

Business Briefs

Dope, Inc.

Amex fined in biggest drug money case ever

American Express Bank International, which recently gave out \$70,000 in prizes for essays pushing derivatives and free trade, settled a U.S. drug money-laundering case for \$36 million, the largest penalty ever, the *Wall Street Journal* reported on Nov. 22.

The settlement was reached after two former bank directors were convicted in June of helping Ricardo Aguirre-Villagomez of the Juan García Abrego gang (known as the Gulf Cartel) to launder about \$30 million through the bank's Beverly Hills, California branch office to the Cayman Islands. The bank agreed to "forfeit" \$25 million in laundered money, pay a \$7 million penalty, and spend \$3 million to improve its money-transfer reporting program.

Gaynelle Griffin Jones, U.S. Attorney for the Southern District of Texas where the bank executives were prosecuted, said that the size of the fine was partly due to the lack of cooperation by Amex. "We were very concerned about the lack of cooperation we received from American Express during the investigation. We had fairly high-level people involved in laundering money at a company that was unable to detect the problem. That is very serious. But American Express took the position that there was no criminal wrongdoing" by its employees. She said that Amex's compliance program for reporting cash transactions "existed only on paper."

Debt

Mexico's bad loans pose threat to banks

Mexico's non-performing domestic debt is increasing rapidly, the Nov. 17 *Los Angeles Times* reported. The 14% rate of bad loans "threatens the stability of the recently privatized banking system and could trigger a wave of insolvency comparable to the savings and loan crisis in the United States," the daily warned. All but one of the 18 banks which the Salinas government sold to private investors

have suffered increases in non-performing loans this year, and the industry-wide average is nearing 10% of outstanding debt.

According to Roberto Hernández, chairman of the Mexican Bankers Association, part of the problem is the economic downturn which has put many borrowers out of work. Another factor is the "conflicting pressures unleashed by the free-market reforms" of the Salinas government.

The six U.S. Federal Reserve interest rate hikes since February, and the dollar's devaluation relative to the German mark and the Japanese yen, have increased payments on Mexican foreign public debt by \$977 million this year, to \$5.6 billion, an increase of 23%, the daily *El Financiero* reported on Nov. 16. Mexico's Finance Ministry estimates that between January and September of this year, \$4.13 billion has been paid in interest, 9.1% more than last year. During that same period, Mexico contracted \$3.12 billion in new debt. According to a report by the ministry, interest on the foreign private debt will also increase by \$500 million.

Demography

Germans try to stop birthrate decline

The eastern German state of Brandenburg has announced that it will pay parents \$650 for every new child, on top of health insurance and the monthly child allowance, the Nov. 25 *New York Times* reported. Nicholas Eberstadt, a demographer at the American Enterprise Institute, said that "eastern Germany's adults appear to have come as close to a temporary suspension of childbearing as any large population in the human experience."

The drop in births, from 38,000 births in 1989 to 12,000 in 1993, is attributed to "economic uncertainty." Wolfgang Jähmer, who directs social welfare programs in Schwerin, said, "We have some fears that the tree of life may be falling." In eastern Germany, the marriage rate has also dropped, and there has been more than a tenfold increase in sterilizations since 1989.

Brandenburg government spokesman Manfred Krohn said, "All over Germany, people are feeling insecure, especially young peo-

ple. They're thinking about studying and working, not about families. Naturally you see this more in the east, but it has spread westward and is now a serious national problem. We have to confront it."

Infrastructure

China begins work on water-diversion project

China is beginning preliminary work on a massive water-diversion project to transfer 5% of the flow of the Yangtze River to the Yellow River, in order to relieve the drought in China's north and northwest, *China Daily* reported on Nov. 17. This project is part of the national South-North Water Diversion Project.

While 80% of China's water resources are in the south of the country, only 36% of arable land is there.

There are three separate projects involved—two to divert water from the upper and middle reaches of the Yangtze into the Yellow River, and the third to divert water from the lower Yangtze into the Grand Canal, to reach the Beijing-Tianjin area.

However, international financiers are using China's refusal to pay debts incurred by individual firms involved in speculation, to limit infrastructure investment. The Nov. 25 *International Herald Tribune* quoted bankers involved in China, that China must "confront" some "fundamental issues" if it wants to avoid higher costs of financing for its huge development needs.

Finance

Leuschel repeats warning of coming 'salami crash'

Roland Leuschel, the chief strategist for Banque Bruxelles Lambert, repeated his warning that world financial markets are facing a "salami crash," in an interview with the German daily *Süddeutsche Zeitung* published on Nov. 26. Leuschel said this crash will come soon, and it will be a much more violent than ones in the past, due to the speculative money

that was introduced into the markets since 1991, through the use of derivatives in particular.

Leuschel said that the Dow Jones could fall toward 2,200 points in a rapid collapse, or undergo a "salami crash," i.e., in smaller steps. The danger for the financial markets was primarily caused by the U.S. Federal Reserve, he said, which in the early 1990s created a huge amount of liquidity with its low short-term interest rates. Now we are facing the biggest financial bubble in world history, he said. With increasing interest rates and a dollar losing its credibility, this bubble is about to burst. For the real economy, the crash will have a beneficial effect, he said.

Middle East

Speed-up in aid to Palestinians is urged

Several political leaders said in November that the delivery of economic aid to the Palestinians must be speeded up in order to ensure the success of the Mideast peace process. Of the \$700 million in aid for FY 1994 pledged after Israel and the Palestine Liberation Organization signed a peace agreement, only \$150-200 million has been transferred. Reuters reported on Nov. 27. Marwan Karafani, an aide to PLO Chairman Yasser Arafat, argued that "there should be a new mechanism or a new life in this mechanism in order to speed up the aid coming to the Palestinian economy."

Uri Savir, the director general of the Israeli Foreign Ministry, warned during a visit to London, "Either Gaza improves or the peace process erodes. . . . Something more dramatic needs to be done," the Nov. 16 London *Guardian* reported. Savir warned that the situation in Gaza, where there is 50% unemployment, is so grim that donors should drop their insistence on the creation of a proper Palestinian tax system, and finance immediate projects to create employment. The Israelis are said to agree with Arafat that lack of financial aid is making it harder for him to deal with the opposition.

On Nov. 16, Egyptian President Hosni Mubarak said the violence could spread to Europe if the Palestinians "don't start feeling the results of peace," Associated Press reported.

Delays in aid will make the West Bank and Gaza "fertile ground for Hamas and the Islamic Jihad. . . . Palestine will be a new, tougher Afghanistan. . . . The whole area, including the Europeans, the Arabs, everyone will be affected."

On Nov. 21, President Clinton, at the White House with Israeli Prime Minister Yitzhak Rabin, said, "I do think we should speed it [aid] up. There will be a meeting next week, a donors meeting, in Brussels. We're going to try to move about \$125 million out in a hurry. I do believe that the donors must work to get the assistance out quickly to enable the people in the areas to receive and to feel some benefits of the peace. I think that's critically important."

Banking

French bank head attacks 'Anglo-Saxon' speculation

Jean Peyrelevade, head of Cr dit Lyonnais, attacked "Anglo-Saxon" speculation, at a meeting organized by the German Society for Foreign Politics in Frankfurt in late November.

Anglo-Saxon countries have gone too far with the deregulation of financial markets, resulting in increasing volatility, speculative assaults, and system risks, he charged, endangering the currency policies of France and Germany, which are oriented toward stability. Therefore, he said, "we have to start again to regulate . . . although I know that this is a minority opinion." Perhaps we first need a "catastrophe of the system" before we have an adequate approach toward the risks posed by derivatives in Europe, he said.

Peyrelevade contrasted continental banking, characterized (at least in former times) by the "long-term, stable partnership between industry and capital," with the high-risk financial innovations coming out of England and the United States. Today, these countries are more and more controlling interest rates and exchange rates on the continent with their huge liquidity. However, he said, "we should not play the London card." Banking in Great Britain, he said, is not comparable with the situation in Germany or France: "This is another world."

Briefly

● **FIRST BOSTON**, Morgan Grenfell, and the Overseas Private Investment Corp. were attacked by *Moskovsky Komsomolets* for attempting to gain "total control" of the Russian industrial sector, buying stock in privatized companies through third parties for 1% of market price, Radio Free Europe reported on Nov. 22.

● **BULGARIAN** Prime Minister Zhelu Zhelev told French TV in Paris on Nov. 21 that a Marshall Plan for economic development is needed in the Balkans. The military activity of the West cannot conceal that there is no comprehensive policy for the region, he said.

● **INDIA** is facing conditions perfect for dengue hemorrhagic fever to break out, because the a edes mosquito, the vector of the disease, is proliferating in New Delhi's filth, V. Ramalingaswamy, former director general of the Indian Council for Medical Research, said at a press conference. "If malaria did not get you, dengue fever will."

● **THE RUSSIAN** government is virtually bankrupt, and needs help from the International Monetary Fund, Finance Minister Vladimir Pankov told the Duma on Nov. 25. Pankov said \$12.7 billion is needed to cover the deficit; IMF experts are conditioning another \$5 billion loan on cuts in the military, farm sector, and state industries.

● **THE ORGANIZATION** of Petroleum Exporting Countries is considering a freeze on the oil production ceiling for up to one year. The basket of crudes averaged \$16.97 in the week to Nov. 11; its target is \$21.

● **THE GERMAN** language "is undergoing a remarkable renaissance" in eastern Europe, the Nov. 25 *Richmond Times-Dispatch* reported. Two-thirds of the 20 million people learning German worldwide are in eastern Europe and the former republics of the Soviet Union.