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Headlines for Thursday, August 3, 2000:

- JUBILEE 2000 URGES OFFICIAL CREDITORS TO SHARE ECUADOR WRITE-OFF.
- SYMBOLIC PROTEST TARGETS IMF MEETING IN PRAGUE.
- STRIKE HITS BUSINESS ACROSS ZIMBABWE.
- KASHMIR KILLINGS PROMPT NEW TALKS.
- TOBACCO SECTOR ACCUSED OF 'INVISIBLE' ANTI-WHO CAMPAIGN.
- Also in this edition: U.N. IS DIAMOND CARTEL'S BEST FRIEND. WORLD BANK URGEDS LEBANON TO PRIVATIZE.

JUBILEE 2000 URGES OFFICIAL CREDITORS TO SHARE ECUADOR WRITE-OFF.

Jubilee 2000, which has led campaigns for debt relief for poor countries, said yesterday official creditors should match the debt restructuring Ecuador is asking its bondholders to make, reports Reuters. As Ecuador met some of the holders of $6.65 billion in debt which it is seeking to restructure, it also said it supported the Ecuadorean government's decision to ask bondholders to take a 40.6 percent reduction in the face value of the debt.

"We are very clear about the Brady bonds. We support the Ecuadorean government,"
said Leana Cisneros, Latin America coordinator for Jubilee 2000. "Not only must
the private sector have a responsibility, but equal treatment means the World
Bank, the IMF and creditor countries must share responsibility."

Ecuador is seeking relief on $2.8 billion in loans from Paris Club creditors,
notes the story. Ecuador's default on its Brady debt and subsequent
announcement that it wanted to restructure the debt is the first real test of
burden-sharing, the idea that the private sector should bear some of the pain
when countries get into economic difficulties.

However, it has stoked the ire of private sector investors who say that they are
bearing all of the pain while the official sector does nothing and note that
they have already taken a 45 percent haircut when the debt was restructured in
1994.

SYMBOLIC PROTEST TARGETS IMF MEETING IN PRAGUE.
Anti-globalization activists yesterday staged a symbolic protest against the
annual meetings of the IMF and the World Bank scheduled in Prague next month,
Agence France-Presse reports. A football match on the Old Town Square in the
heart of the Czech capital pitted three "global" players-dressed up as
McDonalds, Shell and Phillip Morris-against a worker, a farmer and a woman.
With the help of a referee representing the IMF and World Bank, the three global
giants easily won.

The news comes as Walter Goodman of the New York Times (p. E2) comments that the
appearance of some self-proclaimed anarchists among the protesters at the
Republican convention is tantalizing but perplexing. With radical effusions so
out of style, what are we to make of these figures from beyond the fringe? They
summon us back to a time and place when anarchists were taken seriously, Russia
in the 19th century, and to the great novelists who grappled

with the
phenomenon.

Goodman continues by noting the eruptions on the streets of Seattle and
Washington demonstrated a few months ago, any organization that calls itself the
World Bank or the IMF is a natural target for a radical's abiding animosity
toward rich and powerful institutions. But since the anarchist by definition
opposes every sort of system, the word has become identified more with wishful
dreams of destroying what exists than with workable schemes to achieve what
ought to exist.

Separately, the Washington Times (p. A15) reports that activists in Philadelphia
said they had no definite plans for further disruptions of the Republican
National Convention here, a day after police jailed about 250 of the most
violent and hard-core protesters. For now, the jailed protesters are engaging
in what their spokesmen call "jail solidarity" --most of those arrested are
refusing to give their names until they are all released with no charges or
minor citations.

Meanwhile, the Washington Post (p. A21) notes organizers of the demonstrations
coinciding with the Republican National Convention are raising the
anti-corporate issues that inspired the WTO protests in Seattle last year and
the World Bank-IMF protest in the District in April - and now those milestones
are the standards by which the five hours of unrest Tuesday are being judged.

STRIKE HITS BUSINESS ACROSS ZIMBABWE.
Factories, farms and businesses across Zimbabwe shut down yesterday as the vast
majority of the country's 1.4 million workers observed the one-day strike called
by the Zimbabwe Congress of Trade Unions, reports the Financial Times (p.3).
Union officials claimed 30 to 90 percent support for the stoppage, but the

government offices and institutions were open, as were many small businesses.
Large companies and the country's main manufacturing industries were closed,
along with the banks and leading supermarkets and retailers.

The stay-away was peaceful, with few reports of violence or intimidation, the
story says, noting that the strike was called by the ZCTU, with the support of
the Commercial Farmers' Union, in protest at the breakdown of law and order in
Zimbabwe in urban areas, as well as on commercial farms.

Well-supported though it was, the stoppage is unlikely to influence government
policy, the story says. The best hope white farmers now have of reversing the
government's plans to take over 3,100 white-owned commercial farms covering five
million hectares seems to be pressure from South Africa. Farmers and business
leaders are waiting anxiously to see whether President Robert Mugabe will soften
his stance on land expropriation without compensation, following discussions in
Harare yesterday between Mugabe and South African President Thabo Mbeki and his
senior ministers.

Separately, the New York Times (p. A3) also reports on the strike, noting South
African President Thabo Mbeki has heard Zimbabwean President Robert Mugabe's
promise to deal with the lawlessness on the farms before. In April, Mugabe told
Mbeki that he would bring an end to the violence on the farms. In fact, the
violence intensified and further alienated Western donors, who are desperately
needed to rescue the flailing economy. The Christian Science Monitor (p. 24),
and Washington Times (p. A17) also report on the strike.

The talks were expected to focus on the foreign exchange crisis facing Zimbabwe,
conditions imposed by the IMF for loans and the controversial land reform
program, notes AFP. The South African government had said it would do
everything possible to help its northern neighbor stage an economic recovery and
would plead its case with international institutions like the IMF.

The best news the country's beleaguered 4,500 white commercial farmers have had for some time was yesterday's decision to devalue the Zimbabwe dollar by almost 25 percent, the FT notes. The devaluation has been welcomed by businessmen and the tobacco industry, though some economists believe the government should have gone further and tried to eliminate the free-market premium altogether.

The opposition Movement for Democratic Change welcomed the devaluation, but warned that the "overdue" adjustment did not go far enough to give the country a competitive real exchange rate. Bankers say a further downward adjustment is inevitable and could come within two months. The main beneficiaries will be the tobacco and gold sectors. Meanwhile, economists are unanimous in predicting a sharp increase in the inflation rate. Zimbabwe imports all its petroleum and 40 percent of its electricity. These increased costs will have to be passed on to the consumer.

The Wall Street Journal (p. A9) also reports on the recent devaluation, quoting John Robertson, and independent economist in Zimbabwe's capital, Harare, who said, "the devaluation is an indicator that we could be seeing the return of common sense taking over again."

KASHMIR KILLINGS PROMPT NEW TALKS.

A summit of Kashmiri leaders is expected after a series of massacres in the Indian-controlled part of the disputed Himalayan territory in which at least 89 people have died, reports the Financial Times (p.12). Hindu pilgrims on their way to a shrine and immigrant Indian laborers were killed, the latest victims of 11 years of violence that has claimed 40,000 lives.

The summit, involving Kashmiris from around the world, will try to forge a consensus on negotiations with the Indian government over the territory, according to Ghulam Nabi Fai, leader of an influential Washington-based

Kashmiri
organization. Fai, director of the Kashmiri American Council, said the meeting
of 10 to 15 Kashmiri leaders would include those of the Hurriyat (Freedom)
Conference, the separatist coalition thought to represent mainstream Kashmiri
opinion in Jammu and Kashmir, the Moslem Indian state carved out of the
territory.

Western diplomats say the move has Pakistan's support, and that both Islamabad
and Delhi are prepared to downplay their traditional positions on Kashmir to get
talks started.

Commenting in an editorial, the FT (p.10) says it is important that India and
Pakistan exploit this climate to make further progress, despite the renewed
outbreak of violence among other groups this week. This will require
considerable political will on both sides as well as continued discreet and
tactful pressure from the US, and patience will be of the patience. Closer
economic ties between India and Pakistan would also improve the climate for any
ultimate settlement.

TOBACCO SECTOR ACCUSED OF 'INVISIBLE' ANTI-WHO CAMPAIGN.

The tobacco industry has waged a clandestine campaign against the WHO for years,
undermining cigarette control efforts and policies, the Financial Times (p.3)
says the UN agency said in a damning report yesterday. "The attempted
subversion has been elaborate, sophisticated and usually invisible," said the
agency after a six-month inquiry examining thousands of pages of tobacco
industry papers.

A WHO panel had found evidence that companies including Philip Morris and
British American Tobacco used "global strategies to discredit and impede."
Inquiry chairman Thomas Zeltner said the documents showed that "tobacco
companies viewed the WHO as one of their leading enemies."

The report examines documents that have emerged through US litigation cases, the
story notes. Companies infiltrated not only the WHO with paid scientists,
lobbyists and journalists, Zeltner said, but also the UN's FAO and the World
Bank. Tobacco industry methods also included campaigns to convince developing
countries that tobacco control was an industrialized nations' agenda and to
discredit the WHO. "The scale and intensity of these activities is really
disturbing," Zeltner added.

British American Tobacco (BAT) yesterday rejected the WHO's findings, saying
there had been "nothing underhand or inappropriate about seeking to have our
views heard." BAT spokesman Michael Prideaux said, "They could accomplish more
by working with us than by adopting such an adversarial approach."

The industry claims that the methods highlighted by the report are a thing of
the past. Nevertheless, Derek Yach, head of the WHO's "Tobacco Free
Initiative", said: "The use of front groups and media events to try to distort
the policy environment has continued through 2000."

The International Herald Tribune (p.1), the Washington Times (p.A18) and the New
York Times (p.A30) also report.

An editorial on the Washington Post (p. A28) says that Steven Parrish, vice
president of Philip Morris and chief charmer in behalf of the tobacco industry,
laid out his industry's new moderation. The aim was not to encourage more
smoking internationally, Mr. Parrish said. Indeed, he would love "to sit down
with people at the World Health Organization" and talk about smoking prevention.

Now comes news that the tobacco industry has sat not with but on the WHO to
prevent it from talking about smoking. A WHO-appointed committee has reviewed
reams of cigarette-company documents made public by lawsuits, and has found
evidence of an elaborate effort to blunt the WHO's antismoking efforts.

A lot is at stake here. The realization that smoking kills has

discouraged the habit in the rich world; in the United States, the adult smoking rate has fallen from 40 percent in 1964 to 23 percent in 1997. By contrast, smoking in developing countries is rising by more than 3 percent a year. As a result, the annual death toll from tobacco is projected to rise from 4 million today to about 10 million by the 2020s or early 2030s; two-thirds of those deaths will occur in developing countries.

Two years ago the WHO's director general, Gro Harlem Brundtland, rededicated the organization to the war on smoking. Philip Morris declares itself willing to cooperate; it says that its past attacks on the WHO are from "a different time and place" and that it is now willing to reform marketing tactics around the world so that fewer kids are seduced into smoking. The WHO should accept these promises and make sure they are implemented. Otherwise smoking will become the developing world's new plague, killing more people than malaria and tuberculosiscombined, more perhaps even than the AIDS epidemic.

Also in this edition: U.N. IS DIAMOND CARTEL'S BEST FRIEND. WORLD BANK URGEDS LEBANON TO PRIVATIZE.

U.N. IS DIAMOND CARTEL'S BEST FRIEND. A Wall Street Journal editorial (p.A14) says that De Beers announced with great fanfare in July that it was abandoning its policy of buying diamonds in African conflict zones, occasioning both applause and predictions of De Beers' demise. But the diamond cartel, while modifying its tactics, has not changed its basic strategy.

The problem with diamonds isn't their scarcity, but their abundance. The cartel now has found an ingenious new mechanism for achieving its ends: the United Nations. After spending months laying the conceptual groundwork in the media, as well as working through the Clinton administration and human-rights communities, it has convinced the U.N. Security Council to impose a global ban on "undocumented" gem diamonds from "conflict zones." Instead of using

colonial administrations, dictators or mercenary gangs to stop Africans from gathering and selling stones, the U.N will use its resources (backed, no doubt, by the cartel's own contingent of lawyers and detectives) to accomplish that task.

Like all persuasive ideas, the concept of blood diamonds is not without a basis in reality. What the concept neglects, however, is that governments are the principal means by which warriors get funded and armed. Countries such as the Sudan, Ethiopia, Somalia, Rwanda, Burundi and Liberia have managed to sustain ferocious civil wars for years without having or selling diamonds. Even countries rich in diamonds have found alternative ways to finance their warfare.

A regime backed by the U.N. and U.S. that inhibits the sale of uncertified diamonds, diamonds that in practice come from fields the cartel doesn't control, probably won't stop civil wars, then. It will, however, make it far less costly for De Beers to control the diamond market.

Meanwhile, the Washington Post (p.A23) reports that the United States has repeated its warning that it will impose sanctions on Liberia unless it determines that the West African country has halted support for rebel forces in neighboring Sierra Leone.

WORLD BANK URGEDS LEBANON TO PRIVATIZE. The World Bank urged the Lebanese government today to embark swiftly on privatization to reduce the country's massive public debt, but denied it had advocated a currency devaluation, reports Reuters. "People have been talking about devaluation and saying that the World Bank have been recommending that. My answer is very simple: no," Hari Prasad, the Bank's representative in Lebanon, is quoted as saying. "It is not true and that was not one of the subjects on which we have been consulted."

Prasad dismissed fresh press reports that Lebanon would be placed "under the

custody" of the Bank and speculation by financiers that it had asked the government to devalue to make it easier to repay the stock of Lebanese pound debt with foreign currency revenue. Prasad said Lebanon could control the $21 billion net (140 percent of GDP) public debt, which is mostly held by Lebanese banks and 75 percent in the form of Lebanese pound treasury bills, by embarking on a delayed privatization program forecast to fetch $5 billion. Privatization and more efficient taxation, such as a value-added tax the government says would be introduced in 2001, were more favorable than devaluation, he noted. "In discussing the pros and cons of devaluation in general one should look at how much the benefits can outweigh the costs, not regard it as a magic wand," Prasad said.

BALKANS NEED BUSINESS AS USUAL: EBRD. It is one year since the Balkan stability pact had its first full meeting and set the goals of economic recovery and regional integration, writes EBRD President Jean Lemierre in the Financial Times (p.11). So what, if anything, has changed?

This year, Lemierre says, the international financial institutions, including the EBRD, identified programs that could quickly be put in place to boost southeastern Europe's economic recovery. They included regional infrastructure schemes, regional private-sector initiatives and projects to promote institutional and political reform.

The private-sector initiatives have attracted multilateral and bilateral pledges of $356 million, which may seem small when compared with the $2.4 billion pledged for infrastructure projects. But the impact of this finance will be fundamental, and will probably be felt more quickly than that of the infrastructure projects. One reason is that virtually all of these initiatives are already piling up and running in parts of the region and are spreading.

They include the World Bank's trade and investment programs, the EBRD's trade facilitation program and the Balkan Enterprise Fund, which is the work of the IFC. Together, they help local businesses trade with their neighbors, attract capital from local banks, prepare business plans and ensure that investment projects are carried out.

The results during the past year have been encouraging, but challenges remain, says Lemierre. Private-sector activity is the surest guarantee of regional integration and stability. By encouraging cross-border cooperation and commercial relationships, we can forge a peaceful future for a region so recently at war.

ALSO REPORTS...The IMF and the World Bank have warned Ukraine that a decree restoring state control of the country's grain market represents a significant setback for economic reform, and threatens the resumption of a $2.6 billion IMF credit for the country, the Financial Times (p.12) also reports, noting that a letter dated July 17, signed by both the IMF and World Bank representatives in Kiev and the US ambassador to Ukraine, warned that "the decree may damage Ukraine's negotiations for accession to the WTO, violate a number of policy commitments previously made to international creditor organizations and reinstates mechanisms eliminated as conditions of previous agreements.

US Secretary of State Madeleine Albright on July 30 expressed support for the first time for the idea that North Korea should join financial organizations such as the IMF and the World Bank and other multilateral bodies, the Far Eastern Economic Review also reports.

BRIEFLY NOTED...The World Bank yesterday awarded Latvia with a $36.2 million loan to help refurbish Riga's ailing central heating system, AFP reports, noting

that the loan will cover a portion of a $138 million project in the capital to improve delivery services, pricing and management at the state-owned central heating supplier..."This project will have significant economic and environmental benefits for consumers," Reuters quotes the Bank as saying in a statement on the loan to Latvia.

The economies of Latin America and the Caribbean should grow by an average 4 percent this year, up from 0.4 percent in 1999, the United Nations Economic Commission for Latin America and the Caribbean said. The Dominican Republic's economy is expected to grow by 7.5 percent, the highest rise in gross domestic product among the 31 countries studied, while Chile is expected to rank second with 6.0 percent GDP growth. Mexico's economy is predicted to grow 5.7 percent and Brazil's by slightly less than 4 percent, the Wall Street Journal (p. A9) reports.....Brazilian Economy Minister Pedro Malan announced yesterday the IMF had revised downwards Brazil's budget surplus target figure from 3.35 percent to 3 percent, equaling a $2.5 billion savings, AFP reports. The Wall Street Journal (p. A9) also reports.

Corruption, viewed as worse than that of other countries in the region with the possible exception of Indonesia, is widely seen as a major factor in the Philippines' economic slide, reports the IHT (p.11), noting that a recent World Bank report describes corruption in the Philippines as "systemic and a key policy issue".

Representatives from energy group Royal Dutch/Shell were due to meet militant Ijaw youths in Nigeria's Niger Delta yesterday to try to secure the release of 165 contract oil workers being held hostage on two drilling rigs, the FT (p.3) reports, noting that the youths are said to be demanding jobs from the two contractors operating the rigs and that communities in the delta have grown increasingly disillusioned in recent years as most of the oil wealth of the

region has been siphoned off, with little put back into development.

The Turkey Exporters Council on Thursday said overall exports had risen 3.1 percent to US$15.1 billion in the first seven months of 2000, and that exports in the last 12 months rose 0.7 percent to $27.276 billion, Reuters reports. Turkey's IMF-backed disinflation programme targets slower depreciation of the lira against a basket of one dollar and 0.77 euros, placing added pressure on exporters.

IMF rejects government plan to raise 2001 deficit to 85 billion Philippine pesos. The IMF rejected yesterday a proposal by government to raise next year's deficit to 85billion pesos from 62.5 billion pesos this year and conform strictly to original commitments to further consolidate the fiscal sector over the medium term.... China's central bank has ordered major state banks to boost capital-adequacy ratios as the sector braces for the country's entry to the WTO, Chinese bankers said. The central bank wants the four state-owned commercial banks to raise their capital-adequacy ratios to 8 percent this year, from 6 percent or less currently, they said.

The Washington Post (p.A1) reports that building on a decade of practice in crops such as soybeans and cotton, researchers at universities and at a few biotechnology companies have been perfecting the art of injecting novel genes into the cells of trees. Now, scientists say, they are poised to harness the enormous economic potential of the biggest, longest-lived and most biologically productive land plants on Earth.

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Headlines for Thursday, August 10, 2000:

- RUSSIA'S DRAFT 2001 BUDGET SETS $6 BILLION FOR DEBT REPAYMENT.
- IMF EXPECTS INVESTMENTS IN EMERGING MARKETS TO DECLINE.
- THE REAL MEASURE OF FOREIGN AID.
- FAO SEES SLOWDOWN IN DEFORESTATION.
- TAXES HELP KICK THE HABIT: FT COMMENT.
- Also in this Edition: WORLD BANK CONFERENCE KICKS OFF VIETNAM RURAL ENERGY PROJECT. ARGENTINE BUILDING PLAN SEEN KEY ECONOMIC BOOSTER.

RUSSIA'S DRAFT 2001 BUDGET SETS $6 BILLION FOR DEBT REPAYMENT.

The Russian government's 2001 budget plan provides for $6 billion to repay foreign debt, compared with $4.8 billion allocated this year, AFP reports First
Deputy Finance Minister Alexei Kudrin said yesterday.

"If we don't reach an agreement with the Paris Club to restructure our debt,
Russia will have to pay $14.5 billion next year" in reimbursements, Kudrin said
at a news conference. The government hopes to begin negotiations with the Paris

Club of creditor countries this autumn, he added.

A deal with the Paris Club to restructure about $42 billion of Soviet-era debt would mean total 2001 repayments of $4.5 billion and a further $6 billion in debt servicing, Reuters notes Kudrin said. Without a deal, the debt burden would total $14.5 billion. He said Russia had recently reached bilateral agreements with Germany, its main Paris Club creditor, the United States and Italy.

"The conditions for cancellation of the foreign debt will depend on Russian economic successes", continues the AFP piece. Russia is "discussing the possibility" of borrowing $1.8 billion from the IMF and $900 million from the World Bank next year, he adds. "This year we are paying foreign debt thanks to additional revenues, without hardly any borrowing from international financial organizations". Russia's foreign debt totaled $158 billion on January 1, he said.

Kudrin reiterated that the 2001 budget would be balanced. This year's budget deficit will represent 1.13 percent of GDP. The draft 2001 budget foresees GDP at 7.750 trillion rubles, spending and revenues at 1.187 trillion rubles, 12 percent annualized inflation, a barrel of oil at $18-19 on the international markets and the ruble being traded at 30 to a dollar, he said.

The government plans to increase spending on anti-terrorist activities, the judicial system and social services, notes the story. Under a government slogan "invest in man," Moscow will spend more on education, health and culture, Kudrin added.

IMF EXPECTS INVESTMENTS IN EMERGING MARKETS TO DECLINE.
Private investment in Asia, Latin America and Eastern Europe will drop during the next year as investors seek safe havens because of concern the US economy and stock market will slump, Bloomberg and the New York Times (p. C3) report the IMF predicted in a report released yesterday.

'The tight link between the performance of emerging and US asset markets

has
tempered our optimistic outlook for emerging markets financing," the Fund said
in its first quarterly report on investments in emerging markets. "We expect
overall financing flows to moderate in coming quarters." A decline of almost 30
percent in the Nasdaq composite index from March through May prompted investors
to pull out of stock and bond markets in economies from South Africa and Russia
to Argentina and Indonesia.

"A decisive decoupling of emerging from U.S. markets is unlikely,'" the report
said. It predicted that more investors were likely to keep their money in safe
markets or in cash, particularly if an expected slowdown in the American economy
becomes a so-called hard landing. As a result of the United States slowdown,
investors are shunning developing economies, even though growth in the countries
where those markets are based is largely improving, the Fund report said. The
Fund did not forecast how much investment in emerging markets would drop in the
next year.

Meanwhile, the Wall Street Journal (p. C14) reports analysts disagree on whether
a hard landing for the US economy would boost Asia's markets.

In the past month, both Kim Eng Securities and Indosuez W.I. Carr Securities
have issued reports suggesting that a looming U.S. recession will set the stage
for a boost for stocks in Asia. Their arguments touch on the role the amount of
money in the financial system plays in determining equity prices. "There are
simply more funds available to be invested in `paper' assets during the tail end
of a recession than . . . during the tail end of an expansion," when central
banks are generally tightening monetary policy and companies are borrowing
heavily to expand capacity, the Kim Eng report says.

But these reports go against the grain of mainstream opinion, the article notes.
For starters, both reject the growing optimism that the Federal Reserve is
succeeding in gently reining in the breakneck pace of U.S. growth of the past
year. They point to the flattened, or inverted, yield curve in the U.S. --

when
short-term rates are higher than long-term, signaling strong demand for money --
as a sure harbinger of recession.

THE REAL MEASURE OF FOREIGN AID.

Carol Adelman, Senior Fellow at the Hudson Institute, writes in an op ed in the
Wall Street Journal Europe (p.7) that it is a truth universally acknowledged
that the EU's methods of disbursing foreign aid could stand improvement.

Chris Patten, the EU commissioner responsible for external affairs, certainly
thinks so: He's been among the leading critics of an aid program that - while
among the world's leaders in "official development assistance," the standard by
which foreign-aid donors are compared - managed to lose track of $10 billion of
its budget.

At the same time, the conventional wisdom holds that when it comes to foreign
aid, the United States is something of a Scrooge. Yet things may not be so bad
as they seem, at least in the US. Yes, America ranks last among developed
countries in the percentage of its GNP that it spends on foreign aid. Yet this
figure is misleading.

The DAC measure does not include American international giving from foundations,
universities, corporations, churches and individuals - which is almost three
times larger than government aid flows. Such figures are not published by DAC or
even by the US Agency for International Development. This is a critical omission
since private giving by other OECD members is, almost certainly, much less than
America's. If the EU wants to ensure that its foreign aid is put to good use, it
would do well to follow America's example by opening the way for greater private
giving.

The first fact to come to grips with is that massive foreign-aid transfers do
not cure poverty. Egypt and Pakistan, both of which have been among the

largest
beneficiaries of foreign aid over the years, have not exactly prospered economically as a result. Smaller aid recipients, such as Kenya and Zimbabwe,
have fared even worse. The reason for this is simple: Foreign aid tends to reward governments that have pursued failed economic strategies, and often only
forestalls needed changes in policy.

The key element of long-term economic growth is private investment and lending
(private direct investment, international bank lending, bond lending). The EU
and other European donors can encourage more private giving through tax incentives and matching grants from government partnerships. Private philanthropy creates local partnerships, meets real needs, moves faster and works better than government aid. Besides, private giving leaves no mountain of
debt from poorly conceived loans, which further impoverish poor nations.

When government money is involved, what matters isn't so much the amount of money given, but how well the money is spent. Finally, foreign aid cannot substitute euros and cents for competence and honesty. The poorest countries,
where much less private investment is flowing because of corruption and inefficiency, cannot grow without open societies, free markets and rule of law
to combat corruption.

Private donors - whether they are charitable philanthropies or profit-seeking
corporations - are generally better than governments at targeting money where
it's needed most, tracking projects closely, cutting out waste, eliminating fraud and getting real results. If Europe wants to put its charitable resources
to good use, it would do well to take the private route.

Meanwhile, commenting on globalization and on an article from Jeffrey Sachs,
director of Harvard's Center for International Development, Michel Drancourt
writes in La Croix (France, p.18) that charity groups, although involved in many
continents, often remain helpless facing under-development. It is up to governments to take their development in hand, and international institutions
need to be modernized.

FAO SEES SLOWDOWN IN DEFORESTATION.

The destruction of the world's forests is continuing but there are strong indications that the rate of deforestation is slowing down, AFP reports the UN Food and Agriculture Organization (FAO) said yesterday.

Preliminary analysis of more than 300 satellite images shows that the rate of deforestation in the tropical countries was at least 10 percent less in the past 10 years compared to the 1980s, the agency said. Half of the images show a reduced rate of deforestation and 20 percent an increase. The survey is part of FAO's Global Forest Resources Assessment 2000, which will be delivered by the end of the year. It will provide new estimates on the state and change of forests in all countries.

"These preliminary results do not mean that the battle against deforestation is over, and a reduction in deforestation must not be used as an excuse for unsustainable forest practices," said Hosny el-Lakany, assistant director general of the FAO Forestry Department at the 21st world congress of the International Union of Forestry Research Organizations (IUFRO) in Kuala Lumpur, Malaysia. "It does show, however, that the long-term efforts of FAO and others to build awareness of and capacity for sustainable forest management are worthwhile and should be reinforced."

About 55 percent of the world's forests were located in developing countries. Only about three percent of the world's forests were plantations. Between 1980 and 1990, forest cover change in natural forests in developing countries, where most deforestation is taking place, was estimated at a loss of 15.5 million hectares (38.3 million acres) per year.

The major causes of deforestation in the tropics are the expansion of subsistence agriculture in Africa and Asia and large economic development programs involving resettlement, agriculture and infrastructure in Latin America and Asia. In addition, overharvesting of industrial wood and fuelwood, overgrazing, fire, insect pests and diseases, storms and air pollution cause forest destruction, FAO said.

TAXES HELP KICK THE HABIT: FT COMMENT.
Tobacco companies will not be pleased, says a Financial Times (p.10)

editorial,
because the World Health Organization has launched another report attacking the
effects of cigarettes. This time its aim is to halt the growth of smoking in
developing countries.

The most effective counter-measure is to use public policy to attempt to reduce
demand, says the editorial. A mix of approaches - tax increases, health information, advertising restrictions and help in quitting - would be best. According to the WHO, any mix must include higher taxes.

For all that, high tobacco taxes present a problem. They encourage smuggling.
Cigarettes are easy to stash away; valuable, light and small. Any nation proposing taxation to cut deaths from smoking must consider the wider context.
First, rates of tax should not be very much higher than in neighboring jurisdictions. Second, tobacco taxes only work if corruption is low. The WHO
report shows that, regardless of taxation levels, smuggling rises if corruption
is flourishing. Third, countries must plan strategies to counter smuggling.

These are big practical difficulties, the FT says. But there is no doubt that
the death toll will rise unless more effort is made to overcome them.

La Tribune (France, p.1) the Globe and Mail (Canada) and L'AGEFI (Switzerland)
also report on the 11th World Congress on Tobacco or Health.

Also in this Edition: WORLD BANK CONFERENCE KICKS OFF VIETNAM RURAL ENERGY PROJECT. ARGENTINE BUILDING PLAN SEEN KEY ECONOMIC BOOSTER.
WORLD BANK CONFERENCE KICKS OFF VIETNAM RURAL ENERGY PROJECT. The World Bank
has kicked of a new rural energy development project for northern Vietnam with a
four-day conference this week, Asia Pulse reports.

Participants from 13 northern provinces to benefit from the project, will be
briefed on Vietnamese Government and World Bank requirements relating to the
scheme at the conference, which began on Monday. Total investment for the northern rural energy development project is estimated at nearly $ 93 million.
The World Bank will provide loans worth about $76 million to the project. Once

completed, 35 communes in 13 target provinces will have access to electricity.

The project is part of a nation-wide rural energy development project, which has been approved by the government. The nation-wide project is to receive WorldBank credit worth US$ 150million towards its total investment of over VND 2.7 trillion(US$ 201.3 million). The nation-wide project is designed to provide electricity to 671 communes, including 287 extremely poor ones, in 32 provinces.
Some 450,000 households with 2 million people will benefit from the project.

ARGENTINE BUILDING PLAN SEEN KEY ECONOMIC BOOSTER. Argentina sent a $20 billion plan to build waterways, roads and homes to Congress which industry hailed yesterday as a "turning point" for the languid economy of South America's second-largest nation, Reuters reports.

"The final objective is sustained growth, development throughout the nation and above all lowering the unemployment rate," Economy Minister Jose Luis Machinea told some 300 business leaders at the Argentine Engineering Center.

South America's No.2 economy has wallowed in stagnation and recession for much of the last two years, with unemployment now at a three-year high of 15.4 percent.

The Argentine government proposes to set up a $7 billion fund as a guarantee for the $20 billion public works program. The fund will be made available as a guarantee for private loans which the government hopes will fund the works program.

The World Bank, Japan Bank for International Cooperation and Inter-American Development Bank have pledged $2.1 billion, with private business expected to make up the balance.

COTE D'IVOIRE FALLS BEHIND IN DEBT REPAYMENTS TO WORLD BANK. Cote d'Ivoire has fallen behind in debt repayments to the World Bank, a spokesman for the World Bank in Abidjan told Dow Jones yesterday. According to World Bank rules, no new credit agreements can be signed with countries more than 30 days late in debt repayments. If repayments are not met within a further 30 days, all credits previously agreed on are frozen.

The World Bank is currently financing 16 projects in Ivory Coast, to which it has committed a total of $387.92 million. Ivory Coast's relations with multilateral donors have been shaky since the IMF and World Bank froze a three-year loan program in early 1999, alleging corruption and financial mismanagement.

Any hopes that the funds would soon be unblocked were extinguished by a coup d'etat last Christmas Eve, which led the US and Canada to freeze aid to the country as well. A sharp fall in cocoa and coffee prices over the last year has made the country's financial situation all the more precarious, while political instability has made many investors wary of committing more funds to Ivory Coast.

WAHID DEFENDS ECONOMIC RECORD. Indonesian President Abdurrahman Wahid yesterday reeled off a list of macro-economic improvements before a critical national assembly in reply to its scathing verdict on his nine months in office, AFP reports.

The crisis-shattered economy had grown by 4.13 percent in the second quarter of this year, he said. Exports had risen 24.1 percent in the same quarter, while manufacturing was up 5.73 percent. Wahid, who bowed to intense pressure and pledged to hand responsibility for the day-to-day running of the government to Vice President Megawati Sukarnoputri, also highlighted the recapitalisation of several banks.

In his reply yesterday, Wahid asserted that economic indicators all pointed to improvements during his nine months in office. He said recovery had begun in the banking sector, which was left in ruins by the regional financial crisis which hit Indonesia in 1997, forcing Jakarta to accept a massive 46 billion dollar IMF-coordinated bailout.

"Achievements in the restructuring of banks were based on prudent principles, good management, and good governance," he said. However, Wahid said he realized that the banks' recovery was "still far from perfect". He said there had been consumer-led growth in most sectors of the economy, including manufacturing,

which had grown by almost six percent last quarter.

ZIMBABWE BEGINS MOVE TO SETTLE BLACKS ON FARMS. Zimbabwe has begun implementing its controversial land-redistribution program, settling black families on acreage seized from white commercial farmers, the Los Angeles Times (p.A4) reports. The government has said it plans to take over nearly half the 30 million acres owned by about 4,500 white farmers, who make up about 1 percent of Zimbabwe's population.

A "fast track" resettlement program was launched this week in the country's eight administrative provinces by provincial governors, initially on 200 of the more than 800 farms the government earmarked in May for seizure, officials said. The seizures have been strongly criticized by Western governments and donors, with some saying the program will undermine the country's major source of food, employment and export earnings.

The Washington Times (p.A12), meanwhile, reports that the Zimbabwe government Tuesday went to the new parliament to seek its support of the disputed land reforms. Olivia Muchena, minister of state in the vice president's office -which is responsible for land reforms- went to great pains to try to convince the deputies that the government-led accelerated land reforms would solve the country's political and economic woes.

Zimbabwe's main share index climbed almost 300 points on Wednesday on recent government efforts to stabilize the ailing economy with brokers stressing that sustainable recovery depended on resolving the land crisis, Reuters adds.

POOR SHOULD LOOK BEYOND MULTILATERAL INSTITUTIONS. The theatre of lending to developing countries is changing, Sree Kumar, a development economist comments in the Singapore Times. The trend towards privatization and the private provision of public services has meant that commercial financial institutions can now muscle in on areas traditionally occupied by multilateral agencies.

There is also no reason to believe that these institutions are better at pricing risk than their commercial counterparts. The reason for this state of affairs is the asymmetry of information between developing country governments and financial institutions.

Developing countries continue to believe that only the multilateral institutions have the capacity to fund public infrastructure, while commercial financial institutions have shied away from inept, and often corrupt, governments. This has left the multilateral institutions to continue to monopolize the market.

The ability of commercial institutions to reduce their cost of funds through active treasury and money market operations, improve their pricing margins through efficiency gains, and apply sophisticated risk-management techniques can place them on a more aggressive platform to compete with multilateral institutions.

ARREST OF BANKER IN GRAFT CASE POSES A TEST OF BOSNIA'S RESOLVE. The arrest of a prominent Bosnian banker and former government minister is being watched by foreign officials here as a test of the government's resolve to fight corruption, the New York Times (p. A5) reports. The suspect, Alija Delimustafic, an owner of BH Banka, which collapsed two years ago owing foreign embassies and international organizations $15 million, was arrested on Friday night and charged with fraud and abusing his position.

Foreign officials in Bosnia say corruption has reached such levels that the powerful vested interests of the governing parties are the major obstruction to democracy and development in Bosnia, as a recent report by the US General Accounting Office said.

CHILDREN AT RISK - ASIA'S LOST GENERATION. One of the most fundamental human rights and particularly child rights is to be able to maximize one's genetic potential, Stephen Woodhouse, UNICEF's regional director for Europe, writes in the Sydney Morning Post. However, not only is it a moral imperative, it is economic wisdom and social and political good sense.

The opportunities and threats associated with globalization trends demand more than ever before the maximization of the potential of every child as the starting point and bedrock of increasing productivity.

What can be done to prevent this lost generation? First, it is necessary to agree on specific priorities. I would suggest some to be supplementation of the

diets of pregnant women, ensuring four ante-natal care visits, delivery by trained personnel, full immunization, exclusive breastfeeding for 4-6 months,
early child care and stimulation, quality education, especially for girls, life-skills education for both boys and girls.

Second is to concretely assess and analyze the underlying causes for problems in
these areas. These include inappropriate behaviors at family level, particularly
by husbands and fathers; lack of sufficient government and donor investment for
the priority interventions; national strategies that don't maximize the many
strengths apparent in many Asian cultures and societies, including the power of
the family (nuclear and extended), the role of religion and religious-based community organizations, and mutual community self-help particularly in rural
areas and in areas where child problems are the worst.

What will fuel progress most fundamentally is the spirit of human solidarity
that is among all of us.

ALSO REPORTS... The Sydney Morning Herald (Australia), the Australian (Australia), the South China Morning Post (China) and Reuters also report on the
wave of criticism over the conviction of former finance minister Anwar Ibrahim.

BRIEFLY NOTED... The World Bank New Delhi Office has launched an external web
site to deliver information on the bank's operations in India, Asia Pulse and
Dow Jones report. The site, which can be accessed at http://www.worldbank.org.in
is designed to provide 24-hour up-to-date information about World Bank-financed
development projects in India, economic and sectoral reports, India's economic
situation and prospects and links to other development sites....

The World Bank signed a loan agreement with Yemen worth $21.3 million to finance
an irrigation project, the official Al-Thawra newspaper reported yesterday, Reuters notes.

The IMF yesterday predicted accelerating growth in the Czech Republic, but urged
the government to strengthen bank supervision and reform the pension and health

care systems, Reuters reports.

Blaming a rebel movement, the Sudanese government said Wednesday to AFP that it
regretted a UN decision to suspend relief flights to southern Sudan, after humanitarian agencies in the area had blamed the government for stepping up bombing raid on civilian targets. . .Having impeached the incumbent senate president, Chuba Okadigbo for abuse of office, the Nigerian Senate launched a
search for a new presidential candidate, the FT (p. 6) reports..

Standard and Poor's believes up to 70 percent of mainland China's loans could
potentially be problematic, the ratings agency said to the South China Morning
Post. Last year, the World Bank estimated them at 20 percent of the lending...
Japan is considering canceling plans for $159m worth of official development
assistance to China following public outrage over Beijing's military activities
in Japanese waters. . .Illustrating how foreign companies have soured on Vietnam
, the state-run media reported that the country had approved $440.5 million in
foreign investment in the first seven months of this year, a 44 percent drop
from last year, the New York Times (p. C3) reports.

Brazil's economy grew 3.92 percent in the second quarter compared with the
period a year earlier, the New York Times (p. C3) reports the government said
yesterday in a report that suggested that the country's recovery from its devastating currency crisis in early 1999 was accelerating.

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Headlines for Thursday, August 17, 2000:

- IMF GUIDELINES URGE COUNTRIES TO WATCH DEBT RISKS.
- IMF TO REVIEW KENYA DEAL TERMS AS DROUGHT THREATENS LIVES.
- WORLD BANK CALLS FOR DIALOGUE AT PRAGUE ANNUAL MEETINGS.
- DUST HAS SETTLED IN TURKEY, BUT THE COURTS HAVE NOT.
- TELEPHONY SHAKE-UP TO PUT INDIA'S VILLAGES IN TOUCH.
- Also in this edition: ALBANIANS SEE THEIR PYRAMID SAVINGS LOST AND GONE.

IMF GUIDELINES URGE COUNTRIES TO WATCH DEBT RISKS.

The IMF, in its latest effort to strengthen the world financial system, yesterday urged countries to watch risks associated with issuing bonds and tell
investors more about their plans, reports Reuters. A set of draft guidelines on
public debt also said countries needed an adequate institutional framework to
issue securities. Debt should be properly structured in terms of its maturity,

its currency and its interest rates, it said. The IMF, which drew up the document together with the World Bank, now plans a series of outreach workshops in Europe the Middle East and Latin America to collect views on its draft, notes the story.

The 28-page document, published on the IMF's web site (www.imf.org), will now be discussed by debtors and creditors and a final version should be ready by spring next year. "The draft guidelines are designed to assist policymakers in considering reforms to strengthen the quality of their public debt management and reduce their country's vulnerability to international financial shocks," the IMF said. "Vulnerability is often greater for smaller and emerging market countries because their economies may be less diversified, have a smaller base of domestic financial savings and less developed financial systems and be more susceptible to financial contagion."

Emerging market debt problems were a recurrent theme in the world financial crisis of 1997-1999 as South Korea teetered on the brink of default and Russia tumbled over the cliff, defaulting on some domestic debt and devaluing its currency, the story says. Since then countries have stepped up their efforts to prevent new crisis, stressing the need for transparency, universal data standards and responsible fiscal practices.

"The guidelines aim to sensitize all countries to the fact that public debt has to be well managed," said Piero Ugolini, head of the IMF's monetary operations division. "We want to make them aware that there is more to debt management than just printing Treasury bills and collecting money."

IMF TO REVIEW KENYA DEAL TERMS AS DROUGHT THREATENS LIVES.

The IMF is to review the terms of its poverty reduction and growth facility (PRGF) with Kenya to take account of the country's most serious drought in years, the Financial Times (p.4) reports a senior Fund official said yesterday.

Jose Fajgenbaum, senior adviser to the IMF's Africa department, said a team due to arrive this month would investigate what modifications were needed.

"The broad idea is to see how the drought will affect the budget,"

Fajgenbaum is
quoted as saying. "Lower economic activity will imply lower revenue: we'll
have to discuss by how much and where the problems are. The government will
also have to spend more money than previously envisaged."

The IMF announced last month that it had approved a $198 million three-year PRGF
to Kenya, almost exactly three years after it had suspended an Enhanced
Structural Adjustment Facility (ESAF) due to concerns over corruption and the
slow pace of economic reform. The new deal, which followed the appointment of a
recovery team headed by government critic Richard Leakey, is seen as a landmark
in the Fund's approach to economic governance, and has caused concern in Kenya
over the severity of its conditions.

But the deal did not take full account of a drought that is threatening the
lives of more than three million people-highlighted recently by an influx of
desperate Masai pastoralists into central Nairobi. Even in June, notes the
story, the Finance Ministry predicated its budget on GDP growth of 2.65 percent.
But most analysts say the drought and draconian power shortages make it unlikely
to exceed zero-disastrous in a country whose population is growing at more than
two percent a year. Aid agencies have said an appeal for assistance has been
underfunded.

In other news from Kenya, Platt's Commodity News reports that the World Bank has
intervened to try and end the stand-off in the oil industry at the Eldoret Kenya
Pipeline Company depot. Sources said Bank officials visited the depot on Monday
and held talks with the corporation personnel to find ways of ending the
month-old stalemate. The Bank was unhappy with the loss of millions of shillings
as revenue, following the differences between transporters, the corporation and
the Ministry of Roads and Public Works, the source said. This follows the move
by a majority of the transporters to divert to Dar es Salaam and Kisumu in
western Kenya to protest against discrepancies on the mobile weighbridge
readings and restriction by the Kenya Pipeline Company on the amount of fuel
they could carry.

WORLD BANK CALLS FOR DIALOGUE AT PRAGUE ANNUAL MEETINGS.
In order for a dialogue between participants in the forthcoming annual meetings in Prague of the IMF and World Bank and opponents of globalization to take place, it is crucial that no false information be used, the Ceska Tiskova Kancelar (Czech Republic) reports World Bank Vice President for External Affairs Mats Karlsson urged. Theatre and humor are good things, but they should be based on facts, Karlsson said, commenting on the Initiative Against Economic Globalization (INPEG)"s plans to protest problems connected with IMF and WB activities.

The news comes as Reuters reports that the US State Department said yesterday Americans should consider deferring non-urgent travel to Prague late next month because of the potential for violence from the protests against the Bank and the Fund. Although local officials are working to minimize any disruption, "Americans may wish to exercise prudence and to consider avoiding non-urgent travel to Prague during the second half of September," the State Department said in a public announcement. Czech authorities estimate that as many as 20,000 demonstrators may be present before and during the institutions' annual meetings on September 26-28, the statement said.

Meanwhile, the Wall Street Journal notes that the same activists that protested against the WTO ministerial meetings in Seattle last year and against the spring meetings of the IMF and the World Bank in April are protesting at the US Democratic Party convention in Los Angeles. But in Los Angeles it is a different story. Gang members protesting police brutality have joined vegetable-eating environmentalists protesting logging. Hippies are marching with welfare moms. Free-trade foes are marching with the self-described "radical anarchist clown bloc."

"We're all connected," said a fifth-grade schoolteacher who was out demonstrating yesterday. "The reason the Cuban people have been suffering from a US blockade is the same reason why my fifth-graders have no social-studies books, and there's so much police brutality, and Mumia is on death row, and

health care has been cut."

Alas, says the story, too many disparate themes do not a coherent protest make.
And that incoherence may well be the one factor that prevents this outpouring of
grievances from ever becoming a true mass movement.

DUST HAS SETTLED IN TURKEY, BUT THE COURTS HAVE NOT.

One year after thousands of people were killed when a huge earthquake struck
northwestern Turkey, not a single person has been made to pay for the breaches
of building regulations which resulted in so many buildings collapsing, reports
the Guardian (UK). Thousands of claims for compensation have been made, and
thousands of criminal investigations have begun, but no cases have been settled
and no one has been charged.

In fact, says the story, some of the big construction companies whose
substandard buildings collapsed during the earthquake have won contracts to take
part in the rebuilding program. "There may be a few scapegoats, but the big
boys won't be punished," a man in the town of Golcuk said bitterly. "They never
are."

That sense of anger will be apparent as solemn ceremonies take place throughout
the region today to remember those who died so suddenly when one of the
strongest earthquakes of the 20th century struck with devastating consequences
in the middle of the night. One year on, many people wonder how many lessons
have been learned from the tragedy, and how much better prepared Turkey will be
when the next earthquake comes.

There are some encouraging signs, says the story. Thousands of people have been
trained in the basics of earthquake rescue, and teams of civil-defense
volunteers are being set up in every district. The state has also revamped its
disaster-management program: the response to a second big earthquake which
struck the same region in November last year was much more efficient.
Educational programs have begun with books and videos about earthquakes and

their consequences being distributed to schools. And more than 42,000 new houses
are being built, funded by the Turkish authorities and the World Bank, the story
notes. Some of them will be completed by the end of this year, others will be
available for occupation next spring.

Turkey's economy is recovering from the earthquake, the Associated Press reports. It galvanized the often squabbling members of Turkey's governing coalition, who quickly banded together and passed far-reaching economic reforms.
The fiscal measures cleared the way for international loans, increased investment, and improved economic health. Industrial production, which fell to
30 percent of capacity after the quake , is back to the pre-quake level of about
75 percent. As a result of disciplined government spending, inflation fell from
a pre-quake annual rate of 65 percent to 59 percent this June, and should fall
to 35 percent by the end of the year, the story says.

The IMF and the World Bank extended $7 billion in loans to Turkey after it agreed to reforms that included a multibillion dollar privatization program.
The loan helped Turkey rebuild from an earthquake that caused an estimated $2 to
$4 billion in damage.

TELEPHONY SHAKE-UP TO PUT INDIA'S VILLAGES IN TOUCH.
After announcing on Sunday that India's state monopoly on long-distance telephony would end, Communications Minister Ram Vilas Paswan felt confident
enough to say this would mean that, by 2002, each of the 600,000 villages in
India, where 70 percent of the population lives, would be connected to the telephone network, reports the Financial Times (p.3). Companies that successfully apply for long-distance licenses will be obliged to build telecommunications networks and to extend them to less lucrative rural areas.
They will also be obliged to surrender 15 percent of their revenue to the government, which will use a third of its income for further network-building.

Doing something about one of the lowest telephone densities in the world is not,
however, all that is at issue, says the story. The World Bank recently warned
that poor infrastructure was becoming a serious impediment to the country's

growth, and the government has been lobbied ferociously by representatives of the IT industry to improve its over-burdened telecommunications networks. Last month, the National Association of Software and Service Companies (Nasscom), an IT industry group, launched "Operation Bandwith", a campaign to alert the government to the looming crisis in lack of broadband capability in India.

Also in this edition: ALBANIANS SEE THEIR PYRAMID SAVINGS LOST AND GONE.
ALBANIANS SEE THEIR PYRAMID SAVINGS LOST AND GONE. Investors in Albania's notorious pyramid schemes will get little of their money back, the Financial Times (p.2) reports the government has been told by financial investigators hired to track down $1 billion lost in frauds that wrecked the economy and tipped the country into anarchy. PricewaterhouseCoopers (PwC), the professional services firm asked by the government to investigate the schemes, has concluded that only $50 million is recoverable.

The PwC report, which is also critical of the help offered by Albanian officials in locating the money, has never been published, despite being submitted to the Albanian ministry of finance last January. The Socialist government under Prime Minister Ilir Mehta is attempting to draw a line under the scandal that prompted violence that claimed more than 2,000 lives and cost many Albanians their life savings, the story says. Under pressure from Western lending institutions to adopt credible economic policies, it has retracted promises that investors would be compensated in full. It is now trying to put the scandal firmly in the past while putting the blame firmly on the previous government of Sali Berisha, under which the schemes flourished.

The schemes, which typically promised returns of about eight percent a month, proved irresistible to a population that had only recently emerged fromcommunist orthodoxy. At their height, they had liabilities equal to half the country's GDP, according to the IMF.

BRIEFLY NOTED...USA Today (p.17A) reports that the number of East Africans

facing severe food shortages has risen to 20 million, up 3 million since April,
a United Nations agency said. The Food and Agriculture Organization blamed drought, war and other conflicts for the scarcity of food in Angola, Burundi,
Congo, Congo Republic, Eritrea, Ethiopia, Kenya, Liberia, Madagascar, Mozambique, Rwanda, Sierra Leone, Somalia, Sudan, Tanzania and Uganda...The Zambian government's announcement that it will not privatize the Zambia Electricity Supply Corporation (Zesco) has surprised many, reports Reuters, noting that the sale is one of the requirements for accessing $210 million from
the World Bank to fund the utility's rehabilitation and that World Bank resident
representative Laurence Clarke said the government should clarify its position
on the matter...The Japanese government will only cancel Zambia's debt of approximately US$337.5 million if the money is channeled towards education and
health sectors, Xinhua reports the Zambia Daily Mail says.

The UN Security Council yesterday gave its support to South African statesman
Nelson Mandela for mediating an uncertain peace accord in Burundi which is due
to be signed this month, reports AFP. It also hailed "the role and positive
contribution of women in the Burundi peace process through direct involvement in
negotiation and facilitation"...The Washington Times (pA16) reports that Laurent
Kabila, president of the Democratic Republic of the Congo, has agreed to give
security guarantees to allow the deployment of UN peacekeepers, Zambian President Frederick Chiluba said... The Washington Times (pA16) reports that
South African Deputy President Jacob Zuma says that African lawmakers should
take more active roles in placing wars and conflicts on the national agendas of
their respective countries. Opening the 31st African regional conference of the
Commonwealth Parliamentary Association, Zuma said most Africans are tired of the
perennial wars in conflict-torn countries.

Japan's government yesterday announced it was extending an aid loan worth $49.5
million to help get Papua New Guinea's stricken economy back on its feet, reports AFP, noting that the Japanese aid comes after the World Bank last month
approved a $90 million loan for PNG, giving a crucial vote of confidence in the
government's economic reforms...Vietnam and international donors, including the

Japanese Bank for International Cooperation and the World Bank, signed agreements, programs and projects using official development assistance sources to the value of US$1.26 billion in the first seven months of this year, Xinhua reports the Vietnam News Agency said...Singapore's Senior Minister Lee Kuan Yew said Thursday that an Asian Monetary Fund could not exist independent of the IMF, Dow Jones reports.

Canadian Finance Minister Paul Martin said the meeting in Montreal on October 24-25 of G20 finance ministers and central bank governors will concentrate on issues of globalization and the economic vulnerability of many world nations, reports Dow Jones, noting that Martin said he and the representatives of NGOs had discussed debt relief for Third World countries, as well as possible reforms of the World Bank and the IMF.

Mexico's economy continued its rapid expansion in the second quarter, surpassing even bullish estimates, as strong exports, investment and consumption fuelled growth, reports the WSJE (p.3)...Argentine President Fernando de la Rua told reporters he had no intention of devaluing the Argentine peso or replacing he currency with the US dollar as suggested by former President Carlos Saul Menem, the New York Times (p.A6) reports. He criticized his predecessor for warning that Argentina was on the brink of a devaluation or depression...Hiplolito Mejia has been sworn in as president of the Dominican Republic, the New York Times (p.A6) reports, promising the spread the benefits of an economic boom to the poor. The fight against corruption and poverty will be priorities for his government, he said in his inaugural speech.

Carbon dioxide levels in the atmosphere are at their highest in 20 million years, the Guardian (UK, p.5) reports two British scientists reveal today in Nature, noting that their discovery will add to pressure on governments to implement agreements to reduce greenhouse gases that fuel global warming.

One would think from a recent article by professors Anne Krueger and T. N. Srinivasan that lenders had no role whatsoever in creating the disaster that is the current developing-country debt crisis, writes Angela Travis of UNICEF

UK in
a letter to the editor of the Financial Times (p.12). This is far from the truth, says Travis. While UNICEF UK, as part of the Jubilee 2000 Coalition,
acknowledges that there has been misspending in the past, there has also been
reckless lending such as lined the pockets of dictators such as the late Mobutu
Sese Seko of the former Zaire.

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Headlines for Tuesday, August 22, 2000:

- BIODIVERSITY CAN BE PRESERVED: WORLD BANK, CONSERVATIONISTS.
- WHO, WORLD BANK REPORT FINDS FREER TRADE BOOSTED SMOKING.
- NICARAGUA'S ON COURSE FOR DEBT RELIEF, SAYS IMF.
- WORLD BANK WELCOMES DEMONSTRATORS' ATTENTION TO POVERTY.
- LOANS TO BUY AIDS DRUGS ARE REJECTED BY AFRICANS.
- Also in this edition: FORMER PRESIDENT SUHARTO TO GO ON TRIAL IN INDONESIA.
STATES ATTACK INDIAN SHARE-OUT THAT 'PROMOTES POVERTY'.

BIODIVERSITY CAN BE PRESERVED: WORLD BANK, CONSERVATIONISTS.

In the last ten years, write World Bank President James Wolfensohn, Conservation
International CEO Peter Seligmann and Global Environment Facility (GEF) Chairman
Mohamed El-Ashry in the International Herald Tribune (p.8), the international
community has spent some $4 billion to conserve biological diversity. This has

paid for a lot of good work. But overall, we are failing to stem the lethal
dynamic of chronic poverty and growing population, which is destroying species a
thousand times faster than ever before.

We need to do conservation differently if we are to cope with the potentially
catastrophic impact of these pressures on the natural systems that support life
on earth, say Wolfensohn, Seligmann and El-Ashry. The groups working to
conserve the Atlantic rainforest in Brazil have come to understand and explain
to others that there are viable alternatives to deforestation. Increasingly,
they see more opportunities in protecting the rainforest, for tourism and other
productive uses, than in cutting it down. Africa and Asia also offer compelling
examples of how we can turn the destructive tide by working together and setting
priorities.

Evidence that outright destruction is proceeding apace is bad news for us all
but particularly for the poor, the authors note. For poor people, conserving
biodiversity is not just about long-term welfare. It is about survival, because
so many of them depend on the habitats that support biodiversity for their daily
needs. Noting that their three agencies have taken a look at what works and
what does not and tried to come up with a practical approach, the authors write
that if we are to make a real difference, we must involve poor people and
communities more centrally in the management of their lives and the stewardship
of our shared natural resources.

Where to begin? Around 60 percent of all terrestrial species are found in 25
so-called "hot spots" that make up just 1.4 percent of the earth's total surface
area. The list includes Madagascar, West Africa and the tropical Andes in South
America. All are in critical condition and offer enormous returns in terms of
species conserved. Arguments about economic efficiency bolster biological ones
in suggesting that we need to focus more attention on the natural wealth of

these places.

To this end, write Wolfensohn, Seligmann and El-Ashry, our three organizations have joined together to create the Critical Ecosystem Partnership Fund. The aim is to gather $150 million as a new source of money exclusively for civil society groups working to protect biodiversity in the hot spots. The object is to help agencies and communities pull together more effectively and have a greater impact by providing information about what others are doing and underwriting crucial activities that otherwise would not be funded.

The fund will be flexible enough to ensure that conservation investments achieve maximum impact. Streamlined decision-making procedures will allow quick response to new threats and provide for urgent smaller-scale projects. Grant guidelines will be available on the Internet, and applications can be submitted online.

We have to move fast to create realistic alternatives for poor people and thereby relieve the growing pressures on the natural environment, the authors urge.

WHO, WORLD BANK REPORT FINDS FREER TRADE BOOSTED SMOKING.

A UN-sponsored report has found that freer global trade over the past two decades has boosted smoking, especially in developing countries, by making the dangerous habit cheaper, Reuters and the Washington Times (p. A9) report. But the study, issued by the WHO and the World Bank, suggested that the fault lies more with governments than the open-trading rules of the WTO or its predecessor, the GATT. And it indicated that if the rules were fairly applied to domestic and foreign producers, countries wanting to reduce cigarette consumption could do so without serious risk of a challenge through the WTO's dispute settlement system.

Analysis of information from 42 countries "clearly demonstrates that trade liberalization has led to increases in cigarette smoking, with the most significant impact in low-income and middle-income countries," the report, entitled "The Impact of Trade Liberalization on Tobacco Consumption", is quoted as saying. But its authors, international economists and medical researchers, say the outcome of the only tobacco-related case so far to come to the GATT or WTO suggests that measures taken to protect health did not need to conflict with global trade rules.

The US lodged a complaint against Thailand in 1990 over a ban on cigarette imports and won when a panel ruled against the ban, saying it could have been justified if all sales of tobacco products, domestic and imported, had been prohibited. The message from that decision, the report says, was that strong tobacco-control policies to reduce the damage to health of smoking "are consistent with international trade agreements as long as they are applied in a non-discriminatory fashion".

Moreover, the report authors said governments that argued that protecting their people's health justified trade restrictions had generally done little to limit consumption of domestically produced cigarettes.

The study is part of a mounting campaign by the WHO, supported by the World Bank, to convince governments to work together to reduce smoking, says the story. According to the study, tobacco is becoming one of the single biggest causes of death in the world and by 2030 is expected to kill some 10 million people a year, over two thirds of them in developing countries.

The smoking surge in Asia, Africa and Latin America, the report finds, was largely a result of ending national monopolies on tobacco manufacture and sale as a result of growing trade liberalization since the 1980s. Agreements in the GATT, which was absorbed into the WTO in 1995, opened long-closed markets to

foreign-mainly Western-imports. The ensuing competition forced down prices,
bringing cigarettes within the reach of poor people for the first time and
enabling the better off to indulge the habit more, according to the report.

NICARAGUA'S ON COURSE FOR DEBT RELIEF, SAYS IMF.
The IMF has said Nicaragua is on course to qualify for substantial debt relief
by the end of the year in spite of a bank bailout that has sapped its foreign
reserves, the Financial Times (US, p. 3) reports.

The country's adjusted international reserves have dropped $58.5 million to
$116.6 million (?39 million to ?77.7 million) since the central bank was forced
to guarantee deposits at Interbank, the country's third biggest, on August 6.

The reserves' level is one measure the IMF uses to test suitability for access
to the Highly Indebted Poor Countries Initiative (HIPC), the plan to forgive the
debts of the world's poorest countries.

"We think the government will be able to take the corrective action needed and
it will be possible to meet HIPC's criteria by the end of the year," an IMF
spokesman said yesterday.

In an earlier FT (UK) report (p.3), Nicaragua's international reserves have
fallen to a level that puts in doubt its access to substantial debt relief after
bailing out a troubled bank.

"This puts in danger access to the Heavily Indebted Poor Countries (HIPC) debt
relief initiative," said Alejandro Martinez Cuenca of the International
Foundation for Global Economic Challenge, a think-tank. Nicaragua is the
poorest country in Latin America, notes the story, with a per capita GDP of $500
and a poverty rate of 80 percent.

Noting that the IMF board will meet next month to judge if Nicaragua is eligible

for forgiveness of almost $4 billion of its $6 billion debt, the story quotes
Cuenca as adding, "The IMF will be looking at this situation and seeking an
explanation." The Nicaraguan central bank, he said, was likely to raise bank
reserve requirements and issue more local currency debt to bring in dollars.
This would drain liquidity from the system.

The IMF and the IDB have offered support for the government but have not said
whether they would provide bridging loans to stabilize the situation.
Meanwhile, power and telephone privatizations in the next few months will bring
in much-needed currency, but the scarcity of bidders could mean prices are low,
the story says.

Cuenca said the banking system had survived the shock provided by [the failure
of] Interbank, which had lent up to $40 million without sufficient guarantees.
Only $5 million had left the banking system, although customers had withdrawn
$19 million from Interbank. "This is a positive sign," he said. "People have
retained their confidence in the institutions."

The government may have to provide further credit to the coffee industry, one of
the country's most important, adds the story. Thousands of small producers were
financed by Agresami, the exporter whose borrowing from Interbank triggered its
problems. The state has promised $20 million in emergency credit.

WORLD BANK WELCOMES DEMONSTRATORS' ATTENTION TO POVERTY.

The World Bank is open to dialogue and is ready for it, says World Bank Vice
President for External Affairs Mats Karlsson in the Nedelni Novinyi (Czech
Republic). Referring to the protests expected at the upcoming annual meetings
in Prague of the IMF and the World Bank, Karlsson welcomes President Vaclav
Havel's initiative to reach out to NGOs as an important platform for dialogue.

It is a good thing that young people are not passive, Karlsson says, as

world
poverty needs a lot of attention, not only from international
organizations such
as the Bank or the UN, but also from civil society. With the gap
growing
between the rich and the poor, the World Bank is intensifying its
efforts to
fight poverty and stepping up support for the health sector in
developing
countries, he notes.

Saying he expects doses of well-known Czech humor at the protests in
Prague,
Karlsson says he believes there will be no violence and that the
protests will
be fair and based on facts and mutual respect.

LOANS TO BUY AIDS DRUGS ARE REJECTED BY AFRICANS.
The United States' offer of $1 billion in annual loans to finance the
purchase
of anti-AIDS drugs in sub-Saharan Africa has been rejected by South
Africa, one
of the countries most devastated by the disease, health officials say.
Namibia
has also rejected the offer, and other nations in this stricken region are
voicing serious reservations, the officials say, the New York Times (p. A6)
reports.

South Africa, the nation with the largest number of people infected
with the
virus that causes AIDS, and Namibia said they needed affordable drugs, not
loans
that would burden their economies. Officials at the Southern
African
Development Community, which represents 12 other countries in the region,
along
with South Africa and Namibia, are also expressing doubts about the
proposal.
They say they would prefer the US pressure American drug companies to
reduce
prices and to support countries that are disregarding patents and
producing
generic drugs more cheaply.

"Members are already burdened by debt," said Dr. Thuthula Balfour,
director of
the health unit of the Southern African Development Community, in a
telephone
interview from Pretoria. "Making drugs affordable is the solution
rather than

offering loans that have interest."

The offer last month by the US Export-Import Bank, an independent government agency financed by Congress, was made to 24 sub-Saharan countries. US Export-Import Bank officials said that none of the countries had formally accepted the offer so far. The officials, who emphasized that it was too early to assess interest in the program, said they were still educating eligible African nations about the program.

The Export-Import Bank offers loans to buy the drugs at commercial interest rates that now average about 7 percent. But health officials in Namibia are desperately searching for other ways to get drug therapy to their infected citizens, who make up an estimated 20 percent of that country's population.

"When you take loans, you are plunging the country deeply into debt," Dr. Shangula said. "We are actually looking for ways to acquire the anti-retroviral drugs to improve the quality of life of our people, but this does not offer the solution."

Also in this edition: FORMER PRESIDENT SUHARTO TO GO ON TRIAL IN INDONESIA.
STATES ATTACK INDIAN SHARE-OUT THAT 'PROMOTES POVERTY'.

FORMER PRESIDENT SUHARTO TO GO ON TRIAL IN INDONESIA. Indonesia's former President Suharto will go on trial next week, charged with misusing public money through tax-free foundations he controlled by investing $578 million in firms owned by his family and friends, Bloomberg reports.

Suharto's trial is expected to be one of the biggest ever in Indonesia and will be in line with President Abdurrahman Wahid's promise to the International Monetary Fund to cleanse the government of corruption and nepotism. Investors will be watching to see if the government has the political will to resolve deep-seated corruption problems in the country.

``The exact date and venue will be announced tomorrow in a news

conference at 1:30 p.m.," Lalu Mariyun, head of the South Jakarta District Court, told reporters at his office, adding that it would begin sometime next week.

Justice Minister Yusril Ihza Mahendra said the venue would likely be the Agriculture Ministry, which is within the South Jakarta District Court's jurisdiction. USA Today (p. 8A) also reports on the upcoming trial.

Separately, the Far Eastern Economic Review reports urged on by the IMF, the Indonesian government is developing initiatives aimed at encouraging tax-dodgers to cough up, while increasing revenue from existing taxpayers. To begin with, Jakarta is working out the details of an amnesty, which is good news for income-tax defaulters. But for resident foreigners -- whose income tax for the most part is already withheld by their employers -- the tax drive could be bad news. Although there are serious doubts about the ability of the bureaucracy to handle it, officials are seeking to implement a law under which expatriate residents are obliged to pay tax on their worldwide income, including money earned from overseas investments. There are also indications of increasing cooperation among government departments: The Manpower Ministry has for the first time begun to provide lists of foreign work-permit holders to the Tax Department. Only 1 percent of Indonesia's 200 million people are registered taxpayers. Unreported taxable income is estimated at $20 billion a year.

STATES ATTACK INDIAN SHARE-OUT THAT 'PROMOTES POVERTY'. Indian Prime Minister Atal Behari Vajpayee has come under attack from a coalition of allies and opponents in regional governments who say New Delhi's latest share-out of federal revenue is rewarding fiscal profligacy and resistance to reform, reports the Financial Times (p.6). At a meeting of regional leaders in Delhi yesterday, they demanded that "performing and reforming" states be compensated for revenue transferred to states which are slipping back through bad governance.

The dispute arises from the share-out of devolved federal revenue announced last month for 2000-2005. The funds are apportioned according to six criteria, most of important of which are relative income and size of population. Thus, populous northern states that have done little to control their population growth or attract investment and raise living standards stand to gain more than $2 billion each. States such as Andhra Pradesh, very poor although advancing fast under reform, or southern states such as Kerala and Tamil Nadu, with high literacy and low population rates, are losing proportionate amounts of funding, while relatively prosperous western states such as Gujarat and Maharashtra stand to lose even more.

In other news from India, the FT (p.6) reports that the government will try to ensure that state-owned enterprises it plans to sell off to private investors remain in Indian hands, according to Arun Shourie, the new minister in charge of privatization. Speaking on state television, Shourie said the government would decide on a case-by-case basis whether foreign companies could buy a majority stake in public sector companies. "While divesting oil companies and airlines, the government will give first preference to Indian bidders, as we would like to retain a majority in these units," he said.

PNG CHIPS IN FOR NEW CABLE, RISKING INTERNATIONAL BAILOUT FUNDS. A new $75 million fiber-optic cable proposed to connect Australia and Papua New Guinea (PNG) could be purchased through bartering PNG rainforest logs, reports the Australian Financial Review. Cable & Wireless Optus, cable layer Alcatel and PNG's monopoly, Telikom, have begun exploratory talks about the new cable.

But Telikom, which would need to pay half, is broke, says the story, so lateral corporate thinkers have come up with a creative answer: barter the cable for rainforest. This, however, would create another immense problem: a

moratorium
on new timber concessions is a core condition for a global bailout of
PNG into
which the World Bank, the IMF and the Australian government have poured
almost
$500 million.

There is a proposal for PNG Telikom's owner, the PNG government, to
provide
hardwood logs to the People's Republic of China to pay for its
cable
participation, the story says. When the Yangtze River suffered
devastating
floods two years ago, Chinese Premier Zhu Rongji blamed the disaster on
logging
upstream by people who, he said, "have no intelligence and no
virtue". Zhu
banned logging in China, saying, "We can completely depend on imports to
solve
the problem of inadequate timber supply."

Now PNG, which contains the third-largest surviving primary rainforest
in the
world, is being targeted as one of China's supply sources. Alcatel
Submarine
Networks, one of the three major international cable layers, wrote to
Telikom
that China could provide its cable ship for installing the cable from
Cairns to
Port Moresby and collect timber in Chinese-registered ships.

Meanwhile, World Bank country director for PNG Klaus Rohland said the
country's
structural adjustment program was conditional in part on a halt to new
timber
permits until a major review had been completed. "Forestry is a major
source of
corruption in PNG, and if we are serious about governance, we would want
to get
it in order," he is quoted as saying. If the PNG government were to
seek to
suspend the moratorium, "my first reaction would be 'no'".

Brian Brunton, Greenpeace's PNG-based Pacific forests specialist, also
said on
Sunday: "To the extent that Optus may have been involved in this
proposal, the
message from us is: 'Optus, no'". It would be impossible to sell $35
million
logs to China without breaking the moratorium, he said. China should be
aware
that the history of the timber trade with PNG was one of corruption, of
transfer
pricing and of cheating poor landowners, to the benefit of mainly

Malaysian
loggers and of Japanese and Chinese processors.

WORLD BANK SEES DELAY IN $780 MLN TURKEY LOAN. The World Bank today said $780
million in aid to Turkey via a financial sector adjustment loan (FSAL) could be
delayed because Turkey had so far failed to complete conditions for the support,
reports Reuters. Turkey had pledged broad reform in its banking sector,
including privatization of state banks and forming a new body to regulate the
sector, but has yet to finalize those measures.

"Withdrawing the financial sector adjustment loan is definitely not an issue," a
World Bank official is quoted as saying. "But there is uncertainty about the
things Turkey has to do ... The Bank's board will not take up the loan in its
September meeting. It will be discussed later." However, noted the official,
the Bank board meets every month and that the FSAL could be discussed in the
board's October meeting.

Financial markets, already jittery over a row between Turkey's president and
government over a crackdown on Islamists, reacted to press reports that the loan
had been scrapped on Tuesday, pushing benchmark bond yields up to 33.46 percent
from the previous close of 32.91 percent, the story notes.

JAPANESE PM 'POSITIVE' ON PAKISTANI TEST MORATORIUM. Japanese Prime Minister
Yoshiro Mori gave a "positive response" to Pakistan's moratorium on nuclear
tests but stopped short of relaxing economic sanctions during a meeting
yesterday with military ruler General Pervez Musharraf, Agence France-Presse
reports a Japanese official said. Mori personally delivered last month's
resolution from the G8 countries urging India and Pakistan to resume dialogue
over disputed Kashmir and sign the Comprehensive Test Ban Treaty (CTBT), the
official added.

Japan suspended new non-humanitarian aid and grants to both countries following their tit-for-tat nuclear tests in 1998, which sharply raised the stakes in their 53-year-old dispute over Kashmir, notes the story. Islamabad was hoping it could win a resumption of at least some of the aid by convincing the Japanese leader that Pakistan was forced to reply to India's tests to maintain the regional balance of power.

MEXICO'S FOX LOOKS TO NADP TO CLOSE CROSS-BORDER INCOME GAP. When the administration of US President Bill Clinton in 1994 feared the US Congress might defeat the NAFTA, it set about luring supporters by whatever means available, reports the Financial Times (p.7). Most congressmen wanted the usual array of bridges, roads and government buildings, but Esteban Torres, a Californian Democrat, wanted something more: a bank that would help poorer communities on both sides of the US-Mexican border.

Thus was born the North American Development Bank (NADB), a government-financed bank dedicated to environmental infrastructure projects in the heavily polluted border region on the Mexican side. The US and Mexico each pledged $225 million in upfront financing, and a total of $2.5 billion in capital in the event of a default.

The checkered origins of the NADB have not prevented it from being seized upon by Mexican President-elect Vicente Fox, as a possible vehicle for helping to reduce the enormous gap in living standards between the US and Mexico, says the story. Fox, who arrives in Washington this week for meetings with Clinton, has suggested the bank's capital base should be expanded to at least $10 billion as part of a concerted program of development aid to raise Mexican living standards.

The timing is propitious, says the story. The NADB's board recently

asked the
US and Mexican governments for a broader mandate that would allow it to fulfill
Torres' original vision of a genuine regional development bank for the border
area.

Meanwhile, Bloomberg reports Fox will begin his first official trip to Canada
tomorrow, seeking support for changes to the NAFTA that he says will boost trade
on the continent. While Fox and Chretien said they have no formal agenda for
their talks - billed as a get-acquainted session - Fox is expected to press for
changes to the six-year-old NAFTA pact. Fox has said he want to turn NAFTA into
a European-style common market in which goods, services and people cross borders
unfettered.

Fox's visit to Canada comes as trade between the two NAFTA partners expands.
Trade between Canada and Mexico has grown about 15 percent a year since the
NAFTA agreement was signed in 1994 to close to C$11 billion ($7.5 billion) last
year.

BRIEFLY NOTED...Kenyan President Daniel arap Moi says the conditions imposed on
Kenya by the IMF and the World Bank for the resumption of aid support are too
tough, reports the East African Standard (Kenya)...Kenya is to privatize the
container terminal at Mombasa port, the FT (p.6) reports Finance Minister Chris
Okemo said yesterday, noting that Kenya has vowed to speed up privatization and
clean up its bureaucracy under the terms of its recently agreed $198 million
Poverty Reduction and Growth Facility with the IMF and is being closely watched
to see whether it will push through reforms.

The Christian Science Monitor (p.6) reports that some 14,000 southern Sudanese
children and women have been abducted in recent years, according to government
figures....Gabon Prime Minister Jean-Francoise Ntoutoume Emanne last Friday
pledged to clean up this country's finances in a bid to reach a deal

with the
IMF, AFP reports. After months of difficult negotiations, in mid-July Gabon
finally agreed with IMF officials an 18-month programme to reinforce good
government and accelerate the privatization programme already underway.

Hundreds of thousands of children are living in slavery in Haiti -taken from
their families in rural villages or given up by destitute parents for the
promise of a better life in cities like Port-au-Prince, Jacmel or Les Cayes, the
Washington Times (p.A10)reports....The South American common market, or Mercosur
, is expected to invite Chile to join the trade bloc in early September, the New
York Times reports. Negotiations will try to bridge the gap between Chile's 9
percent import duty, and Mercosur's tariffs, which start at 15 percent.
Mercosur is composed of Brazil, Argentina, Uruguay and Paraguay....Latin
American markets were affected on Friday by speculation about the Argentine
economy, Oxford Analytica reports. Buenos Aires has denied rumors that Economy
Minister Jose Luis Machinea was about to resign, that the country would not
meet its IMF- agreed fiscal targets and that there would be a devaluation.
Machinea met with IMF Deputy Managing Director Stanley Fischer last week.

All domestic producers and importers of refrigerators, air-conditioners, motors,
compact fluorescent bulbs, fluorescent bulbs and ballasts will now have to
improve energy-efficiency standards of their products to meet a minimum level,
according to a recent resolution by the Thai National Energy Policy Committee
(NEPC), reports the Nation (Thailand), noting that with technical and funding
assistance from the World Bank and state coffers, the government began a
demand-side energy management program about two years ago in cooperation with
local appliance producers and the public, which produced some favorable results.

Some 400 Bosnian Serb pensioners protested yesterday against late pension
payments, gathering in front of the government building where last preparations

for the budget revision were being made, reports AFP, noting that the government has argued that earlier increases in pensions had compensated for April and May pay-outs and that according to the IMF and the World Bank, if present trends continue, by the end of 2000, the RS will have a budget deficit of $92.7 million.

Former IMF Managing Director Michel Camdessus, who once took World Bank President James Wolfensohn and IDB President Enrique Iglesias with him on a two-day meeting at the Vatican with Pope John Paul II and other church leaders, was far from being a recent convert to debt relief for the poorest countries, and was one of its most active proponents at the Fund, writes former IMF official Frits van Beek in a letter to the editor of the WSJE (p.3), adding that the glib assumption that someone with a strong social commitment cannot be a champion of sound economic policies is disturbing.

The Far Eastern Economic Review reports that Japanese industrial giants Hitachi, Mitsubishi and Toshiba might appear to have jumped the gun when they announced on August 2 the setting up of a joint operation in Vietnam to bid for construction of the country's first nuclear power plant. Vietnamese officials, after all, have yet to give a green light to the project, despite seven years of studies. While the World Bank remains opposed to the project, Japan is a likely candidate for funding.

Taiwan's foreign aid is a sensitive subject for President Chen Shui-bian, who is currently on a visit to diplomatic allies in Latin America and Africa. While he and his ruling Democratic Progressive Party once criticized the previous government's foreign-aid programme as wasteful "dollar diplomacy," Chen must now decide how to restructure the aid in ways that are acceptable to a sceptical legislature and voting public.

Bloomberg reports that, according to a Korean central bank policymaker, the Bank of Korea is considering raising interest rates as higher energy and

transport
costs stoke inflation....A separate Bloomberg report notes that South Korea's
economic growth slowed in the second quarter as companies invested less in
expanding their businesses and consumers scaled back spending. Gross domestic
product grew 1.1 percent from the previous quarter, seasonally adjusted,
compared with the first quarter's 1.8 percent gain, the Bank of Korea said.
Central Bank Governor Chon Chol Hwan said yesterday the economy expanded 9.6
percent from a year ago, slowing from 12.8 percent in the first quarter.

AFP reports that an army of anarchists and political activists is expected in
Sydney next month, fresh from demonstration in Melbourne, to join Aboriginal
protestors for an anti-Olympic rally, organizers said Tuesday...The Philippine
Department of Justice dropped all charges against a Manila college student
accused of releasing the "Love Bug" computer virus in May, citing a lack of laws
and evidence, reports the WSJE (p.7), noting that the move highlights the
inadequacy of computer laws in many developing countries.

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Headlines for Wednesday, August 23, 2000:

- WORLD BANK SETS UP FUND TO SAVE AREAS OF BIODIVERSITY.
- HAVEL ASKS DEVELOPMENT GROUPS TO LISTEN TO THE PEOPLE.
- IMF SAYS PROSPERITY FROM GLOBALIZATION, FRANCE BACKS OFF TOBIN TAX.
- WORLD BANK APPROVES $60 MLN FOR TANZANIA POVERTY RELIEF.
- REDESIGNING FOREIGN AID. COMMENT.
- Also in this edition: ASIAN REGION NEEDS SHARED VISION FOR PNG FORESTS: EDITORIAL. WORLD BANK: NO KNOWLEDGE OF INDONESIA DEBT SWAP PLAN.

WORLD BANK SETS UP FUND TO SAVE AREAS OF BIODIVERSITY.

The World Bank yesterday launched a biodiversity conservation fund that will channel $150 million to grassroots organizations working in some of the world's most threatened regions, reports the Financial Times (p.6). The Critical Ecosystem Partnership Fund (CEPF), which has been set up jointly with Conservation International and the Global Environment Facility (GEF), will focus on 25 "hot spots" that are exceptionally rich in plant and animal life,

and will
try to help local people develop projects, such as coffee growing, to improve
their living standards while reducing damage to the environment.

"The biggest problem for biodiversity is poverty," World Bank President James
Wolfensohn is quoted as saying. "We are trying to help indigenous people
maintain the ecological balance and have some of the economic pressures removed
from them."

The CEPF will focus on areas that cover just 1.4 percent of the earth's land
surface yet account for more than 60 percent of all terrestrial species
diversity, says the story. In its first year, the fund will focus on areas in
Madagascar, West Africa and the Tropical Andes, which contain species such as
the Aldabra tortoise, the Rodrigues fruit bat, the pygmy hippopotamus and the
white-breasted guinea fowl.

The initiative stems from a recognition that many biodiversity initiatives have
failed because of a lack of coordination between agencies and communities, as
well as insufficient funding for grassroots initiatives, notes the story.
Wolfensohn added that it was crucial to harness the knowledge of community
groups to ensure the success of conservation projects, saying, "What we have
discovered at the Bank is that it is difficult to do through a massive
government loan aimed at saving biodiverse species. It is a continuing trend to
build closer relationships with those NGOs with good on-the-ground presence. We
have 10,000 people round the world but we don't have people in the field who can
tailor-make local solutions."

The Bank, Conservation International and the GEF each plan to commit $25 million
to the fund during the next five years, notes the story, while the remaining $75
million will be sought from other donor agencies. The Los Angeles Times (p.A7)
quotes Wolfensohn saying "We have to move fast to create realistic alternatives
for poor people if we are to relieve the growing pressures on the

environment."
The Associated Press, Reuters, Dow Jones, the Times of London (p.8), the
Frankfurter Allgemeine Zeitung (Germany, p.18), Les Echos (France, p.10), La
Tribune (France, 7), El Pa¡s (Spain, p.20), O Estado de SÆo Paulo (Brazil), AGE
(Melbourne), Bangkok Post (p. 4), San Francisco Chronicle and Agencia Estado
(Brazil) also report.

The news comes as Wolfensohn, together with Conservation International Chairman
Peter Seligmann and GEF Chairman Mohamed El-Ashry write in the Straits Times
(Singapore), ZN Noviny (Czech Republic) and O Estado de SÆo Paulo that we need
to approach conservation differently if we are to cope with the potentially
catastrophic impact of different pressures on the natural systems that support
life on earth. For poor people, conserving biodiversity is not just about
long-term welfare. It is about survival, because so many of them depend on the
habitats that support biodiversity for their daily needs. If we are to make a
real difference, we must involve poor people and communities more centrally in
the management of their lives and the stewardship of our shared natural
resources.

We also need to learn to work together in new ways, write Wolfensohn, Seligmann
and El-Ashry. The CEPF's streamlined decision-making procedures will allow quick
responses to new threats and provide for urgent small-scale projects. Grant
guidelines will be available on the Internet, and applications can be submitted
online. We have to move fast to create realistic alternatives for poor people
and thereby relieve the growing pressures on the natural environment.

HAVEL ASKS DEVELOPMENT GROUPS TO LISTEN TO THE PEOPLE.
President Vaclav Havel of the Czech Republic, the host next month of the annual
meetings of the World Bank and the IMF, said yesterday international development

organizations "should listen more to the voices of the people" for whom they fashion programs, showing more respect for local cultural traditions, reports the New York Times (p. A8) and the International Herald Tribune (p.6). Issues of poverty and housing "must be solved taking into account the human dimension, and not just the interests of investors," Havel is quoted as saying in an interview.

The UN, too, "should do everything to make people see it as their own organization, representing everyone, not as some sort of club of governments and diplomats," said Havel, who will travel to the US to attend the millennial summit meeting of the UN early next month. As an institution, he said, the UN "should have more power and a smaller bureaucracy."

Noting that the Fund and the Bank's annual meetings in his capital on September 19-26 have become a target for groups opposed to globalization and multinational capital, the story says Havel welcomed the debate, but hoped it would be a philosophical and substantive one, without violence in the streets.

Globalization by itself is "morally neutral," he said. "It can be good or bad, depending on the kind of content we give to it." He cited the spread of information about human rights as a good use of globalization. As a negative, he cited "the spread of silly sitcoms or even more stupid commercials," which give a false picture of human life.

Urging the media to pay more attention to the substance of the debate about the Fund and the Bank and less to security aspects of the meeting, Havel said the annual meetings in Prague would be good for the Czechs, who have a tendency both to resent decisions that are made without them and "to grumble when we're asked to focus on events on the other side of the fence." He added that "It is a great privilege for this country to have the meeting here," and that it would be a chance for the Czech Republic to show itself to others, 11 years after the fall of communism.

The news comes as Le Monde (France, p.1) reports that Czech authorities, shocked by the violence in Seattle last November and in Washington in the spring, have been making security arrangements worthy of a state-of-siege. Some 11,000 policemen have been mobilized for the protests at the annual meetings in September, and the minister of the interior has published a series of recommendations for citizens, including hoarding provisions and stocking their medicine cabinets.

Judging that the government should respond otherwise, Havel has organized a meeting at Prague Castle between representatives of the international financial institutions and 250 opponents of globalization, the story says.

IMF SAYS PROSPERITY FROM GLOBALIZATION, FRANCE BACKS OFF TOBIN TAX.

International economic integration has tripled living standards around the world over the last 50 years, but it is arousing so much popular opposition that further integration can't be taken for granted, the Wall Street Journal Europe reports IMF Chief Economist Michael Mussa says. In a paper to be presented at a conference of central bankers organized in Jackson Hole, Wyoming by the Federal Reserve Bank of Kansas City this week, Mussa warns that a "sharp reversal" is possible in the trend toward global economic integration.

Economic prosperity, Mussa notes, isn't enough to prevent a backlash against globalization. The protesters in Seattle demonstrated that globalization has its detractors, and we have hardly seen or heard the last of them, Mussa is quoted as saying. But, the chief economist notes, "while we need to remain cognizant of the risk that such protests may gain political momentum, I do not believe the conditions are ripe for a return to isolationism. The plain fact is that the US economy, and the world economy more generally, have prospered enormously under, and partly because of, favorable policies toward

international
economic integration."

Those benefits, Mussa says, have been spread "quite broadly, but not
universally" across the globe. On average, governments around the world have
dropped 80 percent to 90 percent of their trade barriers since the end of World
War II. That has helped triple per capita incomes around the world and ensure
global economic growth of four percent a year on average, he says.

Still, Mussa notes, history shows that economic prosperity isn't always a
conducive climate for free trade and investment.

The news comes as Le Monde (France, p.24) reports that French Finance Minister
Laurent Fabius, in a report submitted to Parliament this week, says the idea of
a Tobin tax on short-term cross-border currency transactions in order to reduce
international speculation is a generous but inapplicable idea. Noting that such
a tax would require a global consensus that does not exist, Fabius notes in the
report that the [unilateral] imposition of such a tax would entail the flight of
capital to non-cooperating states and paradoxically result in the strengthening
of offshore tax havens.

The report comes in response to proposals by French NGOs and has become a
rallying point for anti-globalization groups, the story says. In its report,
the Finance Ministry says that in order to counter the destabilizing effects of
financial liberalization, it would be better to take measures such as
strengthening the role of the IMF. Les Echos (France, p.2) and La Tribune
(France, p.6) also report.

WORLD BANK APPROVES $60 MLN FOR TANZANIA POVERTY RELIEF.

The World Bank yesterday approved a loan of $60 million to the Tanzanian government for helping the African nation's poor communities, Dow Jones reports.

The project aims to improve delivery of basic social services, ranging from fresh water to AIDS prevention, the Bank is quoted as saying in a statement.

The government also hopes to use the funds to promote job creation in the construction sector, particularly in times of seasonal food shortages, the Bank said. Overall, the government will seek to improve the delivery of basic services by putting greater power in the hands of local authorities.

Current data show that around half of all Tanzanians live in poor households where each person earns less than $1 a day, the Bank noted.

Reuters also reports, quoting project team leader Norbert Mugwagwa as saying, "Tanzania has launched its economic reform program and this project will help the government cushion the impact of the ongoing reforms on poorer communities, ensure that their urgent social needs are met, and build their capacity to prioritize and implement community programs."

REDESIGNING FOREIGN AID. COMMENT.

The traditional goals of U.S. foreign aid -- promoting U.S. security and fostering development in poor countries -- are no longer as pressing after the Cold War, writes Carol Lancaster, a Georgetown University professor and a former USAID deputy administrator, in the September/October issue of Foreign Affairs (US, p. 74). Washington must revamp its approach to aid and address new, urgent priorities: shoring up peacekeeping efforts in such places as the Middle East and the Balkans; easing the transition to globalization; tackling transnational environmental crises and diseases; and improving the quality of life for the world's neediest. This new diplomacy will not only transform US aid but bolster its relevance to American interests and values in a rapidly changing world, Lancaster opines.

She adds that the primary responsibility for international leadership on development must lie with the World Bank. To its credit, it has been

trying to
better coordinate the different mechanisms for delivering aid. It is
the one
international institution with the expertise, coordination, and
potential aid
resources that can work for governments committed to economic and
social
progress. True, some critics of the Bank argue that it needs to be more
focused.
Others, including a number of nongovernmental organizations, argue that
the Bank
needs to be more accountable, especially to those it is trying to
benefit. But
with appropriate reforms the World Bank can effectively serve as the
primary
channel for US development aid in the future, Lancaster writes.

Also in this edition: ASIAN REGION NEEDS SHARED VISION FOR PNG FORESTS: EDITORIAL. WORLD BANK: NO KNOWLEDGE OF INDONESIA DEBT SWAP PLAN.

ASIAN REGION NEEDS SHARED VISION FOR PNG FORESTS: EDITORIAL. The big
test of
international cooperation within the Asia-Pacific region is how well it
works in
tough times, in resolving prickly issues between countries, and in
fostering
sustainable development, says the Australian Financial Review in an
editorial.
The degree of cooperation during the economic crisis of the late 1990s
was at
best modest, and the manner in which continuing political stresses are
being
addressed is even less encouraging.

The threats to Papua New Guinea (PNG) 's precious tropical
rainforest, the
third-largest such resource remaining in the world, illustrate how
far the
region has to go to be considered as adequately managing itself, says
the AFR.
Yesterday's report about a proposal to fund a $75 million fiber-optic
cable from
Cairns to Port Moresby by bartering rainforest logs underlines this
concern.
China, where logging has been halted since the Yangtze floods two years
ago, has
shown most interest in such a barter deal, and is apparently prepared to
visit
on a small Asia-Pacific nation the despoliation it is sparing
itself.
Meanwhile, for more than a decade, Malaysia has been the major logging
power in
Melanesia, amplifying economic destabilization and corruption in

those
countries.

Countries in the region criticize the oversight of international agencies such as the IMF and the World Bank, and press their case for managing cross-border issues themselves. But the countries need to demonstrate much greater capacity to tackle genuine differences head on, says the editorial. The sound development of countries like PNG requires good global citizenship: a partnership of governments that are intelligent and tough as the administration of Sir Mekere Morauta is proving and investors interested in more than rapidly extracting raw resources.

WORLD BANK: NO KNOWLEDGE OF INDONESIA DEBT SWAP PLAN. The World Bank, reports Dow Jones, today said it had not backed a plan for Indonesia to convert its total local and foreign government debt into bonds on the international capital market, as reported in Singapore's Business Times. "We are interested in debating any plan which would make Indonesia's debt more manageable," Bert Hofman, the World Bank's chief economist in Jakarta, is quoted as saying. "But to my knowledge, we haven't discussed the plan as reported in the Singapore Business Times."

The newspaper had reported that the Bank had backed the plan to convert government debt into either yen or US-dollar backed bonds, and securitizing them against state-owned enterprises or other assets, as a way of attracting fresh capital. Indonesia's government was also in discussions with Japan, its largest creditor, for it to act as a guarantor for the bonds to refinance government debt, the newspaper reported. Last year, notes Dow Jones, Japan offered to guarantee bonds by Asian countries under an extension of its Miyazawa regional aid fund.

Currently, the story notes, Indonesia has about $134 billion in total

government debt, according to a World Bank estimate. Of this around $65 billion is in the form of rupiah bonds issued last year to recapitalize ailing banks, while the remainder is owed to Japanese lenders and multilateral organizations such as the World Bank and the ADB.

Meanwhile, the news comes as Bloomberg reports Indonesia's former President Suharto may be too ill to stand trial next week on corruption charges, delaying what is expected to be one of the country's biggest-ver court cases.

Separately, Reuters reports the government of the Republic of Indonesia has received of Loan for the International Bank for Reconstruction and Development (IBRD) towards the cost of Industrial Technology Development Project (ITDP), as reported in Asia Pulse.

RUSSIAN DRAFT 2001 BUDGET SEES $4.7 BLN IN FOREIGN LOANS. Russia plans to borrow up to $4.7 billion from abroad next year, Dow Jones reports Finance Minister and Deputy Prime Minister Alexei Kudrin said yesterday. "We are planning to raise credits between $2 billion and $4.5 billion or up to $4.7 billion, but if we speed up privatization, (the revenues) will be used to cover (the necessary amount of) foreign loans," Kudrin said.

In all, Russia faces interest payments on its outstanding foreign loans amounting to $6.1 billion next year and it will have to repay $5.2 billion of maturing debt principal in 2001. "The exact amount will depend on the results of the restructuring talks with the Paris Club (of sovereign creditors)," Kudrin said. Russia, notes the story, owes about $42 billion in twice-defaulted Soviet-era debt to the Paris Club and it is seeking a write-off of more than a third of the debt.

In 2001, the government hopes to be able to borrow $1.8 billion from the IMF and $900 million from the World Bank. "We think this will be realistic

in the
second half of the next year," he said.

But as this year's budget performance shows, the difference between plans and
reality can be wide, says the story. The 2000 budget, for example, calls for
$2.6 billion of credits from the IMF. The IMF is in fact lending Russia no
money this year.

Separately, Bloomberg reports Russia passed another milestone in the recovery
from its $40 billion debt default in 1998 as Moody's Investors Service said it
may raise the credit rating on its foreign currency debts and bank deposits.

GLOBAL E-READINESS GAP THREATENS PACE OF ECONOMIC GROWTH; VARIED. World
economic expansion will stagnate unless key countries act quickly to increase
their "E-Readiness;" yet growing demand in those markets creates many
opportunities for e-business, according to a report issued today by McConnell
International LLC, a global policy and technology consulting firm, the
Associated Press reports. The report, Risk E-Business: Seizing the Opportunity
of Global E-Readiness, rates 42 key economies' connectivity, e-leadership,
information security, human capital, and e-business climate.

At a press conference on the report, the article continues, Carlos Primo Braga,
manager of the World Bank Group's infoDev program said, "Helping developing
countries address the challenges and opportunities of the networked economy is
an important dimension of the development agenda. We are working closely with
governments and the private sector to promote E-Readiness in the developing
world. Methodologies that help us and client countries better understand what
is at stake and what are the critical bottlenecks are quite useful."

BRIEFLY NOTED...Zimbabwe's foreign reserves are expected to remain low while the

national currency devalues further over the next six months, AFP reports the Commercial Bank of Zimbabwe said in a statement yesterday, noting that the foreign currency shortage has produced a critical fuel shortage and that analysts expect international lenders, including the IMF and the World Bank, to start reviewing Zimbabwe's lending conditions with the hope of renewing balance of payments support...President Robert Mugabe of Zimbabwe yesterday called on his southern African counterparts to set up a regional rescue package for Mozambique, which is still struggling to recover from devastating floods earlier this year, reports AFP, noting that the World Bank also launched an international appeal for emergency aid for Mozambique in Rome in May... The IMF has approved a new $35.1 million payment from its loan to Ghana, but said the money would be released pending the World Bank's review of the African country's plan to cut poverty, reports Reuters, noting that the Bank board will meet tomorrow to consider Ghana's so-called Poverty Reduction Strategy Paper.

The Los Angeles Times (p.C4) reports that the International Monetary Fund's lending this year is headed for a 12-year low, with economies from Mexico to Thailand rebounding, and Korea and Brazil turning down further loans, IMF data shows. The Fund lent about $3.2 billion in the first seven months of the year to Ecuador, Indonesia and other nations pursuing IMF-backed economic programs. That's down from $8.1 billion in just the first six months of last year, when Asian, Eastern European and Latin American economies were reeling from capital flight and a debt crunch that had sent many hurtling into recession.

Health ministers from eight Asian countries began a three-day meeting in Nepal today to seek ways to provide inexpensive healthcare to the poor, reports Reuters, noting that the World Bank and the ADB had substantially stepped up assistance for health sector programs and projects in developing countries... South Korean government officials today agreed to pour more public funds into

the restructuring of troubled financial institutions in a major turnaround of policy, reports AFP, noting that the agreement came at talks between top policymakers from the finance and economy ministry and the governing Millennium Democratic Party, ministry officials said... Also, the Wall Street Journal (p.A14) reports that South Korea's economy roared out of its 1998 recession -its worst on record- to grow 10.7% last year. In 1997, the government signed a $58 billion bailout led by the International Monetary Fund to pull the economy out of a debt crisis. The World Bank has agreed to back a project by the Australia-based Royal Melbourne Institute of Technology (RMIT) to build a university in Saigon South, reports the Saigon Times Daily... Malaysia's economy grew less than expected in the second quarter as slower growth in services, agriculture and private spending offset some of the gains from buoyant exports, Bloomberg reports. The economy expanded 8.8 percent from a year ago after growing a revised 11.9 percent in the first quarter, the central bank said.

The Washington Post (p.A1) reports that US President Bill Clinton last night signed a waiver authorizing distribution of a $1.3 billion aid package to help the Colombian government fight drug traffickers even though it has not met all the human rights conditions set by Congress, administration officials said.

Iran is in the grip of its worst drought for 32 years and faces "critical human suffering" unless urgent action is taken, reports the FT (p.6).

Latin America's growing popularity with overseas investors signifies a breakthrough for Brazil and Mexico, but conceals weaknesses elsewhere in the continent, comments Richard Lapper of the FT (p.12)...Panama's new finance minister, Norberto Delgado, said yesterday his first priority would be to comply with the country's commitments to the IMF, reports the FT (p.3).

The Australian National University is spearheading a global training and research effort to increase access to fresh water, reports the Australian,

noting that the university is setting up a node for UNESCO's new Research and Ethical Network Embracing Water-or RENEW-which has asked the World Bank for $500,000 for training and ANU will contribute part of the $1.9million it has set aside for environmental work....It is curious that while the globalization of information, money and trade has developed very rapidly, no such system has yet emerged to handle the movement of human beings, writes UN High Commissioner for Refugees Sadako Ogata in the IHT (p.8), saying that if and when one is put into place, it should include a strengthened refugee asylum process and expanded programs for assisting devastated countries and communities to simply live together again.

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Headlines for Monday, August 28, 2000:

- GLOBALIZATION CRITICS PROMISED A HEARING.
- NIGERIA ASKS CLINTON FOR HELP WITH ITS CRIPPLING DEBT.
- EAST TIMORESE LEADER URGES UN AGGRESSION TO FIGHT MILITIAS.
- SOUTH KOREA URGES NORTH'S ENTRY INTO GLOBAL INSTITUTIONS.
- PUTIN PLEDGES PAY RISES AND NAVAL RESCUE CENTERS.
- Also in this edition: HARD LANDING FOR TRAVELERS. MILITARY MISRULE IN PAKISTAN.

GLOBALIZATION CRITICS PROMISED A HEARING.

A number of senior economic policymakers have signaled a more sympathetic approach to opponents of globalization and pledged to do more to deal with their
concerns over integration of the world's economies, reports the Financial Times
(p.2). Speaking at the annual symposium of the Kansas City Federal Reserve Bank
in the Grand Teton National Park in Wyoming, IMF Deputy Managing Director Stanley Fischer summed up the softer stance when he said not all critics of

globalization should be seen as protectionist or isolationist.

Fischer told officials from the world's central banks and international economic institutions that many anti-globalization attacks on governments, corporations and international institutions were valid. "They may be asking for better globalization," not an end to globalization, he said policymakers should respond. Urging developed countries to lift restrictions on agricultural trade that unfairly shut out developing countries from global markets, Fischer also said concerns of critics in the leading industrialized countries about the potential damage to labor rights and the environment by globalization should not be lightly dismissed.

The New York Times (8/26, p. E1) notes Alan Greenspan, the chairman of the US Federal Reserve, told the conference that pragmatism rather than ideology was driving the adoption in country after country of policies intended to help meet "the rigors of international competition." But he acknowledged what he called "deep-seated antipathy toward free market competition" in some quarters, and warned that there could be a backlash should the stellar economic conditions of the last several years give way to tougher times.

"While recognizing the efficacy of capitalism to produce wealth," Greenspan said, "there remains considerable unease among some segments about the way markets distribute that wealth and about the effects of raw competition on society," he said in opening remarks to the conference. "Thus, should recent positive trends in economic growth falter, it is quite imaginable that support for market-oriented resource allocation will wane and the latent forces of protectionism and state intervention will begin to reassert themselves in many countries, including the United States."

Michael Moore, the director general of the World Trade Organization, told the gathering, that it would be a mistake to ignore the sentiments of the

protesters, and said part of the solution would have to be renewed political
determination in the big industrial nations to press the case for free trade.
"Those who oppose us are not all fools and frauds," Moore is quoted as saying.
"We need to assert our leadership on these issues."

Also reporting on the symposium, Reuters reports that top economic policymakers,
clearly stung by increasingly loud and sometimes violent protests against the
move toward a global economy, agreed they would need to find new ways of getting
across their message that free trade and open markets could help lift prosperity
in all their economies. "The financial crises of recent years suggest that all
is not well with how the global financial system works," IMF Chief Economist
Michael Mussa is quoted as saying. "We need to recognize that there are indeed,
in the process of integration, winners and losers."

Meanwhile, reports the FT (8/26, p.3), groups expected to protest at the annual
meetings of the World Bank and the IMF in Prague next month insist that they are
planning mass non-violent direct action. "I don't personally think there is a
risk of violence," Chelsea Mozen of INPEG, the Czech umbrella group coordinating
the protests, is quoted as saying. "INPEG is not planning to stop the meeting.
The focus is on a creative cultural festival. It should be a fun event."

But Jiri Kolar, president of the Czech police, is concerned about how the 3,000
extremists will behave. "We know our Czech extremists very well, but it's not
clear what to expect from the demonstrators from abroad," he is quoted as
saying. The police have therefore sought advice from their US and European
counterparts.

The news comes as World Vision policy officer Kelly Currah writes in the
Guardian (UK, p.19) that corporations today can purchase indulgences-or
partnerships, to use the new lexicon-from NGOs to absolve their sins of
corporate irresponsibility. Practitioners of partnerships hail these

business-NGO relationships as the way forward. Cross-sector collaboration, they say, is the new paradigm in sustainable development. Even the UN and the World Bank have started partnership programs with corporations.

But, asks Currah, what are the real consequences for the poor? Many long-standing corporate campaigning groups argue that partnerships run counter to the objectives of NGOs and are not effective in influencing corporate social responsibility. The genetically modified food debate is a case in point. Despite a number of successful local partnerships with NGOs, Monsanto continued to develop its controversial "terminator seed" program which, if implemented, could have had devastating effects on farmers in developing countries.

In some cases, corporations use the partnerships to influence NGO behavior. One international development agency was approached by a large tobacco manufacturer proposing a partnership to help communities in the developing world. But there was a proviso: that the NGO stop funding an anti-tobacco campaign in Asia.

Many campaigning groups are increasingly worried that corporations are entering relations with well-known NGOs to lend legitimacy to their operations abroad. NGO independence is crucial, says Currah, but the dynamics of these partnerships diminish confrontation, opposition and transparency. In the end, traditional campaigning tactics remain the best way to make corporations address their business practices.

NIGERIA ASKS CLINTON FOR HELP WITH ITS CRIPPLING DEBT.

US and Nigerian business leaders yesterday welcomed a host of trade and development initiatives that accompanied US President Bill Clinton's visit to Africa's most populous nation, reports the Financial Times (p.2), noting that the initiatives built on Clinton's strong message of support for the fledgling civilian government. But to the disappointment of many Nigerians, Clinton stopped short of offering any special treatment on debt, an issue Nigerian

President Olusegun Obasanjo has made a priority in his dealings with foreign lenders.

Also reporting, the Wall Street Journal Europe and Wall Street Journal (p. A13) notes Clinton said major international restructuring of Nigeria's nearly $30 billion in overdue loans would take a "few years"-well beyond the end of his presidency. That didn't satisfy Nigerian President Olusegun Obasanjo, who called the debt a "gushing wound" that would cripple his country's recovery from years of corruption.

Nigeria was hopeful that the US would pressure other developed countries, including Britain and the Netherlands, to ease payment terms on about $21 billion in bilateral debt, but that hasn't happened. Although mired in poverty, Nigeria's oil wealth means it doesn't qualify for a debt write-off program adopted by US and other members of the G7. Private investors hold $3.5 billion in Nigerian paper, and $4 billion from the World Bank and the AfDB.

Meanwhile, US officials made clear that one way to make debt forgiveness happen faster is for Nigeria to help on a matter of pressing concern to the Clinton administration, notes the story: skyrocketing oil prices. Clinton said he urged Obasanjo to do whatever he could to pressure other members of OPEC to increase production to bring crude oil prices, now more than $31 a barrel, down "to somewhere in the mid-20s."

Other members of Clinton's delegation were more direct about the connection between oil prices and debt restructuring. "We've told them to advocate for OPEC to step up production, and that we'll look at debt relief. The two issues are linked because they won't be getting any debt relief if they're getting $32 a barrel," said Spencer Bachus, a Republican congressman who helped put together a foreign-aid package offering $225 million in debt relief that excluded Nigeria. That bill was approved by the House of Representatives and is being

negotiated with the Senate.

Obasanjo has twice written Bachus in the last year asking for Congress to appropriate funds to defray his country's debt, notes the story. Nigeria's oil industry is already producing at nearly full capacity, and it is far from OPEC's most influential voice on production questions. Moreover, Obasanjo seemed to indicate that he saw debt cancellation as a precondition to Nigeria's support for lower oil prices. "If I have the option, then I will prefer the cancellation of our debts and a reasonable reduction of the price of crude oil in the world market," he said the day before Clinton's arrival.

Clinton said the US "was prepared to support a substantial reduction" of the multilateral debt. But what's critical, some experts say, is for the US to assist Nigeria with its bilateral loans, many of which were incurred by its military leaders for projects that were never completed. The US wants to wait until Nigeria's democratic government has more of a track record before attempting major debt restructuring. That means the task will be left to Clinton's successor, who is unlikely to be as committed as he is to Africa.
Meanwhile, Clinton pressed Nigeria, even as its struggles with corruption and ethnic tensions, to assume a greater role as a stabilizing force in Africa. USA Today (p. 11A) also reports, noting Clinton offered no developments on what appeared to be the chief concern of most Nigerians: US help in reducing Nigeria's more than $30 billion in international debt.

In a separate report, the Financial Times (8/26, p.4) notes that Nigerian government officials believe Nigeria's costly role in recent African peacekeeping missions and its growing military participation in the UN's mission to war-torn Sierra Leone should be met with significant debt concessions. And Obasanjo argues that without substantial debt relief , recent fragile political gains may fast erode.

Meanwhile, notes the story, critics of an IMF agreement signed earlier this month argue that the rewards have come too soon, given the slow pace so far of vital structural reforms.

Also reporting, the International Herald Tribune (p.1), New York Times (p. A1) and Washington Times (p. A11) note that Clinton announced some increased funding for Nigeria's fight against disease: $20 million to control the spread of AIDS, malaria and polio, and a plan to include AIDS education as part of the military training that US troops are giving to Nigerian peacekeepers headed to war-torn Sierra Leone. The New York Times (8/27, Sec. 1 and Sec. 4, p. 1) also reports on US President Clinton's four-day trip to Africa.

Meanwhile, Agence France-Presse reports earlier this month, the IMF approved a $1 billion standby credit facility for Nigeria and praised efforts at reform but said faster progress to economic liberalization was needed.

EAST TIMORESE LEADER URGES UN AGGRESSION TO FIGHT MILITIAS.

East Timorese leader Xanana Gusmao has urged more aggression by UN forces to counter violence from pro-Jakarta militias and called on the world community to exert pressure on Indonesia over their activities, reports Reuters. The story reports that Gusmao says in an interview with Time (8/29) magazine that the democratic process implemented after last year's vote for independence from Indonesia must not be undermined.

"There are still East Timorese who are trying to accomplish a sabotage mission drawn up by someone in Indonesia. They are counting on the fact that peacekeeping has been a disaster in some parts of the world," the former rebel leader is quoted as saying. "That's why the enemy is now becoming more aggressive," adds Gusmao, who caused confusion yesterday by quitting as head of the main pro-independence group, likely to form the nucleus of the party that wins elections due next year, and then withdrawing his resignation at the

demand
of members.

"I want to take this opportunity to appeal to the international community,"
Gusmao continues. "It shouldn't allow a group of criminals to undermine this
UN-supported process toward independence ... The US, the UN, the World Bank and
the IMF, which play such important roles in Indonesia, should send the strongest
message to the Indonesian government, military and political parties to stop
supporting the militias immediately ... Only then will Indonesians finally act.
They know that without that international help their economy will never
recover."

The news comes as the International Herald Tribune (p.1) and the Washington Post
(8/27, p. A22) report that these are heady times for the world's newest
nationas it recovers from the militia violence that followed its overwhelming vote for
independence from Indonesia one year ago this week. Millions of dollars in
foreign assistance have started to flow, providing loans to aspiring
entrepreneurs and funding salaries for people rebuilding destroyed roads,
schools and village markets. Although most of the population still lives in
abject poverty, the economic opportunities have given rise to a new wave of
Timorese merchants.

But some UN officials, international experts and Timorese leaders quietly worry
that the good days are numbered. To people in Dili, the biggest concern is what
will happen to the economy when the UN and other international organizations
leave. "The impact of such a huge number of international personnel in Dili is
causing a big bubble effect," warned Sarah Cliffe, the World Bank's mission
chief here. "On the one hand, it's not a bad thing. It provides short-term jobs.
But it's not sustainable. There's a worry that when the UN withdraws, the
economy will crash."

The World Bank and the United Nations have been trying to create more

sustainable employment here and outside the capital. The bank, for instance, is offering loans to people who want to start businesses, and most of the money is earmarked for people who do not live in Dili.

The Australian Financial Review also reports, noting that there appears to be big demand for capital from would-be small entrepreneurs. A World Bank scheme which offered $4 million in micro-credit loans attracted $33 million in applications.

The Far Eastern Economic Review, meanwhile, reports UN officials say the biggest challenge in building a new bureaucracy is ensuring that corrupt practices from the old Indonesian regime aren't carried on. "We have warned them that cases of corruption will be dealt with harshly," says Mozambican judge Gita Honwana-Welch, head of judicial affairs for the transitional administration. "If we fail there, then we would have failed in other areas as well."

Restoring East Timor's infrastructure is also key to getting the country back on its feet. The highways running east and west out of Dili are still in relatively good condition. But those across the central mountain chain have deteriorated badly. The World Bank, the trustee for the overall aid effort, is concentrating on improving the highway between Baucau and the rice-growing Viqueque district to ensure at least one serviceable north-south route.

Further, Reuters notes that the World Bank and other major donors insist East Timor can be economically viable as an independent nation, but concede it could take more than 20 years before it is completely weaned of foreign aid for major development and infrastructure projects. "We think East Timor is a perfectly viable state," Sarah Cliffe is quoted as saying. "We think East Timor has a lot of options, a lot of opportunities, so it will depend on what the new government after independence makes of those."

SOUTH KOREA URGES NORTH'S ENTRY INTO GLOBAL INSTITUTIONS.

Bank of Korea governor Chun Chol-whan appealed to his counterparts of countries in Asia and Oceania to support North Korea's entry into international financial institutions, reports the Korea Times. Although he didn't specify which institutions, it is widely regarded that they include the World Bank, the IMF and the ADB, says the story.

In a speech delivered at Southeast Asia, New Zealand and Australia central banks' governors meeting (SEANZA) in Colombo, Sri Lanka on Saturday, Chon said that the support of these international lenders is pivotal to improving the infrastructure of the North that is of geographic importance in the region.
"The economic growth rate of North Korea was estimated at 6.2 percent last year, which is the first positive figure after nine years of negative growth," the central bank governor said. "The improvement is largely due to the active assistance of the international community since 1995."

Also reporting, the Korea Herald quotes World Bank senior adviser Bradley Babson as saying, "It is important for North Korea to seek support from international financial institutions and private capital." He added that such organizations as the IMF, the World Bank and the ADB could participate in the process. Babson predicted that the financial aid would guarantee North Korea's continuous economic growth and facilitate its shift from the centralized economy to market economy and integration with the South's economy.

The news comes as Japanese Foreign Minister Yohei Kono on Friday confirmed that Japan has offered to extend economic assistance to North Korea instead of monetary compensation for its 1910-1945 colonial rule of the Korean Peninsula, reports the Daily Yomiuri (Japan, 8/26, p.1). "We raised it as one of many ideas ... for settling the past," Kono said following negotiations for establishing diplomatic ties between Japan and North Korea last week.

PUTIN PLEDGES PAY RISES AND NAVAL RESCUE CENTERS.
Russian President Vladimir Putin yesterday pledged pay rises for workers in the country's nuclear sector and the creation of four naval rescue centers, in the wake of unprecedented anger at the state's handling of the Kursk submarine accident, reports the Financial Times (8/26, p.3). The promise, quoted by Russian press agencies, came after a similar commitment by Putin on Thursday to increase pay by 20 percent for the armed forces, police, prison guards, customs officials and tax police from December this year.

In other news from Russia, Agence France-Presse reports that Central Bank president Viktor Gerashchenko told Russian news agencies on Friday that the country's economic situation had improved to the point where it could do without aid from the IMF. "Our economic situation allows us to fulfill our commitments without receiving $640 million in IMF aid," Gerashchenko is quoted as saying after a meeting with Putin.

Talks between the IMF and Russia on whether or not it still qualifies for the aid will nevertheless continue in September during the annual meetings of the IMF and the World Bank in Prague, Gerashchenko said.

Also in this edition: HARD LANDING FOR TRAVELERS. MILITARY MISRULE IN PAKISTAN.

HARD LANDING FOR TRAVELERS. Some employers are now looking at how to manage travelers' health in a more structured way, the Financial Times (p. 9) notes.
Surveys by company medical directors have attempted to pinpoint the worst symptoms and create solutions through policies and services. "We have created a generation of nomads," Bernard Liese, senior health advisor in the World Bank is quoted as saying. "We looked at the insurance claims of our staff on

80,000
business trips to Africa and Latin America and it was a sobering account of
psychological disorders. We didn't expect that."

In a survey by the Joint Bank Fund's health services department of more than
1,200 travelers, all of whom were guaranteed anonymity, 48 percent reported
family and personal problems 41 per cent work problems and 10 per cent health
worries.

MILITARY MISRULE IN PAKISTAN. Military spending absorbs more than a quarter of
Pakistan's yearly budget, diverting resources needed for education and
development, says a New York Times (p.20) editorial. US President Bill Clinton
recently made clear America's unhappiness with military rule. The IMF is also
unhappy with the slow pace of promised economic reforms. General Musharraf
should acknowledge that he is worsening Pakistan's problems and accelerate the
return to democratic rule, says the editorial.

Separately, Pakistan has asked the Jeddah-based Islamic Development Bank to help
with arranging a short- to medium-term loan of $150 million to $200 million to
help bolster its reserves, which at a net $650 million, are only enough to
finance about three weeks of imports, reports the FT (p.4).

BRIEFLY NOTED...The IFC is to invest $10 million in Kiwane Mezzanine corporate
debt securitization bonds, reports Dow Jones, noting that Kiwane Capital
Holdings Ltd. launched South Africa's first corporate debt securitization
instruments earlier this year.

Algerian Prime Minister Ahmed Benbitour has presented his government's
resignation and has been replaced by President Abdelaziz Bouteflika's chief of
staff Ali Benflis, AFP reports, noting that Benbitour is notably reported to
have clashed with the minister for industry and restructuring, Hamid

Temmar,
over privatizations which Benbitour is said to have wanted to halt while Temmar
wanted them speeded up.

The World Bank says that although economic growth in Thailand this year and next
will reduce the incidence of poverty, the number of poor is likely to remain
above 7.5 million, mostly concentrated in the country's north and northeast
regions, reports the Business Times (Singapore), noting that the plight of the
poor is attracting much attention because, according to the Bank, social
spending is not focused on the poor, but rather on the middle and high-income
groups.

The Bosnian Serb Parliament has increased its year 2000 budget by seven percent
in order to keep its government from going into deficit spending by year's end,
reports AFP, noting that the revision, adopted late on Friday, came one day
before a deadline set by the World Bank and the IMF for authorities in Bosnia's
Republika Srpska to solve the budget crisis, as a condition for extending
stand-by agreements.

Ernesto Hernandez-Cata of the IMF argues that the IMF is looking for additional
ways to reduce Zambia's debt burden, writes Lucy Matthew of Jubilee 2000 in a
letter to the editor of the Guardian (p.15), saying one way is to cancel
Zambia's debt, but this doesn't suit the IMF or the World Bank, for whom it
makes sense to reschedule rather than cancel debts to have continued access to
the meager budget of the Zambian government....Under a huge tent in Arta,
Somalia a town in neighboring Djibouti, legislators cast ballots in three rounds
of voting an early today chose veteran political Abdiqassim Salad Hassan as
president from among 16 candidates.

At the dawn of the third industrial revolution in the north, based on knowledge,
millions of people in the south are still waiting for the benefits of the
second-electricity, motor and air transport, the telephone,

comments the
Guardian (UK), noting that the latest wheeze among policymakers in developed
countries is to alleviate poverty in developing countries with computers and
mobile phones.

Emerging-market stocks just enjoyed one of their best years ever, but fund
managers are asking a question few pondered even during the depths of the recent
international financial crisis, the Wall Street Journal (p. A1) reports.

Indonesia President Abdurrahman Wahid issued a decree formally empowering Vice
President Megawati Sukarnoputri to manage the country's day-to-day affairs, a
move aimed at claming Indonesia's fractious political environment.

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Headlines for Thursday, August 31, 2000:

- WORLD ECONOMY REGISTERS HIGHEST GROWTH IN 10 YEARS: IMF.
- MADAGASCAR EDGING TOWARD HIPC DEBT RELIEF.
- SOUTH AFRICA IN TALKS WITH WORLD BANK FOR $200 MLN HOSPITAL LOAN.
- JAKARTA MINISTER QUESTIONS IMF'S BAILOUT.
- ZIMBABWE OPPOSITION SLAMS HIGH COST OF DR CONGO INTERVENTION.
- Also in this Edition: MOSCOW TRIES TO CALM LENDERS' CONCERNS OVER ENERGY CONTROLS. PHILIPPINE DEVELOPMENT HAMPERED BY SLOW LOAN DISBURSEMENT.

WORLD ECONOMY REGISTERS HIGHEST GROWTH IN 10 YEARS: IMF.

Despite the rise in oil prices and inflationary risks, the IMF has raised its forecast for world economic growth this year to 4.7 percent-the strongest growth in 10 years, reports Le Monde (France, p.2). Growth is expected in all the world's regions, says the Fund in its "World Economic Outlook", which will be officially presented at the annual meetings of the World Bank and the IMF in

Prague next month.

Global economic growth is driven by the US economy, acceleration of the recovery in Europe, the consolidation of the Asian economic rebound and the recovery of the emerging markets of Latin America, the Middle East and Europe, the report says. Economic activity in Africa should improve and the transition countries should post solid growth for the second consecutive year.

Nevertheless, notes the report, some countries will continue to face serious economic difficulties-in some cases because of natural disasters and adverse movements of commodity prices. At the same time, the AIDS epidemic poses a grave human and economic threat, notably in sub-Saharan Africa and Asia, the IMF warns.

The news comes as IMF Deputy Managing Director Eduardo Aninat writes in the Bangkok Post (p.B3) that the world economy is looking stronger than it has for several years, making the crises that swept the emerging markets in the late 1990s a fading memory. But it would be foolish to assume such a threat to global stability could not recur; we would ignore the lessons of 1997-1998 only at our peril. The prevention and resolution of financial crises remain major challenges, as is the fact that too many people worldwide remain trapped in poverty, especially in the low-income developing countries.

These challenges require the attention of policy makers who face many other demands on their time, Aninat writes. They cannot lose sight of these issues just because the global economic picture has brightened and the threat of instability seems to have receded. The annual meetings of the IMF and the World Bank in Prague next month will provide the opportunity to place these issues at the top of the international agenda.

Issues that will require serious discussion include regulatory codes to prevent financial instability, the need for the constructive involvement of creditors with debtor countries, in normal times as well as when financial market turmoil erupts, and the fate of the world's poorest countries and the question of debt relief for them. The international community, working partly through the IMF

and the World Bank, has given the plight of the poorest countries a new, higher
priority in two related ways: by accelerating, broadening and deepening the potential debt relief for the poorest countries, and by making poverty reduction
the central objective of its policy advice and financial assistance.

This debate is bound to be visible during the Prague annual meetings as many
concerned groups seek to express their views amid the glare of media attention,
notes Aninat. In considering these issues, informed debate and open dialogue are
crucial. Whether one's concern is preventing future financial crises or reducing
the scourge of poverty, there is nothing to be gained by confrontation. All parties concerned bring their best intentions to the debate. What is needed now
is for all sides to conduct a serious discussion-and that includes listening to
each other.

MADAGASCAR EDGING TOWARD HIPC DEBT RELIEF.
Impoverished Madagascar is edging toward large scale debt relief, but must complete preparatory work and make additional progress on economic reform, Reuters reports the IMF said yesterday. In its annual review of the Madagascar
economy, the IMF said it expected Madagascar growth of 4.8 percent this year,
little changed from last year's 4.7 percent.

"Directors stressed that continued progress in implementing the authorities'
medium-term program and preparing a [strategy to reduce poverty] should help
mobilize the needed international support...to alleviate Madagascar's heavy debt
burden," the Fund said. Madagascar is a potential candidate for the international community's Heavily Indebted Poor Countries (HIPC) debt relief
initiative, which rewards countries that have a strong track record on economic
reform with generous terms of debt relief.

SOUTH AFRICA IN TALKS WITH WORLD BANK FOR $200 MLN HOSPITAL LOAN.
The South African government has approached the World Bank for a $200

million
loan to revamp the country's public hospitals, Reuters reports the Bank said in
an official document released this week. The loan, which would be the second to
South Africa from the Bank, will be considered by its board in July 2001. "It
is anticipated that this will be the first of a series of future World Bank
involvement in the sector," the Bank is quoted as saying.

South Africa plans to upgrade and restore its strained public hospitals at an
estimated cost of $270 million, with the state providing $70 million of the
funds, the story notes. The southern African nation, with an estimated
population of 41 million, has one of the fastest growing rates of HIV infection
in the world, with about 19.9 percent of the adult population estimated to be
carrying the virus.

Although the government allocates 10 to 11 percent of its overall resources for
health, the World Bank reckons these revenues might not be enough to finance
additional recurrent costs from the project. "New sources of revenue may have
to be tapped to maintain capital," it said. South Africa's health spending
amounts to about 8.7 percent of GDP.

JAKARTA MINISTER QUESTIONS IMF'S BAILOUT.

Indonesia was to meet the IMF this week to discuss postponing a $400 million
tranche of the IMF package, notes the Financial Times (p.5), but Coordinating
Minister for Economic Affairs Rizal Ramli asked the Fund to postpone the meeting
at which the loan was to have been discussed, saying some conditions to the
agreement "may no longer apply".

Meanwhile, The IMF yesterday vowed once again to continue supporting Indonesia
despite signs that Rizal wants some changes to the country's IMF-sponsored
economic reform program, reports the Jakarta Post (p.1). "I'm here to convey a
message that the IMF is committed to strongly support Indonesia, there's no
doubt about it," IMF Asia Pacific Deputy Director Anoop Singh is quoted as
saying following a meeting with Rizal in Jakarta yesterday. Their meeting had
focused on ways to increase "the government ownership of the program," he

said,
adding that they would discuss the details today.

Meanwhile, IMF resident representative John Dodsworth played down the chances of
significant revisions to the last agreement, which was signed on July 31. "It's
a big document," he said. "It may be a minor thing." Foreign exchange dealers
also said the markets had expected Rizal to try to change some of the conditions, but that any adjustments were likely to be minor.

Since his appointment as the top economic minister, notes the Jakarta Post, Rizal has said that he would like some changes in the roles of the IMF and other
multilateral lending institutions in Indonesia. Rizal has yet to disclose what
exactly was on his mind, but he said recently the Fund should not be too involved in the development of economic sectors such the agriculture sector. The
IMF's core competence was in monetary stability, he said, while development of
the economic sectors should be played by the World Bank or the ADB.

Rizal has emerged as the man who is pushing the country's plan to reduce its
crippling international debt through an asset securitization program, notes the
Business Times (Singapore). The plan is part of his broader aim to reduce the
Fund's role in the country's economic recovery program. Sources close to the
chief economics minister said he wants to reduce the country's dependence on
international aid by formulating new policies to speed up the privatization of
state-owned enterprises and the asset disposal program under the Indonesian Bank
Restructuring Agency (IBRA).

The government is seriously exploring the idea of converting its huge sovereign
debt, estimated at $134 billion, into equity to pull the country out of its worst recession in more than three decades, notes the story. According to a
recent World Bank study, Indonesia's total foreign debt will have reached 91 per
cent of GDP by the end of the year.

ZIMBABWE OPPOSITION SLAMS HIGH COST OF DR CONGO INTERVENTION.

Zimbabwe's opposition on Thursday slammed the government after it revealed for the first time the massive cost of the country's intervention in the civil war in the Democratic Republic of Congo, AFP reports. Finance Minister Simba Makoni on Wednesday said that since Zimbabwe went in to shore up DRC President Laurent Kabila's forces against a rebel insurgency in 1998, at least $200 million US had been poured into the operation.

Last year former finance minister Herbert Murerwa reportedly told the International Monetary Fund that Zimbabwe's intervention cost only $3 million a month. The opposition reacted angrily to the revelation, which comes as Zimbabwe faces its worst-ever economic crisis, with a critical lack of foreign currency, and fuel queues a daily reality.

The IMF last year froze $193 million in aid because of concerns over Zimbabwe's economic policies and the costs of its involvement in the war in the DRC. Zimbabwe is currently facing its worst-ever economic crisis, with inflation, unemployment and interest rates all more than 50 percent. The economic situation is creating new social problems, and the suspension of foreign aid has put severe pressure on Zimbabwe's currency.

The country currently experiences an acute shortage of foreign exchange earnings, which has crippled Zimbabwean businesses, with some collapsing while others have been forced to lay off hundreds of workers. Petrol and electricity, which are both imported, have been in short supply. Last year the World Bank reported that for the first time since independence in 1980 Zimbabwe had failed to service its foreign loans on schedule.

Also in this Edition: MOSCOW TRIES TO CALM LENDERS' CONCERNS OVER ENERGY CONTROLS. PHILIPPINE DEVELOPMENT HAMPERED BY SLOW LOAN DISBURSEMENT.

MOSCOW TRIES TO CALM LENDERS' CONCERNS OVER ENERGY CONTROLS. Russian Deputy Prime Minister Viktor Khristenko attempted to justify Moscow's decision to reimpose energy sector controls in talks with IMF and World Bank officials in Moscow yesterday, Agence France-Presse reports. At a meeting with IMF

resident
representative Martin Gilman and World Bank country director Michael Carter, he
said the measures were only temporary and aimed at preventing energy shortages
during the coming winter, ITAR-TASS is cited as reporting.

The controls will force Russian oil companies to sell some of their products on
the home market even though they could make more money through exporting, the
story notes. The restrictions were originally lifted in June on IMF insistence
as part of structural reforms it demanded in return for loans. The IMF has
already said the reimposition could delay new agreements, Russian media reports
noted.

Carter said that on September 12 the World Bank would be considering loans to
Russia worth about $200 million for its coal and timber sectors. The Russian
budget for 2001 is counting on IMF loans worth $1.8 billion and $900 million
from the World Bank. The Fund suspended loans to Russia in September last year
because of the lack of progress in economic reforms.

The news comes as Reuters reports that the Bank plans to send a mission to
Moscow in the middle of October to review conditions for the release of a $50
million loan tranche for the coal sector, a Bank spokeswoman said yesterday.
Based on the results of the mission's work, the Bank will decide whether or not
to disburse the last $50 million of the so-called social tranche of the coal
loan.

The $800 million coal loan, agreed in 1997, is split into social and
privatization tranches, which are meant to cushion reform in the sector and
should go straight to the budget, the story says, noting that the Bank said
earlier that the final $100 million tranche for privatization would be paid by
the end of the year.

PHILIPPINE DEVELOPMENT HAMPERED BY SLOW LOAN DISBURSEMENT. It would be ironic
indeed if the ransom paid by Libyan leader Moamar Qaddafi for the freeing of
hostages held in the southern Philippines ends up doing more for the
impoverished region than successive governments, the World Bank and the ADB,

reports the Far Eastern Economic Review. The region, home to many of thepoorest Filipinos, is to receive millions of dollars from Libya to fund economic development in return for the release of hostages kidnapped by the Muslim rebel Abu Sayyaf group.

But the Philippine government doesn't need more financial assistance, says the story. It is sitting on $10.3 billion in multilateral and bilateral loans-mostly pledged by the World Bank, the ADB and the Japan Bank for International Development (JBID) for the health-care facilities, schools and roads so badly needed to spur economic growth and raise living standards throughout the country. Donors are keen to erode high poverty levels nationwide-almost 40 percent of Filipinos live on less than 70 cents a day-and also to ease tensions in the Muslim communities on the troubled southern island of Mindanao.

Unfortunately, raising the money has proved easier than spending it, the story says. Funds for projects in Mindanao alone amount to $1 billion, excluding its share in funds earmarked for national projects. But around $3 billion in funding for national projects that should have been spent is blocking the pipeline. In fact, only 62 percent of loans scheduled to be spent in 1999 was actually disbursed, down from 74 percent in 1997.

While corruption plays its part in delays, more frequently, plans are snarled up in bureaucratic red tape, bogged down in litigation or hampered by inexperienced government-appointed managers. The government estimates that a third of all projects drag on for an average two years longer than scheduled. World Bank country director Vinay Bhargava traces the problem to the "quality of project management and decision-making at senior officials' level."

The ADB, the World Bank and JBID say the slow utilization of funds is a "serious concern;" they have been urging the Philippine government to speed up the process. While the pace of disbursements has picked up in recent months, the issue has taken on a special urgency with the outbreak this year of the worst fighting between government troops and Muslim secessionists in Mindanao since the 1970s.

Since frustrated donors demanded action last December, the government has

formed a troubleshooting office to try to fix the problems, notes the story. The office staff can be called in to identify and solve problems when a project falls behind schedule. The office also plans to train a network of specialized project managers to build up a pool of experience. Meanwhile, Congress is also studying several government proposals to streamline the process.

THAILAND'S FUTURE DEPENDS ON GOVT ENDING CORRUPTION. Like no other country in the region, Thailand is pursuing a much-celebrated campaign of political reform aimed at weeding out the corruption and abuse of power that formed the core of Asia's spectacular economic meltdown of 1997, reports the Far Eastern Economic Review. When former Interior Minister Sanan Kachornprasart, one of the country's most powerful conservative politicians, was convicted of corruption this month. Champions of Thailand's new constitution hailed the ruling as the first significant step towards cleaning up the country's notoriously corrupt political system.

But the people of Thailand-and the foreigners who invest there--aren't convinced things are getting better, says the story. The majority of Thais surveyed in late August by the government-run Civil Service Commission said they believe corruption is getting worse, not better, particularly among politicians.

As the coalition government draws up the fiscal 2001 national budget-which it is doing before an empty parliament after the resignation en masse by the opposition in late June amid demands for early elections-some critics say the results are predictable. "The national budget is being allocated on patronage, not reform lines," asserts Sompop Manarungsan, an associate professor of economics at Chulalongkorn University in Bangkok. Suranand Vejjajiva, spokesman for the rival Thai Rak Thai Party, points to allocations to the military for 18 new F-16s, a new mobile-phone concession and various Bangkok road construction projects as clear signs of patronage politics at a time when the country should be dedicating its scant resources towards rejuvenating the economy.

If Thailand isn't able to allocate its budget more effectively, corruption could cause even greater damage to the economy than it already has, the story says. "Increased global competition means governments must allocate public resources in a way that increases a country's overall competitiveness," says Jayasankar Shivakumar, World Bank country director for Thailand "That's why winning the war against corruption is integral for Thailand's long-term future."

SOMALIS GET LEADER; NOW THEY NEED A NATION. Somalia finally has a government, notes the New York Times (p. A1), and its first president in nearly a decade arrived in Mogadishu yesterday escorted by at least 120 pickup trucks carrying more than 1,000 militiamen armed with rifles, rocket launchers, even double-barreled antiaircraft guns.

And just to be on the safe side, the president wore a bulletproof vest. Despite the fears, the closest the new president, Abdikassim Salad Hassan, came to harm was from Somalis a little too eager to show their affection -- overjoyed that their country might finally be leaving behind years of civil war.

But yesterday was only a tentative victory, and a reminder of the huge job ahead for the Somalis, whose last government crumbled in civil war when the long-time dictator, Muhammad Siad Barre, fell from power in 1991. Three of the main warlords in Mogadishu happened to be out of town, meeting with the president of Yemen, who was trying to persuade them to support Salad. But they remain a threat.

Even if the warlords end up on Salad's side, the streets he drove through yesterday served as one vivid indication of how scarred Somalia remains from its civil war and a later attempt by the United Nations to feed the hungry in the early 1990's. On one main road, twisted and rusty cars are piled up along the median. On another lies the skeleton of a United Nations armored vehicle. Trash is scattered everywhere, in a once-beautiful seaside city with no central electricity, water, police or schools. The outside world, exhausted with Somalia, has not been eager to help.

GLOBALIZATION NOT PAYING OFF FOR LATIN AMERICA: COMMENT. Development policy in Latin America and the Caribbean has been based on a theory that continues to be followed by most of the international development agencies and serves as a rationalization for globalism-itself a doctrine of deregulation, not of development, writes William Pfaff of the International Herald Tribune (p.8) and the Los Angeles Times. The theory holds that reform requires backward economies to shift from production for domestic consumption to production for export. Trade and tariff liberalization is necessary, plus a "competitive" exchange rate.

Following this theory, Latin American and Caribbean economies were, in short, to be globalized. That term itself awaited the 1990s, when deregulation and global finance and investment became the policy of the Clinton administration and the IMF, the OECD and other international agencies.

But the results of Latin American development have now been given empirical, if preliminary, examination by the UN Economic Commission for Latin America and the Caribbean (ECLAC) in a joint venture with research centers in Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Jamaica, Mexico and Peru.

ECLAC Director Barbara Stallings reports that reform appears, in the aggregate, to have had little effect at all. There is evidence of a small positive impact, overall, on growth and investment, and of a small negative impact on employment creation. Growth is seen as having been "disappointingly slow, slower than in other world regions."

Liberalization brought short-term capital into internationally favored sectors of national economies, raising currency values and making imports cheaper but exports harder to sell, and thus increasing the trade deficit. Being eminently reversible, this new investment could go as rapidly as it came, depending on domestic developments or international financial trends, with disruptive effect at best and, in some cases, producing grave and lasting crises. The reforms also failed to deliver the expected new employment.

The study concludes that the Latin American and Caribbean economies are

more
vulnerable today, because of globalization and trade and financial
liberalization, than they were in the past.

ALSO REPORTS . . . Yomiuri (Japan), Daily Yomiuri (Japan) and Earth Times
(US)
also report on the Critical Ecosystem Partnership Fund, set up by the World
Bank, Conservation International, and the Global Environment Facility. The
fund
will focus its efforts on 25 ecological "hot spots" around the world that
make
up only 1.4 percent of the earth's land surface but contain 60 percent of
the
earth's plant and animal species. El Universal (Venezuela) carries an
op-ed by
World Bank President James Wolfensohn, CI CEO Peter Seligmann and GEF Chief
Mohamed El-Ashry on the GEPF, saying the Fund is a new source of money
exclusively for civil society groups working to protect biodiversity in
hotspots.

BRIEFLY NOTED...The Washington Times (p.A13) reports that hundreds of
religious
leaders yesterday vowed to work together with the United Nations to defuse
conflict, protect the environment and eradicate poverty. In their
Commitment to
Global Peace, the religious leaders also promised to protect the
environment,
work to abolish nuclear weapons, and "combat those commercial practices and
applications of technology that degrade the environment and the quality of
human
life." Among the conferees' commitments: To promote the equitable
distribution
of wealth within nations and among nations, eradicating poverty and
reversing
the current trend toward a widening gap between rich and poor.

Commenting on the UN's "Global Compact" with multinationals and trade
unions,
George Monbiot writes in the Guardian (p.8) that the UN appears to be
turning
itself into an enforcement agency for the global economy, helping Western
companies to penetrate new markets while avoiding the regulations which
would be
the only effective means of holding them to account.

The WHO yesterday announced that a yellow fever epidemic is hitting
Liberia,
reports Le Monde (France, p.5). . . The World Bank expects to release
$128.6
million to Tanzania for the urgent road rehabilitation support program, the
Guardian (Tanzania) reports the permanent secretary of the Ministry of
Works,

Solomon Odunga, has said in Dar es Salaam. The funds will be issued by the International Development Association (IDA) and the government will also contribute counterpart funds for the project, he said.

Ivory Coast's ruling junta postponed its presidential elections yesterday, saying the move was necessary to prepare for a "credible and transparent" vote to return the nation to civilian rule, the Washington Post reports (p. A32). The month-long postponement comes amid rising ethnic tensions and political uncertainty in the country, which was, until last year, an island of stability in the volatile West African region.

The Mexican peso strengthened sharply on expectations the country will pay off its debt with the International Monetary Fund of about $3.2 billion this week, the Wall Street Journal (p.A12) reports. Mexico's finance minister said in July that President Ernesto Zedillo's government planned to liquidate the IMF debt before leaving office Dec. 1. . .An international tribunal that worked behind closed doors to arbitrate a cross-border dispute between a US company and the Mexican government ordered Mexico to pay nearly $17 million in compensatory damages yesterday for failing to protect the company's rights as a foreign investor, reports the New York Times, noting that under NAFTA's Chapter 11 investor provisions, disputes of this type that cannot be settled through negotiation may be brought before the tribunal, the World Bank's ICSID.

Structural reforms will be on the agenda of talks between a visiting World Bank mission and Romanian authorities in preparation for a second Private Sector Adjustment Loan (PSAL2), Reuters reports the Bank said...Poland's monetary authority raised interest rates to their highest level in two years yesterday in an expression of concern about rising prices, reports the FT (p.2)...Turkey's 81 banks will find themselves facing a brave new world tomorrow with the opening of the country's first quasi-independent banking supervisory body, reports the FT (p.2).

The Washington Post (p.A24) notes that the battle over sharia [Islamic law] has rocked the 15-month-old civilian government of Nigerian President Olusegun Obasanjo as it tries to address the economic collapse and communal tensions left after 15 years of military rule. The north's adoption of sharia has heightened demands from heavily Christian southern Nigeria for more autonomy-notably

in the
spending of revenues from the production of oil, which is centered in the
south.

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KWR International Advisor #6 September/October 2000

Dear Friends & Colleagues,

Please find enclosed the sixth edition of the KWR International Advisor. In this issue we examine current economic trends, the potential impact of inflation and upcoming elections in the U.S. and Canada. We also analyze the decline of the Euro and telecom market trends with a special article on Hong Kong. In addition, we include emerging market briefs covering developments in Brazil, Israel and Peru and two book reviews concerning Venezuela and Japan.

We thank you for all of your kind comments and feedback on our previous editions and urge you to continue to let us know your thoughts and the type of coverage that you would like to read about. Please keep in mind that we would be pleased to consider the inclusion of any relevant material you might be aware of in future editions. Please forward any comments, submissions, reproduction and circulation requests to KWRADVISOR@kwrintl.com.

Additionally, if you do not wish to receive this newsletter or would like us to add someone else to our mailing list, please do not hesitate to let us know.

Thank you for your interest and cooperation.

Keith W. Rabin
President, KWR International, Inc.

THE KWR INTERNATIONAL ADVISOR

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Editor: Dr. Scott B. MacDonald, Sr. Consultant

Deputy Editor: Dr. Jonathan Lemco, Director and Senior Consultant

Publisher: Keith W. Rabin, President

Contributing Writers to this Edition: Scott B. MacDonald, Jonathan Lemco, and Keith W. Rabin of KWR International

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I. Looking Back to the Future: Two Years Ago and Now

By Scott B. MacDonald and Keith W. Rabin

Two years ago world policy makers gathered in Washington, D.C. for an annual IMF/World Bank meeting characterized by gloom and doom. There was considerable talk of the global economy sitting on the edge of a major recession, possibly a depression of the kind that hit in 1929. By last year ?s meeting it appeared the global economy had made a dramatic recovery. Asia, the lynchpin for the financial meltdown that began in 1997, regained comfortable levels of growth, despite the lagging nature of Indonesia and the Philippines. Latin America and Russia, both hit hard by contagion, had also begun to stage comebacks.

As government delegates, investment bankers and others meet in Prague for this years meeting, there are signs that the environment has changed yet again, contributing to uncertainty as to the path before us. Last years

"goldilocks" environment helped to contribute to an indiscriminate surge in internet- and technology-related equities - until the bubble broke this spring, giving way to a far more discriminating financing environment. Rising oil and commodity prices and a tight labor market have also raised inflation fears (see next article), further constraining the ability of corporations to maintain the earnings growth they have exhibited over recent years. Intel ?s September 21st announcement that revenues are expected to be below estimates has caused additional anxiety, leading many to question whether the U.S. economy has peaked and we are now on the downside part of the cycle.

The world was also taken by surprise over the tension and discord exhibited by demonstrators at last year ?s WTO ministerial in Seattle as well as the mid-year April IMF/World Bank meetings in Washington. In addition, the U.S. presidential election - no matter who wins ? also promises to mark the passing of an era. This leaves analysts, investors, corporate executives and government policymakers with ample reasons to question whether the current environment can be maintained into the future.

Nevertheless, the IMF ?s semiannual review remains relatively upbeat, upgrading the Fund ?s earlier May 2000 assessment of global growth from 4.2% for this year and 3.9% for 2001 to 4.7% for 2000 and 4.2% for next year. While U.S. growth is expected to slow, Europe is forecast to remain around 3.4%, and Japan to reach 1.4%, with other regions expected to make up the difference. GDP in Asia is expected to expand around 6% in 2000 and 6.5% in 2001. Latin America and the Caribbean are expected to grow at 4.25% and 4.5% respectively.

At the same time, the IMF cautions there are four possible dangers to continued global economic expansion - the troubled performance of the euro, oil prices, the continuing problem of overvalued asset prices in the United States and the "timid and fragile nature" of the nascent recovery in Japan.

As for the U.S. economy and the stock market, the IMF urges the Federal Reserve to raise interest rates higher (above 7%), to dampen domestic demand, reduce the risk of inflationary pressure and temper the seemingly insatiable U.S. appetite for imports. A higher interest rate environment would also further let the steam out of U.S. equity markets.

While we concur that economic growth will be maintained, we are not as rosy as the IMF. We agree about the four possible dangers, but would add the over-leveraging of the U.S. business sector as a point of concern. As stated in earlier reports, the U.S. corporate world has incurred considerable debt during its recent mergers and acquisitions spree. In the current business cycle we have peaked and are now moving into the downward phase. Morgan Stanley Dean Witter equity analysts in mid-September lowered their earnings forecast for almost every sector, including a number of new economy companies. In this environment we do not see a pressing need for higher interest rates, especially as it would hurt a number of companies that will soon be scrambling to balance falling earnings and revenues with interest and principal payments. As to oil prices and other concerns, turn to the next article.

II. Oil Prices, Inflation and Interest Rates: What Next for the Global Economy?
By Scott B. MacDonald

While considerable attention was given in the first half of 2000 about higher interest rates and the pace of U.S. economic growth, concerns about oil prices were not a primary concern. With oil prices rising heading toward $40 a barrel, energy costs have become a major issue. In Europe, higher oil prices have resulted in widespread demonstrations against high government taxes on energy costs. In the U.S., the media is beating the drum that local energy costs will skyrocket during the winter months. It has even showed up in the presidential campaign, with Democratic contender Al Gore calling upon President Clinton to use the U.S. Strategic Petroleum Preserve to reduce prices. Republican candidate George Bush, Jr. denounced the plan, saying that the reserve was for emergencies and "should not be used as an attempt to drive down oil prices right before an election." Nevertheless, President Clinton announced that some oil would be released from the strategic reserves to increase supplies this winter.

There are three key reasons for the upswing in oil prices: a rebound in demand in non-Japan Asia fueled by much stronger economic growth; a reduction in high-cost capacity (mainly in the North Sea fields and North America); and an OPEC squeeze (pushed along by Venezuela ?s more aggressive pricing policy). OPEC members supply more than 40% of the world ?s oil and they posses about 78% of crude oil reserves.

For some of the doomsters, higher oil prices indicate that a new price shock is coming and that the old days of standing in line for gas for the automobile are around the corner. It is also feared that higher oil prices will cause the Federal Reserve to raise interest rates in an effort to stave off energy-related inflationary pressures. This, in turn, will lead to even slower growth, quite possibly a sharp recession. Of course, a U.S. recession will have negative implications for Asia, Latin America, Canada and Europe.

Is the above-mentioned scenario a possibility? KWR International believes that while higher energy prices are indeed adding inflationary pressures on the U.S. economy, they are not likely to result in another cycle of Federal Reserve interest rate increases (though we do not rule out the possibility of one more hike before the end of the year or early 2001). Additionally, we do not see a major recession for the rest of 2000 and 2001. Real GDP growth for 2000 will be 5.0% and we are forecasting 2.8-3.2% for next year. As noted in earlier editions of the KWR International Advisor we expect the U.S. economy to have a soft landing and recent economic data reflects this development. Moreover, the U.S. is relatively well-positioned to weather a hike in oil prices - as long those increases are temporary.

Our expectation is that oil prices will spike over the next 6 months, but will decline later in 2001. For 2000, we expect an average price of $26-28 a barrel and for 2001 an average of $26-27 a barrel (barring any incidents). Prices will remain above $30 a barrel over the next several

months, probably going over $40 a barrel due to low levels of refinery inventories and an inability of production to make up the difference between supply and demand. Some analysts have even called for $50 a barrel, something that we do not expect, but can no longer be entirely discounted. Two additional factors will prevent a short-term fall in oil prices: global refining capacity is running at over 90% capacity, a situation that will not change as quickly as production and oil transport costs will remain relatively high. Both the refining and transport sectors were hit hard by the last oil prices deflation in 1998 and dissuaded re-investment in new ships and refineries.

However, production is slowly ramping up within OPEC, in particular with Saudi Arabia (the only country with spare capacity of any meaning). Equally important, non-OPEC producers, such as Mexico, Canada, the UK and Russia, are now likely to find incentives to expand exploration and recovery operations. These increases will not be rapid, but incremental, and will not be felt in a meaningful fashion until late in 2001 and 2002. This means high oil prices through 2001.

One would leave one caveat for our oil prices projections. Oil prices will remain exceedingly vulnerable to any "incidents" around oil-producing countries. Any threat to peace in the Middle East (such as angry rumblings from Iraq), political instability in Indonesia or Venezuela, natural disasters such as hurricanes and earthquakes are likely to make oil prices go up. Watch the upcoming OPEC summit in Caracas in which the workers union for state-owned oil company PDVSA are threatening to go on strike.

Who benefits: Those countries set to benefit from higher prices are obviously major oil producers, including the 11 members of OPEC (including Saudi Arabia, Iran, Iraq, Kuwait, Qatar, the United Arab Emirates, Algeria,

Libya, Indonesia, Nigeria, and Venezuela., Russia, Mexico, Norway, Trinidad and Tobago, Colombia, Kazakhstan, Gabon and Cameron). Natural gas exporters Morocco, Tunisia and Egypt will also benefit. In terms of sovereign bonds, those from Qatar, Trinidad and Tobago, Russia and Mexico should benefit the most. This situation is also likely to help Algeria make its debut into the international debt market.

On a sectoral basis, oil and natural gas companies and refineries will benefit from the higher oil prices. It is also expected that drillers and services companies will also benefit from increased petroleum prices and demand for more non-OPEC oil. Pipeline companies also fall into this bracket. Most energy companies are forecasting strong earnings, improving credit quality, and higher capital programs that will eventually translate into increased production and reserves. We also expect the industry to announce strong earnings at the end of the third quarter and provide upbeat assessments for 2001.

Relatively neutral: Those countries where higher oil prices are relatively neutral in their impact include the United States, the UK, Canada, Australia, Israel, Malaysia, Chile, and Argentina. These countries have their own sources of energy (oil, gas, hydro and nuclear power), which either partially or totally meet their domestic energy needs.

Moreover, the more developed of this group have over the years introduced considerable energy-saving technology. Consequently, higher oil prices through the end of 2000 hurt in the United States, Australia, Chile and Argentina, but will not result in any prolonged major economic dislocation.

The United States remains the largest single user of oil on the planet, but the strategic importance of that commodity has declined as the economy has shifted from an industrial to a technological foundation -- a trend that is expected to continue and intensify in the foreseeable future. It takes much less energy to design computer hardware and software than to manufacture automobiles and military equipment. The American economy now depends much less on manufacturing and heavy industry and more on services. In 1999, only 22.9% of the U.S. GDP was accounted for by industry while 75.4% could be attributed to services. Consequently, oil consumption accounts for an increasingly smaller percentage of GDP. According to data from the U.S. Energy Information Administration, in 1976 it took more than 1,400 barrels of oil to produce $1 million worth of goods and services; today it takes only about 800 barrels.

Who loses: Higher oil prices are a point of concern for Japan, most of non-Japan Asia (excluding Indonesia and Malaysia), continental Europe (including Central and Eastern European countries and Turkey), and Brazil. Each of these countries or group of countries is highly dependent on oil imports to fuel national growth.

In continental Europe the perception that oil price rises put European growth at risk has already been mirrored in a plunge in the value of theEuro vis-?-vis the U.S. $. The Euro closed in trading on September 11th
in London at 86 cents, its lowest ever, last week prompting a multilateral currency intervention to maintain its value. Nevertheless, in the short term, the expectation is that it could drop further, possibly as far as 80 cents. This situation has not been helped by a lack of leadership in Europe for the Euro, which has appeared to languish without the support of the European Central Bank or the key governments in Germany and France. This comes at a delicate time for the Euro -- on September 28th Denmark goes to the polls to vote on whether or not to adopt the Euro or to keep the Kroner. Opinion polls in Denmark are running almost at a tie. A no-vote would probably result in further downward pressure on the Euro.

One scenario is that sustained higher oil prices will cause a rise in interest rates (as major European economies seek to contain oil-induced inflationary pressures), which will result in slower growth. As growth cools in France, Germany and Italy, the ripple effect will be lower demand for manufactured and other goods from Central and Eastern European countries, such as Poland, Hungary and Turkey. Consequently, it would make sense to steer clear of bonds from Central and Eastern European countries.

Non-Japan Asia consumes a lot of energy as it relies on manufacturing exports for growth and has to consume more oil for each unit of economic output. For a region still not fully recovered from the 1997-98 financial crisis, higher oil prices threaten a number of gains as the region ?s trade surplus will be reduced significantly. Equally important and related to

smaller trade surpluses, higher oil costs will reduce liquidity for corporate deleveraging. If higher oil prices exist for an extended time, companies in Thailand, Korea, and the Philippines will face even greater liquidity problems. China ?s corporate restructuring efforts could also be impacted by this development. Higher oil prices are also bad news for Japan, which imports a little more than half of its energy, with more than half of its supply coming from the Middle East. In the short term, this is not a problem from the standpoint that oil and natural gas are bought on a long-term basis. The longer higher oil prices persist, however, the more this will become a problem for Japan.

III. U.S. Election Update - The Horses Are Heading To The Final Turn
By Jonathan Lemco and Keith W. Rabin

With six weeks remaining in the U.S. Presidential election season, polls reveal that Vice President Al Gore has developed a lead of about five percentage points over his Republican challenger, Governor George W. Bush of Texas. It is too early to call a victor, but Bush is clearly concerned about the situation and has shifted tactics. He is less likely now to malign Gore ?s character and the Vice Presidents ? ties to President Clinton.

Instead, Bush appears to have decided to devote more attention to challenging Gore on the public policy issues that the Texas Governor believes are of the greatest concern to most voting Americans. Until mid-August, the Bush camp seemed content to attack Gore for inadequately supporting moral values. The most obvious example of this lapse was the Vice President ?s refusal to condemn President Clinton ?s scandalous affair with Monica Lewinsky. Notwithstanding the truth to the Republican accusation, it has been made irrelevant in the public mind by at least two events.

First, Gore selected Senator Joseph Lieberman of Connecticut, an Orthodox Jew, to be his Vice Presidential running mate. To the surprise of many observers, this choice has proven to be immensely popular with many voters.

It may signal a sea change in the U.S. voters ? attitude to the role of national minorities in the most senior levels of American public life. First, Lieberman emphasizes that his religion is his guidepost to ethical behavior in both his private and in his public life. Many Americans admire this attitude, particularly after the sordid and exhausting Lewinsky scandal. The fact that Lieberman is Jewish is irrelevant to many voters. Instead, the important point is that he lives his life according to certain ethical and religious standards and would symbolize these values in the second most prominent public office in the land. In making this strategic vice presidential choice, Al Gore ?s judgment has been applauded by the elite press as well as many voters.

Second, the apparently accidental but passionate "kiss" between Al Gore and his wife Tipper has demonstrated to many voters that the Vice President loves and is devoted to his wife of many years. Here again, much of the public draws a contrast to the Clintons and, might be recalling the successful presidency of Ronald Reagan, who was publicly affectionate towards his wife Nancy.

Of course, ethical issues are not the only reason for Gore ?s apparent electoral success thus far. Equally, if not more important, is the fact that there is prosperity in the land. Jobs are plentiful, inflation is negligible, and many Americans are confident that times are good. That said, it is also true that many Americans are not enjoying the fruits of this prosperity. Undoubtedly, the rich are getting richer, but the middle and working classes still struggle to get by. For many of these voters, it is not clear that either major candidate has the desired public policy strategies. We worry a bit about this problem, because the voters ? expectations for a significantly improved economic situation are high. Americans keep hearing that the economy is robust and that 25-year-old dot-com millionaires are emerging every day. The mass media loves this story. But the reality is that most U.S. voters are not significantly better off in the year 2000 than they were five years ago, although their expectations have changed. They want more, and neither the government nor the private sector appears to be addressing their concerns adequately.

To some extent, the Vice-President is trying to address this issue. When Al Gore calls for continued fiscal prudence, but also promises to devote attention to solving such formerly intractable problems as bad public schools, inadequate health care coverage for poor Americans, and other social concerns, he strikes a responsive chord with many voters. They may not be confident that he can solve these problems, but they believe that he will try. Ironically, Governor Bush is now focusing on the "issues" too now, rather than questions of character. The latter was not working as a strategy. So Bush has a health care plan, an education plan, etc. Ironically, a close examination of the policy positions of the two contenders reveal that they are really not that different. Both seek to reduce debt, cut taxes, improve social welfare measures, strengthen the military, promote more wide-ranging free trade agreements, and so on. Their strategies might be somewhat different, but their goals are remarkably similar.

In fact, it is because the issue positions of Bush and Gore are so alike, that a significant proportion of the electorate feels that neither candidate represents their best interests. This may explain the strength of the Ralph Nader campaign thus far. There is clearly a void that neither candidate has filled. Nor are other traditional institutions filling the void. In the past, the clout of the labor movement was such that senior politicians had to take heed. This is less true today as private sector membership in big labor continues to decline. By contrast, some non-governmental organizations are more active than ever-witness the successful disruption of the Seattle WTO meetings earlier this year.

Reinforcing this lack of "connectedness", American society has become among the most mobile in the industrialized world, as Americans criss-cross the country in search of better employment opportunities. The tradeoff to this is that Americans are less connected to their families and to their communities. This thesis is discussed in the influential book "Bowling Alone" by Harvard professor Robert Putnam.

Given this evolution in American society, perhaps there may be new demands for a populist ethic in America. Many voters are fearful of globalization and resent what they see as "big government" that is unresponsive to their

interests. In recent years, states and even municipalities have taken law-making responsibilities that could not have been imagined even a decade ago. Certain powers are devolving to the states, as they should in a federation. Vice President Gore is clearly aware of this shift. During the Democratic Party convention, he railed against big tobacco, big oil, big drug companies and big health care insurers. In short, he criticized all of those faceless, unresponsive and powerful interests that seem to be getting richer while the average American has to run harder just to keep up.

As we noted, the U.S. presidential election is by no means settled. But the underlying popular demand for a more responsive national government and for less economic inequality in this time of prosperity will remain salient long after the November contest has been settled.

IV. The Amazing Shrinking Euro

By Scott B. MacDonald

The Euro is under considerable downward pressure, a trend that we expect to continue through year-end 2000. On September 18th, the euro set a record low against the dollar, falling to 85.49 cents. The single European currency as of September 18, 2000 had fallen 26.8% against the dollar and 31% against the yen since its debut in January last year. Even with a joint intervention by the U.S. and Japan, in coordination with the European Central Bank, is not enough to turn the situation around in the long term. We would not be surprised to see it fall even further for the following reasons:

1. Higher oil prices: There is a strong perception that higher oil prices will result in greater inflationary pressure, which in turn will force the European Central Bank to raise interest rates. This threatens to stall economic growth and possibly push Europe into a recession. Part of the problem is that continental Europe lags behind in the adoption of IT economics (which are less vulnerable to energy cost swings) and is highly dependent on imported energy (oil and gas).

2. The September 28th Referendum on the Euro in Denmark: On September 28, 2000, Danish voters go to the polls to vote on whether to adopt the euro as their currency or to stay with the kroner. Danish opinion polls indicate a close outcome in the referendum. Although recent polls lend some optimism to the pro-EMU camp as support has climbed to just over 50%, success is by no means guaranteed. In fact, a little under half of the population is opposed. Considering the beating the Euro has taken recently, many Danes do not have high hopes for the euro nor do they find it an attractive substitute for the kroner.

If there is a no-vote, the Euro will probably take another beating vs the U.S.$. A no-vote may also reduce support for EMU in Sweden and the UK. Moreover, it is likely to further increase suspicions about the longer-term success of the single European currency project. It will certainly raise concerns in the next groups of countries seeking entry into the EU, such as the Czech Republic, Hungary, Poland, Slovenia and Estonia.

A Danish no-vote also could increase the perception that EU accession will prove to be considerably more complicated and protracted than initially thought. EU enlargement can only take place if (1) the EU member states agree on institutional reform (planned by December 2000), (2) ratify these reforms in their parliaments or approve by referendums (planned during 2001/2002), and (3) ratify the enlargement treaty (planned during 2002/2003). By not agreeing to surrender their currency sovereignty, the Danes will also be signaling that they will object to EU institutional reforms in a referendum, even if their leaders agree to these reforms at the Nice summit in December 2000. A rejection of EU institutional reforms or in parliament in any member state would seriously complicate EU enlargement, if not throw the process off-track for many years to come (i.e. beyond the 2004/2007 time period in which most accession hopefuls are believed to join the EU).

3. Capital Flows: The euro ?s strength is also undermined by capital flows. Record-long economic growth and higher interest rates in the United States continue to draw investment flows from Europe to the United States. The financial sector alone has been exceedingly active, with Union Bank Switzerland buying Paine Webber, Credit Suisse buying Donaldson, Lufkin & Jenrette and Dresden Bank buying Wasserstein Perella. Purchases of U.S. stocks and bonds by investors from outside the country plus their direct investment in businesses and real estate rose by $222.7 billion in the April-to-June quarter following a $236.5 billion jump in the first quarter. Simply stated, investors continue to favor U.S. assets, especially those coming from the euro-zone. The bottom line is that the U.S. currency inspires much more investor confidence than any other currency in the world.

To these causes we would also add the incredibly bad public relations skills of the European Central Bank and the various European heads of state who have commented on the euro. Currency policy in the Euro-zone comes off as confused and lacking coordination. With mixed signals being sent, confidence is not gained.

Considering the economic and political landscape ahead, the euro is heading for troubled waters. This represents a difficult challenge to European policy-makers. While inflation throughout the euro-zone is low and fiscal balances are well under control, economic growth is only beginning to show a strengthening. Unemployment is also beginning to show a sustainable downward trend, though remaining high compared to the United States. If higher oil prices extend into 2001, hard choices will have to be made over taming inflation and stalling stronger growth, with the related consequences for employment.

What would make the euro stronger? Two things could help turn the situation around: (1) a more coherent policy based on better coordination between the European Central Bank and national governments and (2) more structural reforms that accelerate the transition from the old to new economy. Both measures require strong political will, development of national consensus on the appropriateness of such measures, and a sense of urgency. Although the euro continues to sink, the remedies remain politically difficult. None of this bodes well for the euro.

V. Thunder in the North - Canada ?s Looming Election and Implications for the Economy

By Scott B. MacDonald and Jonathan Lemco

Canada ?s next elections are not scheduled until March 2002, although they could be held as soon as this coming spring. Both the governing Liberals and their new opposition, the Canadian Alliance party, are alreadycrossing swords. Opinion polls give the Liberals around 46% of a potential vote, but the Alliance is now at 20%. Led by the telegenic Stockwell Day, many analysts believe the Alliance has momentum. Although the Liberals are slipping a little in the polls, the scrappy Jean Chretien,

already a two term Liberal prime minister, is prepared to stand a third time for that post. We think that, barring an exceptional event, the Liberals will be reelected with a majority government. They are likely to retain a substantial majority in Ontario, the most populous province with one-third of Canada ?s population. Furthermore, they will capture a large number of seats in Quebec and Atlantic Canada. Only the western part of the country, with about one third of the voting population, is likely to support the Alliance party in substantial number.

Prime Minister Chretien has referred to his main rival, Stockwell Day, as little more than a "head waiter" with a menu of policies that will weaken Canada. In particular, Chretien has gone after Day ?s proposal to decentralize government by giving provincial authorities more power. This, of course, raises the issue of Quebec ?s position in Canada. Consequently, it certainly looks and feels like an election campaign. Ironically, Chretiens ? major challenge might come not from the political opposition, but from his immensely popular Finance Minister Paul Martin. Martin has presided at a time of prosperity and fiscal prudence. For the first time in memory, Canada ?s fiscal budget is in balance, as are eight of the ten provincial budgets. Indeed, the federal fiscal balance ended March 31, 2000 was a surplus of C$12.3 billion, most of which is expected to be allocated to debt reduction.

It is no secret that relations between the two political figures are frosty at best and that Martin would love to be Prime Minister. Polls reveal, in fact, that a Paul Martin-led Liberal Party would fare better in a general election than would a Jean Chretien-led party. That said, Martin has promised not to challenge the PM for the foreseeable future, and will instead continue as a Finance Minister through the next election-whenever that might be.

Opposition Leader Day and the Alliance have been active in the French-speaking province of Quebec in an effort to develop an electoral balance. Day is keenly aware that for the Alliance to become a national player it must break through being labeled as a "western party", with support only west of Ontario. The new party has made some headway in Ontario, but not enough. In Quebec, he will be lucky to win even one seat, as the sovereignist Bloc Quebecois and the Liberals dominate. The social democratic New Democratic Party will win a few seats nationwide and the Bloc Quebecois will do well in Quebec, but only there. At the moment, it appears that the Progressive Conservative (PC) Party, which was one of

Canada ?s founding parties and which can claim credit for helping to build the country, may be in its death throes. Many of its elected representatives are defecting to other parties. The electoral coffers are virtually empty. Leader Joe Clark is not inspiring confidence. The PCs are a mess.

While Canada ?s political parties are actively moving about in a pre-election samba, the economy continues to grow at a robust pace. Backed by a surge in business investment, real GDP growth on an annual basis was 4.7%, slightly behind the 5.1% real GDP advances of the last two quarters. Spending on machinery and equipment, mainly computers and related high-tech components, expanded by 19.5% annually. Inflation remains benign. Exports have grown at a healthy 8.5% yearly rate, led by high-tech sales, and imports were 10.2% higher. The Canadian dollar is weak relative to its U.S. counterpart, and this has made Canadian exports particularly attractive in the U.S.. American tourists are flocking to Canada at a time when their dollar buys $1.40 worth of Canadian goods and services. Furthermore, despite the cool wet summer, consumer spending in Canada was stronger than expected, rising at a 3.6% annual rate.

The nation ?s unemployment levels are testing new lows, as the robust economy has attracted tens of thousands of Canadians who previously had despaired of ever securing permanent employment. In fact, virtually all of the economic indicators for Canada at present are positive. History teaches us that most voters tend to vote with their pocketbook. If so, we think that the Liberals are in an excellent position to be reelected in a coming election, whenever it is held.

VI. Telecom Market Trends:

By Scott B. MacDonald

The global telecom market has been incredibly active in the first half of 2000. There have been mega-billion acquisitions, 3rd generation wireless auction licenses, and new bond and equity issues. In the bond market, supply in the telecom sector has been one of the most significant credit drivers in 2000. Through September 5th, $27 billion of investment grade telecom debt has been issued in the U.S. market. This compares with $16.9 billion originated during all of 1999 and $29.8 billion in 1998. Expectations were high that the second half of 2000 would see another $30-40 billion of new paper issued. Although those expectations are now lower (probably in the $20-25 billion range), telecoms could have a record year of new issuance in the U.S. and European bond markets.

Telecoms will also be active in equity markets for the rest of the year. As major companies, such as Telecom Italia, the Dutch telecom company KPN, and others consolidate their recent acquisitions and 3rd generation wireless licenses, they must turn to equity markets to raise capital. European telecoms, in particular, will be rushing to markets to spin off subsidiaries or complete secondary offerings, hoping to reduce their mounting debts and stave off any further ratings downgrades. Recently, KPN, British Telecom, Deutsche Telekom and France Telecom have all been hit by Moody ?s and Standard & Poor's dropping ratings from AA status to

single A levels. The rating agencies have left negative outlooks in a number of cases, indicating that unless debt ratios are reduced, ratings could drop again. Lower ratings means greater costs when accessing capital markets, something that most telecoms wish to avoid.

How much new equity paper is heading in the direction of investors? According to Schroder Salomon Smith Barney, there will be an additional $102 billion total equity issuance expected from European companies over the rest of the year, with $57 billion expected from the telecoms. Pending issues include KPN, Telenor, Telekom Austria, Eircom, Telecom Egypt, Cosmote (mobile phone operator), Telecom Iceland, and Telefonica Moviles (owned by Telefonica Europa).

With the massive amount of new bonds and stocks from the telecom sector coming, investors will have the option of to pick and choose. In the equity sector pricing should be generous as each new deal provides ever-greater levels of supply. Telecom equity prices are currently not good. We expect continued volatility in prices, probably with a downward trend due to the massive amount of new IPOs and forecasts of lower revenues.

In the bond market, conditions are otherwise. While pricing will be done to make certain that a deal is successful, paper could be relatively shorter in supply then earlier anticipated. In August when many of the major telecom bond deals were announced, many portfolio managers made room for new issues, then expected in the range of $30-40 billion. As it now looks that the number was inflated, investors are a little more pressed to buy what new deals are done, putting pressure on demand.

Other trends in the telecom sector include consolidation, the creation and implementation of new technology and growing competition over the world ?s most rapidly growing telecom and Internet market, Asia. The following piece reflects two of these issues, consolidation and competition in Asian telecom markets.

VII. World ?s Toughest Telecom Market -- Living and Dying In Hong Kong
By Scott B. MacDonald

With all the focus on Europe ?s third generation wireless auctions, sales of non-core assets and strategic reorganizations of major firms such as France Telecom, Telecom Italia and Vodafone, Asia has been largely forgotten.
However, lost in the shuffle of bidding for access to millions of wireless customers in Germany in August, Hong Kong ?s international conglomerate Hutchison Whampoa quietly withdrew from the fray. One of the key reasons for Hutchison ?s withdrawal was that it had come to regard the market as too overcrowded -- too many big companies pursuing a limited number of potential customers. This reaction was on the Hong Kong company ?s own experience in its small home market of 7 million people. Hong Kong has three major operators and a number of smaller companies angling for greater market share. To put it mildly, competition is cutthroat. As in Europe and the United States, vastly larger markets, Hong Kong is gradually moving toward consolidation. The other option is the traditional Anglo-Saxon trial by combat, which could well leave Hong Kong companies

decimated and ripe for takeover or market loss from outsiders.

The three giants in the Hong Kong market are Hutchison Whampoa, SmarTone Telecommunications and Pacific Century CyberWorks (PCCW), while the largest of the second tier companies include New World Mobility, Sunday Communications and People ?s Telephone Company. Hutchison ?s subsidiary, Hutchison Telephone, is partnered with Japan ?s NTT DoCoMo (which has 19% ownership), while SmarTone is 20% owned by British Telecommunications. PCCW is formerly Cable & Wireless and Hong Kong Telecom.

PCCW has started a joint venture with Australia ?s Telstra. Under the deal with Telstra, the Australian company will get a 50% stake in the infrastructure business in Hong Kong and additional wireless business. In return, it will subscribe to a $1.5 billion Pacific Century convertible note, pay $1.5 billion to PCCW and tip $466 million in cable assets into the alliance. The targeted market for expansion is China, with its fast growing wireless user population.

Considering the linkage to large outside international telecom companies and the crowded nature of the Hong Kong market, pressures on earnings have increased as an emphasis is now given for market share. This is being reflected in two ways: stock prices have performed poorly and quarterly performance reports are disappointing. Prices for PCCW have been pummeled in recent months, having lost more than a third in value following the failure of a number of joint ventures to pan out. At the same time, SmarTone Telecommunications ? released its most recent performance numbers, which show a loss for the year, for the first time since it floated shares in 1996.

While the Big Three fight for market share and are willing -- for a time -- to sustain losses, the smaller companies are gradually being pushed to consider outside alliances, market expansion into China and other key Asian markets or merging. It is already being discussed that New World Mobility is talking to Singapore Telecommunications, a company that is itself seeking to carve out a greater role in Asian telecom markets.

At the end of the day, Hong Kong ?s telecom managers cannot escape the simple fact that there are too many companies pursuing too few new customers. As David Gibbons, a telecom analyst with HSBC Securities Asia, notes: "The mobile industry in Hong Kong is currently over-competitive. Something will have to give and most likely that will come through a form of industry consolidation."

The time for such a consolidation is looming. A number of telecom analysts expect that the next auction for third generation wireless licenses scheduled for late 2000 or early 2001 is the next battleground for the telecom companies. The government has not yet decided if the auction is going to be a beauty contest (i.e. each firm presents their market plans against a set of subjective criteria and ward licenses either for free or a fixed fee) or an auction, which could cost billions of HK dollars for the winners. In Europe, France and Finland have used the beauty contest, while Germany and the United Kingdom used the auction system. If the award of 3G licenses is a competitive auction and the number of those licenses is limited to three or four, the smaller

companies could well feel the pain by not having deep enough pockets to play in the game. The larger companies will feel the pain on their bottom lines.

Also under consideration by the Hong Kong government is the "reverse auction". This would work in such a fashion that government resources would be awarded to the company that can offer the lowest prices to consumers. Under this scheme, the potential third generation phone operators are asked to "bid" by indicating how much they would charge. The auction continues with each bidder lowering its prices until there are the same number of bidders left as the number of licenses offered. As Dan Roberts of the Financial Times observes: "In theory, this ensures that the most efficient operator is left with the spectrum, while the public benefit of the scarce resource is spread equally among all potential users of the service."

All in all, the pressure is on for market consolidation. As in other markets around the world, Hong Kong is not immune for the pressures to change, to make the market more efficient and to bring better service to the customer. The stakes are high for all companies involved. Failure to innovate, to seek alliances, and to have access to cash all factor in the rush to command Hong Kong ?s telecom industry.

VIII. Emerging Market Briefs

Brazil -- the Momentum Continues: 2000 is proving to be a good year for Brazil. In late August-early September, Brasilia played host to a presidential summit for all heads of South American governments, with a dual agenda of forming a closer working alliance for the promotion of a unified trading stand with NAFTA and the promotion of democratic government. At the same time, the economy continues to recover from the Asian Contagion of 1997-98 and the 1999 recession. In July, Brazil ?s industrial output grew for the 12th consecutive month. Production rose 6.8% compared to last year, with July being the third month in a row that output was above 6%. KWR expects Brazil ?s real GDP growth in 2000 to be 3.5%, with 4% forecast for next year. Inflation will be in the range of 5.5-5.7% for 2000. Progress is also being made on the 2001 budget. One potential source of bad news is the hike in international oil prices. Brazil is dependent on outside sources of energy. If sustained, the rise of oil prices over $37 a barrel could have serious consequences for the country ?s balance of payments as well as re-introducing inflationary pressures. It could also force the central bank to reverse its trend of reducing interest rates. For now, Brazil has a positive sense ofmomentum, but its progress remains vulnerable to international variables
-- international interest rates, oil prices and access to foreign capital markets. U.S. economic growth is expected to slow to 3% in 2001, down from an expected 5% in 2000. The United States is a key export market for Brazil and exports have been an important part of the South American country ?s economic recovery. That is why it remains critical that the government continues to move ahead with important structural reforms.

Israel -- Fast Growth: Despite the trials and tribulations of the Barak government, the Israeli economy is likely to grow as rapidly as 6% this year. That is quicker than the 3% forecast in last year ?s budget and well

above a recent Ministry of Finance forecast of 4.5%. Exports are a key element of growth, though domestic demand has also picked up. Growth is expected to remain strong into 2001, though that sentiment could change if political conditions were to deteriorate over the break down of the peace process or a sharpening of tensions within Israel ?s Jewish community (between the ultra-orthodox and more secular-minded Jews). The government is helping the situation along with a package of liberalization measures, including the long-awaited opening of the local telecommunications market. The Israeli economy expanded by about 2% per annum in 1998 and 1999.

Peru -- Fujimori ?s Andean Shocker: Just after he had gone out and won what many analysts have termed an unfair election in order to win a third term as Peru ?s chief executive, President Alberto Fujimori shocked the nation by announcing on September 18 that he was going to hold new elections for his post. He also announced that he would not be a candidate. This shocker came days after the release of a videotape of Fujimori ?s intelligence chief, Vladimiro Montesinos, seeking to bribe a member of the opposition in the build-up to the spring elections. The Fujimori administration had been under considerable pressure to introduce judicial and electoral reforms from the United States, the Organization of American States and other Latin American countries, such as Brazil.

KWR is concerned about the potential for political and social instability that could exist prior to a new round of elections. A number of answers are needed: when will Fujimori step down?; when will the elections take place?; who will preside over the drafting and implementation of judicial and electoral reforms (the old pro-Fujimori Congress or a new Congress as-of-yet-unelected)?; and should an interim consensus figure replace the outgoing leader? Also to be considered are what should happen to Montesinos, who retains the support of members of the military establishment. At the time of this report, these questions are remain unclear.

What is clear is that Peru ?s economic recovery and its ongoing reforms are now at risk. Although Prime Minister Carlos Bolona stated that economic reforms would not be abandoned, public and foreign investor sentiment is not reassured. It is our view that with politics in command, recent measures taken to reassure investors and boost economic growth, such as transportation concessions and fiscal austerity, are now in question. To retain a foreign direct investment flow, it is important that Peru ?s political elite, both in power and in opposition, arrive at a quick resolution of the political crisis and re-launch Peru ?s economy. This is not a matter of making foreign investors happy, but making certain the country ?s workers can afford to buy food and other necessities of life. Stay tuned.

IX. Book Reviews: Scott B. MacDonald

Richard Gott, In the Shadow of the Liberator: Hugo Chavez and the Transformation of Venezuela (London: Verso, 2000). 246 pages. $25.

Hugo Chavez, President of Venezuela, has stated: "Many people thought that if I became president it would mean the return of Hitler and Mussolini rolled into one. The imagined disaster has not taken place." Both Hitler

and Mussolini were elected to office, but both turned their respective political systems upside down, ultimately becoming names associated with brutal totalitarianism. Some of Chavez ?s harshest critics have stated that he will eventually become like the mid-20th century dictators. His supporters claim that he will redress old wrongs in Venezuelan society and promote a new anti-U.S. order in Latin America.

Hugo Chavez is decidedly one of the more interesting, if not entertaining figures to arrive on the international stage in a long time. A former coup leader and army colonel, he was elected to be President of Venezuela in 1998. Since then he has smashed the already dying corrupt old order of Venezuelan politics, involved the people in the political process through a number of referendums, created a new constitution and been re-elected in 2000. Chavez ?s rise also signals a change in the international political structure in Latin America. While Mexico is clearly becoming a part of North America and Brazil is quietly making itself felt as a leader for trade integration and democracy in South America, Chavez has opted to wave the revolutionary flag, rejecting globalization and banging the drum of old-time nationalism. He portrays the United States as the evil empire of imperialism and neo-liberal economics as a toxic waste-like northern export. He has developed all new friendships with international statesmen of dubious reputation, in particular Iraq ?s Saddam Hussein and Libya ?s Muammar Ghadafi, while being all aglow of his revolutionary mentor Fidel Castro of Cuba. Moreover, he is seeking to re-ignite an old land dispute with neighboring Guyana, hardly a dagger ready to be thrust into the soft underbelly of Venezuela. He has also made known his sympathy for Colombia ?s Marxist-drug trafficking FARC guerrillas and called for a South American equivalent of NATO aimed at the United States. As this charismatic and quirky character makes his march through history, it behooves us to know more. Is he a Hitler in the making as his harshest critics maintain? Is he a well-intentioned Latin American populist, seeking to remold his country for the better? Or is he a would-be Fidel Castro, with a continent-wide ambition to sharply curtail U.S. imperialism in Latin America? Richard Gott, a British journalist that has covered Latin America for a long time for The Guardian, has written the only book in English thus far on Hugo Chavez, In the Shadow of the Liberator: Hugo Chavez and the Transformation of Venezuela.

Gott ?s book is worth reading for two reasons. First, he spent time in Venezuela researching his subject and provides some valuable first hand insights. Second, his view is so incredibly biased in favor of his subject that it almost reads like a religious text. He describes Chavez as such: "They [the Venezuelan people] are familiar with his pugilist ?s face, his generous lips, his beaming grin, and the almost asthmatic tick of his mouth as he takes a breath or is caught searching for a word in rhetorical flow. He always appears decisive and radiates confidence and optimism." Gott is if nothing else a true believer of the revolutionary process in Latin America and brings his own sense of moral indignation every time he mentions the United States. Consequently, it is worth reading a text that is so ideological, yet explains how many people in the upper ranks of the Chavez government perceive the world around them.

In this tale of modern day good and evil, Fidel Castro is like an uncle and "omniscient", while the domestic opposition to Chavez is painted as

corrupt, unrepresentative of the people and ruthless. [As if launching a coup and killing people is not ruthless.] Indeed, opposition to Chavez ?s great revolution is tantamount to being a U.S. lackey. We see evidence of the great U.S conspiracy behind almost every event. Even the U.S offer to provide help during the 1999 mudslides and flooding is taken as something to which the great revolutionary helmsman must respond: "When the United States sent out two ships in mid-January, laden with soldiers and earth-moving equipment, the Venezuelans said they wouldn ?t mind a few bulldozers, but several hundred soldiers might be overdoing it. No one voiced what many people were thinking: how could a self-styled revolutionary government possibly allow imperialist soldiers to make a practice landing on beaches just half an hour from the capital?"

Gott goes to great lengths to provide Chavez ?s ideological groundings. Based on the writings of the great liberator, Simon Bolivar, Bolivarianism calls for the creation of a more egalitarian society, a more active role of the military along those lines, and less corruption. Moreover, according to Gott: "The principal aim of his revolution ?is to occupy the geographic space of the country in a more harmonious and balanced way. ?" What this means is a shift away from the urban shanty-towns of the coast and around Caracas to other parts, namely the vast interior of the country.

This could be mistaken for being supportive of the Khmer Rouge ?s old idea of depopulating the urban centers as part of the transformation of Cambodia society (1974-1978). It also means re-developing the country ?s long dormant agricultural sector, which was once vibrant but shunted aside by oil wealth.

While there is much about Chavez and his revolution that can be sympathized with -- dealing with Venezuela ?s massive corruption, societal inequalities and heavy dependence on oil -- there are some major flaws in Gott ?s approach. First and foremost, Gott is willing to overlook the danger of someone like Chavez, a former golpista, in power. Although Chavez has made excellent use of the ballot box, he has also made skillful use of his charisma and relied heavily on the military to implement policies.
Charisma does not last forever and the use of the military on an extended basis in civilian circles of operations has a tendency to politicize soldiers. The fact that Chavez advocated and sought power by use of the machinegun before he was elected, no doubt has been lost on other soldiers, both from the right and left. The old saying of "He who lives by the sword, dies by the sword" is apropos in the Venezuelan case.

A second flaw in Gott ?s thinking is the role of the United States. While the United States has played an interventionist role in Latin America in the past (as recently demonstrated by the CIA ?s documents over Chile in the 1970s), the response to Hugo Chavez ?s revolution has been flaccid. The chumminess to Cuba, Libya and Iraq has not been appreciated nor has Chavez ?s sympathy with Colombia ?s FARC. Yet, there is no massive rush on the part of Washington to bring down Latin America ?s new revolutionary messiah. Yes, Chavez ?s state visit to Iraq and his being the first head of state to visit that country since the Gulf war in 1991 was criticized. No, the CIA did not spring into action to topple Chavez nor was there any threatening build up of U.S. warships off the Venezuelan coast. Washington

is not that interested in starting problems in Latin America, especially in a key oil exporting country.

Third, Gott downplays the importance of the economy. While he glows over Chavez as a champion against globalization and neo-liberalism, he sidesteps the issue that Venezuela is entirely hooked on the ups and downs of the international economy, a situation not likely to change any time soon. Charisma has worked well in a period of higher oil prices, but when they head down, which they will, the current hazy and statist nature of Chavez ?s economic policies will be problematic. Gott is correct in making the following assertion: "In spite of all his rhetoric against neo-liberalism, Chavez is desperate for foreign investment. He has to steer a difficult and almost impossible course, telling his nationalist country what it wants to hear, and making the right kind of reassuring noises that will not frighten the foreign investors."

A critical problem is that the economic team and many of Chavez ?s closest advisors are either Marxists or statists and in the end they will not be able to stomach making the difficult market-oriented reforms needed to reduce dependency on oil exports, stimulate small and medium-sized businesses, or revitalize the agricultural sector. The weight of history is against them, much as it was in the Soviet Union, Albania and Maoist China.

The danger is that when the economy eventually turns against the Chavez administration, the man operating in the shadow of the liberator is likely to turn to more traditional authoritarian means to remain in power. He will also threaten the political stability of South America as he seeks foreign diversions to domestic woes. Too bad for Gott that he has closed his eyes to hearing the same old song again.

Declan Hayes, Japan ?s Big Bang: The Deregulation and Revitalization of the Japanese Economy (Rutland, Vermont: Tuttle Publishing, 2000). 215 pages. $19.95.

In any given week, the financial press is filled with articles about Japan, usually focusing on some part of the argument of whether the country is really making headway with the painful restructuring of its economy Along these lines, Declan Hayes, a Professor of International Business at Tokyo ?s Sophia University, has written a topical book about Japan ?s political economy and efforts to reform it, which is well worth reading. He is critical of Japan ?s now well-known dual economy of highly efficient, modern and cutting edge internationally-oriented companies, which are counterbalanced by another part of the economy which is inefficient, overstaffed and dependent on political protection. As Hayes notes: "Japan, which seemed till very recently to be on the road to world economic supremacy, has allowed her domestic economy to put herself and the entire world economy in jeopardy. Although Japan excels at producing cars, cameras, electrical goods and other largely export-oriented products, her sheltered sector remains bloated and grossly inefficient." The "overprotected laggards" include the construction industry, the distribution system (including retailers), and agricultural sector.

While Hayes is not shy in expressing his views about what troubles Japan, he also holds out hope that things are changing for the better. The main force behind change is the Big Bang, initially pushed by Prime Minister Hashimoto. The key elements of the Big Bang, now beginning implemented, include deregulation, adoption of international standards of accountingtransparency, and the opening of Japanese markets to real international competition. He also believes that the Ministry of Finance and the political establishment need their own Big Bang to reduce corruption, bring in new ideas and help the state become a more neutral player in the process. The bottom line about the Big Bang and all its reforms is the transformation of Japan, as radical and deep-reaching as was the Meiji Restoration in 1868.

Even if some of Hayes views are scathing of Japan ?s old order, he is correct is assessing the critical need for reform (as more and more Japanese agree). He also correctly notes that failure to reform will have negative consequences for the Japanese people as well as the rest of Asia and the United States. Clearly, if Japan is unable to provide the necessary financial infrastructure for international capital markets and services, it runs the risk of having Tokyo eclipsed by other Asian cities (Hong Kong, Singapore and Shanghai) that openly aspire to being the leading financial center in Asia. At the same time, Asia ?s economic growth

will continue to run a slower pace due to Japan ?s inability to have sustainable economic growth, which is necessary for buying Thai, Malaysia, Korean and Chinese exports. And, finally, the U.S. will lack a strong ally in Asia at a time of considerable change in the regional structure of international relations.

Hayes is ultimately hopeful about the reform path as the dire nature of the situation has finally sunk into the understanding of much of official Japan as well as larger elements of society than before. He takes hope that such events of nationalizing LTCB and "similar financial dodos" will continue to push along the path of reform. Only time will tell.

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