Business Briefs

Korea

Railway High On North-South Agenda

Reconnection of the Trans-Korean railway will top the agenda of August ministerial North-South talks in Seoul, to help speed up transformation of North Korea's economy, the *Korea Times* reported on July 31, after interviewing various strategists, in their usual role as outlet for the Presidential Blue House. "The railway would be an important tool to link the outside world and North Korea, which has introduced elements of a market economy," said Lee Jong-seok, of the Sejong Institute think-tank. "North Korea is making every effort to improve production capabilities." South and North Korea agreed July 30 to hold working talks to prepare for the high-level meeting in mid-August.

South Korean officials are expected to urge their Northern counterparts to speed up work in the North on the rail link. "If the cross-border rail line work resumes, it is expected to serve as a stepping stone to inter-Korean military talks as well as construction of an industrial complex in Kaesong," said Prof. Suh Dong-man of Sangji University. To that end, the two Koreas should sign an agreement on a set of administrative regulations regarding mine-clearing works inside the Demilitarized Zone. "The railway connection will be the most substantive project since the summit between the two Korean leaders in June 2000," Suh said.

Europe

Unemployment Highs In Germany, France

The official publication of German unemployment figures for July was estimated at close to 4.1 million—the highest level since July 1998, and an unemployment rate of 10%. In France, unemployment reached the highest level since October 2000, with 2.4 million, or 9%, out of work.

Particularly worrisome is the decrease in apprentice jobs for young Germans who finished school in June: There are 6.3% less such jobs offered by industry and banks, than in July 2001.

In the first six months of 2002, German industry invested 11% less in new machinery, than in that period of 2001. New orders for machines from foreign countries jumped up by 17% in June (compared to June 2001), which is also related to general expectations that a further rise of the euro against the dollar will make German machines more expensive later this year. Domestic orders remained stagnant, however. From January to June, domestic output had fallen by 7.4%, new domestic orders by 11%. The combination meant that, in terms of all new orders, German machine-builders reported a 5% drop during the first six months of this year.

Short-work stayed high, at levels almost four times last year's, and another 10,000 jobs may be axed in the machinery industries before the end of this year, according to the stagnation scenario—which includes the expectation that output will "only" be 4% below last year's level. If things get worse, according to another, more realistic scenario, more jobs will get axed.

Italy

Economic Devolution Threatens Nation-State

As a consequence of the recent constitutional reforms which broaden local powers to levy taxes and run key infrastructure, the Italian region of Sicily has imposed an environmental tax of 124 million euro yearly on the gas pipelines which transit through Sicilian territory, belonging to the national oil and gas company ENI. Following the Sicilian example, the northeastern region of Friuli-Venezia Giulia is discussing a similar project, and other regions are talking about doing the same, threatening to provoke an increase of gas prices.

A major portion of Italian private and industrial energy consumption depends on gas. Industrial organizations and the Energy Authority have filed a complaint with the European Commission, which is now investigating the case, in order to decide whether the Sicilian tax is legitimate or not.

Italy's national government is thus being totally bypassed, in what appears to be a taste of the neo-feudalist structure of power in the supranational European Union, as governed by the Maastricht Treaty's economic devolution principles.

Britain

Britons Fear Not Getting Their Pensions

With most corporate pension funds reporting heavy losses, large numbers of Britons fear not getting their pension payments. A survey published by Hewitt Bacon and Woodrow, shows that of the top companies listed on the London stock market index, a huge 75% face very large shortfalls in their pension funds. At half of these companies, the shortfalls are 20% or more, the survey says, and there is an average underfunding of the companies by 13%.

Articles in the British press have asked, if things look so bad generally, what would happen to pensions if these companies got so deep into trouble that they would have to be "wound up." In that case, retirees would be paid no more than 50%, according to existing law and regulations, of what they expected to have.

The scene in London is repeated on the European continent: The biggest Swiss insurance firm, Rentenanstalt, reports losses of 80% in stock value, over the last 12 months; in the Netherlands, several of big firms in insurance and pensions have decided to cancel collaboration with hedge funds, because of these funds' excessive losses.

Paraguay

IMF Squeeze Sending Country Into Chaos

The IMF is demanding new austerity as a loan conditionality for Paraguay, in the midst of extraordinary instability, and immense poverty, characterized by one opposition leader as "like Biafra or Bangladesh."

Scenes echoing Argentina, where heads of households have to dig in garbage dumps to find food, are now becoming commonplace. The fiscal austerity law to be presented to Congress demands huge budget cuts, an increase in the value-added tax from 10 to 13%, an increase in a tobacco and alcohol tax from 10 to 20%, plus additional tax hikes. This austerity is intended to reduce the fiscal deficit to 1.3% of GDP this year, with the goal of reaching a "zero deficit" in 2003—the same crazy policy which helped destroy Argentina. The Fund also wants a "financial reform" law passed in the Congress, for the purpose of dealing quickly with banks that fail.

It is against this backdrop that a mass demonstration was planned in Asunción, by Unace, the movement founded by former Gen. Lino Oviedo. The protest is to demand the resignation of President Luís González Macchi.

Brazil

Capital Flight Is Bleeding Nation Dry

Brazil needs capital controls, as capital is being sucked out at an accelerating rate, anticipating and provoking a default. The self-feeding mechanism of capital flight drives down the value of the national currency, the real, bringing bankruptcy on that much sooner.

Folha de São Paulo reported that in June, $4.2 billion more left the country through debt payments and profit remittances, than entered as loans, foreign investment, etc. This does not include trade. This was the worst month for the financial balance since January 1999, when a net $ 6.7 billion left the country during the crash that forced the government to float the real. The figures for July—when the capital flight was much worse—are not yet in.

Folha reviewed how the problem is escalating in several categories of capital flows: First, the closing off of any foreign credit for Brazil is decisive to the drain of resources, because Brazilian-based companies, domestic and foreign-owned, could not roll over more than 22% of their debts in June, and therefore were forced to come up with dollars to pay them off when they came due. Second, the multinationals are not reinvesting, but pulling any and all profits out. *O Estado de São Paulo* reported that profit remittances in May-June of 2002 were 140% greater than in May-June 2001. In dollar terms, $1.2 billion left in those months this year, as compared to $500 million in the same period last year. *O Estado* points out that because of the devaluation, the drain was even bigger when calculated in reals. Multinationals, including some which have bought "privatized" Brazilian state companies, are even sending out "future profits" early!

Third, capital is also leaving in increasing amounts through the so-called CC-5 accounts, which permit foreign residents and companies, and Brazilians with alleged activities abroad, to ship money out of the country. In June, $605 million left the country through the CC-5s; but $690 million left through this window in the first 12 days of July, alone.

And fourth, there has been a net foreign disinvestment in the stock markets, which is also accelerating. Bloomberg reports that on Aug. 5, there was a one-day disinvestment of some $250 million.

Free Trade

U.S. Will Sign First Pact With Morocco

U.S. Trade Representative Robert Zoellick, in a statement to reporters after Congress' approval of the Trade Promotion Authority (TPA)—authorizing the President to negotiate trade agreements with other countries—said that a free trade accord with Morocco is expected to be the first signed under TPA, *Arabic News* reports. House Speaker Dennis Hastert (R-Ill.) leads the group of Congressmen who are backing the accord with Morocco. The groundwork for the accord was negotiated with Moroccan King Mohammed VI when he met President Bush in Washington in April.

A free trade accord with southern Africa is also in the works.

Briefly

FOREIGN BANKS are desperate for an IMF bailout of Brazil. Citigroup chief financial officer Todd Thomson told investors in Boston at the beginning of August that chairman Sanford Weill is meeting regularly with other top officials "to mitigate losses if things turn worse." Citibank and Spanish banks "are counting on additional IMF assistance," reported Bloomberg News. U.S. banks have about $32 billion at risk in Brazil.

UNITED AIRLINES has hired bankruptcy lawyers, CNN reported on Aug. 2. UAL, the second-largest airline in the U.S., announced further flight cuts, and, in a desperate attempt to get some revenue, has reduced its fares, along with other U.S. airlines—despite the fact that U.S. airlines lost more than $1.4 billion in the second quarter.

MORGAN STANLEY'S Steven Roach pointed to "systemic risk," in an interview with *Il Sole 24 Ore* Aug. 3. On the U.S.A., he said, "When the debt is very high, as in this case, the danger is systemic and some institution could be at risk." Roach blasted Alan Greenspan: "The Fed chairman encouraged consumers to take on debt, offering as collateral, house values in a bubble phase, to keep being able to consume . . . and I find it irresponsible to replace a bubble with another bubble, just to encourage consumers to keep spending."

THE ENRON probe by the U.S. Justice Department went international on Aug. 5. Federal prosecutors are investigating Enron's alleged bribes of foreign government officials—with possible criminal violations of the Foreign Corrupt Practices Act—to win a pipeline project in Bolivia, power projects in Poland, the Philippines, and the Dominican Republic, and water projects in Ghana, among others, going back to the mid-1990s. The projects were awarded in some cases without competitive bidding, or where assets were acquired at below-market rates.