

Business Briefs

Economic Policy

China moves to protect its physical economy

Beijing made two important economic policy changes in July, designed to nurture its physical economy. On July 9, Wang Zhongyu, minister in charge of the State Economic and Trade Commission, said that China will implement a "national treatment" policy for foreign investments, doing away with the preferential tax breaks, in an interview with the *South China Morning Post* in Hongkong. Preferential taxes will be only for those industries "which will be specially useful for the national economy," rather than for only those with foreign investment. In response to suggestions that the change will scare away investors, Wang said that those "with vision" will see that the tax policy was "not as important as the investment environment."

On July 3, the State Commission for Restructuring the Economy announced that there would be no bankruptcies of state-owned firms this year, and that "management reform and technological renovation will be stressed" instead. It said that the country lacked a proper social welfare system, and that the bankruptcy law was "outdated and not adopted to the current reality." The call for bankruptcy has been at the top of the International Monetary Fund list of demands for years.

Trade

Commercial war heats up over French tests

The decision of France to conduct new nuclear tests in the Pacific has become the pretext for an escalation of trade war, primarily between France and Australia. French government spokesman François Baroin on Aug. 2 accused "commercial interests" of using peacenik groups as a cover for their own aims. "The French presence bothers many countries in this area of the South Pacific. Behind the pretext of nuclear tests, there are objective economic interests which aim at destabilizing France,"

Baroin said. Secretary of State for Foreign Trade Christine Chauvet denounced the hypocrisy of "pressure groups who often have commercial interests themselves, who are competitors."

Australia has announced that French companies will not be allowed to bid for top contracts in Australia if France doesn't reverse its decision. The first company targeted is Dassault, which was set to bid in three months to sell Mirage jets to the Australian government. Also excluded from bidding was Paris Airports, on line for some government contract.

On Aug. 2, the French Foreign Ministry announced a series of retaliatory measures to be taken by France if Australia proceeds with the boycott. France will introduce a complaint with the U.N. against violation by the Australians of diplomatic immunity; it will ask the World Trade Organization to act in case of violation of trade regulations; coal and uranium imports from Australia will be reconsidered; and EDF, the French national electricity company, will not be authorized to participate in "a non-profitable investment" which had been planned in Australia.

Corporate

Westinghouse may sell off industry

Westinghouse Electric Corp. may raise the funds needed to pay for its \$5.4 billion purchase of CBS Inc. by selling off its core industrial divisions, the Aug. 1 *Pittsburgh Post-Gazette* reported. The sell-off is something it has been interested in doing since 1990-91, when bad real estate investments forced the self-destruction of Westinghouse Investment Corp.

It may not be necessary to sell anything, however. The Aug. 2 *New York Post* reported that Westinghouse has already lined up \$6.9 billion in financing from Chemical Banking Corp., J.P. Morgan and Co., and 30 other banks.

Westinghouse's industrial divisions include: Electronic Systems, which makes radars and other defense equipment, with \$165 million in profits on revenues of \$2.5 billion. This division has been on the block for years,

but with the defense budget plummeting, there have been no interested buyers.

Energy Systems makes and services nuclear power plants, with \$7 million in profits on revenues of \$1.2 billion. Despite repeated forecasts of a resurgent market, the market for nuclear power plants is all but dead.

Power Generation makes turbines and generators for power plants, with \$110 million in profits on revenues of \$1.7 billion. This is the industry Westinghouse began in, a century ago. There have been a number of new contracts won in Asia, but little in the United States or Ibero-America.

Thermo King makes refrigeration equipment for the transportation industry, with \$130 million in profits on revenues of \$877 million. And Knoll Group makes office furniture, and lost \$67 million on revenues of \$567 million.

United States

Statistical revision shows no recovery

The Bureau of Economic Analysis of the U.S. Department of Commerce is completely revising its statistics for U.S. Gross Domestic Product, the Aug. 3 *Wall Street Journal* reported. The upshot of the change in method is that many of the productivity gains of the late 1980s and early 1990s disappear. The change casts doubt on the veracity of the supposed economic miracle of the Reagan-Bush years, and the ideology that is supposedly propelling the U.S. economy to productivity and economic gains.

Rather than an actual dollar amount for GDP, the new statistics will be an index, with 1987 equaling 100. So, if GDP in 1995 is, say, 115.8, that means that GDP in 1995 was 15.8% more than it was in 1987. Each component of GDP will also be an index, making it impossible to determine what share of GDP any particular component, such as capital expenditures by businesses, is. There are about 1,100 components added up by the bureau to measure GDP.

The reason for the change is to eliminate the miscounting that occurs by assuming that the pricing of a particular component remains

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the same over time. For example, too much weight is given to the impact of computer technology, because present GDP calculations assume that computer equipment now costs the same as it did in 1987, whereas, in reality, prices of computer equipment have fallen significantly.

An example of the difference between the two measurements is provided in the latest figure for U.S. GDP in the second quarter of 1995. According to the old method, GDP grew at a 0.5% annual rate. But, according to the new method, the U.S. economy contracted at an annual rate of 0.2% in the second quarter.

Africa

Zambia, Zimbabwe under IMF siege

The African nations of Zambia and Zimbabwe are under increasing pressure from the International Monetary Fund (IMF) to impose harsh austerity programs.

So-called budget problems in Zambia prompted the IMF to suspend its 1995-97 Structural Adjustment Facility to the country in March, and donor aid has also been suspended. President Frederick Chiluba, who came to power in elections three years ago with the promise to carry out IMF policy, promised a visiting World Bank delegation in late July that his government would proceed with reform—selling off more state sector firms and cutting the budget.

However, the political fight has just begun. Former President Kenneth Kaunda, who was panned by the West during the elections in 1992, is on the comeback trail, with a campaign platform calling for slowing down the privatization process and restoring food subsidies that had been cut by Chiluba under IMF diktat. In early July, Kaunda was overwhelmingly reelected leader of the former ruling party, the United National Independence Party. Kaunda is demanding that the nation's agricultural sector be revitalized to meet domestic food needs.

Zimbabwe has also had its Structural Adjustment Funds cut by the IMF and is coming under intense donor pressure to enforce harsh

budget austerity, allegedly designed to reduce inflation. Anthony Hawkins, a British economist in Harare, the capital of Zimbabwe, claims that "runaway spending" by the government has resulted in inflation rates of 21%. Zimbabwe's unemployment rate is 40%, and the country spends 36% of its export revenue on servicing its \$5 billion debt.

Russia

Defense industries now source of 'instability'

Sergei Glazyev, the chairman of the Russian Duma's (Parliament) Committee on Economic Policy, warned that the Russian government's failure to support the military-industrial complex has transformed it into "a major source of social instability and economic cataclysms," in an interview in *Birzhevskiy Vedomosti* on Aug. 3.

For example, one of Russia's largest defense plants, the Vladivostok-based Dalpribor, laid off its 1,500 employees on Aug. 2 because it had run out of money. Itar-Tass reported on Aug. 2. The Defense Ministry owes the company 5.5 billion rubles but has not paid anything to it this year, Dalpribor's directors told the agency. The workers, who were last paid in April, have been laid off for 45 days, during which time the directors said they hope to find a solution to their financial crisis and resume production.

On July 19, Glazyev reported that "deindustrialization trends have intensified." He said that "in the processing industry and in the production of consumer goods, in particular in high-tech industries, the slump remains very, very significant.

"And the worst thing of all is that the trend toward declining living standards has intensified. If this trend continues, the decline in consumer expenditure this year could reach 7%. In the first two quarters alone, real pay per capita declined by almost a third. The average per capita income of the disadvantaged stratum of the population dropped 25% below the cost of the minimum consumer basket."

● **MEXICO'S** slaughter cattle imports into the United States increased 2,000% over the last year, under the drought catastrophe, which is exterminating Mexico's national herd, the July 30 Texas *San Angelo Standard* reported. U.S.-based cartel beef processors are making huge profits, while imposing low prices on Texas and other cattlemen.

● **ALUMINUM** reserves are declining, which could lead to "acute physical shortages," the German daily *Süddeutsche Zeitung* reported on Aug. 4, based on estimates from Goldman Sachs. Reserves have fallen from 2.5 million tons a year ago, to a projected 300,000 tons by October 1995. The price has risen \$600 per ton (30%) since early 1994.

● **CEREAL OUTPUT** in 11 southern African nations is down one-third from last year and 20% below normal, the U.N. Food and Agriculture Organization said in its quarterly report. "Widespread drought in Angola and Mozambique was compounded by massive displacement of farming families, landmines, and shortages of seeds, fertilizers, and tools."

● **ENRON Corp.**'s deal to build a \$2.8 billion, 2,015 megawatt, gas-fired power plant in the Indian state of Maharashtra was canceled by the state government on Aug. 4. Enron has threatened to seek legal damages.

● **WARREN BUFFETT**, a satanist and billionaire from Omaha, Nebraska, made \$400 million from the \$19 billion merger of Capital Cities-ABC Inc. and the Walt Disney Co., the second largest merger in U.S. history, the Aug. 1 *Richmond Times-Dispatch* reported.

● **TAIWAN'S** Fourth Credit Cooperative lost about \$65 million in deposits in late July after authorities failed to reassure depositors, the London *Financial Times* reported on Aug. 1. Taiwan has been hit by a spate of bankruptcies and defaults by construction companies, and the banking system has a rising bad-debt ratio.