

Banking and Finance

Feature

USSR on Course Towards a Market Economy

THE Soviet Union is implementing a retail price reform, the biggest ever since 1947. Most consumer goods prices up 100-300 per cent, and some even more. Prices will not change for a small range of commodities...

aggregate reform-related losses. In other words, the state is looking for a way out by undercutting living standards, low as they are with too many Soviets. With the exception of Lithuania, Latvia and Estonia, all other republics have agreed with federal policy.

If the official hopes continue, it will be possible to continue the course towards a market economy model committed to several ownership plans. Some 25-30 per cent of commodities will sell at free prices. This free market segment is to be expanded to boost consumer goods.

The structural reform will take time which the top Soviet echelon is lacking. Also, the authorities are exposed to heavy grass-root pressure (miners' strikes, for example) centered on economic and, often, also on political demands.

seeking commodities, all reserves should be used to harmonise demand supply. we do have reserves. To eliminate the paper money overhead, economists Shatalin and Yavlinsky proposed, among other things, privatising garden allotments, encouraging owner-financed housing, and selling off military equipment which can be used for civilian purposes.

Nations in Debt: No Improvements

by Alan Chalkley

THE international debt crisis is now more than eight years old. It began in 1982, when Mexico announced that it was unable to pay off its foreign debts on time.

instead of the year-to-year patchwork repairs that are the result of many of the debt negotiations. The first question they address is: 'How did some countries escape getting into a debt mess anyway?'

The answer, unhappily, is 'not at all'. The indebtedness of the world's developing countries has mounted by nearly 50 per cent - from US\$850 billion to some US\$ 1,250 billion now. Talks on the reshaping of debt are slow, and often break down.

These sunny-side nations are no fewer than 61 number, and they are concentrated in Asia. The authors say: 'They have enjoyed continued access to voluntary international capital flows' from both private and government sources.

'Then there are the new-ford debt agreements. But none of the negotiations has gone smoothly,' the writers note, and they have been applied to only four countries (the Philippines, for instance).

The conditions for lasting solutions of the global debt problem are, expectedly, strict. They may well involve some bitter medicine for both creditors and debtors. The two economists do not mention this point, but the Fund and the Bank come under criticism from some quarters when they prescribe this medicine, which is like blaming the doctor for the disease.

New Trade Winds Across the Pacific

MANILA - A decade before the dawn of the so-called Pacific Century, there are signs that the countries of Latin America and East Asia are ready to step up economic ties.

Despite doubts and a sense of competition, conditions are favourable for the growth of trade and investment between the countries of Asia and Latin America, writes Kunda Dixit of IPS.

volatile economies and the huge distances involved - Rio de Janeiro is 24 hours by jet from Singapore, and you lose a day crossing the international date line.

But they see a new economic pragmatism sweeping Latin America, represented by the leaderships in, for instance, Mexico, Brazil and Peru. They say Latin America has gone over the hump in dealing with its debt, and economic reforms augur well for the region.

But while Asia's economic powers are increasingly looking across the Pacific for new trade and investment opportunities, South-east Asia's poorer developing countries are competing with each other and Latin America for foreign investment.

member of the IDB, but for the first time this year China, Taiwan and South Korea took part as observers. Although Japan's new commitment to help ease Latin America's debt burden was vague, delegates were enthusiastic about the future participation of Asia's 'dragon' economies in injecting new capital into Latin America.

Taiwanese and South Korean businessmen are going in increasing numbers to explore ventures in Mexico, Chile and Brazil. East Asia is eyeing the 400 million people of Latin America and the Caribbean as a potentially lucrative market for consumer goods, and Latin American countries see rapidly industrialising East Asia as a rich market for their raw materials.

Some developing South-east Asian countries like Thailand, Indonesia, Malaysia and the Philippines are now competing with Latin America for export-oriented foreign investment. Japanese manufacturers are producing electronic goods in Malaysia and Mexico and closely observing which country is more cost-effective as a spring board for their Western European and North American markets.

Last year, about eight per cent of Brazil's exports went to Japan. And Brazil sold more commodities to Asian countries in 1990 than it did to other countries in the continent.

For their part, debt-trapped Latin American states are looking westwards to Japan, South Korea, Taiwan and Singapore for an alternate source of investments and trade to counter a closed Europe.

At present, trans-Pacific commerce with Asian countries accounts for only five per cent of Latin America's total trade, but this figure is growing. And so is trade in the other direction - Japanese,

But there is some scepticism in some business circles in Asia about Latin America's potentials. They cite drawbacks: lack of infrastructure,

Asian financial experts say that Latin America has long suffered from a crippling reliance on import-substitution which meant that the region missed the bus on nurturing new export markets.

Japan, emerging as a key financier for Latin America, has a headstart. Japanese banks hold about US\$46 billion of Latin America's long-term commercial debt. Japan is also at the forefront of US plans to resuscitate Latin American economies.



This new climate for trans-Pacific trade was most vividly displayed at the annual meeting of the Inter-American Development Bank (IDB) which ended in the Japanese city of Nagoya in April.

It was the first time that the 44-member Washington-based bank met in Asia since it was founded three decades ago. IDB president Enrique Iglesias said the meeting was intended to promote Latin America and the Caribbean among Asia's emerging economies.

Latin America wants to dynamically insert itself in the world economy through expanded trade, greater absorption of technology and more foreign investment, Iglesias told the meeting.

Chile has been the darling of international creditors because of its emphasis on export-led growth, and there has been a flood of Australian and New Zealand investment there in mining and related activities.

He pointed out that these last eight years had been a time of uninterrupted world growth in fact - but the most indebted countries seem not to have benefited at all. Worse still, the outlook for these nations, even now, was not favourable.

*** Some were less dependent on raw material exports, so they could withstand the bad slump in commodity prices in recent years. They developed manufactures - high quality ones - for export.

Last September, soon after the onset of the Iraq-Kuwait crisis, Mr. Michel Camdessus, managing director of the International Monetary Fund, issued a gloomy overview at a UN conference discussing the problems of the least developed countries.

*** They made adjustments, some of them very painful ones, and they made them quickly. They avoided the easy way out - when money runs short, just borrow some more.

Courageous reforms, he implied, were the only way out for them. On the brighter side, he did add that several nations had adopted such reforms, and come through their worst times.

*** They did not neglect the infrastructure - the roads, railways, power, telephones, water supply, seaports and airports - and they did not allow public enterprises to run massive deficits.

So there is a checklist for any country. No country is perfect, but unless a country can tick 'yes' against these four, then it is no wonder it is in trouble.

But enough of the past. What of the future? The two economists sketch in the kind of mechanisms which the problem countries must adopt in the 1990s.

What we must concentrate on now is what will give 'sustained economic growth.' In that capsule phrase, what they mean is long-term goals.

Reducing deficits will mean higher domestic savings and those savings are the soundest basis for future production. How shall the savings be used? More in the form of risk shares which earn profits rather than loans which earn interest.

And one of the most serious obstacles to national solvency is a chronic series of government budget deficits (as America has discovered to its cost). Government must live within their means, just like families.

Despite the slow progress in improving the global debt situation, the economists end on a hopeful note. 'An important corner has been turned,' they write. 'There is forward momentum. The international community and debtor countries must now keep up the pace.'

We all must hope that their optimism is not misplaced. - Depthnews Asia

Nanjing Ups Sails on Mighty Yangtze

THE port of Nanjing started international container transport service three years ago. That was when a Sino-American container company started operation there.

A Sino-American container company does brisk business. by Tang Zhimin

More important, Nanjing is a port on the Yangtze River. Ships from Nanjing can reach a string of ports on the river, up to Chongqing in Sichuan province in the extreme west.

The need for large river-sea transit transport and the favourable conditions at Nanjing for handling transit transport services led to the establishment of the Sino-American container company, says Wu Deming, who is also chairman of the company board.

wharf, stacking yards and warehouses, while the American side provides advanced container handling facilities and computer management systems.

In the next couple of years, Wu says, the company will open regular routes to South Korea, Singapore, Taiwan, Bangkok and Karachi. Regular transport service will also be opened from Nanjing to the ports of Jiujiang and Hankou up stream on the Yangtze.

The rapid expansion of the port's container transport has attracted considerable attention at home and abroad. Transport officials now say that, in a few years, Nanjing will become a vital sea-river container transit centre linking China's vast hinterland with foreign ports.

However, because of the height limit of a bridge spanning the Yangtze river at Nanjing, vessels of 10,000-ton class can go no further upstream than Nanjing, making it a vital reloading transit point on the Yangtze.

The company has established long-term business relations with big domestic clients engaged in import and export such as the Nanjing Television Plant and the Nanjing Automobile Plant.

Taking advantage of the Yangtze River, it has also woven a canvassing network, which includes more than 100 foreign-trade companies in six nearby provinces.

In the coming decade China's development priorities will be shifted from Guangdong province in the south to Shanghai, and, by extension, to areas along the Yangtze river. Container transport service at Nanjing port is expected to benefit immensely from this shift in years to come.

Located 350 kilometres to the west of Shanghai, Nanjing (in Jiangsu province, East China) currently handles 44 million tons of cargo a year. It is the fifth biggest of all Chinese ports, coastal or inland.

The port also has favourable conditions for accommodating big vessels, with a main course as wide as 1,000 metres and a

Since last November, the joint company has offered regular container transport services: six sailings to Hongkong

Mongolia Takes Hesitant Steps to Free Markets

ULAN BATOR: Woolen and knitted clothes could make Mongolian-American relations warmer.

Department of Commerce. 'Perhaps one of the biggest problems is the ability to repatriate profits.'

Mongolia does not produce fuel. Its fuel imports eat up almost half of the earnings Mongolia gains from exports. It consumes about 760,000 tons of oil-based products a year.

Container transport at Nanjing has been handled exclusively by the Sino-American joint venture - Nanjing International Container Terminal Services Co. - a partnership. Set up in 1987, it is joint venture between Nanjing and Encinal Terminals of the United States.

Simply put, these young students are determined to make as much money as they can as quickly as possible through the money market. Over 50 per cent of college students, a survey showed, are taking time out to train or trade on the stock exchange.

Most of them come from business or professional families who have large incomes and live well. Obviously, these students are not worried about tomorrow.

price. From the returns, I bought blue chips. Initially, I consulted my father who is a businessman but after one year, I started taking my own investment decisions.

brokers. A friend of mine lost 40,000 rupees recently. The scare of studies being messed up and money being lost are only two of the issues that prevent many more fresh-faced teens from trading on the stock exchange.

The thaw between both countries has started with a joint venture between the Mongol Temeeli Noos firm and the US-based Amicale Industries, Inc.

Ms. Matheson says that American companies are interested to know provisions for repatriating profits, the percentage of ownership protection of intellectual property, and so on.

Still, there were pluses as well. The first steps have been made in opening the national economy to market forces. Cooperatives have proven workable. Financial markets, auction and specialised banks have been set up. The first Mongolian private firms have emerged. Expenditures for defence are expected to be cut down. Investments in unprofitable state enterprises were reduced.

We expect the volume of container transport to exceed 40,000 TEU by year end, doubling that of 1989, says Wu Deming, deputy director of the Nanjing Port Authority. At present, Nanjing's container transport service has expanded to more than 40 ports in a dozen countries, Wu says.

Indeed, it is the fascination with finance - and the thought of making a pile - which perhaps account for so many Bombay students putting their money in blue chips instead of slot machines.

As of today, the value of this teenager's portfolio is about 100,000 rupees (US \$400). Clearly, he has the making of a good businessman, for he never speculates and takes actual delivery of shares for a short period of about six months.

Many students are being 'lured by brokers. And some are making some 5,000 rupees (US \$400) a month. They are taking the opportunity to learn about trading as an insider.

Colleagues are also perplexed by the male-female ratio among teens playing the stock exchange. It's like 80:10, or 80:20, or anything that shows that there are hardly any gals out there. Fiona Young, 19, who is one of the few, says that 'It's probably innate caution, or something. I really don't know.'

Both have agreed to build a factory for woolen and knitted wares which will be mostly exported to the United States. And the government is quick to point out that joint ventures are welcome in the manufacture of export goods or the exploration of mineral deposits.

They want to know, for example, that whatever they sell, or their licence, is not pirated, or the ability for the company to make certain management decision in joint ventures, she says. 'Those are some of the main things the companies look for, regulations that are obvious, that are not going to change because the government has a hidden regulation. They want transparency, to see what the regulations are.'

Mongolia is finally beginning to live within its means, says one observer. And Mongolia's infant steps towards the free market have finally turned to cattle, or more precisely the privatisation of what is called 'public-owned cattle.' This is no small thing, as the number of livestock reached 25.5 million heads in 1990.

Nanjing's favourable location, Wu says, is the key to the port's fast business growth in container transport.

Take one of them. Jarnesh Moorjant, 18. He is a commerce student of Sydenham College. He has been into stocks and shares since he was 13. He says he reads everything he can find on the stock market, including all the financial papers.

He explains that it was only after a long spell of notional trading on paper that he began actual trading.

However, there are some who think the students are chewing more than what they can swallow.

And so, here's one field where gender seems to be the gauge for gumption, all else being equal. Or bullish or bearish, forward or backward or any way you say or play it.

'We are adhering to the course of developing all-round cooperation with the US,' says L. Davangiy, a spokesman for the Foreign Ministry. 'If both sides display common interests, nothing can hinder the approach to Mongol-American cooperation.'

Ms. Matheson says it would help if a legal system is in place which would allow American companies to seek legal recourse in case of problems. It is also very important that state-run organisations sign and abide by contracts.

For a start, Mongolia has passed a law allowing any foreign company starting a joint venture to have tax-free status for three years. But as incentives come, Mongolia needs all the trimmings it can get to lure foreign investments.

It is in the centre of East China, economically the country's most developed area comprising Jiangsu, Zhejiang, Shandong and Anhui provinces. The port is assured abundant sources of foreign-trade cargo.

Said Manu Kothari to me: 'As a senior broker, I am really surprised that so many of them are well and truly hooked on the bourses. Most of them are students of economics, business management, engineering and medicine.'

He says: 'I borrowed my first capital of 8,000 rupees (US \$640.00) from my father and began investing in low-priced shares which I, obviously, sold at higher

Some students admit: 'We often get cheated by these

ARJUNA

Indeed, Mongolia is showing an eagerness to shed its socialist past. In an extraordinary congress last January, the Mongolian Democratic Party (MDP) declared a policy of liberalism, instead of Marxist-Leninist ideology.

It was the first time in recent Mongolian history that a major party discarded the Marxist-Leninist path, an 'Ideology of the revolutionary coercion,' as MDP leader E. Bat-UL called it.

As Mr. Davangiy is quick to point out, 'In 1990 we continued to build the so-called pillars supporting the legal basis for Mongol-American cooperation,' signing a number of agreements, including one stimulating the flow of American capital into Mongolia.

Our methods to achieve economic goals are different, said G. Boshigt, a leader in the MDP.

As it is, the economy doesn't look so well. 'The country's economy in 1990 has not justified our hopes,' says one observer. 'For the first time it was declared that the Mongolian economy has been bogged down in a severe crisis.'

The farmers themselves will find out ways to organise their economies and arrange production on an enlarged scale,' he says. 'This way, Mongolians could become genuine farm owners.'

As soon as we start getting a sense of the structures where there are joint ventures, American companies would be interested in collaborating, says J. Matheson of the US

Inflation is rising and consumer goods are running short. Industrial production was underfulfilled by 5.5 per cent. Every second enterprise in 1990 produced less output than in 1989. Empty shops and foodstores caused disturbances in some areas. Against 1989, gross agricultural output went down by 1.5 per cent.

Private ownership is again spoken in Mongolia, hopefully spurring the economy - including cattle - towards increased profits. - Depthnews Asia