

GOVERNANCE WORLD WATCH

**Division for Public Economics and Public Administration
Department of Economic and Social Affairs**

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Public Policies & Public Economics

AFRICA

SOUTH AFRICA EQUALITY BILL 'WILL SERIOUSLY DAMAGE ECONOMY'

The equality bill, if enacted, would seriously damage the economy and investor confidence, MPs were told on Wednesday. In a submission to the ad hoc committee on the promotion of equality and prevention of unfair discrimination bill, Business South Africa (BSA) said the bill would also substantively harm some sectors of the economy, particularly those relating to financial infrastructure. "Economic growth is the only manner in which South Africa will be able to address its problems of poverty, unemployment, crime and inequality." BSA said certain aspects of the bill would undermine the ability of the country to grow economically and attract local and international investors. It would therefore not be in the best interest of the most disadvantaged – the unemployed. In terms of the World Competitiveness Report, South Africa's financial infrastructure was very sound and highly rated, the BSA said. "This bill will fundamentally undermine this competitive position, and will probably result in the financial sector becoming an obstacle to growth and competitiveness, rather than one of the leading dynamos for increased wealth of all citizens." BSA also complained there was no consultation with business organisations, and with the National Economic Development and Labour Council (Nedlac), in spite of the very significant impact the bill would have on the way business would be able to operate in the country. BSA reiterates its stance that this over-hasty and untransparent process is not conducive to the passage of good legislation. "This matter is far too important to be rushed," it said. Committee chairman Mohseen Moosa (ANC) said he didn't believe Government would want to adopt legislation that would stymie economic growth. He acknowledged that the bill was tabled quite late. Moosa said he did not believe the doors were closed for Nedlac to make a submission, even though its constituents had made separate public submission. Dr. Rob Davies of the ANC said he believed there was "a huge hyperbole" about the bill's impact on the economy.

From South Africa News, 24 November 1999

ASIA/PACIFIC

CHINA'S CRIMINAL LAW TO ENCOMPASS ECONOMIC CRIMES

In a bid to reduce so-called economic crimes, the Standing Committee of the China's National People's Congress (NPC) on October 25 agreed to add amendments to the Criminal Law related to illegal futures trading, accounting violations, and misconduct and abuse of authority by state of state-owned enterprises, the October 25 Zhengquan Shibao (Securities Times) reported. The NPC Law Committee suggested that the Criminal Law be revised to include provisions forbidding the concealment or intentional destruction of accounting documents, accounting books, and financial reports, the article said. The Committee also suggested that amendments on securities-related crimes be added, such as setting up futures exchanges and brokerage houses without authorization, insider trading, fabrication and dissemination of the false information, cheating investors into buying and selling futures, and the manipulation of the futures transaction prices, according to the paper. Committee vice-chief Gu Ang'ran further suggested that some clauses in the Criminal Law related to the misconduct of SOE employees should be amended for such crimes as foreign exchange or futures speculation in the international market, or providing loan guaranteed without authorization, the paper said.

From China Online, 28 October 1999

CHINESE RURAL WOMEN INVOLVED IN SOCIOECONOMIC DEVELOPMENT

Some 210 million rural women have increasingly involved themselves in the country's economic and social development to improve their social status, said vice president of the All-China Women's Federation, Gu Xiulian, at October 28's press conference held by the Information Office of the State Council. She pointed that the image of most Chinese rural women has changed from someone only concerned about household chores and a belief in fate, to a new generation of women who care about society and believe in science. Gu said China is an agricultural country, and among the 320 million agricultural workers, women represent 60.5 per cent. A great number of males have moved to cities or township enterprises as the result of agriculture restructuring, and Chinese rural women are now shouldering a bigger role. "The output value of agriculture the rural women create makes up 50 to 60 percent of the total, and they have invented a courtyard economy by planting crops in their courtyards," said she, adding that this new economy now accounts for one-third of all rural household income. "The rural people are also striving to upgrade their education while participating in production," said the vice president. Twenty million illiterate rural women have learned how to read and write and near 100 million women have mastered at least one practical skill. Moreover, 15 million women have attended correspondence colleges and schools, she said. The rural women also show great interest in social activities. They have donated to education, provided relief materials to disaster areas, and helped support the poor. They also formed "the Women's Society for Prohibiting Gambling" and "the Women's Society for Prohibiting Drugs," she said. A commending conference and an exhibition of the achievements of rural women will be held in November, she added.

PROMOTING STRUCTURAL OPTIMIZATION AND INDUSTRIAL UPGRADING OF STATE-OWNED ECONOMY IN CHINA

The Fourth Plenary Session of the 15th Central Committee of the Communist Party of China (CPC) pointed out that State-owned enterprises (SOEs) must advance in the van in technological progress and industrial upgrading, actively expand new space for development and play a key role. I would like to say something about what I have learned from the study in regard to this question. The Importance and Urgency of the Structural Optimization and Industrial Upgrading of the State-Owned Economy Objective requirement for the entry of economic development into a new stage. On the present basis of structure and efficiency, the overwhelming majority of China's trades are in a state in which the supply exceeds the demand. New development space has to be achieved through increasing the variety and improving the quality of products and lowering production cost; and by producing new products comprising high added value and high technological content and meeting market demands. In short, only by comprehensively accelerating structural optimization and industrial upgrading, is it possible to get rid of the demand restriction imposed by the relatively low technological and industrial level, and to open up new demand space at a higher structural level. Fundamental measures to enhance international competitiveness. First is the need to cultivate new export-oriented industries. In the future, the competitiveness of China's labor-intensive low- and medium-grade products on the international market will be gradually weakened, so it is necessary to expedite the growth of a batch of industries which contain a high level of technology and added value and can give play to China's abundant labor advantage. Second is the need of the internationalization of competition on the domestic market. Along with the mounting investment made by transnational corporations in China, Chinese enterprises, including State-owned ones, have to face competition at the international level even though they are on the domestic market. Third is the need to strive for an advantageous position in the pattern of global division of labor. In the pattern of global division of labor, anyone who possesses key technology and controls the production capacity of key products and component and spare parts occupies an initiative and advantageous position on the basis of technological monopoly. Since the launch of the reform and opening program, a group of SOEs have come to the fore through fierce market competition and have become superior firms with relatively strong competitiveness on both domestic and international markets. Currently they are China's main forces participating in international competition. The important content of realization of the strategy for sustainable development.

On the whole, China is a country with relatively shortages of resources, however, due to the fact that China has been engaged in extensive management over a long period of time, the consumption of resources for a per-unit output is obviously higher than the level of developed countries, and the problem of serious environmental pollution has resulted. In the future, China must follow the road of intensive growth for its economic development, it has to accelerate the technical renovation of existing industries, develop newly emerging industries causing low consumption of energy and other resources, having high added value of products and being conducive to environmental protection, raise the output level of per-unit resource input, and reduce and eliminate various sources of pollution. The basic guarantee for State security and China's international status. The level of a country's industrial and technological development constitutes an important guarantee for its economic security. The Asian financial crisis erupted since 1997 has brought us profound enlightenment: when the economy develops to a certain level, the low-cost labor superiority begins to decline, the country's financial system and the security of its national economy will face serious threat if it fails to enhance its own technological development capacity, its product competitiveness and its enterprises' profit-making capability and, instead, one-sidedly pursues high speed, large scale and market occupancy. Industrial and technological strength is also the basic guarantee for State sovereignty being free from encroachment and for China's international status. The Orientation and Focus for the Structural Optimization and Industrial Upgrading of State-Owned Economy Transforming traditional industries with advanced technology. Transformation of traditional industries will still be the important content of China's structural optimization and industrial upgrading, even in developed countries, traditional industries have not been eliminated, even their important status has not been shaken to the foundation. For example, among the globe's top 500 industrial enterprises, automobile, iron and steel, petroleum, chemical, food-processing, machinery and other traditional industrial enterprises continue to occupy the leading position. We must have a sober understanding of this, only then can we have a full understanding of the importance of the technical renovation of traditional industries and push forward this renovation in real earnest. However, compared with developed countries, China still lags far behind in terms of the product quality and technological grade of its traditional industries. Expediting technical renovation is an important content of the structural optimization and industrial upgrading of the State-owned economy. Transformation of traditional industries has also provided a vast market for the development of high and new technological industries. Occupying an important position in high and new technological industries. The development of newly emerging industries and high technological industries, such as information, bio-engineering, new material, aeronautical and aerospace, and environmental production industries, has exerted profound influence in economic, social, military and political areas. Competition in comprehensive national strength relies increasingly on the competition of science and technology. We must occupy technological commanding height and possess independent technological development capability in trades and spheres which represent the development orientation of key technology, have broad market prospects and major strategic significance. Properly handling the relations between the advanced nature and usability of technology. In the technological renovation and high and new technological industrial development, it is necessary to correctly handle the relations between the leading level of technology and China's industrial, technological and demand level. Properly handling the relations between reform and development. In the process of the structural optimization and industrial upgrading of the State-owned economy, attention should be paid to avoiding such a tendency, that is the attempt to replace the reform of SOEs with structural optimization and industrial upgrading and evade and bypass difficulties in reform. Only

by realizing the transformation of the operational mechanism and establishment of a new system in line with the requirements of the market economy, and enabling enterprises to really become a legal entity and market mainstay characterized by independent management and assumption of sole responsibility for their own profits and losses, is it possible for enterprises to have the internal incentive for long-term, unremitting structural optimization and industrial upgrading, and the structural optimization and industrial upgrading of the State-owned economy can proceed smoothly only by further removing barriers between different departments and regions and lifting inappropriate restrictions on the regrouping of the property rights of State-owned assets and promoting the rational flow of resources in accordance with the market principle on the premise of guaranteeing the preservation and increment of the value of State-owned assets. Therefore, accelerating enterprise reform and improving supporting measures are the internal requirement for effectively implementing the strategy for the structural optimization and industrial upgrading of the State-owned economy. Properly handling the relations between market orientation and Government guidance. The Fourth Plenary Session pointed out that enterprises are the mainstay for technical innovation and industrial upgrading, this definition is very important. As the mainstays, enterprises enjoy the share of benefits from technological progress and industrial upgrading, they also take the risk of failure, forming a balancing relationship between incentive and restraint. However, when involving major technological renovation projects and developing high and new technological industries, it is not enough to completely follow market guidance and to undertake responsibility and risk completely by the enterprise. Currently, global competition in the field of high and new technological industries is not completely market-oriented, the competitive position of a country is, to a certain extent, the result of the role jointly played by the government and the market. Therefore, Government supporting policy is still necessary for a small number of important, strategic products and technologies, because this is the only way to enable enterprises to come up from behind and to occupy a niche in the world.

From China People's Daily, 10 November 1999

JAPAN ANNOUNCES \$172 BILLION ECONOMIC STIMULUS PACKAGE

Japan's Government approved a massive \$172 billion spending package on Thursday aimed at spurring the nation's lackluster economy. The package - larger than the \$143 billion plan analysts had predicted - was expected to push economic growth this fiscal year from the forecast 0.5 percent to 0.6 percent. The plan, approved by Prime Minister Keizo Obuchi's Cabinet on Thursday morning, will later go to Parliament for final approval. The spending, the latest in a series of stimulus packages, is aimed at firming Japan's recovery from its deepest economic downturn since the end of World War II. The package includes \$8.6 billion in outlays for a nursing care insurance plan taking effect in April, \$19 billion for housing assistance and \$9.6 billion for employment measures. Though unemployment is coming down, it is still considered high by Japanese standards. The jobless rate is now 4.6 percent, down from a record-high 4.9 percent logged earlier this year. The measure calls for \$65 billion in spending on "social infrastructure," including provisions to deal with Japan's rapidly aging population and boosting efficiency in transportation. The Government has also earmarked \$70.7 billion for financial help to small and medium-sized companies and boost the number of new small and startup businesses by 100,000 a year by 2004, reports said. Obuchi's Millennium Project to build high-speed Internet infrastructure by laying a fiber-optic cable network throughout the country by fiscal 2005 is also included in the plan. Some analysts gave the budget a lukewarm reception. The package is unlikely to spark a major recovery in private demand, the key to a sustainable recovery, said Cameron Umetsu, senior strategist for Warburg Dillon Read Japan Ltd. "It adds up to a muddling-through scenario," he said. Investors were slightly more enthusiastic. Following the government announcement, the benchmark 225-issue Nikkei Stock Average gained 31.26 points, or 0.17 percent, to 18,536.61 points in the first 30 minutes of trading.

From Nando Times, 11 November 1999

PAKISTAN ECONOMY IN DEEP RECESSION

The economy experienced deep recessionary trends in the first quarter of the current financial year as almost one per cent contraction was recorded in money supply during this period, with nearly Rs10bn going out of circulation. According to State Bank data in the first four months the contraction was to the tune of 0.70 per cent (minus Rs8.93bn) reflecting the combined effect of domestic credit contraction of 0.55 per cent (- Rs7.27bn) and the foreign net assets of 0.15 per cent (- Rs1.66bn). The net credit to private sector during the period under review has been recorded at (-) Rs20.12bn reflecting a total lack of interest of the private sector in the economic activities. According to the credit plan (1999-2000) during the current financial year, the non-government sector (the private sector and the public sector enterprises) was to get as much as Rs113bn. Instead in the first three months of the year the banks have mopped up Rs23.76bn from this sector. The situation in the government sector, however, is totally opposite as against a net retirement target of Rs7bn earmarked in the credit plan for the year, the Government has borrowed (net) in the last three months a sum of Rs11.49bn. Net budgetary borrowing has been recorded at Rs16.91bn during the first three months against the whole year retirement target of Rs15bn. Understandably, as a result of this acute wave of recession the rate of inflation in the country during the first four months (July-October) remained depressed at the rate of 3.43 per cent against 6.66 per cent recorded in the same period last year. The industrial growth (cumulative for July-September) at 4.9 per cent against 4.1 per cent in the same period last year, however, appears promising. However, in view of deepening recessionary trends afflicting the economy, the data requires to be looked rather more closely. The trade gap in the first four months was \$587m against \$385m in the same period last year, showing a record expansion of 52.5 per cent. Exports have increased by a paltry 6.3 per cent at \$2.48bn against a massive increase of 12.5 per cent in the import bill of \$3.20bn. In the first four months the tax collection remained stagnant at Rs86bn against a collection of Rs85bn recorded in the same period last year. The flow of workers remittances in the first four months have declined sharply by nearly 30 per cent. Up to September 1999, the flow amounted to \$215m against \$300m recorded in the same

period last year. As the country is not making any repayments to the official and commercial creditors since the grant of rescheduling facilities by the Paris and London clubs, the amount in the foreign exchange reserves (FER) which has been fluctuating between \$1.5bn to \$1.6bn in the last four months presents only a distorted picture of the FER's real worth. Net foreign investment in the country has been on the decline for the last 18 months. However, according to SBP data, in the first three months of the current financial the country received a total direct investment of \$148.3m as against \$105.8m in the same period last year. The portfolio investment which was on the decline all these months went down further by \$54.6m against the withdrawal of \$9.1m in the same period last year.

From Pakistan-Dawn, 21 November 1999

CHINA'S WORKERS HOPE TRADE DEAL BRINGS ECONOMIC, POLITICAL ADVANCES

Beside the cheery, ruddy-cheeked farmers selling baskets of bright orange persimmons, carpenter Chan Yinmiao cut a forlorn figure sitting by the side of the road on a Beijing overpass, waiting in the wind for work. But when talk turned to the breakthrough trade deal his Government struck with the United States last week, he brightened up. Chan's family, hundreds of miles away in eastern China, cultivates rice. He hopes the trade deal will open up lucrative export markets for their crop. "The more the market opens, the more opportunities we'll have to make money," Chan said. Excitement in China about the deal, which marked a major milestone in China's campaign to join the World Trade Organization, extends beyond those who hope to measure its benefits in dollars, cents and improved trade figures. Some hope entry into the group that makes the rules for world trade will also spur improvements in human rights, legal reforms and, eventually, progress toward democracy. "Economic opening will bring political opening," said veteran Beijing democracy campaigner Ren Wanding. "A free and private economy forms the base for a democratic system. So it will make China's Government organs and legal system evolve toward democracy." President Clinton's administration and others argue that growing trade, foreign contacts and WTO's rules on fair competition, open markets and legal process will help bring China closer to international norms. Optimists also say foreign investment in China's telephones and Internet networks - now allowed under Monday's market-opening deal - will make them cheaper and available to more Chinese, increasing the flow of information. More Western movies will bring new ideas. More foreign lawyers and businessmen who will expect Chinese courts to enforce contracts could advance rule by law, rather than by bureaucrats. Foreign investment will create new jobs, offering a wider range of employment opportunities. Wang Shan, a political commentator and author, believes Chinese leaders have not clearly considered the social changes WTO entry would bring. "They are not sufficiently prepared for the pressures on Chinese society," he said. "Chinese leaders feel that entering WTO will promote Chinese exports, open up world markets and attract investment. But Americans feel that once China enters this system great changes will occur in Chinese society, including political and social changes." Dissident Lin Mu worries that trickle-down civil rights improvements through increased trade will come too slowly and says foreign Governments must pressure China over its human rights record to bring about deeper change. "It's an idle dream for the American Government to think it can improve the human rights situation with economic cooperation," said Lin, a one-time aide to former Communist Party leader Hu Yaobang. Initially, jobs will become scarcer as ailing state firms and inefficient family farms succumb to foreign competition. China's state-run media, which have been selling the deal to the public all week, acknowledge that millions could be thrown out of work, including more than 9 million in agriculture. Despite having negotiated for WTO entry for 13 years, China's social-security system remains primitive. Workers' protests, already common, could rise, prompting police to crack down. At the Beijing overpass, a group of farmers from northern Hebei province who, like Chan the carpenter, traveled to the capital in search of work during the slack winter farming season, fretted that foreign imports could kill what little demand there is for their low-priced crops. "Already we can't sell our maize," said one, his jacket collar and clothes stained with grime. "If foreign grain comes in, ours will be even more worthless." Long-term labor activists fear that because the communist Government bans independent trade unions, jobs generated by increased foreign investment could lead to greater exploitation of workers. Already tough and often unsafe factories prevail in provinces like Guangdong, the southern economic powerhouse that handles 40 percent of China's foreign trade and expects to benefit from WTO entry. "You can say they provide job opportunities. But the people who work there are not 'people,' they're 'labor.' They have no rights to speak out about their conditions, wages, benefits," said Han Dongfang, a veteran Chinese labor campaigner who lives in forced exile in Hong Kong because China won't let him return to the mainland. "Without the right for workers to set up unions, job opportunities brought by WTO could turn workers into slaves," Han said in a telephone interview. "Under these conditions, can you really say it will benefit human rights in China?"

From The Nando Times, 21 November 1999

INDONESIA, IMF SET NEW ECONOMIC PACT, OPENING WAY FOR RESUMPTION OF AID

The Indonesian Government and the International Monetary Fund have agreed in general terms on a new economic plan, opening the way for a resumption of aid, said Kwik Kian Gie, Indonesia's top economics minister. A broad framework for the agreement has been set, while the details, including specific economic targets, have yet to be completed, officials from the IMF and the Indonesian Government said. An IMF team will return in two weeks to settle remaining issues. "Some details still have to be worked out," said Anoop Singh, the IMF deputy director for Asia Pacific. "I fully expect it will be finalized next month; that is the progress so far." A resumption of IMF assistance hinges on the signing of a new letter of intent with Indonesia. Fresh funds could help bolster confidence in the government of President Abdurrahman Wahid who took office on Oct. 20. Investors are watching closely for the release of funds from the IMF-led \$47 billion aid package. The IMF suspended loan payments to Indonesia in August, demanding more information about a banking scandal. Indonesia's currency, the rupiah, was little changed today at about 7,055 to the U.S. dollar. That's about 20 percent stronger than its weakest point during the past three months when concern about political instability

pushed the rupiah down to 8,850 to the dollar. Over the weekend, minister Kwik said he expects the Government and the IMF to agree to set a target of 7,000 rupiah to the dollar by the year's end. That compares with a 7,500 rupiah target in the previous accord. The two sides may also agree to an inflation target of between four percent and five percent for the year, Kwik said. That compares with a target of about five percent agreed upon earlier this year. Indonesia's Government aims to reduce its level of foreign borrowing, Kwik said. To make up for the budget shortfall from such a move, the Government will try to reduce corruption in the civil service by raising salaries, he said. The Government is also looking at slashing subsidies to reduce spending, including select fuel subsidies and that savings will be applied to raise civil servants salaries, Finance Minister Bambang Sudibyo said today. Sudibyo declined to provide any details. The new accord with the IMF will also probably include new import tariffs on rice, and possibly sugar. The rice tariff may run as high as 40 percent in a bid to protect local farmers. The tariff however is expected to be a temporary measure that will be reduced over time, officials said. The release of an audit into the Government's reforestation fund, which collected levies from timber companies to help finance reforestation projects, that was due to be released last month, is also expected to be announced before the new letter is signed.

From Bloomberg, 23 November 1999

EUROPE

UKRAINE ECONOMIC ISSUES DOMINATE PRESIDENTIAL CAMPAIGN

In a country where most people scrape by on around \$50 a month and pensioners go for months without being paid at all, the economy has been the issue dominating the presidential campaign. All 13 remaining candidates, including the incumbent, President Leonid Kuchma, have pledged to revive Ukraine's shattered economy, raise incomes, and create new jobs. But most opinion polls show the race is between Kuchma and a few leftist candidates. Kuchma has presided over a corruption-riddled administration that has seen a disastrous decline in Ukraine's economy and has failed to push through significant market reforms. He promises in his campaign to surge ahead with radical reforms, including privatization of land and industry. The leftists, including Communist Petro Symonenko and Progressive Socialist Natalya Vitrenko, want a virtual return to Soviet-style government. They advocate the dismantling of Ukraine's limited market reforms, and they promise massive state handouts -- without explaining where the money will come from. The president warns that only he can furnish conditions for Ukrainian businesses to grow. Kuchma says the West, which has provided billions of dollars in loans and aid to Ukraine, will not be so generous if a leftist is president. That message has resonated with members of Ukraine's business community, like Oleksandr Koftonenko. The 31-year-old Koftonenko is the head of KAS, one of Ukraine's most successful advertising companies. "I have to say that, in the last five years, my company has grown quite successfully. Obviously I'd like it to be even more successful. And if I was able to develop it under this president, it seems to me that, possibly, he's the best president." But Koftonenko's business is thriving. The economy is seen differently by people involved in more modest businesses. Maria Herasenko runs a fruit stall on a street in the center of the Ukrainian capital, Kyiv. She says that for her, the most important election issue is the payment of salaries to state employees, who make up most of her clientele. Despite her business leanings, she intends to vote for the virulently anti-capitalist Vitrenko. "People have to be paid. Nothing else. For my business to work, other people have to be paid. If people have money, that means my business will work." The battered economy has produced a huge underclass of people -- pensioners, invalids, the unemployed -- who can not survive on the tiny state handouts that often come months late. Even in the center of Kyiv, the metro stations and subways under the main shopping area are filled with beggars: amputees, blind people, child buskers, old women. All are pleading for a few coins to help them stave off hunger. Mykhailo Oshadov is a 72-year-old pensioner who travels from his village of Staveschach, 70 kilometers away, to Kyiv, to beg outside the main department store. "Kuchma hasn't paid me any pension since May. I live in a village and haven't had any pension since May. I get 37 hryvna (\$8) a month and they have increased it by (only) 20 kopecks." Oshadov says he will vote for the Communists, because he believes they will take money from the businessmen who, he says, have grown rich at the expense of others. Like many of Ukraine's impoverished, Oshadov associates business with crime and corruption -- the other topic that most voters discuss.

From Radio Free Europe, 1 November 1999

IMF SEES ZERO INFLATION IN ALBANIA, BUT WARNS OF CORRUPTION

An International Monetary Fund staff team finished a two-week working visit to Albania, the results of which will decide the next, \$13m installment that the country will receive as support for the budget, its macro-economic figures and privatization. The IMF board will gather in January 2000 to discuss the continuation of the programme, which includes a total crediting assistance of \$60m. The mission urged the Government to improve customs duties collection, "which was disappointing in 1999," and urged the country to continue the full-scale privatization it was undertaking. "Accelerating structural reforms is essential if Albania will take full advantage of more stability in the region and attract needed foreign investment," the IMF team said. It said the Government should further cut domestic borrowing, improve tax collection and allocate more public spending to investment. It also warned that effective economic policies would be reached if corruption is curbed. The team also called for "legal and institutional improvements for sound bank lending," which would boost investment. Government officials and the IMF team agreed on prior calculations that growth will be 8 percent this year, while inflation will be zero - good conditions for the continuing of the so-called Enhanced Structural Adjustment Facility (ESAF) agreement the IMF has signed with the Government. The low inflation, a drastic improvement from earlier forecasts of 7 percent, was due to the humanitarian aid Albania received throughout the Kosovo crisis, Bob Corker, the team

chief. "If that had not happened, Albania would have had inflation of 2 to 3 percent." The mission, which met with the new government officials and the staff of Bank of Albania to discuss the economic framework for next year, said that "the growth target for next year, of 8 percent, remains feasible, assuming macro-economic policies remain prudent and structural reforms and progress in improving law and order continue." It commented that Albania's economy had managed to remain largely unaffected by the Kosovo crisis and that "economic developments and policies remain favourable." "The balance of payments and foreign currency reserves are relatively strong," a release from the IMF said. "Macro-economic policies have been in line with the programme: the budget deficit is within the ceiling limit and monetary developments are on track." It praised the path towards privatization, especially the sale of the National Commercial Bank, the country's second largest. NCB's majority stake was sold earlier this year to a Turkish banking group, Kent Bankasi.

From Albania-Daily News, 3 November 1999

FRENCH FINANCE MINISTER STRAUSS-KAHN RESIGNS; FRANCE APPOINTS SAUTTER

French Finance Minister Dominique Strauss-Kahn, who helped France post its strongest growth rate this decade, resigned over allegations he was paid money for a job that he never carried out. A student insurance organization paid Strauss-Kahn 603,000 francs (\$97,000) for acting as a legal counsel on a property transaction between 1994 and 1996, before he joined government. Magistrates are investigating whether Strauss-Kahn, who denied any wrongdoing, carried out any such work. Christian Sautter, the budget minister, will replace Strauss-Kahn. In his two years in office, the 50-year-old minister negotiated France's inclusion in the 11-nation single currency zone, reduced the budget deficit and sold 400 billion francs (\$64 billion) in state assets, including shares in France Telecom SA and Air France SA. Strauss-Kahn, widely viewed as a possible future prime minister, was a "man of global stature and his departure will damage the Government's credibility in financial markets," said James Stewart, chief economist at Weaving Capital. France's benchmark stock index, the CAC40, ended down 0.2 percent at 4898.52, after having fallen as much as 1 percent during the day. The euro fell following the resignation, before also rebounding in mid-afternoon trading to \$1.0506. Strauss-Kahn is likely to be placed under official investigation by two magistrates examining financial irregularities at student insurer Mutuelle Nationale des Etudiants Français, or MNEF. Recent Governments have insisted that all ministers under investigation should resign immediately. Prime Minister Lionel Jospin left open the possibility that Strauss-Kahn will return to Government, should he be cleared by the magistrates. "I express my sympathy and support for Strauss-Kahn," Jospin told members of Parliament. "I hope he will return quickly to our ranks." Strauss-Kahn's credibility among investors was boosted by his decision to freeze spending and cut the budget deficit below 3 percent of gross domestic product -- the threshold for nations that share the euro currency. His policies helped French economic growth outpace that of Germany, Europe's biggest economy. French gross domestic product expanded 3.4 percent last year, the fastest pace this decade, and will probably grow a further 2.3 percent in 1999, according to government estimates. The economy is likely to expand 2.8 percent next year, the strongest among Group of Seven nations, the Government predicts. Strauss-Kahn cut payroll taxes on low-wage jobs and reduced value-added tax on house refurbishment, as well as seeking to allay company concerns about plans to reduce the length of the working week to 35 hours from 39. "Strauss-Kahn was held in high esteem in business circles," said Nordine Naam, an economist at DKB International in Paris. "He served as counterweight" to some members of the Socialist-Communist coalition who favor higher taxes and spending. Strauss-Kahn was tipped as a possible future prime minister. His loss is a blow to Jospin, who analysts say is well placed to challenge Jacques Chirac in the 2002 presidential election. Since becoming finance minister in June 1997, unemployment has declined from a post-war high of 12.6 percent to a six-and-a-half year low of 11.1 percent. In a report last week the International Monetary Fund described as "remarkable" the performance of France's economy and praised the government for cutting the budget deficit. Sautter takes over a healthy economy, but will have several tests in the coming months, notably defending France's position in the upcoming round of World Trade talks in Seattle, and the transition as of Jan. 1 to the 35-hour work week. The 59-year-old Sautter has worked closely with Strauss-Kahn at the Finance Ministry since being appointed in June 1997. An academic, he worked at Insee, the national statistics office, from 1965 to 1971 and as an economic adviser to former President Francois Mitterrand from 1981 to 1982.

He is also a specialist on the Japanese economy and has written several books on Japan. Strauss-Kahn's troubles erupted Thursday after a Paris court gave investigating magistrates Armand Riberolles and Francoise Neher the go-ahead to investigate the finance minister in relation to a broader inquiry into the finances of MNEF. The two magistrates have been examining the dealings of the MNEF since last year. Former executives of the mutual insurer for 800,000 students, which has ties with a number of senior Socialist Party members, are under investigation for misuse of public funds and forgery. "It's inconceivable that I can remain as a minister when there is suspicion of legal procedures being taken that could hurt the image of the government," Strauss-Kahn said at a press conference, his face looking drawn. "I took this decision because morality and common sense impose it." The allegations involving Strauss-Kahn center on his role as legal counsel for MNEF in its sale of a 30 percent stake in Financiere Raspail Participation et Developpement to Compagnie Generale des Eaux SA, the former name of Vivendi SA, one of France's biggest companies with interests ranging from water distribution to mobile phones. Magistrates are examining whether he did any work to earn the money. When the allegations first arose last year, suggestions of wrongdoing were brushed aside when Strauss-Kahn furnished letters and documents testifying that he did carry out work to earn the money. Some of those documents may have been falsified, according to Liberation, a French newspaper. The late Socialist Prime Minister Pierre Berégovoy and his successor Edouard Balladur, in an attempt to clean up the image of politicians, obliged ministers to resign if they came under investigation. In the Balladur Government, from 1993 to 1995, three ministers -- Michel Roussin, Gerard Longuet, and Alain Carignon - were obliged to resign after they were placed under official investigation. Longuet and Roussin were later cleared of the charges but never returned to their original posts. Carignon was jailed.

MIDDLE EAST

EIZENSTAT URGES ECONOMIC REFORM FOR ISRAEL REGION

U.S. Deputy Treasury Secretary Stuart Eizenstat yesterday evening called on Israel to reduce its numbers of foreign workers to make room for more Palestinian workers. Speaking at the Van Leer Institute in Jerusalem, Eizenstat said foreign workers constitute about 10 percent of Israel's workforce, and half of them are illegal residents. Reducing that percentage would reduce future social problems created once those workers begin families here, and create a hole that Palestinian labor could fill - thus forging a stronger economic link between Israel and the Palestinian Authority. He urged Israel to introduce more structural reforms, including greater efforts to privatize all sectors, develop deeper capital markets, encourage competition, and increase public investment. "Tough fiscal reform does pay off, as you have proven," Eizenstat said. To bring Israel "from the cusp of the first world into the first world" he suggested "adopting the remaining reforms." He cited the need to deregulate the domestic telecom market. Eizenstat lauded Israel's hi-tech industry and pointed out that the reason for its success, in great part, is that it is "a totally free market, and the least-regulated industry in the country." Regional trade and cooperation is also a key to Israel's economic health, he stressed. Israel should "end its [economic] divorce" with the region and thus reduce its political isolation, he said. Despite the Israeli-Jordanian peace, only 1% of Jordan's exports go to Israel, and only 4% of its imports originate in Israel. But the success of the Qualified Industrial Zone (QIZ) in Irbid, Jordan - which has led to hundreds of millions of dollars in new investment, more than 3,000 new jobs, and \$500m. in exports - exemplifies the region's potential and readiness for commerce. Three more QIZs are scheduled to open in Jordan. Eizenstat also called on the PA to push forward with major reforms. While he called the opening of the safe passage between Gaza and the West Bank a "significant step" toward jump-starting the Palestinian economy, he said that today "it's cheaper [doing business from] Gaza to Germany than from Gaza to Ramallah." The PA must create transparent government and banking institutions, develop a legal infrastructure, and consolidate budget accounts, he added. Israel's other Arab neighbors are also to blame for lagging regional trade, Eizenstat said, adding: "The Middle East is dysfunctional." He noted that 60% of European countries trade among other European countries and 30% of Asian countries and 20% of countries in the Americas trade within those respective regions; but only 7% of countries in the Middle East trade within the Middle East. Eizenstat blamed that phenomenon on closed Arab societies, however, and not on Israel. And though the Middle East is not a natural trading bloc because it doesn't have a diverse range of products and resources, he said, the opening of economic borders would at least produce product differentiation and competition. The peace process and regional economic cooperation must develop simultaneously, Eizenstat stressed. And, he added, reforms are urgently needed. "It's an absolute security imperative" that the Palestinians and Jordanians make economic peace with Israel, he said.

From The Jerusalem Post, 1 November 1999

JORDAN'S KING SAYS PRIORITY TO ECONOMIC REFORMS

King Abdullah of Jordan pledged on Monday to rejuvenate his country's sluggish economy by attracting more foreign investors and accelerating IMF-directed reforms. Addressing the first session of parliament since the young monarch assumed the throne after the death of his father the late King Hussein last February, the king said attracting foreign investment was essential to create jobs. "The restructuring of the economy and activating the private sector and creating the attractive investment scene is on top of our national priorities," the monarch told a joint session of 80 elected deputies and 40 appointed senators. Businessmen say the young monarch, who has placed tackling the country's economic woes at the top of his domestic agenda, has personally prodded the Government to speed up free-market reforms in face of official complacency and vested interests. The monarch referred to modest signs of a pickup in some sectors of the economy so far this year that have raised optimism about a broader recovery after years of sluggish growth. "Our economy is starting to recover gradually and we in this regard appreciate the cooperation of our Arab brothers and friends and their support for us in dealing with our economic situation," the monarch told deputies. Pledges of support coupled with some aid by Jordan's main Western donors and Gulf Arab states to ensure a smooth transition of power after King Hussein's death enhanced confidence and bolstered foreign reserves to a record \$1.7 billion by end-June, businessmen and officials say. Officials say Monday's session will kick off crucial parliamentary debates to pass new economic legislation specifically designed to facilitate accession to the WTO (World Trade Organization.) Under the monarch's prodding an extraordinary session this summer passed key intellectual property and copyright laws that have radically improved the country's chances of joining the WTO by early 2000. The Government has already drafted major reforms that will be submitted to parliament in the taxation, financial, trade and fiscal areas that are needed to ensure the success of IMF-directed reforms under a new three year plan begun last April. The Government hopes growth will exceed two percent this year despite a decline in agricultural output due to drought as foreign investments in mining and services pickup. King Abdullah also addressed the country's growing water shortage worsened by severe drought, saying new multi-million dollar donor financed projects to find new water resources had to be speeded up. The monarch said his Government would continue to seek debt relief with its Western creditors on a crippling \$7.9 billion foreign debt, matching the country's total gross domestic product. Jordan's economy, weighed down by heavy external debt, has seen real incomes erode as its modest growth was unable to match an annual population growth of over three percent.

From ABC News, 1 November 1999

THE AMERICAS

CLINTON AND HASTERT COOPERATE ON ECONOMIC HELP FOR POOR REGIONS

Taking a break from the rancorous budget battle, President Clinton and House Speaker Dennis Hastert planned a rare joint appearance to announce an effort to steer investment to America's neediest communities. Hastert was to join Clinton in Chicago Friday to announce a merger of Clinton's "New Markets" initiative with the GOP's "Renewable Communities" proposal. Both aim to spread the nation's economic good times to urban and rural areas that have been passed by. A draft statement prepared for the event and obtained by The Associated Press pledged to "responsibly and effectively empower impoverished communities with new equity, capital, tax incentives and other tools." "Both political parties need to put aside politics and ideological constraints and participate in a process that focuses on solutions," the statement said. Clinton: Not a partisan issue Clinton hinted at the alliance during an appearance Thursday promoting his plan in Hartford, Connecticut, when he said he was reaching out to Capitol Hill to secure agreement on a set of tax credits and loan guarantees. "I don't believe this issue should be a partisan issue," Clinton said. In a season of often bitter partisanship, officials in both camps clearly were pleased at the prospect of progress on helping Americans most in need. "We consider this a significant breakthrough," said Gene Sperling, chairman of Clinton's National Economic Council. "The highest levels of Government have agreed that they're going to merge proposals so that we can leave ideology at the door and come up with a plan to spur investment in America's poorest communities." John Feehery, a spokesman for Hastert, R-Illinois, said the speaker has been working all year with Reps. J.C. Watts, R-Oklahoma, Jim Talent, R-Missouri, and Danny Davis, D-Illinois, on the tax-oriented Renewable Communities initiative. Hastert impressed by Clinton tour Republicans declined to participate in Clinton's original New Markets tour in July. But Hastert told Clinton later that he had been impressed by the president's tour through impoverished communities from Appalachia to Watts. Clinton then wrote to the speaker, asking if there wasn't a way to find common ground on his New Markets plan. After a meeting between the White House and congressional leaders October 19, Hastert told him compromise was possible. A joint appearance by the Republican speaker from Illinois and the president would be a highlight of Clinton's second national poverty tour -- a two-day trip with stops Thursday in Newark, New Jersey, and Hartford, Connecticut, and appearances Friday in Hermitage, Arkansas, and Chicago. However, there was a chance that legislative business could keep Hastert in Washington, officials said. Clinton's New Markets plan seeks to spur \$15 billion in new investment in poor communities.

From Associate Press, 5 November 1999

EXAMINING THE NEW ECONOMY IN THE U.S.

The latest statistics require a new look at America's productivity puzzle. A month ago, America's recent economic history read along the following lines. In the Golden Age of the 1950s and 1960s, the economy grew fast, with productivity growing at nearly 3% a year and low inflation. Then, for still ill-understood reasons, productivity growth plummeted to 1% a year in the early 1970s and, broadly, stayed that way until the mid-1990s. Since 1996 productivity has accelerated, though economists are sharply divided about whether this is a cyclical blip or a lasting boom. Now, after the publication of a comprehensive revision of the country's national-income accounts on October 28th, and a subsequent revision of productivity figures on November 12th, it all looks rather different. The economy was stronger than it had seemed: growth since 1959 has been revised up by an annual average of 0.2 percentage points to 3.4%, and since 1991 has been bumped up by an average of 0.4 percentage points to 3.5%. The productivity slowdown in the 1970s was much less severe than previously thought. Productivity began picking up in the 1980s and early 1990s. But there was still a big acceleration after 1995, bringing productivity growth close to 90% of its average in the Glory Days. This rewriting of history might seem of merely academic interest, were it not for the fact that it directly affects a central puzzle of today's America: is there a "New Economy" in which information technology is leading to ever-higher productivity growth? Unsurprisingly, New Economy enthusiasts have been quick to claim victory. "The big winners [from the revisions] are New Economy advocates," declared Business Week (a cheerleader of the genre), "who now have much better evidence to support their claims." Is this true? At first blush, it seems possible. Productivity now seems to have begun accelerating in the 1980s: exactly the time—as Business Week is quick to point out—when the personal-computer boom took off. Moreover, the fact that productivity was on a slight upward trend before it took off in 1996 lends support to the argument that the recent rise is more than just a cyclical phenomenon (though the fact that productivity has continued to accelerate over what is now three years is much more powerful evidence that there is something structural going on). But it would be a mistake to draw conclusions from the recent revisions without looking carefully to see what the number-crunchers actually did. Broadly, three sets of changes are important. The first is the addition of new information: the Commerce Department recalculated some figures based on broader and better raw data than it had originally used. By telling analysts something genuinely new, these revisions are arguably the most important. Tellingly, they account for about half of the upward revisions to output since 1995. In short, the new information re-emphasizes the acceleration in productivity. The second big change is one of reclassification. Computer software, which the boffins had previously treated as a business expense, is now treated as an investment, and so a part of GDP. Not surprisingly, this new (and much more sensible) categorization makes a big difference to economic growth in the 1990s, when companies first began investing heavily in software. It accounts for the other half of the upward revisions since 1995. The third set of changes improved the Commerce Department's techniques for estimating inflation and productivity. By extending a so-called "geometric-mean" method of calculating inflation back from 1995 to 1978, the figures now measure inflation using a consistent method since the late 1970s. A new index of output in banking services tries to calculate the productivity improvement that has come from ATM machines and so forth. (Previously, that was impossible.)

Interestingly, it is these measurement improvements (especially looking at the economy with a consistent lens over time), rather than the inclusion of expenditure on computer software as investment, that remove much of the "inexplicable" productivity slowdown since the 1970s. All in all, these changes provide a much clearer view of the American economy. They also make it harder to argue that the recent rise in productivity growth is simply a cyclical phenomenon. So there is something structural going on. But is it a "New Economy" where computer-led productivity improvements are spilling out into the rest of the economy? Not according to Professor Robert Gordon, a productivity expert from Northwestern University. In a provocative study (based on the old figures) earlier this year, Mr. Gordon found that about a third of the productivity improvement since 1995 was due to measurement errors; a third was due to cyclical factors; and a third was due to productivity improvements in the making of computers. Outside computer manufacturing, he found that productivity—apart from cyclical and measurement effects—had actually fallen. Mr. Gordon has reworked his study using the revised figures. He now reckons that the relative contributions to recent productivity acceleration are different: around half the upturn comes from higher productivity in computers and software; about 40% still comes from a cyclical effect, while the rest still comes from measurement errors. But, importantly, he still finds no evidence that there is any structural improvement in productivity outside computers and software (though there is no longer a decline). Even with a clearer statistical lens, he maintains, you cannot see any evidence of a broad "New Economy". Others read the data differently. Another recent study by Macroeconomic Advisers, an economic forecasting firm, tries to isolate growth in "potential" productivity by stripping productivity growth that comes from cyclical factors. It found that "potential" productivity had risen sharply since 1995, by 2.6 percentage points based on the old numbers). Like Mr. Gordon, this study finds that improvements in the productivity of computer manufacturing play a big role. Just under a third of the increase in potential productivity comes from an increase in the rate of technical advance, of which a large part comes from higher-quality computers. But, unlike Mr. Gordon, the Macroeconomic Advisers study also emphasizes productivity improvements from those who use computers. About a third of the improvement in potential productivity, it claims, comes from capital deepening, which largely reflects investment in (and hence use of) computers. Because this study looks at productivity overall, rather than by sector, it does not refute Mr. Gordon. Even so, the boffins at Macroeconomic Advisers—and a growing body of other economists—are sceptical that so large a productivity impact would be so narrowly focused. In short, the productivity puzzle is not fully settled. The refocused lens of revised statistics does bolster the case that America is seeing a productivity improvement that goes beyond the cyclical. But it still does not prove that it goes beyond computers.

From The Economist, 20-26 November 1999

TRI-STATE EFFORT TO GRAB ECONOMIC BRASS RING

Tennessee, Arkansas, and Mississippi craft a plan to become a new global shipping hub. America has always been more an amalgam of regions than a union of 50 states. The Southwest, for instance, has more in common culturally with northern Mexico than with the Northeast, earning it the nickname "Mex-America." The Pacific Northwest shares more economically with Western Canada - an area often called "Cascadia" - than with Texas or Tennessee. Now a new "super-region" is emerging in the mid-South that could become an economic powerhouse. The area encompassing Memphis, Tenn., and parts of Arkansas and Mississippi have always shared their own sense of history and culture - from tufted cotton fields to the sultry blues. But the regions have largely operated as distinct identities when it came to trade and commerce. Now business and political leaders in the area are launching a quixotic quest to create a new regional economic hub. While the task won't be easy - old habits and lines on a map can't be erased overnight - many think the idea has merit. "Memphis has a long way to go, but ... it could be on the avenue to prosperity," says David Savageau, author of "Places Rated Almanac." The Memphis Pyramid arena, which dominates the city's skyline, is just one of the amenities that draw dollars to the region. States along the Mississippi River want to join forces economically. The region would be unusual. Compared with other areas of super-region status - Raleigh-Durham, N.C., Baltimore-Washington, or the New York tri-state areas - Memphis is a real region. It's not a single state like North Carolina. It doesn't include a Washington or New York. It is also marked by independence and competition between the states. But governors of Arkansas, Mississippi, and Tennessee say all this can be overcome. Earlier this year, they created a tri-state alliance to turn the region into a distribution center to the world. Consider these factors: a new runway at the Memphis airport, increased presence of Federal Express Corp., a huge United Parcel Service distribution plant, plus a proposed highway through Memphis, linking Canada to Mexico. As it stands now, the mid-South's economy is larger than 15 states and ranks as the world's 49th largest. Arkansas Gov. Mike Huckabee, for one, says geographical boundaries will mean less in the next century: "It is not a future trend; it is a present trend with future implications." For the most part, people living in super-regions are connected by cultural and economic ties. They read the same newspapers, shop at the same stores and malls, and enjoy the same social experiences. Until the alliance formed in May, regionalism wasn't viewed in this warm and cozy light. Actually, the three states operated as islands, competing against one another for new industries and tourism. The alliance hosted a conference on regional strategies last month in Memphis to promote regionalism across the US. Shelby County Mayor Jim Rout wants to see the mid-South recognized as "the leading laboratory for regionalism in the United States." But first some critics must shift mind-sets of the past. Many business and community leaders still see the area as small individual economies instead of one large regional one. "The No. 1 thing I hope we can do with this is communicate the importance of looking past geographical boundaries and compete on a global scale," says Jim Flanagan, president of Mississippi's DeSoto County Economic Development Council and an alliance committee member. "There are synergies that can be achieved by joining together and tackling some of the challenges to economic development." The alliance hired a North Carolina strategic-planning firm to develop a blueprint for becoming a super-region. North Carolina has perfected regionalism in its own state. In 1990, the Raleigh-Durham region was formed to highlight the area's assets. The state's 100 counties became seven regions, each concentrating on an economic attraction. "The region concept has really allowed the state to put some companies in rural areas that may not have gotten a look before," says Leah Burton of the Research Triangle Regional Partnership in the Raleigh-Durham area. That's exactly

what the mid-South super-region needs. Before gambling hit nearby Tunica County, Miss., its citizens lived in one of the country's most impoverished places in the heart of the Delta. The success of a super-region, say experts, depends on how far people are willing to commute and how big the media market is. Critics stress that a super-region is born naturally as opposed to artificially by the way of blueprints and commissions. The mid-South region seems poised for the challenge. "Memphis today sits on the front edge of enormous opportunity," says Charles Tuggle, a longtime Memphis lawyer who supports the regionalism concept.

From Christian Science Monitor, 23 November 1999

GLOBAL

ECONOMIC FORCES THREATEN BLOODY NEW CENTURY

The spread of Western-style economics could destabilize Governments and trigger the bloody birth of new states in the early years of the new century, a security consultancy said on Thursday. More than 30 new countries could declare independence by 2020 as multi-ethnic nations break up under pressure from global economic forces, Control Risks Group said. Asian and African nations' pursuit of foreign investment and International Monetary Fund loans will force them to adopt Western economic ideas like smaller governments and reduced public spending. But that will undermine the means by which they have maintained political stability, giving more democracy to separatist groups whose struggles for new states may trigger violence and military conflict, said Control Risks senior analyst David Lewis. "The rigors that economic and political liberalization demand will not make countries more stable, at least in the transition period. Instead, globalization will be a major cause in the downfall of governments and the formation of new states and statelets," he wrote in a report on the risks to multinational companies from globalization. Africa, China and the former Soviet Union were among regions at risk from such pressures. A survey for the report found only 46 percent of foreign investors believed they would encounter more risk in the developing world in the next 10 years, and that the business threat that most worried them was international sanctions. They were least worried about pressure group action and consumer boycotts, even though 86 percent felt consumer activism would have an increasing impact on their decision making.

From Fox News, 11 November 1999

Governance Systems and Institutions

AFRICA

POLITICIANS SHOULD END WAR, CORRUPTION IN AFRICA

Political leaders and Governments should do their work and ensure that they banish tyranny, war and corruption from their countries and the African continent, President Thabo Mbeki said at the Commonwealth Business Forum inaugural meeting on Tuesday. Mbeki told more than 500 delegates in Sandton, Johannesburg, representing over 120 companies from 21 Commonwealth countries that governments should create conditions, policies and programmes conducive to investment, growth and job creation. "We have to discharge our responsibilities to our peoples with regard to such matters as education, health and the fight against diseases such as HIV/Aids, malaria and tuberculosis, the provision of clean water and environmental protection," he added. He said his government also wanted to work in partnership with the business sector to address all these challenges, including large inflows of foreign direct investment into the African continent. "We also want to work with both the public and private sectors of the developed countries of the North as we grapple with such critical issues as our international debt burden, a more equitable global trading system, the attraction of larger volumes of long-term capital to the countries of the South and increasing the flows and effectiveness of development assistance," Mbeki said. He said practical actions would answer the question whether "we have the will, the courage and the sense of human solidarity in fact to end the human tragedy to which billions are condemned." Mbeki said the challenge facing the Commonwealth was the position adopted by the organization two years ago - that world peace, security and social stability could not be achieved in conditions of deep poverty and growing inequality. He said it was crucial that the next round of World Trade Organization negotiations in Seattle, USA, be approached with a particular focus on finding ways that will lead to "all of us effectively halting the marginalization of the developing world". Addressing the forum for the last time as Commonwealth secretary-general, Chief Emeka Anyaoku said the next decade would be characterized by uncertainty with a possibility of a global financial meltdown similar to last year's Asian crisis, the possibility of a large country collapsing, and the Y2K threat. Anyaoku said that despite the belief that the Commonwealth was an institution of the past he believed it was still relevant with a crucial role to play in global networking.

S. Africa-24 News, 10 November 1999

NIGERIA CONFRONTS CORRUPTION

The Ajaokuta steel works: Billions of dollars wasted with tackling corruption high on the agenda at the Commonwealth summit in Durban, our Lagos correspondent Barnaby Phillips looks at the challenge facing Nigeria's new leaders. Nigeria, one of the most prominent Commonwealth countries, was a byword for misrule and corruption under military rule - and was suspended from the Commonwealth in 1995 because of human rights abuses. But Nigeria returned to democratic rule earlier this year, and President Olusegun Obasanjo has promised to rid the country of the corruption which has plagued it ever since independence from Britain in 1960. He faces a daunting legacy. There are few places in Nigeria which give such a clear insight into the years of mismanagement as the massive Ajaokuta steel works in the centre of the country. Although Ajaokuta has cost Nigeria billions of dollars, it has never produced a single piece of steel. Nobody will ever know how much money has been diverted from this ill-fated project into private pockets. Construction started 20 years ago, and is still not finished. A skeleton staff forlornly patrols a plant that was meant to employ 10,000. Ajaokuta's technology is now outdated and it is more economical for Nigeria to import steel than to keep the plant going. Goats and cattle wander around the rusting machinery of the steel rolling mill. Nigerians had hoped that the newly elected members of the national assembly would help to clean up politics. So far they have been disappointed - the members have already awarded themselves about \$30,000 each to buy household furniture. The assembly is lukewarm about the anti-corruption bill put forward by President Obasanjo. The bill proposes setting up a commission with draconian powers such as the right to break into premises, seize documents, and tap phone lines. But many members of the national assembly believe the bill goes too far, and represents a threat to civil liberties. There is no chance of it being passed in the near future. Abuses 'at the top' Meanwhile President Obasanjo has set up a team to investigate abuses which took place during the last months of military rule - a period when huge sums of money were misspent. The team is led by Christopher Kolade, a respected industrialist. Dr Kolade has found widespread abuses in the awarding of Government contracts during this period. He says these abuses went "to the very top". But he also says that where the individual is determined to challenge a corrupt system, he or she can make a difference. "We had the story of a chief executive who was asked by his minister to pay for a certain contract and he said no, it's not right and I won't do that," Dr Kolade recalls. "Most civil servants will tell you this would mean the heavens would fall in and it would cost you your job, but he is still there, he survived and he can tell the story." President Obasanjo is certainly not the first Nigerian president to declare war on corruption - nor is he the first to investigate those who came before him. But he has promised the Nigerian people that this time around there will be no sacred cows - that all those responsible will be punished. There is a real window of opportunity, and a chance to learn from the mistakes of the past.

From Reuters, 8 November 1999

ASIA/PACIFIC

ASIA-PACIFIC ZERO TOLERANCE ON INDONESIAN CORRUPTION

A broad range of religions were represented at the swearing in ceremony Indonesia's new President, Abdurrahman Wahid, has issued a stark warning to his Government that ministers will be expected to resign if any evidence of corruption is found against them. President Wahid gave the warning as he led the swearing-in of his cabinet in the capital, Jakarta. With the elimination of sleaze a top priority for the new government, he said the attorney general would be authorized to investigate all ministers. Correspondents say Mr Wahid's own modest lifestyle should help reinforce the image of a government free of corruption. In a televised ceremony in Jakarta, the oath of office was read to the new ministers by Vice-President Megawati Sukarnoputri after President Wahid said his eyesight was too poor to read it himself. He describes the 35 new ministers, including a civilian as defence minister, as a national unity cabinet. And he told the ministers during the ceremony at the presidential palace that their duty was an onerous one. "On one hand you have to safeguard the eternal unity of this nation and on the other hand you have to follow rapid, global economic development," he told them. The United States says it is encouraged by the new Government, which the State Department in Washington said was off to a good start. Financial markets have also responded well to the cabinet, which was announced on Tuesday. It includes representatives of all major political parties, religions, ethnic groups and islands across Indonesia. The new president defended the inclusion of six generals in the cabinet, saying they are the best people for their jobs. An immediate challenge for his new government is to sort out the country's pressing economic problems. One of their first priorities is to persuade the IMF to restart its lending programme, which was suspended because of a banking scandal in which close associates of former President Habibie are alleged to have been involved. The IMF said it would not send a team to Jakarta to assess whether the next instalment of the loan should be paid until a report into the affair is published. Mr Wahid has now promised to publish the inquiry. The Government will also have to address growing demands for regional autonomy without resorting to the repressive measures of the past. It is not yet clear how well ministers from such varied political and regional backgrounds will work together in the cabinet.

From BBC, 29 October 1999

SPP CALLS FOR EARNEST PERFORMANCE OF LEGAL SUPERVISION FUNCTIONS TO SERVE SOE REFORM

At the news briefing it held on October 28, the Supreme People's Procuratorate (SPP) published the Opinion of the Supreme People's Procuratorate Concerning Conscientious Implementation of the Spirit of the Fourth Plenary Session of the 15th CPC Central Committee to Serve the Reform and Development of State-Owned Enterprises, calling on procuratorial organizations at all levels nationwide to earnestly perform legal supervision functions, actively explore new ways, new methods and new moves to serve the reform and development of State-owned enterprises (SOEs), legally attack criminals, protect innocent persons, support reformers, redeem delinquents, educate blunderers and strive to guarantee and promote the reform and development of SOEs. According to Zhang Qiong, deputy procurator-general, the guidelines set forth by the Opinion for procuratorial organizations to serve the reform and development of SOEs are "first, attacking; second, strengthening; and third, protecting", i.e. guided by the spirit of the Fourth Plenary Session of the 15th CPC Central Committee, comprehensively displaying the functional role of procuratorates, legally attacking various kinds of criminal activities that jeopardize the reform and development of SOEs, tightening law-enforcement supervision, strengthening the work of preventing crimes, protecting the security of State-owned assets, protecting the legal rights and interests of SOEs, protecting the enthusiasm for reform and innovation as exhibited by SOEs' operators and managers and workers and staff members, thereby creating a good legal environment for the reform and development of SOEs. In terms of giving full play to the supervision functions of procuratorates to serve SOEs, the Opinion sets forth the following demands on procuratorial organizations at all levels: Legally attacking various types of crimes, thereby providing a good legal environment for the reform and development of SOEs. Procuratorial organizations should resolutely investigate and deal with criminal cases occurred in SOEs, such as graft, bribery, embezzlement of public funds and secret division of State-owned assets, preventing the loss of State-owned assets; it is necessary to closely coordinate with public security, court and other departments to severely crack down on the criminal activities, such as smuggle and trafficking in smuggled goods, the manufacture and sales of fake and shoddy commodities and defrauding State-owned assets, guaranteeing the safety of the State-owned economy; it is imperative to seriously investigate and deal with criminal cases, such as judicial personnel and administrative law executors who take bribes and bend the law, as well as State functionaries who neglect duties, abuse functions and powers, play favoritism and commit irregularities and thus seriously harming the interests of SOEs. Strengthening law-enforcement supervision and protecting the lawful rights and interests of SOEs. It is necessary to intensify efforts for legal supervision over the trial of civil affairs and administrative lawsuit, with regard to civil and administrative judgments that have come into effect but do contain mistakes, particularly judgments that pervert the law caused by local protectionism or judicial corruption, a timely protest against the court judgments should be lodged according to law to prevent the loss of State-owned assets and guarantee the normal production and operation of SOEs. Strengthening the work of preventing crimes, expediting the establishment and perfection of supervision and management mechanisms in SOEs. In connection with the handling of cases and law-enforcement supervision, it is necessary to make conscientious analysis and study of the problems existing in enterprise production, operation and management, put forward timely procuratorial proposals, helping enterprises in readjusting and establishing rules and regulations, blocking loopholes, and preventing and reducing cases of crimes. It is imperative

to explain law through concrete cases, strengthen law publicity and legal education in SOEs and enhance the legal concept of the employees of SOEs. It is essential to take the initiative to go deep into enterprises which witness frequent occurrence of cases and the sites of key construction projects, and to launch a campaign to prevent crimes in enterprises and special projects. It is necessary to make analysis and study of the characteristics of cases occurred in SOEs, put forward preventive countermeasures and make timely reports to Party committees and people's congresses and report to governments and departments in charge of enterprises, give full play to the role as advisors and promote the establishment and perfection of mechanisms for preventing crimes. Correctly implementing policies and acting strictly according to law. While investigating and dealing with criminal cases concerning SOEs, it is essential to adhere to the principle of taking facts as the basis and law as the criterion to guarantee case-handling quality and ensure that cases are handled strictly according to law. It is necessary to organically unify legal effect with social effect and economic efficiency in the handling of cases. With regard to SOE staff proved to be wrongly and falsely accused through investigation, it is necessary to make timely clarification of rights and wrongs. Enforcing strict case-handling discipline, persisting in executing law in a civilized manner, strictly observing discipline in handling cases, rigorously prohibiting the abuse of procuratorial functions and powers for eating, taking, withholding and accepting things. In the course of handling cases, attention should be paid to safeguarding the reputation and normal production and operation order of SOEs.

From China People's Daily, 29 October 1999

ACCOUNTABILITY: PAI LEADERS SUGGEST PERMANENT INSTITUTION

The Pakistan Awami Ittehad has demanded an indiscriminate accountability of all corrupt elements and recovery of all defaulted loans. However, the alliance is of the view that the process should be started from the top. PAI leaders met here on Monday under the chairmanship of Nawabzada Nasrullah Khan. Alliance Secretary-General Hamid Nasir Chattha briefed reporters about the decisions. Mr Chattha said accountability should be transparent. For this purpose, he said, a permanent institution should be set up which should be all powerful and administratively independent. He said politicians, civil and military bureaucrats, industrialists, traders and people belonging to all walks of life should be subjected to accountability process without any exception. No defaulter, he said, should be spared. Justifying the need for an independent accountability commission, the PAI secretary-general pointed out that no progress was witnessed during the previous two rules. He demanded that all pending cases should be re-investigated, as investigations carried out during the PML rule were not fair. The man heading the accountability bureau was the one who should have been held accountable. He said that the PAI presented itself for accountability. Mr. Chattha said along with accountability, steps should also be taken for the restoration of democracy. The PAI secretary-general said the Government should pay special attention to the agricultural sector which was the mainstay of the national economy. Support prices of cotton, wheat and rice should be increased and flat electricity rates should be restored for agricultural tubewells. The participants expressed serious concern over continuing Russian attacks on Chechnya. The PAI leaders said that the government should try to have these attacks stopped through the OIC.

From Pakistan-Dawn, 2 November 1999

ECONOMY FIRST, SAYS PAKISTAN GENERAL

Pakistan's military leader says he cannot give a time-frame for the country's return to democracy until his Government's main objectives of reviving an ailing economy and restoring harmony among the provinces are achieved. General Pervaiz Musharraf, the chief executive of the military Government, said in an interview with The Times that wide-ranging reforms were needed to depoliticise state institutions and ensure participation of the people in running their affairs at grassroots level. The general promised to provide maximum autonomy to the provinces and district governments and to strengthen civilian institutions. He said the army would not be involved in running the day-to-day affairs and that it would be used only to monitor the performance of the civil administration. As he spoke, the military Government announced an eight-member federal Cabinet of seven civilians and a retired general. Shaukat Aziz, a senior executive of the US CitiBank was appointed as Finance Minister with the task of revitalizing the economy.

From London Times, 5 November 1999

EUROPE

YEREVAN CYNICS BLAME LEADERS FOR CORRUPTION

Armenians are struggling to cope with the slaughter of their leaders, even if there is an air of cynical resignation in the air. Despite other high-level murders in recent years, Armenians did not expect killings so brazen in Yerevan, a quiet if poverty-stricken city. Anyway, they have enough to cope with: unemployment is sky-high and wages are low. The murders mean that there are now several police checkpoints driving into the city from the airport and the odd tank on the street. Security is extremely high, although the killers are behind bars - as if to make up for the lack of security that made entry into the parliamentary chamber so easy. However shocked, some Armenians believe that their politicians are corrupt. "Politicians are politicians, they kill each other," smiled one young man. Arut, 47, a nightwatchman, said he understood why the gunmen professed to be angry. "Let's say ten boxes of aid come from America. These politicians give one to their relatives and sell the rest. They don't think about people." He said President Kocharyan was no improvement on his predecessor, Levon Ter-Petrosyan. "Petrosyan was only interested in himself and

Kocharyan is only interested in Nagorno-Karabakh", he said. Milena, 28, who runs a coffee kiosk, said: "Our Government is a bad one because people are suffering, people are hungry and sleeping in the street. Now there are more rich people than before. They killed the politicians because those politicians are not helping people." Evidence of the "new rich" lies in Yerevan's growing number of smart boutiques and restaurants. Full employment has disappeared but new shops open up constantly, creating an obvious source of envy and even hatred for the poor. There is a chasm between the world of the English-speaking, cosmopolitan government officials who appear on international television channels and the majority of unemployed, poorly educated men on the street. It is unclear whether those in government are really interested in addressing that gap. Politicians who spent most of yesterday in meetings with President Kocharyan came out of the talks grim-faced.

From Reuters, 29 October 1999

MODERATE OPPOSITION SUPPORTS JOINT ANTI-CORRUPTION COMMISSION

Moderates in the main opposition Democratic Party and another right-wing grouping welcomed on Friday an invitation from the Socialist Prime Minister Ilir Meta to join a common commission to fight corruption in the administration. Nevertheless, they were cautious, saying that the seriousness of the government invitation and the chances of the commission genuinely tackling the difficult issue would determine any further steps in their co-operation with the authorities. One moderate Democrat parliamentarian, Arben Xhaferri, criticised on Friday the refusal of his party leadership to respond positively to the offer of co-operation and mount a joint fight against corruption, which he considers as decisive for the country's prospects for receiving investments under the framework of the Balkans Stability Pact, at the initiative of the most industrialised countries and to help the countries in the region develop democracy and market-oriented economic reforms following the difficult years of conflicts. DP leader Sali Berisha earlier this week put a series of conditions on the government before co-operating over the issue. But, Premier Meta responded that the opposition should participate in the fight against corruption according to the rules established in co-operation with the international community. The DP leadership views the government steps to fight corruption, which is rampant in the administration, with deep suspicion and has called for the establishment of independent bodies to carry out the fight. DP Secretary General, Ridvan Bode said on Thursday that "corruption cannot be fought by experts who are directed and monitored by the Government, but by institutions and organisations that are independent of government." But Xhaferri, who has been thrown out of the party leadership after contesting the authoritarian rule of Berisha at a recent party congress, said that the new realities created after the Kosovo conflict and the setting up of the Stability Pact called for a more constructive spirit by all political forces in the country. "We should prove that we understand the new realities and cannot go on with the psychology of boycott," he said, commenting on his leadership's refusal of the invitation for co-operation presented by their arch-rivals, the ruling Socialists. He said the DP should send its experts to the anti-corruption commission. "We think that there is no time to lose," he said, speaking on behalf of a dozen Democrat parliamentarians who have broken ranks with their leadership's policy of boycott. However, he said that the opposition's participation in the anti-corruption commission would not be to serve the government propaganda, to pretend the situation was normal. "The opposition should take part with experts in the anti-corruption commission to voice its objections and to show that it also has responsibilities in the governing of the country, especially when it has to do with its stability," Xhaferri said "If Albania does not make progress in the fight against crime and corruption, it would increasingly deviate from the road of implementing the Stability Pact." Another small opposition grouping, the United Right, welcomed on Friday the co-operation offered to fight corruption, but was cautious of taking any further steps. "We are willing to offer our cooperation to tackle the problems, but we cannot support something if we are not convinced what it is and what it will achieve," said the Republican senior leader, Sabri Godo, who is also leader of the foreign affairs parliamentary committee. "The commission should have a clear programme over the issues to be dealt with and the powers," he said, suggesting that the anti-corruption group should have real powers to improve things. "So far we have seen only fireworks, only spectacular statements."

Albanian Daily News, 22 November 1999

THE AMERICAS

CORRUPTION AND POWER IN THE U.S.

Supporters of campaign finance reform take the corrosive influence of money as an article of faith. When pressed for examples of votes bought by dollars, they cite issues such as tobacco and guns, and seemingly believe no official opposes the war against cigarettes and certain controls on guns because he thinks the suits and legislation are wrong. The arrogant assumption holds that money prevents a feel-good agenda from passing unanimously. Only the naive would say votes are never bought and sold, or would deny that favors beget favors. Many a pol and his plans have seen their chances and taken them. The great George Washington Plunkett praised honest graft – and warned against the evils of fancy clothes. And only the naive would accuse all politicians of applying a philosophical framework to their personal deliberations. (Politicians with philosophical temperaments are to be admired, but ideologues rank below Tammany chieftains.) Money, though, isn't the only factor tempting politicians to ignore their better angels. Consider Al Gore. When it benefitted him politically to tell voters how proud he was of growing tobacco on the family farm, that is what he did. He craved the tobacco vote. But when waging war against the weed held more political promise, he pulled a switch and attacked an industry he formerly celebrated. Did his first position reflect corruption, or the second? Or did he honestly change his mind?

Money may be the mother's milk of politics, but as Acton said, "Power tends to corrupt and absolute power corrupts absolutely." Nothing in the celebrated campaign finance reforms would limit the power of power.

From Richmond Times, 5 November 1999

CHOICE OR CORRUPTION? (MEXICO)

When ruling party candidate Francisco Labastida Ochoa trounced his nearest competitor in Sunday's primary elections, it marked a watershed event in Mexico's political history. Not because Labastida -- the widely perceived official candidate of the Institutional Revolutionary Party (PRI) -- defeated his nearest opponent by a landslide, but because the primary actually took place. Sunday's elections marked the first time in the party's 70-year rule that it voted on a presidential candidate, as opposed to having the candidate hand-picked by the president in a process called the *dedazo*, literally "the big finger." Although President Ernesto Zedillo rejected the official *dedazo* when he announced a few months ago that he was stepping out of the candidate-selection process to open the way for a broader democracy, many Mexicans perceived Labastida as the president's favorite, leaving little uncertainty about his eventual win. Although the PRI's first primary election marks an important change from politics as usual, most observers believe it represents more of a gesture toward democracy than a strong, decisive move in that direction. While outside observers applaud Mexico's increasing openness, complaints of fraud and corruption persisted throughout the primary. Labastida, the former Sinaloa state governor and interior secretary -- a traditional steppingstone to the presidency -- faced little real competition. His closest rival, PRI rebel candidate Roberto Madrazo Pintado, ex-governor of the state of Tabasco, began a fierce TV campaign that lost speed toward Election Day. Other candidates included former Puebla governor and old-school party insider Manuel Bartlett, and ex-PRI president Humberto Roque. The real match was played out between Labastida and Madrazo, who, despite the lopsided results, staged a campaign never seen before in Mexico. Madrazo raised eyebrows across the nation by lambasting the PRI's "party machinery," which has effectively guaranteed the party's continuous success through corruption and coercion, making it the world's most enduring ruling party. Touting his independence, Madrazo also took on Labastida's status as the perceived official candidate, attacking what he called thinly disguised presidential favoritism. In the end, it backfired. Labastida walked away with 273 of the 300 electoral districts, leaving Madrazo with only 21, Bartlett with six and Roque with none. Paradoxically, the vote totals don't support Labastida's electoral district sweep. While Labastida gained 91 percent of the districts against Madrazo's 7, Labastida only gained 58 percent of the vote, whereas Madrazo drummed up a significant 31 percent. The PRI was prepared for heavy turnout. Thousands of voting booths were installed throughout the country, open to all registered voters, regardless of party affiliation; election observers were put into place to assure that there were no irregularities; and four candidates waged a two-month-long official campaign. But in the end, the voters chose not to change. What happened? The election results seem to reflect both typical PRI corruption and genuine voter choice. Clearly, the PRI, while striving for democracy, has had a hard time changing its stripes. Reports of corruption circulated throughout the primary campaign. Everything from groceries, roof tiles and promises of government aid were reported to have been offered up to assure votes for Labastida. In addition, the tradition of the "cargada," or political rush to support the president's chosen candidate, remained in place despite Zedillo's purported indifference, bolstering Labastida's power base. "The vote was just among the *priistas*," says Mexico City pundit Alejandro Angeles, using the common term for PRI supporters. "The PRI as a group wanted to make a statement on how to do the elections the best way, without breaking the party. Each individual *priista* had to discipline himself [by voting for Labastida] to keep a piece of the power pie."

From Salon Online, 10 November 1999

GLOBAL

WORLD: ANTI-CORRUPTIN GROUP WIDENS FOCUS

There is much talk about stopping government corruption. One private organization thinks it has a way to raise public awareness of the problem by scoring countries on their behavior. RFE/RL's Andrew F. Tully files this report from Washington. The independent anti-corruption group Transparency International (TI) has broadened its scope by targeting the givers of bribes as well as the receivers. On Tuesday, TI issued its fifth annual Corruption Perception Index, or CPI, which ranks 99 countries in terms of how their people perceive the honesty of their public officials. The survey actually is derived from 17 independent polls on the perception of bribery in these countries. The CPI was released simultaneously in Washington and in Berlin, where TI is based. The CPI ranks each country on a score of zero to 10, with zero being the worst and 10 being the best. Only Denmark received a perfect 10 this year. Cameroon had the lowest score -- 1.5. The U.S. score was 7.5. TI Vice Chairman Frank Vogl says any country with a score of 5 or below has a corruption problem. Two-thirds of the countries scored 5 or below, and all the former Soviet republics and the former communist countries of Eastern and Southern Europe fall below this benchmark, except Slovenia, Estonia, and Hungary. Ranking among the bottom five of the 99 countries are Uzbekistan, with a score of 1.8, and Azerbaijan, with 1.7. There is no trend among the former communist countries to indicate whether or not they are improving over last year as a whole. The score of the Czech Republic, for instance, dropped from 4.8 in 1998 to 4.6 this year. Bulgaria's score improved from 2.9 in 1998 to 3.3 in the current survey. Still, Vogl says, these year-to-year scores are the point of the survey. TI created these surveys to publicize the issue of corruption in an effort to spur reforms. Unfortunately, the results have not been encouraging over the years. "On a comparative basis, it is that things do not appear to be getting better, and that's clearly disappointing. There is more focus on corruption these days -- in the media, in international official institutions like the IMF [International Monetary Fund] and the World Bank, in the international financial marketplace -- than ever before. And one would hope that all of that focus would turn into firm

action, and that that action would lead to lower levels of corruption." For years, many people, particularly from poorer countries with reputations for corruption, complained that the report ignored the responsibility of those who give the bribes – primarily wealthy transnational corporations that can afford to pay off government officials. This year, TI responded with its Bribe Payers Index, or BPI, which identifies not the companies, but the countries where they are based. The Bribe Payers Index was conducted for TI by the Gallup International Association. It asked 800 senior business people in 14 emerging countries about which transnational corporations are responsible for bribery. Vogl says the BPI was created to serve as a "benchmark" to help European countries determine the success of an anti-bribery convention signed in February by the Organization of Economic Cooperation and Development (OECD). But he emphasizes that the recipients of bribes from wealthy transnational corporations are not low-ranking clerks in governments that cannot afford to pay them a living wage. "We're not talking about some relatively small payment or facilitating payment to a small customs official. We're talking about major bribery, major corruption -- some senior officials." Vogl says corruption at high levels does far more than rob the Government and damage a country's reputation. "Many of these people are in positions to make decisions on public works contracts, they're in [positions] to influence decisions on major arms imports and arms deals, they're in positions to determine licenses in the natural resources area, they're in positions very often to influence the way in which major privatized or about-to-be-privatized enterprises operate." Of the world's three biggest export economies, the United States and Germany are tied in ninth place, and Japan ranks 14th. Corporations are not cited by name in the Bribe Payers Index, but Vogl says TI is organizing its survey results and will release more information in December. Vogl stresses that the Corruption Perception Index and the Bribe Payers Index are not meant to be scientifically precise. But he says a people's perception is a potent indicator about the health of its Government.

From Radio Free Europe, 27 October 1999

Civil Services & Ethics in Public Sector

AFRICA

ANC CADRES ARE TAKING OVER THE CIVIL SERVICE

The Democratic Party claims that the African National Congress is infiltrating its cadres into senior positions across the civil service. The Democratic Party has produced research which, it says, shows how the African National Congress is subjugating the civil service to the ruling party. The official opposition says the pattern identified by its parliamentary researcher, James Myburgh, could have grave consequences for constitutional government in South Africa. The DP research traces a time line which relates ANC statements on the need to have ruling party members at the top of state-controlled bodies to the subsequent appointment of leading ANC members to these institutions. The DP charges that, combined with the ANC's organizing principle of "democratic centralism" - which obliges members to observe strict hierarchical discipline in carrying out party decisions -- this is fostering party supremacy over state-controlled bodies. The issue highlighted by the DP research is the extent to which the civil service and other state-controlled institutions should, or may need to be, politicized in a country going through a phase of rapid transformation. Other countries -- including the major Western democracies -- adopt differing approaches to the politicization of the upper reaches of the civil service. Britain insists that its civil service remain neutral in a party political sense. In the United States, however, presidential administrations quite often place political nominees in the high echelons of the public service. DP leader Tony Leon said from London this week: "The ANC will not accept that there is such a thing as a neutral civil service. They are making political appointments at the top of the civil service the norm, not the exception. In the process, they are collapsing the wall between party and state. They have decided to go for hegemony and believe that this aim should trump all other considerations. "One problem that stems from this is that, if others then expose poor implementation by the civil service, the ANC finds it very difficult not to close ranks and become defensive. This does not lead to good government or a clean administration -- vital in this information age. We need to appoint people who will do the best job in the best manner. "The ANC, of course, will see nothing wrong with the party being in control because it is the party and, it claims, the party is the people. But the political direction of a department should be set by the minister and the advisers ... not by civil servants. "There may be something to say for this kind of behaviour when you are still a liberation movement, but not when you are the party in government. The ideological justification for this kind of behaviour ... is better than its practical justification. It will all boil down to a squalid case of jobs for pals." The ANC turned down the offer of an opportunity to respond at length. It said there was nothing new in the DP material, and that it had expressed itself in the past on these issues.

From The Mail & Guardian, 10 November 1999

KENYA PRESIDENT CONFRONTS CORRUPTION CRITICS

In a highly unusual interview, Kenyan President Daniel arap Moi has publicly denied allegations that he has vast sums of money hidden in a private bank account in Switzerland. The allegations about Mr Moi were made in respected British newsletter, Africa Confidential. Speaking by telephone to Nation Radio, Mr. Moi said he kept all his money in a named local account "I do not have any money outside! Kabisa! [Not at all!]" the president told the station's deputy head of news, Makau Niko. Asked whether any member of his family was sending funds outside Kenya, the president did not commit himself to a definite answer. "My family? Which one? I do not know who is doing what," the president said. "Take each person as an individual. There is no one taking any money outside with my knowledge." 'Imperialists' He said the article in Africa Confidential was the work of imperialists who were seeking to undermine his personal standing in Africa. "If anyone wants to write that they should know that I can sue them to show where the money is," Mr. Moi warned. The Daily Nation newspaper described the president's direct response to the accusations as "unprecedented". Aid donors have frequently criticized corruption in Kenya. A recent report by the parliamentary public accounts committee suggested that in the financial year 1995-6, approximately \$10bn was missing from the public purse. In addition to the allegations about President Moi, Africa Confidential said Mali's President Moussa Traore, Gabon's President Omar Bongo and the family of former Nigerian leader Sani Abacha also held funds in the Swiss bank, Union des Banques Suisse.

From BBC-World News, 23 November 1999

EUROPE

CONSERVATIVES' ANTI-CORRUPTION COMMITTEE FACES ITS FIRST TEST

The Tories' much-vaunted ethics and integrity committee was set up in a blaze of publicity last November to combat sleaze and the perception of wrongdoing. It will meet for the first time within the next ten days, if all goes to plan, to decide whether Lord Archer of Weston-super-Mare brought the party into disrepute and whether he can remain a member after more than 30 years' service. The omens do not look good for the peer. Having been moribund since its formation, the committee is coming to life on the orders of

William Hague as part of the Tories' careful damage-limitation exercise after the Archer affair. "They are shutting the stable door long after the horse has bolted," one Conservative MP said icily yesterday. The committee was formed by Mr Hague on the day he became leader to try to improve the party's image. Its four members - two from the legal profession and two from the party - give their services free, but, despite controversies over Lord Archer and Michael Ashcroft, the Conservative treasurer, the committee has not held a single meeting. It is headed by Elizabeth Appleby, QC, who led an inquiry into corruption in the London borough of Lambeth. Ms Appleby is the head of the Gray's Inn Chambers where Tony Blair's wife, Cherie Booth, QC, works. Sir Archie Hamilton, chairman of the backbench 1922 committee of MPs, who was once described as a jumbo-size hard-right orthodox traditional loyalist, is the parliamentary party representative. Robin Hodgson, the chairman of the National Conservative Convention, the link with constituency associations, and Nicholas Padfield, QC, are the other two members. The group can investigate complaints that a member has acted in a way that may bring the party into disrepute, provided that they are made in writing and are supported by evidence. Only Mr Hague or the board of the Conservative Party, which includes Michael Ancram, the party chairman, can refer a complaint to the committee, which must then decide whether there is a case to answer. The accused person is allowed legal representation in presenting a defense to the committee and can appeal against any rulings to Lord Mayhew of Twysden, the former Attorney-General and Northern Ireland Secretary. If a complaint is upheld, the guilty party can be disciplined, suspended or expelled from the party. The committee can also give advice on candidate selection and would have been decisive in ruling whether Neil Hamilton was suited to stand in Tatton at the last general election. Stephan Shakespeare, Lord Archer's mayoral campaign manager, emerged from the peer's the house last night and said that Lord Archer had spent the day writing letters of apology. He said: "He's extremely upset, extremely sorry, couldn't be more sorry. He's on the floor."

From London Times, 23 November 1999

SOCIAL SERVICE IN UK

New Government figures have shown massive discrepancies in the way councils look after old people, the disabled and children. The statistics were revealed in new national league tables for social services. Health Minister John Hutton said 17 out of 150 social services departments - more than one in 10 - had been placed on "special measures" because of concern about their performance. Unacceptable. In 16 of the 17, heads of social services have lost their jobs as a result. The minister said the variations in quality were "unacceptable", with some authorities twice as likely as others to provide services expected of them. In three authorities, Bury, North Lincolnshire and Southend, the social services departments had only inspected half of the children's homes they were expected to visit in the past year. The Government has warned that it will have new powers by next April to strip councils of their social services responsibilities and hand them over to neighbouring authorities. A spokeswoman for Age Concern said: "This report reveals beyond all doubt that older people are being subjected to a post code lottery when it comes to their care needs. "It demonstrates the unacceptable variations in care delivered by local authorities to some of the country's most vulnerable older people. "We are keen to see national standards properly policed by independent care commissions, without any further delay." Mike Taylor, director of child care for the National Society for the Prevention of Cruelty to Children, said: "You can't simply put children on the shelf and forget about them. "Failure to get the basics right must give cause for serious concern about how well they are meeting the full range of their responsibilities."

From Sky News, 24 November 1999

MIDDLE EAST

ARAFAT ORDERS MORE ARRESTS AS CRITICS LEVEL NEW CORRUPTION CHARGES

Trying to silence corruption charges, Palestinian leader Yasser Arafat today ordered two more intellectuals detained for signing a stinging manifesto that for the first time holds him directly responsible for mismanagement. Arafat's critics, however, refused to back down. At Bir Zeit University, the most prestigious in the West Bank, about 1,000 students cheered and clapped when one of the signatories of the declaration, legislator Abdel Jawad Saleh, said: "We say to these corrupt people, stop where you are. This is a country that gave martyrs for a homeland, not for a mafia." Arafat's critics say the equivalent of hundreds of millions of dollars in Palestinian Authority income are unaccounted for each budget year, including revenues from the Government's monopoly on the import and sale of cement and fuel. In all, nine signatories have been detained over the past two days. Eight legislators who also signed, but are shielded from arrest by their special status, have been asked to withdraw their signatures. If they refuse, the Palestinian legislature may convene for a special session to consider lifting their immunity. Corruption charges have been leveled against the Palestinian Authority in the past, but the allegations focused largely on Cabinet ministers and Arafat advisers, never on the Palestinian leader himself. By contrast, the declaration published over the weekend said that "the president of the Palestinian Authority has opened the doors to corruption." Arafat's response was swift. On Sunday, five intellectuals, including physicians and political science professors, were detained, while two former mayors were placed under house arrest. Today, two more signatories were detained. Several of those who signed the document had fought for years against Israeli occupation. Ahmed Qatamesh, a leader of a radical PLO faction, the Popular Front for the Liberation of Palestine, spent six years in an Israeli prison without being charged. Former Nablus Mayor Bassam Shaka'a spent several years under Israeli house arrest. Nabil Amr, an adviser to Arafat, said the declaration constituted incitement. "This is the first direct reference to the president and this is something that is unacceptable," Amr said.

THE AMERICAS

CANADIAN PUBLIC-SERVICE WORKERS SUE OVER 'PENSION GRAB'

Ten unions took Ottawa to court yesterday over the takeover of a \$30-billion surplus in the pension funds of 340,000 federal employees. The unions are invoking the Canadian Charter of Rights and Freedoms to try to force the federal Government to return the money in what they say was a "pension grab" and "flouting of the law." The federal Government "legislated this pension surplus grab, which it could not obtain through negotiations. We fought every step of the legislative process. Now, they have left us no choice but to pursue this fight in the courts," Steve Hindle, president of the Professional Institute of the Public Service, said in a statement. At issue is the surplus money in the pension plans of 340,000 federal employees: It goes beyond what is thought to be needed to pay out benefits in the future, and the federal Government passed a law in September giving it the right to take it over for other uses. The Government has said that it paid deficits in the fund in the past, and now has a right to the extra money. The previous legislation did not identify the owner of the surplus. Former Treasury Board president Marcel Massé said earlier this year that without the new law, the contribution by federal employees to their pension funds would eventually drop to 25 per cent from 30 per cent of the total, with taxpayers making up the rest. The Government's goal is to bring employee contributions to 40 per cent of the total. Most other pension funds across the country do not allow employers to take over the surplus, a point noted by the unions. They argue that the takeover goes against section 15 of the Charter, which states: Every individual is equal before and under the law and has the right to the equal protection and equal benefit of the law without discrimination." Mr. Hindle said that "our union members are in a uniquely disadvantaged position compared to other employees in Canadian society because their employer, the Government of Canada, consistently and repeatedly resorts to using its legislative muscle to amend or revoke their terms and conditions of employment." PIPS is joined by the Public Service Alliance of Canada and eight other unions in its fight before the Ontario Superior Court of Justice. "The unconscionable move by the federal Government to grab the \$30-billion in the Public Service Superannuation Plans flouted the law," PSAC national president Daryl Bean said in a statement.

From Canada-Global and Mail, 9 November 1999

SPECIAL COMMISSION SAYS 1.45 BILLION PESOS ILLEGALLY DIVERTED FROM NOW-DEFUNCT FOODS STUFFS AGENCY CONASUPO

After a two-year investigation, a special legislative commission confirmed that some high-level executives in former president Carlos Salinas de Gortari's administration diverted more than 1.45 billion pesos (US\$150 million) from the now-defunct state-run foodstuffs company Compania Nacional de Subsistencias Populares (CONASUPO) during a four-year period. In a report presented Oct. 20, Deputies Margarita Perez Gavilan and Abelardo Paredes said the amount of money diverted from CONASUPO between 1986 and 1990 is equivalent to 6% of the total budget allocated for the agency during the four-year period. In many instances, money was transferred out of CONASUPO to personal accounts in the Cayman Islands and other safe havens. Gavilan and Paredes, members of the center-right opposition Partido Accion Nacional (PAN), said CONASUPO in effect became the "cash box" for members of the Salinas administration. "We detected illegal management of funds and inconsistencies in accounting of profits and investment losses," the report said. Among the violations were improper investments by the agency in the financial markets. "Our law allows CONASUPO investments to be placed only in government instruments," said the report. The report confirmed that Raul Salinas de Gortari, brother of the former president, was one of the principal perpetrators in the CONASUPO fraud. The special commission was originally established to investigate Raul Salinas' role in CONASUPO's mismanagement and corruption, including the allegation that the agency was used to launder millions of pesos in drug-trafficking profits. The Chamber of Deputies later expanded the commission's role to investigate all illicit activities within the agency. The report said that Raul Salinas used his position as director of planning for CONASUPO to gain control of one of the agency's milling plants in Atlacomulco, Mexico state. The plant, operated by CONASUPO subsidiary Maiz Industrializado Conasupo (MICONSA), was valued at US\$7 million. However, investigators discovered that Salinas took control of the property "without paying a single peso," through a clever accounting maneuver. Raul Salinas has not responded to the allegations. He is serving a life sentence for his role in planning the murder of Jose Francisco Ruiz Massieu, a former officer for the governing Partido Revolucionario (PRI). The commission detected other irregularities with CONASUPO operations, such as the improper payment of 15.7 million pesos (US\$1.62 million) to corn miller Grupo Industrial Maseca. Among those responsible for the improper subsidy payment to Maseca were then trade secretary Jaime Serra Puche and current Transportation Secretary Carlos Ruiz Sacristan, the report said. The report also cited improper procedures in the divestiture of CONASUPO. The phaseout of CONASUPO began during the Salinas administration but concluded under President Ernesto Zedillo's Government. The commission said those responsible for the improper divestiture of CONASUPO included former finance secretary Pedro Aspe Armella and former controller Maria Elena Vazquez Nava. The charges against Aspe and Nava are similar to allegations against the two in 1995 regarding the disincorporation of the state-run telephone company TELMEX. The commission, which will be disbanded Oct. 31 after completing its mandate, will turn over its evidence to the political coordination committee (Junta de Coordinacion Politica) in the Chamber of Deputies, which will bring the issue before the full lower house. The evidence will also be turned over to the Procuraduria General de la Republica (PGR).

From La Jornada, 21 October 1999

BILL PROPOSED PLAN THAT WOULD ALLOW CIVIL SERVANTS' UNIONS

Labor and Social Security Minister Yasar Okuyan has declared that the government would soon initiate a debate in Parliament over a proposed plan to grant civil servants "the right to have their own [full-fledged] unions," reported the Anatolia news agency. A bill to this effect was presented to Parliament in the past, but labor organizations found it deplorably inadequate. Representatives of the three labor confederations that represent civil servants (without full union rights) -- the Turkish Public Workers' Labor Union (Kamu-Sen), the Confederation of Public Sectors' Trade Unions (KESK) and the Civil Servants' Trade Union (Memur-Sen) -- visited Okuyan on Tuesday. At the end of the meeting Okuyan held a joint press conference with the union leaders. He said that they had agreed to set up a committee in which these labor confederations would discuss their views of the bill. After these talks, the ministry will then redraft the bill and present it to the Cabinet without delay. Okuyan noted that nearly five years have passed since Parliament amended the Constitution, inserting into it a clause permitting civil servants' unions. Yet a specific bill authorizing such unions has yet to be legislated. He stressed that this unfortunate delay, which prevents civil servants from exercising union rights in practice, is damaging social peace. "Our ministry and the Government will ensure that the bill gets debated in Parliament as soon as possible," Okuyan vowed. Kamu-Sen Chairman Resul Akay said they wanted these rights to be constitutionally stipulated without any further delay. "We have lost the year 2000. We do not want to lose 2001 as well." KESK Chairman Siyami Erdem said that the drafting of the bill to the satisfaction of the public servants would be important from the standpoint of causing democratic values to take root. He stressed that the bill must have substantive content. In addition, Erdem underlined the importance of the unions for the development of Turkish democracy. Memur-Sen Chairman Kamil Aydogan welcomed the fact that the controversial bill is now to be revised to enable the civil servants to become organized in line with international standards.

From Turkish Daily News, 24 November 1999

Management Innovation & Trends

ASIA/PACIFIC

CHINA TO POP REAL ESTATE BUBBLE WITH PUBLIC HOUSING

The city of Haikou on China's Hainan Island has come up with an innovative way to mop up excess commercial housing – transforming it into public housing, the Nov. 3 Jinrong Shibao (Financial Times) reported. Haikou's Vice Mayor Wu Yujun said that the decision to transform the city's commercial real estate into public housing was the first time that such an approach has been used in China to solve a regional "real estate bubble." On November 2, the city announced that 14 different commercial housing projects would be transformed into "economy-style housing," which means that residents will be able to receive state-sponsored subsidies and the housing would be sold at set prices. Prior to its recent housing policy, the province had been designated an experimental region and received the approval from China's State Council to use creative ways to "dispose" of surplus real estate holdings.

From China Online, 4 November 1999

A PERFECT STATE INNOVATION SYSTEM IS URGENTLY NEEDED IN CHINA

From commodity production knowledge finds its market value and there has been given rise to intellectual property rights protection and as a system it has its influence felt in people's life. This has led to legislation of various specific laws and reinforcement of administrative means on the part of governments. For a market economy being developed people apply themselves to various pursuits for innovations at various levels and in various aspects. This is a summary of experiences gained by people both in China and abroad. A chief trend in gaining strength to become a powerful nation in present-day world is to develop a state innovation system. Indispensable is an incentive mechanism along with a competitive man-to-man relationship under an overall national innovation strategy to be mapped out in the way intellectual property rights are protected and innovative resources well distributed. China already has a modern intellectual property rights protection system of its own. On the basis of this, a perfect state innovation system should have all the more to be built:

1. Make it sure that a state innovation strategy be closely linked up with an intellectual property rights protection strategy. With an economy greatly developed we should strive to make new breakthroughs and see to it intellectual property rights are well protected, this must form the objective to build an innovation system of our own. If we only have an innovation strategy, while not helped by a strategy for intellectual property rights protection, though some success may have been wrested, when short of law protection, all advantages won will still come to no avail. We have already had many lessons from setbacks suffered. Comrade Deng Xiaoping once enjoined us that "China should have a proper place in world development of sciences and technologies". This is to say we are wanted to hold the initiative to work out all laws essential for intellectual property rights protection and a sound system to guarantee all innovative endeavors and a "proper place" in developing sciences and technologies all on our own.
2. Also, a coordinated competitive mechanism has to be constructed. Law legislation pursuits for intellectual property rights protection should center on a rigorous protection of various intellectual property rights. All rights and interests of the proprietors or innovators should be duly standardized. Take for example our patent law, apart from making specific definitions on the rights and interests of the innovators, the rights and interests of cooperators and users of patent rights should also be specifically defined. Specifications and stipulations on this score will surely protect the rights and interests of the innovators and those of their cooperators and users as well. All laws for intellectual property rights protection have been called forth from specific demands along with many a varied protection forms that have to be provided. By their totality of overall interests induced they contribute likewise to a coordinated development of various forms of innovative endeavor. Commodity mark protection law is a case in point. Efforts to consolidate and enhance the credit of a commodity among its consumers will give rise to a great motive force stimulating intensive innovative endeavor, technological innovation and innovations in management of commerce and sales of commodity. Setting up a state innovation system should bring into full play various inner potential capabilities for intellectual property rights protection.
3. Be sure that normal information exchanges under the protection of related laws for intellectual property rights protection are well undertaken to counterbalance insufficient information supply. The reason why "difference in profession makes one feel worlds part" and "two of a trade can never agree" is due to a lack of mutual understanding. This causes the difficulty in preventing the birth of an efficient innovation system. China should have an outstanding high-efficiency innovation information system for coordination. Such an information system can be had only when it is founded on a rigorous protection of various intellectual property rights.

As many and various laws for intellectual property rights protection are under construction and are having amendments made in the country, a raise of the ability for promoting innovative pursuits should be regarded as an important guideline in working out a perfect intellectual property rights protection system in China.

From China People's Daily, 11 November 1999

HONG KONG'S ELECTORAL INFORMATION CENTER OPENS TO PUBLIC

The first information center in Hong Kong where serious electoral matters are presented in a systematic and lively manner opened to the public Tuesday. Set up by the Registration and Electoral Office, the center uses images, photographs, videos and interactive computer games to illustrate mainly the system and arrangements for the District Councils election on Sunday. After this election, the theme will focus on the Legislative Council election in 2000. Speaking at an opening ceremony, Chief Electoral Officer Li Wing said a special feature of the center was a touch-screen computer system through which visitors could easily search information about 390 District Council constituencies. The system links up the databank of 2.83 million electors with the maps of 390 District Council constituencies. "Visitors may try for themselves how to mark a ballot paper with a chop at two real-sized polling booths," said Li. Chop bearing a "tick" is introduced for the first time this year to replace a pen for marking ballot papers.

From China People's Daily, 24 November 1999

EUROPE

REUTERS FALLS FOUL OF RUSSIAN INFORMATION PIRATES

Russian information pirates swiped equipment belonging to British media group Reuters and started transmitting the company's news and financial data services in a multi-million-pound operation, company executives said Wednesday. Russian police were questioning a group of individuals who allegedly stole satellite equipment used for transmitting Reuters general news and financial information, and then plagiarized the service. "It appears that a group of individuals in Russia have allegedly stolen a set of satellite receiving systems" to receive Reuters services "and they've redistributed it," a company spokesman told AFP. In Moscow, a Reuters representative told the ITAR-TASS news agency that the piracy had cost the company some four million pounds (\$6.6 million). The London spokesman said the losses "would be in the scale of things immaterial. The Russian authorities have informed Reuters that a group of suspects have been questioned," Reuters said in a statement.

From Russia Today, 4 November 1999

THE AMERICAS

MANAGERS SWITCHING FROM CONTROL TO EMPOWERMENT

Are managers falling behind the times in today's changing workplace? "There's been a big push to have employees work harder and smarter, but not a lot of attention is being paid to what managers should contribute to the new workplace," said one researcher after an in-depth study of the operations of 108 companies, large and small. "The nature of the new bargain proposed by management for the workplace entails greater mental and physical effort on the part of workers in exchange for benefits that are often left vague and undefined," said sociologist Randy Hodson, Ohio State University, Columbus, an authority on corporate responsibility. Probably 60 percent of managers do not display adequate "management citizenship behavior (MCB)," said Hodson, using a term he coined to define what he believes is their responsibility. By contrast, he figured that about 60 percent of employees in the companies he studied "displayed good worker citizenship, even at a level above and beyond what might reasonably be expected" -- given their managers' shortcomings. "What jumps out of these studies is that workers get really irritated by the absence of management citizenship," Hodson said. "They'll put up with overwork or limited pay, but not incompetence or abuse." "Workers don't like chaos," Hodson opined. "They don't want to come to work in a place where the situation is unreliable, uncertain, supplies aren't there, machinery doesn't work, or where one supervisor says one thing and another supervisor says another." Although he agrees that some bad managers do exist, Jim Lucas, president of Luman Consultants International, Kansas City, Mo., said the far wider problem is that managers "don't know what their role is or should be" in the changed economy. "The concept of me controlling you is alien to human nature and alien to American sensitivities," said Lucas, author of "The Passionate Organization" (Amacom). He writes that the successful firm is "composed almost exclusively of passionate people focused on a common vision." "There are good managers out there who honestly believe their responsibility is to manage, 'to lay hands on,' when what we really need is leadership," he said. Authors James Pepitone and Anne Bruce in their new book *Motivating Employees* (McGraw-Hill) point out that control-oriented managers are that way because they believe it gets results. "You probably press people to perform, instruct them every step of the way, and tell them what to do and how to do it," they write. "You look over their shoulder and they resent it, reacting negatively to your constant direction and control." This only strengthens the control-oriented manager's belief "that employees do have to be micro-managed if you want the job done right," they contend. But "when employees are neglecting organizational policies and jeopardizing work groups," they write, managers "may need to take a highly directive approach" that is control-oriented. By contrast, Pepitone and Bruce write, the empowerment-oriented manager believes in giving workers free reign to exhibit their creativity and ingenuity, which builds "a climate of mutual trust." Preliminary findings of new survey just made by the

American Management Association (AMA), New York, reveal that the traditional hierarchical company may be losing ground to the empowered one. AMA's Eric Rolfe Greenberg, director of management studies, reports that of 1,040 member executives polled, 46 percent said their firms are still "hierarchical" but 31 percent defined their companies as "empowered," and Greenberg sees a trend in this direction. And where 38 percent called their companies "traditional," nearly as many, 34 percent, defined them as "innovative." Greenberg said that 44 percent of the executives replied that they worked for "open" organizations, compared with 31 percent who defined their companies as "closed." These findings suggest that if many managers are behind the times, many are running hard to catch up.

From Reuters, 2 November 1999

AOL, INTUIT PLAN ONLINE BILL PAYING SERVICE

America Online Inc., the dominant provider of consumer Internet services, and Intuit Inc., the online financial services company, said Tuesday they would offer an online service for paying household bills early next year. The companies said the new bill management service would provide consumers with a simple way to receive, view, track and pay both electronic and traditional paper-based bills online, eliminating the tedium of check-writing and posting bills. America Online said Intuit would become the exclusive provider of the bill tracking and payment service beginning in early 2000 on its nearly 20 million member flagship AOL online service and AOL.com, a Web link to the online service. "Everyone has to pay bills, and this new offering will simplify the process by allowing members to receive and pay their bills from one location, and view their billing history to track expenses," Bob Pittman, AOL's president and chief operating officer, said in a statement. Intuit's latest deal caps a streak of Internet deals in recent weeks that has led the Mountain View, Calif.-based company's shares to rocket 82 percent higher in the last month. Following the online bill pact, Intuit shares rose to 46, a record high, before easing to 43-13/16, up 1-15/16 from its closing price on the Nasdaq stock market Monday. Shares of AOL initially rose above 83, then fell back to 77, down 4-1/8 on the day on the New York Stock Exchange. AOL's share price reflected a two-for-one stock split of the company's shares that became effective Tuesday. Separately, AOL said CompuServe, its low-priced Internet access service, had agreed with Net2Phone Inc., a provider of Internet-based telephone services, to a two-year, multi-million dollar pact in which CompuServe will promote Net2Phone phone cards to its U.S. members. Shares of Net2Phone jumped 15 percent to 72-5/8, up 9-11/16 from Monday, following news of that deal. By allowing both electronic and "hard copy" bill payments of the AOL and Intuit service distinguishes it from existing services, which allow payment either of electronic bills or scanned paper bills, or require consumers to enter payment amounts themselves. With the new service, consumers can view their bills, transfer funds from their existing bank account and then hit a button on their computer screen to have payments made. The companies are still seeking to decide whether billers such as utilities or credit card companies would be asked to foot the bill for the service or whether customers themselves would pay a fee, a spokesman for America Online said. Jupiter Research has forecasted that the number of households using online bill-paying services will grow to 18 million by 2003, ten times as many as use such services today. Consumers can also direct billers who do not provide electronic billing to send paper bills to an Intuit address where they will be scanned into electronic format. An Intuit spokeswoman said the bill-paying system works with 18 billing services including companies such as CheckFree Corp., in which Intuit holds a 20 percent stake, and Pitney Bowes Inc. CheckFree rose 2-5/8 at 63-5/8 on the Nasdaq stock market, while Pitney Bowes gained 7/16 to 47-15/16 on the New York Stock Exchange. Other billers that hook up into the Intuit system include Santa Clara, Calif.-based CyberBills and MyAccounts.com, a unit of Spokane, Wash.-based Output Technology Corp. and Princeton, N.J.-based Princeton eCom, the Intuit spokeswoman said. The new service builds on an existing publishing and commerce alliance between AOL and Intuit. Intuit has been the primary source of original programming for the Personal Finance Web Channel on AOL.COM since 1998. In addition, America Online said its recently acquired MovieFone theater ticketing service had agreed to a deal with United Artists Theater Circuit, one of the largest U.S. theater chains, that will make MovieFone the exclusive advance ticket provider for UA theater seats over the telephone or Web.

From San Diego Union-Tribune, 24 November 1999

HUMAN SERVICES SPENDING SWELLS

After several years of meager funding increases for programs to help children, the elderly, the sick, and the poor, human services has become one of the fastest-growing areas of state spending. After lagging behind for much of the '90s, aid for the state's most vulnerable residents has nearly caught up with the overall growth of the state budget, according to an analysis by the Massachusetts Taxpayers Foundation. The increased spending seems to defy both political and economic trends. It comes during an unprecedented economic boom that has slowly reduced poverty and created thousands of jobs in Massachusetts. And it has happened under the stewardship of a fiscally conservative governor, Paul Cellucci, and state House speaker, Thomas M. Finneran. At the same time, however, the state is spending millions to support thousands of people forced off the welfare rolls since 1995. And while the economy has benefited millions of people, deep pockets of poverty remain in the state, and soaring real estate costs have left homeless shelters overflowing at record rates. Meanwhile, sustained budget surpluses have allowed political leaders to put money in budget stockings where for years they left coal. "We have been able to be aggressive in addressing a number of folks that are awaiting services, and that's good news," said House Ways and Means Chairman Paul Haley, a budget architect who is famously conservative with taxpayer dollars. "I think the public does want to see us help those who have not been able to take advantage of this economic surge." "The question is," Haley warns, "can we sustain this during the next economic downturn?" The foundation's budget analysis shows that spending on programs like beds for the homeless, affordable housing, and aid for the mentally ill has been growing over the past three years at a rate of 5.2 percent. That rate includes a 6.5 percent growth in the state

Medicaid program for low-income people and senior citizens, which was identified during the budget crisis of the late-1980s as a fiscally dangerous "budget buster." Human services programs grew more than twice as fast in the late 1980s, before a crippling recession forced deep budget cuts. But the current growth is almost twice the average rate of increase from fiscal year 1993 to fiscal year 1997, which was 2.8 percent - or less than half the growth of overall state spending during that period. If a massive influx of billions of dollars pumped into public schools as part of the 1993 Education Reform Act is subtracted, the rise of human-services as a budget priority is even clearer. Minus local education dollars, state spending has grown by just 3.8 percent since fiscal year 1997, compared to the 5.2 percent growth in human-services programs. The \$20.8 billion spending plan passed by the Legislature this month is a case study in Beacon Hill's recent willingness to spend generously on aid for the needy. In addition to high-profile spending, like \$52 million to help seniors pay for prescription drug costs, the budget boosts hundreds of smaller programs. For example, the budget includes \$900,000 for a Sexual Assault Nurse Examiner program, which will put up to 75 specially trained nurses in emergency rooms to care for victims of rape and sexual assault. Last year the program totaled just \$200,000. The budget provides an extra \$6.5 million to address the vexing problem of working families who are homeless - often because they cannot save enough money for down payments or security deposits - but earn too much money to qualify for public shelter. The new funding will expand shelters for homeless working families, and raises the amount of income a family can earn and still be eligible for shelter by almost 50 percent, or up to \$18,000 for a family of three. Following a winter last year in which 16 homeless people died on the streets of Boston and Cambridge, the state's Department of Public Health will kick off a pilot program intended to track and watch over homeless substance abusers. The budget includes \$2.2 million to create 150 shelter spaces for the homeless who are mentally ill. Next year, Massachusetts will become the first state in the nation to extend Medicaid coverage for people diagnosed with HIV, but who do not have full-blown AIDS. And a program that sends counselors into the homes of young mothers to guide them through parenting will more than double, from \$7.8 million to \$16.1 million. Some of the growth in human-services spending comes from the huge state Medicaid program, which accounts for \$4.3 billion of \$9 billion in human-services spending in this year's budget. But other categories are growing quickly, according to the analysis. Spending on mental retardation programs, for instance, has grown by almost 10 percent over the past two years, to \$855 million. And the budget for children's programs, run largely from the Department of Social Services and the Department of Youth Services, has grown by more than 12 percent since 1998, to \$629 million. The rise in total human-services spending comes despite a dropoff of nearly \$500 million spent per year in cash benefits since the state's 1995 welfare reform law cut the welfare rolls by more than half. While even budget hawks say the growth in such programs is affordable for now, they warn that a soured economy could force cutbacks. Haley says he has tried to encourage partnerships between the state and private groups, to better insulate programs in the event of a recession. "I think that's one lesson we've learned from the late-'80s is that we cannot be the sole provider," Haley said. "We cannot build into our budget base a huge programmatic expansion that can't be sustained when there's an economic slowdown." Cam Huff, a foundation analyst, added that the future of such programs also depends on the fate of two major tax cuts that appear headed for the statewide ballot next year. One proposal, backed by Cellucci, would cut the state income tax by \$1.4 billion. Another, backed by an independent group, would rebate \$550 million in toll and auto excise tax costs to drivers. "They would be an enormous shock to the system," Huff said. "If the two initiative petitions pass, there's going to be a three-year or longer period in which the state could not afford any increases at all."

From Boston Globe, 29 November 1999

GLOBAL

OLD PCs CONCERN SOCIAL SERVICES

Whether automated teller machines work and power fails on New Year's Eve is of little concern to those without bank accounts and homes. More important is whether the local homeless shelter is open or a crisis line is taking calls. Some experts say the nonprofit organizations that offer such services may be at particular risk from the Year 2000, or Y2K, bug. The internal calendars on older computers use just two digits to record the year, so they may read 00 as 1900 instead of 2000, causing them to malfunction Jan. 1. Nonprofit social service agencies using hand-me-down computers face uncertainty about what kind of problems they may encounter. Some groups lack money needed to test and upgrade equipment. "Nonprofits tend to budget close to the wire, and there are probably small nonprofits that did not put a line item in their budget last year saying, "We're going to deal with Y2K this way," " said Leon Negen of Des Moines' Bethel Mission. Negen said the mission, which gives food and shelter to homeless men, has tested its computers. "We are quite sure our computers are Y2K-compliant," he said. Other groups may be less certain. Several of the agencies working with First Call for Help, a crisis line run by the Polk County Chapter of the American Red Cross, have expressed doubts, director Karen Hyatt-Smith said. First Call for Help is an information clearinghouse and after-hours answering service for hundreds of agencies, Hyatt-Smith said. Many don't have computer experts on staff and fear their machines will be unprepared, she said. First Call for Help's computers, which are ready for Jan. 1, hold a database of more than 2,000 human service and nonprofit agencies, Hyatt-Smith said. The machines also track those who receive services such as emergency housing. The Red Cross will have extra staff on duty on Dec. 31 and is installing a generator. The United Way of Central Iowa has offered to help member nonprofit agencies with Y2K problems, said Norton Hatlie, vice president for finance and operations. Door of Faith Mission in Des Moines recently spent \$4,000 to replace a program used to track donations, Executive Director Scott Larsen said. Many computers it uses for training also failed Y2K tests. "They just kind of repeat the last minute of the year, forever. It just gets stuck in time," Larsen said.

Workers at the Iowa Coalition Against Domestic Violence said volunteers will probably stay home Dec. 31 in case the glitch affects cell phones and pagers they carry for victims to call.

From Des Moines Register, 22 November 1999

Public Finance

ASIA/PACIFIC

AUSTRALIANS TO PAY TIMOR TAX

The East Timor mission is putting a strain on the Australian budget. Australian taxpayers will pay for the country's peacekeeping effort in East Timor. A special levy will be raised by increasing the contribution of the Medicare national health service. Australia has 4,500 troops stationed in the former Indonesian territory and the prime minister, John Howard, said the cost of maintaining that force over the next three years would amount to nearly \$2bn. Mr. Howard said the money would provide for two new infantry battalions to be formed. But more would have to be spent on aid to refugees and reconstruction. Medicare contributions will go up by 0.5% for people earning more than Aus\$50,000 (\$32,000) and 1% for incomes above Aus\$100,000 a year. The levy will be raised for 12 months from July 2000. It will raise Aus\$900m and leave the budget with a small surplus in 2000-2001. Mr. Howard justified the tax increase by saying that without it, the cost of Australia's peacekeeping commitment would have turned a \$3.1bn budget surplus for the next fiscal year into a \$500m deficit. Australia sent almost 5,000 troops to East Timor in September as part of the UN-backed international force, Interfet, after the unrest following the vote for independence from Indonesia. The Australian Defense Ministry is also planning to recruit an extra 3,000 soldiers to form two new infantry battalions to help Australia's defense needs. This military expansion is Australia's biggest since the Vietnam war. The Australian contingent is the strongest of the more than 7,500 Interfet force which is led by Australian Major-General Peter Cosgrove.

From BBC-World News, 23 November 1999

FED'S JORDAN SAYS ASIAN CURRENCY AND DEBT CRISES TRIGGERED BANK REFORM

Asia's currency and debt crisis has triggered a wave of banking reforms, though more work needs to be done, said Jerry Jordan, president of the Federal Reserve Bank of Cleveland. Banks in countries such as South Korea now have better credit risk analysis, are better supervised and are less subject to politically connected bank lending than before the upheaval. Asia "probably wouldn't have started down this (reform) path without the crisis, though they still have a long way to go," Jordan told Bloomberg News after a speech in Sydney. "The apparent turnaround would seem to reduce the urgency of going forward without the presence of a crisis atmosphere." Asia's financial turmoil -- triggered by the devaluation of the Thai baht in July 1997 -- plunged the region into recession. Some countries, such as Korea, suffered their worst drop in output since World War II. The slump led to a surge in bad loans, which exposed decades of slopping lending practices. While the region is still saddled with bad debt -- in Thailand, for example, bad loans still account for almost half of all lending -- economic recovery has come sooner than expected. The region's 14 biggest economies after Japan will expand at an average rate of 5.5 percent in 2000, matching their expected growth rate this year, the Asian Development Bank said in September. Jordan currently isn't a voting member of the Federal Reserve's Open Market Committee, which sets interest-rate policy. He will have a vote beginning in January. In his speech and interview today he refused to make any reference to the current state of the U.S. economy or Federal Reserve monetary policy. Jordan said foreign banks can help speed financial reforms in Asia by taking stakes in regional financial institutions. "If a foreign company has an equity stake they are going to pay a heck of a lot more attention to what's going on and that will help to institute best practices more quickly," he said. Jordan also suggested the world will have fewer currencies in the future as nations search for ways to avoid the type of volatility seen in 1997 and 1998, when currencies such as the Malaysian ringgit and the Indonesian rupiah would swing more than 10 percent a week against the U.S. dollar. Malaysia later pegged its currency at 3.8 to the dollar. "No one believes that a pegged exchange rate or a managed exchange rate is viable," Jordan said. There are "only two currency regimes that might be operable for a long time. One is a pure, clean free floating exchange rate and the other is a very, very hard tag like a currency board or total dollarization -- just use the currency of another country. There doesn't seem to be any halfway house." Several countries -- and the city of Hong Kong -- have linked their currencies to another through a currency board, which is backed up with reserves. Dollarization refers to simply replacing a local currency with the U.S. dollar. Still, he said dollarization will not succeed unless countries have strong laws that can enforce contracts and there are accounting and supervisory rules that are transparent, function effectively and are enforced. "We would worry that dollarization appears to a lot of people to be a magic wand," Jordan said. "If we just do this one thing then we don't have to do all these other difficult things." Jordan also said financial markets exert a positive influence on government policy, as they force countries to adopt policies that will attract investment. "The crumbling of barriers that have corralled the movement of goods, labor and capital tell us that the role of government in economic affairs continues to ebb," he said. "Integral to these changes is that fiscal and monetary policies are also becoming less activist and more predictable."

From Bloomberg News, 24 November 1999

THAI CENTRAL BANK INVESTIGATES SENIOR OFFICIALS IN FINANCE ONE BANK FRAUD

Thailand's central bank plans to investigate officials over their role in an alleged fraud by former executives of closed Finance One Pcl -- once the country's largest non-bank lender -- and three commercial banks. Wissanu Krua-ngam, secretary-general to the

cabinet and a member of the central bank's board, will head a four-member committee to investigate Bank of Thailand officials who were former executives of Nakornthon Bank Pcl, Credit Agricole Indosuez's Thai branch and Siam City Bank Pcl. Thai prosecutors in August charged three former executives of closed Finance One Pcl and executives of the three banks over their role in alleged illegal loans worth 1.8 billion baht (\$46.5 million) to units of the non-bank lender three years ago. The BoT officials to be investigated include Deputy Governor Kitti Patpongpiul and Assistant Governor Chaktip Nitibhon who were president of Nakornthon Bank and country manager of Credit Agricole Indosuez respectively during the time of the loans. "The central bank will take action against those executives, including suspension, if the committee finds wrongdoing," said spokeswoman Thanya Suraswadi. In the past three years, Thailand has filed charges against top executives of numerous other lenders which have either been seized by authorities or closed, including those from Bangkok Bank of Commerce Pcl, Sitca Investment & Securities Pcl, Nithipat Capital Pcl and General Finance & Securities Pcl. None of the executives has been convicted. Among those charged are former Commerce Minister Narongchai Akrasanee, who ran General Finance for almost a decade.

From Reuters, 29 November 1999

EUROPE

THE ECONOMY TAX BOOST FOR ENTERPRISE

Businesses must innovate or be left behind - The UK Chancellor, Gordon Brown, has called for a new spirit of enterprise in the British economy, saying firms that do not innovate and adapt to the changing global economy will be swept away by the competition. Addressing the Confederation of British Industry conference in Birmingham, Mr. Brown gave details of a multi-million-pound tax concession on share options for managers of small businesses in a bid to encourage a new enterprise culture. The scheme was first announced in the Budget. Up to 10 key employees in growing companies would be allowed share options of up to £100,000 free from income tax. The plan is expected to cost the Inland Revenue £40m. Mr. Brown said: "I want to send the message to entrepreneurs in every part of the country that this Government means enterprise and the rewards of enterprise are open to all." He said the scheme was designed to encourage some of the best executives to stay in Britain and devote their energies to building up smaller companies, particularly in the high-technology sector. "We give those people prepared to move to the more risky ventures, the small and medium-sized companies, particularly in the high-technology area, who are prepared to undergo lower salaries in return for higher rewards, we are prepared to give them help with an enterprise management investment scheme. "I think that is going to be widely welcomed throughout the whole of British industry. "It is where British industry has been weak in the past - that we haven't got that group of small and medium-sized high-technology companies coming through and therefore we haven't had the jobs as a result. "This is an incentive that puts us on a par, indeed in many ways better than America, and allows those people who are managers in big companies, or those who are considering whether to stay in Britain or go abroad to say look, I will put my energies into building up this company. "In return if I do it successfully, I will get rewards and of course the tax bill will be lower." The chancellor made the call for a new era of entrepreneurship the theme of his speech to the CBI. The creation of an enterprise culture in the UK was an often stated goal of Conservative governments between 1979 and 1997. But Mr. Brown says the Tories did not go far enough. While acknowledging Baroness Thatcher's achievement in first creating the "enterprise society", he stressed the need to go further. "I want Britain to be, in every area, a creative, innovative and enterprising economy. "The new economy will need more competition, more entrepreneurship, more flexibility and more long-term investment. "Businesses, indeed countries, which fail to adapt, reform and lead the way will simply be left behind. "We will all, together, have to raise our productivity, open up competition and improve our skills." The Shadow Chancellor, Francis Maude, was sceptical of Mr. Brown's announcements. He said: "Labour give with one hand but take much more with the other. "It is typical of Gordon Brown to try to get a headline from a token pro-enterprise policy when the whole thrust of his programme has been to pile new taxes and regulations on to business. "On Monday, Labour trumpet a £40m tax break for entrepreneur. But just two days later they will be supporting a £475m tax grab on the self-employed. "Business is paying £30bn more in tax thanks to Gordon Brown and Labour's new red tape is costing firms £5bn a year." The TUC general secretary, John Monks, condemned the tax concession scheme: "We will have to look at the details but at first sight the preferential treatment only for executives runs contrary to the need for all employees to be treated fairly. "If there are to be tax breaks they should be available to all employees who contribute to the success of an enterprise. There should be no 'them and us'." Next week, the chancellor makes his pre-budget statement, in which he will give details of proposals for modernizing the capital, labour and product markets. The CBI has already joined the British Chambers of Commerce in urging him not to loosen the public purse strings, saying that any moves to cut taxes or increase spending could exacerbate the divide between the struggling manufacturing and booming services sectors. The CBI director general, Adair Turner, said such a move would simply stoke consumer demand, leading to further interest rate increases which would hit exporters who were already struggling due to the high value of the pound. He said that tax cuts were not as high a priority as improving the UK's education standards and transport infrastructure. He also urged the chancellor to consider targeting taxes better, including switching from tax on fuel to road usage charging. In response, Mr. Brown said the government would not make "the mistake of the 1980s" of relaxing its fiscal discipline the moment the economy started to grow. He said the "tough grip" on fiscal policy would continue: "Public borrowing has been reduced by £30bn over the past two years and we will continue to lock in that fiscal tightening by keeping the public finances under control, while fiscal policy continues to support monetary policy in the next stage of the cycle." He said the Bank of England's Monetary Policy Committee "will be and must continue to be vigilant and forward-looking in its decisions" as the UK builds "a culture of low inflation".

BRITAIN'S TAX NOW FASTEST RISING IN EUROPE

While the international trend is towards lower taxes, the first full year of a Labour Government saw the biggest annual rise in taxation for 16 years. Britons now pay more tax than the Irish, Spanish, Portuguese, Americans and Japanese. The statistics, published yesterday by the Organization for Economic Development and Co-operation (OECD) will be a blow to the Government, which has made much of its income tax cuts, and will dent Britain's reputation as one of the lowest-taxed countries in the European Union. Only this week Gordon Brown and Tony Blair used speeches at the Confederation of British Industry to herald reductions in corporation tax. The Tories were quick to seize on the figures last night as evidence of Labour's "stealth" taxes in areas such as pensions, petrol and savings. Francis Maude, the Shadow Chancellor, said the findings "knock the Labour tax lie firmly on the head. Tony Blair said before the election that he had no plans to increase taxes at all. But in Government, he has chosen to raise lots of taxes by the backdoor: taxes on pensions, petrol, marriage and savings to name just a few. "It took nearly 20 years to build a dynamic and competitive economy in this country. In just two years, Labour's tax and regulation policies are chipping away at the very foundations of that competitive advantage." Earlier, William Hague had claimed in Prime Minister's Question Time that taxes would rise by £30 billion in the course of the Parliament. The Tory leader said the more Mr Blair refused to admit taxes were rising, "the less and less people believe what he says". The preliminary OECD survey, which is generally regarded as the most authoritative study of international tax issues, show that while other Europeans paid less, Britain's total tax revenues jumped from 35.4 per cent of national income in 1997 to 37.6 per cent in 1998. That represented a 6 per cent increase, the biggest jump since 1982 and greater than the increase in almost every other developed country. The result was the highest level of taxation since 1986, when the German tax burden - now 37.1 per cent of national income - was last below that in Britain. Even though headline tax rates in Britain are far below those in much of Europe - the top rate of corporate tax in Germany, for example, is 15 percentage points higher than in Britain - the British tax base is much broader. It has fewer tax concessions and loopholes than Germany, for example, so that more of the population pay up. Alison Cottrell, chief international economist at the investment bank PaineWebber, said: "The differences in the tax burden between the UK and Germany are far less extreme than is generally assumed." The OECD report revealed that the British tax burden was rising 30 times faster than that of France and ten times as fast as Belgium's. It is also higher than that of Ireland, Spain, Portugal, the United States and Japan. However, people in France, Italy and The Netherlands still pay much more and, for the third successive year, Sweden emerges as the most-taxed country. It also has the dubious honour of being the only country with tax revenues of more than half the national income. Labour came to power on a promise not to raise the 40 per cent top rate of income tax. In his three Budgets to date, Mr Brown has introduced a 10p starting rate of tax and cut the standard rate to 23p. From next April the basic rate of tax will come down another 1p to 22p. However, the Tories have persistently argued that Mr. Brown was introducing "stealth" taxes which were not immediately apparent. They include increasing petrol and diesel taxes by £9 billion over the course of the Parliament. Other tax increases include abolishing tax relief on mortgages - worth £3 billion a year to the Treasury - abolishing the dividend tax credits enjoyed by pension funds - worth £5 billion - and increasing national insurance for middle-income earners by £750 million and for the self-employed by £300 million. The Chancellor is also expected to defy industrialists next week and press ahead with a tax on energy use.

London Times, 4 November, 1999

THE AMERICAS

MEXICO AND U.S. REACH AGREEMENT ON TAXING U.S. - OWNED FACTORIES

The United States and Mexico have worked out a deal over how to tax U.S.-owned firms that assemble duty-free goods in Mexico for export, averting a threatened exodus of investment from the Mexican northern border states. Mexico announced Friday it has dropped plans to tax U.S. firms on profits generated at Mexican "maquiladora" plants, starting Jan. 1. Instead, it will impose higher tax rates and a new tax structure on the U.S. firms' Mexican affiliates in an effort to get more tax revenue from an industry it says enjoys preferential treatment. The additional expenses can be deducted from a company's U.S. taxes. "The agreement allows for a more equitable distribution of tax revenue between the two countries and without increasing a company's total tax burden," said Tomas Ruiz, Mexico's deputy finance minister. The arrangement lasts through 2002 and will be replaced with a "permanent" solution, Ruiz told the National Maquiladora Association annual convention. Mexico hopes to reach a long-term agreement with the United States by the end of next year. The plants are increasingly important to Mexico's economy, employing 1.1 million people at an average salary four times the minimum wage. The plants generated \$40 billion in exports during the first eight months of the year, or 46 percent of Mexico's total exports. The deal, signed Wednesday, followed six months of negotiations between Mexico's Finance Ministry and the U.S. Internal Revenue Service. Maquiladoras had threatened to halt investment, or even shut down, if Mexico attempted to tax the U.S. firms, in addition to the Mexican affiliates, on profits generated at the plants. Apart from double taxation, U.S. firms worried about opening their books to Mexican authorities without generally accepted guidelines on how to tax foreign-generated profits. The firms generate little profit because they sell products at low prices to parent companies in the United States. "Everybody's happy with the outcome," said Lawrence Amrich, director of government relations in Mexico at Delphi Automotive Systems, the country's largest maquiladora owner with 53 plants and 75,000 employees. "The biggest question is what happens after 2002. It really kicks it into the next administration." Both the United States and Mexico hold presidential elections next year. "On balance, it's positive," said Luis Martinez, who heads the maquiladora association's fiscal committee. "It removes the

uncertainty." Under the agreement, maquiladoras can pay taxes on 6.9 percent of assets, up from 5 percent currently, or on 6.5 percent of total costs, whichever is higher. Firms could instead choose to pay taxes on theoretical profits. That option is already in place, but Mexico will now consider foreign-owned assets in determining a product's worth, not only the value-added component, effectively raising its value.

From Associate Press, 31 October 1999

FINANCIAL CONVERGENCE LOOMS

Lawmakers are debating historic, sweeping legislation Wednesday that could overhaul the very basics of the financial industry, reports CBS News Correspondent Diana Olick. The bipartisan measure, which President Clinton is ready to sign into law, would lift Depression-era barriers and let banks, securities firms and insurance companies merge and sell each other's products. Treasury Secretary Lawrence Summers reaffirmed the administration's support for the measure in a letter to House Minority Leader Dick Gephardt, D-Mo., and Senate Majority Leader Trent Lott, R-Miss. "This legislation will modernize our financial services laws to better enable American companies to compete in the new economy," Summers wrote. As a result of the measure, a bank could sell insurance and insurance companies can give out credit cards — the goal being competitive efficiency. One example could be medical records. Insurance companies may give physicals for a policy, but then a bank, which might be considering mortgage applications, would then know about medical complications. There's no limit to how much corporate America could know about people's personal lives. The possibility of the companies sharing and selling personal information has critics crying foul. "This bill will only give a consumer notice that their privacy is being compromised, but it won't give the consumer the ability to say no," said Rep. Edward Markey, D-Mass. "It's like a burglar being required to leave behind a note telling you what's been stolen, but giving you no right to be able to stop it beforehand." But proponents say the legislation would save consumers billions of dollars a year by giving them greater choice and convenience, and would give the nation's financial services industries a competitive edge in the world market. Under the bipartisan compromise, banks wishing to expand into other areas of financial activity must have a satisfactory rating from federal examiners on their community lending. After months of drafting and negotiations by lawmakers to blend two versions of the legislation into one, the House is to vote on the final version Thursday. A Senate vote also is expected Thursday. The Associated Press contributed to this report.

From CBS News, 3 November 1999

CANADA TO HAVE SECOND HIGHEST BUSINESS TAX IN OECD

Canada will levy the second-highest business tax rates in the industrialized world next year, according to a new report. While most developed countries have been reducing taxes on business, Canada has not altered its corporate tax rate of 43%, which is now the third highest among OECD countries. When Germany implements a plan to reduce taxes from 52% to 38% in 2000, only Japan's corporate tax rate of 48% will remain higher than Canada's, according to a report released yesterday by the C.D. Howe Institute. "If Canadians are to have opportunities to find work in Canada rather than elsewhere, the need for business tax reform is urgent and [the] process should begin in 2000," says the report, titled *Why Canada Must Undertake Business Tax Reform Soon*. "At present, Canada provides few advantages to businesses to create jobs in this country for its well-trained labour force." The average corporate income tax rate among OECD countries has fallen to 34%, compared with a rate of more than 45% less than 20 years ago, the report says. Over the past four years, the average corporate income tax rate has dropped by almost 3%. "Business tax reform has become more urgent now because of what is happening around the world," Jack Mintz, president of the institute and author of the paper, said yesterday. Without changes, Canada will lose tax revenue as well as jobs, said Prof. Mintz, an economist at the University of Toronto and former advisor to Paul Martin, the Finance Minister. "Because of new technology, firm mobility has increased tremendously. Corporate reported profits can shift easily across borders into lower-tax countries." The report notes that Ireland has, in recent years, reduced its average corporate income tax rate to less than one-third the rate in Canada, yet collects more corporate tax revenue as a percentage of GDP than Canada. Since reducing its business tax rates to as low as 10% for some industries, Ireland has had the highest growth in per capita incomes among all OECD countries and its unemployment rate has been halved. Ireland's historic outflow of workers has reversed itself into net migration. Canada should cut business taxes not only because other countries are doing so, but because the U.S. has no plans to change its rate of 39%, the report states. "Canada has a golden opportunity to move ahead of the U.S.," Prof. Mintz said. "Right now all the economic advantages, such as a large market and labour force, are on the U.S. side, while we are coupling our disadvantages with high taxes." In 1996, Mr. Martin asked Prof. Mintz to lead a committee in a review of business taxes. The committee's 1998 report recommended cutting the combined federal-provincial corporate income tax rate from 43% to 33%. To keep government revenues constant, the committee suggested the reduction or elimination of certain corporate tax credits. The report drew mixed reactions from business leaders. Mr. Martin distanced himself from the report, saying business taxes could be cut only after reductions to personal taxes for middle- and lower-income Canadians. Tuesday, he repeated that message. Prof. Mintz said his analysis shows "we've got to move more quickly than Mr. Martin is anticipating."

From Canada-National Post, 5 November 1999

U.S. TO REGAIN SEAT ON KEY UN FINANCE COMMITTEE

The United States is set Friday to regain its seat on a key UN budget committee, which UN members hope will convince Congress to pay the huge debt Washington owes to the world body. The 16-member Advisory Committee on Administrative and Budgetary

Questions, called the ACABQ, meets to fill five seats. With only five candidates in the running, the United States is assured of a place. Washington had been a member of the committee, the first legislative step in determining the UN budget, for 50 years. But it was ousted in 1996 and defeated again in 1998 when the arrears mounted, currently reaching more than \$1.6 billion. New Zealand this year agreed to give up its candidacy. In September, Secretary of State Madeleine Albright lobbied foreign Ministers attending the UN General Assembly session to support the move. New Zealand, the United States, Canada, Australia and European nations belong to a group called "Western Europe and Others." Membership in one of the five regional groups is necessary for election to many UN bodies, including the Security Council. Congress has made U.S. membership in the ACABQ one of numerous conditions before it would approve close to \$1 billion in arrears. The U.S. candidate for the ACABQ is Susan Shearous, a financial expert who also ran for the post last year. When Washington was voted off the ACABQ committee in 1996, losing to France and New Zealand, U.S. allies said then the debt was the main factor as well as the unpopularity of its last delegate. The Senate last year approved a \$926 million package for the United Nations over three years. But President Clinton vetoed the measure after House Republicans linked it to anti-abortion language. Last week Clinton vetoed a budget bill, saying one reason was that it would not have paid enough of the arrears. The United States is in danger of losing its seat in the 188-member General Assembly if it does not pay \$550 million by the end of the year. Some \$200 million of this amount has been approved. Congress also insists U.S. dues be lowered to 22 percent of the UN budget from the current 25 percent. But European Union members have ruled out negotiations on this issue until Washington makes a substantial dent in its arrears.

From ABC News, 5 November 1999

BANK REFORM: CONSUMERS GET ONE STOP SHOPPING

Congress, with President Clinton's blessing, last night took a giant leap into the unknown that will have enormous ramifications for the financial futures of most U.S. families. Firewalls that were erected in 1933 between banks and insurance companies, and between banks and brokerages that sell stocks and mutual funds, now have been torn down. This action will lead immediately to more major mergers. The idea is to lead consumers as fast as possible to one-stop financial shopping. But some think the bill will be bad news for consumers because it permits the coupling of inherently risky enterprises, doesn't protect privacy and could lead to bigger bank fees. As it passed the "financial services modernization" legislation -- widely tagged as "landmark" and "the most significant to come out of Congress this year" -- Congress thrilled lobbyists, worried consumer groups, infuriated privacy advocates as it finished a process lawmakers began 40 years ago. "I felt like Sisyphus [endlessly pushing a rock up a hill]," said Sen. Christopher Dodd, D-Conn., one of those who promoted the bill, and who believes that rock is now atop the hill. "This is a historic day," exulted Sen. Charles Schumer, D-N.Y. "This is a monumental achievement," crowed Senate Majority Leader Trent Lott, R-Miss. The House shepherds of the bill, Reps. James Leach, R-Iowa, and Tom Bliley Jr., R-Va., were equally jubilant even before their chamber voted for passage late last night. Supporters said the measure will provide what U.S. financial institutions need to compete globally and thrive in coming decades. But critics said it will increase ATM fees, returned-check fees and other service charges by reducing competition and, in effect, will make personal bank accounts and spending information widely available -- stripping privacy from nearly all financial information. Sen. Richard Shelby, R-Ala., complained: "This bill lets the genie out of the bottle. I think this is a tragedy. I think it is absurd." Noting that even some family members don't share the amount of their salaries with each other, he said "complete strangers" now will find it easy to obtain not only salary data but also account balances and data on what consumers buy.

Common Cause, the self-styled citizens lobby, charged that bankers, insurance and securities industries won the financial services legislation mainly because they gave \$187.2 million in political contributions since 1989 to the political parties and individual lawmakers. Common Cause said the money paid off because the Financial Services Modernization Act of 1999 "largely reflects the priorities of the banking, insurance and securities industries, not those of consumers." The White House said Clinton would quickly and eagerly sign the legislation, which will become law because of significant efforts by his former Treasury secretary, Robert Rubin, who has now returned to New York's powerful financial corridor. But there are also indications that the very real worries about the loss of privacy over financial information will promote more hearings and possibly new regulations. Nonetheless, that would take years. Even though the bill -- worked in secret in recent days in a House-Senate joint conference committee -- sailed through both chambers yesterday, two highly different versions caused a tug-of-war earlier this year. The House passed its bill July 1 by a lopsided 343-86 vote. But the Senate on May 6 passed its version by a narrow 54-44 tally, far from the 90-8 (one senator voted present) vote for approval yesterday. Sen. Richard Bryan, D-Nev., said that while 50 percent of U.S. consumers own some stock, and most families have an insurance policy or two and a bank account, they don't think they are much affected by giant financial corporations. That, he warned, will soon change. One-stop shopping for banks, insurance and securities is just around the corner, he said. And merger mania is going to become even more intense. The people who interrupt your dinner hour or inundate your mailbox with financial information now have an even greener light and will be able to snare U.S. households' most closely held money secrets, Bryan said. The bill has the imprimatur of the nation's biggest financial gurus, including Federal Reserve Chairman Alan Greenspan. Such experts have long argued that to be competitive in the next century, U.S. financial services conglomerates must become more global. But Greenspan also has been warning banks that, as their appetites for risk get bigger, more protections are needed. He told a group of bankers that banks are "complex entities that create the potential for unusually large systemic risks in the national and international economy should they fail." That is what analysts call the doctrine of banks that "are too big to fail." In other words, failure of any of 21 banks would cause a staggering blow to the entire U.S. economy and, simply put, cannot be permitted to occur. "There is dramatic risk, and it is increasing. And this legislation acts as though it does not exist," Sen. Byron Dorgan, D-N.D., declared on the Senate floor in a futile argument against the bill. "I feel very strongly that [passing this bill] is the

wrong thing to do." Dorgan said his biggest objections were that the bill doesn't address regulation of hedge funds or the \$33 trillion worth of derivatives. "I hope history will prove me wrong," he said. "But I believe we are moving toward greater financial risk." So what will the fallout from the new legislation be for most consumers? The first thing that will be noticeable is that automated teller machines will be required to disclose the costs of transactions and permit customers to cancel them before such fees are imposed. Consumers will notice that the friendly and convenient, mom-and-pop bank at the nearby shopping center may be bought out, just as has been occurring for the past two decades. That may be good news if the bigger, newer financial institution that replaces it -- dubbed a Megabucks Mart by financial columnist Jane Bryant Quinn - charges smaller fees, has more money to make loans and handles transactions such as mortgage approvals faster. But small, infrequent savers may find themselves squeezed out. The big new financial institutions want to manage big accounts, and they may charge fees that are exorbitant by today's standards or provide less service to small account-holders. Those irritating dinnertime phone calls from people who want to invest your money will increase. Telemarketers are barred from getting account numbers or access codes, but you will be increasingly bothered by callers from the big outfits that want your business. You can tell your financial institution, in writing, that you don't want your personal financial information shared with third parties, such as telemarketers, but the financial institution can share that information with its own companies in joint marketing arrangements to sell financial services. But new rules will keep giant retail outfits from owning banks. More people will know more about the state of your financial health. One institution will have a computer printout with how much you earn, your tax return, how much you have in your bank account, how much insurance you have, how you spend your money and how much your investments total. And there's nothing you can do about it. Your loan application at the bank may be turned down because the bank will easily get your health information from its affiliate, the insurance firm that has your health records. Clinton's proposed regulations to keep medical records private won't take effect for two years. New rules will go into effect to let you know that your loan is not dependent on your buying insurance from the bank's new insurance affiliate. You will be able to sue if you think you have been misled. Banks must lend to inner-city businesses and minority borrowers, under a provision called the Community Reinvestment Act, but critics say it actually weakens current regulations against discrimination. But first lady Hillary Rodham Clinton won a battle; the bill sets up micro-enterprise loans to provide thousand-dollar loans to tiny businesses. Sen. Phil Gramm, R-Texas, chairman of the Senate Banking, Housing and Urban Affairs Committee, who spearheaded the bill -- dubbed the Gramm-Leach-Bliley Act -- through Congress, said he didn't set out to benefit big New York banks. If consumers don't benefit, the law will be overturned, he said, but insisted that is unlikely.

From Pittsburgh Post, 5 November 1999

SENATE HEARING TO PROBE WHETHER U.S. BANKS AID FOREIGN CORRUPTION

Citibank is under Senate scrutiny for its handling of millions of dollars in alleged drug money for a brother of a former Mexican president. The inquiry is shining a spotlight on the cloistered world of private banking, which discreetly caters to the very wealthy. Senate investigators say that drug traffickers, corrupt officials and tax evaders around the world are using private banking to launder their illicit profits through the banking system. The abuses occur because private-banking operations -- which often require a minimum deposit of \$1 million -- offer their clients secrecy with offshore accounts, code names for account owners and shell companies, according to investigators. The inquiry also is bringing one of the most powerful U.S. corporate executives, Citigroup co-chairman John Reed, to Capitol Hill. Reed is scheduled to testify Tuesday before the Senate Governmental Affairs subcommittee on investigations. For a year, the subcommittee has examined the private-banking activities of New York-based Citibank, a unit of Citigroup, the nation's largest financial-services company. A focus of the investigation has been the bank's handling of deposits for Raul Salinas, the brother of a former president of Mexico. Raul Salinas has been accused of having ties to illegal drug operations. In money laundering, illicit profits from criminal activities pass through a series of transactions to hide their origin and make them appear to be legitimate business proceeds. The Senate investigation found that Reed, as the head of Citibank, failed to take significant action in the early 1990s despite internal warnings that the bank was failing to follow its own policies to prevent money laundering, said a subcommittee investigator, speaking on condition of anonymity. Reed was aware that Citibank's internal audits showed its private banking operation was ignoring the control policies, the investigator said. Reed is expected to acknowledge in his testimony that bank oversight was lax and that, as a result, key executives in the private-banking operation were replaced, rules were tightened and computer systems were improved for monitoring the transactions of wealthy clients. Citibank also is more closely checking the backgrounds of foreign politicians and other public figures before accepting them as private-banking clients, Reed is expected to tell the subcommittee. Bank officials note that a report in January by Federal Reserve examiners said the private-banking operation "has demonstrated that it is committed to achieving its goal of changing the culture and creating a well-integrated global risk management and internal control structure. Significant progress has been made in correcting control deficiencies noted at the prior inspection." The Senate investigators also have examined other suspicious foreign accounts handled by Citibank's private bankers, who have offices in 30 countries and offer services to some 40,000 clients with assets of \$3 million or more. Among the other Citibank clients under scrutiny: The president of Gabon, Omar Bongo, who is said to have had more than \$50 million in a secret account that came at least partly from "donations" from a French oil company operating in his country; the sons of Nigeria's late military dictator Sani Abacha; and Asif Ali Zadari, the husband of former Pakistani Prime Minister Benazir Bhutto. Zadari currently is in prison on corruption charges in Pakistan. Citibank officials declined to comment directly on the Senate subcommittee's investigation, which follows several other government probes. Raul Salinas was arrested by Mexican authorities in 1995 and imprisoned on charges of masterminding the killing of a top ruling-party official. That year the U.S. Justice Department began investigating Citibank's handling of Salinas' money in an effort to determine whether the bank violated any laws. A report in December 1998 by congressional investigators found that Citibank transferred as much as \$100 million in suspected drug proceeds for Salinas in 1992-94. The report, by the General Accounting Office, Congress' investigative arm, criticized Citibank for failing to

check the source of the money. The report found that Salinas' wife hand-carried checks to Citibank Mexico, and they were transferred to Switzerland through a series of complex transactions that hid their source. Rumors abounded at the time that Salinas was linked to drug lords and had dubious sources of income, but Citibank executives asked few questions when the transactions were made, the report said. Citibank has said the report "contains errors of fact and interpretation." The bank, which has denied breaking any laws, pledged its full cooperation with law enforcement authorities. In addition to Citibank, the Senate committee investigators have also looked into an episode at BankBoston Corp. in which former bank executive Ricardo Carrasco, a Uruguayan citizen, was accused of embezzling \$73 million by making fraudulent loans in private banking transactions.

From Canada-Global and Mail, 9 November 1999

GOVERNMENT INVESTIGATORS INTENT ON ROUTING CORRUPTION FROM BRAZIL

Suspect that bankers may have illegally profited from Brazil's currency devaluation last January? Convene a congressional investigation to look into it. Worried about organized crime? Order a second legislative inquiry. Fearful of corruption in the judiciary? Get yet another committee to examine the issue. Almost everywhere Brazilians turn these days, one parliamentary commission of inquiry or another seems to be investigating some form of official misconduct. What is more, many of these CPIs, known by their Portuguese initials, are actually yielding results -- forcing policy changes and unmasking offenders and sending them to court. The investigation of the judiciary, for instance, has concluded that much of the \$300 million in cost overruns in the construction of a still unfinished labor-relations court complex in Sao Paulo ended up in the pockets of the presiding judge and one of his friends, Sen. Luiz Estevao. Though prosecutors had tried unsuccessfully for years to uncover such evidence, a Senate panel used its broader powers to compile a dossier in only a few weeks that was strong enough to order the indictment of both men last week. Certainly, part of the spate of high-profile investigative activity is pure politics. With municipal elections scheduled for next year and campaigning already getting under way, the country's political parties, more than 20 in all, are eager to get publicity for potential candidates and to appear to be defending the interests of citizens. "These CPIs are very interesting to watch on television because they always make a lot of noise," said Nilton de Oliveira Motta, a skeptical bus driver here. "I am not sure, though, how much is real and how much is just fireworks to impress us voters." But the focus on exposing and punishing wrongdoing also reflects a basic shift of attitude among Brazilians, rejecting impunity and demanding accountability. In a country where the governor of a major state once adopted the slogan "he steals, but he gets things done" during a successful re-election campaign, the population nowadays is both less tolerant of corruption and official wrongdoing and better equipped to root it out. Under the military dictatorship that ruled this nation of 165 million people from 1964 to 1985, civilian institutions -- whether elected officials, lawyers or the press -- had only limited ability to poke into suspicious matters of state. But the new constitution that went into effect in 1988 encouraged such exercises, and the credibility of the commissions of inquiry was strengthened after one investigation and an ensuing impeachment trial on corruption charges led to the resignation of President Fernando Collor de Mello in 1992. Since 1988, the Senate alone has started 29 inquiries into matters as diverse as child labor and wasteful spending in the country's nuclear energy program.

According to the Brazilian chapter of the anti-corruption group Transparency International, nearly 40 more such inquiries have been taking place just this year at the state and municipal level, looking into matters ranging from malfeasance in Sao Paulo to racism in Bahia. "The country seems to be learning to show its blemishes and denounce its scandals, something that was not done" in an earlier era, Zuenir Ventura, a prominent writer and columnist, wrote earlier this month in O Globo, the main daily newspaper here. "Today nothing is hidden, everything is made manifest," he added, and while "that is more disagreeable, it is nevertheless healthier." Compared with their U.S. equivalents, congressional inquiries here are more powerful, endowed with certain tools that are even denied prosecutors. They can and have decreed the arrest of suspected wrongdoers and ordered supposedly confidential bank, tax, credit card and telephone records opened. As a result, these committees "have been extremely successful in uncovering corruption and especially in producing hard and quality evidence sufficient to indict and convict the offender," said David Fleischer, the president of Transparency International's Brazilian branch. The organized crime investigation, he added, "has already bared more in three months than the Government has in 20 years." Where the current round of inquiries will end is not clear. One member of the lower house of Congress has already been expelled for involvement in drug trafficking, as have several state legislators and city council members around the country. And a recommendation was made to the Senate last week that Estevao be impeached on grounds of illicit enrichment and perjury. But the target of another inquiry, the Supreme Court, has been feeling "increasingly uncomfortable" and has retaliated with "several controversial decisions attempting to curtail the investigative powers of Congress," Fleischer noted. Yet "because the public opinion outcry was so harsh," he added, "the high court has had to back down and reverse those restrictions."

From The Daily Telegraph, 20 November 1999

Private Sector Development

AFRICA

MOROCCO MOVES ON PRIVATIZATION OF STATE AIRLINE

Morocco on Monday launched an international tender to evaluate the privatization of the state-run Royal Air Maroc (RAM), a privatization ministry official said. "The tender pertaining to RAM privatization was issued to groupings of local and foreign investment banks having strong references in the evaluation and privatization process of the company," the official told Reuters. The tender documents can be collected and consulted as from November 3 on the ministry's web site: www.minpriv.gov.ma, he said. The closing deadline was set for November 30, he added. Last month the transport ministry said the Socialist-led Government planned to sell an up to 40 percent stake of RAM's capital, including an unspecified stake to foreign partners, and float the remainder on the Casablanca bourse. Talk of a partial privatization of the national carrier began in mid-1990s, but the plans have been shelved as the firm underwent a restructuring programme that included upgrading its fleet and raising its capital. Some 93 percent of the firm's capital is owned by the Moroccan state while French Air France holds 3.9 percent and Spain's Iberia has 1.3 percent. The rest is owned by local institutional investors, including Societe Nationale d'Investissement. The firm's capital currently comprises 11,430,720 shares of 100 dirhams nominal value each. RAM owns some 30 aircraft, most of them U.S.-made Boeings, but it plans to purchase some 20 new planes, including Boeing and Airbus worth \$1.5 billion. RAM serves 60 international airports located in 40 countries.

From Reuters, 1 November 1999

REFORMER NAMED TO NIGERIAN PRIVATIZATION BODY

A keen defender of economic reform in Nigeria, Nasir el-Rufai, was appointed on Monday to direct the agency charged with privatising dozens of crippled state firms. A statement from the vice-president's office said Rufai's appointment as director-general of the Bureau of Public Enterprises was with immediate effect. Swift privatization is a key demand of international financial agencies and creditors who could offer debt relief but who have so far been wary of the slow pace of reform since President Olusegun Obasanjo took office in May. El-Rufai was one of the backroom architects of economic reform under the last military government, which ended a decade of sour relations with the International Monetary Fund in January by reaching a deal on a staff monitored programme. According to the privatization plan set out by Obasanjo's Government, the state's remaining shares in companies quoted on the stock exchange will be sold by the end of this year. The sale of 40 percent stakes in telecoms and power utilities as well as oil refineries and numerous other industries is due to follow over the next two years. Oil-producing Nigeria is Africa's most populous nation, with at least 108 million people.

From Reuters, 8 November 1999

NIGERIA AIMS TO ACCELERATE PRIVATIZATION

A shake-up in Nigeria's privatization agency aims to invigorate the selling-off of loss-making state firms and thus meet a key condition for debt relief, a senior official said on Tuesday. "There will be an increase in the pace and there will be greater cooperation with the transparency and accountability requirements of the World Bank," said the official, who declined to be named. On Monday, a past champion of economic reform, Nasir El-Rufai, was appointed director-general of the Bureau of Public Enterprises (BPE), which is to implement the privatization programme. Privatization of scores of ill-managed state firms is demanded by local businesses, which are hamstrung by poor services, and by creditors who could offer debt relief if oil-rich Nigeria stops subsidizing its loss-making giants. But progress has been slow since President Olusegun Obasanjo took office in May after 15 years of military rule, raising questions at home and abroad over his commitment to liberalization. While the sale of the Government's stake in quoted firms is due by the end of the year, there is still no clear date for the more significant disposal of telecom companies, power firms and oil refineries. "We hope that the BPE will now be able to work out an implementation programme very soon that will as much as possible increase the pace and bring things forward," said the official. The new director of the privatization agency was one of the architects of planned economic reform in the military Government which stepped down for Obasanjo. El-Rufai liaised with the International Monetary Fund on a staff monitored programme agreed in January to end a decade of sour relations. Rapid privatization was an important element of the deal but few of the targets were met and the programme lapsed at the end of military rule. The IMF is now holding out the carrot of a \$1 billion standby loan and an agreement which could lead to talks with the Paris Club of creditors on rescheduling some of Nigeria's more than \$30 billion of debt.

From Reuters, 9 November 1999

RADEBE STEPS UP PRIVATIZATION PLANS

Minister of Public Enterprises Jeff Radebe plans to sell R170-million in state assets by 2004. As a move aimed at speeding up the

privatization and restructuring of state assets, the Department of Public Enterprises is not renewing its contract with the banking group HSBC Simpson McKie, the government's adviser on privatization for three years. The department says it wants to expand its own internal brains trust on privatization and recruit separate advisers for specific sell-off transactions rather than have a single catch-all adviser. The department's representative, Zaid Nordien, said this week that HSBC's departure fitted in with the government's plans to step up its privatisation drive, which, he said, was likely to include the sale of R170-billion in state assets by 2004. HSBC was appointed under the former minister of public enterprises, Stella Sigcau, on a R12-million a year contract. Nordien said the problem with relying on one adviser was that the adviser "could serve a number of different clients". "We need to be able to assess whether the advice is in our best interests. We will get specialists where we need external advice, but we also need the capacity to investigate options placed before us." Nordien said HSBC's role over the past three years would not preclude it from getting involved in privatization deals. He said HSBC was currently wrapping up its existing work for the department. Since his appointment in the June Cabinet reshuffle, Minister of Public Enterprises Jeff Radebe has signalled several times his intention to speed up the government's privatization plans. Apart from repeating his 2004 target, Radebe is pushing ahead with plans to privatize the state forestry company, Safcol -- albeit amid a lack of international interest -- and also recently announced plans to sell off a string of small assets such as Abakor, the state abattoir operation, and some of the state's national park interests. Radebe is also awaiting the proceeds of the R1,4-billion stake in South African Airways (SAA) that was sold to Swissair; the deal still has to be ratified by the European Union. The transaction was announced by President Thabo Mbeki at his inaugural address to Parliament, a sign of the president's own political commitment to state sell-offs. HSBC was appointed in 1996 after much debate over whether the Department of Public Enterprises needed a catch-all adviser or separate sectoral advisers. The department with which HSBC had to work is widely regarded as having been ineffective, having presided over several major hitches. There is the sale of Sun Air, which fell apart after infighting between SAA and the consortium that bought the airline. The sale of the state's holiday resort arm, Aventura, suffered a similar fate: the union investment company that bought it could not pay for it within the agreed deadline. And then there is the current controversy at Alexkor, the state diamond mine, where the public enterprises department is still negotiating with Nabera, the company awarded a management contract for the mine in February. Nabera has to date failed to comply with its contractual obligations, and has now lost the key empowerment company in its consortium -- Mmkau Mining, the company headed by Bridgette Radebe, the minister's wife, who has pulled out of the contract. Radebe's department has borne criticism for being excessively lenient with Nabera, but it has a good excuse: the contract drawn up by Sigcau's department is hopelessly vague in crucial areas, especially how and when Nabera must comply with their contractual obligations. One indication of the low esteem in which Sigcau's department was regarded was that Radebe brought across his director general and other key civil servants from his previous portfolio, public works. As a staunch member of the South African Communist Party, Radebe will be well placed to deal with the inevitable union hostility that will meet the government's privatization drive.

From The Mail & Guardian, 10 November 1999.

ASIA/PACIFIC

CHINA'S STATE-OWNED ENTERPRISES TRYING TO ADJUST TO MARKET ECONOMY

The Bingshan Group, a large state-owned refrigeration company in Dalian in China's Liaoning Province, in the last few years has increased sales 64-fold and assets 59-fold, putting it among the top in the country with assets of 4.2 billion yuan (504 million US dollars), and annual profits of 380 million yuan. It is one of the province's large and medium-sized state-owned firms that have shifted to the market economy, according to local officials. Liaoning has a tenth of the nation's state-owned enterprises and is one of the nation's oldest industrial centers. China's economic reforms have brought great changes to state-owned enterprises. Over 40 percent of the province's enterprises have become corporations and have got investment from various sectors through strategic restructuring and assets recombination, resulting in an addition of 12 billion yuan in capital. Their sales account for 82 percent of those in the province in all and profits for more than 90 percent. Medium-sized and small enterprises in the last few years have had 3.3 billion yuan in investment in fixed assets, 2.2 billion yuan in floating assets, and have put 38 billion yuan worth of idle assets to work. A large number of state-owned enterprises are now paying attention to marketing and, to get a larger market share, have spent 26 billion yuan on technological improvements and have developed some 330 new kinds of products. By shifting their primary schools, hospitals, and other attached units to independent operation, these enterprises have become more competitive in recent years.

From China People's Daily, 2 November 1999

THAI GOVERNMENT NEEDS TO SELL PRIVATIZATION

The Thai Government should "communicate clearly" why it wants to sell off state enterprises to avoid resistance from their employees, a leading independent government advisor said on Tuesday. The head of Arthur Andersen's business consulting unit in Thailand, Paitoon Taveebhol, praised the Thai Government's cautious approach to privatization, saying the sale of nationalized industries took time. He said the process could not be accelerated without the understanding of the employees. "Privatization doesn't mean an overnight change but it will take a few years (for staff) to prepare and adjust to the privatization. We need to teach the people on the process of privatization," Paitoon told Reuters in an interview. "The harder you push, the more resistance you will get. The Government needs to communicate with the labour unions on the privatization," Paitoon said. Thailand has committed itself to privatizing government-owned companies as a condition of a \$17.2 billion bailout package for the economy organized by the

International Monetary Fund. But although the Government has passed a law early this year to corporatize state-owned firms, privatization is only proceeding very slowly. Privatization of several sectors, including the telecoms and energy sectors, cannot be implemented because of resistance from unions in those state enterprises, which fear job losses. Bureaucratic inefficiencies have also delayed sales. Jitters over job losses drew large protests in August when workers of state-owned Electricity Generating Authority of Thailand (EGAT) wrote protest letters in blood in opposition to the privatization of one of the country's biggest power plants, the 3,645-MW Ratchaburi power plant. Under an original plan, EGAT planned to raise up to 60 billion baht from selling most of the plant, now under construction, by reducing its stake to around 30 percent. But in October, the EGAT's board approved another plan to set up a holding company to own the power plant instead. Around 40 percent will now be sold to the public and around 10 to 15 percent will be sold to EGAT employees.

Privatization good business opportunity

Paitoon said Thai privatization would afford a good business opportunity for consulting firms over the next few years because it was an ongoing process. He said around 40 percent of the revenue from the Thai unit of Arthur Andersen for the 1998/99 fiscal year came from the public sector, while the rest came from the private sector. The Thai unit's revenue last year rose by 25 percent from a year earlier and he expected 1999/2000 revenue to grow 50 percent because of higher demand from clients. Among the state enterprises that are clients of Arthur Andersen are EGAT, the Communications Authority of Thailand and the Expressway and Rapid Transit Authority of Thailand. He said Arthur Andersen had provided its state agency clients with a range of services, including implementation of financial statements and separation of business units, asset valuations and implementation of management changes.

From Reuters, 9 November 1999

CREATING GOOD EXTERNAL ENVIRONMENT FOR SOE REFORM AND DEVELOPMENT

The Decision of the Central Committee of the Communist Party of China on Some Major Issues Concerning the Reform and Development of State-Owned Enterprises calls for creating a good external environment for the reform and development of State-owned enterprises (SOEs). A good external environment is the necessary condition for the reform and development of SOEs. The reform and development of SOEs, which involve various social and economic aspects, are a complex social systematic project featuring the advance from micro-flexibility to macro-control. Success in SOE reform and development requires intensifying efforts for macro-control and comprehensive coordinated reform, opening wider to the outside world, stopping irrational redundant construction, promoting the construction and standardization of the order of the market system and improving the legal system, thereby creating a good external environment for the reform and development of the SOEs.

I. Tightening Macro-Control, Improving Macroeconomic Environment

The microeconomic activities of SOEs cannot proceed without the restraint of a macroeconomic environment. Only by properly exercising macro-control, maintaining a basic balance for economic aggregate and promoting the sustained, rapid and sound development of the national economy, is it possible to create a favorable macroeconomic environment for the reform and development of the SOEs. Over the past few years, China's national economy, as a whole, has continued to maintain a desirable development situation, at the same time, unprecedented new characteristics and new trends have emerged in economic operation, some deep-seated problems have continually cropped up. To cope with the new situations and new problems facing economic development, the Party Central Committee and the State Council have, since 1998, made a series of strategic arrangements for expanding demands and boosting economic growth, persistently implemented an active financial policy, further enlarged domestic demands, and steadily pressed ahead with various reforms, so as to maintain a fairly rapid growth rate for the national economy. In an effort to further boost economic growth, improve the macroeconomic environment and accelerate the reform and development of the SOEs, it is presently necessary to further tighten macro-control. The main tasks include: further stepping up the implementation of the active financial policy, striving to give play to the role of the monetary policy, making coordinated use of taxation, pricing and other economic levers to effectively boost consumption, investment and exportation demand, speed up structural readjustment, explore markets, increase job opportunities, guarantee social stability, and continue to maintain the momentum for the sustained, rapid and healthy development of the national economy.

II. Continuing to Open Wider to the Outside World, Enhancing SOEs' World Competitiveness

Opening to the outside world has brought about a constant rise in the degree of China's economy dependence on external resources and international markets, the impact of international economic fluctuation on the domestic economy has become increasingly direct and notable. In making operational decisions, it has become increasingly necessary for SOEs to give consideration to external factors, such as international supply and demand, exchange rates, the international economic period, and the economic trends of other countries. The economic globalization process has brought both opportunities and challenges to the reform and development of China's SOEs. In the face of economic globalization, we must, against the general background of continuing to open wider to the outside world and press ahead with the reform and development of SOEs. On the basis of relying mainly on domestic markets, SOEs must actively enter the international market to participate in international economic cooperation and competition, participate in the economic globalization process in a more intensive and extensive manner, and make full use of the favorable conditions brought about by economic globalization to develop and expand themselves, enhance their strength and augment their international competitiveness.

III. Stopping Irrational Redundant Construction, Speeding Up Regrouping of Trades and Structural Readjustment

Irrational redundant construction is a chronic disease long existing in the field of China's economic construction. In recent years, under the circumstance wherein the characteristics of a buyer's market have emerged in the market situation, the evil consequences caused by irrational redundant construction over the years, such as the dislocation of the industrial structure, waste of resources, the overstocking of products and vicious market competition, have brought increasingly serious harm to the development of the national economy, greatly hampering the reform and development of SOEs. To stop irrational redundant construction, it is necessary, through accelerating reform of the investing and financing system, to establish, in the fields of investment and construction as well as in the key links of investment decisions, effective restraint mechanisms to block the sources of irrational duplicated construction and, while safeguarding rational market competition, resolutely stop irrational duplicated construction. With regard to the projects already formed by previous redundant construction and seriously excessive production capacity, it is necessary to respect the market choice made in accordance with the principle of selecting the superior and eliminating the inferior. In light of the target set for rationalizing the industrial structure, we should adopt economical or necessary administrative measures to carry out comprehensive readjustment and regrouping of trades and eliminate a batch of surplus production capacities.

IV. Developing Market System, Creating Good Market Environment

In the market economy, the market system provides the basic conditions for the subsistence and development of enterprises. An important guarantee for the successful reform and development of SOEs lies in developing and perfecting China's multi-level market system, establishing a unified national market conducive to the rational flow of commodities, funds, technologies and personnel, establishing a good market order, and creating a market environment for fair competition.

V. Fostering and Developing Intermediary Organizations, Perfecting Intermediary Service System

Intermediary service is the objective requirement of the market economy, the intermediary service system has the important functions of service, communication, coordination, notarization and supervision in the market economy, and plays an important, indispensable role in maintaining and standardizing the social and economic order. The reform and development of China's SOEs require that the intermediary organizations provide high-efficient and fair intermediary services. For this, it is necessary, on the basis of legalization and standardization, to promote the standard development of the intermediary service system. First, intermediary organizations should completely dissociate themselves from government departments, and all commercial intermediary agencies set up by government organizations should be dissolved or reorganized, the involvement of power in intermediary service should be avoided, so as to guarantee the objectivity and fairness of intermediary service. Second, it is essential to intensify rule by law and strengthen supervision, all intermediary organizations must be set up and operated according to legal procedures and accept the restraint, regulation and supervision of law. Finally, it is necessary to energetically rectify and standardize intermediary markets, promote legitimate competition and realize the practice of promoting the superior and eliminating the inferior.

VI. Establishing Sound Economic Legal System, Forming a Standard Environment Ruled by Law

The basic strategy set down by the 15th National Congress of the Party for governing the State according to law and establishing a socialist state ruled by law sets still higher demand on China's legal construction. In order to guarantee the reform and development of SOEs, it is necessary to intensify efforts to further accelerate the construction of a legal system for China's socialist market economy. In compliance with the objective need of the market economic development and the in-depth reform of SOEs, it is particularly necessary to step up formulating laws and regulations for improving and maintaining the market order, strengthening macro-control, improving social security and promoting social progress. While instituting the separation of government administration from enterprise management, it is necessary to use laws to standardize and regulate the relationship between government administration and enterprise management. In the operation of State-owned assets, the transaction of property rights of SOEs and other aspects, it is imperative to quickly establish a definite legal system to use the legal means to guarantee the preservation and increment of the value of State assets, standardize the restructuring and regrouping of SOEs, particularly small and medium-sized ones, stop the phenomena such as turning public property into private property, and evading and abolishing bank debts and earnestly preventing the loss of State assets. It is necessary to step up the establishment of a legal system conforming with national conditions for opposing monopoly, guaranteeing fair trade and protecting fair competition, create and safeguard a market environment for fair competition, spurring SOEs to improve efficiency and realize the rational allocation of resources.

From China People's Daily, 12 November 1999

EUROPE

ITALY EXPANDS ENEL SALE, HAILS DEBT EFFECT

Italy on Sunday boosted the privatization of electricity monolith Enel to make it potentially the world's largest initial flotation, saying the roaring success would help slash Italy's overblown debt. Treasury Minister Giuliano Amato, hailing "massive demand" from investors, said the Government had raised the Enel stake on offer to at least 30 percent from 20 percent and had fixed the sale price at a maximum indicated price of 4.3 euros per share. The 4.3 euro offer price gives Enel a market capitalization of some \$54.8 billion, making it the world's largest publicly listed electric utility in market cap terms, the Treasury said. The Government set a 4.5 percent "greenshoe," or over-allotment option, and earmarked a further one percent for bonus shares -- meaning the up to 35.5 percent of Enel on offer could raise a record 18 billion euros (\$18.87 billion). Japanese mobile phone operator NTT Dokoma

currently holds the award for the world's largest retail offer in dollar terms after its \$18 billion IPO last year. "This is a great success, both in terms of the financial markets and of Italy's public debt," Amato told a news conference, saying Italy would now fulfil this year's aim of slashing public debt by three percentage points of gross domestic product despite stubbornly slow economic growth. "We believe we can achieve what we have not got from growth with the income from buyers of Enel shares," he said. Some 3.8 million people -- a record for retail demand in an Italian selloff -- applied for five times the number of shares originally on sale. That prompted the Treasury to halve the minimum lot to 500 to satisfy as many people as possible. All applicants will then enter a lottery for a further 500 shares, thereby allowing some 20 percent to get 1,000 shares. "The capitalization of the Italian bourse will be increased by more than 10 percent" by Enel's listing, Treasury Director General Mario Draghi told a news conference. Draghi said the Enel sale meant Italy would pocket some 45 trillion lire (\$24.4 billion) from privatizations this year, far outstripping its \$8 billion target. Delays in the Enel selloff and hiccups in other planned privatizations had raised doubts the Government would even get the \$8 billion it had pencilled in. But the Treasury was all smiles on Sunday. "Our goals for 1999 privatization proceeds have been more than surpassed. Total receipts should be...around 45 trillion lire," Draghi said. Italian privatizations overall have now brought some 118 trillion lire (\$63.87 billion) into state coffers, Amato said. Italy's debt totalled 118.7 percent of GDP in 1998, way above the 60 percent ceiling set in European monetary union criteria for monetary union. But the Government last month cut its 1999 debt/GDP forecast to 115.7 percent from a March forecast of 116.9. Some economists believe the 1999 debt ratio could fall as low as 114.8 percent with the sale of 30 percent of Enel. Experts said strong demand from institutions, the flood of retail applications and a rosier picture on Wall Street appeared to have removed any lingering doubts about increasing the sale. Nigel Hawkins, utilities analyst at Williams de Broe in London, said the stake increase had been anticipated in the grey market where Enel was quoted at 4.6 to 4.7 euros on Friday "Today's confirmation suggests the grey price is reasonably accurate and the shares may go higher than that," he said. But Enel is also being warned it must deliver promised cost cuts and attract new revenue streams to offset electricity tariff reductions imposed by the sector's liberalization.

From Reuters, 31 October 1999

MIDDLE EAST

SAUDI SEES PRIVATIZATION OF POWER SECTOR SOON

Saudi Arabia's electricity minister on Wednesday said the kingdom's power sector would be privatized soon with the creation of an umbrella company, the official Saudi news agency SPA reported. It quoted Minister of Industry and Electricity Hashem bin Abdullah Yamani as saying the ministry expected to set up the Saudi Electricity Company in the "very near future." Saudi Arabia last year announced plans to merge a number of mainly state-owned loss-making power firms into one company. Saudi Arabia is struggling to keep pace with electricity demand rising at about 16 percent a year and has in recent years experienced blackouts in some cities during heavy load times. The kingdom's four major regional electricity companies have been reporting steady losses for years, prompting Government intervention to help bail them out. Yamani said amending tariffs and restructuring would allow the sector to rely on itself and not burden the state budget. He said the kingdom would eventually divide transmission, generation and distribution into separate entities, SPA said. The power sector "will be open to competition and there will be no exclusive advantages for any company," Yamani said. "Thus, international firms will be able to assist the national capabilities in strong competition in the more important side of the power sector, which is the generating sector because it sets the cost of services for customers." The privatization drive is part of a wider attempt by Saudi Arabia and other Gulf Arab states to diversify their economies. Last year, Saudi Arabia privatized its telecommunications sector, setting up a company to take charge of providing services to the public.

From Reuters, 10 November 1999

THE AMERICAS

PERU ACKNOWLEDGES PRIVATIZATION REVENUE TO MISS GOAL

The Peruvian Government acknowledged Tuesday it would likely receive about \$400 million in privatization revenue this year -- well short of its \$800 million goal -- due to several sale postponements. Juan Barcellos, head of the Government's body overseeing state sales, said financial turmoil that rocked Latin America earlier in the year and kept fresh investment out of the region led to delays in some asset auctions. Changes in the government's privatization team in the second half of the year, as key members either resigned or received promotions, also caused interruptions in the sales process, Barcellos told reporters at a news conference. "If we carry out the sales of Edegel and (operating contracts for) regional ports, we could reach \$400 million," he said. The Government has earned about \$260 million from privatizations so far this year. Macroeconomic analysts and sales officials estimate the auction of state-held shares in the private electricity utility Edegel could raise \$100 million, meaning the Government would need to raise about \$40 million from port auctions to hit its new goal. Next year, however, revenues could spurt, as the economy is expected to recover from a sluggish 1999 and the Government has slated auctions in the first quarter for potentially Peru's largest foreign investment -- the Camisea natural gas project. The Government estimates it will receive \$870 million from state sales next year as part of its sweeping privatization programme that has earned direct revenue receipts of about \$9 billion since 1991.

PRIVATIZATION PROJECTS STALL IN HAITI

An ongoing effort, backed by international financial agencies, to privatize Haiti's major state-owned enterprises has apparently stalled amid the country's political turmoil and upcoming elections. A timetable submitted to the World Bank in May by Prime Minister Jacques Edouard Alexis called for bids to be requested in mid-June for the telephone company, in early August for the airport and in September for the seaport. The winners were to have been selected for all three by mid-November. But bids have not even been requested, according to foreign officials, although all preparatory work, including technical analyses by contracted outside firms, has long been completed. In a letter to Alexis dated Aug. 31, a copy of which was obtained by The Herald, Orsalia Kalantzopoulos, director of the World Bank's Caribbean Country Management Unit, essentially asked: What's going on? She noted that Alexis, in a May 21, 1999, letter, "had clearly indicated the different stages to follow in order to bring the program of modernization of the public enterprises to completion that the Government has been pursuing since 1995 with the support of the World Bank and other investors." "In this correspondence you proposed a calendar of how to put these in effect with detailed information and different actions to follow with the dates of the different stages," Kalantzopoulos pointed out. "The calendar runs to the end of March 2000. We would like you to inform us of the actual state of this calendar and the measures that your Government is taking to complete the indicated steps in order to put in effect this program which is very important economically for your country," added the letter. The question was again discussed with Haitian representatives in October during the annual World Bank/International Monetary Fund meeting in Washington, according to Bank officials. As of last week, however, they said Haiti had not yet responded to the letter. The suspicion among foreign diplomats is that the failure to carry out the privatization -- or modernization as it is known in Haiti -- of the three enterprises is related to parliamentary and local elections scheduled for March 19. While not directly involved in the process, Haiti Foreign Minister Fritz Longchamp acknowledged as much in a Nov. 11 interview. He said he did not know the details but that there had been a meeting on the issue earlier that week and "the Government does understand what's going on." "The very initiative of privatization was taken way back in 1996 by this president [Rene Preval] because he has always said he believes it is in the best interest of Haiti, and especially the consumers, to have those enterprises in the hands of the private sector as opposed to the Government," Longchamp said. "But there again we have the reality of our political situation, and the very fact that we don't have a parliament, that we don't have a political consensus on this issue, has hampered the ability of the Government to carry it out." Privatization has been an ongoing source of political and social controversy, opposed by the trade unions and influential former President Jean-Bertrand Aristide. Preval, who took office in 1996, recommitted Haiti to the privatization efforts as part of the country's economic reform program, but his government is apparently unwilling to confront either Aristide or the unions on the issue before the March elections. With a combined payroll of more than 7,500, the seaport and the telephone company have long been traditional sources of political patronage. The concern among foreign officials is that if the bids are not called for and contracts let within the next few months, new technical analyses will be required and there may be no international funding to finance them. And without the improved efficiency that privatization would provide in the major state enterprises, officials say, it will be increasingly difficult for Haiti to attract any significant foreign investment.

From Miami Herald, 23 November 1999