Pockets of Capitalism Emerge as Communism Wanes

Russian Federation President Boris Yeltsin has announced his republic's transition to a market economy. Now plans are afoot to develop free economic zones in Kaliningrad and St. Petersburg. But as Gemini News Service reports, few foreign investors are showing enthusiasm for the zones, despite apparently attractive conditions. by Charles Quist Adade

THE word "zone" brings horrible things to the minds of many elderly Russians. It was in Joseph Stalin's so-called labour zones, a Soviet euphemism for concentration camps, where millions of Russians perished in the wake of the dictator's bloody purges of the Thirties.

After years in linguistic pergatory,"zone" has re-entered the Russian vocabulary, but this time in a more benign way. Free economic zones, or special economic zones, are springing up like mushrooms after rain throughout the Russian Federation.

The idea was first discussed barely three years ago, but more than 15 cities and regions of the massive Russian Federation — from Irkustak region in Siberia and Kaliningrad in the west to St Petersburg (Formerly Leningrad) in the northwest — have been declared special economic zones. Many more are expected to be announced soon.

So far two of the zones, Kaliningrad and St. Petersburg, stand out because of their sophisticated workforce infrastructure.

Kaliningrad, a port and naval base on the Pregolya River and the Baltic Sea was founded by Germans in 1255 as Konigsberg in what was then Eastern Prussia.

The area took heavy damage in World War Two. In 1946 it was ceded to the Soviet Union and named after the first Soviet president, Mikhail Kalinin. Now it finds itself physically detached from the rest of the Russian Republic because of the cecession of the Baltic states.

Kaliningrad is a modern industrial city. Fishing and pulp and paper are its leading industries. Together with St. Petersburg, Kaliningrad is thought to have the best prospects for the free zone experiment, and for many reasons.

It has great potential as a industrial, scientific and technical centre and has strong transport links and geographical proximity to Western Europe. A shared history and broad and diversified links with Scandinavia and the Baltic states also reinforce its affinity to the West.

A key component of Russia's economic-zone policy involves coversion of military industries in Kaliningrad and St. Petersburg to civilian purposes.

According to St. Petersburg Mayor Anatoly Sobchak, 80 per cent of the city's military-industrial complex is to be converted to civil production when the free economic zone takes off. Kaliningrad governors have similar plans.

Kaliningrad leaders say they want the programme to produce goods that people need. Valentine Sokolov, a city councillor, told the Mayark newspaper: "Butter and bread and not pushka (guns) is what our people want."

Critics charge that the zones will facilitate the sell-off of national wealth to foreigners. Opponents of the plan use the slogan, "Your poverty is better than foreign welfare." They maintain that the zones are meant for a select few and will become breeding grounds for criminals, racketeers and prostitutes.

But Russian Federation leaders and their supporters have not been swayed. Last year parliament passed legislation to pave the way for creation of the zones.

Russia is not the first communist state to follow the Chinese experiment of creating pockets of capitalism in an otherwise centrally planed economy. In Europe, Bulgaria and Poland have taken the lead with such experiments.

Russian leaders hope the zones will arrest the republic's economic decline and facilitate a quicker transition to a market economy. Says Sobchak: "Our reforms have been slow because of lack of experience in carrying out market-oriented reforms. The economic zones will become the motors and catalysts to power on the transition to the market.

Many leading economists do not share Sobchak's optimism. I. Korleve writes in the Economic and Life Weekly, a prominent Soviet financial newspaper, that judging from the dismal performance of economic zones in China, prospects for "our own zones are dim indeed." He cites higher labour costs, bureaucratic meddling and Russia's communist legacy as factors threatening the zones.

Many attractive conditions and safeguards are offered under the legislation setting up the economic zones. Investors are guaranteed unconditional compensation in the event their property is nationalised or expropriated. As well, they have the right to go to court to contest unlawful actions by state administrative bodies. Investors are also permitted to repatriate profits and enjoy low taxes and no custom, duties or excise.

Despite such attractive conditions foreign capitalists seem slow to invest in the zones. The defeat of the August coup did not entirely end the political risks they face. Rumours of instability make the rounds. There have even been predictions of a second putsch next year which could end the reforms.

Other factors scaring investors away include the inconvertibility of the rouble and lack of a stable external trade legislation. Policy changes are still announced by the Council of Ministers or the Supreme Soviet, adding to confusion over which level of government — local, republican or central — is calling the shots on economic policy. Foreign investors are bound to wonder who will guarantee the safety of their capital in the special zones.

Yet, the idea of free enterprise zones has received wide acceptance in the country. Economist Korolve believes the reason for this is psychological. Many Russians feel dissatisfied with the existing centralised system under which they work hard for little reward in factories and state and collective farms.

In late October, Russian Federation President Boris Yeltsin outlined his programme for a full-blast transition to a market economy.

-GEMINI NEWS.

Collor Confronts Uphill Economic Battle

President Fernando Collor of Brazil came to power 18 months ago on a surge of popularity. However the daunting task of putting Brazil's economic house in order may prove too much for him. With his radical economic programmes Collor has been able to lash the inflation rate, at least briefly. Yet, reports Gemini News Service, his problems are far from over as Brazil's deepening poverty and balance of payments crisis continue to threaten his political future. by Patrick Knight

WHEN Fernando Collor de Mello took office as president of Brazil 18 months ago as the first person to be directly elected to the post in 30 years, everything seemed to be going his way.

Since then things have started to unravel.

Collor used his media savvy to good effect in his election campaign, convincing millions of Brazilians disillusioned with discredited politicians of the old school that he — and not his rivals in the leftwing Workers' Party — could revitalise the country after military rule ended in 1985. It was hoped he could achieve the miracles most Brazilians still dream are possible.

The new president started off in dramatic style. Faced with a monthly inflation rate reaching 80 per cent, his first move was to introduce one of the most radical packages of economic measures ever seen. Tens of billions of dollars of savings and bank accounts were confiscated for 18 months.

Collor used all sorts of antics to appeal to the public: hang gliding, jet-skiing, piloting a supersonic jet, travelling in a submarine and jogging every Sunday wearing a T-shirt blazened with some message or another.

Turning his back on the traditional politicians and bureaucrats in Brasilia, he brought in a relatively unknown team of young ministers and advisors who, he said, would work with him until the end of his four-year term.

Many of them were from his adopted state of Alagoas, in the northeast, where to gain power he had married into one of the wealthiest families of the poverty-striken and backward region.

Collor defied Congress and attempted to rule by using special legislation which had only to be ratified by Congressmen several months later.

He also tried to ignore the new and restrictive constitution, which makes it difficult for the executive to act. Collor was convinced that the tough economic measures he doled out would finally defeat what he identified as Brazil's worst enemy, inflation.

He gambled that after a tough 18 months or so, inflation would be under control and he could then preside over a period of steady growth, which would guarantee his own political future and that of the men who had supported him.

But in the past few months, everything has gone terribly wrong.

In January Collor introduced a price freeze — a measure he once vowed never to use — but inflation was back at 15 per cent a month and rising by mid year.

Half the ministers he selected had left the government, some under a cloud, and there were serious allegations of corruption against many of his advisors.

Collor is now in a tight spot and seems to have decided that the only way out is to seek an accommodation with the old political elites he had until recently made a public show of turning his back on.

He has offered to reschedule the $50 billion in debts that states in the federation have with the Central government, if in return the state governors agree to press Congressmen to change the constitution to give him the broader powers he says he needs to govern.

The politicians have said maybe, but only if Collor sacks all his ministers and replaces them with men Congress knows it can deal with.

Collor will also have to get rid of his cronies from the northeast, who even, in a country where corruption and nepotism is rampant, have gone too far.

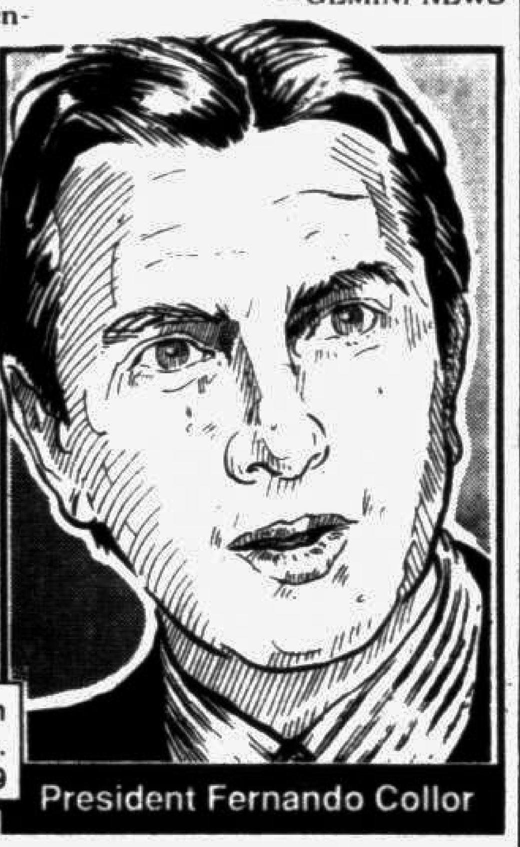
Most politicians agree that Brazil is in worse shape now than ever. Poverty is deepening. The country's international credibility is at the lowest possible ebb and Brazil has not been able to work out an agreement with the international financial community for rescheduling of its debt.

Debt rescheduling is vital if desperately needed finance is to be attracted to the country again.

There is wide agreement that Collor has matured during his 18 months in power.

But it has yet to be demonstrated that enough influential Brazilians really want the existing system, characterised by one of the most inequitable distributions of wealth in the world, to change. On this count, Collor's most important backers have interests firmly rooted in the status quo.

— GEMINI NEWS



President Fernando Collor

Oil Cheaper Now but Remains Top Pollutant

In August 1991 oil was still cheaper, in a sense, than it was in 1970

THE price of crude oil has soared over the last two decades — between 1970 and 1980 the price of one barrel rolled out of a Middle East oilfield rose 14 times over !

Though prices have fallen since then, a barrel in August this year was still costing seven times its 1970 price.

Are all the above facts correct ? Well, yes and no.

The prices of everything else have risen over this period (except, strangely perhaps, electronic goods like computers !). Incomes have also gone up. So we should really compare oil with these other price levels, to get "real" prices.

The problem is to find a suitable comparison. Income in some countries have rocketed up, especially in East Asia, so for them oil prices have been less of a burden.

But the struggling populations of South and Southeast Asia have not fared so well. Fuels for a farmer's walking cultivator with a mini-engine are much dearer now. And government taxes make a difference — for instance, Hong Kong and Japan tax petroleum products heavily, the Philippines lightly.

Over the 1980s, the general cost of living has certainly doubled over most of East and Southeast Asia (less in Japan, more in Taiwan). So in real income terms, oil can be said to cost just about the same as it did a decade ago.

Is there a worldwide comparison for oil prices ? Perhaps there is one : it is with gold, which is still the only globally acceptable currency. In 1970, an ounce of gold, at US$35 an ounce, would buy 14 barrels of Middle East oil.

By the time of the first "oil shock" of 1974, an ounce would buy 33 barrels. Gold prices peaked in January 1980 at US$875 an ounce — at that point oil was fetching US$35, so an ounce bought 25 barrels.

In August this year, Dubai crude oil was about US$20 a barrel, and gold had fallen to US$360 an ounce, so gold bought 18 barrels — oil was therefore still cheaper, in this sense, than it was in 1970 !

On the supply side, the Organisation of Petroleum Exporting Countries (OPEC) was founded in September 1960, first of all as a boycott device against Israel. It soon became a total cartel, seeking to set production limits and minimum prices against all buying countries.

It has a great success at first, driving prices up. But the world economic system "hit back," so to speak, because everything else rose in price, too — the oil crisis just created masses of new money, without creating new supplies of goods and services. The name for that is "inflation."

Just before Iraq invaded Kuwait in August 1990, OPEC had set a target price of US$21 a barrel for oil. But buy the end of that year, OPEC was producing at least 3 million barrels a day more than a year earlier, and well above world consumption.

By August 1991, OPEC production was at a peak of more than 23 million barrels a day — Saudi Arabia alone was pumping 8.2 million, twice its 1989 level. The price of a barrel of Dubai crude, an indicator of prices in general, fell from a Gulf War record of US$30 to US$12.50 in February 1991.

The Middle East crisis actually benefitted British and Norwegian North Sea producers more than the Arab states. Uneasiness drove the Britain's Brent oilfield key price to a high premium over the Dubai price for a while. Than it, too, fell-in half in one day (January 17 this year).

Meanwhile, ever since 1974 vast new oil prospecting activity has been encouraged, in Indonesia, China and Australia especially. In China alone, offshore pumping from six fields will treble, and 11 other fields are being opened up. A new entrant in the oil stakes is Vietnam, where 39 wells and seven offshore rigs are expected to produce 1 million barrels per day soon.

World oil output has climbed from 55 million barrels a day to 66 million in 1979, but then fell to 56 million in 1982 (after the "second oil shock") and has since risen back to about 65 million now.

Demand has fluctuated much less than output, because the high prices have forced every consuming country to save on oil. Asia's oil imports have fallen as a percentage of total imports, and many importing countries are now making more money out of oil products like plastics, artificial rubber, solvents and sophisticated chemicals.

World oil stockpiles have been filled to the brim, as an insurance against price crises (Japan keeps 40 days' usage in store). So events like a Gulf War do not have the effects they had at one time.

But demand for power still shoots up everywhere, so what can be done? South Asia depends heavily on oil imports for its energy needs — in India and Pakistan, oil imports cost 20 per cent of export incomes, and in Sri Lanka the figure is 16 per cent. Yet interruptions to power supplies continue to hold back industrial development there (as they do in the Philippines, too).

The tremendously successful industrialisation of Asia cannot now be halted. But this worries the environmentalists. Several countries have been tempted to save oil by turning back to an older fossil fuel, coal (much to Australia's delight — it has become a busy exporter). India, China, Korea and Japan are all long-time coal producers.

But that is the trouble. Their mines are old, and the history of coal around the world has been a terrible one, of black-lung miners, labour misery and killer soot-fogs. Deaths and property damage attributable to coal over the centuries since the 1700s run into the many millions of people and dollars. And smokes, fogs and hazes from oil are the new mass killers.

Geothermal power is at an early stages, and the Philippines is a world pioneer at this, with eight plants yielding 20 per cent of total power supply. But the sources are few and scattered. Geothermal and hydro-power development is subject to mounting environmental and social protest these days, too, Wind power? — a very old form of energy, and still not very effective.

We are left with nuclear energy. The world has 440 atomic reactors running, and 64 of them are in Asia : 40 in Japan, nine in South Korea, eight in India and one in Pakistan, The Philippines built one, but mothballed it after a dispute over its construction under deposed President Ferdinand Marcos.

China will have three nuclear power plants on stream by 1993, including one on the Hong Kong border. Japan has another 12 under construction, India seven and South Korea, two. There are 35 more on the drawing boards of Asian countries.

Much has been written about risks of damage from reactor accidents. But so far the history of nuclear power is remarkably clean : reactors have been working now for 40 years (they are, in fact, simply furnaces for steam-engines). Only two accidents have occurred — at Three Mile Island in the US in 1979 and Chernobyl in Russia in 1986. Total deaths : 30, all in Russia, for over 5,000 reactor-years of operating.

Bangladesh Jute Industry — III

Kazi Zahedur Rahman

OF all the inputs raw material is the single largest item accounting for about 50% of the cost of manufactures. Efficiency and inefficiency, honesty or lack of it in the purchase of jute make a big difference in the cost of production. Again the proper use of jute is a 'must' for productivity. Too high a batch leads to loss and too low a batch entails material wastage, machine backdown and quality deterioration.

Diseconomy in the use of fuel and power, lack of machine care and dereliction in any from raise the production cost. Labour has the greatest potential of productivity improvement. Production workers have over the last 20 year acquired the necessary skill and experience. Many who were on the unit floor as supervisors in 1972 have overtime moved up the ladder to senior positions in management and direction. The workers in the industry know where the shoe pinches, how to improve productivity, reduce cost and produce quality products. It is widely believed that the politicisation of the work force has bred labour unrest, indiscipline and infights among the workers. The horror and tragedy, political rivalry among the workers can cause is amply illustrated by what happened in the Admajee Jute Mills in 1990. Following the CBA election on 11th March, 1990, 10 workers died and more than a thousand were wounded as a result of clashes between rival groups lasting for about 150 days.

Production loss was estimated to be Tk. 40 crore. Labour unions are always welcome to look after the welfare of the workers in accordance with the provision of the ILO convention without having any linkage with the political muscles.

Depoliticisation of the industrial workers will hopefully have a salutary effect in the form of industrial peace and good industrial relations. The idea may not be dismissed as a facile hypothesis but should be given due consideration. Bangladesh jute industry is also alleged to have an excessive workforce requiring attrition. Occasional wage hikes adheavily to the cost of production.

This is not to oppose wage increases necessitated by rising costs and inflation. In 1989 alone wage increases cost the Bangladesh jute industry Tk. 3.17 billion with little corresponding productivity increment. Wage increase should be linked to productivity improvement. Power shortages which continue to plague the industry should be permanently remedied in order to reduce loss.

With an all-poor equity base, productivity of capital input is rather negative. All the financial demands of the industry are met through the bank loans which with the interest burden multiply the financial loss. The long overdue financial restructuring should be done on a realistic basis without being guided by any tunnel vision. A blanket scaling down would not serve the purpose. Debt servicing has to be lowered to a feasible level, after a millwise survey, with obligation to pay out of profit only. Taken at 1972 constant, the amount of Taka currency so far paid towards debtservicing should have almost liquidated the debt burden. It is now only fair that the outstanding capital loans should be converted into equity or written off.

Since independence, domestic consumption of jute goods from the Bangladesh jute industry has been 57,75,000 tons approx — hardly 10% of the total production. In India 90% of the production is domestically consumed. At one stage it was projected that at the end of the Third Five Year Plan local sale of our jute goods would rise to 1,50,000 tons. The last 3 years' local sale averaged to 55,000 tons only which is nowhere near the target. In the face of the sustained claim of growth in agricultural production coupled with the demand of the fertiliser factories, cement factories, salt and sugar industries, the local off-take of the jute goods should have been much higher. A special drive to stimulate the local demand and use of jute products seems urgently called far.

Global recession, it is forecast, may worsen in 1991. External demand which has long stagnated for our jute products may not look up for yet a few years. Our constraint is that the price as well as the quality of our jute products is set by the buyers in the external market. Poly propylene products are credited with the competitive price and short notice availability while the degree of fluctuations in respect of price and supply of jute products is alleged to have been excessive over the last 15 years. Market promotion and research activities have to intensified for an upturn in the external demand of our jute products. In marketing. We still follow the homesitter strategy to a large extent. Even with the operational flexibility, private sector does not seem in clined to go out for a market survey or study. We are still the largest exporter because India exports only 10% of her products. Multinational synthetics companies have a giant marketing and research outfit. Even India has about six research organisations including IJMARI.

We have only BCSIR and BJRI with limited activities in jute products technology. In a sector with a turnover of about $500 million, we possibly spend a wretched 0.1% only on research-far too far from the desirable level. BJMC and BJMA can play a significant role in this regard. The technological wing of the BJRI should be sufficiently strengthened with enhanced technical assistance and collaboration with overseas research institutes. Without extensive research work for (i) product development and product adaptation (2) a vigorous search for new properties in jute that can be put to new end use and (3) quality improvement, we shall lose the market we now have. Now that the Common Fund has become operational, International Jute Organisation should be in a better position to help the jute industry. World Bank/IDA aid, it is learnt, would soon be available for revitalization of the Bangladesh jute industry. Whatever the source, the aid should focus on the two areas in particular:-

(1) Development of facilities for production of machineries and spare parts within the country in order to save foreign exchange as well as to facilitate physical restructuring and BMR programmes. Capacity rationalisation and modification of existing machineries should form an essential part of any BMR programme which, of necessity, has to be a continuous process. Inefficient or idle capacity should be transferred to cost efficient units. Technology transfer should also be included in any revitalisation project. (2) Establishment of facilities for product research by strengthening the existing facilities or by building new infrastructure for technological development of jute products.

Continuing losses in the industry have driven many to think that the Bangladesh jute industry is on a deluge course. This is, however, too pessimistic a view. The present malaise is the cost gap which has to be bridged. Synthetic substitutes sell at a below cost price. India sells at a discount. In 1969-70, their best performance year. Pakistan jute industry was on a loss of Tk.25.26 crore without bonus. With bonus the very same industry earned a profit of Tk.6.76 crore.

In 1989-90, Bangladesh jute industry suffered a loss of Tk.516 billion. Out of this loss debt servicing accounts for about Tk.1 billion and wage rise sanctioned in 1989 accounts for Tk.3.17 billion. With the public sector reducing its production cost and with an overall beltlightening, there will be no or little loss. If 80% of the installed capacity is utilized. Bangladesh can produce 2,00,000 tons more and thereby lower the production cost. But Bangladesh is now between the devil and the deep sea with the signal: The more you produce and sell, the more you lose.

The paramount need is a properly structured and honestly administered jute industry governed by policies which should make social and economic sense.