

Business Briefs

South America

Highway, rail, gas links move forward

A 460 kilometer highway between the Peruvian port of Ilo and the Bolivian capital of La Paz has been completed. Bolivian Ambassador to Peru Jorge Gumucio announced in Lima on Feb. 17. It will be officially inaugurated by Peruvian President Alberto Fujimori and Bolivian President Banzer Suárez after April's general elections in Peru, and is a key part of the inter-oceanic corridor envisioned by Fujimori, involving Brazil, Paraguay, Bolivia, and Peru.

The two heads of state have also signed agreements for construction of a rail line between Ilo and La Paz, and a pipeline between Ilo and Cochabamba, Bolivia, for the transport of Bolivian natural gas. Gumucio said that within three years, Bolivia will divert more than half the natural gas that it now exports through the Chilean port of Arica, to the Peruvian port of Ilo.

Bolivia lost its outlet to the Pacific Ocean to Chile in the British-orchestrated 1879-81 War of the Pacific, and tensions between the two countries still run high over access to Pacific ports. In 1992, Fujimori ceded to Bolivia a free-trade zone and use of all port facilities in Ilo. Via agreements signed since 1992 with the Presidents of Bolivia and Paraguay, Fujimori has taken steps to ensure construction of a large inter-oceanic corridor, which would connect the Paraná-Paraguay Waterway to the Peruvian ports of Ilo and Matarani, through a network of highways and railroads.

Finance

Australians lead world in stock ownership

A flood of new investors into the Australian stock market in 1999 has seen Australia overtake Canada, the U.K., and the United States to become the nation with the highest level of share ownership per capita in the world. An Australian Stock Exchange sur-

vey shows that the number of Australians who own shares of stock jumped last year by 1.3 million people, to 7.6 million, or 53.7% of the adult population. This overtakes Canada at 52%, and the U.K. and United States, which are both in the high 40s.

The massive influx of investors has come from two sources: first, the demutualization of very large insurance companies, including AMP, Australia's largest, which have turned life insurance policyholders, without any action on their part, into stockholders, via a company share float; second, the partial privatization of Telstra, the national telecommunications company, which was promoted as an investment opportunity for "mum and dad" investors. Since 1997, some 2.9 million people, or one-fifth of the adult population, have entered the market for the first time.

Economic Policy

Free trade is losing friends, says columnist

There are mounting signs that free trade will be replaced by a new system of tariffs and other protectionist measures in the next few years, columnist Irwin Steltzer warned in the Feb. 27 London *Sunday Times*, in a commentary entitled "Free Trade Is Starting To Run Out of Friends." The warning indicates the oligarchy's nervousness over the trend, but, without a New Bretton Woods system, would not in itself necessarily represent something positive.

Steltzer cited Al Gore's recent behind-closed-doors promises to the AFL-CIO leadership, that he would renege on the World Trade Organization deal with China, and peg any future multilateral trade pacts with the developing countries to their accepting the same environmental and labor standards now applied to the G-7. This, Steltzer wrote, virtually guarantees that Clinton's effort to get normal trade relations status with China passed by Congress, will fail.

Steltzer cited the massive growth in the U.S. balance of trade deficit last year as further evidence that the so-called free-trade

system is doomed, at least as far as America is concerned. The four countries that make up the bulk of the U.S. trade deficit are China, Japan, Canada, and Mexico.

Further, "The Fed chairman thinks the imbalances in the economy, of which the trade deficit is one, cannot be sustained. At some point foreigners will want something more for their goods than pieces of paper with pictures of American Presidents on them. They will want higher interest rates if they are not to unload their dollars on world markets, driving the dollar down and inflation in America up." Thus, Federal Reserve Chairman Alan Greenspan is likely to keep raising interest rates for the foreseeable future, and "were Greenspan to carry out his threat, the cries of the protectionists would surely be heard in the land, arguing that it would be far better to stem the flood of imports with tariffs and other protectionist measures than to risk a recession, drive down share prices, and increase unemployment by raising interest rates."

Asia

Iran and China upgrade economic, strategic ties

Iran and China signed a letter of understanding on expansion of economic and strategic ties on Feb. 21, as Chinese Foreign Minister Tang Jiaxuan arrived in Tehran. Iranian Foreign Minister Kamal Kharazzi described China's role in Iran's foreign policy as very important, and said that there are favorable conditions for economic cooperation. "Iran is willing to promote economic and industrial ties with China in line with the policy of south-south cooperation," he said.

Siavosh Zargar-Ya'qubi, director general for the South and East Asia Department at the Iranian Foreign Ministry, said that China is providing financing of more than \$900 million to Iran for its development projects, and that China is currently active in more than 18 large Iranian national projects. On the basis of recent agreements, China will provide Iran with more financial facilities. Zargar-Ya'qubi also said that the two nations are negotiating important energy proj-

ects, and that Iran is trying to gain a share in China's liquid natural gas market.

On Feb. 21, Iranian President Seyyed Mohammad Khatami and Tang Jiaxuan inaugurated the first part of the Tehran subway. A consortium of three Chinese firms provided all technical and material requirements, while Iranian firms carried out construction. The \$550 million contract was financed by Chinese export banks, in return for Iranian crude oil.

The subway solves a major transport and pollution problem for the city of more than 10 million. The project was planned in the 1970s, but construction was not gotten under way until the mid-1990s, due to the Islamic revolution in 1979 and the Iran-Iraq War (1980-88). The project includes a rail link to the city of Karaj, west of Tehran.

Germany

Public banks to lose state guarantees

A far-reaching agreement between the European Commission (EC) and the German government on withdrawing state guarantees for German public banks, is expected to be reached before the end of the year, stated Alexander Schaub, head of the European Union (EU) "competitiveness office," in an interview with the German economic daily *Handelsblatt* on Feb. 22. According to Schaub, the progress in negotiations is a consequence of a new generation of politicians taking over leading positions in Germany. While the previous Christian Democratic government of Helmut Kohl government had insisted on maintaining a strong public banking sector, the new chairman of the Christian Democratic Union parliamentary group, Friedrich Merz, has called for dismantling state guarantees for the Landesbanken, the public state banks.

A working group of the German government, headed by Deputy Finance Minister Caio Koch-Weser, has signalled its readiness to compromise with the EC on state guarantees for public German banks. But, as Schaub emphasized, the EC will not stop at

the Landesbanken, but will go after the saving and loan institutions as well.

There had been an understanding that the S&Ls would not be touched, because of their role in regional development, Schaub said. However, in December 1999, the European Banking Association, representing the large private banks, filed an official complaint against the German public banks at the EU competitiveness office, and, for the first time, it included the S&Ls in its complaint. This has changed the situation, said Schaub, because this is ground on which the EC can act. He concluded that, in the age of globalization, the public banking sector in Germany has to be put through a big overhaul. The only resistance in Germany to this suicidal policy is coming from the state governments.

Corporate

Vodafone takeovers leave huge debt

The British communications giant Vodafone, under a 1999 British revision of corporate laws, will have to write off losses of about \$200 billion over 20 years, the Feb. 21 German daily *Die Welt* reported, based on estimates by German banking experts.

As a consequence of its recent takeovers, it has accumulated new debt roughly equivalent to the market capitalization of its victims. However, the book value of the two recently acquired companies, Airtouch in the United States and Mannesmann in Germany (which depends on the value of real estate, machines, and other assets owned by the companies, rather than their stock price), is only a small fraction of their market capitalization. That is, the takeover of Mannesmann has created a net loss of \$200 billion, when combined with the Airtouch takeover.

This doesn't mean that Vodafone is bankrupt, said *Die Welt*, but it will "completely devastate" its balance sheet for years to come. Even if Vodafone is making profits from its ordinary operations, it will by law be unable to pay out a dividend to its stockholders as long as the huge write-offs continue.

ISRAELI National Infrastructure Minister Eliahu Suissa said that Israel is doing the planning work for a nuclear power station. "Today we use coal and are beginning to use natural gas, and we are speaking of solar energy and hydroelectric energy. . . . There is absolutely no reason not to speak about this [nuclear] energy," he said, the Feb. 23 *Jerusalem Post* reported.

BUENOS AIRES, Argentina's slum population has grown 15% over the past two years, from 86,600 to 100,000, and this is probably an underestimate. The "misery villages," as they are called, are increasingly populated by people from surrounding countries, Bolivia and Paraguay in particular.

INDONESIA'S new budget, dictated by the International Monetary Fund, allots 50% of tax revenues to pay interest on the government debt assumed in bailing out the banks. The \$5.7 billion for interest on the bonds is one-third of total state revenues. To help pay the debt, the education budget was cut 20%.

KUWAITI Oil Minister Sheikh Saud Nasser al-Sabah said on Feb. 24 that his government will shift its support for OPEC quotas, and increase production, in order to lower the price of oil.

UNILEVER, the Anglo-Dutch firm which is the world's largest consumer goods group, announced on Feb. 22 that it will eliminate 25,000 jobs (10% of its workforce) over the next five years, as part of a restructuring in which some of its underperforming businesses will be either reorganized or divested.

THE TRAPPIST monks of the 151-year-old New Melleray Abbey in Iowa, finding that they can no longer support themselves from farming, have begun to make hand-crafted wooden caskets. They said they will soon set up a website to advertise their product.