

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

EU AND AFRICANS TRY TO OVERCOME MISTRUST BEFORE GOODWILL SUMMIT

Africans are calling for urgent action on their most pressing economic problem - a staggering external debt which leaves many nations spending more on repayment than on health and education combined. The first European-African Summit was meant to draw the continents closer together, but the mistrust that divides them was evident as meetings began on Monday. "We are not a British colony any longer," Zimbabwe's President Robert Mugabe said in an angry response to British criticism of political violence at a weekend peace march organized by the country's biggest opposition alliance. Demonstrators were attacked by black war veterans as they protested the takeover of more than 700 white-owned farms. "Britain has no right, no right at all, to try and suggest to the rest of the world that we are a failure," he told Associated Press Television News, complaining Britain was "trying to teach us how to run our country." Britain was planning to raise the violence at the Monday-Tuesday summit, but British Foreign Secretary Robin Cook indicated that he might be willing to put it off until after the summit. "They need help, we want to help but it is very difficult for us to help when President Mugabe insists on treating Britain as an opponent, not as a partner," Cook told reporters in Cairo. Meanwhile, host Egyptian President Hosni Mubarak tried to keep the summit from deteriorating into a forum for airing old grudges. Arab diplomats speaking on condition of anonymity Monday said Mubarak asked Gadhafi not to raise controversial topics, including demanding an apology from Europe for the Crusades. A strident critic of the West, Gadhafi reportedly had planned to talk about Africa's grievances with the continent's former colonial masters. Gadhafi wants Europe to take greater responsibility for the poverty in Africa. Whether Gadhafi, who often ignores diplomatic niceties, will comply with Mubarak's request won't be known until his address on Tuesday. The summit drew heads of state, government leaders and top ministers from 15 European and 52 African nations. Africans are calling for urgent action on their most pressing economic problem - a staggering external debt which leaves many nations spending more on repayment than on health and education combined. But despite a weekend of hectic negotiations, they are unlikely to see any new debt relief here. The 15 European Union nations say the issue is being dealt with in other institutions. The participating nations did, however, agree to step up studies of debt reduction before a future ministerial meeting, which is to come up with proposals on dealing with debt. "This movement has not been enough," said Salim Ahmed Salim, secretary-general of the Organization of African Unity. But he did not want to take the shine off the symbolic meeting, adding that whatever the scale of the progress, "we appreciate it." The debt issue was a clear indication that a deep rift, dating from the days of colonialism, has yet to be fully bridged. After months of preparatory meetings, foreign ministers still had to work overtime during Sunday's session to iron out differences on the summit documents to be issued Monday. Despite the difficulties, the ministers agreed on a follow-up summit in 2003, with Greece a candidate to host it. African nations insisted their combined \$350 billion debt should be the center of the summit. Amr Moussa, foreign minister of host country Egypt, said debt and lack of investment have blocked Africa's sustainable development. "The real European-African partnership should be based on promoting development and liberating the African continent from its debts, which have been preventing economic progress and depriving Africa of its equitable share in the global economy," Moussa said. European nations, however, are stressing human rights issues and ways to avoid brutal civil wars which have led to genocide and invasions. This has led to charges that Europeans want to hector Africa while doing little to help solve their economic plight. The European Union wants democracy, rule of law and clean government as conditions for cooperation with Africa. It wants to place high on the agenda items such as arms and drug trafficking, AIDS, refugees and illegal immigration.

From Turkish Daily, 4 April 2000

ZIMBABWE'S ECONOMY UNDER THREAT

The occupation of farms is delaying crop sales amid the violence and political upheaval in Zimbabwe, and fears are growing that the country's fragile economy could suffer long-lasting damage. The farms at the centre of the dispute over land reform provide the nation's economic backbone - agriculture is said to make up 20% of gross domestic product. At the heart of the current problem is the fact that just 4,500 white farmers own 11 million hectares of prime agricultural land, mainly huge commercial estates. About one million blacks own 16 million hectares, often scratching a living in drought-hit areas. But the policy of land redistribution - a key plank of President Mugabe's election campaign - could end up hurting those it seeks to help. Heinrich von Pezold runs a 22,000 hectare estate north of the capital, Harare. As well as tobacco - Zimbabwe is the world's second largest exporter - he produces maize, wheat, soya, beef and citrus fruit. The farm was invaded by war veterans last week and Mr. Von Pezold has been counting the cost since. Next year's crop is badly damaged. "We are running around doing crisis management, not farming any more," he said. The implications of that could be serious. This particular farm employs 2,500 workers, indirectly supporting 20,000 people. Problems at the farm could lead to many of them joining an unemployment total which some put as high as 50%. While many white farmers agree that 1% of the population should not own most of the productive land, they believe simply handing it over to people who might not have the money to farm it is not the solution. Roger Hawkins, professor of business studies at Zimbabwe University, agrees. "There's no way you're going to have small-scale agriculture performing as effectively and efficiently as large-scale commercial agriculture has over the years," he told the BBC. In the immediate future, however, there are more pressing problems

to tackle. Although many crops had already been harvested before the farm occupations began, farmers must still sell their produce. Disruption of production and absenteeism have forced the Zimbabwe Tobacco Association to postpone the start of the tobacco selling season, due to begin on 26 April. This week only 3,500 bales had been booked, compared with 50,000 last year. Farmers are also concerned about the country's exchange rate, artificially pegged at 38 dollars to the US dollar. They have to pay more for equipment but sell their crops for less, and are asking for devaluation. "The exchange rate obviously needs to be devalued but the Government appears paralyzed on that score," said Roger Hawkins. "The tobacco growers are saying that if there's no devaluation by the time the sales open, then you're not going to have much tobacco delivered to the floor." With inflation at about 50% and a huge budget deficit, Zimbabwe cannot afford to lose crucial revenue from agriculture. Critics say the central bank and the finance minister are doing little to tackle any of the problems the economy is facing. The short-term implications of the demise of the white farming sector are a cause of some concern. Roger Hawkins believes the current crisis could have a big impact on Zimbabwe's economic future. "The long-term effects on confidence, and on people planting crops next year and investing could become very grave indeed," he said. "Winning the election is all that matters now. The economy is just a pawn in the game, really. There are other very serious economic problems building up but these are all being left on the sidelines while the Government concentrates on trying to win the election."

From BBC, 19 April 2000

CHINA AND SOUTH AFRICA TO SEEK NEW WORLD ORDER

South African President Thabo Mbeki and visiting Chinese President Jiang Zemin said on Tuesday they would work for a new world order in which no one nation dominates and the developing world's interests are promoted. "The partnership between China and South Africa is of a strategic nature. The cooperation between us would help us address the larger question of a world order and also address the challenges of developing countries," Mbeki told reporters after several cooperation agreements were signed in Pretoria. "Geographically speaking, China and South Africa are far apart, but in terms of our friendship our hearts are very close," said Jiang, the first Chinese head of state to visit South Africa. A joint declaration setting up a bi-national commission said the principles of sovereign equality and non-interference in the internal affairs of other countries should be upheld. The leaders also pledged to work to reduce the negative effects of globalization on developing nations. Mbeki highlighted the need for debt forgiveness for poor countries and also said he backed China's bid to join the World Trade Organization (WTO). The joint declaration said the two countries would strengthen their economic relationship and specifically encourage cooperation in mining and manufacturing. China also committed itself to supporting Mbeki's quest for an African renaissance, aimed at promoting the renewal of a continent still mired in poverty, disease and conflict. Earlier on Tuesday Jiang was greeted by Mbeki and a military guard of honor at the Union Buildings in Pretoria. The Chinese leader shook hands warmly with Mbeki and members of his cabinet after he inspected the army guard of honor and received a 21-gun salute. Taiwan, which China regards as a renegade province, cultivated its links with South Africa during the apartheid era. Pretoria did not establish diplomatic ties with Beijing until 1998, after relations with Taipei were cut. South Africa's opposition Democratic Party and foreign affairs analysts have urged Mbeki to use the opportunity to hold frank discussions with Jiang over human rights in China. "Perhaps South Africa has more leverage than countries like the United States because they (South Africa and China) are both countries of the south," Elizabeth Sidiropoulos, an analyst with the South African Institute for International Affairs, told South African radio on Monday. It was not clear whether human rights were discussed at the meeting as the two presidents declined to answer specific questions. Before flying to South Africa, Jiang visited Turkey, Israel, Egypt and Greece. In Athens a small group of activists held a demonstration against China's human rights record. South African exports to China were worth 1.38 billion rand (\$205 million) in 1999 and imports totaled 4.6 billion rand. Chinese companies have invested more than 500 million rand in South Africa, while South African firms have invested four billion rand in China. Jiang is due to meet former president Nelson Mandela on Tuesday, before flying to Cape Town. On Thursday he will visit Robben Island, where Mandela spent 18 years in jail for opposing apartheid.

From CNN, 25 April 2000

ASIA/PACIFIC

LACK OF PROGRESS IN POVERTY REDUCTION BLAMED ON POOR GOVERNANCE, STRATEGY

The United Nations Development Programme (UNDP)'s Poverty Report 2000, released in Beijing on Friday, attributes the lack of progress in world poverty-relief efforts to ineffective government intervention and poor planning. More than three-quarters of the world's countries have poverty estimates, and over two-thirds have poverty-reduction plans, but those who have set substantial poverty-reduction or elimination targets constitute less than one-third, the report notes. Another serious shortfall is the fact that many countries have failed to include the poverty issue in their state development strategies. Moreover, many national programs do not have a solid management structure, and the responsibility for reducing poverty is simply handed down to a ministry of social affairs, which often does not have a say over the coordination of other governmental institutions. "Responsive and accountable institutions of governance are often missing the link between anti-poverty efforts and poverty reduction," the report points out, saying that reforms of relevant government institutions should be carried out concurrently in order to make these plans work.

The report also emphasizes the often-ignored role of local governments and communities in helping implement national anti-poverty campaigns, suggesting that the central government should help local governments establish their authority and capacity in dealing with poverty, and form partnerships with non-governmental organizations.

From China Daily, 07 April 2000

EUROPE

RUSSIA: INVESTORS WANT ECONOMIC REFORMS FROM PUTIN

Moscow's soaring stock market, up 35 percent in the three months since Vladimir Putin took over as acting president, shows that Russia's economy did not wait for his election last Sunday to register its approval. But RFE/RL's Moscow correspondent Sophie Lambroschini reports that foreign investors in Russia will require quick progress on reform of the legal and tax systems, before they show similar confidence. There were strong hints Wednesday (March 29) that Russia's next government -- which will not be officially installed until President-elect Vladimir Putin takes office in May - will focus on economic matters. Deputy Prime Minister for Economic Affairs Ilya Klebanov told reporters that his duties will be widened, while another deputy premier will be named to handle financial affairs, and a third will oversee the oil and energy sector. There will now also be a fourth deputy premier, who will handle social affairs. But according to Denis Rodionov, a Moscow-based analyst for Brunswick-Warburg, investors are waiting for action, rather than words, before judging the new government. Rodionov says that, in the short term, the chief question is who will be the new prime minister: "The thing is, Putin himself is not an expert in economics, he doesn't have a solid economic background. That's why everyone understands that the government's economic policy will be put into effect primarily by the prime minister and not by the president. In this sense, it is very important for investors that the prime minister has good economic knowledge, that he is known to them by some previous actions." Rodionov says that Deputy Prime Minister Mikhail Kasyanov - whose name has often been mentioned as a likely head of government - would be the most acceptable candidate for investors. Kasyanov speaks fluent English and in recent months negotiated the rescheduling of Russia's foreign debts with the West. In view of the international lending organizations, however, investor confidence in Russia can only be re-established if critical structural reforms - needed since 1991 - are carried out. The structural problems include an unreformed banking system, outdated tax laws, the continuing hemorrhage of capital abroad and the general failure to establish the rule of law. An effective bankruptcy law and protection of the rights of investors and property owners are also essential. The European Bank for Reconstruction and Development, or EBRD - the biggest single foreign investor in Russia's private sector - urged structural change in a statement released today (Thursday). EBRD acting chief Charles Frank said that his institution is ready to support Russia's new authorities in building a viable economy - provided Moscow is ready to implement reforms. Frank singled out restructuring the banking sector and ineffective state companies, as well as guaranteeing implementation of present contract law, as what he called essential economic "building blocks." Foreign companies operating in Russia are banding together to lobby the Government for such reforms. The Foreign Investment Advisory Council and U.S. and European business groups are setting up working groups to advise on tax and legal reforms.

Among other things, they want the Government to create an ombudsman's office that could help business cut through the Russian bureaucratic morass. Analyst Rodionov points out that no one yet knows how determined Putin is to distance himself from Yeltsin's economic policies: "There are two realistic paths of development. One is in the direction of more market reforms and a more active implementation of these reforms by utilizing the support of the [newly elected State] Duma. And the second path is the continuation to a certain extent of Yeltsin's policy, which can be described as moderate reforms. [Which path will be taken] depends to a large extent on Putin himself, and how independent from one group or the other he will show himself. That's something we still don't know." Beyond new legislation and structural reforms, investors are also waiting to see whether Putin will act on his pre-electoral promise to hold Russia's oligarchs - or business tycoons -- to the law and keep them out of politics. Rodionov says: "There's not a single law saying that oligarchs have the right to use the state apparatus and state property in their own interests. That's why the most important thing [to watch is how current laws] are applied - how the Government will act. For example, will tenders be organized according to fair rules, or will they be distorted in one way or another?" Other key factors for investors include the behavior of the International Monetary Fund, or IMF. An IMF decision is pending on a 640-million-dollar loan installment for Russia. On Monday (March 26), the Russian Government warned that it intended to revise conditions for the loan, although it did not specify which conditions. At the same time, the IMF's director for Russia, Martin Guilman, told a Russian daily ("Vremya") that the fund was waiting for what he called "signals" that the future Government would quickly implement a new economic reform program. External factors can also affect the investment climate in Russia. Yesterday's decision by OPEC - the Organization of Petroleum Exporting Countries - to increase crude oil output is a crucial case in point. The OPEC decision spurred a decline in world oil prices that will surely reduce Russia's export and tax revenues from oil. It could also lower the ruble's exchange rate, thereby compromising Putin's promises to keep the currency stable. Soaring oil prices over the past several months were a major factor in the recent improvement in Russia's economy, swelling budget coffers and foreign currency reserves, which are now higher than at any time since 1998's effective ruble devaluation. Many observers are concerned that high spending will now lead Moscow to borrow from the Central Bank, with possible inflationary consequences. Such an outcome would not encourage more investment in Russia.

From Radio Free Europe, 3 April 2000

THE AMERICAS

IMF PROTESTERS' GOAL AS VARIED AS THEIR STYLES BUT ANTI-GLOBALIZATION CAUSE UNITES MOTLEY ASSEMBLAGE

He calls himself a "full-time activist," travels by Greyhound from city to city and lives off the \$800 a month in survivor's benefits he receives as a result of his grandmother's death. At 22, Marc Adams aspires to nothing less than peace and justice, considers his African cap lucky and measures good fortune in terms of how quickly police process him after an arrest. "This is what I call my religion," he says in a soft Kentucky drawl as he motions to demonstrators outside the St. Regis Hotel here this week. "And I plan to do this until I die or I get killed doing it." Many protesters like him - at least 10,000, maybe more - have gathered in the nation's capital this week and next to disrupt the spring meetings of the World Bank and International Monetary Fund. Most say the financial organizations are to blame for moving toward a global economy that keeps poor nations impoverished and harms the environment. Despite whatever views they share, their differences are dramatic and their partnership peculiar. Like the demonstrators at last year's volatile protests at the World Trade Organization meeting in Seattle, activists have come here from around the world. They represent 55 nations, more than 200 groups and an abundance of passions. They belong to such organizations as the Teamsters, the Green Party, Jamaicans for Peace and Lesbians for Love. Besides Thursday's AFL-CIO-sponsored rally on the Capitol steps, the groups are holding everything from salsa dances to vegetarian potluck dinners, where participants are urged to dress in drag, for causes ranging from saving the Dupont Circle neighborhood in Washington from gentrification to Ethiopian famine relief. For every Marc Adams, professional protester, there's at least one Clarence Ohler, a former steelworker who, at 74, demonstrates on crutches. "I'm freezin' my butt off out here," he says during a chilly afternoon gathering at the Capitol this week to protest U.S. trade with China, "but I'm used to this. I'm on blood thinners." The strangeness of the coalition isn't lost on Ohler, who came by bus from Aliquippa, Pa., for the AFL-CIO gathering. "These radicals, I don't go in for none of that crap," he says. "But if you don't stick up for your rights, they'll throw whatever down your throats." Such sentiments are the glue that bonds this crew. March among them and listen. They talk of "international solidarity" and "brother-and-sisterhood." They share rhymes for their chants and zeal for their causes. How many of the issues they truly understand (critics say few) seems beside the point. So do their differences, at least according to Adams, who missed the WTO protest in Seattle because of a court date in Los Angeles. "Everybody's weird. Nobody's perfect," he says of himself and the others here. "There's nobody normal in this life. I just know I'm out here fighting for what's right." In and out of foster homes since his grandmother died when he was 13, Adams says he no longer talks with his parents. He hangs out with other protesters in the San Francisco branch of A-16, a coalition of activists opposed to globalization. He has no paying job, lives in San Francisco and says rent runs \$450 a month for his room at a hotel for boarders. When he isn't there, he's likely on a bus or in jail. In the past five years, he estimates, he has been arrested at least 20 times. To many groups here, violence has no place. One, the Ruckus Society, even offers a spring-break package of civil disobedience training "to help environmental and human-rights organizations achieve their goals." Others say property damage is a foregone conclusion. They're not revealing their strategy, but protesters say they've set up a pirate radio station that will employ changing frequencies to spread information on police movements. Adams considers himself "a peacekeeper." He might go to jail for blocking traffic, but not for violence or vandalism, he says. Of the rowdier protesters, he tries to "calm them down." "But as long as they don't hurt no one," he says, "I have no problem with what they do." Adams knows many believe he and other protesters are no-account idealists wasting their time. In response, he invokes the image of slain civil rights leader Martin Luther King Jr., who he says started a movement that didn't result in changes for years. Someday, he promises, his work will pay off - even if he isn't paid for doing it. "It takes a long time sometimes," Adams says. "But other generations to come, they'll be able to see the change."

From USA Today, 14 April 2000

GLOBAL

A THINKER'S GUIDE TO INTERNET ECONOMICS

IT IS supposed to reduce distances and bring people closer. Yet the Internet seems to have the opposite effect on economists. The profession is divided on the effects of the Internet. Some predict that it will hugely boost global growth and kill inflation—hence the boom in technology shares. Others retort that inflation is determined solely by the money supply, and that Internet share prices are overvalued. On this basis, when the bubble bursts, it will leave behind little more economic benefit than did the 17th century's tulip bubble. Recent gyrations in the stock market might seem to support this second view. Many dot.com shares, particularly those of Internet retailers, have fallen off a cliff; some once-bright prospects are finding it hard to raise enough cash to stay in business. Yet the really big impact of the Internet is likely to be felt not among dot.com firms, but in the wider economy. And in this area, the truth probably lies between the economists' two extremes. The Internet will boost efficiency and growth, but not enough to justify current stock market valuations. Faster economic growth will not automatically mean faster profit growth, because margins may well be squeezed. As with most technological revolutions, the biggest benefits of the Internet will flow to consumers and not, in the end, to producers. In practice, the Internet cannot easily be separated from information technology (computers, software and telecoms) in general. In America, the European Union and Japan, business spending on IT is growing at an average annual rate of 12%, much faster than overall investment. This promises additional productivity gains. This article will, however, focus on what is special about the Internet itself, and how it may deliver benefits above those from IT generally. The economic impact of the Internet has

often been described as an oil shock in reverse. The jump in the oil price in the 1970s increased inflation and pushed the world into recession. The Internet reduces the cost of another input, information, and so has positive economic effects. Economists at Warburg Dillon Read, an investment bank, suggest that the new economy should be called the "nude economy" because the Internet makes it more transparent and exposed. The Internet makes it easier for buyers and sellers to compare prices. It cuts out the middlemen between firms and customers. It reduces transaction costs. And it reduces barriers to entry. This last point may surprise dot.com firms that reckon the huge marketing and technical costs of setting up a business, and the supposed advantage that comes with being a first mover, constitute big barriers to entry. In practice, it remains to be seen how big such barriers are: some established dot.com firms have lost market share. But the real point is that the Internet is reducing barriers to entry in other parts of the economy. To understand this, go back to Ronald Coase, an economist, who argued in 1937 that the main reason why firms exist (as opposed to individuals acting as buyers and sellers at every stage of production) is to minimise transaction costs. Since the Internet reduces such costs, it also reduces the optimal size of firms. Small firms can buy in services from outside more cheaply. Thus, in overall terms, barriers to entry will fall. In all these ways, then, the Internet cuts costs, increases competition and improves the functioning of the price mechanism. It thus moves the economy closer to the textbook model of perfect competition, which assumes abundant information, zero transaction costs and no barriers to entry. The Internet makes this assumption less far-fetched. By improving the flow of information between buyers and sellers, it makes markets more efficient, and so ensures that resources are allocated to their most productive use. The most important effect of the "new" economy, indeed, may be to make the "old" economy more efficient. Economies will still be some way from the frictionless world of perfect competition. In some industries, low marginal costs (eg, the extra cost of selling software over the Internet is close to zero) and network effects (eg, the more widely an operating system is used, the more people will want to use it) will result in increasing returns to scale, and thus the emergence of monopolies. But because the Internet will in general reduce barriers to entry, making markets more contestable, competition and efficiency are still likely to increase across the economy as a whole. It is hard to test this conclusion, but some studies seem to support it. Prices of goods bought online, such as books and CDs, are, on average, about 10% cheaper (after including taxes and delivery) than in conventional shops, though the non-existent profits of many electronic retailers make this evidence inconclusive. Competition from the Internet is also forcing traditional retailers to reduce prices. The Internet offers even clearer savings in services such as banking. According to Lehman Brothers, a transfer between bank accounts costs \$1.27 if done by a bank teller, 27 cents via a cash machine, and only one cent over the Internet. Internet retailers and other business-to-consumer firms, such as Amazon or eBay, tend to hog the headlines, but the biggest economic impact of the Internet is likely to come from business-to-business (B2B) e-commerce. GartnerGroup forecasts that global B2B turnover could reach \$4 trillion in America in 2003, compared with less than \$400 billion of online sales to consumers. B2B e-commerce cuts companies' costs in three ways. First, it reduces procurement costs, making it easier to find the cheapest supplier and cutting the cost of processing transactions. Second, it allows better supply-chain management. And third, it makes possible tighter inventory control, so that firms can reduce their stocks or even eliminate them. Through these three channels B2B e-commerce reduces firms' production costs, by increasing efficiency or by squeezing suppliers' profit margins. In the economic jargon, the economy's aggregate supply curve shifts to the right.

2B or not 2B?

The biggest savings are likely to come in procurement. A recent report by Martin Brookes and Zaki Wahhaj, at Goldman Sachs, estimates that firms' possible savings from purchasing over the Internet vary from 2% in the coal industry to up to 40% in electronic components. British Telecom claims that procuring goods and services online will reduce the average cost of processing a transaction by 90% and reduce the direct costs of goods and services it purchases by 11%. B2B exchanges also offer big savings: Ford, GM and DaimlerChrysler are setting up a joint exchange to buy components from suppliers over the Internet, and this week the biggest aerospace firms said they would follow suit. Messrs Brookes and Wahhaj reckon that doing business with suppliers online could reduce the cost of making a car, for instance, by as much as 14%. Their report looks at industries that account for about one-quarter of America's GDP, and uses input-output accounts to include second-round effects of cost savings—ie, that lower costs in one industry will reduce the price of inputs for other industries. They conclude that, in the five big rich economies, B2B e-commerce could reduce average prices across the economy by almost 4%. And this probably understates likely cost savings because it is based on lower procurement costs alone. What does all this mean for inflation and growth? As lower costs encourage firms to produce more at any given price, the long-term equilibrium level of output will rise and the price level will fall. But note that it is the level of prices and not the level of inflation that falls. To the extent that this happens gradually over a period, inflation may be reduced, but only until prices reach their new, lower equilibrium level. The Internet cannot permanently reduce inflation, because this is a monetary phenomenon. If central banks continue to aim for the same inflation target as before, then, beyond the short term, inflation will stay unchanged. If inflation drops below target because the Internet pushes prices down, the central bank will reduce interest rates, allowing faster growth while leaving inflation unchanged. Prices of goods exposed to the Internet may fall, but prices of other goods and services will rise faster than before. By boosting productivity, the Internet can lift the economy's safe speed limit before inflation starts to rise. But how much? The Goldman Sachs study, the most comprehensive to date, estimates that B2B e-commerce will cause a permanent increase in the level of output by an average of 5% in the rich economies, with over half of this increase coming through within ten years. That implies an increase in GDP growth of 0.25% a year. If the benefits of Internet use spread to other industries not included in the study, the eventual gains would be larger. In historical terms, an extra 0.25-0.5% of annual growth would be hugely significant. Estimates suggest that the carriage of freight by rail over a couple of decades in the late 19th century added perhaps 10% overall to American output. But if the Internet by itself seems unlikely to boost economic efficiency by as much as this, the productivity gains from information technology and the Internet together could easily

come close. Computers, software and telecoms now account for about 12% of America's total capital stock, not far short of the share accounted for by railways at the peak of America's railway age in the late 19th century. Moreover, information technology has some advantages over previous technological revolutions. First, unlike the railways, which affected only the movement of goods, it can be applied across a broader section of the economy, including services. The Internet, for example, offers a new information system, a new marketplace, a new form of communication and a new means of distribution. The power of digital distribution may even lead to wholly new products and services that nobody has hitherto imagined, offering the hope of further increases in economic growth. A second positive factor is that the prices of computers and telecommunications have fallen more rapidly than for any previous technology. This is encouraging firms to adopt the Internet more quickly. There is always a lag before new technology lifts productivity growth, because it takes time for firms to reorganize their business to take advantage of new ways of doing things. The recent spurt in American productivity may be the productivity pay-off from the computer revolution, which started 50 years ago with the invention of the transistor. But because the Internet is now spreading extremely rapidly, productivity gains linked to it could arrive pretty quickly. So far this article has argued that the Internet may push down inflation in the short run, and that in the longer run it will boost growth. However, this assumes that the Internet affects only aggregate supply. In reality, it could also boost demand. If equity investors expect faster growth in output and profits and so push up share prices, this will boost households' wealth and encourage them to spend more, even before the increase in supply has materialized. Higher share prices, and hence a cheaper cost of capital, may also boost investment. This may describe the situation in America today. Alan Greenspan, the Federal Reserve chairman, recently argued that an increase in productivity growth could indeed boost demand via share prices.

The risk is that, if this increase in demand outstrips the productivity-led boost to supply, the equilibrium price level, and so inflationary pressure, could rise in the short term, not fall. Some economists even argue that, following a technological shock, the previous inflation target is no longer appropriate. An essay in the 1999 annual report of the Federal Reserve Bank of Cleveland suggests that if rapid productivity gains pull down the costs of production, prices should also be allowed to fall, so workers can enjoy the benefits of higher productivity through increases in real wages. If central banks stop prices falling, and nominal wages, being stickier than prices, lag behind productivity gains, this will inflate profits and share prices will soar on the (false) expectation that profits will go on rising, spurring excessive investment. This suggests that central banks should aim for lower inflation targets than before. Investors certainly seem to have inflated expectations about future profits. But faster growth and lower costs do not automatically justify a leap in share prices. Yes, there will be big cost savings, but to the extent that the Internet lowers barriers to entry and increases competition, this is likely to squeeze profit margins, so passing the benefits on to consumers. History shows that, although the share of profits often rises during the early years of technology-led expansions, as it did in the 1990s, it then usually declines as a result of competition from new entrants attracted by high returns. Consider again the example of railways in the 19th century. Most schemes made little money and many went bust, largely because overinvestment had created excess capacity and fierce competition. Britain's railway mania of the 1840s certainly had much in common with Internet fever. Share prices soared, then spectacularly tumbled as many lines failed to deliver expected profits. There is a big risk with the Internet, similarly, that boom will be followed by bust. But the good news is that, long after share prices crashed, railways continued to function, to the benefit of the economy, if not to the original investors. In all technological revolutions, from the railways to the Internet, the only sure long-term winners are consumers who gain from lower prices and hence higher real wages. There is no reason to expect the Internet to be any different. Indeed, by reducing search costs and increasing the flow of information, the Internet explicitly shifts power from producers to consumers and so looks even more likely to squeeze profits. As with railways, stock markets currently seem to think that Internet firms will be the ones that reap the biggest rewards. But consumers and old-economy firms, from cars to chemicals, that use B2B e-commerce to reorganize themselves are likely to gain most. The overall rate of profits may be little changed, but profits will be redistributed.

Catchup.com

It is often argued that America's lead in the Internet age will give it an economic edge for many years to come. After all, corporate spending on IT is considerably higher as a share of GDP in America than in Japan or the EU, and the proportion of households with Internet access is three times as high. Some economists also reckon that the success of America in exploiting IT partly reflects its flexible, competitive markets. The Internet may yield smaller benefits in more tightly regulated economies with rigid labour and product markets and inefficient capital markets, which prevent labour and capital shifting in response to new opportunities. To turn this argument round, however, the potential for cost savings and productivity gains from the Internet should be much bigger in the EU and Japan than in America. The impact of the Internet on growth could thus also be more powerful in Japan and Europe than in America. This is because the Internet, by increasing price transparency and competition, will directly attack the inefficiencies in their economies. Countries with high distribution margins are likely to see the biggest price reductions and the biggest gains in efficiency. By exposing firms to more intense global competition, the Internet should force governments and businesses to rethink their old, inefficient habits and seek new ways to get around or eliminate market rigidities. In Japan the Internet strikes right at the heart of many archaic business practices that hold prices high and hinder productivity. Take Japan's famously inefficient and expensive distribution system. Suppliers and retailers tend to be tied to manufacturers, through cross-shareholdings. This allows manufacturers to control prices by restricting distribution to their own retailers. However, by increasing price transparency, the Internet will give more power to consumers. Japan often seems to be a nation of middlemen. The longer the supply chain, the bigger the potential gains from B2B e-commerce, since it allows firms to eliminate the many layers of middlemen that hamper economic efficiency. Structural failings in Japan may hinder productivity gains from the Internet at first - but they cannot block them. The Internet allows producers and consumers to seek the cheapest price in the global market. This will make it harder to

maintain higher prices and higher taxes. In Europe especially, by making cross-border purchases easier, the Internet will increase tax competition and so put pressure on governments to reduce taxes. The Internet could also give a boost to growth in emerging economies. Echoing Coase's theory, Andy Xie, an economist with Morgan Stanley in Hong Kong, argues that because the Internet cuts transaction costs and reduces economies of scale from vertical integration, it reduces the economically optimal size of firms. For example, lower transaction costs will make it possible for small firms in Asia to work together to develop a global reach. In this way, the web could open up more opportunities for emerging economies to catch up with richer ones. Smaller firms in emerging economies can now sell into a global market. It is now easier, for instance, for a tailor in Shanghai to make a suit by hand for a lawyer in Boston, or a software designer in India to write a programme for a firm in California. One big advantage rich economies have, their closeness to wealthy consumers, will be eroded as transaction costs fall. Mr. Xie argues that this will help emerging Asia to catch up. The Internet could also accelerate the process of economic catch-up by speeding up the diffusion of information, which will help new technologies to reach emerging economies. The Internet is spreading rapidly throughout Asia, Latin America and Eastern Europe. In contrast, it took decades before many developing countries benefited from railways, telephones or electricity. If America can look forward to significant gains from IT and the Internet, then the rewards to other economies could be even bigger.

From The Economist, 1-7 April 2000

Governance Systems and Institutions

ASIA/PACIFIC

WEI JIANXING VOWS TO DEEPEN ANTI-CORRUPTION DRIVE

Wei Jianxing, China's top official in charge of disciplinary work, has pledged to deepen the current anti-corruption campaign by instituting structural reforms meant to wipe out corruption at the source. Wei, a member of the Standing Committee of the Political Bureau of the Communist Party of China Central Committee, made the remark during his inspection tour of Shenzhen and several other cities in southern Guangdong Province from April 13-24. To prevent abuse of power at the source has been the fundamental measure to prevent and control corruption, Wei said. Shenzhen has heralded a series of reforms including open-bidding for land-use rights, setting-up of property markets, and experimenting with government procurement in an effort to build a clean government, according to the official. He condemned some leading officials for misusing their administrative powers and taking huge bribes, adding that some loopholes in the system have been used by these corrupt officials to make their own profits. Wei proposed that supervision should be increased over projects which have to be examined and approved by administrative departments.

From China Daily, 24 April 2000

EUROPE

CORRUPTION WIDESPREAD IN POLAND'S ECONOMIC CIRCLES

Poland's corruption problem was particularly rife during the privatization of state companies, the Accounts Court (NIK) said in a report released Monday. "The scale and nature of the noted losses point the finger at dishonest state officials and raise suspicions of corruption," the report said. Several transactions with western European companies were seen as dubious, the court alleged. These included the 1992 takeover of the FSM car maker by Fiat of Italy, the 1997 purchase of a large Warsaw commercial centre by the Dutch group Eastbridge and the privatization of the Huta Warszawa steel factory to benefit the Italian company Lucchini. But the court's president, Janusz Wojciechowski, admitted there was no concrete proof of illegal deals or kickbacks that could lead to precise accusations and added that the NIK could only assert that state funds had been misused. The report said corruption had fostered a threatening atmosphere in all economic sectors in Poland, especially in the areas of public tenders, administration of state funds, the issuing of permits, tax and customs exemptions and even the police. The court's allegations come several days after the World Bank announced that corruption was widespread and growing in Poland, including in the higher echelons of state administration. Poland is one of the frontrunners among Europe's ex-communist states for European Union membership, and is the region's economic powerhouse. It joined NATO last year along with Hungary and the Czech Republic.

From Poland Today, 28 March 2000

HUNGARIAN SOCIALIST ACCUSES TORGYAN OF CORRUPTION

Socialist parliamentary member Tibor Szanyi has submitted a report accusing Agricultural Minister Jozsef Torgyan, chairman of the Independent Smallholders Party (FKGP), of abuse of office, Hungarian media reported on 11 April. Szanyi claimed that the Agricultural Ministry transferred at least Ft 500 million (\$1.85 million) to a company partly owned by FKGP parliamentary member Gyula Balogh. He also alleged that a cooperative run by Janos Lengyel, FKGP candidate in the Fehergyarmat by-elections, received Ft 480 million. Both Torgyan and Balogh said they will charge Szanyi with slander.

From Hungary Today, 13 April 2000

MANY SERBS SEE CORRUPTION AS TOOL FOR SURVIVAL

Serbs believe corruption has grown sharply under Slobodan Milosevic's rule and many now view it as a necessary tool for survival, an opinion survey showed on Tuesday. "One in five people had found themselves in a situation where they were asked for a bribe," said sociologist Srecko Mihailovic, who led the team analyzing the results of detailed interviews with 1,619 people from a cross-section of society. Presenting what it billed as the first such survey, the team said that even many supporters of Milosevic's ruling coalition thought there was a lot of corruption among top officials, a tolerance which explained the lack of detailed moves against it. Senior officials topped the list of professions seen as most corrupt, although many people cited customs and the health service as the areas where most bribery went on. "Three fifths of citizens think that we are currently all obliged to give bribes to realize our rights," Mihailovic said. His fellow-sociologist Stjepan Gredelj went a step further, saying corruption was viewed by many as a way of easing hardship and overcoming social injustice. More than half those surveyed thought it was morally justified to resort to the black market. "Unsolved social problems have been compensated for through the institution of bribery," Gredelj said. Of those polled, 91 percent saw corruption as widespread now, compared with just 14 percent who felt the same way about their country 10

years ago, when Milosevic was rising to power. Asked how they thought the country would look in 10 years' time, 21 percent said corruption would still be widespread. The sociologists said the results were depressing, but not hopeless, noting that just over half rejected bribetaking. The survey also showed a divergence between the government and people. Only seven percent of those polled echoed Belgrade's stance that war and sanctions were to blame for corruption. Most blamed the authorities or an individual official, the survey said. It did not name names, and said the fact that many of those surveyed had been reluctant to assess the extent of high-level corruption seemed to point to a fear of retribution. Psychologist Bora Kuzmanovic told Reuters the perception that corruption was widespread should logically help trigger political change, but that for some it increased apathy since they felt the opposition was either involved or helpless. Milosevic's opponents have campaigned to oust him since NATO launched air strikes last year over his repression of Kosovo's Albanian majority, blaming him for years of conflict, isolation and economic crisis. But the public response has been weak. "If a citizen feels institutions are incapable of carrying out changes, or he has no trust in them, then this sense of corruption leads to depression, rather than to some kind of active approach to the matter," Kuzmanovic said.

From Yugoslavia Today, 12 April 2000

Civil Services & Ethics in Public Sector

AFRICA

16 CHATSWORTH COPS TO BE MOVED AFTER CORRUPTION CLAIMS

The South African Police Service announced on Tuesday that 16 of the most senior policemen at the Chatsworth police station south of Durban would be transferred to other stations following allegations of irregularities and corruption at the station. The officers, who include captains and senior-superintendents, were given until Thursday morning to give reasons why they should not be transferred, Assistant Provincial Commissioner Mulder van Eyk said at a news conference at the station. The police announced earlier that Chatsworth station commander Senior Superintendent Mogambury Perumal would be transferred to the province's crime prevention component. Senior Superintendent James Sayer, who is head of crime prevention in Umlazi, will take over command of the Chatsworth station. Van Eyk said the remainder of the 144 policemen and women at the station might also be transferred. "We are considering the option of also transferring the other police officers at the station and replacing them with other competent officers. We need to manage the situation urgently and efficiently." Van Eyk told the 16 of their fate in a meeting earlier on Tuesday. The senior officers at the station reacted with total disbelief to Van Eyk's announcement, and told Sapa they believed they had been "sold out". The policemen have informed their unions and are currently waiting for legal advice. Two senior policemen, Captain Lister Mabaso and Senior Superintendent Koos van Rensburg, will also join the detective branch in Chatsworth. Sayer was introduced to officers at the station on Monday. "Accusations and allegations continue to flow on a regular basis against some members of the station," KwaZulu-Natal Provincial Commissioner Moses Khanyile said in a statement. Khanyile made the decision to move Perumal after expressing deep concern about service delivery and the low level of confidence experienced by police at the station. It would be the first in a number of steps taken to address concerns by the Chatsworth community, Khanyile said. He said police management would monitor the station. Van Eyk said the decision to transfer the 16 was taken in consultation with National Police Commissioner Jackie Selebi. Selebi was scheduled to visit the station later on Tuesday. The announcements come after 12 children were killed during a stampede at Chatsworth's Throb nightclub on 24 March, sparked by a gas canister thrown into the club. A thirteenth child died later in hospital. For some time there have been allegations against police from Chatsworth and several (police officers) are currently being investigated on criminal charges. Because of these allegations and the incident at the Throb nightclub, the perception is that the community has lost faith in the Chatsworth police. At a memorial service for the children on Sunday, Deputy President Jacob Zuma, suggested police officers might have been involved in the gas attack. On Monday, Chatsworth policemen demanded a public apology from Zuma and threatened a go-slow. Van Eyk said on Tuesday, however, the decision to move the police officers was not prompted by Zuma's remarks. Van Eyk nevertheless told the policemen that police management did want "to prevent a similar incident as that at the Throb nightclub from happening again". Allegations that some policemen had shares in the Throb nightclub have also been made. On the night of the tragedy residents marched to the police station to demand that it be closed down. On 21 March about 600 people marched on the station to hand over a memorandum in which they asked President Thabo Mbeki to investigate possible police involvement in crime. The protesters, mobilised by the local community policing forum, demanded an inquiry after a number of Chatsworth policemen allegedly had been implicated in crime over the last few months. Four police officers have been charged in connection with one of the country's biggest robberies in August 1997 in which R31,5-million was stolen from SBV. Perumal was also recently implicated in the heist during court proceedings. Two officers from the station have also been charged recently for allegedly murdering a deaf mute who sought shelter there. Another two officers from Chatsworth police station were recently sentenced to 23 years' imprisonment for their part in a R7-million cash-in-transit heist involving an SBV vehicle.

From S. Africa-News, 04 April 2000

MEDICAL ETHICS GROUPS FEAR EXPLOITATION OF POOR

Proposed changes to medical protocols could make it easier for researchers to use patients in poor countries as human guinea pigs. Prominent South African researchers and medical ethics specialists are alarmed that proposed amendments to research protocols could open the door for researchers to use patients in poor countries as human guinea pigs in global medical research. In a series of open letters challenging the values of the medical fraternity, the group cautions that proposed amendments to universal medical research protocols could lead to unprecedented exploitation of the developing world in the service of science. This comes as the World Medical Association (WMA) considers significant revisions to the Helsinki declaration - the internationally recognized benchmark for ethical practice in research. The proposed revisions want to establish the principle that investigators and researchers should not be held responsible for providing better health care than is generally available in a particular country. In addition, the revisions also propose various conditions under which requirements, such as informed consent in experimental procedures, may be waived. According to a renowned academic and ethicist, Professor Solly Benatar of the University of Cape Town's (UCT) department of health, such proposals "will make it easier to do research in developing countries, opening avenues for exploitation". One of the possible implications could be that risky procedures could be tried out or tested with impunity in the world's poorer countries - procedures and treatments that would lead to billion-dollar lawsuits if unsuccessful in the developed world.

Professor Leslie London, of UCT's department of public health, who has been at the forefront of the bioethics debate, questioned whether "the globalization of medical ethics would set some rules for poor countries, and others for rich ones". London, who has co-authored several journal articles on the subject, wrote a letter to the South African Medical Journal last year sounding the alarm on the proposed revisions. He wrote that such revisions could "roll back the very important human rights considerations that underpin the [Helsinki] declaration". In his letter London cautioned that abandoning an existing universally applicable standard of treatment would be "an abrogation of researchers' responsibilities". He added that it would "hasten increasing inequity, and establish a two-tier system of appraising ethical requirements for research". London acknowledged that each individual situation needed to be judged on its own merits, but added that researcher accountability was paramount. South Africa is a favorite for drug trials, ranking fourth in the world behind the United States, Europe and Japan. This is, morbidly, due to the wide prevalence of disease, exacerbated by the spread of HIV/Aids, coupled with a reasonably efficient infrastructure. It is for this reason, London urges, that South African doctors and the South African Medical Association should "take the lead in opposing changes that will make it easier for unethical research to be conducted on people in vulnerable positions". The WMA has temporarily shelved the proposed amendments and is calling for further consultation. Meanwhile, Minister of Health Manto Tshabalala-Msimang announced on Tuesday that 4,2-million people, or one South African in every 10, are estimated to be HIV-positive and more than half of these are between the ages of 20 and 30. The Ministry of Health says the infection rate of pregnant women has declined slightly, from 22,8% to 22,45%, but the minister says this could be attributed to factors like higher mortality rates and fewer HIV-positive women falling pregnant.

From The Mail & Guardian, 24 April 2000

SOUTH AFRICA PLANS FOR NEW LOOK IN CIVIL SERVICE

Drastic changes could shake South Africa's public service if proposed plans are implemented. South Africa's 1,1-million civil servants face a revolution in their working conditions if the Government has the political will to get its plans past suspicious public service trade unions. The Government is due to unveil new pay and retrenchments packages for civil servants next month - the first of several elements in the overhaul of the public service. The new public service set-up envisaged by the Government includes targeted recruitment of the brightest and the best in universities and technikons for management positions. There will be mapped-out career paths for high-flyers under a new, more transparent system of promotions. Individual civil servants will be rewarded under pay incentive schemes for hard work and for increases in their competencies or responsibilities. Benefits - such as medical aid, housing and car allowances - will be radically redesigned. And, as employers, the Government and the nine provinces will have much more flexibility in retiring or firing civil servants. The new regime will mean an end to the old system of automatic, so-called "rank-and-leg" promotions that civil servants have enjoyed until now, which has entailed an inexorable rise in the Government's personnel costs, with little or no increase in productivity. The Government will not be entering into a new national framework agreement with trade unions to govern public service conditions of employment. Instead, it wants a series of more pliant and narrower agreements. The changes will also put in place a flexible framework for the central Government and provinces to farm out various functions and services to private companies, co-operatives established by civil servants, and to semi-autonomous agencies run by civil servants on commercial principles. There will be a similar model for service-sharing arrangements, under which several public bodies might co-operate to rationalize the costs to themselves of performing a particular function.

Minister of Public Service and Administration Geraldine Fraser-Moleketi told the Mail & Guardian she hoped to change the culture of the public service in the process. Fraser-Moleketi told the M&G that the changes would entail job losses in the public service, but she declined to name a figure. Two weeks ago she briefed the Cabinet on the results of audits of the personnel requirements of central Government and the provinces. The Government was busy analysing them -- a process it hoped to complete by June. Fikile Majola, general secretary of the National Education, Health and Allied Workers Union, the biggest of the public service unions, told the M&G, however: "There will be no retrenchments in the public service. We have been in no discussion with the Government about this issue." He added: "We will be going into a meeting with the Government on May 15, but this is to discuss remuneration policy and the personnel expenditure review." The Government's position on the new pay and retrenchment packages, however, is understood to be that they are not negotiable. Majola said he had seen a government proposal that certain services be outsourced, but no detail had been tabled "on what needs to be outsourced". Majola added: "We have not even jointly decided to outsource, let alone agreed on retrenching - which is premature at this stage. Of course, if the Government proposes retrenchments, we will oppose it. "What they can't do is just implement," Majola added. Fraser-Moleketi said that the Government would try to ensure that public servants who lost their jobs were offered retraining, and she hoped that a number would find jobs in the new entities being set up under outsourcing arrangements. She said the Government, too, was keen to avoid the situation that occurred last year when, after pay negotiations broke down between the Government and the unions, the Government unilaterally implemented its pay proposals. "We want agreement with the unions on the new plans for the public service," Fraser-Moleketi said. "We must move to a settlement this year. We believe we can do it. We are at a very difficult point. But the reality of transforming the public service is that it is about courage and an understanding of the problem - on our side and also on the unions' side." Four years ago the Government estimated there were 54 000 supernumeraries - people drawing salaries in the public service who had no designated job to do - most of whom used to work for the former homeland administrations. The best indications are that the number of public service job losses will be slightly down on that figure in the short to medium term. In response to a recent parliamentary question, Fraser-Moleketi disclosed that the Eastern Cape Department of Agriculture alone had 4 015 supernumeraries, who were employed to do nothing, at a cost of R152-million a year, or R12,7-million a month, to the taxpayer. Comparative figures show that the South African public service is not overstaffed - even though its use of person power may be ineffective. South Africa has about 20 civil

servants per 1 000 people. Other African countries average out at about 25 per 1 000, while European countries range from 19 to 23 per 1 000 people. Along with the Public Finance Management Act, gradual implementation of which began this month, the changes to the public service are intended not merely to decrease the huge slice of government spending currently taken up by civil servants' salaries, but also to ensure much more effective spending of each tax rand. The Act sets up clearer lines of accountability and rules on how government monies are spent. If greater efficiencies result, this will ensure that there is no fall-off in the availability and quality of services, particularly to poorer communities, when financing or job cutbacks occur in the public service. If those efficiencies are not achieved, however, the quality of services will suffer. That has been the outcome of cutbacks over the past six years in some of the poorer provinces, such as the Eastern Cape and Northern Province. Currently, for each rand someone pays in tax, 39c goes towards paying a civil servant. The Government hopes to bring this down to 37c in 2002/2003.

From The Mail & Guardian, 25 April, 2000

ASIA/PACIFIC

SALARIES GO UP TO BRING CORRUPTION DOWN IN INDONESIA

The Indonesian Government will raise the salaries of civil servants on Saturday as part of its efforts to combat corruption in the public sector. A source at the Department of Finance confirmed that in addition to an across-the-board raise of 64,750 rupiah (S\$15.50), high-ranking officials would also receive extra allowances, in some cases amounting to 2,000 per cent of current levels. In addition to improving the livelihood of 6.5 million civil servants, the source explained that the move was aimed at scaling back corruption at the highest levels. Those at the top echelon of the Government would receive salaries comparable to their counterparts in the private sector. "We're modelling our system after Singapore's," said the source, adding that Singapore's well-paid civil servants contributed to a clean and efficient government. "Officials in the upper echelons have to work harder and have more responsibilities, and they need to be taken care of," said Mr. Sriharto Brodjodarono, head of the Department of Manpower's Information Bureau. While no one here argues against the fairness of raising salaries, some analysts and critics, however, point to flaws in the Government's logic that there is a converse relationship between salary and corruption. Mr. Mahfoedz Mas'od, assistant rector at Gadjah Mada University in Yogyakarta, said that the Government was acting on the erroneous presumption that there was a definitive minimum income level that would encourage public officials to behave in a more moral manner. "It is not an automatic equation that high salary means less corruption," he said, "and we need to study the issue further." Another analyst said the Government was focusing on the wrong constituency. Said Mr. Andre Ata Ujan, director of Atma Jaya University's Centre for the Development of Ethics: "We are compromising with corrupt officials and ignoring the people at lower levels." He added that although the source of corruption was tied closely to economic factors, the administration should view it strictly as a moral issue and go even more strongly and quickly after corrupt officials. But Mr. Umar Juoro, director of the Centre for Information and Development Studies in Jakarta commented: "This will lead to more corruption." According to him, the Government's efforts to reform the bureaucracy would fail without a cleansing of Indonesia's judiciary system. Prosecution of corrupt officials and the development of a transparent and reliable judiciary were crucial to the establishment of a corruption-free society. "Bribes to judges present a bottomline problem, and we cannot solve it by increasing salaries," he added. "If the attorney-general's office can bring one or two high-profile cases and prosecute the offenders, it would give the system credibility." While some objections to the Government's plans are morality-based, those at the bottom rungs of the bureaucracy expressed an entirely different and more practical reason for their disapproval. A personnel officer at Gadjah Mada University, where a protest rally against the Government's plans was held last Saturday, said that the Government did not devote larger slices of the pie to their needs. Although he and his co-workers would benefit from the basic increase, they were frustrated by the fact that their superiors earned so much more, he said. Analysts warned that drastic allowance increases in the higher echelons would spark resentment among junior workers and affect working conditions within Indonesia's civil service. Indonesia's 6.5 million civil servants are divided into two major categories, the "Group" and the "Echelon", further stratified depending on seniority. The Government pays each worker a basic salary and supplementary allowances. All will benefit from a raise of 64,750 rupiah (S\$15.50) starting on Saturday, and another installment for the same amount due in October. Currently, a junior unmarried "Group" worker earns approximately 290,000 rupiah a month in basic salary and allowance. If the Government goes ahead with the next planned increase, this worker would earn 420,000 rupiah a month. Approximately 400,000 civil officers claim special designations under the "Echelon" system. Members of the "Echelon" will receive extra allowances beginning on Saturday. The increases could range from 500,000 rupiah to 9 million rupiah in the higher range. In the lower range, it could be from 50,000 rupiah to 200,000 rupiah.

From Singapore Straits Times, 30 March 2000

THAI INTERIOR MINISTER QUILTS OVER CORRUPTION

Kachornprasart resigned over charges that he fabricated a loan, plunging the Government into an election-year crisis. Thailand's powerful Interior Minister Sanan Kachornprasart resigned on Wednesday, a day after the country's corruption watchdog accused him of making false declarations of his personal assets. "I will resign from all positions except as secretary-general of the party," Sanan, a key political ally of Prime Minister Chuan Leekpai, told reporters. Sanan, who had also been a deputy premier, has been seen as an important political fixer and manager of the ruling Thai coalition. As secretary-general of the ruling Democrat Party, he has had a key role preparing the Government for Thailand's next general election, which must be called by November. Sanan spokesman Ong-Ard Klampalboon told Reuters Sanan had given up his Cabinet posts with immediate effect and would step down

as a member of Parliament today. Sanan's resignation followed a report by the National Anti-Corruption Committee (NACC) accusing him of making incorrect statements in declarations of personal assets when he became a Cabinet minister in 1997 and in 1998. Ong-Ard read out to reporters a written statement by Sanan in which he pleaded innocence and said he had resigned "to facilitate independent enquiries" into the accusations. "I would like to reaffirm to the people and the press that the filings of my assets and liabilities were made with sincerity and in good faith in accordance with the objectives of the constitution and they were made truthfully," Sanan said. Sanan later told reporters he would return to politics if he was ruled innocent by the constitutional tribunal which will review the report by the NACC. "I will return to politics if the court rules that I am innocent," he said. "But if the court rules me guilty, I will quit politics and run a business." Chuan told reporters he had been informed of Sanan's decision but made no comment on the allegations. Period of political uncertainty Thai stock prices fell on the news of Sanan's departure, surrendering hefty early gains as dealers pondered what is likely to be a period of domestic political uncertainty. It may take several days before Sanan's successor is named and the change in the Cabinet could unsettle Thailand's six-party coalition government. The Stock Exchange of Thailand composite index closed down 1.75 points or 0.42 percent at 410.69. It had earlier hit a high of 416.92 points after U.S. rating agency Moody's Investors Service raised the outlook for all Thai financial institutions. The Thai baht was little changed against the U.S. dollar. Financial markets generally like Chuan's Democrat Party and have commended its reform of the economy since Chuan took over at the height of the Asian financial crisis at the end of 1997. Anything that destabilized the Government would thus be viewed negatively by the market, analysts said. Deputy Interior Minister Prapat Potasuthon, a deputy leader of the Chart Thai Party in the ruling coalition, told reporters he believed it was a good time for Chuan to dissolve parliament and call a general election. Thailand's main opposition New Aspiration Party agreed. Reacting with glee to the news of the resignation, it said Sanan had been forced to quit. "The question now is whether the prime minister, in his capacity as government leader who has personally appointed the interior minister and protected him from time to time, would show his political spirit (and call an election)," NAP Secretary-General Jaturon Chaisaeng told reporters. On Tuesday, NACC chairman Opas Arunin said Sanan could be barred from running for public office for five years if NACC's findings were upheld by the constitutional tribunal. Opas said Sanan had made incorrect statements in a declaration of personal assets which must be completed by Cabinet ministers after they are elected. Sanan had said in the declarations that he received three loans for a total of 45 million baht (\$1.2 million) on three different dates in 1997. He had later said the statement was wrong and he had obtained the money earlier than stated. The company that was supposed to have made the loans had no record of the transactions in its books, the NACC said.

From Reuters, 30 March 2000

CIVIL SERVANTS' SALARY HIKES DELAYED

The Indonesian Parliament, which planned to increase pay in a bid to put an end to corruption, has backed down in the face of mounting protests. Indonesia's Parliament has delayed a controversial hike in the salaries of senior civil servants that was scheduled to have taken effect this month, the official Antara news agency reported yesterday. "Parliament has studied this and decided to delay the rise in civil servants' salaries," Minister for State Administrative Reform Freddy Numberi was quoted as saying. Speaker of Parliament Akbar Tandjung confirmed later in the day that the House had notified the Government of its recommendation to delay the hike in salaries and allowances. He said the increases needed to be "revisited", meaning they had to be re-examined. Parliament had earlier agreed to increase the civil servants' salaries across the board in an effort to eradicate corruption. The pay increases were to have taken effect with increases in fuel and electricity prices on Saturday. But students and labour groups protested last week. The salary-hike plan set off loud protests even earlier when it was revealed some top officials' salaries and other benefits would rise by a hefty 2,000 per cent. Mr. Akbar did not indicate if the recent protests in the capital and some cities in other parts of the country had anything to do with Parliament's decision to recommend a halt to the increases. However, he made it clear that legislators believed the hike in pay and allowances should still go ahead -- but at a later date. Reports here last week quoted sources at the Department of Finance saying that the Government hoped to reduce corruption by paying the top layer of civil servants salaries that were comparable to those in the private sector. "Officials in the upper echelons have to work harder and have more responsibilities and they need to be taken care of," the reports quoted Mr. Sriharto Brodjodarono, head of the Department of Manpower's Information Bureau, as saying. But others were quoted as criticising the move. Gadjah Mada University assistant rector Mahfoedz Mas'ood, for example, said the Government was acting on an erroneous presumption. "It is not an automatic equation that high salary means less corruption," he said. When the increases were proposed last year, Muslim scholar Nurcholish Madjid said he did not understand how the Government had the moral courage to ask for such steep increases at a time when the national economy was mired in crisis and the national budget was in distress. The salary-hike plan also came under fire from Dr. Amien Rais, the Speaker of the People's Consultative Assembly (MPR), who told reporters: "The Government should prioritize hiking salaries of low-ranking civil servants. The salaries of the President, the Vice-President and the chiefs of the House and the MPR should be enough. They already enjoy facilities such as official cars and residences. They should be thankful to the people," he added.

From Singapore Straits Times, 04 April 2000

CRISIS IN JAPAN BUT CIVIL SERVANTS REMAIN IN CONTROL

Amid the turmoil of former Prime Minister Keizo Obuchi's incapacitating stroke, the machinery of Japan's Government has hummed on: Sensitive talks with the North Korean Government are continuing on schedule and even the financial markets are unruffled. The sight of such a smoothly functioning administration, even in the face of a leadership crisis, underscores how politicians in Japan are still junior partners to the country's powerful bureaucrats. Politicians have made efforts to claim more power, introducing a British-

style "question time" in parliament recently to encourage members to develop more policy expertise. At the same time, bureaucrats have seen some waning of their control. The lengthy economic downturn has been largely blamed on bureaucratic mismanagement, and a series of scandals have besmirched the prestige of civil servants. But Japan's unelected mandarins still have plenty of clout. "Japan for a long time has been run by administrative officials, rather than politicians with leadership," said political scientist Michio Royama from Tokyo's Sophia University. That has not taken the heat off the ruling Liberal Democratic Party to find a successor quickly to Mr. Obuchi, who remained on life support after suffering a massive stroke. Mount Usu on the northern island of Hokkaido began erupting last week, forcing the evacuation of thousands. If the danger continues, the Government will have to arrange more permanent housing for the displaced. In Pyongyang, a Japanese delegation met on Tuesday with North Korean officials for their first negotiations on establishing diplomatic relations in eight years. And the Government still has a lot of legwork to do to prepare for the G-8 summit of leading industrial nations and Russia on the southern island of Okinawa. For that reason, many Japanese were eager for a new government to be formed quickly. "The Government must make the utmost effort to prevent national politics from grinding to a halt and avoid creating a vacuum," the Yomiuri newspaper said in an editorial. In the meantime, officials insisted that they have everything under control. "There is absolutely no change in economic policy," said Mr. Taichi Sakaiya, head of the Economic Planning Agency.

From Singapore Straits Times, 06 April 2000

KEEPING TALENT IN CIVIL SERVICE IS A BIG PROBLEM

Q: Do you face an increasing problem in retaining talent in the civil service, given the lure of fame and fortune in the private sector?

A: This is a big problem. I think the world outside is a very different world now from the one that we were familiar with when we joined the civil service many years back. When we joined, we were looking for a secure job, a life-long career. Today, the young civil servants are looking for continuous challenges and, if they can't find it in the civil service, they are prepared to move out and to move on. They are not going to wait around to enjoy the benefits of the iron rice bowl. And they are constantly tempted by friends and colleagues on the outside to go and do a start-up and the money that they hope to make is mind-boggling. I was speaking to a young officer the other day who put in his resignation. The sum that he mentioned as the venture-capital money that he got is the sum that we older civil servants hope to have when we retire after a lifetime of working for the Government. So I think the magnitudes are amazingly different. To us, it was something that we will carry with us into retirement, to him it is just seed money for him to make even more fabulous wealth in three to five years. Q: Will pay revision help to ease the situation? A: If you are just motivated by money alone, you won't get it in the civil service. You won't be fabulously rich in the civil service. So you must be looking for something else and it is those people who will stay. But I think having said that, we cannot afford to ignore pay completely. If the guy works in the civil service for the nation and as a service to the country, he lags tremendously behind his colleagues and friends in the private sector, then he will leave. We should ensure that he doesn't lag too far behind. If we don't correct that, we are going to lose a lot of talent. Q: Did you try to persuade the young officer who resigned to stay? A: Well, I had a chat with him and, in the end, I could not honestly tell him to stay. I had to wish him good luck and say, "In three to five years' time, if you feel that you still can contribute to the civil service, you are welcome to come back, because you are a good officer." Q: So far, not many private-sector candidates have joined the civil service. What do you think are the reasons, besides pay? A: In my travels overseas, I have been asking my counterparts in other civil services whether they have had the same experience when they try to take in private-sector people. And they tell me that they have. They say that the people in the private sector find it hard to adjust in the civil service. Many of them find it too restrictive, too rules-bound, too many people checking on you, compared to the private sector which is more freewheeling. It is almost as if they are two different cultures.

Q: What can be done to improve the situation? A: As we adopt more and more private-sector practices to benchmark ourselves against the private companies, to try and bring in the ways they do things -- performance-based pay, the way they appraise people -- I think the two will begin to converge. But I don't think we will ever see a time when the two will become one. I don't think they should become one because, fundamentally, they are about two different things: One is about making profits for the company, the other is about doing service to the nation. We can attract certain kinds of people from the private sector: People who feel that they have had enough of working for the company and the bottom-line, and want to do something different - serve the nation, contribute something worthwhile for the country. They add value to the civil service. Even if, after a while, they find that it's not quite their cup of tea and they leave, we shouldn't begrudge them that. Q: Given the emphasis on consultation, do you hear a cacophony of views among the ranks of civil servants? A: I want to see more of that. It is changing slowly and I hope that as more and more of the younger people come in, we will get more and more of that. It really depends on the style in which the bosses conduct meetings. They are senior managers; the people in the middle ranks and the permanent secretaries. We have different styles. Some encourage people to express their views and others may not, but we hope the change will be towards the former. There will be more and more permanent secretaries who know that they should welcome ideas and encourage their subordinates to speak up. As this happens, more and more people will be encouraged to do so. Q: Generally, civil servants still tend to be cautious when dealing with the press. A: Well, that is a carry-over from the old days. We are trying to teach them how to communicate better. This is also part of the training course that we are trying to implement. We need to supplement and enhance it and get more civil servants to go through it. It doesn't come naturally to us because we are not used to it. We don't see ourselves as projecting ourselves in the public as politicians have to. Civil servants feel that they are supposed to be in the backroom doing all the staff work. Increasingly, we are telling them: "Look, you've got to do more than that. You've got to go out and explain things to the public." Slowly, you are beginning to see more civil servants being interviewed and giving more spontaneous replies, and not having to clear every point that they make with their superiors. Q: More readers are writing to The Straits Times Forum page. This

must put a greater pressure on the civil service to explain its policies. A: Which is a good thing. We would encourage people to say where we need to improve, but I think the civil service has to have a right to reply as well and say, look, the reason why I did this was that this was my thinking. I think this itself is good. So, if you don't agree with that, you can come back with another letter and say, "no, no, why don't you do it this way, why do you have to do it that way?" And I think we will take all that into account. It is not as if we say this is the only way of doing it. Q: When you read the replies from the different government bodies, have you ever said, "Why are they responding like this, why is the tone like this?" A: I think we are adjusting. Even all these letters from various departments and ministries, the tone is not always the same. The tone varies from department to department and ministry to ministry, depending on who is crafting the reply. So, I would say that just as more and more people are writing to the Forum page and expecting the civil service to reply and government departments to reply, the Government is also in the process of learning how best to reply. Sometimes we get it right, sometimes we don't quite get it right. So, we will try to improve.

From Singapore Straits Times, 07 April 2000

CIVIL SERVICE APPRAISALS AND REWARDS TO CHANGE

Radical moves in store, with emphasis on creativity, innovation and solving people's problems, not enforcing rules. Expect some radical changes in the Civil Service soon. It will be restructured to shatter the concept of the Civil Service as an iron rice bowl, and a new appraisal system will reward civil servants for qualities such as innovativeness and creativity. Among the radical ideas being explored is to formalize the "flow-out" of older people from their public-sector leadership positions. In an interview with The Straits Times, Permanent Secretary (Prime Minister's Office) Eddie Teo said that the public service, like the private sector, must enable officers to reach top positions after a "reasonable period of time". Top civil servants can no longer expect to stay there until they retire. "It does not happen in the private sector, and if civil servants are to receive salaries which are benchmarked against the private sector, they must also accept this condition as a consequence," he said. These changes are part of a fundamental relook at some of the civil-service values and ethos. Mr. Teo said: "All of these changes coming about in the new economy, and the way the young civil servants look at life and their career, will impinge on our civil-service values." We will have to say: 'Look, are they still valid? Where is the civil service going? Has it got what it takes to operate in the new environment and the new economy and with all the young people thinking this way? Is this the right way to carry on?' So, I think we are on the threshold of very important changes to make ourselves relevant and pertinent." About 30 people from the administrative service will gather in the middle of this year to brainstorm what needs to be done, said Mr. Teo. One value that needs re-evaluating, is how a civil servant is supposed to perform his duty at all times. If he comes up with an innovative idea in the course of his work and this idea is commercialized subsequently, he is not supposed to have a share in the intellectual property rights.

This must change, Mr Teo said, adding that the emphasis on creativity itself marked a major shift. Previously, the civil servant was "someone who formulated the rules and knew them very well and ensured that they were followed strictly". "We were first-class regulators, making sure that in Singapore, things worked, and worked efficiently." All that still mattered, but mindsets must change so that civil servants will facilitate, rather than regulate business. "In the same way, they must focus on solving the public's problems, the individual's problems, rather than focus on making sure the rules are adhered to." The new appraisal system will reinforce this message, he said. It is tied to the review of the salary structure to increase the weight of performance bonuses in the total wage packet. "We are thinking of pegging an officer's pay more to performance to provide greater flexibility in order to better differentiate the good and outstanding performers from the rest. But we will need to build in a more sophisticated scheme to measure performance because, unlike the private sector, there is no bottom line in the public service." The changes are expected to be announced by next month. Half of the administrative officers who replied to a survey said they would leave the Civil Service to chase their pot of gold. The internal survey, sent out to 270 officers, was conducted last month by Permanent Secretary (Prime Minister's Office) Eddie Teo to get a sense of their motivation. The electronic survey asked if they would leave and do a start-up if they had the opportunity. About 80 replied, half of whom said yes. Most were the younger ones, said Mr. Teo in an interview. "We have to worry about that and think of ways to resolve that," he added. This new outlook is part of a broader future trend - like workers in other sectors, younger civil servants no longer look for a life-long career. They may want to hold more than one job in their lifetime, said Mr. Teo. "So, if we design our system for young people to benefit from a civil-service career only after a long time in service, they will not find it attractive," he said. "If we want some of the best and the brightest to stay on and assume public-sector leadership positions, we must design our salary system and other conditions of service to benefit even the younger officers at an early stage of their career," said Mr. Teo.

From Singapore Straits Times, 07 April 2000

CHINA'S CIVIL SERVICE FEARS PURGE

New disciplinary procedures that will speed up the punishment of civil servants have raised fears of a purge of staff. A new secretariat that brings together disciplinary procedures for civil service departments began operation last week. A Civil Service Bureau circular to departments advises them on what to do in 25 scenarios, including preliminary investigations, pre-hearings punishment and criminal convictions. Departments have been told to compile a progress report on current cases, which would eventually be handed to the new secretariat for further action. Chinese Civil Servants' Association spokesman Peter Wong Hyo said he feared the new system would spark a purge in the civil service. "In order to show its determination to strengthen management, the Government may step up vigilance on staff and launch disciplinary proceedings," Mr. Wong said. The unionist said he had the impression penalties imposed since the handover were harsher than before. He said staff had been sacked and deprived of

pensions for cases that were "not fatal". Officials said centralizing disciplinary proceedings would ensure cases were processed promptly and in a fair and consistent way and improve civil service efficiency.

From South-China Morning Post, 24 April 2000

CHINA PARTY OUSTS LAWMAKER OVER \$4.5 MILLION BRIBES

China's Communist Party has expelled a senior lawmaker accused of taking more than \$4.5 million in bribes and kickbacks in one of its biggest cases of official corruption, the Xinhua news agency said Thursday. The expulsion of Cheng Kejie came just weeks after a former provincial vice governor was executed for taking \$650,000 in bribes. The party's Central Commission for Discipline Inspection had recommended that Cheng be ousted from the National People's Congress (NPC), or parliament, and his post as vice chairman of the NPC Standing Committee, Xinhua said. In his former job as chairman of the government of southern Guangxi province, Cheng conspired with his lover, a married woman named Li Ping, to take 29 million yuan (\$3.5 million), HK\$8.0 million (\$1.0 million) and US\$35,000 in bribes and kickbacks between 1992 and 1998, it said. Cheng is the latest in a string of senior officials ensnared in a crackdown on official corruption, which President Jiang Zemin has called a tumor threatening the party's grip on power. His case would be handed over to judicial authorities as he was suspected of crimes, Xinhua said. It did not say how Cheng would be punished, but last month Hu Changqing was executed for taking bribes while he was vice governor of the central province of Jiangxi. Hu was the highest Chinese official to be executed for corruption since the Communist Party took power in 1949. In one case, Cheng accepted more than 17.3 million yuan and HK\$8.0 million in bribes from Zhou Kun, manager of the Guangxi Yinying Industrial Development Co, it said. In return, Cheng sold land to Zhou cheaply for a car park and shopping center, awarded him a lucrative development contract for an amusement park and arranged a loan, Xinhua said. "The main reason for Cheng Kejie's degeneration is that he abandoned... Communist beliefs and ideals to indulge in sex and lust for money," Xinhua quoted a spokesman for the discipline commission as saying. Cheng also took bribes to promote government officials and made 9.0 million yuan from helping Li and others get land contracts and quotas for cheap sugar, fertilizer and vegetable oil, it said. He pledged to return the money to the state, it said. China announced on the eve of the NPC's annual legislative session last month that it was investigating Cheng, but gave no details of his alleged crimes at the time. China's top graftbuster has said the country faces a "life or death political struggle" against corruption which has staged a comeback during two decades of economic reforms after being virtually eliminated in the early years of Communist rule. The People's Daily, the main party newspaper, will publish a commentary Friday hailing Cheng's expulsion as proof that no one was above the law, Xinhua said. "This shows that the Chinese Communist Party representing the interests of the entire Chinese people is as incompatible with corruption as ice is with hot coals, or fire with water," Xinhua quoted the commentary as saying. Cheng's expulsion follows the exposure of China's biggest smuggling scandal in five decades in the southeastern city of Xiamen, with close to 200 people under investigation. The three billion yuan scandal -- involving smuggled firearms, cars and crude oil -- has ensnared top Xiamen police officers, senior bankers and customs agents, and the former wife of an ally of Jiang in the powerful Politburo.

From China People's Daily, 21 April 2000

EUROPE

IN A RUSSIAN REGION APART, CORRUPTION IS KING

If President-elect Vladimir V. Putin is going to fight corruption and lawlessness in Russia, as he has vowed to do in the wake of his election last month, he might start here on the southern shore of the Baltic Sea. This territory of rolling farmland where Mr. Putin's wife, Lyudmila, grew up and where the 18th-century philosopher Immanuel Kant devoted much of his life to the study of morality is about as corrupt as any in Russia. A region the size of Connecticut that was seized from Germany during World War II, Kaliningrad was a closed city until 1990, serving as the headquarters of the Soviet Baltic Fleet. Now separated from the rest of Russia by 300 miles of Lithuanian and Belarussian territory, the region and its capital, formerly known as Königsberg, are today ruled by Gov. Leonid P. Gorbenko, a political boss who is built like a refrigerator and is a law unto himself. To many here, he is simply known by the Russian diminutive term that translates roughly as "Pappy," or maybe "Big Daddy." In the years after the Soviet collapse, the rough-hewn and hot-tempered Mr. Gorbenko rose from the waterfront, where he ran the docks as port manager. Despite press coverage that he was under investigation for embezzlement, he won election in 1996. Since then, he has issued a decree as governor to take personal control of the cigarette, auto and liquor import trade, positioning himself as the essential middle man in the region's business. Here, importers of duty-free goods must be licensed in an auction process controlled by his office, which invariably rewards the governor's friends. When the local parliament accused the governor of frequently breaking laws of fiscal accountability and of illegally seizing budget money, members of parliament said he simply turned off the electricity of the parliament building for eight months last year and stopped their salaries. The parliament members who audit the budget said that tens of millions of dollars of government funds had disappeared during the governor's tenure, and that each year's audit had been sent to the state prosecutor with a request to investigate irregularities and missing funds. "It is an unfortunate fact that in Russia today the governors have turned into untouchable barons reminiscent of feudal times where they swear an oath to the sovereign but then do whatever they want," said Nikolai P. Tulayev, a former naval officer who serves as the deputy chairman of the Law and Order Committee of the Kaliningrad Duma, or regional parliament. Added Aleksandr G. Khmurchik, editor in chief of Kaliningrad's largest newspaper, Kaliningradskaya Pravda, "What we have here is an authority that is tied to criminality and does not function as an authority elected by the people, but as a power that works for itself and protects its own interests." And therein lies the challenge for

the newly elected Russian president. Mr. Putin cannot lay the foundations for the rule of law or make the country safe for foreign investment or usher in a new era of economic development without doing something about the corrupt regional overlords like Mr. Gorbenko. Even if Mr. Putin chooses to act, the task will not be easy, because the governor, and many other regional officials like him, are not exactly outsiders. Mr. Gorbenko, for instance, is one of the founding members of the Unity Party, a coalition of governors, mayors and other regional leaders who last fall formed a new bloc to support Mr. Putin's candidacy for president and to create a pro-government majority in the national Parliament. "What frightens us is that so far, Putin has not taken any strict measures against Gorbenko," said Igor Rostov, a television executive whose news programs have exposed corruption and criticized the governor during the last three years. "And because Gorbenko is a member of Unity, it gives him the right to say that any attack on him is an attack on the president." Mr. Rostov is also frightened because he believes that the governor and his men have been behind attempts to silence criticism in the news media through threats and intimidation, an accusation the governor has denied. One evening in November, Mr. Rostov said he was walking from his car to his apartment when a man wearing a hat pulled low over his brow approached with a dog on a leash, and then wheeled suddenly to bash Mr. Rostov on the back of the head with a iron pipe. A second man appeared and slammed another pipe against Mr. Rostov's head, and the two assailants pummeled him as he screamed for help. Had his wife, Olga, not heard his cries and come running to put the attackers to flight, Mr. Rostov said he is sure that he would have been killed. As it was, he spent three months recovering from his wounds. It was the third such assault on journalists who have documented allegations of corruption against Mr. Gorbenko and his deputies. The offices of New Wheels, a newspaper, have twice been damaged, once by a pipe-bomb planted just outside, and once by firebombs that failed to explode when they were thrown through office windows. Police officials, who report to the governor, have dismissed those acts as "hooliganism" and "street violence." Mr. Gorbenko declined requests for an interview. He just returned last week from Moscow, where he delivered a tough speech to the upper house of Parliament calling for amendments to Russia's press law that would make it easier for public officials to use the courts to silence their critics. Among the governor's declared enemies is the Moscow-based NTV television network, whose reports about corruption in Kaliningrad and attacks on journalists have been distributed to a national audience. In December, Mr. Gorbenko agreed to an interview with the network's reporter, Eduard Petrov, but minutes into the taping session, he became outraged at the tone of Mr. Petrov's questioning, which focused on the governor's political migration to the Putin camp and away from the Fatherland -- All Russia Party formed by former Prime Minister Yevgeny M. Primakov and Mayor Yuri M. Luzhkov of Moscow. "Do not interrupt me! That's it. End of discussion," Mr. Gorbenko said angrily as he threw down his pen, removed the microphone and walked out of the interview. Even more surprising, one of the governor's deputies, Vasily Kotov, then reportedly offered to pay \$300,000 for the videotape showing the governor's eruption. Mr. Kotov has denied making such an offer, but in February the NTV crew returned to Kaliningrad and upon encountering Mr. Kotov on the street, recorded him on videotape saying: "I thought you would be afraid to come over here. I offered you \$300,000, but you showed such horse manure." In tackling corruption, Mr. Putin will have to walk the fine line between respecting the autonomy of duly elected regional officials, some of whom have strong popular support, while insuring that such officials do not flaunt the law. Some Russian political leaders have advocated a consolidation of power under a strong president like Mr. Putin, one empowered to appoint and remove governors. For the moment, that idea has been beaten back by those who prefer preserving a federal system where regional leaders remain accountable to local voters. Either way, Mr. Putin is woefully lacking in tools to enforce anti-corruption standards across Russia's 11 time zones. The local police, prosecutors and judges -- in the absence of federal financing -- are slavishly dependent upon governors to pay their salaries and even to provide housing. "To hold governors accountable is difficult for both Moscow and for localities," said Mr. Khmurchik, the newspaper editor. "Moscow is afraid to lose support of the regions, and here in the region, everyone walks in the shadow of the governor, and it is difficult to overcome their dependency on him."

Even where there is proof of corruption, added Mr. Tulayev of the Law and Order Committee, "we are still lacking in an honest and independent judicial system." The Kaliningrad parliament is now considering legislation that would set out clearly defined procedures for removing a corrupt governor, but some opposition leaders here are privately hoping that Mr. Putin and the central government will step in to conduct an investigation that, in their view, would provide grounds to remove Mr. Gorbenko. Hopes were raised last week when an inspection team of 50 officers from the Ministry of Internal Affairs and the Federal Security Service arrived here for an unspecified but large-scale investigation. The mandate of this investigative swat team remains a mystery, but it is headed by Gen. Gennadi Y. Marshkov, who publicly denounced Mr. Gorbenko's administration as corrupt before leaving the territory last summer. "It was probably the only time in history that the local head of the F.S.B. criticized the governor in the open pages of the newspapers," Mr. Rostov said, referring to the general and the Federal Security Service. By any measure, Kaliningrad holds the potential to become a rich entrepot like Hong Kong on the northern rim of Europe. The region is generously endowed with a deep water harbor, a well-educated labor force, one of the world's largest deposits of natural amber, rich farmland and endless beaches. There are also modest crude oil reserves. But since Mr. Gorbenko's election in 1996, foreign investors have fled the territory while organized crime figures who run the smuggling, drugs and prostitution businesses have increased their influence. A drug epidemic now rages here, fueled by high unemployment and the ready availability of cheap heroin passing through on the way to big markets in Europe. And Kaliningrad leads the nation in H.I.V. infections, a by-product of drug addiction and prostitution. After four years in office, Mr. Gorbenko has delivered on few of the promises he made to voters to work on their behalf, and it appears that he has lost a great deal of trust. In an encounter with school teachers on hunger strikes last year, one irate teacher complained to the governor that "children are not being fed at schools." "I have no money to feed them," Mr. Gorbenko snapped back. "Nobody is paying taxes. They have destroyed everything, eaten everything and sliced everything up. How can I get their money?" Then, to the horrified teacher, he added: "I want to ask why you allowed them to destroy everything. I will now stand up and leave." This exchange was also broadcast on national television. One prominent albatross still clinging to Mr. Gorbenko's neck is a fiasco surrounding his chicken ranch. Last year, in violation of all fiscal controls, he personally arranged for a \$10 million loan from a German bank to

finance a poultry processing enterprise. But no sooner had the loan been issued than the enterprise declared bankruptcy and the money disappeared. Now the regional government is saddled with paying on the debt. That case, too, has been sent to the prosecutor. No sooner had the chicken ranch controversy calmed down than someone in the governor's administration leaked the text of an exclusive agreement he had signed with an Israeli company, Eurotech Industrial Ltd., granting the company exclusive rights to develop the amber industry, oil business and tourism in the territory. Instead of applause, the agreement was greeted here by a howl of protest because it had been negotiated in secret without bidding and had granted the Israeli company such sweeping guarantees and tax exemptions that the local taxpayers would end up covering any losses. And just before the presidential election last month, Mr. Gorbenko flew to Moscow hoping to win Mr. Putin's endorsement for an extraordinary scheme to renationalize Kaliningrad's major industries -- oil, amber, shipping, fishing, rail and air transport -- under one super corporation to be headed by the governor. This scheme prompted Mr. Khmurchik to ask whether one morning the citizens of Kaliningrad might wake up to find the name of their region changed to Gorbenkograd. "The first thing President Putin can do in the face of a governor such as ours is conduct an investigation so that he will be held responsible for what he has done before the coming elections," Mr. Khmurchik said, referring to the gubernatorial elections in the fall in which Mr. Gorbenko is seeking a second four-year term. Aleksandr Slisarenko, an opposition politician from the Yabloko Party, warned that "Any further criminalization of the government authority must be stopped" before criminals gain complete control of Kaliningrad's economy. And so, like many Russians, they say they are waiting for Mr. Putin.

From The New York Times, 05 April 2000

POLAND SAYS TO CRACK DOWN ON RAMPANT CORRUPTION

Polish officials said on Monday they would wage war on a culture of corruption said to infect government from local authorities to politicians in Warsaw charging millions to block bills in parliament. The co-ruling Solidarity bloc (AWS) said it had prepared a bill that would create a Central Anti-Corruption Office, a special police unit to probe fraud, which authorities said deters foreign investment and hampers economic reform. "Corruption is like a cancer eating at our democracy," AWS deputy Mariusz Kaminski told a news conference. The World Bank had said in a report last month that Poland had a serious corruption problem and should curb graft in parliament, ministries and local authorities. The report, based on talks with parliamentarians, local administrators, judges and other officials, said, for example, that the fee for blocking bills in parliament had increased to \$3 million from \$500,000 in 1992. "Corruption deters foreign investors and tourists...We are taking measures to fight it," Interior Minister Marek Biernacki told the news conference. He said his ministry would cooperate with the anti-corruption group Transparency International to identify laws that encourage corruption and eradicate legal loopholes. The World Bank has said that Poland's laws permit manipulation of the privatization process and irregularities in awarding state orders, operating licenses and tax exemptions. Local media often publish stories of police officers and customs officers accepting bribes. Kaminski said the planned Anti-Corruption Office would employ several hundred highly paid officers with wide-ranging investigative powers. The Office would have power to probe the veracity of personal wealth declarations made annually by parliamentarians, and top government officials. "Nobody is doing that at the moment," said Kaminski. But the bill, due to go to parliament next week, would not directly address the issue of financing political parties, which some analysts say encourages illicit links between businessmen and politicians. Kaminski said he hoped the center-right ruling coalition's smaller party, the liberal Freedom Union (UW), would support the bill in parliament so that it becomes law this year. No UW officials were immediately available for comment.

From Poland Today, 04 April 2000

SLOVAK CABINET APPROVES PUBLIC ADMINISTRATION REFORM CONCEPT

The Slovak Government today approved a concept of the decentralization and modernization of public administration, Premier Mikulas Dzurinda told journalists after a cabinet meeting. The new model of Slovakia's administrative division proposes the establishment of 12 self-governing regions which should have administrative centers identical with the centers of regional state administration bodies. Bratislava as the capital would acquire a special status. In addition, specialized state administration bodies should be established in small towns to take over some powers from the current district and regional authorities, which should cease to exist in the final stage of the reform. The approval of the final version of the concept was preceded by almost one year of talks within the government coalition as coalition parties were unable to come to an agreement on the number of regions and a new method of financing of state administration. Deputy Premier Ivan Miklos told journalists that if "there was a clear political will the reform could be completed in this election term which ends in the autumn of 2002." Government commissioner for the reform Viktor Niznansky said that elections to self-governing regions could be held in the second half of 2001 and the new model could start fully functioning as of January 1, 2002. According to the concept the reform is not to bring further changes in the country's territorial division. Eight regions appeared in 1996, under the Government of Vladimir Meciar. The number of districts has grown in this period to the current 79. However, the partial reform failed to solve the financing of state administration. The need for public administration reform has been stressed several times by European Union representatives. Without its completion Slovakia would have problems with entry to the EU.

From Slovakia Today, 12 April 2000

MIDDLE EAST

ISRAELI CIVIL SERVANTS BACK TO WORK, DOCTORS NEXT

Workers in the 19 government ministries that have been on strike for two weeks returned to their positions yesterday after the workers' union, Ofer Eini, the secretary general of the Histadrut labor federation, and Finance Ministry Wage Director Yuval Rachlevsky reached an agreement. More than 10,000 civil servants went on strike to protest that they did not receive the "special" pay supplements allotted to other groups of state employees. Under the agreement signed yesterday morning, the workers will receive a onetime payment of NIS 350; some 200 temporary workers will be awarded permanent status immediately; financing for an extra 90,000 hours of overtime will be added to the budget; and 300 workers will be promoted. The workers had originally demanded a 30 percent wage increase, even though the actual wage gap between them and the "special" employees was only 18-20 percent. They also agreed that from May 1, the treasury and the unions will commence serious negotiations to bring the salary of these workers on a par with that of the workers who have wage-supplement agreements. Talks will continue for three months and will not be tied to negotiations on a public sector wage agreement. During this time, the ministries will not hire employment agency workers and the civil servants will not strike. Finance Minister Avraham Shochat said that the deal with the civil servants should prove to the doctors that the government is ready to deal -but not to break the wage framework in the budget.

From Israel Ha'aretz, 14 April 2000

THE AMERICAS

QUEBEC: ENGLISH REPRESENTATION IN THE CIVIL SERVICE FELL TO 0.68 PERCENT IN 1998 FROM 0.83 PERCENT IN 1993

Twenty years after the Quebec Government set as a priority changing the face of the civil service to reflect the diversity of Quebec society, anglophones remain under-represented at well below one per cent of the total and have actually lost ground. Anglophone representation fell to 0.68 per cent in 1998 from 0.83 per cent in 1993, according to a report presented in the National Assembly yesterday by Treasury Board president Jacques Leonard. Leonard said in an interview that the declining number of anglophones in government positions reflects the shrinking of the civil service in the five-year period from 58,276 to 46,903 employees. "There was no hiring," he said. But through the five-year period 1993 to 1998, the percentage of anglophones leaving the civil service was disproportionately high, exceeding one per cent a year on average of those leaving. Leonard said the government adopted Bill 51 last year, allowing it to designate for affirmative action a woman, a handicapped person, an allophone or an aboriginal from among candidates judged to be apt when filling government jobs. Anglophones are not among the groups targeted by Bill 51, Leonard said. "We opened the possibility that anglophones could form a target group," the minister said. "It hasn't been done yet but the law offers that possibility." Asked whether the government intends to extend Bill 51 to anglophones, Leonard said, "It hasn't been decided yet." Anglophones make up 8 per cent of the Quebec population, ethnic minorities 7 per cent, visible minorities 6 per cent and aboriginals one per cent, according to the treasury board. Ethnic minorities, or cultural communities, in the civil service went from 1.7 per cent in 1989 to 2.09 per cent in 1998, aboriginals from 0.44 per cent in 1993 to 0.34 per cent in 1998. No figures were given for visible minorities. Handicapped civil servants decreased from 1.45 per cent of the total to 1.17 per cent in the 1993-98 period. The Commission des Droits de la Personne et Droits de la Jeunesse recommended that in future the government break down the cultural communities grab-bag because visible minorities are subject to greater discrimination. Pierre-Jude Poulin, a spokesman for the minister, said minority hiring figures underestimate actual numbers because new employees have the option of making a voluntary declaration of their status as members of minority groups and an unknown number prefer not to declare themselves. In a statement to the media accompanying the report, Leonard said that for the period June 1, 1999 to Jan. 29, 2000 when the principles of Bill 51 were applied, 20 per cent of part-time and permanent jobs filled in the civil service were given to minorities. Of the 1,326 minority members hired, 87 per cent were allophones, 10 per cent were anglophones and 3 per cent were aboriginals, Poulin said. Of the total, 61 filled permanent positions. Most new hires were students hired for the summer, who numbered 1,048. Minorities made up fully 25 per cent of all summer hires. Russell Williams, Liberal MNA for Nelligan, said the fact 25 per cent of the summer hires were minorities dispels the argument that minorities are not interested in working for the Quebec government. "Sure, there's interest." Williams said that in its recruiting, the Parti Quebecois Government has been sending messages "that are very negative" to minorities and this constitutes a perceived barrier for minorities. "The civil service has to reflect the society it serves," Williams said. "They (the government) haven't done very well." Larry McKenzie, a spokesman for the anglophone lobby group Alliance Quebec, said the government is not living up to its commitments to hire minorities. "We are extremely disappointed," he said. In its comments to the government on Bill 51, the Quebec Human Rights Commission noted that while the government is supposed to report annually on the progress of minority hiring, since 1987 only two annual reports were filed.

From Montreal Gazette, 12 April 2000

SAN DIEGO L AFC WILL CONSOLIDATE SPECIAL DISTRICTS TO ELIMINATE REDUNDANCY

Special districts pepper the county, and most provide important services to the public such as water, sewer, fire protection, and road and cemetery maintenance. But others may soon disappear as the county's Local Agency Formation Commission embarks on an

effort to eliminate unnecessary special districts. About 160 such districts operate in the county. By the end of the year, 100 might remain, said Michael Ott, executive officer of LAFCO. Most of those will vanish by June, when LAFCO consolidates 58 road maintenance districts into one county department. "It's a way of streamlining the process," Ott said. "It's a way of eliminating redundancy." LAFCO, formed in 1963, is a state-mandated agency funded by the county. However, 40 percent of its costs are covered by the processing fees that LAFCO charges applicants for various services, which include reviewing proposals for incorporation of cities, jurisdictional boundary changes and annexations. LAFCO also oversees the formation and dissolution of special districts, which usually have elected boards and collect assessments from property owners to finance the services provided. But how do taxpayers know whether a district that is collecting an annual assessment from them is providing a worthwhile service? Even LAFCO has no way of knowing if a district is no longer providing services unless someone brings it to the commission's attention. That should change soon. This summer, for the first time, LAFCO plans to survey all the special districts. "We'll be examining the services they provide, where they're provided and the financing of services," Ott said. The process will be repeated every five years, or sooner if needed, he said. The survey should provide a clear picture of where special district services are still needed and where they are not. Until recently, there were three ways a district could be disbanded. The district board of directors could vote to start dissolution, property owners could demand it via petition or the governmental agency overseeing the area (such as the county or city) could ask that the district be closed. A law passed in 1994 allows county LAFCOs to begin the process as well. Ott said the San Diego County group is the first in the state to exercise its authority to start dissolutions. "We are one of the most active in streamlining," he said. In the past seven years LAFCO has consolidated or dissolved 14 governmental agencies or districts, Ott said. LAFCO is now dissolving 58 road maintenance districts called "county service areas," which should be complete by June, he said. These districts, which primarily serve rural areas, will be replaced by a single county road maintenance agency. "It will be more efficient," Ott said. "Now each of the 58 has its own advisory board." The process is lengthy, often taking up to six months because of required reports and public hearings. South County's Lower Sweetwater Fire Protection District is in that process now. Its dissolution was started by the county Board of Supervisors, which noted that the tiny district has provided no fire protection services since 1982. Though most districts go quietly, this one is putting up a fight. "Why should we be dissolved?" said board Chairman Charles H. Andrews. "If we fight it, we're good for another four years."

The district gave up firefighting when the unincorporated area of Lincoln Acres began contracting for fire protection from National City. "What's wrong with that?" Andrews said. "It's cheaper to contract with the city than to do the work on our own." The Riverview and Lakeside water districts in East County are discussing consolidation, though they haven't submitted a proposal to LAFCO yet. A draft study completed last month concluded that if the Riverview Water District merged with the larger Lakeside district it would save taxpayers nearly \$500,000 a year. "If it is determined that this is what's best for the community, that's what should happen," said Billie Sangster, president of the Riverview board. "Let's face it, we are talking about two very, very small water districts. It doesn't take too much to realize that there are some duplications of services." The district's ratepayers will vote on the consolidation in November, but LAFCO will make the final decision. The plan, however, is not without its detractors. "What they call a study, I call a takeover proposal by Lakeside," said Riverview board member Ron Bott. "It may happen, but if it does it's because of heavy politics." Recently, the county grand jury suggested that the Tia Juana County Water District disband. But that district's board of directors disagrees with the report and is unlikely to voluntarily shut down. The grand jury report, issued March 29, was critical of the tiny water district near the border, which provides no water even though it collects an annual \$50 assessment from valley property owners. The report recommended that the district's board "seriously consider" turning over its responsibilities to the city of San Diego, which provides water and sewer services to the district's constituents. The grand jury's findings, however, do not automatically trigger an application for dissolution, so LAFCO has not begun to look into the matter, Ott said. Before that could happen, it would have to be determined if the San Diego is willing to take on the district's debts, which the district says total \$268,000, but the county auditor placed at more than \$400,000. "We would need to analyze how assets and liabilities would transfer over to the successor," Ott said. However, he added, such debts usually cannot be "forgiven" and would be the responsibility of the successor. Ott also said dissolving the district would not necessarily halt the annual assessments that Tijuana River Valley residents now pay. "Typically, unless debts are retired, the citizens are responsible for paying any (costs) that are debt-related," he said.

From San Diego Union Tribune, 10 April 2000

MINNESOTA IN LINE FOR AWARD THAT HONOURS PUBLIC SERVICE

Minnesota's landmark charter school law, the first in the nation that permitted public schools to be developed and run by parents and teachers, was named a semifinalist Monday in the 2000 Innovations in American Government Awards competition. The awards, sponsored by the Ford Foundation and administered by the John F. Kennedy School of Government at Harvard University, are sometimes referred to as the Oscars or Emmys of public service, said Sen. Ember Reichgott Junge, DFL-New Hope, who in 1991 wrote the law that started charter schools. Other bill sponsors were former Rep. Becky Kelso, DFL-Shakopee, and Sen. Gen Olson, R-Minnetrista. The law essentially lets Minnesotans create their own schools to respond to the specific needs of a group of students. "Sometimes elected officials have to step back, remove the barriers and let citizens take the lead - capturing the energy and enthusiasm of parents and teachers in creating new opportunities to learn," Junge said. Through competition for students and trying new ideas, charter schools also promote innovation in all public schools, she said. This fall, Minnesota is expected to have 10,000 students and 450 teachers in 65 charter schools. The population of low-income, special education and minority students in charter schools is at least double that in the general student population. About two-thirds of the existing 53 charter schools have waiting lists, said Steve Dess, executive director of the Minnesota Association of Charter Schools. Nationally, there are 1,700

charter schools with a student body of 350,000 students. Five Minnesota projects are among the 96 semifinalists, including the Minnesota Board of Government Innovation and Cooperation, a state program that aims to cut bureaucracy and increase effectiveness of local government services; the Ramsey County Truancy Intervention Program; the Computer Modeling and Simulation Program, which helps businesses and government improve their efficiency, and the Dakota County Citizen Jury Informed Citizen Participation Program. They were chosen from more than 1,300 federal, state and local nominations. In September, the field will be narrowed to 25 finalists, each of which will receive a \$20,000 award, and in October, 10 winners will be announced.

From CNN, 25 April 2000

Management Innovation & Trends

ASIA/PACIFIC

CHINA PRIVATE NETWORKS SHOULD PROVIDE DATA SERVICES/EXPERTS

In the March 28 Zhongguo Dianzi Bao (China Electronics News), Jiang Shaobing, deputy head of the General Planning Section of the Ministry of Information Industry delved into the development of special-purpose telecom networks and their growing disadvantages in their current form. Jiang indicated that the future of the industry lies in using the surplus resources of special-purpose networks to provide commercial services pending legal clarification of the role of such networks and applicable licensing rules. Jiang also proposed that the networks develop virtual networks and provide data and other multimedia services.

I: Definition Of "Special-Purpose Telecom Network" - In China, a special-purpose telecom network refers to an internal network constructed by an enterprise, industry, department or organization for the purpose of organizational management and production. It provides the unit with not-for-profit telecom services but does not undertake public telecom services. In the beginning, special-purpose telecom networks provided only internal telephone communications service.

II: Network Origins - In China, special-purpose telecom networks came into being for the following reasons:

- 1.Special Needs For Coordinating Internal Production And Management - Some departments and enterprises have special communications needs, such as the petroleum sector when developing petroleum resources in uninhabited areas or places not covered by public telecom networks, and the military sector when delivering confidential information involving national security. The emergence of special-purpose telecom networks was therefore inevitable.
- 2.High Cost Of Renting Circuits From Public Telecom Networks - As public telecom networks have been responsible not only for general services but also for supplementing postal services and providing special communications services for State and Party departments and emergency communications services, operating costs have been relatively high. Although fees have been adjusted several times, they remain unreasonable. The fees for renting electric circuits in particular are extremely high, so that it is cheaper to build a special-purpose telecom network than to rent a circuit.
- 3.State-Subsidized Construction, Inclusion Of Operational Costs In Gross Costs - For system-related reasons, the units and departments enjoying special-purpose telecom networks are not sensitive to the returns on such investments since such networks are constructed with state funds while their operational costs are listed under their gross costs. Instead, units turn to special-purpose networks to achieve self-sufficiency and preserve control over the unit's resources.

III: Course Of Development And Existing Problems:

- 1.Course Of Development - Since the early development of public telecom networks was slow, special-purpose networks soon outstripped them. In developed countries, the ratio between the capacity of public switchboards and the capacity of user switchboards is generally around 1: (0.38-0.73). In many developing countries, this ratio is about 1: (0.9-1.1). But in China, this ratio was 1:0.9 before 1978, soaring to 1:1.2-1.3 during the 1980s. After introducing reform and opening up policies in 1978, China's leaders pushed for the development of the post and telecom industry ahead of other sectors. As a result, the communications capacity of public telecom networks improved rapidly. By the end of 1997, the number of local telephone switchboards covered by public telecom networks across the country had reached 1.1 billion, and the network had become the second largest in the world. Of cities above the county level, 99.7% had access to stored program-controlled electronic telephone switching systems. The enhanced communications capacity of public telecom networks obviously raised the operational efficiency and quality of the networks. Various service indicators rose by a large margin; for instance, the local telephone connection rate reached 61%. The primary communications needs of many departments were satisfied.

Hence, the development of special-purpose telecom networks began to slow down. By the end of 1997, there were 15 special-purpose long-distance networks and 1,000 regional special-purpose networks. Long-distance fiber optic cables totaled 114,000 core kilometers, electrical circuits totaled 113,000 routes, the multipurpose equipment of long-distance terminals totaled 311,000 route ports, and special-purpose switchboards totaled 5.52 million. The majority of these special-purpose networks are regional networks. Long-distance communication primarily relies on public networks. Some departments with special needs, including the public security and meteorology departments, have established special-purpose long-distance networks by renting public network circuits. Only a few departments, such as the army, railway, electric power and petroleum departments have constructed their own long-distance communications networks in addition to regional special-purpose networks.

2.Existing Problems - At present, public telecom networks are developing rapidly, leading the world in terms of network scale and business capacity. But special-purpose networks have also developed speedily in recent years. The special-purpose networks of the petroleum, electric power and railway departments as well as of large iron and steel enterprises and mines and the like have expanded in scale. Special-purpose networks must overcome the following hurdles:

- a.Duplicate construction. Some large professional production departments and enterprises have launched large-scale network projects so as to form their own systems and not have to share resources. Such redundancy has resulted in an irrational distribution of telecom network resources, and high construction and operation costs.
- b.High costs of renting circuits. Constructing special-purpose networks with public network resources is still hampered by the expense of renting circuits.
- c.Overreaching of intended scope. Some special-purpose networks have been applied to activities, such as commercial ones, that go beyond their prescribed scope.
- d.Industry management needs to be further standardized and strengthened. In the past, the telecom monopoly forbade the use of the surplus resources of special-purpose networks for public telecom service, resulting in a waste of resources. Recently, the monopoly was broken up and some degree of competition is now

possible. Furthermore, special-purpose networks may now use their surplus resources to provide commercial services. However, since laws and regulations governing industry management have not yet come out, there is no legal clarification of the roles of public and special-purpose networks and their relationship. IV: Development Trends - 1. Industry management should be strengthened, relevant laws and regulations should be made and the position and role of special-purpose networks clarified. A special-purpose network provides internal services to an industry or enterprise for the organization, management and coordination of its production. It does not provide telecom services to the public. Therefore, the licensing system does not apply. Special-purpose networks that intend to engage in telecom services with their extra resources should be managed as a public network within the framework of the licensing system. 2. The construction of special-purpose communications networks with public network resources should be encouraged, duplicate construction should be prevented and the price of public network resources standardized. Utilization of public network resources will change from circuit-renting to the use of virtual networks on the public network. The advantage of virtual networks is that the user need not manage and maintain network resources, which will save human and material resources and reduce communication costs while the user has its own special filing plan and dialing mode. The virtual special-purpose network will be fully compatible with the user's former special-purpose network. 3. Due to advanced communications technology, improved enterprise management, and the development of automated management and automated office services, special-purpose networks will shift from mostly telephone service to data service and gradually develop into a multimedia network that provides data, voice and image services.

From Reuters, 12 April 2000

WAGE HIKES TO BE MAJOR HURDLE IN KOREAN LABOR MANAGEMENT RELATIONS SURVEY

The issue of wage increases is likely to be the key sticking point in labor-business relations this year, a labor expert said yesterday. At a labor forum held in southern Seoul yesterday, Lee Son, head of the Korea Labor Education Institute, said a survey taken in January found 77.9 percent of employers and 72 percent of employees at 164 firms believed wage negotiations would cause the biggest labor-management disputes this year. Lee said both labor and management considered corporate restructuring and layoffs as less crucial issues now than in the years immediately following the foreign currency crisis in 1997. Only 5.5 percent of employers and 12.2 percent of employees surveyed felt corporate restructuring would be the major issue this year. About 4.3 percent of employers and 5.5 percent of workers cited layoffs as having the potential to become the biggest hurdle in labor-management talks. According to the survey, employers proposed a 5.4 percent pay hike for this year, 0.2 percent higher than the figure announced by the Korea Employers' Federation. Labor countered with a proposal of an average 10.6 percent pay raise, considerably lower than figures demanded by the nation's two umbrella labor groups, the Federation of Korean Trade Unions (13.2 percent) and the Korean Confederation of Trade Unions (15.2 percent). Forty-seven percent of employers said a company's ability to pay should be the deciding factor in determining pay increases, followed by productivity (21.3 percent) and inflation (14.6 percent). Over 37 percent of workers said cost of living should be the primary consideration in setting pay raises, while 26.8 percent cited inflation and 15.2 percent pointed to the financial standing of individual firms. On the overall outlook for labor-management relations this year, 57.3 percent of management and 64.6 percent of workers said relations would worsen as compared to last year. Regarding labor-management relations at their own companies, however, only 23.3 percent of employers and 35.6 percent of workers said the situation would deteriorate.

From Korea Herald, 08 April 2000

EBRD SAYS 'NO' TO LOANS FOR PUBLIC SECTOR IN TURKMENISTAN

The European Bank for Reconstruction and Development has said it will give no more loans to the Turkmen Government until Turkmenistan improves its record on democracy. RFE/RL correspondent Bruce Pannier speaks with the head of the bank about the unprecedented step, which marks the first time that an international body has actually denied Turkmenistan money. An international body has finally hit Turkmenistan with more than just words. For several years now, Turkmenistan has ranked among the world's top human rights violators and one of the most repressive societies. Western countries and institutions have been loud in their criticism, but, mindful of Turkmenistan's huge deposits of oil and natural gas, have still supported investment in the Central Asian nation. That changed this week. On Tuesday, the European Bank for Reconstruction and Development, EBRD, said no to loans for the public sector in Turkmenistan, citing a complete lack of political reform in the country. RFE/RL spoke (on Thursday) with Charles Frank, the acting president of the EBRD, about the decision. Frank says that while the EBRD has helped finance projects in Turkmenistan that show great promise, the country is not living up to some of the agreements it made when it joined the bank in 1992. "We have in the past had some good public sector operations in Turkmenistan, but the problem is that the agreement under which the bank was established requires that we operate in countries committed to multiparty democracy and pluralism. And the commitment of the Turkmen Government to multiparty democracy and pluralism is weak at best." And economic reform has been similarly lacking. Turkmenistan has maintained price controls over key cash products. And the EBRD statement this week said: "[Turkmenistan] has a highly distorted foreign trade and exchange regime, while enterprise and institutional reforms have remained very hesitant." The EBRD was set up in 1991 to help the countries of Central and Eastern Europe and the Commonwealth of Independent States implement economic reforms, and promote privatization and competition. Other international financial institutions are not bound to consider a country's commitment to democracy or pluralism in making their lending decisions, but the EBRD counts democracy-building as one of its goals. On Wednesday, the day after the EBRD made the decision, Turkmen President Saparmurat Niyazov told his cabinet ministers his interpretation of the action. "The European Bank set us a problem: 'You should raise the prices of gasoline to bring them in line with European levels.' Or, the second task: 'You should create a multiparty

system in your state. This is also a condition,' they said. Ha! You bank worker! Tell them, I said, I do not accept these conditions. I will not speak about this [further]. I said, 'I do not want to speak with them.' Multiparty systems in society spring up by themselves. It is impossible to create them artificially." Niyazov had already proved he was not interested in speaking with officials from the EBRD. When an EBRD delegation including Director Frank was in Turkmenistan this week, the president canceled his scheduled meeting with them. Frank said Niyazov's refusal even to discuss political reform suggests that his government is not committed to EBRD principles. Frank notes that the EBRD has suspended funds only for public-sector operations. He says funding for private-sector operations will continue. And he says the private sector has shown encouraging signs. "The private sector is modest in size in Turkmenistan, but there are quite a few smaller enterprises. In fact, I think it's fair to say that the Government has made progress in terms of privatizing some of the small enterprises. Where[as] there is relatively little progress in privatizing some of the larger state-owned corporations. But there is a modest and growing level of private-sector activity." All countries receiving funds from the EBRD are subject to a yearly review. The EBRD action in Turkmenistan could serve as a warning to other Central Asian countries. "Clearly, we are concerned with the level of progress made on political and economic reforms. And in reviewing our strategies with other Central Asian countries, we will look very carefully at what response, what level of activity makes sense." The EBRD may have just set a new standard for dealing with countries in CIS Central Asia. Loans and financial aid to governments in the region have been suspended before for questionable economic policies, but this week's action is the first time a government was cut off for its internal policies.

From Radio Free Europe, 21 April 2000

WIRELESS INTERNET SHOULD WOO MOBILE CHINA

It's a marketer's dream: uniting Chinese consumers' two hottest passions - cell phones and the Internet. The planned May 17 nationwide debut of wireless Internet has companies fighting for a piece of the country's newest industry, offering e-mail, e-commerce and Web-surfing by mobile phone. Wireless Internet in China still faces a thicket of technical and commercial obstacles, but in a country with 50 million cell phones and Internet use doubling every six months, the payoff could be huge. "You're potentially talking about 50 million people walking around with this device in their pocket - and it's always turned on," said Derek Sulger, a partner in Intrinsic Technologies, a Shanghai-based wireless Internet startup. Wireless Internet promises to solve China's biggest e-problem - making the Internet pay. China has 8.9 million registered Internet users, but half are college students with family incomes under 2,000 yuan, the equivalent of \$250 a month. Most don't even own their own computers, using PCs at school instead. Consumer e-commerce is growing, but still amounts to only a few million dollars a month. Chinese don't use credit cards, which has slowed online business growth. And advertising sales, which make the Internet profitable for Web site operators in other countries, are limited in this populous but poor market. Cell phones, by contrast, are a link to China's richest consumers. No entrepreneur, captain of industry or urban hipster is without one. State-owned China Mobile, the dominant carrier, says its number of users is growing by 60 percent a year. Wireless Internet could have up to 6 million users and annual revenues of up to 3.2 billion yuan, or \$400 million, by 2002, according to BDA China Ltd., a Beijing-based Internet consulting firm. Adding mobile phones could boost the appeal of e-commerce. It would reach customers who don't have PCs, and they could skip the problem of online payment by charging purchases to their phone bills. Chinese already spend freely on telecom services, despite a per capita income of just 6,200 yuan, or \$750 a year. They buy top-of-the-line cell phones and pay to get sports and business news by pager. "This is something that people will pay a lot of money for, so it's the perfect platform for e-commerce," Sulger said. His firm is developing e-mail, e-commerce and other services designed for Chinese-speakers. China's active Internet industry is now creating new Web sites aimed at phone users. Eachnet.com, a popular site, will offer e-mail, news, stock market data and airline schedules, said Jim Zheng, its director of business development. Other companies are attacking a language barrier - the chore of typing thousands of pictographic Chinese characters. Systems in use now require users to type phonetically in Roman letters - a tedious process ill-suited to tiny phone keyboards. Swedish mobile-phone maker Ericsson is trying to eliminate typing with a pen that transmits hand motions to a phone. It would turn written characters into e-mail text or computer commands. "If you try to input 10,000 Chinese characters with just nine keys, it's terrible," Tng Tai Hou, a Singapore-based Ericsson engineer, said in a presentation at a recent Internet convention in Beijing. But the biggest problem could be state-owned phone companies themselves. Weeks before the nationwide launch, they hadn't disclosed prices or said how they would work with online service providers. It isn't clear whether the carriers can handle added Internet-related billing duties or are willing to share revenues with private-sector partners, said Duncan Clark, a partner in BDA. China Mobile has been running wireless Internet as an experiment since March 26 in Beijing, Shanghai and four other cities. For now, the price is the same as a phone call - 0.40 yuan, or 5 cents per minute. The test has been inconclusive because of too few users, said Fan Bing, China Mobile's chief of business development. Shanghai, China's biggest city, so far has only 2,500 Internet-compatible phones. But China loves cell phones, and people in the industry say they could quickly replace less-popular PCs as its dominant way to surf the Internet. "It's only a matter of time," BDA's Clark said.

From Nando Times, 26 April 2000

EUROPE

PUBLIC GET THEIR SAY ON UK NHS REFORM

Health workers and members of the public are to have their say on what to do with billions of pounds earmarked for reforming the National Health Service. Health secretary Alan Milburn said: "Every single member of the public will have the opportunity to tell us

their experience of using the health service, what was good and what could have been better." Members of the public will be able to either phone in their comments or log on to a dedicated web site, to be launched by the Prime Minister on Tuesday. Tony Blair took personal charge of the NHS reform after the last budget. He has set ministers a three-month deadline to draw up a strategy for reforming the NHS – thought to be a key proponent in winning the next General Election. Mr. Milburn said that the Government wanted to speed up access to NHS care and give people a say in how their care is delivered. He said the aim is to create "a service that meets the needs and expectations of modern society". Among the plans for reform are proposals for joint courses for doctors and nurses, and changes to allow junior medical staff to upgrade their qualifications. GPs' surgeries could be opened at weekends and more drugs made available over the counter in order to make the NHS more accessible. The introduction of smart cards, containing patients medical records, and automated booking systems for operations and appointments are also being considered.

From UK-Sky News, 21 April 2000

THE AMERICAS

PUBLIC SERVICE IS RISING IN MANY COLLEGE CURRICULUMS

Pierre Omidyar did not do any volunteer work while an undergraduate here at Tufts University. Technically speaking, he does not do any now. A 32-year-old multibillionaire, he has never held a public-sector job, run for elective office, protested for social change. So what, exactly, was Mr. Omidyar doing here today, teaching one of the inaugural classes at Tufts's new University College of Citizenship and Public Service? Well, for starters, Mr. Omidyar, a 1988 Tufts graduate and the founder of the wildly successful online trading post eBay, paid for the thing, with a \$10 million start-up grant to finance scholarships, faculty development and a venture fund for community projects over the next five years. And besides, the whole idea is to transform public service from a few hours of tutoring poor children or working in a homeless shelter to a lifelong commitment to civic engagement - whether graduates go on to toil in a nonprofit organization or an investment bank. "Being an active part of your community, an active citizen, involved in public service, is not just one of the bubbles that are part of your life," Mr. Omidyar told about 30 undergraduates assembled for this week's session of Leadership Through Active Citizenship, a political science seminar. "It's not something you put on your résumé. It's not something you do each morning before you go to work. It's something you should think about throughout every day." The Tufts initiative is the most comprehensive example of the efforts being made by hundreds of universities across the nation to re-emphasize public service as a core tenet of the curriculum. Though more college students than ever do volunteer work while on campus, voter participation among 18- to 24-year-olds is at an all-time low. The new movement tries to combat the commodification of higher education, to reassert its goal as creating responsible citizens rather than training students for jobs. "Historically, this has been a central purpose of higher education," said Terry W. Hartle, senior vice president of the American Council on Education, which represents some 3,500 institutions. "But in the current sociopolitical environment, it's a very difficult undertaking." At the 670 institutions connected to Campus Compact, a national group devoted to community service, 374,000 students racked up 32 million volunteer hours last year. Course catalogs on those campuses included 11,876 "service learning" opportunities, in which students combined theory and practice, applying academic principles to real-world problems. There are chemistry classes conducting lead-paint analyses in local schools, English seminars writing newsletters for community groups, drama students helping displaced residents produce a play about the loss of their neighborhood. Separately, scores of universities, trying to set an example of good corporate citizenship, have formed partnerships with their surrounding communities to work on issues like affordable housing and river cleanup. Last year, 300 university presidents signed a declaration urging higher education to "re-examine its public purposes and its commitments to the democratic ideal." In June, about 100 of them plan a meeting at the University of Pennsylvania on strategies for implementing that vision. "It is not enough to provide a great education," Judith Rodin, the University of Pennsylvania's president, said in a guest lecture at Yale University last fall.

"It is not enough for us to produce brilliant, imaginative doctors, lawyers, scholars and scientists who will press the envelopes of their disciplines or professions, if we do not also engage them in the larger issues of our day, in the ferment of our times and our society." Here at Tufts, a campus of 8,500 students in a gritty town near Boston, John DiBiaggio, who is both the president of the university and the chairman of Campus Compact, has focused on the theme since he arrived in 1992. Dr. DiBiaggio provides free copies of The New York Times to undergraduates, and he rewrote the university's vision statement to include as a goal fostering "an attitude of giving back" and "a desire to make the world a better place." The new college of citizenship will not have a campus building, nor will it confer degrees. Rather, its goal is to infuse every aspect of university life with a public-service component. Administrators are evaluating the current course offerings to see which might be cross-referenced under public service, while faculty members are developing new programs, like "Reading Public Policy," which would employ literary techniques to deconstruct current events, and "Decision Points in History," a classics professor's effort to link ancient Greece and modern America. In addition, 24 incoming students devoted to public service will be designated Omidyar scholars, and the college will confer grants to students, staff members or professors with ideas for community service projects. Mr. Omidyar, who met his wife, Pam, while at Tufts, returned to the campus for the first time today, and spent the afternoon talking about the importance of community - whether in an online forum like eBay or in brick-and-mortar neighborhoods. The couple's \$10 million gift is the largest yet from their foundation, through which they say they will give away all but 1 percent of their wealth, estimated now at about \$6 billion, in the next quarter-century. At an open session, the questions from students focused more on how Mr. Omidyar had amassed his money than on how he might distribute it, as the audience was filled largely with computer science majors harboring start-up ideas of their own. But in the leadership seminar, students seemed intrigued by his provocative proposals about power-sharing: just as customer feedback helps

control the market on eBay, he suggested, so should students and faculty members share responsibility for shaping the new college. They have already begun. When a guest speaker in the third week of class talked about breaking down hierarchies, one young man questioned why she and the professors were seated at the front of the room, each with a bottle of water, facing the pack of parched students. Thus the water committee was born, and now stacks of raspberry, lime and lemon seltzer await the arrival of the class each Friday afternoon. "When I raised the issue, instead of just saying, 'Oh, we'll get you water,' they turned it back on me," said Jesse Levey, a sophomore from San Francisco, who, as chairman of the committee, arranged free refreshments through negotiations with the appropriate authorities. "It's about empowerment, leadership and doing things on your own." So where are the snacks? Students said the food committee foundered for lack of leadership.

From The New York Times, 21 April 2000

Public Finance

ASIA/PACIFIC

CROSS-SECTOR FINANCE STILL BANNED IN CHINA

A senior Chinese official said recently that China has no plans to allow financial institutions to operate across financial sectors in the short term, the April 3 Zhongguo Zhengquan Bao (China Securities) reported. Xia Bin is director of the Non-Banking Financial Institutions Regulatory Department of China's central bank, the People's Bank of China. Xia acknowledged that integrated operations and unified supervision are the general trend in the financial industry, but he told the newspaper that the principle of segregated operations will not and should not be changed for the time being, while the official said that China's policy of segregated financial operations must be adhered to and must not be modified, he also said cross-sector trials could be carried out in certain fields. These include, financial products or insurance companies entering the stock market, securities brokerages entering the interbank market and the loan market being permitted to pledge stock as collateral. Xia noted, however, that any such trial operations could be carried out only after relevant regulations are formulated. Xia told the newspaper that in following China's current principle of maintaining segregated financial operations, supervisory departments for banking, securities and insurance should still establish frameworks for coordination and dialogue as soon as possible. He said that if this were done, it could help accelerate the development of cross-sector financial operations in China.

From China Daily, 07 April 2000

DONORS TO FINANCE 'SUITABLE' PROJECTS IN PAKISTAN

The World Bank, Asian Development Bank and other donor agencies have indicated that they would provide loan and grant on soft and hard terms to Pakistan for execution of "suitable projects". The finance ministry has directed the planning and development division to immediately develop and maintain a portfolio of projects suitable for funding by international financial institutions and bilateral donors. Official sources told Dawn on Friday that the P&D division had sent guidelines to help them select the projects that could convince the donors. The P&D division informed the ministries that a portfolio of suitable projects for offering to the donors was under preparation. It told them that the projects already sent to the donors or included in the current lending programmes should not be submitted, and that only fresh priority projects may be proposed. The P&D division said that the proposed projects should be classified in the following three parts. The first part should be arranged sector-wise and put in three categories. In the second part, only those projects be mentioned which need grants for meeting foreign exchange, or local cost in full/part. The third part deals with the hard loan. The P&D said that this part should include only those projects which may be outside the PSDP, commercially viable and may need hard loans to meet their foreign exchange cost.

From Pakistan-Dawn, 24 April 2000

EUROPE

MERKEL FAULTS SCHROEDER ON TAX OVERHAUL AND ON FRANCE

The conservative opposition in Germany on Tuesday tried to move beyond a ruinous campaign finance scandal by accusing the Government of fiscal mismanagement and neglect of foreign policy. The Christian Democratic Union, a day after electing Angela Merkel as the first woman to lead the party, vowed to push Chancellor Gerhard Schroeder's center-left government to overhaul tax reform and repair relations with France. On the final day of the two-day congress in the western city of Essen, the Christian Democrats also said they would use the threat of their veto in the Bundesrat, the upper house of Parliament, to force the Government to restructure its tax-reform program. "This Government has to be replaced in two years' time because they are not getting the job done," said the Christian Democrats' new parliamentary floor leader, Friedrich Merz. Mr. Merz also accused Mr. Schroeder of "economic incompetence" that hurt the euro on foreign-exchange markets. Rallying around Mrs. Merkel, who won nearly 96 percent of an uncontested vote on Monday, the conservatives outlined policies they hope can win back power at the next election in 2002. Edmund Stoiber, the premier of Bavaria and leader of the state's conservatives, said the party had used the upheaval from the scandal to rebuild. Mr. Stoiber and Mr. Merz asserted that Mr. Schroeder and especially Foreign Minister Joschka Fischer, a member of the Greens party, had damaged Germany's relations with such important partners as France. "Schroeder's government," Mr. Merz said, "has neglected the Franco-German friendship and cooperation. Without close cooperation between Germany and France, there is no chance to strengthen the EU. The CDU will stick to its pro-Europe course." For the first time in 50 years, former Chancellor Helmut Kohl, who is 70, did not attend an annual congress of the party he led for 25 years. Mr. Kohl, who sent a telegram congratulating Mrs. Merkel, faces a criminal investigation stemming from the scandal, in which he has admitted accepting more than \$1 million in secret and illicit donations to the party.

From International Herald Tribune, 12 April 2000

MIDDLE EAST

ISRAELI TAX REFORMS MAY BE OUTSOURCED

The Finance Ministry is considering outsourcing the task of putting into legislation the recommendations of the Ben-Bassat committee on tax reform. The ministry has recently discussed the issue of outsourcing, but as of yet, no decisions have been taken. The committee's recommendations will entail new legislation and the amendment of existing laws on a whole series of issues, some quite central, others very sensitive and many of them extremely complicated. Senior committee members and officials in the treasury who are well versed in the committee's work are emphasizing the complexity of the process, which will demand an unprecedented amount of legislation on a large number of topics, and within the very short time of just a few months. According to these sources, the legislation will demand the intensive efforts of tax experts, attorneys and accountants. It's not clear whether there is sufficiently large quantity of skilled man power in the Justice Ministry, Treasury and Tax Commission, that is capable of handling the weighty task, both in terms of the quantity and quality of the work. In general, the legislation must be performed by the Income Tax Commission together with the state revenues branch, and under the supervision of the Justice Ministry. Participating in the Ben-Bassat committee are Professor David Glicksberg, a tax expert from the Hebrew University's law faculty, Dr. Amnon Rafael, an international expert on tax legislation, and accountants Professor Yitzhak Soari and Avidor Avni. Attorney Leah Margalit of the Justice Ministry is also participating in the committee's discussions as a permanent observer, as is accountant Frieda Israeli, the committee secretary and a senior official at the Income Tax Commission. At recent discussions at the treasury, the possibility of outsourcing the work of legislating the Ben-Bassat committee recommendations was raised several times. Several possibilities were discussed. One was the idea that a large law office specializing in taxes would assist the core of government workers whom the treasury would recruit. Another was to have the majority of the work be given to an external source. No matter what, the supervision and responsibility for the new legislation would remain with the treasury. The treasury recently decided, for the first time, to hire a public relations firm (Keshet Barel). Therefore, a decision to outsource in the matter of legislation would not be unprecedented. The Ben-Bassat committee request - approved by the treasury - to postpone the submission of its recommendations by one month has now created a very tight timetable, considering the decision by Prime Minister Ehud Barak and Finance Minister Avraham Shochat to implement the committee's recommendations already on January 1, 2001. Until then, the treasury will have to have all of the recommendations, as well as any new legislation, approved, by the Government, the Knesset Finance Committee, and finally, the Knesset itself. Sources in the treasury are stressing that outsourcing the writing of the legislation is liable to create a number of weighty problems. Nevertheless, the ministry is already turning to law and accounting offices for their opinions on the new legislation. It appears that, in any case, the tax reform legislation can only be carried out by a leading law office in the field of taxation. The treasury will need the assistance of first-rank accountants, as well. One of the country's leading law office in taxation is Fox, Herzog and Ne'eman, one of whose partners is former finance minister Yaakov Ne'eman. In recent months, Ne'eman has met with Avraham Shochat several times, including at least one time at Shochat's Jerusalem office.

From Israel-Ha'aretz, 05 April 2000

SHOCHAT PLANS ALL OUT WAR ON TAX EVADERS

Finance Minister Avraham Shochat is planning to become the first finance minister since Yitzhak Moda'i to declare war on "black money" on which nobody has paid taxes - and the battle begins right after the Ben-Bassat tax reform commission makes its report. Treasury sources estimate that more than NIS 10 billion has escaped tax. In late November, Shochat said he would draft a plan against unpaid taxes and since then has been meeting leading experts on the subject. Among these is former finance minister Yaacov Ne'eman, an international expert on taxes, former MK Uriel Lynn, also a tax expert, leading accountants Alex Hillman and Israel Strauss, and former police investigators Reuven Covent and Yehuda Bar-Lev. Covent, a trained accountant, was in the police during the heyday of the white collar crime department, then headed by Binyamin Ziegel, and later served as chief investigator for the Securities Exchange Commission. Three years ago he left the SEC to run the Israel branch of Dunn and Bradstreet, the business information service. Yehuda Bar-Lev also specialized in financial investigations in the police. Now a partner in a private accounting firm, he was an expert counsel in the prosecution of Aryeh Deri and ran an investigation of Deri's in-laws. Deri claimed the monies the state said were bribes were actually gifts from his in-laws. MK Zehava Galon, who has charged Ofer Bornstein with mismanagement at the International Center for Peace in the Middle East has also hired Bar-Lev as an investigator. Shochat has kept a complete blackout on his meetings. Even his closest associates are being kept in the dark on how his plans are developing. He believes there are two ways to conduct the war. The conventional way would be to beef up the two existing agencies now responsible for tax collection - the Income Tax Authority under Yonni Kaplan, and the Customs and VAT Authority, under Motti Ayalon. The other way is more radical and to Shochat's liking - setting up a super agency that would include both the main tax collection agencies plus representatives from the state attorney's office, the police, and the courts. Because the strategy of the war on tax evaders will largely be determined by the Ben-Bassat commission's recommendations, Shochat will only be able to finalize his decision after that report is handed in shortly after Pesach.

From Israel-Ha'aretz, 07 April 2000

THE AMERICAS

FOES OF INTERNET TAX BAN VOW TO FIGHT ON

With a controversial report on Internet tax issues headed to Capitol Hill, state and local government groups this week are gearing up for Round 2 of their fight to prevent the network from becoming a tax-free zone. The local and state governments fear that the boom in e-commerce will rob them of the sales tax revenues they need to function. Much of their initial effort will be aimed at Gov. James Gilmore of Virginia and the tactics he used as head of a special commission that spent a year studying Internet tax issues. Last week, that panel narrowly voted to recommend that Congress ban taxes on Internet access charges, clarify when sales taxes can be imposed on online sales, eliminate a federal telephone tax and extend for five more years the current moratorium on new taxes that specifically target the Internet. The report was approved in a conference call last Thursday by a simple majority of the panel, known as the Advisory Commission on Electronic Commerce. But the 10-8 vote fell far short of the "super majority" called for in the legislation that created the commission. That law, the Internet Tax Freedom Act, requires a two-thirds majority to approve recommendations to Congress. But the requirement did not stop Gilmore from putting out a news release after Thursday's conference call saying the group had voted "to send a strong anti-tax report to Congress." Gilmore had said earlier that even though the group could not reach a two-thirds consensus, he intended to forward a report on its work to Congress. Exactly what the report recommends remains the subject of some confusion. Gilmore's release said the group voted to "prohibit sales taxes on American consumers who purchase goods and services over the Internet." Other members, however, said it only asked that Congress clarify when sales taxes can be applied to Internet purchases. Gilmore is expected to release the report to Congress and the public next week. On Friday, the National Association of Counties, the United States Conference of Mayors, the National Governors Association and others will hold a news conference to criticize both the report and Gilmore's tactics. They blame him for scuttling attempts to reach a compromise on the tougher issues of simplifying tax codes so that states and municipalities can collect revenue on Internet sales. State and local government groups have been at odds with Gilmore since Day 1, when he made it clear that he would attempt to get the commission to recommend a ban on Internet sales taxes. In addition to banning sales taxes and extending the moratorium on new Internet taxes, the report proposes banning taxes on Internet access fees, banning sales tax on the sale of purely digital goods and services and eliminating the 3 percent federal telephone excise tax. Gilmore will present the report to a subcommittee of the House commerce committee on Thursday, and the Senate commerce committee plans a hearing next week. Congressional leaders are already looking at ways to rewrite proposals for extending the current moratorium on new taxes. Senator Ron Wyden, an Oregon Democrat who was one of the authors of the original bill that imposed a three-year moratorium on new Internet-specific taxes, said he hoped Congress could pass respectable legislation this year that includes three of the report's recommendations: to extend that moratorium, eliminate the federal excise tax and ban Internet access charges. Even though such a proposal would not address sales tax issues, Shawn Bullard, associate legislative director of the National Association of Counties, said local and state groups plan to fight it, along with any tax bans or extensions of the moratorium. "The war is not over," he said. "This was only one of many battles that we fought, and we are getting ready for battle again." In fact, it was that first battle launched against the Wyden legislation by the local and state government groups that resulted in the creation of the commission. Concerned about losing revenues, the groups got the original Cox-Wyden proposal changed from a permanent ban on new Internet taxes to the three-year moratorium that expires next October. During the debate on that bill, cities and states argued that without the ability to tax the Internet, their revenues would plummet and mainstream businesses would be shuttered, unable to compete with companies operating in a tax-free online world. "But we have proved the naysayers wrong," Wyden said, noting that state and local revenues have increased over the past three years. And he emphasized that neither his original nor current moratorium proposals apply to sales taxes. "There is nothing that bars a state or local jurisdiction from going out today and coming up with a better system of collecting and enforcing tax revenue that is currently owed," Wyden said. "What the debate is about is that they don't want to take the heat." Nearly six months after the House and Senate passed competing proposals to give digital signatures the legal standing of traditional ink and paper endorsements, the final negotiators have been appointed and are hoping to begin meeting this week. But a compromise could still be a long way off. The negotiations had been on hold because the Senate's Democratic leaders had not appointed their members of the committee addressing the issue. When they finally did so last week, all 45 Democratic members of the Senate also signed a letter reiterating their strong opposition to provisions of the House bill that would allow banks, insurance companies and other regulated businesses to eliminate some old-fashioned paper notification requirements. Those industries want to be able to do things like remind consumers about past-due payments by e-mail instead of traditional mail. "The conference committee has the opportunity to write the ground rules for the transition of our economy from paper-based transactions to electronic transactions," wrote the Senate Democrats, who with the backing of the White House were able to force Senate passage last year of a more moderate bill. "This transition offers great potential benefits for both business and consumers, but must be done in a way that preserves basic consumer protections and ensures the confidentiality and security of such transactions."

From New York Times, 04 April 2000

REPORT ON INTERNET TAX LAUDED BY REPUBLICANS

House Republicans rushed Thursday to embrace a federal commission's report urging that taxes not block the growth of the Internet and that lawmakers repeal a 102-year-old telephone tax while extending a moratorium on new Internet taxes. Republicans on a House Commerce subcommittee praised Governor Jim Gilmore, Republican from Virginia and chairman of the 19-member Advisory

Commission on Electronic Commerce, for achieving a majority view even though its report largely fell short of the two-thirds vote needed for a formal recommendation to Congress.

From International Herald Tribune, 07 April 2000

US HOUSE LEADER ANNOUNCES TAX REFORM SUMMIT

Calling the current tax system unfair, confusing and intrusive, House Ways and Means Committee Chairman Bill Archer (R-TX) has announced a congressional summit on fundamental tax reform. "I feel it's important to understand the frustration, the confusion and the headaches that Americans face," Archer said Saturday in the weekly Republican radio address. The summit will be held April 11-13, said Archer, and it will examine major revisions to the federal income tax code, including a national sales tax and a flat tax, "because we need to rip the current tax code out by its roots." This week in Congress, legislators will consider the so-called "taxpayer bill of rights," which focuses on protecting the privacy rights of taxpayers. The legislation aims to insulate taxpayers from computer hackers who may attempt to illegally gain personal information about them. It also would require the IRS to immediately notify taxpayers about illegal disclosures by a third party, and it would address privacy abuses by financial institutions. Archer said the bill addresses another inequity in the tax code - a law that currently allows the IRS to charge taxpayers interest on payments received from the IRS, but does not permit taxpayers to deduct interest payments made to the IRS. "Under our plan, no tax can be charged on interest received from the IRS," said Archer. The plan also reduces the amount of interest the IRS charges taxpayers while they work out disputes with the agency. In cases where the IRS is at fault, or causes excessive delay, the penalty interest would be waived, said Archer.

From CNN News, 3 April 2000

PROTESTERS SET SIGHTS ON IMF MEETING

A week of protests surrounding the International Monetary Fund's spring meetings got off to a shaky start Sunday with a sparsely attended rally calling on Congress to fund debt relief for the world's poorest nations. 'The debt burden of developing countries is killing hundreds of thousands of children every year.' - John Sweeney, AFL-CIO president The Jubilee 2000 Event, which organizers hoped would attract as many as 10,000 people, failed to live up to its billing as only about 2,000 people turned out on the National Mall on an unusually cold and windy spring day, which began with a dusting of snow on the city. The peaceful event was aimed at encouraging Congress to approve a supplementary budget request for \$210 million to fund U.S. obligations this year under the IMF-led Heavily Indebted Poor Countries initiative, which aims to cut the debts of the world's poorest nations. Last year, Congress approved \$123 million in funding as the first installment to meet President Bill Clinton's pledge to forgive 100 percent of debts owed by poor nations to the world's richest country. Congress also allowed the IMF to use some of its massive gold reserves to fund debt relief but to date has stalled on making any U.S. contribution to the HIPC fund. If Congress delays or fails to approve the administration's request for \$210 million, organizers said, other nations may withhold their funding, putting the entire debt-relief scheme at risk. The European Union, which has approved \$1 billion in funding for the effort, is waiting for Congress to approve the U.S. contribution before it commits its own cash. Debt relief advocates maintain that debt servicing keeps poor countries entrenched in poverty by forcing them to pay interest on debts at the expense of health and education spending. Gene Sperling, Clinton's economic adviser, read a letter from the president to the rally. "Let us say today that no nation on this Earth should be forced to choose between feeding and educating children or paying interest on excessive debt," the letter said. "Let us say that no children, no matter where they are born, should be deprived of the opportunity to reach their full potential." Among those speaking at the rally were religious leaders from a variety of faiths, a politician from Mozambique and John Sweeney, president of the AFL-CIO. "The debt burden of developing countries is killing hundreds of thousands of children every year," Sweeney said. "That's why we can't wait until next year, and that's why we are united and committed to the goal of debt relief now." The rally ended with the formation of a human chain, symbolizing the chains of debt, around the U.S. Capitol, where Congress is set to vote on the debt-relief funding in the coming days. The event was the first in a series of planned protests surrounding the IMF and World Bank's spring meetings here next week. Wednesday, union leaders are planning a massive rally on Congress to oppose permanent trade relations with China. Next weekend, when the IMF/World Bank meetings end, more than 10,000 people are expected to descend on the nation's capital to protest what they see as the negative effects of an increasingly global economy. Some fear that next Sunday's rally, being organized by a coalition of activists, environmentalists, labor unions, students and anarchists, could bring a repeat of the riots that surrounded last year's trade talks in Seattle. Organizers maintain that their protests will be peaceful, but some remain worried about violence and vandalism. In an interview Sunday on Fox News, House Republican Leader Dick Army said he hoped there would be no repeat of the Seattle riots next weekend. "What happened in Seattle was not a good thing," Army said. "It seems to me to maintain some sort of civil order on the streets of the nation's capital is an imperative." People should come to town and, as it were, mind their manners," he added. "I'd like to see that they would do that here better than they did in Seattle."

From Associated Press, 10 April 2000

US HOUSE PANEL MAY ADDRESS INTERNET TAX LEGISLATION SOON

The House Judiciary Committee may address Internet tax legislation as early as the first week of May, a congressional aide told BNA April 24. According to the aide, the committee may hold a hearing or even a markup of electronic commerce tax legislation (H.R. 4267) introduced April 13 by Judiciary Committee Chairman Henry Hyde (R-Ill.). It would implement some of the

most controversial majority proposals of the Advisory Commission on Electronic Commerce, including a five-year sales tax exemption on digital goods and services and a range of activities that would not trigger state sales and use tax nexus. Excerpted from an article in The Bureau of National Affairs, Inc.'s Daily Tax Report. Other tax products are available through Tax Management Inc., a BNA subsidiary.

From USA-Bureau of National Affairs, 25 April 2000

Private Sector Development

EUROPE

LATVIAN PRIME MINISTER RESIGNS IN A QUARREL OVER PRIVATIZATION

Prime Minister Andris Skele of Latvia resigned Wednesday, for the third time in four years, after his three-party coalition government collapsed during a dispute over privatization procedures. "Today, I will submit my resignation to the state president and talks on the creation of a new government will start," Mr. Skele said at a news conference. Facing a vote of confidence in Parliament on Thursday, Mr. Skele had been at loggerheads with a junior coalition party called For Fatherland and Freedom after he dismissed the minister of economy, Vladimirs Makarovs, a member of that party. Mr. Makarovs had voided the signing rights of the privatization agency's chief, Janis Naglis, effectively stripping him of authority to manage the agency. Mr. Skele said the move had undermined earlier cabinet decisions. Mr. Naglis favored swift privatization of enterprises still owned by the state in this former Soviet republic, and Mr. Makarovs complained that the agency had needlessly forfeited money for the sake of speed. The dismissal of Mr. Makarovs led to For Fatherland and Freedom's withdrawing its support for the prime minister late Tuesday. Mr. Skele in turn dismissed the party's five remaining ministers from the cabinet. With Mr. Skele leaving, the way is clear for his Peoples' Party, joined with Latvia's Way and Fatherland and Freedom, to organize a new coalition cabinet, which the prime minister said he would not head but might join as a minister. "My participation in the next government is not ruled out," he said. The chairman of Latvia's Way, Andrejs Pantelejevs, told reporters that talks would begin immediately on forming a government and that the small centrist New Party might be added to broaden the coalition. "We will ask the People's Party to consider inviting the New Party for talks, and Fatherland will not be left outside of the negotiations," he said. The People's Party holds 24 seats in the 100-member Parliament, Latvia's Way has 21, Fatherland and Freedom 16 and the New Party 8.

From International Herald Tribune, 13 April 2000

NEW FOREIGN AID MINISTER WANTS MORE PRIVATE ENTERPRISE IN NORWEGIAN FOREIGN AID

Even though she is not dissatisfied with the foreign aid policy of the earlier Centrist coalition government, Norway's new social democrat minister of foreign aid, Anne Kristin Sydnes, nonetheless promises one decisive change: Norwegian private enterprise will be given more resources to bring about industrial development in Third World countries. There is potential for a considerable increase in private enterprises' commitment to the development of the poorest countries in the world, the new minister says. The Government therefore wants to simplify bureaucracy and rules for private engagement in development projects, Sydnes says to Vaart Land. Sydnes wants to put an end to the tendency that private participation is reserved for companies that are exceptionally competent on red tape procedures. More user friendly rules will make it easier for smaller companies with good development initiatives to qualify for government support. The Government is also going to support certain pilot projects where Norwegian companies may gain experience through co-operation with UN and Norwegian foreign aid organizations. The Norwegian aid environment is especially competent on African countries and, by sharing their experience with private enterprises, it may make it easier for them to invest in these countries. The new international trend of foreign aid through co-operation between public and private sectors is going to benefit Norwegian trade and industry. UN Secretary-General Kofi Annan has invited private enterprise to share in a united struggle against poverty. "I think it's important to make the most of the momentum we are now witnessing internationally, that companies seem more ready to take on more social responsibility", the minister optimistically says. This is happening at the same time as multinational organizations like The World Bank and The International Monetary Fund (IMF), to a much wider extent than before, now focus on social development in the world's poorest countries. All together, this gives us new opportunities to create economic growth in these countries. Anne Kristin Sydnes came to her new governmental post directly from a top management job in the oil company Statoil, where she was responsible for human rights and ethical issues related to Statoil's overseas activities. This background, she says, has given her a more optimistic view on private companies' preparedness and ability to take on social responsibility when operating in poor countries. "It has been very useful to see from the inside how Norwegian companies deal with this responsibility. In international fora as well, I have noticed that enterprises show an increasing moral commitment". Well acquainted with problems of the north-south division in the world economy after years as a researcher and assistant director of the international peace research Fritjof Nansen Institute and a member of the Inter-Church Council for international issues, Sydnes rejects the traditional critic from parts of the foreign aid environment that the support for private enterprise in aid projects do as much to aid Norwegian trade and industry as they do for the poor countries. "I find this kind of criticism quite outdated", she says. The critics tend to mix up every private participation with export subsidy. After all, support for private enterprises only amounts to about NOK 500 m, or five percent, of the total foreign aid budget. One has to look at it as only one of several means to create economic and social development in the south. "If we can't help the poorest countries to develop their own private enterprise, they'll never be able to create the necessary economic growth for themselves". The new foreign aid minister does not think it is going to be difficult to persuade Norway's more and more internationally oriented trade and industry to invest more in Third World countries. She is going to require from the companies that they submit to the highest ethical standards, which she thinks will have a good ethical effect on the poor countries' own private enterprises. To them, it is important to get in

companies that represent higher standards on environment protection, on how to treat employees and on labor rights, says Anne Kristin Sydnes.

From Norway Post, 23 April 2000

PRIVATE UNIVERSITIES OFFER FUTURE FOR YOUNG POLES

An education revolution has swept Poland as youngsters, keenly aware their future wealth depends on holding a diploma, scramble for places at a host of new universities. With the state university system impoverished, many Poles have no choice but to attend new private institutions that have opened up to bring higher education to poorer citizens, country dwellers and those in the middle ranks of learning ability. Despite doubts about the quality of education at some new schools their appearance has dramatically increased the number of graduates with language and business skills and helped equip the workforce with the skills favored by Western investors. Under communism private education was non-existent, except for a few Roman Catholic primary schools and one Catholic university that survived with Church support. "The belief that higher education was strong under the previous system was a myth," says Jerzy Woznicki, head of the confederation of public school deans. "In reality university attendance was extremely low due to weak finances, poor management and terrible facilities." At the start of the 1990s there were some 400,000 students in 91 universities. Only seven percent of Poland's 39 million people had a university degree, compared to 20 percent in the European Union and 40 percent in the United States. The creation of private universities has more than tripled enrolment and now in 95 state and 171 private schools there are almost 1.3 million students. "In 1999 the number of students accepted for first year studies was almost the same as the number of tertiary level students at the start of the decade," says Krzysztof Pawlowski, head of the association of private school deans. Poland's conversion to a market economy after the fall of communism in 1989 has cut the need for arts graduates. New universities are ruthlessly focused on business skills. More than half of the private institutions are management schools. And they have brought education to the large number of Poland's medium-sized towns which lack state institutions and where students are too poor to travel to live in major cities. Since the opening of the Higher School of Marketing and Business in Leszno, a town of 62,000 inhabitants in western Poland, 1,200 local people have graduated from its classrooms. It is currently educating 1,700 teenagers and young adults. "This school has given me a chance to go to university which I would otherwise not have had," said Monika Cyniak, a full-time second year student of business management from Leszno. The school is flexible about class times and follows the American model by helping students to find jobs around campus to defray the expense of tuition. "This school has given me a wonderful chance, I can continue my education and also have the opportunity to apply my knowledge in the job," says part-time student Danuta Wawrzyniak, 22, who works as a secretary in the dean's office. Even state universities have gone semi-private, wriggling out of a constitutional requirement that public education be free by cutting the number of full-time places and increasing part-time courses, for which they are allowed to charge. Two-thirds of all Polish students now pay for their studies. Costs range from Zl 2,400 (\$580) a year for part-time state study to up to Zl 8,000 a year of full-time private study on a popular course such as management or marketing. For many living outside university towns, the combination of tuition, accommodation fees and living expenses can be overwhelming. The average wage varies from Zl 2,192 a month in Warsaw to just Zl 1,473 in the poor southeast of Poland. For those students private university can be cheaper even than part-time public education, especially as the new schools have special payment systems for students with financial difficulties. "We try to help the students who have financial difficulties by enabling them to divide their fees over several months," explains Urszula Nowak-Roznowska, co-owner of the Higher School of Business in Pila, northwestern Poland. Many of the private universities have been criticized for offering a poor quality of education. Since they do not hold entrance exams they are regarded by some as offering an easy alternative to more rigorous state-run curricula. "Students choose to attend private schools in order to avoid the stress and humiliation of failing the entrance exams," says Barbara Wierzbicka of the Ministry of Education. Employers themselves say that private universities do not offer a top class education. The first private university in a recent survey of businessmen was ranked in 35th place. "Private schools don't have the same tradition and experience as public schools, which is why employers think public school students are better prepared," says Waldemar Sliwinski, editor of education monthly Perspectives. Pawlowski counters that there are several excellent private schools which offer highly competitive programs, especially in the fields of languages and practical skills. But he agrees the private system still has room to improve, with another 10 to 15 years needed to establish a university system as good as the European Union's. "This area, like all others in the transition process, has to adjust to the new realities...the poor schools will eventually disappear from the market," says Pawlowski. Too many people still view private education as a stress free ticket to a university degree. "People have to learn to respect the institution of private schooling, they must realize that private degrees can't simply be bought with money" says Pawlowski.

From Poland Today, 24 April 2000

THE AMERICAS

OFFUTT LEADER, CONGRESSMEN MEET ON PRIVATIZATION ISSUES

The new Offutt Air Force Base commander had his first formal meeting with the Nebraska congressional delegation Tuesday morning on Capitol Hill. Col. Greg Power briefed U.S. Reps. Lee Terry, R-Neb., and Doug Bereuter, R-Neb., and congressional staff on privatization issues. Offutt is evaluating whether it could save money by turning over roughly 1,000 jobs to private industry. Base officials are also exploring hiring a private firm to renovate and manage 2,580 of its 2,612 family housing units. Terry said he is suspicious of the study. One concern he has is that turning over sensitive jobs could harm national security. On the other hand,

Power said, having permanent civilians in jobs, rather than having airmen cycle through on assignments, could be beneficial. "You train them, and they stay there," he said. Power took command of the base's host unit, the 55th Wing, in February. He said wing commanders are encouraged to meet with congressional delegations once a year in Washington to brief members on base issues.

From Omaha World-Herald, 12 April 2000

USEC PRIVATIZATION DEBATE FUELED BY 'POWER POLITICS'

The privatized federal corporation that runs a southern Ohio uranium-enrichment plant plans to lay off hundreds of workers and acknowledges that its profits and stock price are falling. USEC is in dire enough financial straits that an analyst with Bank of New York Capital Markets last week concluded that the company may try to close either the Portsmouth Gaseous Diffusion Plant in Piketon, Ohio, or a sister facility in Paducah, Ky., by July 2001. But that doesn't mean USEC can't afford a bunch of lobbyists and consultants to plead its case at a congressional hearing to probe whether the 1998 privatization of USEC was a boondoggle for taxpayers and a threat to national security. The hearing follows months of a congressional investigation of the \$1.9 billion privatization. The privatization of the former United States Enrichment Corp., which took over the plants in 1993 from the Department of Energy, was handled through a stock offering that yielded some \$75 million in fees for Wall Street, attorneys and other consultants. Vice President Al Gore made the privatization a priority as part of his "reinventing government" initiative. But the result is a "poster child" for how power politics greases Washington wheels and why the system needs an overhaul, said Peter Eisner, managing director of the Center for Public Integrity, a nonprofit watchdog group. Among the powerful consultants hired by USEC is a former top Energy Department official who still serves on advisory boards. Robert I. Hanfling, a deputy undersecretary of energy in the 1970s and now an international consultant, is a member of the Secretary of Energy Advisory Board and an Energy Department task force on Russian non-proliferation issues. Among the issues the task force advises on is the \$8 billion arms-control deal to buy Russian enriched uranium culled from nuclear warheads. USEC is charged with carrying out the agreement. Last year, USEC sought a \$200 million government bailout and threatened to walk away from its role, saying it was losing money on the deal. The company later backed down from its demands. Hanfling did not return a phone call yesterday seeking comment, but an Energy Department advisory board official said Hanfling had "been up front" about his work for USEC and had recused himself from any discussions involving USEC or the Russian deal. And she noted that work on the advisory boards is voluntary and unpaid. USEC spokeswoman Elizabeth Stuckle said the company isn't operating differently than any other large corporation. "Like any of our competitors, we have professionals to consult with us in meeting our corporate objectives," she said. But Rep. Ted Strickland, D-Lucasville, a House Commerce Committee member whose district includes the Piketon plant, said USEC is different because it was a federal corporation that pledged as part of privatization to continue to carry out the public interest. He noted that USEC pledged to carry out the Russian deal and keep both plants open until at least 2005. Hiring Hanfling is a "shameful" conflict of interest, Strickland charged. In addition to Hanfling, USEC also includes on its consultant roster Alex Flint, a former top Senate Energy Committee staff member who helped shape the policies and laws that led to privatization several months ago. But Flint now works for former Senate Energy Committee Chairman Bennett Johnston, a Democrat from Louisiana who is now a powerful Washington lobbyist. Former White House Counsel Jack Quinn and Edward Gillespie, Quinn's Republican business partner and a former top aide to House Majority Leader Richard K. Arney, also have been hired. USEC says it no longer uses Greg Simon, former domestic policy adviser to Gore, as a consultant, but Democratic power broker Thomas Boggs is still on the payroll. "This really is all about power politics," Eisner said. "Career patrons of Gore are sprinkled throughout the whole business. It's really kind of like a poster child for changing the system, the whole USEC case. It's embarrassing."

From Columbus Dispatch, 12 April 2000

A TINY, BUDDING PRIVATE SECTOR PROVIDES NEW SOURCE OF INCOME FOR CUBANS

Felix and Barbara Garces don't dream of moving to the United States. Loyal supporters of the ideals of the Cuban Revolution, they love their country, its culture and the richness of their daily interactions with friends and neighbors. But they're also weary. Since the collapse of the Soviet Union and the end of its billions in annual aid to Cuba, day-to-day life for many Cubans has been a ceaseless grind. Trips to the state-run store to pick up monthly rations sometimes yield empty shelves, leaving people scrambling to earn American dollars so they can purchase life's necessities in the free-market stores that now dot Havana's neighborhoods. "It's hard," said Barbara Garces, who despite her worries is a jolly woman with a quick laugh. "Prices are high and salaries are low." Cuban officials blame the 40-year-old U.S. economic embargo against the communist island for the problems, saying it has crippled Cuba's economy and led to shortages and high prices. The Garces don't talk politics. Far from criticizing the Government, they appreciate the things their country has provided for them. Felix Garces was sent for two years of study in Russia, where he learned the language. When he returned, he became a translator, earning a salary of about US\$14 a month. His wife is an example of two of Cuba's proudest accomplishments: its education and health care systems. Trained for more than eight years in Cuba's university system, Barbara Garces is a physician. An internist at a government clinic, she earns about US\$16 a month. Like all Cubans, the Garces and their 16-year-old son, Iran, have free housing and medical care - although medicine is not free and is often too expensive to buy. They have a ration book that entitles them to a monthly allotment of staples such as rice, beans, bread, soap and cooking oil. But often the staples simply aren't available in the store. So Barbara Garces, 40, ventures out each day into Havana's teeming markets, looking for bargains - fruit, grains and other nutritious food to round out the family's diet. To make ends meet, Felix Garces, 54, has turned to the tiny private sector that the influx of tourists has spawned in Havana. He managed to save enough to buy a three-wheeled bicycle that he converted into a rickshaw-like taxi. He's covered the rig with a roof to shelter his passengers from Havana's broiling sun and summer thunderstorms, and over the years he's added a battery, lights, even a sound

system. "I like this job," he says, proudly wheeling around the narrow streets of Old Havana, dressed in distinctive bicycle racing togs and cap. "It's important to take pride in your work." Garces averages about US\$5 a day in fares, which come both from Cubans and tourists. But it's not all profit: he must buy an annual license to run his taxi, which costs about US\$100 a year. There is also a monthly fee of about US\$18. Still, he has more than tripled his old salary, and the family now eats well. They figure their monthly costs are about US\$50, so there is a tiny bit of extra money. They have a television set and a small stereo in their cramped, one-bedroom apartment. A tiny entry-way serves as a living room, where visitors sit on an old but very clean couch. Garces doesn't want to leave Cuba for the United States because he loves his country - and because he has a daughter living in the United States. "She really would like to come home, I think," he says. "She says she has to work all the time. She has two or three jobs." Barbara Garces also loves the Cuban way of life, which is intensely social. She tours the local market, chatting with everybody, her sunny disposition bringing smiles as she jokes with the vendors. But the frustrations are always present. On a recent afternoon, she listened as a visitor talked to a man who runs a small business refilling butane cigarette lighters. Despite the country's poverty, smoking is very popular in Cuba. The man earns about 30 pesos a day - about US\$1.50 - or 900 pesos a month, which is around US\$45. Hearing the news, Barbara Garces breaks into laughter, saying, "That's about triple my salary, and I'm a doctor." Such jarring contrasts are common in Cuba today. Barbara knows others professionals like her husband whom have given up the jobs they were trained for in order to make more money in the tiny private markets. "They were trained to do one thing and may love it, but they do what they have to do," she said. Despite his budding enterprise that depends largely on tourists, Felix Garces feels somewhat ambivalent about the changes that the flood of visitors has brought to Cuba. "Some people here don't want to work," he said. "Now with the tourists, they might steal things like cigars to sell illegally. It's leading to a lot of dishonesty." Still, Garces believes in the ideals of the revolution. "I'm a revolutionary of the heart," he said. "For me, there is no better country than here."

From Latino.com, 19 April 2000