

# Business Briefs

## Industry

### Union Carbide, Malaysia to build chemicals plant

Malaysia's state oil company, Petronas, and the U.S.-based Union Carbide Corp., have finalized a joint venture to build and operate a state-of-the-art integrated chemicals complex in Malaysia, Union Carbide announced on April 8. It will be the region's first totally integrated petrochemical facility, from raw material supply to shipments of finished products, and one of the largest chemical complexes in the region.

Such a development is obviously a vote of confidence in Malaysia and in the region, but it has an added significance, in that the United States is still officially considering sanctions against Petronas over its participation in the investments in Iran, although it is almost certain Clinton will not proceed with sanctions. Union Carbide apparently agrees.

## Thailand

### Probe shows derivatives destroyed the country

The government investigation into the financial crisis which hit Thailand beginning last summer, although trying to pin the blame on the previous Chavalit administration, is turning up an amazing story of how playing the derivatives market helped destroy Thailand's finances.

According to a multi-part investigative report in *The Nation* on April 1 and 2, when the Bank of Thailand (BOT) rolled up over \$25 billion in forward currency swaps, "Rerngchai Marakanond, former BOT governor, as well as all the strategists of the baht defense, had virtually no understanding of the implications of the foreign exchange swap contracts they accumulated as a smokescreen to conceal BOT's dwindling reserves." While pumping out their dollar reserves to counter George Soros's raid on the spot market, they also *bought* dollars as forward swaps—meaning they would have to sell them back at a future date at what was

then the rate of 25 baht to the dollar. But the hedge funds were running both ends, and made killing when the baht finally collapsed, raking in at least \$10 billion in speculative profit.

To get an idea of the power wielded by the speculators: The Thais have total currency in circulation of only 400 million baht, or about \$16 billion at the old rate. Soros was playing with funds leveraged up to much more than that—more than the total number of baht in circulation.

BOT Governor Chaipayawit Wibulswadi has come under fire for last year's failed defense of the currency. Former BOT Governor Rerngchai told investigators that when the Soros attack hit, he told Finance Minister Amnuay Viravan and BOT Deputy Governor Chaipayawit, "I was not an expert and needed help from Chaipayawit, who was entrusted with this assignment." Chaipayawit has claimed that he had nothing to do with either the baht defense or the more than \$20 billion bailout of failing banks.

## Mining

### Poland, Ukraine to cut jobs, investment

The government of Poland plans to eliminate 70,000 jobs in coal mining, and the lack of investment in Ukraine has led to a rising death toll.

Polish Deputy Economic Minister Janusz Szlajak announced on April 14 that by the year 2000, some 70,000 jobs in the coal mining industry will be cut, *Gazeta Wyborcza* reported. Szlajak said the government does not plan group layoffs; rather, it believes that a social protection package will prompt miners to resign. That package, undertaken under International Monetary Fund (IMF) pressure, will include paid leave and unemployment benefits for miners nearing retirement age, as well as one-time severance payments for younger miners. Given the overall economic situation in Poland, it is doubtful that younger miners will be able to find other jobs.

In Ukraine, years of disinvestment under perestroika communism, followed by IMF

shock therapy, continue to take their toll. On April 4, in the Donbass coal district in the eastern Donetsk region, 63 miners were killed in a methane explosion. Since the mine went into operation in 1975, it has not received one kopek of funding to modernize.

Speaking at an FDR-PAC forum in Washington in February 1997, Ukrainian MP Dr. Natalya Vitrenko documented the disinvestment in Ukrainian industry, including the coal industry, under IMF policies. The World Bank demands that Ukraine's coal industry be shut down, reported Vitrenko, even though there are great reserves of high-quality coal. "This is just *massive* destruction," she said. "The entire town around a mine dies. When we had discussions with the local inhabitants, the most painful thing was to see the faces of these 30- to 40-year-old men, who had lost their jobs."

## Russia

### Soros ISF front fuels brain drain

International speculator George Soros's International Science Fund (ISF) contributed to the Russian brain drain, *Moskovskaya Pravda* reported, in an article by Irina Dezhina on March 2. Dezhina, a senior scientist of the Institute of Economic Problems of the Transition Period, and a candidate in economic sciences, reported on a survey she has conducted of scientists in Russia and some former Soviet republics.

Although Dezhina concluded that the brain drain "is not yet massive or universal," she found that it is affecting the "seed kernel" of Russia's scientific capability, especially because the average age of those leaving is 30. This is producing a "generation gap," she said, because there is already a shortage of 30- to 40-year-old scientists. The phenomenon of scientists heading for, mainly, the United States has become so pervasive, she reported, that there is now an "indicator," the "runaway criterion," used to rank institutes on the number of scientists likely to leave.

"The opinion was expressed repeatedly that the ISF, to a certain degree, stimulated leaving," Dezhina reported. The scientists

**THE INTERNATIONAL** Labor Organization warns of "dramatic" social consequences of the financial turmoil in Asia, in a new study. The successes in the fight against poverty in Asia during the last 20 years are now being reversed. At the end of 1996, there were about 22 million people below the poverty line. But this figure is rising with "astonishing speed."

**CANADIAN** Imperial Bank of Commerce and Toronto-Dominion Bank announced a \$15.8 billion merger on April 17. If approved, it would be the tenth-largest bank in North America, with \$321 billion in assets. CIBC owns U.S. investment bank Oppenheimer & Co., and Wood Gundy; TD owns the U.S.-based Waterhouse Investor Services (the world's third-largest discount brokerage), and San Diego-based discount broker Jack White & Co.

**MALAYSIA** has begun merging financial firms, aiming to reduce 39 companies to 8. The drastic capital-requirement increase, from 5 million to 600 million ringgit by the end of 2000, is forcing all but the largest firms to merge. Malaysia is trying to avoid the collapse of the companies, a forced recapitalization and selling off firms to foreign investors at cheap prices, or turning to the IMF.

**'SUNSPOTS** are to blame for global warming, say scientists at CERN [the European Center for Nuclear Research], the world's leading particle physics laboratory. They believe the theory that rising world temperatures are caused by fossil fuel burning may be wrong. The Sun, not mankind, is more likely to be the culprit," the London *Observer* reported on April 12.

**INDONESIA'S** official unemployment is expected to triple during 1998. Out of a 90 million workforce, 4.4-4.8 million were unemployed during 1997. By the end of February 1998, the number rose to 8.7 million. By the end of this year, the Labor Ministry expects unemployment to rise to 13.4 million.

established relations with Western colleagues, travelled and gave papers at international conferences, which gave them the opportunity to evaluate the prospects of working aboard, "which subsequently, at the end of the work of the ISF, affected the decision made about emigration."

The brain drain can only be stopped "by internal reform, and no Western philanthropy can fundamentally change the situation," she said.

One participant in the survey said, "George Soros, and the ISF he founded, created the illusion that the problems of science could be solved without the participation of the [Russian] government." Dezhina said, "Only the government itself is capable of either destroying or supporting and developing its science. And the problems around the brain drain only support this banal truth."

## Trade

### Russia, Japan focus on economic projects

Russian President Boris Yeltsin and Japanese Prime Minister Ryutaro Hashimoto met in Kawana on April 18, during Yeltsin's visit to Japan. In trying to solve their territorial dispute, each put forward a new proposal to be considered in negotiations to formally end World War II hostilities by signing a peace treaty by the year 2000. The informal talks also focussed on economic cooperation and several specific projects.

Despite the financial crisis gripping both countries, Yeltsin and Hashimoto discussed Japan's granting a \$1.5 billion untied credit to Russia, mediated by the World Bank. A first, \$600 million tranche is in preparation, said Funushiro Nukaga, Deputy Secretary General of the Japanese cabinet.

Novosti reported that the "no-neckties" summit reviewed progress on ten economic projects envisaged by the so-called Yeltsin-Hashimoto plan, as well as a new initiative for a joint-venture fish cannery in the South Kuriles (the area of the Japan-Russia territorial dispute), and port and road construction in the surrounding area. They also discussed cooperation on space exploration, and on the

Sakhalin Island energy projects. Yeltsin urged Japanese automakers to consider building a manufacturing plant in the Moscow region.

Yeltsin invited Hashimoto for bilateral talks during next month's Group of Eight summit in Birmingham, England, followed by a visit to Japan by the Russian Prime Minister "in June or July," implying that he expects one to have been confirmed by then. Yeltsin said Japan and Russia were now heading down a path of serious economic help that could only do them both good.

## Petroleum

### Russia strikes deal with Kazakstan

President of Kazakstan Nursultan Nazarbayev announced on April 9, that an agreement on the division of Caspian Sea oil had been reached with Russia. Nazarbayev told Itar-Tass that a bilateral agreement would be signed on April 28.

Russia has apparently shifted its view on the Caspian; previously, it had shared the Iranian position, that offshore Caspian oil should be jointly developed by all the littoral states. Now, Russia has adopted the Azeri and Kazak position, that the reserves should be divided up into five national parts. According to an account in the Paris daily *Le Monde* on April 11, Nazarbayev said, "We do not divide water, we divide only the bottom, as equal distances from the coast."

Whether the agreement indicates that Russia has also shifted its position, away from concentration on the Russian route for Azerbaijani oil from the Caspian to Novorossiisk, toward acceptance of a pipeline through Turkey, is not known at this time.

The English-language daily *Iran News* editorialized on April 12 that the Russian decision to divide up the Caspian seabed oil, was not in Russia's long-term interests. Rather, the paper argued, the Russian decision would "elicit a strong reaction from the regional countries." It said that Russia is seeking to maintain control over the policies of the Central Asian Republics.