Business Briefs

Finance

World system in need of reform, says China paper

The world financial system is in crisis and needs repair, Yang Yuanhua, a senior editor of Xinhua, the government news agency, wrote in an article entitled "World Finance in Need of Reform," in the Oct. 9-15, 1995 *Beijing Review,* an English-language weekly. "It is imperative to restructure the financial institutions to promote global economic growth," he said.

Yang identified financial globalization and liberalization as problems which contribute to the fact that "international financial markets have become more fragile" since the 1980s, caused directly by "political and economic instability." Yang endorsed the comment of Japan's *Mainichi Shimbun,* that "financial authorities can no longer control the market as easily as they did before."

Another symptom of the problem, Yang said, is the ever-increasing futures trade, which includes speculative derivatives instruments.

Yang blamed the Group of Seven "big power" countries, which agreed last year to prevent the Mexican-style financial crisis, for having "not adopted any concrete measures to achieve that end."

Africa

IMF policy takes its toll in Zimbabwe

The year 1995 marked the end of the first phase of the International Monetary Fund's Structural Adjustment Program in Zimbabwe, during which the government instituted monetary and fiscal reforms to improve the investment climate, President Robert Mugabe said in his eighth state of the nation address in parliament, the National Broadcasting Corp. reported on Dec. 21. The result of following IMF prescriptions has left the economy of this southern African nation in shambles.

The only bright spot Mugabe could report was in tourism, in which there has been considerable investment. This sector of the economy is expected to grow by 7% in 1996. He said that the sixth All-Africa Games had put Zimbabwe on the world sporting map and resulted in construction of sporting facilities.

But livestock production has been adversely affected by the drought, Mugabe reported, and a free food program for the handicapped has been initiated to alleviate the suffering caused by the drought. He also noted that human immunodeficiency virus (HIV)-related ailments are on the increase.

The South African newswire SAPA said on Dec. 21 that "Zimbabwe has never been in a worse economic crisis. . . . IMF officials are now occupying desks in important ministries, watching the purse strings to ensure that the government does not again blow its chances of [getting] finance. . . . The country's farmers, who gave Zimbabwe its reputation as Africa's breadbasket, cannot afford to plant the crops needed to give the economy a head start after a five-year cycle of devastating drought. Half of the country's 11 million people are on the edge of starvation."

Eastern Europe

75 million driven into poverty since 1989

At least 75 million people in eastern Europe have been driven into a precarious state of poverty since 1989, the French daily *Libération* reported on Jan. 3, based on a new Unicef report that focuses on the "grave social crisis" facing eastern European countries because of the introduction of "reform" policies.

Author Giovanni Andrea Cornia wrote that, in Russia, "poverty affects the phenomenal proportion of 72% of families of three children and more." Homelessness has become widespread in countries where it didn't exist before, he said.

Throughout eastern Europe, new vulnerable groups have emerged, including children, the unemployed, and the "new poor." There is an overall rise in male mortality. One important contributing factor identified, is "psychosocial stress," which has brought about rampant heart disease, ulcers, suicides, and related phenomena.

Europe

Maastricht will hurt Germany, says bank

The budget cuts demanded in the convergence criteria for monetary union under the Maastricht Treaty, would lead to economic damage to Germany of DM 20 billion ($12.5 billion) in 1998 alone, warned a recent study by the research department of Bayerische Vereinsbank, one of the five big German banks.

The model is based on the assumption that a group of six to seven countries, not including Italy, Spain, and Great Britain, would form the European Monetary Union in 1999. The massive budget cuts in all European Union states needed to meet the Maastricht criteria, would cause a decline of German exports and could lead to a European-wide deflationary spiral, said the study. The markets will react to the growing uncertainty with higher interest rates, perhaps a "risk premium" of 0.75%. This, in turn, would further decrease investments and private household consumption. No other country would profit less from the EMU than Germany, it concluded.

Meanwhile, Prof. Herbert Hax, chairman of the advisory commission to the government on economic matters (known as the "five wise men"), urged that the EMU be postponed "two to three years," in an interview in the German business magazine *Boerse Online* on Dec. 29.

Great Britain

Privatization blamed for water supply collapse

The policy of privatizing the British water supply has come under fire, as hundreds of thousands of households in the U.K. were left without water, as a result of burst water pipes and mains throughout large parts of Scotland, Wales, and across the North of England in late December. The breaks occurred after bitter cold weather and an ensuing thaw.

Labour Party parliamentarians Chris Mullin and Bill Etherington have written to

Secretary of State for the Environment John Gummer, urging him to investigate what provision water companies had made for such emergencies, and whether resources had been affected by privatization. "The North of England is used to severe winters, but it has never before been necessary to cut off our water on anything like the scale now contemplated," stated Mullin.

The public services union Unison estimates that, since privatization was implemented in the region, the number of employees working for water companies has been halved.

In a Jan. 3 editorial, entitled "We're All to Blame for Water Crisis," the London *Independent* tried to shift the blame away from the privatized companies, saying that "decades of underinvestment" is the cause of the crisis, which is "the responsibility of the publicly owned predecessors" to the private companies. In fact, "the chief culprit and victim is the private citizen who has failed to invest sufficiently in the domestic infrastructure," it raved.

Meanwhile, the privatized water companies are advising householders to "go dirty for a couple of days," as the way to deal with the crisis.

Asia

South Korea moving toward deregulation

Whatever the end of South Korea's current political crisis, Seoul financial agencies are moving rapidly to implement the suicidal deregulation demands of London and Wall Street, which are being imposed as conditionalities to allow South Korea to join the Organization for Economic Cooperation and Development.

On Dec. 29, the Finance Ministry announced plans to allow a widening of foreign investment in Korean stock and bond markets, which was allowed in a limited way for the first time in July 1994. The Korean government, it said, will set up a $100 million fund in April 1996 in the United States, to help foreigners invest in the Seoul bond market. The Korea Bond Fund will be listed on the New York and London stock exchanges in May. "The move heralds the era of full-fledged opening of the financial market," Hong Sung-kap, a bond trader at LG Securities, told the London *Financial Times*.

Also, on Dec. 29, the Korea Stock Exchange said that it had granted its membership to two more foreign firms—the top Anglo-American banks ING-Barings and Hannuri-Salomon Brothers.

Deregulation has been ongoing since 1993, when the government drew up a five-year deregulation plan. In November 1995, the Finance Ministry freed all lending and deposit rates, with the exception of those on checking accounts, much as Japan did before it was hit with the "bubble economy." "Interest rate deregulation is the key condition for financial reform," a spokesman said.

Germany

Bundesbank official roasts financial sector

Gerd Haeusler, one of the five directors of the Bundesbank, attacked the German financial sector for taking high risks, in an interview in the Frankfurt-based business magazine *Boersen-Zeitung* on Dec. 30. He warned of "enormous problems," if investors feel that they can safely merge their activities with those of major banks on the assumption that, should the banks fail, governments will bail them out. Everybody has to be aware that if he takes risks, he could suffer losses, he said. "For the financial system, there exists the danger that the responsibility between banks and the State could become very blurred."

Haeusler also criticized banks for shifting operations to London. Because of the strength of the mark, there could be, in theory, an independent German interest rate policy. However, the trading of the mark is more and more concentrated in London. "The product is made here, while it not only is traded in London, but it also is judged by the research departments of investment banks there."

In the same issue of the magazine, Assistant Finance Minister Jürgen Stark accused German banks of "disloyalty" and of undermining Germany's status as a financial center. Why should an international investor come to Germany, if the big German banks are taking their business to other financial centers? he asked.

Briefly

EUROPE'S banking sector will lose thousands of jobs in 1996, including 20,000 in the U.K. alone, led by Midland Bank and National Westminster, according to the British press. In Germany, up to 20,000 jobs will be eliminated, in part, because German banks, such as Deutsche Bank, are shifting more and more of their operations to London.

AT&T announced on Jan. 2 that it plans to eliminate 40,000 jobs out of its 300,000 workforce, 70% of which are to be gone by the end of 1996. The company plans to split into three companies. About 6,500 managers have accepted a buyout package; 30,000 will be direct layoffs.

CARGILL announced that it intends to invest $1.5 billion over 10 years in grains and oilseeds in Asia, the Singapore *Asian Age* reported on Dec. 12. Cargill has 4.5% of its net worth in Asia, and intends to extend this to 10%.

BULGARIA has forbidden all export of grain and oilseeds in 1996, and will liquidate State stores of grain to meet demand, the Austrian daily *Die Presse* reported on Jan. 3. Bulgarian papers are blaming an economic empire called "Orion," the owners of which are supposedly tied to the circle around Prime Minister Jean Widenow, for the crisis. Orion allegedly bought up wheat and sold it abroad.

DEVELOPING nations' foreign debt jumped dramatically, from $1,570 billion in 1993, to $1,714 billion in 1994, according to the OECD. The increase came despite drastic fiscal austerity measures taken by governments in many countries.

RUSSIA is accelerating the export of fertilizers, while domestic use came almost to a halt, *Agra-Europe* reported Jan. 2. In January to October 1995, Russia exported 12.72 million tons, 18.5%, more than in the same period in 1994. At the same time, exports to the republics of the CIS were 155,000 tons; in 1991, they were 1.57 million tons.