

Business Briefs

Banking

EU rubberstamps latest Crédit Lyonnais bailout

On Sept. 25, the European Commission approved another "emergency measure" for France's troubled Crédit Lyonnais. FF 3.9 billion (\$800 million) of French taxpayers' money is needed to cover the bank's losses stemming from a FF 135 billion loan to CDR holding, which was created last year to take over the bank's bad assets. European Commissioner Karel van Miert stated, "These measures are to avoid a further deterioration."

According to the London *Financial Times*, this package is "likely to be even larger than the FF 45 billion state aid package agreed to last year." An unnamed European Commissioner was quoted arguing that the latest emergency measure was unanimously approved by the EC because "no one could ever even think of having the collapse of a bank like this." Germany's *Süddeutsche Zeitung* compared the bailout to the European Union's refusal to help save industries in former East Germany. "In the case of VW in Saxony we are dealing with state subsidies of DM 90 million [\$55 million]. This is peanuts compared to Crédit Lyonnais," said an EC official.

Africa

IEA: Sell off continent to the multinationals

The Mont Pelerin Society's Institute of Economic Affairs has proposed a new twist on African slavery: Privatize whole nations by turning their affairs over to firms modelled after the British Crown charter companies, such as the East India Company, or Royal Niger Company. The proposal to "take the white man's burden private," appeared in the IEA's journal *Economic Affairs*, by Robert Whelan, assistant director of the health and welfare unit. Whelan is also prominent in Britain's "right-to-life" movement.

"Africa is the pit into which we pour our futile good intentions," Whelan scowls. His

charter companies would achieve law and order, national defense, and trains that run on time, according to the Sept. 28 London *Daily Telegraph*. They would be allowed to levy taxes at a level determined by a pre-purchase manifesto. "Welfare services such as education would be the optional extras which would increase the demand for tax revenues."

Whelan told the *Telegraph*: "I realize it is a radical proposal. But nothing short of that is going to solve the problems of Africa. The IMF [International Monetary Fund] has recently proposed liquidating £5 billion of its gold reserves to bail out the 20 worst debtor countries, all in Africa. All that will do is show that fraud, corruption, and improvidence will be well rewarded and good government will get nothing." However, responded Prof. Richard Rathbone of London University's School of Oriental and African Studies, "The charter companies had a pretty awful history, really. They were, without exception, very brutal and completely disastrous. This idea has been tried before and it did not work then."

Indonesia

Suharto lectures tycoons on need to help the poor

Last year, Indonesian President Suharto issued a decree, which called on all individuals and companies earning above \$43,000 to put up 2% of their after-tax income or profits to the Self-Reliant Prosperity Fund, which would provide low-interest loans to the poor to start small businesses. Only about half of the 6,472 corporations and 4,553 individuals have come through. Thus, Suharto called them together at the Presidential palace on Sept. 14 for a lecture on the source of their wealth.

"These people have become well off not because of their genes," he explained, "but because of the New Order's [Indonesia's policies since 1965] successful development policies. . . . Hard work would have been meaningless were it not for the stability that government helped create. . . . While you still have a soul in your body, you should give something in this life. The fund is giving you

a chance to help the poor. It is not obligatory, but as human beings, you should feel obligated." He added coyly: "If they have problems, I would be glad to help. The Directorate General of Tax will also help if these business people have difficulty calculating the tax."

Petroleum

Iran signs exploration deal with Senegal

The National Iranian Oil Company (NIOC) exploration department has signed a \$4 million deal with Senegal, for oil exploration. The NIOC manager for oil exploration, Seyed Mehdi Hussein, told the *Teheran Times* in an interview in September, that Iran, Turkmenistan, and Russia have also agreed to build up cooperation for exploration of oil and gas in the Caspian Sea.

He added, that the NIOC had invested \$400 million and 38 billion rials in the first five-year plan for exploration (1989-94), for the production of 6.6 billion barrels of oil and 135 billion cubic feet of natural gas. In the second five-year plan, the NIOC wants to conduct exploration work for 2 billion barrels of crude and 25-50 bcf of gas. The main activities are being conducted by Iranians. The overall value of fuel made available by the NIOC over the last seven years is estimated to be \$250 billion.

Oil Minister Gholamreza Aqasadeh said Iran would further develop its cooperation with South Africa. Iran supplies South Africa with 70% of its oil needs; South Africa has no debts to Iran for oil. He added that the two countries were working on an important natural gas deal as well.

Deregulation

Thai study details damage from offshore banking

In 1993, Thailand became the first Southeast Asian country to set up an offshore banking facility, called the Bangkok International Banking Facility (BIBF), allowing deregulated (and untraceable) banking. Before 1993, banking sector inflows were primarily

for liquidity adjustment, accounting for 20% of total inflows.

Since the opening of the BIBF, 53% of net inflow comes through banks, and 74% of that through the BIBF, which is "mostly hot money in the form of short-term loans," according to a report by Dhana Siam Research. The report says that with the BIBF, "banks have been able to profit by interest-rate arbitrage, borrowing abroad and lending locally. These loans are usually for short duration and rolled over often." Both banks and businesses have opted for the quick and easy, short-term hot money rather than having to "commit to long-term loans as they did before."

The results are now catching up with the Thai economy. With the stock market continuing to collapse (a one-third fall since February), there is a run on the currency, the baht, threatening an unwanted devaluation. Moody's recently downgraded Thailand's short-term debt rating, saying, in the words of the *Far Eastern Economic Review*, that the Thai "over-reliance on short-term foreign money to pay for imports makes it vulnerable to a financial shock similar to what Mexico suffered in 1995."

Desperate efforts to patch things up—bailout money for stock investors, government intervention in the currency derivatives markets in Hongkong and Singapore, tax and tariff breaks for exporters—are all deepening the hole into which the country is falling.

Trade

Kissinger calls for Atlantic free trade zone

Sir Henry Kissinger and his Kissinger Associates sidekick, Sir Brent Scowcroft, called for the creation of a North Atlantic free trade zone as the "new structural framework" to bind Europe and the United States together. Speaking at the "European Chairmen's Symposium" in Versailles, France, Kissinger and Scowcroft both complained that the United States had too great a tendency to act on its own, without consulting its allies (read: the Anglo-French "Entente Cordiale"), and that the proposed free trade zone would be a good way of politically reining

the United States in.

Kissinger added that another reason for the proposed pact was that "management of an emerging China, of an increasingly nationalistic Japan, and of a growingly assertive India will require a different order of leadership."

Creation of a North Atlantic free trade zone was Sir Henry's main focus in his keynote address to the conference on "Britain in the World" in March 1995, co-sponsored by the Royal Institute for International Affairs and Her Majesty's government.

Infrastructure

Arrest of Italy's rail chief threatens projects

The plans for building an Italian high-speed railway system are under fire, after the Sept. 15 arrest of the State Railway (FS) company's general manager, Lorenzo Necci. The arrest, on bribery charges, stems from a renewed prosecutorial "march through the institutions," that could be more devastating than the 1992-94 "Clean Hands" investigations which destabilized Italy.

Necci is considered the architect of the project, a \$24 billion deal which includes two east-west and north-south lines, whose construction has just started. When he was appointed FS manager in 1990, Necci changed the strategy from budget-balancing to expansion, recruiting managers from other state-owned companies and trade unions. At the same time, he built up a web of companies in complementary transport areas, in order to provide FS with additional income flows to allow it to start the high-speed projects from a stronger financial position. The state was to finance 60%, and the "market" 40%.

The high-speed connections are seen as the investment project that could finally save from bankruptcy Italy's vast construction galaxy of small and medium-sized enterprises, which employ 1.5 million workers.

The project has been attacked by free-marketeters as "pharaonic." Already, Green Party leader Carlo Ripa di Meana, as well as some opposition leaders, have called for suspending all work on the project until all corruption charges have been cleared.

FRANCE suffered a 40,000-person increase in unemployment in August, raising the total to 3,085,000, or 12.6% of the employable population, according to statistics released by the International Labor Organization on Sept. 27. The news is feeding an atmosphere of social unrest.

PRUDENTIAL Insurance Company of America, which in July agreed to pay a fine of \$35 million, said on Sept. 24 that it would pay policyholders \$410 million to settle charges that the insurance giant improperly urged some clients to cash in or borrow against existing policies to buy expensive new policies.

INDONESIA is considering a building a bridge between Java and Sumatra, its two main islands, over the 60 kilometer span of the Sunda Strait. The proposal was put forward by a company run by a grandson of President Suharto, Ari Haryo Wibono. The government is considering whether it can fit the proposal into the sixth five-year plan.

NIGERIA and China have pledged to work toward promotion of stability, economic integration. This is one of the decisions taken at the end of talks between officials of the two countries at the end of September.

COWS are now cheaper than hogs, for the first time in Germany's history, because of the enormous collapse of beef prices since March, when the scandal over Mad Cow disease (BSE) in exports of infected British cows broke.

SOUTH AFRICA'S Finance Ministry said in late September, that it does not envisage applying for an International Monetary Fund standby facility to help with the country's balance of payments. Reserve Bank Governor Chris Stals, and Finance Minister Trevor Manuel addressed a joint news conference in Pretoria ahead of the Sept. 28-29 annual IMF-World Bank meetings in Washington.