

Business Briefs

Black Economy

Drug trade vital to banks, Journal admits

An article in the *Wall Street Journal-Europe* of Sept. 12 admits that the banking system is heavily dependent on the drug trade and drug-money laundering.

"If drug money helped the economy boom, what happens if the drug war succeeds?" the *Journal* asks. Lawrence Kudlow of Bear Stearns investment bank is quoted, "It's almost undeniable that drug traffic, regrettably, has been a big stimulant to the economy."

The *Journal-Europe* then notes that drug money, so far, operates "underground" in the economy. What would happen if the money were brought above-ground, by taxing drug sales? Alan Reynolds of Polyconomics consultancy says that doing this "could be healthy for the banking system."

The paper estimates that the drug trade in the United States is 10-15% of Gross National Product. "Inadvertent profiteers" in the luxury professions—autos, jewelry, real estate—who have benefited from drug-related money, will be the first to feel the "economic withdrawal" if the drug trade is stopped.

Markets

Economist predicts 1,000-point drop

The Dow Jones Index will collapse more than 1,000 points by year's end, according to the prediction of U.S. economist Walter Williams in his latest advice to investors.

"At the very outside, we will see a U.S. stock market crash before the yearend. Further, [Treasury Secretary Nicholas] Brady's 'circuit breakers' will aggravate the market fall this time," Williams warned. "It could be far worse than October 1987. The major difference between today and October 1987 is that the dollar is not yet under panic selling. But that's coming."

Williams, not normally pessimistic, says the U.S. economy is already deeply into an economic recession which will last for several years. As confidence of foreign investors begins to erode in coming weeks, he expects that the flight of billions of dollars out of the United States will also trigger an estimated 25% fall of the dollar against major currencies in the final quarter, forcing the Federal Reserve to increase interest rates.

Williams lists major corporations including Boeing, Aetna Life, and Barclays Bank among his clients, and warns them to "be 100% out of stocks," adding that the U.S. economy's estimated \$9 trillion in private and public debt will exacerbate the downturn, creating "serious dangers."

Williams warned that "mortgage-backed securities will be the next sector to be hit after the collapse of junk bonds. . . . Reports from banks across the country are all the same . . . real estate prices are dropping. Suburban New York is down 20% since 1987. Mortgage-backed securities, which is a debt market much larger than the junk bond market, will be the next hit."

Legal and General, a leading U.K. life insurance company, predicts in its latest investor letter an imminent 10% or more fall in the London FTSE-100 stock market. Such a fall in London stock markets could trigger world panic, reports Williams. "The U.K. economy is going into a hard recession and interest rates are extremely high. This will eventually hit the London stock market prices. More than Japan, Britain through the City has been the major foreign investor in the U.S. since 1982. London could be the more likely trigger than Tokyo. But we are very close to a world liquidity panic."

Energy

India first to make U-233 nuclear fuel

The Radiometallurgy Division of Bhabha Atomic Research Center has successfully manufactured U-233-bearing fuel for India's next generation of nuclear reactors.

Dr. C. Ganguly, head of the division, said in mid-September that this is the first

reactor to use U-233-bearing fuel, the most efficient fissile material in thermal reactors.

Use of U-233 is the second phase of India's nuclear power program. The first phase consisted of developing an indigenous heavy water reactor fueled by natural uranium. The third and final stage includes development of fast breeder reactors using U-233 as fissile material and breeding U-233 from thorium 232 in the same reactor. India has already in operation a 40 megawatt test breeder reactor and the plan is to go for commercial production of breeder reactors by the end of this century.

International Credit

IMF status is in jeopardy from bad loans

The amount of bad loans held by the International Monetary Fund rose sharply last year, to \$3 billion, or about 10% of its loans outstanding, the *New York Times* reported Sept. 15. Officials of the IMF admitted that "the organization was anxious about the slow but steady rise in the number of countries in arrears over the past decade."

"The rise in arrears is considered unusual because the fund holds preferred-creditor status, which means it must be paid ahead of other lenders to the third world except for the World Bank," the *Times* reported.

As of April 30, 11 countries had not repaid \$3 billion in loans from the Fund for more than six months. The countries were Guyana, Kampuchea, Liberia, Panama, Peru, Sierre Leone, Somalia, Sudan, Vietnam, Zaire, and Zambia.

The *Times* notes that the IMF has a pool of \$120 billion in currencies and gold contributed directly by its members. The World Bank, on the other hand, must borrow from financial centers the money that it lends. Of the IMF's \$120 billion pool, only \$70 billion in hard currencies is suitable for international lending. Of that \$70 billion, only \$30 billion has been lent out, but the IMF is now trying to obtain more funds from member states.

The Bush administration is expected to support the IMF's request, but the increas-

ingly shaky Fund portfolio may raise questions in the U.S. Congress. Rep. Jim Leach (R-Iowa), a strong IMF backer, told the *Times*, "Arrearage implies loans may be in jeopardy and taxpayer funds diverted. This promises to be one of the most difficult issues when the quota increase comes before Congress next year."

Third World Debt

Bank cartel refuses write-down for poor

The Institute for International Finance (IIF), which represents 184 banks that hold more than 80% of the loans to the Third World, warned in a letter to the policymaking committees of the International Monetary Fund and the World Bank that if the banks are forced to take large losses from writing off a portion of their existing loans, the banks would be unwilling to grant new credits.

The letter, written by the IIF's managing director Horst Schulman, points to the Philippines and Mexico as examples of the type of behavior the banks consider acceptable. Both countries had continued to pay money to the banks while negotiations to restructure and write down their debt were going on.

"Interest arrears are a major impediment to banks' willingness to engage in voluntary debt and debt service reduction," Schulman stated in the letter, according to the *Financial Times* of Sept. 17.

Finance

Japan wants more power in the IMF

The Japanese want a greater controlling role in the International Monetary Fund (IMF), if they become its second-largest contributor, according to the *Journal of Commerce* Sept. 18.

The *Journal* reports on plans for the an-

nual meeting of the IMF and World Bank, which began the third week in September, where the IMF is seeking a doubling of its resources, which are contributed by member states, to about \$220 billion. Japan, now the fifth-largest contributor, is slated to replace Britain as the second-largest contributor, after the United States, if the proposed increase in contributions is approved.

However, Tokyo is reported to be demanding that, in return for this greatly increased contribution, a Japanese representative be made the next managing director of the IMF, a post that has traditionally been held by a European. The *Journal* reports that a final decision will most likely not be made until the end of the year.

Food

West Germany's Co-op files for receivership

West Germany's Co-op supermarket chain filed an application on Sept. 13 to go into receivership, in the biggest potential bankruptcy in West Germany's history. The firm employs 46,000 people, and is the country's fifth-largest food retail chain. The application was made after creditor banks failed to reach agreement on a \$1 billion bailout plan.

Talks broke down when U.S. and Japanese bank creditors of the 73-bank group refused the terms offered by DG-Bank, whereby they would write off 75% of the old debt in return for an immediate 25% cash settlement. An earlier reorganization this past spring broke down in August, when the full extent of Co-op's unsecured loans was revealed to be 2.2 billion deutschmarks, instead of the 1.2 billion first estimated.

Under the laws governing receivership, Co-op can write off 65% of its debt if it pays off the remaining 35%, and then it can reorganize. There are two roadblocks to this. First, it is highly unlikely it can raise the 35% required. Second, with its application for receivership, it has lost lease rights to its store sites, which can be seized by the landlords. Already, Co-op has stopped selling fresh milk because it hasn't the cash to purchase it.

Briefly

● **CHENG TU AVIATION**, a Communist Chinese company, is ready to go ahead with plans to build nose cones for McDonnell Douglas, the *China Daily* reported Sept. 5. Chengtu is expected to complete the first nose cone in early 1991. McDonnell Douglas has sent funds, materials, and technical staff to China.

● **A TRADE DEFICIT** in U.S. services was registered for the first time in over three decades, as the U.S. paid out \$176 million more to foreigners in interest, dividends, rents, and other payments for services than it took in for the second quarter.

● **THIRD WORLD** nations paid more to the World Bank than they received in new loans for fiscal year 1989 for the second year in a row, as the World Bank took in \$1.5 billion more than the \$21.36 billion it lent.

● **CONSUMERS** were overcharged \$26-29 billion for food in 1987 due to consolidation of grocery store chains, according to Dr. Willard F. Mueller, University of Wisconsin food industry economist.

● **GENERAL MOTORS** announced that the Chevrolet Caprice/Buick Estate station wagon assembly plant in Lakewood, Georgia will be closed next spring, putting 3,200 people out of work. This is the eighth assembly plant to be closed since August 1987. GM is terming the shutdown "an indefinite idling," to circumvent the United Autoworkers contract which prohibits any permanent closings.

● **HONG KONG'S** Trade Development Council and the General Chamber of Commerce are planning promotional drives to boost Hong Kong-Soviet trade. The Hong Kong-Heilongjiang Trade Fair in August was used as a major opening into that province's booming consumer goods trade with the Soviet Union, the *South China Morning Post* reported.