Business Briefs

Natural Gas

China, Russia pipeline will boost Land-Bridge

China and Russia were to sign an agreement on a multibillion-dollar project in June which would include a strategic gas pipeline connecting the two nations, furthering momentum for the Eurasian Land-Bridge. Russian officials said that a "framework agreement" would be signed during the visit to Beijing on June 27-29 by Russian Prime Minister Viktor Chernomyrdin. He was to be accompanied by a delegation from Gazprom, the Russian natural gas monopoly.

The Sino-Russian pact was to call for cooperation in development of the Irkutsk natural gas field, and the construction of a pipeline through Mongolia, to energy-short eastern China. Final preparations are expected to be discussed during meetings of the Sino-Russian joint commission on economics, science, and technology during the Russian visit.

South Korean and Japanese companies have expressed interest in providing financing, but they are insisting that participation be tied to the use of their own equipment.

Infrastructure

India: Big investment needed to sustain growth

India will require a massive investment in infrastructure of $15 billion over the next decade, to sustain the annual economic growth rate of 7-8%, according to a government study, the *Asian Age* reported on June 15. The study said that infrastructure development holds the key to the country's future. It was prepared in the wake of the ongoing ten-day visit to the United States of a high-powered delegation led by cabinet secretary T.S. Subramanian, aimed at securing investment from the United States.

The study pointed out that India's per capita electricity consumption is less than one-tenth the global average, and the ratio of telephones, at 1.5 per 100 people, is still low compared to the global average of 10 per 100. Though infrastructure is a major bottleneck, its development presents enormous opportunities for investors, particularly foreign direct investors, the study said.

The government has taken initiatives to attract foreign investment, including allowing 100% foreign participation in the power production sector, a five-year tax holiday, and a tax deduction of 25% for the next five years for build-operate-transfer projects in power production, roads, highways, bridges, airports, ports, rail and water supply systems, irrigation, and sanitation and sewerage systems. Similar deductions are being considered for the telecommunications sector. Presently, the total installed capacity of power generation is 83,288 megawatts, which has been achieved through sustained power sector development since independence.

Finance

China cracks down on capital flight

China's State Council on June 20 announced that the transfer of domestic assets out of China, even if sent into Chinese-controlled firms overseas, would require government approval, if the purpose was to inject the assets into a company listed on a stock or other exchange. Recently, China has barred exchange-listed firms, state enterprises, and state banks from speculating on the domestic stock markets. Now, in another move against speculation, the "red chip" trading in Hongkong is being curtailed.

Analysts said the move was aimed largely at Hongkong companies with financial backing of Chinese firms, the so-called "red chips," the shares of many of which are being speculated up out of control on the Hongkong and other foreign exchanges, on expectations that Chinese parent companies will be making large cash injections after July 1. The companies themselves were also hyping up their own values by swapping assets back and forth, analysts said.

"They [Chinese authorities] are trying to get more of the money away from the trading and speculative side and put it into projects such as infrastructure, rather than just shifting assets from one vehicle to another and inflating the value without the usefulness of the asset," said Kent Rossiter, sales manager at Nikko Securities in Hongkong.

"The government was worried the situation [with red chips] was getting out of hand and the market was going to crash," said another analyst. Chinese authorities "just want to make sure that there is no untoward transfer of assets from mainland China to Hongkong and an outflow of these types of assets. They don't mind it [assets] going out as long as it is still under the control of the Chinese—and they don't want to see an undervaluation of their assets," he said.

"What's happened has to do with the government's crackdown on A shares," said another analyst, speaking of the shares in Chinese companies which foreigners are allowed to buy on markets inside China. "China wants to give the image that they run a serious market and not a casino."

Central Asia

India sees 'quantum leap' in trade ties

The Indian Institute of Foreign Trade (IIFT) held a six-week workshop in New Delhi on April 30-June 10, which discussed the potential for a "quantum leap" in Indian trade with the nations of Central Asia, the Iranian daily *Ettela'at* reported on June 16.

The workshop, which involved senior trade officials from eastern European and the Commonwealth of Independent States member-states (except Russia), featured the opportunities that a rail link between Iran and Turkmenistan offers to India. IIFT head Dr. P.L. Sanjeev Reddy said that, given the ongoing efforts on the part of India, Iran, and the Central Asian nations toward activating the rail link, trilateral trade and transit were poised to "look up." The trade ties will increase India's exports of consumer goods to Central Asia, and imports of urea, fertilizers, and cotton from the region, Reddy said. Workshop director Prof. M.S. Laxmi said that "transportation of goods, which has so far been one of the major hurdles to the growth of trade between India and Central Asia, will smooth out once India-Central

Asia trade starts via Iranian territory."

However, discussion may have been limited to a system using ship transport from India to Iran, and then rail transport via Iran to Central Asia, thus bypassing Pakistan, rather than including what would be of much greater economic and political importance: completion of the Kerman-Zahedan connection in Iran, which will connect Pakistan by rail directly to Iran, Central Asia, and Europe. This gives the potential, if tensions between India and Pakistan are resolved in their mutual interests, for a direct rail link to India and Bangladesh.

Bosnia

World Bank freezes reconstruction programs

On June 16, the World Bank's Sarajevo spokesman, Patrice Dufour, announced that Bosnia's government failed to pay to the bank an $8 million tranche (payment on the debt of former Yugoslavia) within a 30-month grace period which expired on June 13, and that the bank will approve no more aid projects for Bosnia should the republic not pay within 45 days, and will halt all investments for reconstruction projects now under way if it does not pay within 60 days. Immediately, approval for four reconstruction projects will be postponed until the debt is paid. "We are now not allowed to present new projects to our board of directors, which means four projects now in the pipeline cannot be processed," Dufour said.

The World Bank projects include financing transport projects and purchase of school books, repairing schools, and reconstruction programs for the Serb entity. Dufour said that if the debt were not paid before the donors conference on June 24 in Brussels, the "debt issue" might obstruct $1.4 billion in aid.

After being victimized by a Serbian (former Yugoslavia) war of aggression, Bosnia was forced by the World Bank to recognize $2 billion as its share of former Yugoslavia's foreign debt, and is servicing a $680 million loan.

Until it gave a commitment to pay the foreign debts of the aggressor, Bosnia was deprived of investment and subjected to increasing threats. After Bosnia recognized the Yugoslav debt, the situation did not change. The World Bank, in charge of exacting usurious payment through debt service, is also the agency that controls any potential investment or reconstruction project.

Poland

Monetary crises echo collapse of tax base

The crisis in the Polish state budget is worsening. On June 12, it was learned that several days before, the government had stopped transferring money from the state budget to voivodes (local governments), which left them unable to pay the salaries of state employees, *Gazeta Wyborcza* reported. On June 10, the Finance Ministry reported that after five months, the deficit already exceeded half of the sum projected for the year.

In Lodz, the second largest city in Poland, for example, ambulance service physicians threatened to strike because they had not been paid for May.

The Finance Ministry has officially stated that budget revenues are lower than expected. The reasons are the collapse of the tax base and free market reforms, which resulted in extensive privatization, that is, selloffs to foreign firms, and liberalization of trade.

According to a recent study by the Polish Academy of Sciences, employment in enterprises which have been sold to foreign investors dropped by 25%, and their efficiency parameters are low, mainly because they "run away" with profits to their "mother" countries, rather than reinvest in Poland. Poland will face a huge trade deficit again this year, of $16-18 billion, mainly because of the drop in production in Poland, but also because many goods previously produced in Poland are now imported, even items such as bricks and potting soil. Prof. Ludwik Staszynski told *EIR* that many Western countries attempt to "export their unemployment" to Poland, that is, sell their goods in Poland even at very low prices, to maintain production and employment in their own country.

Briefly

EUROPEAN elites are preparing for shocks hitting the financial markets in September. In Brussels recently, a German official privately said that there will be "financial shocks in the international markets," which would force "weak" currencies to be devalued.

IRAN is conducting studies on a 1,000-kilometer, trans-Iran waterway linking the Caspian Sea with the Persian Gulf, the daily *Ettela'at* reported on June 20. Initial reports indicate that the engineering is feasible, and economic studies are under way. Construction would take 25 years.

UKRAINE and Turkey signed a deal on June 18 to build an oil pipeline from the Mediterranean to the Black Sea through Turkey. Turkish Energy Minister Recai Kutan told journalists the pipeline will initially carry 40 million tons of crude per year to Ukraine.

THAILAND'S unemployment is projected to rise 25% in 1997, to more than 1 million, according to the National Economic and Social Development Board. And, the chronic lack of investment in education and training is becoming more acute. Out of 257,464 applicants to fill 289,566 jobs between October 1996 and April 1997, only 131,011 were qualified.

RUSSIA'S deputy leader of the Communist Party of the Russian Federation faction in the State Duma, V.A. Kuptsov, reported on his June 3-9 visit to China, to many places he had visited seven years earlier, on June 11: "I was deeply stunned by the rapid development . . . the higher living standards of the working people, and political stability."

CONGRESS of South African Trade Unions General-Secretary Sam Shilowa said that Anglo American Corp. is the main stumbling block to agreement on working conditions in the mines. "While they profess to be for the new South Africa . . . they believe that we should work like slaves in the name of global competitiveness," he said on June 17.