

Business Briefs

Banking

Malaysia approves firms' consolidation

Malaysia's central bank, Bank Negara Malaysia, announced on Feb. 14 that it has approved the consolidation of the country's 54 banks into ten new banking groups, which mergers are to be completed by year's end. The consolidation was announced last year as a direct response to anticipated international competition from the recent super-mergers of Group of Seven banks. In October 1999, Bank Negara eased off on the initial, ambitious plan to shrink the banking sector into just six major banking groups.

Under the current plan, each banking group will have a minimum of \$526 million (2 billion ringgit) in shareholders' funds and an asset base of at least \$6.6 billion. The ten are: Malayan Banking, Bumiputra-Commerce Bank, RHB Bank, Public Bank, Arab Malaysian Bank, Hong Leong Bank, Affin Bank, Multi-Purpose Bank, Southern Bank, and EON Bank.

Tax Policy

Tokyo mayor puts levy on banks' gross profits

In an effort to stave off a fiscal crisis, on Feb. 7 Tokyo Mayor Shintaro Ishihara announced plans to impose a 3% levy on the gross profits of banks with more than 5 trillion yen (\$46.7 million) in fund volume, encompassing the city's 30 largest banks. Currently, only banks' net profits are taxed.

Banks' net profits have, in many cases, disappeared, as they write down their vast debts. So, taxing the gross profit (before bad-loan disposal, taxes, and operating expenses are deducted) is the only way to raise revenue. Ishihara, a populist and key supporter of Taiwan's Lee Teng-hui, won the Tokyo election on the basis of his claims to be able to solve the city's financial crisis.

The plan is expected to begin on April 1, and likely will generate about \$1 billion a year. Tokyo is facing a deficit of \$600 million next year, making it technically insolvent under Japanese law (meaning that the

central government can take over its financial affairs).

Tokyo's corporate tax revenues from financial institutions, which peaked at \$1.89 billion in March 1990, will only be \$32 million in March 2000.

The Tokyo banks were most unhappy with the proposal. Dai-Ichi Bank Ltd. head Katsuyuki Sugita said, "We are absolutely opposed to this move." He added that the imposition would hurt Japanese banks' international competitiveness "at a time when the Big Bang, or sweeping deregulation of the Japanese financial sector, is proceeding."

Local governments are in desperate shape throughout Japan. In January, the central government acknowledged that 47 prefectures had a net deficit of \$804 million in fiscal 1998, the worst in 20 years. Things have worsened since then.

Indonesia

Battle over automaker tests sovereignty

The battle over the future of Indonesia's largest auto company, Astra International, has become the focus of a showdown over sovereignty. The *Far Eastern Economic Review* made it a cover story in its Feb. 10 issue, in a story entitled "The Battle for Astra Threatens Indonesia's Recovery."

The sweetheart deal with American investors Newbridge-Gilbert has fallen through, because Astra CEO Rini Soewandi refused to give up its rights to please the International Monetary Fund. Soewandi is now under attack, with IBRA, the government agency charged with selling the firm, calling on shareholders to dump her. The family of Edwin Soeryadjaya, which created Astra, was forced to sell out in 1992, but is working with Newbridge and others to take over again. President Wahid Abdurrahman and Vice President Megawati Sukarnoputri on this issue are trying to please the IMF and "international investors."

Soewandi, however, who has successfully saved Astra from collapse and made it the most profitable "plum" up for bid, is an ally of former Finance Minister Fuad Bawazier and Suharto's pal, tycoon Bob Hasan.

She is insisting on a fair deal which retains Indonesian control and sovereign rights. There are three new bidders, including George Soros and Lazard Frères of France. Soewandi appears to be favoring Lazard, who is offering more friendly terms and wants to keep Soewandi in charge.

Soewandi is described as "arguably Indonesia's most powerful Muslim chief executive," and, besides the ties to industrialists, is also close to the alliance of Islamic parties, formed by Amien Rais. This entire fight is seen as the "economic" side of the showdown over the role of the military.

Russia

Agricultural parity needed, says Academician

"The present situation in agriculture can be described by one word—catastrophic," Academician Viktor Vedmanov said of Russia on Feb. 17. He called for parity in agriculture. Vedmanov, a member of the Communist Party of the Russian Federation Central Committee, was speaking at a press conference on the CPRF economic program.

"Some statistics: Grain is paramount in agricultural production. In 1998, we got 47 million tons; last year, 54 million tons. But to develop normally, our economy needs 135 million tons," Vedmanov said. "The absence of grain makes it impossible to normally develop livestock farming. The [number of] head of cattle, poultry, and the output of livestock farming has dropped 50%. The country now has to buy more than 50% of the food it needs. Food security has been totally lost. The year 2000 budget adopted by the State Duma [lower house of Parliament] and the regional budgets indicate that we cannot expect any improvements this year."

Vedmanov decried the lack of investment in agriculture, and called for parity prices. "Today virtually every branch of agriculture is operating at a loss. . . . That is why the question of subsidies and price parity must be solved immediately."

Vedmanov said that worn-out equipment had to be replaced. Thanks to International Monetary Fund policies, Russia has been unable to import or build enough new equipment. "Some 12-13,000 tractors were

produced in 1998 and 1999. In Soviet times we produced 220,000 tractors. Now we produce 1-1,200 grain harvesters as against 70-75,000 in Soviet times. In other words, tomorrow we will have nothing with which to plow, plant, and harvest," he said.

Industry

Sharp drop in auto sales hits Europe

Three announcements shook the European automobile industry in the third week in February. On Feb. 17, sources reported that Volkswagen suffered a sharp drop in car sales in January, the first drop in several years. Overall, car sales in Germany were down 14% in January, and worse figures are expected for February.

In fact, incoming orders have been down for some time, but a large production backlog to fill orders from 1998 had postponed the drop in production and sales to this year.

On Feb. 18, the French auto producer Renault reported a 60% decline of profits in 1999, and Ford Motor Co. announced a 15% reduction of its production capacities in Europe. Ford's European sales in 1999 amounted to only 1.7 million vehicles, compared to its European capacities for 2.25 million vehicles per year. Ford will push through a far-reaching cost-cutting program in Europe, including eliminating 1,500 jobs in its Dagenham plant near London, which follows recent plant closures in Portugal and Poland.

China

Interior development key to prevent 'Asian Kosovo'

One purpose of China's program to develop its western internal regions, is to prevent a "Kosovo in Asia," stated Chen Dongsheng, a member of a group created by the State Council to plan the development of the western areas, the Feb. 17 *South China Morning Post* reported.

Chen said in Beijing, that a key objective of western development is to provide the

people of the 55 minorities who live there with more of the benefits of China's opening up and reform policy. "We want to guarantee the inviolability of the borders and the political and social stability of those areas," Chen said. "We want to smash our enemies who want to use poverty and the contradictions between races to create a Kosovo-style crisis in Asia," referring to separatist operations for Tibet, Xinjiang, and Inner Mongolia.

Developing the west will be an important topic at the yearly session of the National People's Congress in March, and the main policy objective in the 10th Five Year Plan, to be approved for next March.

The western regions are much poorer than the rest of China. The west has 56% of China's land area and 285 million people (22.8% of the population), but per-capita income is only 60% of the national average.

Southeast Asia

Mekong planners focus on 'development corridors'

The idea of "economic development corridors" as the basis of the Mekong project, was moved forward at the Jan. 13 meeting in Manila of the Greater Mekong Sub-Regional Economic Cooperation Program. Ministers from China, Cambodia, Laos, Myanmar, Thailand, and Vietnam further consolidated three such corridors and prepared a fourth. The three in the works are: Danang, Vietnam to Thailand, through Laos; Bangkok to Ho Chi Minh City, through Phnom Penh; and Chiang Mai, Thailand to Kunming, China, through Myanmar and Laos. The fourth is an upgraded road and rail link between Kunming and Hanoi.

The conference took as its theme the speech in October 1998 by Thai Deputy Prime Minister Supachai Panitchpakdi (who was pushed aside by the British-American-Commonwealth faction as head of the World Trade Organization, in favor of New Zealand's Mike Moore), who introduced the idea of "economic development corridors" to describe the proposed transportation networks, preparing special economic zones along the routes to open interior areas to city building and industrialization.

MOZAMBIQUE, because of torrential rains and massive flooding, has 150,000 people who are threatened with death from hunger and disease, according to the BBC. Citing sources who work for UNICEF, the area of greatest danger was said to be north of the Limpopo River.

AETNA/US HEALTHCARE, one of the biggest health maintenance organizations in the United States, will no longer pay for bone marrow transplants for advanced breast cancer patients, which for many is their best chance for survival.

HUNGARY'S Foreign Ministry has asked the European Union and UN environmental organizations for financial help to deal with damage to the Tisza, Szamos, and Danube rivers, caused by a cyanide spill from a Romanian-Australian gold mining company, Aurul-Gold. The spill led to widespread fish-kills in the river systems.

THE U.S. COMMERCE Department on Feb. 18 reported a record trade deficit of \$271.31 billion in 1999, a 65% rise over 1998. The overall surge in imports overshadowed record exports in 1999 of \$958.49 billion.

INDIAN Minister of Commerce and Industry Murasoli Maran, who was scheduled to visit China after the UN Conference on Trade and Development meeting in Bangkok, said that India will "want to keep trade with China away from any controversial issues" in bilateral relations. Trade "can help to enhance the mutual relationship," he said. "It all depends" on whether Beijing will raise political issues.

MARGIN DEBT, or broker loans, which is individuals' borrowings to buy stocks, is at a record level. Between December 1992 and December 1998, margin debt more than tripled. However, margin debt has increased from \$182.3 billion in October 1999 to \$243.5 billion in January 2000, a 60% increase in four months.