Business Briefs

Economic Policy

German outsourcing ended in disaster, says prof.

Prof. Erich Zahn of Stuttgart University said that the outsourcing of work by German companies to cheap-labor competitors often ended in disaster, the German daily *Süddeutsche Zeitung* reported on Jan. 27.

Many German companies, he says, have "by far exaggerated" the outsourcing of jobs; they "have just cut out everything, thereby even throwing out the best parts of the meat." Now, some of these companies are trying to reintegrate what they have formerly outsourced. However, it doesn't work, says Zahn. In particular, the companies run into big problems in finding new employees, who are as well qualified as those long-standing employees whom they had laid off. If the companies want to survive in the future, they cannot just cut costs, Zahn emphasized. A "very dangerous" trend in this respect, he said, is the outsourcing of research and development work.

Asia

Indonesian firms rally to anti-poverty campaign

A group of 79 leading Indonesian companies reached agreement on Jan. 26 to rally behind a Presidential request to step up the pace of poverty eradication efforts. Sukamdani Sahid Gitosardjono, head of one of the largest Indonesian hotel-real estate conglomerates, said the business group will set up a body to organize and coordinate all activities related to partnership programs with smaller businesses, including providing managerial and technical assistance and low-interest loans.

The formation of the group follows the issuance of a Presidential decree in December, requiring individual and corporate taxpayers with net annual incomes exceeding 100 million rupiah ($43,000), to pay 2% of their net income to support government programs for the poor. Some 11,000 corporate and individual taxpayers should be subject to the surcharge, including foreign multinationals taking advantage of liberalized business rules.

In 1995, forty-eight heads of leading firms met in Jimbaram, Bali, and pledged to redress social disparities. The Jimbaran group says it spent 2.1 trillion rupiah ($884.2 million) in 1996 on cooperative programs with small and medium-sized enterprises.

President Suharto has repeatedly warned in recent months that the growing disparity in wealth distribution could lead to widespread social unrest and threaten national unity, with an estimated 25 million of Indonesia's 200 million people still living below the official poverty line.

South Korea

Bankruptcy may signal shift in lending policy

South Korea's central bank was forced to pump more than $3 billion in emergency credit into Korea's largest banks on Jan. 24 and Jan. 27, after the country's second biggest steelmaker, Hanbo Steel Corp., declared bankruptcy on Jan. 24. Hanbo requested a freeze on $5.8 billion in bad debts, one of the largest bankruptcies in South Korea's history.

Hanbo Steel, the flagship firm of South Korea's 14th largest industrial conglomerate, Hanbo Group, had already defaulted on some debt payments on Jan. 23. Its squeeze was caused by a collapse of steel sales overseas; the company said it had not sustained any losses as a result of recent Korean strikes.

Bankruptcies are rare in South Korea, because the government supports ailing companies by ordering the banks to extend credit to them, until their problems have passed. If, by allowing Hanbo to flop, authorities are signalling they will no longer prop up firms, then "Hanbo's default may signal the beginning of a chain reaction of corporate failures," said Lee Hahn-ku, president of Daewoo Research Institute. Lee predicted "severe unemployment," meaning that the financial manipulation may be the route that President Kim has chosen to try to smash his trade union opposition.

Korea's banks will be hit even worse than industry. "Bankruptcies in the industrial sectorwill hit the financial community," Lee said. Under Korea's dirigist industrial policy, previously, banks have had to follow government direction regarding which companies they invest in, which is called "picking winners," and have had to provide extensive cheap credits to industries targetted for development. Usually these are loans which banks would not have made purely on profit grounds, but which were made on Hamiltonian grounds, precisely to create new industries or support necessary industries which were not so profitable in the short term.

If, now, the Kim government changes course and refuses to support banks which have such loans on their books, Korean banks are in for a bloodbath. A total of 45 banks and other financial institutions have lent money to Hanbo, led by Korea First Bank, which has the largest exposure (almost $1 billion). Other major creditors are the Korea Development Bank, Chohung Bank, and Korea Exchange Bank, some of the nation's largest.

Trade

'Mittelstand' role key in India-Germany ties

German Foreign Minister Klaus Kinkel said that India and Germany should step up economic collaboration, and outlined a major role for German *Mittelstand* (small and medium-sized industry), in a speech to the Rajiv Gandhi Foundation in New Delhi on Jan. 23. Although the speech, entitled "India and Germany—Partners for the 21st Century," contained aspects of one-worldism and ecologism, it also addressed aspects important for the economic consolidation of the Eurasian land-bridge project.

"The modernization of Indian industry calls for a high supply of investment goods. The export of German machines to India increased by more than 50% in 1995—one-half of all exports, which is a good sign," Kinkel said. He added that Germany hopes India will remove obstacles to investment, "especially in the field of infrastructure."

Kinkel said that Germany has the potential to invest more in India—on the condition not only that the big traditional investors, such as Siemens or Bayer, do more, but that the *Mittelstand* especially receive more support. "German industry is characterized by small and middle-sized enterprises, with 98% of our 51,000 firms having fewer than 1,000 workers, and 60% even having fewer than 100. They have the big advantage of being flexible and innovative. That is, the number of joint ventures in India ranks second after the U.S.A., and far ahead of other Western partners. But, for small firms, investments abroad are a big step. We are helping them where we can," he said, ostensibly referring to lowered-interest credit lines of the Reconstruction Bank and the state Hermes export credit guarantee program.

Russia

Agriculture, investment in precipitous collapse

Conditions on the agricultural market in Russia are leading to a monopolization by financial capital, while food producers are being pushed out, the Russian Academy of Agricultural Sciences warned in a new report, *Agra-Europe* reported the week of Jan. 20. If current trends continue, market structure and prices, as well as supply, will be dependent on export businesses.

Gross agricultural production during 1991-95 fell by more than one-third. For 1997, scientists expect that negative trends will accelerate. The financial situation of most of the corporate farms is called "critical"; their debts reached 40 trillion rubles (about $7 billion) and exceeded total sales income of agricultural products by about 8 trillion rubles. In the past year alone, farms suffered losses of 4 trillion rubles. The biggest part of it is the result of debt owed to private banks.

The decrease in grain production, of 60-70 million tons per year, is mainly caused by this development, as are the drops in milk and meat production. In the past few years, most vegetables and fruits have been produced under primitive conditions on private dachas by the nonfarm population. Private production has been increasing steadily, and was 44.3% of gross production in 1996, while private family farms produced 2.2%.

Meanwhile, the economy is disintegrating because of the collapse in industrial investment, according to a study based on official Russian statistics by the German Federal Institute for Eastern European Scientific and International Studies. Total Russian investment has dropped to one-fourth the value of 1990. In 1995, it was 30% of 1990. In 1996, investments declined by another 15-20%. The sectors most affected included machine building, –92%; light industry, –96%; agriculture, –95%; construction, –94%; chemical and wood industry, –86%; infrastructure and communications, –79%; and fuel and energy, –53%.

Italy

Farmers attack limits on food production

Some farmers have begun to hit the real issue in the growing Italian milk protests—the absurd European Union quota system. The Italian news service ANSA reported on Jan. 27 that a "Sicilian front" has declared solidarity with the farmers in Lombardy. The Sicilian producers are "supporting the farmers' battle against the violence and ignorance of those who dare to impose fines and limitations on production, in a world where 800 million people are without food," according to the dispatch.

Since 1982, Italy has been assigned a quota of 9.9 million tons, which covers only 60% of internal consumption. Farmers who "overproduced" have been fined 421 billion lira (more than $260 million), which must be paid by individual producers, not by the state. Of a total of 105,000 Italian milk producers, 14,800 have been fined. In many cases, paying the fine would amount to closing the farm.

Although the milk protests have been spreading throughout the country, there has, until now, been little or no discussion of the quota system itself, and the crimes of the "free market." Rather, producers have been concentrating on forcing the government to pay the EU fines. Such a solution would not solve any of the problems facing the sector.

Briefly

A SOUTH AFRICAN government commission of inquiry into the diamond industry will scrutinize the Oppenheimer DeBeers cartel, the Jan. 31 *Mail and Guardian* reported. The London-based, DeBeers-run Central Selling Organization controls 80% of the world diamond trade.

GERMAN states and municipalities should not engage in derivatives speculation, Bundesbank director Edgar Meister warned, at a conference in Hanover in January. Losses in such activity would immediately result in additional burdens for the taxpayer, he said.

FRANCE and China have reached agreement on transfer of technology for space travel, including manned space flight, Agence France Press reported on Jan. 29. The agreement is to be signed in May. According to a French minister, the accord "provides the basis for a true strategic partnership among France, Europe, and China."

CHINA surpassed Japan in 1996, to become the world's largest crude steel producer. The Japan Iron Steel Federation said that China's steel production during the year rose 5.2% from a year earlier, to 100.4 million tons, while Japan's output declined 2.8%, to 98.8 million tons.

THE PHILIPPINES' trade deficit rose to $10.95 billion in the first 11 months of 1996, as compared to $8.14 billion a year earlier. Total trade rose 21%, to $48.3 billion, with imports up 24% to $29.6 billion, and exports up only 18% to $18.7 billion. Electronics and components were the largest share of imports.

A TAIWAN cabinet task force on privatization has proposed to sell off one-third of the shares in the state oil monopoly, Chinese Petroleum; the power monopoly, Taiwan Power; and Chung Hwa Telecom, the telecommunications monopoly. Under the plan, 14 million Taiwanese will be eligible to buy from 300 to 3,000 shares in the firms.