, president of the Switzerland National Bank, said June 20, the German daily *Handelsblatt* reported. "Things are not well in Switzerland. If I would have to speak about all problems we are presently dealing with, we would have to stay here for the next four days."

**CITITRUST** (Bahamas) Ltd., a unit of Citicorp (the holding company parent of Citibank), is being investigated by the U.S. Justice Department; the June 21 *Wall Street Journal* reported. A member of the Bacardi rum family has alleged that Cititrust helped other Bacardi family members defraud her of around \$200 million of the family fortune.

**BRITAIN, GERMANY,** France, and the Netherlands blocked a vote on raising ECU 1 billion (\$1.24 billion) over 1997-99 for Trans-European Nets, priority rail and road cross-border infrastructure projects, which would create more jobs, at the June 20-21 European Union summit in Florence, Italy.

**ROMANIAN** trade unionists marched in Bucharest on June 20, to press for wage increases and protest the cabinet's economic policies, Radio Bucharest reported. The rally was staged by the National Labor Bloc, which wants a 60% wage hike to keep pace with massive price hikes.

**UKRAINE'S** Prime Minister Pavlo Lazarenko on June 14 said that he has ordered the layoff of 20% of government employees (10,000 people), and plans to reduce social benefits, including energy subsidies for some 17 million people.