Wall Street continues to fall

NEW YORK, Apr 21: Wall Street continued its slide, as investors transferred capital to the credit market, where up, and by computer-driven selling late Tuesday. The Dow points by noon (1600 GMT) and stood at 3,443.47 points, down 23.52 points, late Tuesday. The market dropped after the news that housing starts dropped 4.6 per cent, more than the expected four per cent, reports AFP.

Russia issues big

MOSCOW, Apr 21: Russia in February churned out 350 billion roubles, as much money as was printed by the former Seviet Union from 1961 to 1991, according to economist Gregory Yavlinsky. The expert, who has taken part in planning economic reforms over the past few years, said the reform programme should have started with financial stabilisation in order to avoid the present rampant inflation, the Interfax news agency said. reports AFP.

vote on budget

BUCHAREST, Apr 21: Romania's parliament might need another week of debate before taking a final vote on the 1993 budget, a prominent Romanian politician said. A vote on the government's 1993 budget will probably be delayed until next week because the bill has become bogged wwn by a protracted parliamentary debate which began last month, Adrian Severin, Deputy leader of the opposition National Salvation Front party and a former Economy Minister, said, reports Reuter.

Hernan Buchi, 43, Finance

Minister of Chile from 1985-

89, a presidential candidate in

several governments in Latin

America and East European

countries, was recently in

Bangladesh at the joint

invitation of the MCCI and the

World Bank. A professor of

Engi-neering and Economics,

Buchi became actively involved

in his country's economic re-

forms from 1975 on ward.

Starting as an adviser to the

Economic Minister, Buchi held

many positions in the govern-

Planning Minister in 1983.

ment and became his country's .

about the prospect of private

sector growth in Bangladesh.

In the following interview he

outlines his experiences in

Chile and other Latin American

countries, from which there is

perhaps some lesson to be

meeting organised jointly by

the World Bank and the MCCI

you said that the economy is

like a jigsaw puzzle. If you can

put at least 80 per cent of it

together then the latent en-

ergy of the people takes over

and the economy moves on its

own. So how do you put that

80 per cent together at any

given moment, and more im-

portantly, how do you get it all

am going to be very specific in

my answer. The case for every

country is different. When I

look around the countries of

Latin America, the region that

I know well, I can see that it

was done differently in each

what we want to know - how

after the economic crisis of

the 1930s (depression in the

US), the economy became

closed. We were, so to speak,

the most 'advanced' country in

closing the economy. We can

say we started going in the

very opposite direction than

economy, making the govern-

ment the main actor in the

economy and promoting an in-

terventionist role for it. Thus

we entered a period of slow

growth and with periodic in-

stability. From the 30s upto

the 70s Chile had an average

rate of inflation of 30 per cent

a year. So you can see that we

had a problem that was being

accumulated. In the 70s this

process of closing the econ-

omy reached its peak and we

completely closed the econ-

omy with the role of the gov-

ernment becoming total inter-

the policies of the Allende

DS — You are talking about

(Salvador Allende, with a

We started closing the

we needed to.

ventionist.

government.

each country got started.

DS — Yes, that is exactly

HB — In the case of Chile.

Hernan Buchi (HB) - Well, I

started?

country.

Daily Star (DS) - In the

Buchi was very up beat

1989, and currently adviser to-

increase EC trouble

TOKYO, Apr 21: Japan's burgeoning trade surplus is igniting an explosive situation which could make it a prime scapegoat for Europe's trouble economy, a senior European Community official said Tuesday in Tokyo, reports AFP.

"In the present economic situation in Europe, it is a rather explosive situation which can be described as a ticking bomb," warned Horst Krenzler, European Commission Director-General for external relations.

two days of high-level talks with his Japanese counterparts, Krenzler urged Japan to boost efforts "to de-emotionalise the debate" and "reverse

wants clear evidence of change," he said.

He said he hoped a new

Kiichi Miyazawa announced a week ago economic recovery 13.2 trillion yen (119 billion

However, Tokyo announced

the EC reached a record 31.2 billion dollar, up 15 per cent from a year earlier.

"It is particularly damaging

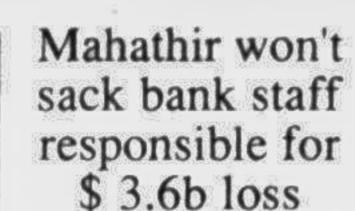
rising unemployment, and dissatisfaction regarding economic management," Krenzler

Krenzler said he had little confidence in Japan's package to spur consumer demand.

whether it will have a concrete impact" on imports from Europe because the stimulus does not include lower tariffs, a factor necessary for reviving consumer demand.

effects on trade is a vital development, an aide to Krenzler said. Until the accord was drawn, Japan had been content to simply tell its trading partners the sweeping macroeconomic programme would have an impact on Japanese demand for imports, the aide

Krenzler expressed great hope for a new process, put in place in January by Tokyo and



KUALA LUMPUR, Apr 21 Malaysia's prime minister said Tuesday he will not fire executives of bank Negara, the Malaysian central bank, even though it lost 3.6 billion dollar in its foreign exchange market dealings last year, reports AP.

Mahathir Mohamad said it would not be right to remove the executives because only the banks losses, not its profits, had been announced.

In an apparent reference to foreign media, Mahathir said the foreign exchange losses were being exaggerated by persistent critics of the bank.

The National News Agency Bernama said Mahathir accused critics of patronizing Malaysians on the assumption they do not know how manage their economy.

lie said the bank's compctence in foreign exchange markets was reflected in the country's economic resilience.

New Pak govt

to continue

Pakistan's new government

will retain the privatisation

policies of sacked reformist

Prime Minister Nawaz Sharif,

honour all contractual obliga-

tions and further deregulate

the economy, the Finance

Minister said, according to

ence whatsoever in the main-

tenance of foreign exchange

accounts in Pakistan," newly

appointed Finance Minister

Farooq Leghari told reporters.

cepts will continue to apply,"

he said, adding that the new

interim government would,

work toward greater liberalisa-

tion of the economic system.

'Our government is not against

The new government plans

to fight the development of

monopolices while mobilising

new resources and widening

the base of the stock market,

"The market-oriented con-

There will be no interfer-

Reuter.

Russia's economy shows signs of improvement Sharif's reforms ISLAMABAD, Apr 21:

Consortium meet to aid

Pakistan postponed

announced.

economy has improved since September but there are signs of potential backsliding on free-market reforms, economists said Tuesday, reports AP.

ISLAMABAD, Apr 21: The

aid-to-Pakistan consortium

meeting scheduled to be held

in Paris on April 22 has been

postponed following a govern-

ment change in Pakistan, re-

The two-day meeting has

been postponed on the request

of the newly formed caretaker

government of Pakistan which

wants to fully assess the pre-

sent economic situation and

formulate an appropriate re-

sponse to restore financial bal-

ance, according to official

The earetaker government,

formed only two days ago im-

mediately after the dismissal of

former Prime Minister Nawaz

Sharif's government by the

President, needs some time to

cast a 'fresh look' at the docu-

ments provided by the previ-

ous government to consortium

members the sources said.

sources here today.

ports Xinhua.

"Russia's economic performance has improved in the last several months and there is opportunity for big further improvements". Richard Layard, a professor of the London School of Economics and an adviser to the Russian government told a news con-

"But there is a danger... that the Cabinet attitude to the reform process is changing," added Serget Vastlyev, head of the Centre for Economic Reform, a group charged with economic analysis and forecast for the government of Russia. The latest Cabinet decisions have nothing in common with reforms."

During Sunday's referen-

MOSCOW, Apr 21: Russia's dum on President Boris Yeltsin's leadership, Russian voters also will be asked if they approve of his economic policies, which have sharply raised prices and caused living standards to plummet.

Another report says: Paki-

stan's caretaker Finance

Minister Farooq Leghari has is-

sued an order for formulating

the interim budget for the first

four months of the fiscal 1993-

concerned ministries to con-

duct a 'full review' of the eco-

nomic situation for the prepa-

rations for the budget, local

press today quoted finance

ministry sources as saying.

The minister has directed

94 beginning on July 1.

The most positive sign is that growth of the inflation rate dropped to 21 per cent in March and is expected to reach 15 per cent to 18 per cent in April, Layard said. That followed a steady 25 per cent monthly growth in 1992, he added. When Yeltsin mentioned

the same figures Friday in a speech to state factory directors, he was jeered by the crowed of managers, who have the most to lose if the reforms are carried out. "Many people are talking as

if the production has been falling, whereas in fact it has been stable since last August," Layard said.

Indian bond scam Monmohan to face parliamentary

probe body But no new date for the NEW DELHI, Apr 21: An allconsortium meeting has been party parliamentary team probing a 2 billion dollar securities scandal will summon India's Pakistan had earlier Finance Minister Manmohan planned to request 2.25 billion Singh to answer members que-US dollar of aid commitments stions the head of the comfrom the consortium for fiscal

mittee said, reports Reuter. year 1993-94 which begins on Ram Niwas Mirdha, Chair-July 1 comprising 2.03 billion man of the Joint Parliamentary dollar in project aid and 220 Committee, told reporters that million dollar in non-project Singh and Health Minister B Shankaranand, would appear before members next week.

Singh will be corss examined by the committee for the central banks failure to check India's biggest financial scandal. Shankaranand earlier headed the petroleum ministry. During his time the state-run petroleum companies invested in financial companies that speculated in the booming Bombay stock market

Earlier the 30-member committee was sharply divided on the question of summoning senior ministers. Mirdha said

UK public sector deficit reaches \$ 56.6b

LONDON, Apr 21: Britain's public sector deficit grew to 36.5 billion pound (56.6 billion dollar) or six per cent of GDP in 1992/93, after surging to a record 9.51 billion pound in March, officials said Tuesday, says AFP.

The March figure was the largest-ever monthly deficit. The previous high was in March 1992, when it was 6.392 billion pound. In February the deficit rose

originally reported as 5.4 bil-Borrowing was . heavy in

to a revised 5.38 billion pound,

March, as the forecast implied it would be, a treasury spokeswomen said. The deficit in the previous

year was only 13.8 billion pound, but the figure is predicted to rise to 50 billion pound, or eight per cent of GDP, in the coming year.

BRIEFS Japan's trade surplus can

measures totalling a record

the same day that Japan's 1992 trade surplus had hit 111 billion dollar, also a

because the economic situation is too good in Europe, where there is stagnation, recession,



market April 20 as the US dollar slipped further despite intervention of the Bank of Japan to close at a record low of 110.25 yen down 0.75 yen from the previous day's finish.

- AFP/UNB photo

Leghari said. "Given proper conditions private sector is bound to respond"

privatisation."

debt crisis. We got fully started in '75 and the country began to

DS - What were the re-

forms? HB - Imagine that we had more that two digit inflation per month. Imagine there were three thousand prices fixed artificially. Imagine 40

put Chile in a very uneasy situation. Because everybody thought the reforms would work. Suddenly everything collapsed. Entrepreneurs were bankrupt, banks ran dry, and the demand for privileges and tariff protection came up again. We had two very difficult years. There were six finance ministers in a period of 20 months. There were signs of hesitancy in the government about the open-door policy so long per-

could have success on concensus here. My next question has three different facts and I want you to answer them separately. We

good to be true. I wish we

would like to know how you were able to bring the bureaucracy and the labour unions in tune with the reforms. And also how you were able to build the confidence of the private sector to come forward to in-

HB - I will start with the bureaucracy. You can not cope with it, unless you have a group coming into the government that has the expertise, the knowledge and commitment to carry out government policies. A government must have the support of the bureaucracy. One way, is to have your own people. But it is not always possible. The other way is to win them over through dialogue, motivation, persuasion and also through determined leadership. There will always be some who will be willing to commit and carry out changes. In our case we were able to either place people everywhere, or find out bureaucrats who believed in our goals.

When a bureaucracy sees clear thinking and determined leadership-it falls in line. It is a confused leadership that bureaucracy takes advantage of. Without participation of the bureaucracy we could not have

moved forward. For example

The debts crisis put Chile in a very uneasy situation. Because everybody thought the reforms would work. Suddenly everything collapsed. Entrepreneurs were bankrupt, banks ran dry, and the demand for privileges and tariff protection came up again. We had two very difficult years. There were six finance ministers in a period of 20 months. There were signs of hesitancy in the government about the open-door policy so long persued. But now we are back on track.

privatised big companies still in government hands and reopened them. We took measures to give all out support to the private sector and make it more solvent, to make savings more paying, investment more rewarding. We renegotiated the debt. This is the second phase of our growth.

The next transition period was in 1990. There was an election and a new government came in. While in opposition the members of the new government, were opposed to the reforms. But after coming to power they realised that it was best for Chile. So, now we have a national concensus on economic policies. Recently there was a law passed unanimously - both by the government having 55 per cent seats in the parliament, and the opposition, that has 45 per cent

you able to make, the unions accept what is basically a commonsense conclusion. We

are trying to tell our trade unions the same thing, without much success.

HB - In life, you have to

discuss, and try to persuade. If

they don't work, then you must act. Only talking, but no decisive action, does not produce any results. In Argentina, Mexico and other places, democratic governments acted and then the unions accepted the changes. Like, you close down a public company that does not make any money. There is no money to run it so it has to shut down. A few actions like that, made workers of other public enterprises, work day and night to make their companies profitable. In Colombia, the government closed down many public companies. It gave the right signal to others and there were dramatic changes. May be there will be a strike, but so what! What is good for the country must be carried out.

But that is a political decision. DS- And, about gaining considence of the private sector....?

HB- As to generating confidence among the private sector to act, well if all the right measures are taken, the private sector will respond. May be it takes time, but much less than you may think.

But obviously only talking will not generate confidence. You must put policies into action and stand firmly behind it. Then confidence will grow, and the private sector will re-

spond. People said Chileans are not entrepreneurs. They are only

bureaucrats. DS - Same is said about us, Bangalees.

ing to see how fundamentally wrong that perception is, When there is opportunity, how naturally and quickly the Chileans became entrepreneurs.

But the government's role is very important. It must create the environment so that private sector can go ahead.

message to us?

1113— Very simple. Trust the basic entrepreneurship of

the people. Don't believe if anybody says, your people are not entrepreneurs. They said the same about us. Just create the conditions- both macro and micro level - for the growth of private sector. Make your economy open, help your private sector to become competitive and allow free market to determine who is a better producer. We had many of your drawbacks - except the population— and our policy of open economy has helped us. DS- Thank you for being

with us. HB- Thank you and good

Former Chilean Finance Minister, Hernan Buchi interviewed by Mahfuz Anam, Executive Editor, The Daily Star.

those days. HB - Yes, it was very popu-

lar, and many countries were going in that direction. But this got us in real trouble. We went from high inflation to hyperinflation, to about 30 per cent per month.

President in early seventies).

Allende did was something

new in Chile. The policies he

instituted were there from the

30s. He represented the cul-

mination of a process. He took

it to the very extreme. His

coming was not an isolated

event. It was part of a process

that has been going on for

socialism was quite popular in

DS - Let us not forget that

sometime.

DS - Let me understand it correctly. You are saying that you went from a 30 per cent inflation per year, to 30 per cent per month?

HB — That is correct. This happened during '70-'75 period. This took the country into a political and economic crisis. A military government took over because the economy was in a mess. I don't want to talk about the political situation. I want to concentrate only on the economic situation. We were in a crisis, and drastic reforms were needed. So we got together

DS — Who are 'we'? HB - The Chilean people.

The people ... DS - Come on, don't give this "people" business. Thousands of Chilean people did not come to formulate reform policy. I want to know who are the 'we' you are talking about. Was it special Task Force coming from various sectors, was it a group of University, professors, or a group from the private sector... did you have a special group in the cabinet? I am talking about the people who started the ball rolling. HB -- You are asking me too

much. It is a long story.... DS — I am doing so, because

I think it is interesting for us to learn how a drastic reform process, that encompasses the whole society, actually gets HB — The military govern-

ment that took over, did not have a clear picture as to what to do about the economy. It was open, and wanted to listen to various alternatives. The government did not have any economic plan. A group of technicians prepared a plan ... DS — Who were these peo-

HB — It consisted of a group of intellectuals from the Universities and representatives from the private sector. They all believed in the 'free market' concept. This group was popularly known as The Chicago Club' because many

socialist agenda, won the elecwho belonged to this group tions in Chile and became its studied in the University of Chicago, in the United States. HB - I would like to point

out, that in a sense what clearer picture ... HB - We went through many many sessions of discussions with the military and finally they accepted our reform proposals.

> DS - Did the government realise that it did not have any economic plans and come to this so-called 'Chicago Group'

or did the Group go to the

more complicated than that.

The military was under a lot of

pressure and they received a

lot of alternative proposals.

And they realised that the 'free

market' oriented option was

the most coherent and practi-

HB - No, no. It is much

government ...

cal alternative.

fighting. Can you draw for us a DS - This gives a much picture as who were on which

nomic alternative.

HB - You are trying to un-

side. For example I can imagine that bureaucracy may have opposed the 'free market' reforms, the labour unions, very powerful in the Allende's regime, might have done the same. How were the power lobbies divided at that time?

DS - You talked about in-

very difficult, unless you are

part of the cultural and politi-

cal process that was going on

at that time. It was a very dy-

namic and fluid situation. Even

within the military, or the bu-

reaucracy, or the trade unions,

there was uniformity of

thoughts. There were different

lobbies within each group. The

breakthrough, I would say, was

Hernan Buchi

You have to understand that

there were severe internal

fights going on to get influence

and power. But finally in 1975

the government accepted our

policy and gave us the go

ahead. I was a part of the group

inside the government.

Remember at that time the 'Oil

shock' also affected us very

negatively. The government

was desperate, and we pro-

vided the only coherent eco-

the emergence of this coher-

ent group above every other

group, that provided a total

plan before the government.

This group won the confidence

of the military men, and the

DS - Tell us now about the

HB — Our reforms can be

divided into two periods. One

from 1975 to 81 the other

from 1983 onwards, after the

reform policy was accepted.

reforms themselves.

grow from '76.

exchange rate of our currency - one in which it was worth ten, in another it was worth a derstand something which is thousand. So the first reforms

came - the debt crisis. You see

during the period that we

grew money from abroad was

freely available. There was a lot

of oil money that was being re-

cycle. Thus, instead of our pri-

vate sector increasing its say-

ing, it preferred to borrow

money from abroad whenever

there was any new investment

necessary in Chile. The capital

base of the Chilean private

post 1982 phase of your

growth, I have one question

about the first phase. Do you

think you received some spe-

cial support from the US, in

terms of infusion of capital, or

support to your export trade,

etc. because the US was op-

and it wanted to see your re-

of the Soviet system. So the

question is: Did you get any

HB - Not at all. The only

money we got was from the

commercial banks, and they

were lending us money as they

were doing to other Latin

efforts by the US to help you.

American people did not un-

derstand what was going on in

Chile, and they were opposed

to the Chilean government, af-

ter the first year. During those

World Bank. After 1975-76 we

did not even go to the IMF.

DS - There were no special

IIB - Not at all. In fact the

American counties.

special help from the US?

DS - Before you go into the

sector was extremely weak.

dealt with freeing the pricing system of goods, fixing the ex-The Chicago Club was elimchange rate, correcting the inated from the government during this time. But after two budget. So it was a mixer of macro and micro economic reyears, the policy of reforms forms, including cutting the was back in place and the gov-'fat' from bureaucracy. We had ernment gave its full backing to act in many fronts - simulto it. I think I was the only taneously. Inflation gradually survivor, though I am not from decreased to about 50 per cent the Chicago University. I provided, if you like, the continua year, economy began to grow, ity. It is very tricky to explain foreign investment started coming. And we had a steady why I was not burnt out. growth from 1976 up to 81-DS - You are as a good sur-82. Then the second crisis

HB - I really cannot explain. But we restarted the process of reforms very fast. We re-privatised the companies, re-ordered the banks and brought in financial discipline, made them solvent and gave them back to private hands,

posed to Allende's government forms succeed - just to prove the ideological point of the US system being superior to that

fully united. to the debt crisis. IIB — Yes. The debt crisis

years we did not even go to the seats- about further lowering the tariff. The country is now DS — Let us now come back

DS — It all seems a bit too

are not productive.

without the commitment of the Internal Revenue Service, we could not have instituted many of the financial reforms. About labour unions, you must understand, immediately

after the military take over, the labour unions were "frozen". Later, they were allowed to have labour activities, but no political activities. One thing is often not understood. The government in Chile needed the support of the labour unions. So they permitted unions, but not for politics. The challenge was how to

bring about changes without hurting or frightening any of them. Labour must be made to understand that unless they make profis, society will not back them. Nobody will take out money from the banks and pay the workers, when they DS - Tell me how were

HB -- But now it is fascinat-

DS- So what is your main

long-term interest rates were Jones Index had dropped 40

amount of money

Romania to delay

Speaking to reporters after

the trend." The European Community

mechanism for analysing the

European Community (EC) deficit would produce swift re-

He welcomed a Japan-EC pact finalised with Tokyo on Tuesday on jointly monitoring the impact of Japan's massive economic stimulus package on domestic demand for Europe's exports.

Japanese Prime Minister

Its 1992 trade surplus with

"It remains doubtful

Monitoring the package's

the European Commission.

A dealer flashing a sign during the afternoon session of the Tokyo Foreign Exchange