Business Briefs

Infrastructure

German-Danish transport link moves ahead

The Fehmarn Belt bridge/tunnel project, to connect the Danish peninsula to Germany's Baltic coast, could be approved by the German government by the end of the year, stated Schleswig-Holstein Economics and Transport Minister Horst Buelck, after the first draft of a "profitability study" appeared in early September. The study, sponsored by the German and Danish governments, singled out three different projects to link Germany and Denmark across the 20 kilometer Fehmarn Belt, as being "profitable" for the overall economy and "economically feasible" under private financing. All three versions would require investments of about DM 6 billion. Another DM 1 billion is needed for upgrading roads and railways in Schleswig-Holstein.

Germany plans to form a private consortium for the contruction, financing, and management of the Fehmarn Belt link. The construction could start in 2001 and be finished in six to eight years.

Buelck described the Fehmarn Belt link as northern Germany's "most important international transport project." After the completion of the Great Belt link, connecting the Danish islands Fuenen and Zealand, and the near-completion of the Oresund bridge/tunnel connecting Denmark with Malmö, Sweden, the crossing of the Fehmarn Belt remains the big "missing link" in the region. It would reduce railway travel between Hamburg and Copenhagen to two hours, from five.

China

Civilian nuclear sector to be a 'powerhouse'

The Chinese nuclear industry has completed a strategic shift from military production to civilian application over 20 years, and is now operating under a new system featuring a combination of military and civilian production, and the development of nuclear power in a diversified economy, the China Nuclear Industry Corporation (CNIC) announced in Xinhua News Service on Sept. 9. The nuclear sector has set up a large number of enterprise groups over the past few years, and developed more than 1,500 civilian products. Civilian products now make up over 80% of China's nuclear industrial output.

The Qinshan Nuclear Power Station in east China's Zhejiang Province and the Daya Bay Nuclear Power Station in south China's Guangdong Province are now operating; and construction of the second and third phases of Qinshan and the Ling'ao and Lianyungang nuclear power stations is ongoing. By early next century, China's nuclear-generating capacity is expected to reach 9.2 million kilowatts and, by then, earnings from sales of nuclear power are expected to reach 30 billion yuan a year. The provinces of Shandong, Fujian, Hainan, Jiangxi, and Hunan have all been actively preparing for the creation of their own nuclear power stations.

Chinese experts consider it possible, that by 2010, the country's nuclear-generating capacity will reach 20 million kilowatts (about the same as German nuclear capacity), and will double by 2020, to 40 million kilowatts.

United Nations

Public oversight of global finance urged

"Public oversight is needed to make financial systems fair as well as effective," UN Secretary General Kofi Annan wrote in his introduction to a new report which criticizes the global financial system. According to the London *Financial Times* of Sept. 17, the 297-page report was released in preparation for the global financial summit in two years.

The report itself says that it is "positively dangerous to expose underdeveloped domestic financial structures to the ebbs and flows of global finance." It also states that only limited benefits have come from setting up local stock exchanges, and that it would be better for developing countries to set up development banks and post office savings accounts. The first reforms should be aimed at strengthening banks, which need to be adequately capitalized before there can be liberalization, and an opening of domestic markets to foreign instititutions, the report argues. The report also says that if this approach had been implemented, the financial contagion, in which billions of dollars in wealth disappeared virtually overnight and millions of people lost their livelihoods, could have been avoided.

Money Markets

More warnings of major Wall Street crash

The coming Wall Street crash will be much more violent than in 1987, states leading German banker Theodor Schmidt-Scheuber, in an interview with the German economic daily *Handelsblatt* on Sept. 17. Schmidt-Scheuber, known as "Germany's Mr. Wall Street," has been president of the Boston Stock Exchange and headed the New York investment banking arm of Dresdner Bank. Many people have earned a lot of money on Wall Street, including many German investors, said Schmidt-Scheuber. The asset prices of U.S. "blue chips" are completely out of proportion to the operations of those companies. As the German saying goes, "hindmost are being bitten by the dogs. There will be a lot of crying and fear."

Schmidt-Scheuber is convinced that many German fund managers and large private investors have, for quite some time, been preparing for a Wall Street crash. They recognize the "speculative excesses at U.S. stock markets," while U.S. investors tend to simply ignore issues like the huge U.S. current account deficit. But at a certain point, there will be a "sudden global shift of market mood."

Commenting on the turmoil in worldwide bond markets in the *Frankfurter Allgemeine Zeitung* on Sept. 17, Karl-Egmont Niem, managing director of the German family-owned bank Hauck & Auffhäuser, said: "This is not a correction, but rather a crash." Neim emphasizes that until January of this year, all the experts were speaking about global deflation and therefore expected further declining interest rates, but exactly the opposite happened.

Eastern Europe

Poland's steel and rail sectors 'downsized'

The Polish government presented a revised restructuring plan to the European Union on Sept. 15, calling for shrinking the annual production of raw steel from 15 million tons today to 11.6 million tons, and of steel products to 9 million tons in the next three to four years. This means a more than one-third reduction of output, compared to the early 1990s. In 1992, Poland produced 17.5 million tons of raw steel. At the same time, employment in the steel sector is scheduled to shrink from the present level of 74,000 to only 41,000.

Last year's plan by the government to cut steel production to 13.5 million tons had been rejected by the European Union as being unrealistic and not taking into account falling global demand and the weak financial condition of the state-owned steel mills. European Union approval is required, because the redundancy payments promised to steel workers have to be financed by EU aid.

Another example of post-communist economic "reconstruction" is taking place in the railway sector. The new restructuring plan for the highly indebted state-owned railway company, PKP, includes eliminating 58,000 of the 204,000 existing jobs by 2003, and shrinking the nation's railway net from 22,000 km to 16,000 km. Passenger transport is to shrink from 383 million to only 212 million passengers per year.

Agriculture

NFU documents farm crisis in Britain

Farm incomes have fallen 75% over the past two years to an average of 8,000 pounds, the lowest level since the Second World War, according to a report released by Britain's National Farmers' Union (NFU) in mid-September. Most commodities farmers produce and sell are being sold below the cost of production. The fall in income is affecting every area of the industry: beef, sheep, pigs, eggs, fruit, and vegetables. Lamb prices in July fell by almost 30% compared with last year. The price of a ewe two years ago was 50 pounds; now it is less than 10.

Hill farmers, who rely mainly on sheep and cattle, are hit particularly hard, and many are unble to pay for animal feed, the Supply Trade Association, which represents Britain's top feed producers, wrote to the Prime Minister. More than 1 million sheep and calves will have to be culled because farmers cannot afford to feed them this winter. Britain ceased to be a lamb exporter, and imported 1,400 lambs last year.

Bank Scandal

Hungary in crisis over handling of old debt

The Hungarian stock market and currency fell sharply from Sept. 13-15, as rumors spread that National Bank of Hungary (NBH) President Gyorgy Suranyi and Finance Minister Zsigmond Jarai would both be forced to resign. Over the weekend, Prime Minister Viktor Orban had stated that the transfer of government debt from the central bank to the Finance Ministry three years ago resulted in a loss of 70 billion forint ($289 million) for the state budget. The transfer of old debt had reportedly been done on demand of the European Union to improve "public sector transparency" as a condition for EU membership.

Orban added that many of his party members believe that there is a connection between these losses and the 70-billion forint loss at Central Wechsel und Credit Bank (CW Bank), the Vienna-based commercial subsidiary of the Hungarian central bank, accumulated in the early 1990s due to bad loans to East European companies. A week earlier, Prime Minister Orban had refused to extend the mandate of the Central Bank's Vice-President, Gyorgy Szapary, due to a parliamentary investigation into CW Bank.

Briefly

THE IMF is "playing with fire," according to former U.S. Treasury Secretary Nick Brady in London's *Financial Times* of Sept. 20. Brady is criticizing the August decision by the IMF to allow Ecuador to default on a $60 million foreign debt repayment of its more than $6 billion in Brady bonds, bonds backed by collateral of U.S. Treasury bonds.

AUSTRALIA'S central bank, the Reserve Bank of Australia, is frantically printing money, claiming that it is planning for excess demand over the 2000 New Year, reported the *Melbourne Sunday Herald Sun* on Sept. 5. While the bank won't say how much has been printed, it is conceivably in the hundreds of millions.

CHASE MANHATTAN had $11.2 trillion in derivatives as of June 30, compared to $356 billion in assets, the Office of the Comptroller of the Currency reported in its September Bank Derivatives Report. Next was J.P. Morgan with $8.7 trillion, followed by Citigroup with $7.4 trillion, BankAmerica with $4.6 trillion, Bankers Trust with $2.1 trillion, and Bank One with $1.2 trillion.

NEARLY $4 BILLION of the IMF's summer 1998 bailout money never made it to Russia. Of the first $4.8 billion, $3.9 billion was used by 18 large Russian banks to convert their GKO holdings into dollars, just days before Russia defaulted. The IMF deposited it in a Russian central bank account in the United States, from which it was disbursed to the Russian banks' accounts at the Bank of New York, according to the Sept. 15 *Moscow Times*.

PRESIDENT JIANG ZEMIN of China, in an interview with *The Weekend Australian* of Sept. 12, said: "As China is a universally recognized developing country, we will not accept obligations that exceed the sustainability of China's economy, nor will we enter into the WTO [World Trade Organization] at the expense of our fundamental national interests."