Business Briefs

Informal Economy

Worldwide piracy up 40% in 1999

A measure of the growing crisis in the world economy is the number of incidents of piracy, and its relationship to all kinds of illegal trafficking in arms, drugs, raw materials, and people, and to all varieties of irregular warfare. The British-based International Maritime Bureau (IMB) released its annual report on Jan. 24 from the Piracy Reporting Center in Kuala Lumpur, Malaysia, which says that incidents of piracy increased 40% in 1999 compared to 1998, and tripled since 1991.

There were 285 separate attacks on ships last year, more than half conducted while ships lay at anchor. A majority of the incidents took place in Southeast Asia, with the number of attacks in Indonesian waters nearly double those of 1998. Eight ships were hijacked outright, most in Southeast Asia and off Somalia. A total of 203 attacks, or more than two-thirds of the total, took place in seven countries: Indonesia (113), Bangladesh (23), Malaysia (18), India (14), Singapore Straits (13), Somalia (11), and Nigeria (11). The use of guns and knives in the attacks doubled, but the number of deaths dropped precipitously, from 78 in 1998, to only one-third that in 1999, which raises the possibility of collusion.

The following locations were named as most dangerous: Indonesian territorial waters, Chittagong port and Tuticorin, coastal Somalia, Bangkok Bar, Manila Bay, Singapore Straits, Philip Channel, Spratly Islands, and West African ports.

The Balkans

Blocked Danube ruins Romanian port cities

After NATO airstrikes destroyed three bridges near the Serbian city of Novi Sad, the Romanian port of Galati, which is 500 miles away, has suffered an economic decline due to the debris blocking the river. As a result of the blockage, 80% of the Romanians who worked on the Danube, that is, 4,000 people, have lost their jobs, and 23 shipping companies, most of them new private enterprises, are on the brink of bankruptcy.

Total losses to Romania's economy due to the blocked river were $800 million last year, 2% of the country's GNP. Some who lost their jobs now live on $40 a month in unemployment benefits, and they blame NATO for their misfortune. Some of them, quoted by the Feb. 6 *Washington Post*, claim that western Europe wanted to boost the Rhine region, and the bridges on the Danube were destroyed not for strategic reasons, but to isolate southeastern Europe.

Reportedly, the Belgrade government has accepted an Austro-Hungarian plan to clear the river and erect one temporary bridge at a cost of $24 million, funded mostly by the European Union.

In 1987, the Danube's best year, 95 million tons of goods, mostly raw materials such as coal, oil, grain, steel, and cement, were shipped on the river. Trade fell off after the breakup of the Soviet bloc, but the Balkan wars during 1992-95 dealt the shipping industry its heaviest blow. In 1995, trade fell to 25 million tons; by 1998, it had crept back up to $40 million.

The Romanian shipping industry had signed nearly $100 million in contracts for 1999. All of that money has been lost. Nearly 1,500 barges and 200 tugboats stand idly on the river.

Investment

China urged to better use domestic savings

Better use must be made of domestic savings to reduce dependency on foreign investment, a recent article in the newsletter *International Finance News* stated, *China Daily* reported on Jan. 31. China's savings in state-owned banks tend to fund less-profitable state-run firms, while foreign capital is being used by more profitable, newer enterprises. It is important to examine where foreign funds are going, the article said.

Since it began its reforms, by the end of 1997, the amount of foreign funds China had used had reached $348.35 billion, and the huge inflow of foreign capital has made up the shortfall in domestic savings and foreign exchange. However, since the 1990s, with the exception of 1993, China's total domestic savings have exceeded total domestic investment. Savings deposits increased from 703.4 billion yuan ($84.7 billion) in 1990 to 4,627.9 billion yuan in 1997, a much higher increase than that of GDP during the same period.

"Only when domestic savings are used efficiently can a country gradually reduce its dependence on foreign investment," the article said. "The state should also strengthen the administration of foreign investment. . . . The emphasis on foreign investment use should be shifted from quantity to quality and efficiency."

Trade

Britain's entry into NAFTA is under study

The U.S. Trade Commission is studying Britain's possible entry into the North American Free Trade Agreement, and it should be "applauded," according to Canadian reporter Robert Sibley, in an article in the *Ottawa Citizen* carried in the Jan. 24 *High Plains Journal*. Sibley says the Commission will report back to Congress, and there will be formal hearings later this year. Those supporting the U.K. joining NAFTA, who backed the study, include Sens. Phil Gramm (R-Tex.), William Roth (R-Del.), and Daniel Patrick Moynihan (D-N.Y.). "We already have strong financial and historic ties. Now it's time to further our relationship," Gramm is quoted.

Canadian supporters are identified as Reform Party leader Preston Manning, part of the opposition in Parliament, and Conrad Black, the newspaper magnate. Sibley says the 19th-century supporters of similar plans included Canadians John Watson, George Monro Grant, and George Parkin, who "envisioned a world in which the British Empire, which then included Canada, and the American republic worked together to forge a world order that would be a truly civilizing force."

Today, the idea is backed by free trade advocate Robert Conquest, who proposes "an association composed of the United States, the United Kingdom, Canada, Australia and New Zealand, as well as Ireland, the Caribbean, and the Pacific Ocean." In a recent issue of *National Interest* magazine, Conquest argued that such an institutional order would "define political civilization, opening a great part of the world to joint solutions of economic and social problems."

Central Asia

Nations urged to form closer economic links

The Asian Development Bank is urging Central Asian republics (Kazakstan, the Kyrgyz Republic, Tajikistan, and Uzbekistan) to forge closer economic links, to develop infrastructure, energy resources, transportation systems, communications, and trade, the *Business Standard* of New Delhi reported on Feb. 3. For geographic reasons, it said, the ADB is also urging China's Xinjiang Uygur Autonomous Region to join these efforts.

The breakup of the Soviet Union has left the Central Asian countries with few sources of manufactured goods and industrial input, little demand for their products, and inadequate administration. They are remote from world markets, with underdeveloped infrastructure. According to the ADB, these nations' trade policies are inappropriate and their capacities poor.

The ADB said that cooperation is vital in energy and transportation. Uzbekistan has large resouces of natural gas and oil; Kazakstan has oil and coal; the Kyrgyz Republic possesses big hydroelectric resources; and Xinjiang has coal and oil. In the transport sector, the need for cooperation is even greater, and the nations must establish transit links among themselves and with the outside world, beyond the existing links to the former Soviet Union.

The ADB has identified nearly 50 regional infrastructure projects for investment. Priority is given to rehabilitating the highway connecting Almaty, Kazakstan's former capital, with the Kyrgyz capital of Bishkek. Railways are also in bad condition.

Transport needs are also enormous. In the Kyrgyz Republic, over 60% of the road system is unsafe. Roads are a government priority, and it intends to allow privately owned companies both to construct and to maintain the roads. Uzbekistan's main rail route, a 1,452 km line connecting Keles, Tashkent, Khavast, Dzizhak, Samarkhand, Bukhara, and Khokjadavlet, has to be replaced to improve links with both Asia and Europe.

The six years of civil conflict since 1991, on top of natural disasters, severely damaged Tajikistan's transport infrastructure. Tajikistan, which is mountainous, is dependent on roads for movement of 82% of all freight and 98% of all passengers, but over 60% of paved roads are in poor condition due to lack of funds and equipment. Tajikistan's road and power networks are estimated to require $500 million and $450 million, respectively, for urgent rehabilitation.

Banking

Thai-owned banks becoming extinct

Dr. Twatchai Yongkittikul, Secretary General of the Thai Bankers Association, warned a seminar on compliance with World Trade Organization obligations, that Thailand could be heading toward a banking industry that is dominated by 4-5 foreign banks, with no Thai-owned banks left, *The Nation* reported on Feb. 2. He pointed out that the rapid consolidation of the industry elsewhere has already produced a situation were only six banks dominate in Japan and Singapore.

Thai banks have come under intensive pressure since the 1997 crash, not least from liberalized bank rules, which opened up the industry to foreign players and allowed them 100% control of Thai banks. Currently, there are 5 Thai-owned banks, 6 foreign banks, and 2 government banks. Thai banks are at a further disadvantage because they are required to operate provincial branches, if they want to have metropolitan branches in Bangkok. Even the Governor of the Bank of Thailand concedes that the Thai banks are losing money on 30% of branches located in overwhelmingly underdeveloped rural areas. Thai banks are also required to contribute to support funds for the stock market and support to the rice and sugar industries.

Briefly

HUNGARIAN rail workers went on strike on Feb. 1 after negotiations with the State Railway Co. failed to break a deadlock on wages and collective contracts. The rail workers' trade unions proposed a 10.78% wage increase and agreed to some 800 layoffs this year, but these were rejected.

CHINA is to relax its one-child policy and allow an estimated 60 million people to have more than one child, Zhang Yugin, Vice Minister for Family Planning, said at a press conference in Beijing on Feb. 1. Zhang said that people who were born into single-child families would be allowed to have two children.

NORTH KOREAN Vice Premier Jo Chang-dok told the Korean Central News Agency on Feb. 3, "There has never been such shortage of electricity as today" in North Korea. Blackouts have become common in Pyongyang, and are worse in the countryside. He blamed the shoratages on the U.S. failure to honor commitments under the 1994 "Agreed Framework," in which the West promised to provide fuel oil and construction of two new modern reactors, in exchange for the closure of North Korea's nuclear power program.

BRITISH FARMERS booed Prime Minister Tony Blair at the annual meeting of the National Farmers Organization. Blair urged farmers, who are facing the worst crisis in a century, to embrace the "huge opportunities" on the Internet and other technology, and announced that his government will spend £2 billion during the next seven years by redirecting farm production subsidies into environmental protection progams. Farmers have to live "in a globlized market," was his message.

GERMANY cancelled the Berlin to Hamburg maglev Transrapid rail line on Feb. 5, because of the shortsighted fear of rising costs and the German Railway's complaints that it would lose money. Germany hopes to sell the Transrapid in China and the United States.