Business Briefs

Free Trade

Vietnam Taught a Globalization Lesson

A Feb. 8 *Washington Times* feature described the nasty impact on Vietnam, of its attempt to play the globalization game and earn dollar reserves.

The cautionary tale involves Vietnam's substantial catfish-farming industry. Until 2000, it was a relatively prosperous industry in the country. Then, a U.S.-Vietnam bilateral trade agreement was signed. Vietnam began aiming to export catfish heavily to the American market; in doing so, the government lowered the price it pays catfish farmers for the fish, in order to cheapen the exports and earn reserves. Meanwhile, the price of fish food, to the Vietnamese fish farmers, increased. One of them was quoted: "The last year or two [since the trade agreement] haven't been very good. The government buys our fish at a very low price. . . . The farmers haven't been able to turn almost any profit."

The catfish exports to the United States, meanwhile, reached $66 million in 2002, and $10 million in January 2003 alone—whereupon they were hit with punitive anti-dumping tariffs and other regulations, and exports collapsed. So much for globalization and how it can work for your country.

The *Times* feature attempted to blame "communist government control" of the catfish farming industry; but Vietnam's attempt to loot its labor force to earn dollars, was no different than that of other nations throughout the Third World.

Utilities

Wall Street Buying Up Power Companies

Over the past year, the unregulated "merchant" U.S. electricity suppliers, who thought they'd make a killing by jacking up electricity prices, have instead tumbled into bankruptcy, as their debt rose because the deepening economic crisis led to a drop in demand, at the same time that the price of natural gas—one of the feedstocks for electricity generation—doubled.

Standard & Poors reports that in the last two years, more than $100 billion in the electricity supplier merchant sector's market capitalization has evaporated, according to utilipoint.com's Ken Silverstein. Already the unregulated power generation arm of NRG Energy, Mirant, and Pacific Gas & Electric have filed for bankruptcy. Merchant suppliers are offering a fire sale of assets, to try to reduce their over $125 billion in debt and regain market "confidence" to stay in business.

Wall Street financiers are buying up these assets, according to the Feb. 9 *Wall Street Journal,* in what it calls "distress sales." Major players include the "private equity arm" of J.P. Morgan Chase & Co.; Kohlberg, Kravis & Roberts; Warren Buffett's Berkshire Hathaway; and Goldman Sachs, to name a few. These new "entrepreneurs" of the electric utility industry have been encouraged by the rabidly pro-deregulation Federal Energy Regulatory Commission (FERC), which believes it is better for the financial sector to gain control of the grid, rather than the holding companies, (which deregulation created), because FERC has been investigating whether they are using the unregulated portion of their business to rip off the regulated portion. Surprise, surprise. Now, with Wall Street in control, there won't be any middlemen at all, and no one even pretending to be your friendly, local electric utility.

Derivative Scam

Parmalat Investigation Expands Outside Italy

Prosecutors in Milan have searched the offices of United Bank of Switzerland (UBS), looking for evidence in the case of a murky credit derivative deal related to a Summer 2003 Parmalat bond issue. Italian media also report rumors that in the next days, international warrants will be issued.

In July 2003, Parmalat—a marketer of dairy products—issued 420 million euros in bonds, organized by UBS. But Parmalat got only Eu130 million, as the firm was forced to buy Eu290 million of bonds issued by Banca Totta, a bank controlled by Banco Santander. Moreover, the Totta bonds now in Parmalat's porfolio were linked to a credit default swap, such that, in case of Parmalat's default, those bonds were worth zero. Such a murky deal indicates that both UBS and Banco Santander might have cold-bloodedly used Parmalat, knowing its bankrupt status, as a vehicle to loot investors' money.

Nuclear Power

China May Join Russian Nuclear Plant Project

The director general of Russia's nuclear energy industry, Oleg Sarayev, told reporters on Feb. 4 that "China is very interested in the plans of the Atomic Energy Ministry to build the first" floating nuclear power plant "in the near future." Russia has had plans to build small-scale, 100 megawatt floating nuclear plants for a number of years, and recently received the first order, from Indonesia, but has not had the funds to begin manufacture. The Russian utility Rosenergoatom "does not have sufficient funds at the moment in order to start construction," Sarayev explained, but added that if China should join the project as an investor, this "could get things moving." He reported that proposals have been given to China for cooperation on this project, and that he expected that soon "one could speak of specific efforts of the two countries to build the first nuclear power plant of this kind."

This would be an extremely important initiative, as it would make nuclear energy and technology affordable for dozens of developing nations, and be a step forward in high-technology collaboration in the building of the Eurasian Land-Bridge.

Trade and Currency

Greenspan Attacks 'Creeping Protectionism'

Federal Reserve Chairman Alan Greenspan, testifying before the House Financial Services Committee on Feb. 11, said that flexibility is key to dealing with the United States' large current account and trade deficit, adding: "The greatest current threat to that flexibility is protectionism. The costs of any new protectionist initiatives, in the context of wide current account balances [sic], could significantly erode the flexibility of the global economy. Consequently, creeping protectionism must be thwarted and reversed.

"What would happen if the holders of U.S. Treasury instruments began to sell them?" Rep. Edward Royce (R-Calif.) asked the Fed Chairman after his testimony. Royce noted that Asian central banks, notably China and Japan, are buying U.S. Treasuries in record numbers, in order to keep their currency from rising against the dollar (and to keep the dollar from plunging). Greenspan said, "So I think that the concerns that have been expressed about real serious problems in our financial markets as a consequence of an ending of intervention of that sort—I think those concerns are misplaced. I don't deny that there will be adjustments. . . . But it's not something which I would consider to be of major import in the financial markets."

Russia

Putin Discusses Dollar Crisis and Economics

Both the dollar crisis and economic matters were on the agenda of a Feb. 4 meeting Russian President Vladimir Putin had with Central Bank governor Sergei Ignatyev, who briefed him on Russia's macroeconomic situation, saying the 2003 targets for monetary and credit policy had been met, and that inflation stood at 12%, down from 15.1% in 2002.

According to Itar-Tass, "Putin and Ignatyev discussed the recent conference of national banks' chiefs in Switzerland [The World Economic Forum in Davos]. Among other things, Putin was asking questions about how top foreign bankers saw the world economic development outlook." The answer Ignatyev gave was that "concern was voiced at the meeting over the situation in the world currency markets, in particular, the sharp fluctuations in the exchange rates of such currencies as the euro and the dollar." He went on: "This is causing concern and hindering our exchange-rate policies. We have managed to find the correct balance and been implementing our own balanced and cautious currency and credit tactics."

Putin then brought up the national exchange-rate situation, to which Ignatyev commented: "Exchange-rate policies pursue a dual objective—that of ensuring a smooth decline of the inflation rate and preventing a quick firming of the ruble." This, he said, was done "in order to ensure there be no worsening of the situation for the real sector of the economy, and to bring about prerequisites for economic growth."

Ignatyev reported that GDP was up 7.3%, and that foreign reserves increased by $29 billion last year, and were still rising.

South Asia

Six BIMST-EC Nations Sign Free-Trade Pact

On Feb. 8, the six South Asian nations of India, Myanmar, Thailand, Sri Lanka, Bhutan, and Nepal signed a free-trade agreement, to be approved at their summit-level meeting in July.

The seventh BIMST-EC nation, Bangladesh, has not signed the treaty, as it had some "procedural problems," according to one of their delegates at Phuket, Thailand. According to the Press Trust of India, Bangladesh apparently wanted some compensation to become part of the pact, as the reduction in tariffs would result in loss of its government's revenues.

The treaty agreement was presided over by Thai Prime Minister Thaksin Shinawatra, and was attended by the commerce ministers of all BIMST-EC nations.

The BIMST-EC is a bridge between South Asia and Southeast Asia, and was designed by New Delhi in 1999, eventually to bring to the Indian Ocean littoral states into an economic cooperation with those of the Asian landmass.

Briefly

CAR SALES in Germany plunged to a 10-year low, according to the Federal Association of German Automobile Producers (VDA)—230,000 in January, 12% lower than December and 13% lower than one year ago. The VDA blames rising unemployment and widespread concerns about the impact of labor, pension, and health reforms as the primary causes for the extraordinary decline in German car sales. Car production in January was 11% lower than one year ago.

RUBBERMAID, hit by Wal-Mart low-price policy, said it will close its plant in Greenville, N.C. by April, eliminating more than 300 jobs, and will move some production to overseas facilities. "Global competition and price pressure in our product line," said a company official, forced the latest shutdown.

JOHN SNOW, U.S.Treasury Secretary, slammed OPEC on Feb. 11 for its oil production cut announced for April. Snow said the OPEC producers endangered the U.S. economy by cutting oil quotas for the second time in less than five months. "Higher energy prices act like a tax . . . and are certainly not welcome"—especially with the dollar crashing.

MACHINE-TOOL consumption in 2003 remained 64% below the 1997 level in the United States. U.S. industry consumed only $220.88 million worth of machine tools in December, up 15.4% from November, according to a joint report by the American Machine Tool Distributors' Association and the Association of Manufacturing Technology. For 2003 as a whole, machine-tool use by U.S. manufacturers fell to $1.993 billion, down 7.9% compared to the depression level of 2002. Machine tools are the core of the economy, representing the discovery and application of new physical principles, the means by which mankind alters nature to improve his physical existence.