

Business Briefs

Debt

Malaysian leader recommends write-off

Malaysia Prime Minister Dr. Mahathir Mohamed told a meeting of the non-aligned nations Sept. 5 that writing off the whole or nearly all the international debt is the only solution to the foreign debt problem faced by many members of the Non-Aligned Movement.

Dr. Mahathir said that the rich countries will not go bankrupt because of the write-off, and their banks can still be rehabilitated. Governments and commercial banks alike must accept losses, he said, according to Kuala Lumpur International Service.

"The group of 'rich nations' have taken it upon themselves to regulate the world economy and finances, resulting in suffering among the poor nations," he said. One result is that countries such as Malaysia have had their debts doubled by the upward revision of the yen they borrowed.

Markets

Economist warns, 'Get out by Sept. 15'

Ravi Batra, a professor of economics at Southern Methodist University in Dallas and author of *The Depression of 1990*, which he wrote in 1986, told *Houston Post* editor Lyn Ashby Sept. 11 that a major crash is coming and that people should get out of the market by Sept. 15.

Batra said he expects the market to keep moving to new highs during September and possibly October, and then expects a rapid drop, a long-term decline which will not turn around for at least four years. He predicts that the crash will start in Japan, with a drop in the Japanese stock market, triggering a domino effect. "It will be an uneven decline at first. Junk bonds will be the first to fall, then growth stocks and industries taken over recently by junk bonds."

Batra places the blame for this on deregulation. "Why did we see so many savings and loan failures in an economy which has been growing for the past seven years? Because overall the economy is very unstable. Whenever you deregulate the financial sector, the economy becomes unstable. There are two forces I have found in history that destabilize the economy. One is a growing concentration of wealth and the other is deregulating the financial sector." On the latter, he says, "when you deregulate the financial sector at the same time [as deregulating the industrial sector], it leads to merger mania—that along with the rising concentration of wealth—and stock market speculation, stock market euphoria, and growing poverty."

Black Economy

First G-7 meeting on drug-money laundering

The first conference on the problem of drug-money laundering among the Group of Seven major industrialized countries will be held in Paris on Sept. 18 at the initiative of French President François Mitterrand. Preliminary reports indicate that the conference will gather financial, economic, and law enforcement specialists from the G-7 countries as was discussed at the July 1989 summit.

One of the French police officials within the drug division of the international police agency Interpol underlined the need to hit the drug cartel where it hurts, financially, and stressed the necessity of economic development to win the war against drugs, in an interview with the Paris newspaper *Libération* on Sept. 7.

The "police solution is not enough anymore," he warned. In Colombia "you cannot jail 60,000 people. You can arrest Escobar and a few others, but for each Escobar, how many assistants, trained over the last decade, who know the trade and who are ready to fill the vacuum. . . . Countries of the North are paying the price of the poverty of the South. For example, in Bolivia, foreign

economic aid amounts to \$50 million a year. For the same period, the cocaine trafficking is worth \$200 billion! The only way to break the cartel is to hit its financial resources, and to finance new projects which should be advantageous to the local peasants."

The Interpol official stressed the need to attack drug-money laundering. "Drug money is everywhere. The Colombians invest more than two-thirds of their profits throughout the world, in the U.S., in Europe, in tourist projects, etc. In some countries, laws allowing the seizure of all properties coming from drug trafficking have been passed. But it is very difficult. The traffickers have businessmen and financial advisers with them. To safeguard their money, they had it circulating very quickly. After 72 hours of worldwide banking transfer, it becomes difficult to know whether money is dirty."

Investment

Japanese agency to aid developing nations

Keidanren, Japan's federation of chambers of commerce and industry, has set up the Japan International Development Organization (JAIDO) to aid investment in developing sector nations.

A delegation representing this newly formed agency visited India during early September and assessed investment potential in that country.

JAIDO has an authorized capital of 20 billion yen (about \$160 million), and another 7 billion yen, contributed by over 100 private corporations and the Overseas Economic Cooperation Fund (OECF) of the Japanese government, will be used for equity investment in developing countries.

According to the Indian daily *The Hindu*, JAIDO was created to finance infrastructure development to improve the viability of projects in developing nations. New areas like agro-industries and tourism are also expected to benefit. The organization will also look at investment proposals which could not take off because of inadequate

funding or lack of infrastructure. A primary objective, stated by the delegates, is to make sure that investment is not tied to the promotion of Japanese exports.

IMF and World Bank

Philippine people still await their recovery

Figures released in the second week in September by the National Statistics Office of the Philippines in Manila reveal that, contrary to promises by the World Bank and the International Monetary Fund, the Philippine population is poorer than ever and more people are on the edge of starvation.

The World Bank promised the Philippines that it would have an economic recovery by 1990, and the Philippines followed every single World Bank prescription.

According to the figures, gross national product rose 5.3% in the first six months, against 6.8% in same period in 1988. Philippine economists say the government needs to maintain at least 6% growth to stem rising unemployment. Inflation rose sharply in August, hitting 11.7%, in a further indication that the supposed economic recovery there is faltering. It was the first time the rate had entered double digits since April 1987. The National Statistics Office said the main cause was a rise in food prices, with heavy storms in August resulting in shortages of fruit, vegetables, rice, fish, and dairy products in some regions.

Ratings

Chemical Bank debt downgraded

Standard and Poor's downgraded the credit ratings on some \$3 billion of long-term debt as well as on \$900 million of preferred stock

of Chemical Banking Corp. and certain of its subsidiaries on Sept. 14. Standard and Poor's said that the move reflects Chemical's "slower-than-expected progress in reducing high levels of non-performing assets, particularly in Texas, and relatively large exposures to Latin American borrowers, particularly Brazil and Mexico." The rating service also referred to the corporation's level of tangible capital and reserves as being "below average."

On the same day, Citicorp's chairman John Reed expressed similar concerns about banks' debt performance in a speech to the Washington Economic Club, worrying that sufficient loans might not be obtained to make the new debt package worked out with Mexico function. "The difficulty will be to keep enough new money in. That could be a serious difficulty," he said.

Capital Gains

House committee votes up tax cut

The House Ways and Means Committee of the U.S. Congress voted 19-17 on Sept. 14 to cut taxes on capital gains from the sale of stocks, real estate, and other investments, in an attempt to make the markets more attractive to investors. The vote was a victory for the Bush administration, and a defeat for Ways and Means Chairman Dan Rostenkowski (D-Ill.), who called the bill "a financial disaster for this country." Eight percent of the benefits from the bill would accrue to persons with incomes over \$100,000, according to the Congressional Joint Committee on Taxation. House Majority Leader Richard Gephardt (D-Mo.) called the bill a "folly" and disputed the contention that it would stimulate the economy.

The *New York Times* responded to the bill with an editorial entitled "Soak the Poor! Trash the Economy!" which attacked the six Democrats on the committee who voted with the Republicans. The *Times* characterized the bill as "a shameless effort to reward the rich and pervert the tax code."

Briefly

● **U.S. MERCHANT** shippers have agreed to support each other's requests for government subsidies, according to a story in the *Journal of Commerce* Sept. 12. "After years of infighting," things are now so bad that "all parties have now agreed to support one another's wish lists."

● **OCCIDENTAL** Petroleum announced plans to lay off 900 workers, or about 20% of its domestic workforce. According to the Sept. 6 *Los Angeles Times*, Oxy is following the lead of most of the other major oil companies, who are seeking to cut costs in the face of weak prices.

● **THE INDIAN ECONOMY** is showing signs of slowing. Industrial growth decelerated to 2.7% over the April-May period. While exports rose by 39.8% and imports by 21.6%, because of the falling value of the rupee, foreign exchange reserves took a nosedive during this period, according to India's *Economic Times*.

● **MICHAEL BOSKIN**, chairman of the Council of Economic Advisers, called on the Federal Reserve to lower interest rates Sept. 7. "If there are signs of softness in the economy from where we are now, that further easing would probably be appropriate. We see the economy is continuing to grow."

● **CORPORATE LEADERS** of at least 80 top U.S. companies are currently cruising along the Volga and Don rivers on a Sept. 7-17 trade mission in Russia put together by Boston law firm Hale and Dorr, according to the Sept. 6 *Journal of Commerce*.

● **THE EDISON ELECTRIC** Institute warned that President Bush's clean air proposal will cost the nation's power utilities at least \$5.5 billion a year, resulting in annual rate increases of 5-10% across much of the country, with ratepayers being billed up to \$7.1 billion a year after 2000.