

Business Briefs

Russia

Pro-development finance official Vavilov ousted

In a move orchestrated, if not conducted, by London, Russia's First Deputy Finance Minister Andrei Vavilov, who favored building the Eurasian Land-Bridge, was forced out of office on April 15, and replaced by Aleksei Kudrin, a free market protégé of First Deputy Prime Minister and Finance Minister Anatoli Chubais. The move occurred while Kudrin was in London, where he was attending the annual meeting of the European Bank for Reconstruction and Development (EBRD). Vavilov's ouster was not a surprise, since Kudrin had told the EBRD crowd a few days earlier, that the change had been decided, and an announcement would be forthcoming.

Kudrin told an interviewer from the London *Financial Times*: "Vavilov is leaving the government and will be moving into the commercial sector. He has handed his brief over to me and I will be taking over all his business in the government." On April 16, the *Financial Times* hailed Vavilov's departure, calling Kudrin "the tough-minded young market reformer, who is already a deputy finance minister," and adding that "Kudrin is a protégé of Mr. Chubais, the architect of Russia's mass privatization program."

Shipping

British taking over U.S. merchant fleet

On April 14, the Singapore-based Neptune Orient Lines announced that it is buying the APL shipping company, the second largest U.S. ocean-freight carrier. In 1996, APL had twice the revenue of Neptune Orient Lines, yet Neptune Orient is the company making the takeover. Last fall, P&O Containers, part of the British imperial Pacific and Orient Steamship nexus which had been central to Britain's 19th-century Opium Wars, purchased Nedlloyd Lines. And, Canadian Pacific Ltd. is proposing to take over Lykes

Brothers Steamship Co.

If the proposed Neptune Orient-APL merger is approved by the U.S. Maritime Administration, it will mean that 84% of containerized goods shipments will move in and out of the United States on foreign-flag ships: Of the top 13 U.S. shipping lines, only No. 1, SeaLand Services, and No. 13, Crowley American Transport, will be in American hands.

The British incursions into the U.S. merchant fleet raise serious national security questions: In the event of war, the private merchant fleet becomes part of the U.S. Merchant Marine/Navy, and functions to transport war matériel and industrial goods necessary for the war effort. For this reason, it has always been considered a matter of national security to keep the private U.S. merchant fleet largely in American hands, and every year the U.S. government provides subsidies to keep the merchant fleet in shape. Now, the U.S. carrying trade will be in foreign hands, and under the ownership of Her Majesty's British Commonwealth, in particular.

Real Estate

Berlin construction bust causing tremors

A real estate disaster in Germany's capital of Berlin is escalating into a banking crisis, at the same time that the state of Berlin is threatened by insolvency. There are 550 private construction projects with an investment volume of DM 70 billion (about \$44 billion) under way in Berlin, many of which are turning into failed speculations, as the economies of Eastern and Central Europe contract. Further aggravating the situation is the desperate financial condition of Berlin state, and the failed union of Berlin and Brandenburg states. Now, huge amounts of newly-built office space in central Berlin remains empty, while even apartments on the city's outskirts are going begging. The market for industrial real estate has almost completely collapsed.

One immediate consequence has been a shake-up in the Berlin banking sector. The Bankgesellschaft Berlin (the result of a

merger, in order to compete with the big Frankfurt banks) recently announced that it has had to write off DM 2.2 billion due to the collapse of real estate prices. In early April, the semi-public Berliner Grundkreditbank suddenly reported that it was doubling its real estate loan loss reserves. When rumors started that it was going under, it was hastily merged with the Berliner Volksbank. At the same time, Berliner Volksbank merged with the troubled Köpenicker Bank.

Simultaneously, Berlin's budget holes are tearing wide open, despite the alleged prosperity resulting from privatization schemes. In mid-April, the *Berliner Morgenpost* reported that by the end of June, the Berlin state government would have to declare insolvency. Finally, the Berlin chamber of trade and commerce reports that, since 1991, the number of industrial jobs there has collapsed from 256,000 to 130,000.

Economic Policy

'Maastricht, not China, is threatening Europe'

Pedro Nuneo, chairman of the Academic Council of the China Europe International Business School in Shanghai, argued that Europe is not threatened by China, as the latest scare stories have it, but rather by Europe's "blind faith" in the Maastricht "convergence criteria" for monetary union.

Under the headline, "China's Economic Growth to Benefit World," Nuneo, a Spaniard, wrote in *China Daily*: "Europe is in deep trouble now. And certainly it is not because of China. It is because we in Europe have decided to implement the Single Market and the European Monetary Union (EMU), and the single currency (Euro). With blind faith, we are convinced that everything will improve in the long run, even if it becomes even worse in the near future. The process of convergence under the Maastricht Treaty is contributing to the paralysis of some economies, such as France and Germany. . . . This, in turn, creates mounting unemployment. We claim, in Europe, that we cannot sustain, anymore, the level of social welfare which we are used to, and on which

our society to a great extent is based. . . .

"We, in Europe, have failed to produce economic and business models that fit our reality. . . . We are now trying to fit Europe with a shoe-horn into the elegant simplicity of the single market, single currency model, in spite of the painful results."

By contrast, "China has been capable of sustaining outstanding rates of growth." The Chinese policy is "intelligent and coherent," driven by "creativity and imagination." He concluded: "It is important that China continues to maintain its own independent thinking in business and economy. There is wisdom in the way China is managing itself, and there must be respect. Statements about stopping China do not seem to be very scientific or rigorous, and probably not even ethical."

France

Public budget deficit showing robust growth

A confidential note from France's budget office to President Jacques Chirac and Prime Minister Alain Juppé projected that the country's budget deficit could hit 3.8% this year and rise to 4.5% next year, according to *Le Monde* on April 18. The Paris daily offered the analysis that this means the "public deficits could be extremely grave," and "make it impossible for France to satisfy the Maastricht Treaty criteria, unless a really rigorous plan is adopted."

The French had committed themselves to lower their deficit to 3% by 1997, in order to proceed with the European Monetary Union in 1999 as planned. The budget office's note gloomily says that even with new austerity measures, the 1997 deficit could not be brought below the 3.5% mark, which includes a social security deficit rising to 47 billion francs (roughly \$9.3 billion) instead of the FF 17 billion targeted by the 1995 Juppé plan. For 1998, even with a new austerity plan, the deficit would still hover in the 4% range, with the social security deficit reaching a record FF 58 billion. If France wants to reach the 3% target in 1997, it has to reduce budget commitments by 75 bil-

lion francs.

In this situation, says *Le Monde*, France must choose between plague and cholera: 1) an even tougher austerity plan projected by the Chirac-Juppé government (should it survive the "snap" elections, which Chirac called after *Le Monde's* analysis was written); or 2) a tougher austerity plan, plus a sharper "liberal" turn in the government policies, which were originally proposed by Juppé predecessor Edouard Balladur and his Budget Minister Nicolas Sarkozy.

Eurasia

Iran builds Caspian Sea to Persian Gulf canal

A good example of the long-term infrastructure development planning which is being undertaken in Iran, is found in the project for a canal to connect the Caspian Sea to the Persian Gulf. According to a brochure received by *EIR*, the canal will go from the Caspian, just north of Gorgan, to the Gulf port at Bandar Abbas. It will pass through the Central Desert, west of Mashhad, then along the Lout Desert, east of Kerman and west of Zahedan, to the port.

The estimated transport that the canal is to allow, both transit and internal, will be 100 million tons per year, in 2021. The design capacity specifies 5,000 tons deadweight (dwt) river sea-going vessels, plus 112 barges. At an average speed of 10 kilometers per hour, the transit time will be 12 days. The canal will be 2,070 km long, in three major sections: 230 km in the coastal area (from sea level to 850 meters), 140 km through mountains (maximum 1,400 m), and 1,700 km through level areas (approximately 850 m). The water required will be 750 million cubic meters, plus 300 million m³ for agricultural and industrial use. The water resources are 950 million m³ of surface water, plus 100 million m³ of underground water.

The canal is apparently a pet project of President Ali Akbar Hashemi Rafsanjani, by profession an engineer, who can be expected to work on it, after he completes his term next year.

CHINA is expected to follow Russia and reach agreement for development of a large Iraqi oil field, an Iraqi oil official said on April 16. A delegation from the Chinese National Petroleum Corp. will be in Baghdad soon to sign an agreement to develop the billion-barrel Ahdab field. Earlier, three Russian companies secured rights to develop 8 billion barrels of reserves in the Qurana field.

FILIPINO retailers from the Katapat movement are threatening a strike if President Fidel Ramos acts to repeal the Retail Trade Nationalization Act, a 50-year-old protectionist law barring foreign investors in the retail sector. Katapat has 80,000 members representing 32 trade and industry associations.

TAIWAN and China opened the first direct shipping line between them, linking the ports of Xiamen and Kiaosiang, on April 23. Considerable investments in the rail and road infrastructure, port facilities, and industrial ventures will accompany the increase in trade.

ARMENIA, Turkmenistan, and Iran expanded their cooperation agreements during the recent meeting of their foreign ministers in Yerevan, Armenia, for their sixth tripartite discussions. They signed memoranda on cooperation in trade, transport, banking, energy and gas supplies, and tourism.

AFRICAN AND ASIAN ministers will hold their second meeting in Thailand on June 11-14, including ministers from 20 Asian and 44 African nations, to "discuss boosting economic ties."

'**ASIA TIMES**' responded to *EIR's* exposé of the free-market fraud of Asia's "toothless tigers" on March 27, by asserting that "ASEAN Tigers Will Roar Again Soon." Wrote columnist Levi Folk, former analyst for Bank Credit Analyst of Montreal, "judging by the strong economic start in evidence this year, 1996 appears to have been the odd year out."