

# Business Briefs

## Malaysia

### Banking reforms taken after Camdessus visit

The Malaysian Central Bank announced a broad package of banking reforms on July 27, the *Asia Times* reported. The changes came ten days after International Monetary Fund Managing Director Michel Camdessus made an unusually friendly visit to Malaysia.

As part of the reform, larger banks will henceforth be allowed to issue negotiable certificates of deposit up to five times their capital funds (compared to three times, previously), and will be permitted to engage in equity derivatives sales (compared to only financial futures, as at present). One result of these moves will be to squeeze out the smaller banks, with the intention of reducing the current 37 banks down to about 12 within 10 years, according to the central bank.

The *Asia Times* pointed out that for Southeast Asian countries as a whole, foreigners already account for 25% of commercial banking, 70% of life insurance, and 40% of the financial system's capital.

## Infrastructure

### Canal mooted for Persian Gulf, Caspian Sea link

Iran has been sending experts to Russia to study the Volga-Don Canal and canal technology, with the idea of constructing a canal to link the Caspian Sea and the Persian Gulf, the Russian daily *Rossiskaya Gazeta* reported on Aug. 5, according to the Foreign Broadcast Information Service. "Russian experts in water diversion seem to be in demand again," the paper said, apparently referring to the failed plan to divert the Ob-Irtysh river system to the south, to save the Aral Sea, which is now rapidly drying up as a result of the failure to implement water diversion there.

*Rossiskaya Gazeta* reported on an article in the Iranian newspaper *Keyhan*, according to which "there is a plan to link the Caspian Sea and the Persian Gulf by canal." Iranian

Minister of Roads and Transport Akbar Torkan told *Rossiskaya Gazeta* that "construction of an unrivaled ship canal between the Caspian Sea and the Persian Gulf totalling more than 1,800 kilometers in length will begin in the next few years. This artery, the minister believes, will ensure Iran's transport independence and facilitate direct communication with European states for it."

The plan originated with the Shah in 1970. The Iranians admitted that building the waterway is not yet on the agenda, but in view of the difficulties for Russian merchant shipping in the Bosphorus and the Dardanelles, the utilization of an alternative route, "making it possible to avoid these straits is of great significance to Russia."

Iran's Embassy Press Secretary Shah Velayati commented, "The scheme for the construction of a canal linking the Caspian Sea and the Persian Gulf is a specific embodiment of the policy of creative development pursued by the government of Iran."

## Banking

### Belarus plans for more control, nationalization

Belarus President Aleksandr Lukashenko is beginning to enforce two decrees on banking issued in May, which will lead to what the Aug. 9 *Wall Street Journal* called "draconian controls and, in some cases, nationalization." Some critics are warning that the new measures could lead to a further rift with the International Monetary Fund (IMF), which suspended lending to Belarus in March, as well as the European Union, which suspended aid in June because of alleged human rights violations.

The decrees limit banks' foreign-exchange transactions, place caps on bankers' salaries, allow the state to appoint top representatives, and require all banks to reregister with the government by Jan. 1, the *Journal* reported. The paper commented, "The President is apparently convinced that it is cellphone-toting, BMW-driving bankers—not misguided government policies—that caused the country's near-bankruptcy and the 40% drop in economic output in the past

five years." In fact, IMF conditionalities are responsible for the economic decline.

Stanislav Bogdankevich, formerly Belarus's central bank governor and now an opposition deputy, called the planned actions "not even nationalization. It's outright confiscation, because the state has no intention of indemnifying shareholders." Under the new regulations, all but six banks slated for nationalization are forbidden "to trade government securities or conduct hard-currency transactions. The ban cuts into the lucrative market for short-term dollar loans, which carry annual interest rates of 35-40% and are a leading source of banks' profits. Banks were also forced to close in June an estimated 1,500 currency-exchange centers."

"Bankers have exploited legal loopholes to grow rich for long enough," Pyotr Kapitulo, the President's economic adviser, said. "The legal framework which allowed banks that were state-owned to become private was stupid. . . . This is not nationalization. It's simply returning stolen state property to the state."

## Technology

### China takes up fight against desertification

China hosted the six-day Asia-Africa Forum on Combating Desertification, in Beijing in August, on the threat to the world economy posed by desertification and drought. It adopted a "framework for action," calling for the establishment of an informal network by December to facilitate the exchange of information among countries, and considered setting up demonstration projects covering 2,000 hectares (4,900 acres) each in one Asian and one African country to apply advanced technology. "The problem of desertification is getting worse," Chinese Forestry Vice Minister Zhu Guangyao told reporters on Aug. 10.

Chinese officials said China was willing to take part in the project, which would involve investment of \$20 million from developed countries and UN organizations. Desertified land in Asia has reached 1.4 billion hectares (3.5 billion acres), or one-third of

## Briefly

**EGYPT'S** plan to build a bridge for road and rail traffic across the Suez Canal, will get \$83 million in help from Japan, covering about 60% of the project's cost, Egypt's Transport Minister Suliman Metwalli said July 31. A tender for building the bridge will be offered in November.

**FRANCE'S ELF** oil giant is being sued by a private citizen for dropping plans to invest 15 billion francs (about \$3 billion) in Magdeburg in eastern Germany, the French daily *Libération* reported Aug. 6. The so-called Leuna Affair arose after a new CEO was named to ELF.

**AUSTRALIA'S** state of Victoria privatized its third power station, selling Hazelwood Power to a British company, National Power, for \$2.35 billion, the Aug. 5 *Herald Sun* reported. The sale brought the total value of Victoria's electricity selloffs to \$13.6 billion. Victorian Treasurer Alan Stockdale has said that jobs at the station cannot be guaranteed.

**ROMANIA'S** 43 chicken farms are threatened with bankruptcy, *Agra-Europe* for the week of Aug. 5 reported. The farms have been hit hard by drastic increases in the prices of energy and fuel that went into effect on July 1, and have been plagued by feed shortages.

**JORDAN'S** Parliament voted 50-24 to approve the government's resolution to raise the price of bread and other food articles threefold, *Al-Hayat* reported Aug. 7. The resolution is part of an IMF-imposed structural adjustment program which the government pushed, despite warnings of social unrest.

**FRANCE'S** Finance Minister Jean Arthuis said Aug. 8 that he has told the justice minister to "indict the former heads of Crédit Lyonnais for failing to control the bank's branches," the daily *Le Figaro* reported. The CEO is accused of having hidden information from shareholders. Taxpayers are expected to pay \$10-20 billion in a bailout.

the global total. One billion hectares of arid land in Africa are affected by desertification. Officials said 70% of all food-cropping land in sub-Saharan Africa was subject to drought, and 73% of agricultural dry-lands were degraded. Sustained degradation of dry-lands leads to desertification and climate change.

Beijing last year unveiled a blueprint for the greening of China by replacing deserts with forests. China plans to boost forest coverage from 14% now, to 17% in 2010, and 20% in 2050. The central and local governments allocate several billion yuan a year for afforestation and anti-desertification programs.

Officials say China's desert regions cover more than 3.32 million square kilometers (1.28 million square miles), 34% of China's area and far larger than its estimated 1.2 million km<sup>2</sup> of arable land. Environmental reports say China's deserts expand by at least 2,100 km<sup>2</sup> a year, threatening to engulf hundreds of kilometers of railway track and road, and causes direct economic losses of about \$6.5 billion a year.

### **Economic Policy**

## **Zambia faces disaster from IMF conditions**

The International Monetary Fund (IMF) structural adjustment program in Zambia has left a disaster, according to Bestone Ng'onga, in the July 23 *Zambian Daily Financial Mail*. The results include:

Life expectancy has been reduced to 40 years; infant mortality rates now stand at 113 per 1,000 live births; 40% of children are stunted due to chronic malnutrition, while 25-35% of children are underweight.

"Zambia has in the past years experienced deindustrialization, resulting in the closure of more than 300 companies, compared to [which] less than 15 foreign companies have been registered as of last year," Ng'onga wrote. Currently, at least 12 companies are likely to collapse in the next three to four months because of poor cash flow, director of the Directorate of State-Owned Enterprises Steven Mwamba said recently. Mwamba said that unless something was

done now, many state-backed firms were likely to close down.

According to the 1994 Zambia Poverty Assessment, almost 7 out of 10 Zambians are poor or "core" poor (those for whom at least 70% of household expenditure is on the basic food basket, or those whose household expenditure is less than that required for the basic food basket).

The economy is characterized by declining GDP; massive retrenchment evidenced by the declining official employment and high unemployment rates; and decline in the performance of key sectors of the economy, such as agriculture, mining, and manufacturing.

"Several factors perhaps are responsible for the increasing poverty in Zambia, but more recently, this has been mainly attributed to the structural adjustment program," Ng'onga concluded.

### **Investment**

## **China arranges largest export loan ever to Iran**

Chinese banks have raised a \$270 million syndicated loan to support Chinese exports to be used in the construction of subway systems in Teheran, the Iranian capital, *China Daily* reported on Aug. 2. This is the largest export credit ever arranged by Chinese banks for an overseas project, and the deal represents the largest export of civilian products China has ever clinched.

The loan will finance a consortium led by the China International Trust and Investment Corp. (CITIC) to supply power, signalling, ventilation, and maintenance equipment for the construction of subway lines one and two in Teheran. Apart from the CITIC deal, Changchun Rolling Stocks Works will supply 218 passenger cars, and China North Industries has been awarded a contract to build an electric railway in the suburbs of Teheran. The three contracts form an integrated underground-system project.

Iran has become one of the major markets for Chinese exports of technology and complete sets of equipment. Last year, contracts for such exports to Iran totalled \$1.08 billion.