China supports Mahathir's proposal for East Asian economic grouping

BEIJING, June 14: China expressed explicit support today for Malaysian Prime Minister Mahathir Mohamad's proposal for an East Asian economic grouping, an idea the United States strongly opposes, reports AFP.

"Premier Li Peng in most explicit terms expressed his support for that proposal advanced by Malaysia," Chinese Foreign Ministry spokesman Wu Jianmin told reporters after talks here between Li and Mahathir.

"We are willing to work with Malaysia and other countries in a joint report to further economic cooperation in the region," Wu quoted the Chinese leader as saying.

The Malaysian leader proposed an East Asian Economic Caucus (EAEC) in December 1990 with a mind to forming a market of 1.8 billion people in Southeast Asia.

Most of the Southeast Asian nations, with the notable exception of Indonesia have signed on to the idea, and Mahathir went to Japan last month to push his proposal to Tokyo.

The EAEC, which would not include the United States or other nations outside East Asia, has met strong opposition from Washington, with former President George Bush charging that the group was in fact a budding trade bloc.

Mahathir met Li for nearly 90 minutes today at the Great Hall of the people in the Chinese leader's first public appearance after seven weeks of convalescence.

During the talks held in a "cordial and friendly atmosphere," the spokesman said, the two men agreed that western countries should not try to force their values on developing nations.

"Premier Li Peng expressed his appreciation for the view Prime Minister Mahathir has time and again emphasised that democracy is not an end but a means," the spokesman said.

"The countries of a certain concept of democracy and human rights on other countries should be opposed. So should the attempts to link human rights with aid, trade and investment," he said.

Mahathir arrived here Sunday for a 10-day visit that will include talks in Beijing followed by a tour of Xinjiang, Yunnan, Guangdong and Hainan provinces.

His 290-member delegation includes more than 200 Malaysian industrialists, an indication that the main focus of the trip is the strengthening of economic and trade relations.

Li told Mahathir China welcomed Malaysian investment and hoped for stronger economic and trade relations.

Before leaving Kuala Lumpur, the Malaysian leader said he would seek China's assurances on its intentions as a regional power, and Li told him today that good relations with its neighbours was Beijing's unswerving policy."

"There are some people now spreading talks of a so-called China threat, the spokesman said, adding that the remarks were made with ulterior motives and aimed at sowing discord between China and its neighboring countries.

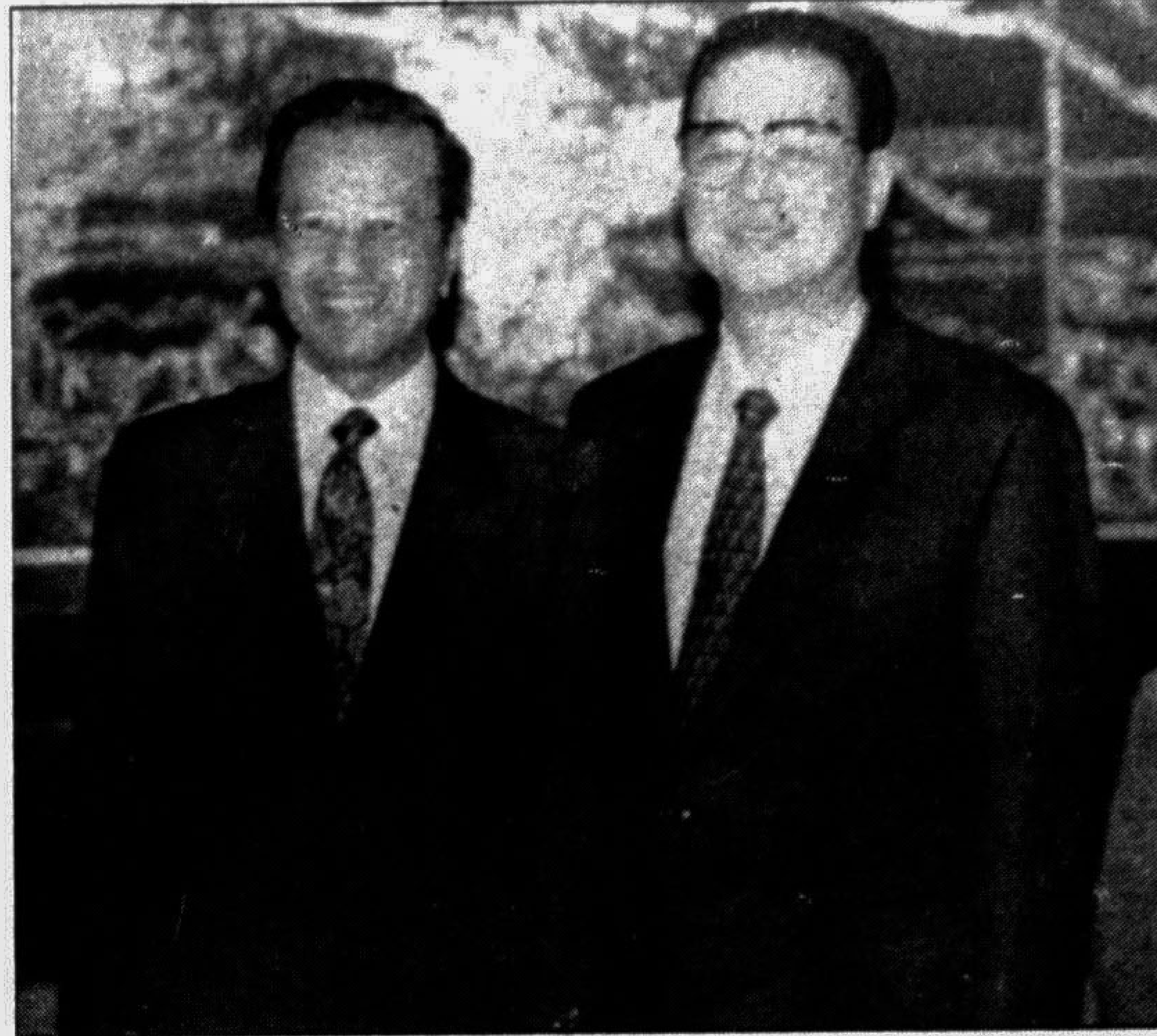
"Even if China becomes stronger than it is now, we will not threaten any other country nor will we seek hegemony, the spokesman quoted Li as telling Mahathir.

On a territorial dispute over the spratly islands in the South China Sea, the two sides expressed the wish that the problem be solved through peaceful negotiation.

The two Prime Minister also agreed to open consulate-generals on each other's territory, the spokesman said without elaborating.

Mahathir last visited China in 1985 and his current visit is expected to bolster relations once strained by suspicions of Beijing's support for the communist party of Malaya. The party laid down arms in 1989 after a 40-year insurrection.

The Malaysian leader is also scheduled to meet Chinese Communist Party General Secretary and State President Jiang Zemin, Foreign Minister Qian Qichen and other senior Chinese officials and businessmen.



Chinese Prime Minister Li Peng (R) and Malaysian counterpart Mahathir Mohamad pose for photographers before the start of their talks at the Great Hall of the People in Beijing yesterday. — AFP/UNB photo

Brazil's bid to curb budget deficit

RIO DE JANEIRO, June 14: Brazil is expected to announced new austerity measures Monday to curb a massive budget deficit and annual inflation of more than 1,000 per cent, says AFP.

The measures will aim to eliminate the public sector deficit in the second half of this year, Finance Minister Fernando Henrique Cardoso told reporters Sunday.

Cardoso gave no details of the austerity programme, which is to be officially unveiled at a cabinet meeting Monday attended by President Itamar Franco, but sought to calm business fears by saying it would not involve shock therapy, or wage and price freezes.

The Finance Minister said his mission was to "adjust the government programme of President Itamar Franco's government in line with the possibilities of the national budget."

He said he would be speeding up privatization of state-owned businesses. He also said that while the aim of all governments was to balance the books, it was also perfectly normal to issue government bonds to help fund public spending.

Planning Minister Alex Stepanenko said Sunday that planned cuts in the state budget did not include lower financing for priority welfare and social programmes.

Stepanenko said Thursday that the government would be seeking savings of as much as 20 billion dollar equivalent to more than a third of the 57 billion dollar in government revenue expected to come into state offers this year.

Minister have said in the runup to Monday's meeting that a crackdown on tax evasion will be a key part of the budget-balancing programme. In Brazil, unpaid taxes are said to equal some 50 per cent of taxes actually collected.

When the President put forward his government's programme in April, it included stabilizing the economy, offering incentives to businesses and combating the hunger and poverty which affect 20 per cent of Brazil's 146 million people.

Itamar Franco also promised drastic cuts in public spending, saying his government would spend only as much money as it could collect, focusing its resources on the most urgent social problems and fulfilling its agreements with creditor countries.

It was the ninth economic adjustment programme announced by a Brazilian Government in the past 13 years and came six months after Itamar Franco moved into the President's seat following the impeachment of Fernando Collor De Mello for corruption.

The following month Cardoso took over as Finance Minister and is likely to seek to speed up implementation of the economic programme aimed at getting public finances back on track and substantially bringing down inflation, which ran at 1,157 per cent last year.

EBRD faces leadership battle

LONDON, June 14: The European Bank for Reconstruction and Development (EBRD) was thrown into fresh turmoil at the weekend with its top US banker threatening to walk out in a bitter leadership battle, reports Reuter.

Just weeks after the EBRD's French President Jacques Attali was reprimanded for spending 55 million dollar on new London offices, a management shake-up looked like leaving the highly respected American head of Merchant Banking, Ron Freeman, without a job.

Monetary officials said the Group of Seven (G7) industrial nations — the bank's main shareholders — were pushing through changes, which might spare Attali the humiliation of being fired but which also threatened a new bout of instability.

The EBRD was set up two years ago to channel investment into former communist eastern Europe and has been dogged by controversy, much of it surrounding Attali.

His taste for private jets, his autocratic style and intellectualism have enraged critics.

The latest turmoil has its roots in outrage at revelations over Attali's lavish spending, revealed two months ago.

Attali was publicly rebuked by Finance Ministers of the G7 — the United States, Canada, Japan, Germany, France, Britain and Italy — and, in a bid to cling to power, he yielded to pressure to work on as weeping reorganisation of the bank.

As the US upped the stakes, with Congress withholding a 70 million dollar capital subscription, the G7 sounded out one of the World Bank's Managing Directors, German-born American Ernest Stern, for a new number two jobs as head of banking operations.

That would leave Attali as a figurehead but allow him to do what even his fiercest critics say he does best — promote the bank across eastern Europe as a roving ambassador.

But it would also ride Roughsod over Freeman, the bank's current number two, officials say he was outraged and threatened to resign. A final decision has not been taken.

Freeman appeared to be the price the G7 was willing to pay for a management shake-up, said one official.

Meanwhile Attali, his political capital diminishing by the day, last week sounded out the EBRD's 23-strong Board of Directors on a wholesale structural reorganisation.

There are two strands to the changes.

—The bank's two main divisions, development and merchant banking, would be merged in an attempt to end inter-office feuding and speed up lending. The G7 wants Stern, who has not yet publicly accepted the offer, to head the joint division. The current head of development banking, Italian Mario Sarcinelli, would change jobs to head administration.

—The bank would also be reorganised along regional lines in an attempt to counter criticism that it is too remote from eastern Europe. These areas would be: North central Europe, south central Europe and the former Soviet Union.

But officials say that far from bringing new direction, the behind-the scenes manoeuvering has created turmoil.

The first that Freeman heard about Stern's possible appointment was when he read it in last Sunday's newspapers.

Freeman, who is currently out of London on EBRD business and could not be contacted, would be relegated to number four in the hierarchy behind Attali, Stern and Sarcinelli.

But it is also by no means certain that Attali, who as an aide to French President Francois Mitterrand conceived the idea of the EBRD when the Berlin Wall fell in 1989, will survive.

The result of an investigation by accountants Coopers and Lybrand into spending at the bank will by known by mid-July.

Officials believe the G7 will not hesitate to demand Attali's head if its findings warrant such action.

Another report adds: A group of directors at the European Bank for Reconstruction and Development (EBRD) wants to put off a controversial decision on appointing a new deputy leader at the bank, the Financial Times said on Monday.

The Group of Seven (G7) industrial nations, the bank's main shareholders, have sounded out one of the World Bank's managing directors, German-born American Ernest Stern, for a new number two job.

But a group of nine directors wants to delay any leadership changes until after an audit of the bank's control of expenditure is completed on July 15, the paper said.

Medical syringe in Pepsi can!

SEATTLE, Washington, June 14: Medical syringes have been found in two cans of Pepsi Cola in the same area in the past week, officials said here, reports AFP.

"It has to be some sort of sabotage because there is no way that type of a foreign object could enter our product in the normal course of events, said the President of Alpac Corporation, which bottles and distributes Pepsi in Washington state.

An early couple found a syringe in a can of diet Pepsi in Tacoma, Washington on Wednesday. Then on Friday a woman in federal way near Tacoma found a syringe in another can of diet Pepsi, officials said.

The two cans had been sealed six months apart and had been bought from two different branches of the safe way supermarket chain.

The syringes were of a type sold over the counter to diabetics for injecting insulin.

Health officials said initial tests showed no trace of contamination in either can, noting that pepsi is so acidic it would kill almost any bacteria or virus that might have been on the syringes, including the AIDS virus.

Kuwaitis slam OPEC

KUWAIT, June 14: Kuwaiti politicians and commentators slammed OPEC at the weekend for refusing to grant the emirate a 30 per cent increase in its oil output and some questioned continued membership of the cartel, reports Reuter.

They hailed Oil Minister Ali Ahmed Al-Baghli for rejecting the agreement OPEC reached in Geneva on Thursday to grant Kuwait a 10 per cent rise while keeping overall output steady.

"This is a useless, toothless cartel," said Abdulla al-Shayeji, Political Adviser to the National Assembly.

"These countries made tons of money off our backs while we were out of the oil market for a year and half (because of the 1990-91 Iraqi occupation), and now they refuse to give us a break".

"We support Kuwait's attitude in wanting to produce more", said Nasser Al-Sanea, a member of the assembly's Economic and Financial Committee.

"We cannot keep on restricting production. We have a budget deficit that needs to be financed."

Kuwait refused to sign a production accord signed by the other 11 OPEC members, arguing that the 1.76 million barrels per day (BPD) it was offered did not come close to fulfilling its demands it be allowed to boost output to more than two million BPD.

The emirate's current quota is 1.6 million BPD.

Kuwait failed to hold the Organisation of Petroleum Exporting countries to a pledge it made in February that it be awarded an allocation equal to countries with a similar quota history and production capacity.

The reference was widely understood to be to the United Arab Emirates, whose quota is 2.16 million BPD.

Oil prices tumbled after Kuwait rejected the plan for OPEC output from July until the end of September.

Kuwait argues it is a special case because its oil sector is still recovering from damage inflicted during the Iraqi occupation and the Gulf War that ended it.

Shayeji, a Kuwait university politics professor, told Reuters he saw no benefit in continued membership of OPEC if the group was going to continue to ignore Kuwaiti demands.

But Baghli told the Kuwait news agency (Kuna) in Geneva OPEC was "indispensable". Without it there would be chaos.

But he added: "OPEC needs reform, effectiveness, discipline. I am sorry to say this is a typical Third World organisation, so we have to work hard to achieve those goals.

"OPEC needs political will and credibility".

Ismail al-Shatti, head of the Finance and Economic Committee, was quoted by Al-Watan newspaper as saying: "We think OPEC is no longer able to understand the conditions of members countries who were harmed by the latest war."

"The big producing countries played a negative role in this direction," he said in an apparent reference to Iran and Saudi Arabia, which opposed Kuwait's demands at the talks.

MP Abdulla al-Nibari said he had hoped for 2.16 million BPD but added: "Differences between allies take place, and this should not be turned into a dramatic matter".

National Bank of Kuwait economist Ziad Al-Takki said if other OPEC members cheated on their quotas while Kuwait raised its output there could be a price war.

Baghli has said Kuwait would increase oil output gradually and would take care not to joint the markets.

Northern creditors put the screws on Kenya

By Mohammad Hassan

President Moi of Kenya and the country's creditors are in a headlong clash, the issue seeming to be the North's insistence on democracy as a new condition for loans. But the clash also reveals the face of the "New World Order" imposed by the North in its economic relations with the South.

"Emboldened by his success in Kenya's multi-party election, President Daniel Arap Moi has decided to push his luck. The 68-year-old leader rejected an economic reform designed by the IMF and the World Bank to slash public spending, eliminate graft and ensure ongoing foreign aid. Calling the package 'cruel, unrealistic and dictatorial', Moi swore Kenya would not stand for any more meddling in its domestic affairs... Moi's defiance has further undermined confidence in his government among foreign diplomats, business leaders and the opposition."

The above is a typical naive American Clintonese summary by TIME magazine of the sorry state of the relationship between the West and its erstwhile favourite client in sub-Saharan Africa. And Kenya is not alone. Recounting the difficulties Nigeria is having in obtaining decent rescheduling from the Paris Club, Finance Minister Chief Dele Olashore said, "If the Western creditors withhold support and want us to commit suicide then they will lose as well as us. I hope that they are inform enough to prevent that from happening." (Financial Times, 1/4/93).

It is thus that the events which culminated in this impasse in Kenya are well worth scrutinising for they unfold outlines of the shape of things to come for even the most pliant of the developing countries in the era of "The New World Order."

Ever since it gained independence in 1963, Kenya has been promoted as a successful model of development based on capitalism and free markets. Indeed, as Uganda under Milton Obote and Tanzania under Mwalimu Julius Nyerere, veered towards socialism in the late 1960s. Kenya was increasingly used as a reference point to demonstrate what could be achieved by sticking to a capitalist path of development.

For over 20 years this orthodoxy held. Kenya prospered under generous bilateral and multilateral funding. Uganda got mired into Obote's dictatorship followed by a bloody rule which in turn was followed by Obote's even more murderous second coming. After a long guerilla war Yoweri Museveni took control of Uganda as head of the National Liberation Army. Tanzania, under Mwalimu, was unable to deliver on its brand of socialism and towards the last years of the 1980s President Ali Hassan Mwinyi took over a moribund economy and empty foreign exchange coffers.

The last years of the 1980s saw Presidents Mwinyio and Museveni espousing the western developmental paradigm with gusto. Bilateral and multilateral donors rushed to these greener pastures and have continued to pour billions of dollars in concessional loans and grants into Uganda and Tanzania. Thus, even before Mikhail Gorbachev had unleashed his perestroika and triggered the implosion of the Soviet Union, the value of the demonstration effect of a capitalist Kenya had begun to wane.

President Moi's troubles with the international donor community date from this time. IMF and World Bank programmes in Kenya, which were loudly applauded in the 1970s and early 1980s, began to be critically appraised in the late 1980s. It emerged that despite what were termed model Structural Adjustment Programmes with both the Fund and the Bank, the State Owned Enterprise (SOE) sector in Kenya was big, growing in size and showing escalating losses.

Given Kenya's strategic demonstration model role, the Fund/bank conditionalities on privatisation of these parastatals in the various programmes were overlooked at the behest of their political masters. At times when the disregard of the conditionalities became too blatant even for the Bank/Fund officials to explain away, revenues from short-lived booms in coffee prices enabled the Kenya government to ride over the storm. No serious privatisation was ever carried out in this model of capitalist development!

This benign complicity of the multilateral and bilateral agencies in overlooking the quietly ticking parastatal time bomb and continuing to provide adequate funding, is the major reason for the severity and suddenness of the crisis presently confronting Kenya. The parastatals are paralysing state finances and have become so enmeshed into the political fabric of the country that dismantling them would imply major realignment of the ruling classes of Kenya. No administration in power would survive such a feat.

The early 1990s saw Kenya at a major crossroads. With changes in Uganda, Tanzania and the Soviet Union, the country's strategic role as a capitalist outpost was marginalised. Economic reconstruction and growth in Uganda and Tanzania also meant that much of Kenyan industry which had thrived and become complacent on decay and penury in these two countries, was rendered unviable.

The collapse in coffee prices — one of Kenya's main foreign exchange earners — had reduced any leverage the government had over negotiations with funding agencies. The population of Kenya had begun to grow at an alarming rate and growing at four per cent per year was already outstripping gross domestic product (GDP) growth at just under four per cent per annum. To cap it all under the single-party regime established by president Kenyatta, without qualms by the over-supportive donor community, one might add, President Moi's long rule had become increasingly arbitrary and corruption was endemic.

The changes in the external environment meant that the country's creditors began to demand more concessions. Their benign neglect and tolerance of fundamental flaws in the Kenyan economy were now left to the Kenyan authorities to untangle at 'a stroke' as it were.

Seizing upon the economic stranglehold provided by low coffee prices, the creditors demanded multi-party elections as a means of achieving a more representative and accountable government. When President Moi explained that such a system in Kenya would divide the country on tribal lines and cause undue disruption, the champions of the "New World Order" simply refused to listen and suspended disbursement of IMF funds and other bilateral programme flows. The President accepted the demand for multi-party elections under duress. The creditors withheld funding until the demand was delivered.

At the end of 1992, after much fanfare and under the critical eyes of the US ambassador and a team of observers from the Commonwealth Secretariat, an election was held. The opposition had hopelessly divided along tribal lines and Moi was able to win the presidential race. His party, the KANU, was also able to get an absolute majority in the parliamentary elections. Whilst casting doubts on the electoral process and irregularities therein, outside observers felt that on balance the outcome was representative of the balance of opinion in the country.

For good measure President Moi also began to unify the official and parallel currency rates and liberalise imports. The creditors asked for more. It would appear that the IMF was now looking at an instant liberalisation of the economy.

A brief flotation of the Kenya shilling led to a quadrupling of prices in a matter of days as the currency fell. Whilst the populace was reeking with anger and the country was full of tension, the Fund was demanding even more sacrifices. Already prices of the most basic commodities had trebled and quadrupled. Riots following upon such IMF demands are too common and were recently witnessed in Zambia and Nigeria.

President Moi has been too long in power to miss the point. Clearly his presidency was at stake. In a major change of tack, President Moi reversed the latest 'liberalisation' measures and lay down the gauntlet to the creditor community.

The Fund mission left Nairobi without concluding an agreement. Since this is a precondition for all bilateral financing these days, Kenya remains effectively cut off.

Kenya was also seen as a test case for the new-found enthusiasm for good governance on the part of the international financial community. In the merry-go-round of scapegoats for the failure of developmental policies, lack of good governance is the latest fad. For wont of any solid foundation, good governance has been equated with multi-party elections regardless of circumstances.

With the Western-backed UNITA movement in Angola refusing the verdict of the ballot box and the West trying to find an excuse for its leader Jonas Savimbi, and single-party systems in the bulk of the West's most-favoured nations in Africa, a success of the Kenyan experiment was vital. Zambia's flirtation with Multi-party elections is already showing signs of strain. Kenya had thus become a benchmark for the validity of the whole thesis. President Moi's moves are thus likely to be met with a lot of vengeance by the creditor community.

It would seem that the West was now looking for Moi's head — something they failed to achieve through the ballot box. As an editorial in the Financial Times (24/3/93) concluded, "Had the West refused to endorse last December's poll, it could today advise Mr Moi that the only way out of his crisis would be to put his party to the test of a rigorously supervised general election. Since that option is not available, donors can now do no more than hope that Mr Moi soon comes to terms with economic realities. They may find themselves having to conclude that he is the problem, and not, as they had hoped last December, part of the solution.

The impasse has been presented by the West as an attempt by the Moi administration to resist well meaning attempts to root out corruption and graft in the Kenyan economy. That corruption and graft is not a moving force for these creditors is clear from their attitude to the crisis facing President Yeltsin of Russia. As The Guardian (25/3/93) advocating massive help said, "A pessimist — David C Roche of Morgan Stanley, the bankers — left Moscow recently, 'Saddened by the rampant corruption masquerading as capitalism'".

Even more poignant is the fact that on the same day the President Moi was pushed to the brink, the IMF gave a clean bill of health to Egypt and authorised the release of the 3.5 billion dollar Gulf War-for-debt swap to the country. No mention of the rampant corruption there. Clearly corruption in Kenya is a proxy and not a primary concern for the creditor community. Indeed, as the unfolding Italian scandal shows, aid and loans to the Third World offer fruitful pickings' to the corporations in the donor countries.

In the Kenyan case, just before the elections, news surfaced of some contracts where some Western companies had made exorbitant charges for consultancy services to Kenya. These were quickly discounted and the news not taken further by the 'free' media. Corruption is a many-sided weapon and the creditors are weary of pushing their case lest they be engulfed in it as well!

The basic issue is that for nearly 30 years Kenya was feted by this same creditor community for its own ends. This is now forgotten. Now that its strategic value has evaporated, the people of Kenya are asked to make amends for these collective sins by making massive instant sacrifices.

Indeed, the prescription of multi-party elections and 'liberalisation' now hanging like the sword of Damocles on the Kenyan people is unlikely to deal a better hand to them. A new elite will have a chance to have a 'bite of the cherry' if the results of the creditor-imposed structural adjustment programmes in other countries are any guide to what may happen in Kenya.

Kenya, with its relatively well developed commercial, banking and capital markets, was once touted as the prime African candidate to become an NIC (Newly Industrialised Country). It is now on the brink of bankruptcy because of creditor intransigence. The people of Kenya need a greater period of respite, when the pay-masters of their political masters have decided to change the tune. The complicity of these external mentors cannot be simply shrugged off and the people of Kenya left to bear the consequences.

About the writer: Mohammad Hassan is a London-based research analyst specialised in international financial and economic affairs.

— Third World Network Feature