

Business Briefs

Middle East

New banks hurting Palestinian economy

Newly established banks are actually harming the Palestinian economy, Muhammad Nashashibi, finance minister of the Palestinian Authority, disclosed at a recent conference on the Palestinian economy. The banks in the Gaza Strip and the West Bank are "sucking deposits out of the country without participating in building infrastructure or encouraging investment," he said.

Palestinian economists cited by the July 18 *Wall Street Journal* say that most of the deposits collected since the signing of the peace accord have been transferred out of the country, primarily to the banks' home offices in Jordan. It is estimated that the total drain of funds comes to at least \$500 million.

"They [the banks] are key players. If they invest here, they give others the confidence to invest. But instead of the money being invested in Palestinian territory, it is being deposited outside the country," said Muhammad Sarsour, vice president of Bir-Zeit University in Ramallah.

In 1994, in the West Bank alone, only about \$100 million was loaned out, against total deposits of almost \$500 million.

Finance

Direct investments urged to prop up bubble

Prof. Patrick Minford, one of seven advisers to the British Treasury, said that lowering of interest rates by central banks is no longer enough to stabilize the global financial system, but that direct central bank investments, that is, putting a large amount of liquidity into the economy by buying up assets, including stocks, bonds, and real estate, is now needed, the Swiss daily *Neue Zürcher Zeitung* reported on July 17.

The call for direct investments by central banks in order to prop up the global speculative bubble is an indication of just how desperate

the establishment is to keep the collapsing global financial system from disintegrating, and that they are prepared to go to any lengths to avoid a bankruptcy reorganization of the system.

Various proposals were discussed in the daily on how to save the Japanese financial system. Analysts, as well as the Japanese Finance Ministry and the Bank of Tokyo, are now recognizing that the "self-intensifying process" of decline in Japanese markets urgently needs comprehensive interventions, the daily said. The Japanese government, sooner or later, will have to use "direct measures to increase liquidity," especially to save the Japanese banking system, whether the Japanese population likes it or not.

Investment

Fund managers pushed into riskiest ventures

Legal reinterpretation and new legislation concerning fiduciary duties are making it obligatory for investment managers to seek out the hottest, and riskiest, financial games, the July 18 *Financial World* reported.

People who have fiduciary obligations, i.e., who oversee the investment of funds on behalf of other people, including a parent saving money for a child's college education, can no longer choose the safest route of buying bank certificates of deposit, or U.S. government debt securities. If the fiduciary does not "make investments that are consistent with a reasonable view of conditions in the economy and in the investment markets," and especially if their guidance ends up providing returns that are less than average, the fiduciary "can expect to answer for that in court."

In other words, if the investments could have earned more by being put into riskier markets, the fiduciary could be hauled into court for being too preoccupied with safety, and ignoring the risk of sub-par investment performance. The fiduciary could be sued because his or her caution cheated the beneficiary out of the higher return that a riskier investment would have earned.

The State of New York passed such legislation, the Prudent Investor Act of 1994, and about a dozen other states have passed similar legislation. These new laws are being actively promoted by the American Law Institute, and explicitly revoke the "prudent person" test established over 160 years ago in the Massachusetts case *Harvard College v. Amory*. The court in *Amory* ruled that fiduciaries must "observe how men of prudence, discretion, and intelligence manage their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds." Now, if you *don't* speculate with part of the funds in your care, you are not being prudent.

The U.S. Department of Labor has imposed a similar standard on businesses that offer 401(k) savings and investment plans for their employees.

Trade

Commercial war poisons U.S.-French relations

There is a commercial war raging between the United States and France, the French economic weekly *L'Expansion* claimed in its July 13 issue, headlined "How the CIA Destabilizes French Companies." While there is some truth to the story, it is undoubtedly being pushed by pro-British interests to poison the emerging cooperative relationship between the two countries.

There has been a massive recycling of U.S. intelligence capabilities into economic warfare, the paper said, and U.S. intelligence networks are heavily involved in spying on French companies and in sabotage operations against possible contracts to be signed by those companies in foreign countries.

The problem, according to the weekly, stems from the George Bush networks acting under the doctrine formulated by then-CIA head William Webster, that former Cold War allies would become trade war adversaries. Cable News Network, for example, the weekly reported, is preparing an exposé on French spying tactics against American companies, which will increase friction.

Not only Kroll Associates—which the weekly accuses of having set up Didier Pineau Valenciennes, the head of the high-technology giant Schneider, for arrest in Belgium on corruption charges—but hundreds of such companies, are specializing in this kind of espionage, such as Futures Group, Kirk Tyson International, Fuld and Company, and SIS International.

Many firms are also audited by “Anglo-Saxon” companies such as Arthur Andersen, also suspected of spying for the United States, according to the weekly. These companies are intervening in the intense war between U.S. and French companies to obtain contracts. One of the means used, is to accuse the intermediaries working for the French of corruption. “The scenario has become classic,” says Pierre Lelouche, an adviser to French President Jacques Chirac. “The CIA has decided to break all our foreign commercial networks by revealing the identity of our mediators.”

China

Economy said to be ‘cooling down’

State statistics bureau chief economist Qiu Xiaohua said that the Chinese economy is “cooling down,” *China Daily* reported on July 13. However, other economic spokesmen point to serious economic problems.

Inflation has been dropping, though more slowly than expected, and no new price controls or other special measures will be taken, Qiu announced. Credit has been constricted, with loans falling to the equivalent of \$1.2 billion less than last year. However, the central government must not constrict bank lending too much, or state-owned enterprises will not revive, Qiu said.

“The squeeze on easy loans in the past eight months has thrown a cool blanket over the economy and kept it from overheating,” a Chinese official think-tank spokesman said. “Unlike previous austerity periods, this round does not cut off loans indiscriminately to any sector.” Investment in agriculture, energy, transport, and communications has been guaranteed, he said.

The summer grain harvest is expected to be 1.7 million metric tons larger than last year, which “indicates that the government’s support for agriculture has been enhanced even during an economic readjustment period,” Qiu Xiaohua stated.

However, a People’s Bank of China spokesman said that the underlying causes of inflation remain, especially rising agricultural prices. The problems of lack of investment over the past decade, and outdated irrigation works, have been aggravated by flood and drought damage. Severe floods in central and south China have affected the autumn harvest, mostly rice, and 70% of the national grain crop. In addition, grain prices jumped 50% in the first five months of this year, and meat, vegetable, and egg prices went up by 20 to 33%. Unemployment is also high, with 20 million workers losing their jobs this year due to “experimental reform” of state enterprises.

Europe

Kinnock pushes sea route to stop infrastructure

In one of the more bizarre cases of British geopolitical attempts to prevent the development of land transport infrastructure in central and eastern Europe, European Union Transport Commissioner Neil Kinnock advocated the development of a new northern sea route along the coasts of Scandinavia, northern Russia, and Siberia, using Russian Navy icebreakers. The July 6 *Journal of Commerce* reported that Kinnock made the proposal before the Maritime Industries Forum in Bremen, Germany.

Kinnock’s proposal received no support from executives in the maritime industry. “There is no reason to take that northern route,” a spokesman for German ship operator Hapag-Lloyd AG told the *Journal*. “There are no significant ports along the route for cargo transfer.” Moreover, it is very unlikely that the route could be kept free of ice year-round.

Kinnock, however, insisted that “considering the huge reserves of oil, gas, and other minerals in northern Siberia, the development of the northern Russian coastline would naturally be of great interest to the European Union.”

Briefly

● **MOROCCO** was loaned 1.5 billion French francs for water, electricity, railroad, and other infrastructure projects, in protocols signed on July 19 during French President Jacques Chirac’s state visit. Chirac said that the West should do more to aid development before lecturing African states about democracy and liberty.

● **UNEMPLOYMENT** figures are misleading, Gus Tyler, of the Union of Needle Trades, Industrial and Textile Employees, wrote in a letter to the editor in the July 8 *New York Times*, referring to its headline “Payroll Swelled by 215,000 in June; Jobless Rate Fell.” “If someone loses a full-time job, and tries to hold body and soul together by working three part-time jobs, he or she will appear on two or three payrolls,” he wrote.

● **THE TRADE DEFICIT** of the U.S. hit a new high in May, of \$11.43 billion, according to the Commerce Department, despite supposedly cheaper exports due to a weak dollar.

● **JAPANESE** banks have 100,000 billion yen (about \$1.2 trillion) in bad loans, the July 18 Swiss daily *Neue Zürcher Zeitung* reported. From March 1994 to March 1995, the value of stocks owned by the 21 leading Japanese banks fell by more than 50%, and from March 31 to July 3 the value fell by another 50%, mainly because of sell-offs to cover bad loans.

● **THE BRITISH** replaced the Japanese as the largest direct investors in U.S. companies, and the United States net debtor position worsened by 24.9%, from \$545.3 billion at the end of 1993 to \$680.8 billion in 1994, according to U.S. government figures released on June 28.

● **EARTHQUAKE** prediction may be enhanced by findings of two teams of Japanese scientists that groundwater chemistry changed significantly preceding the Kobe earthquake in Japan on Jan. 17. The findings were published in the July 7 issue of *Science* magazine.