

FOIA MARKER

This is not a textual record. This is used as an administrative marker by the William J. Clinton Presidential Library Staff.

Collection/Record Group: Clinton Presidential Records
Subgroup/Office of Origin: National Economic Council
Series/Staff Member: Gene Sperling
Subseries:

OA/ID Number: 20706
FolderID:

Folder Title:
DIGITAL DIVIDE 6/2000 [5]

Stack:	Row:	Section:	Shelf:	Position:
S	17	7	5	3

Digital Divide and The World Bank Group

Carlos A. Primo Braga

***infoDev* Manager**

Global ICT Department, The World Bank

MAY 2000

www.infodev.org

Outline

- **The Networking Revolution**
- **The Threat of a Digital Divide**
- **An Agenda for Action**
- **World Bank Group Initiatives**
 - Global Development Gateway

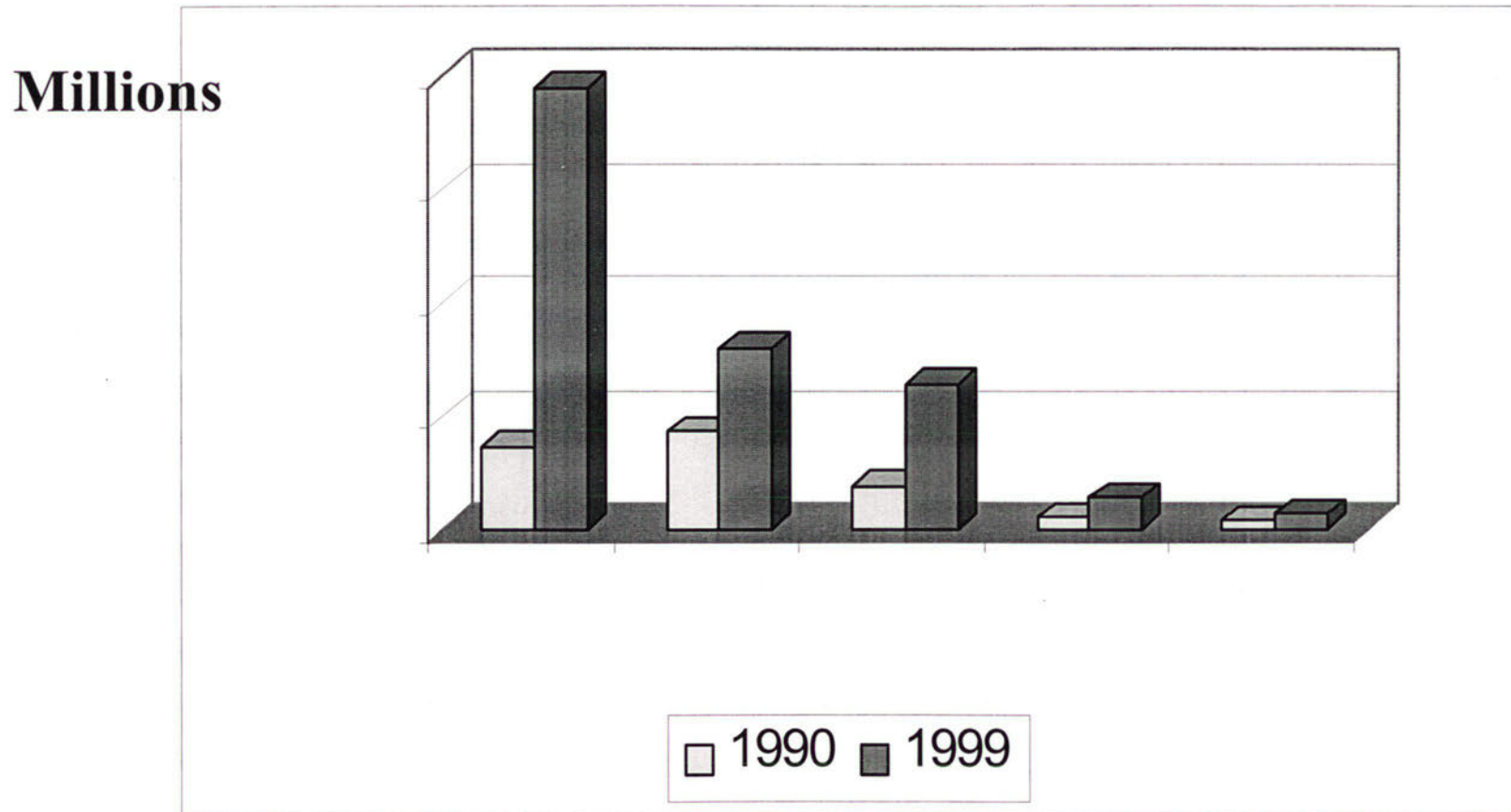


The Networking Revolution:

Implications for Developing Countries



Teledensity Evolution: Mainlines by Region



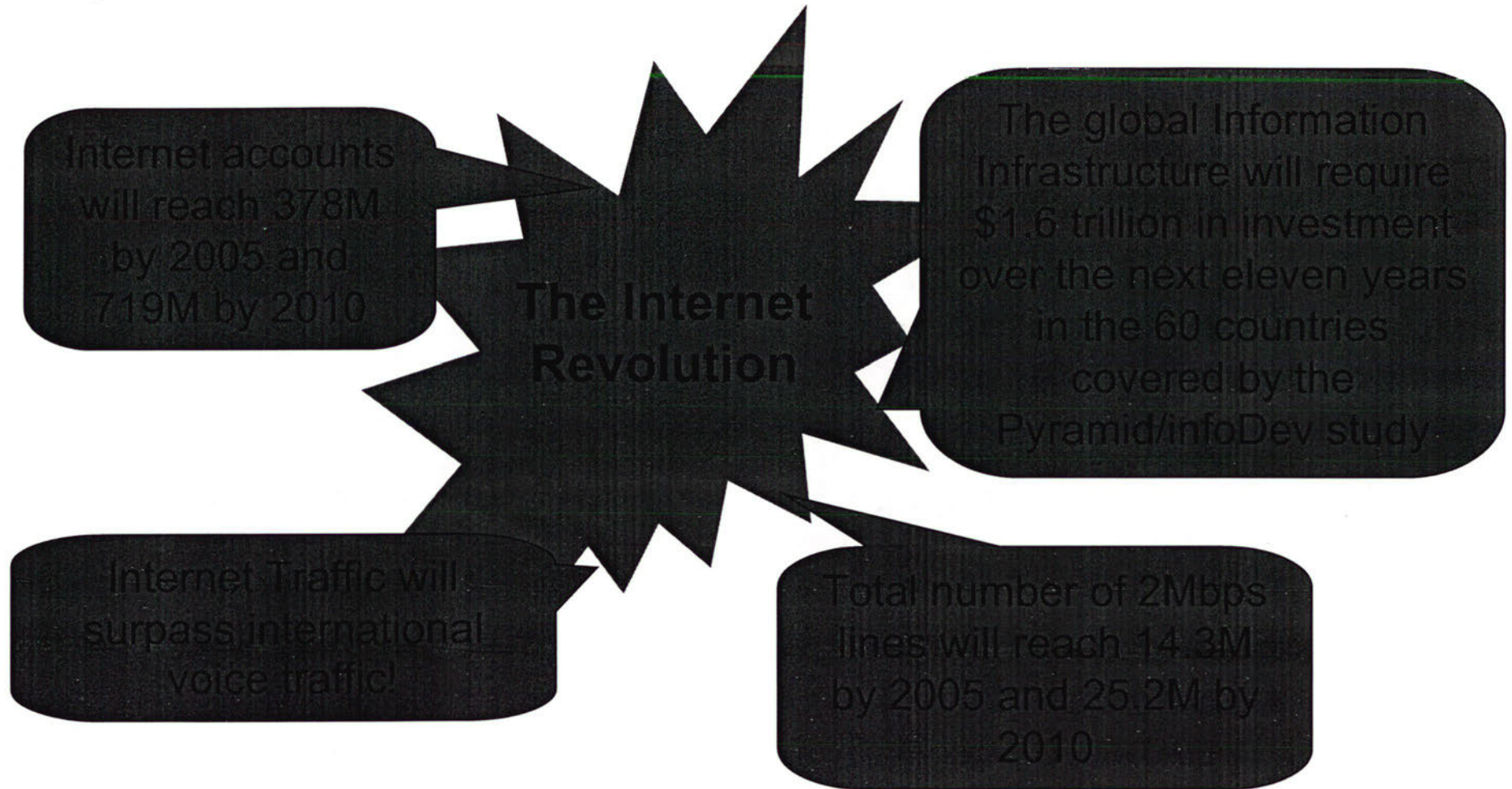
Data Source: Pyramid, 2000

Recent Trends: The Changing Paradigm

Old paradigm —————> New Paradigm

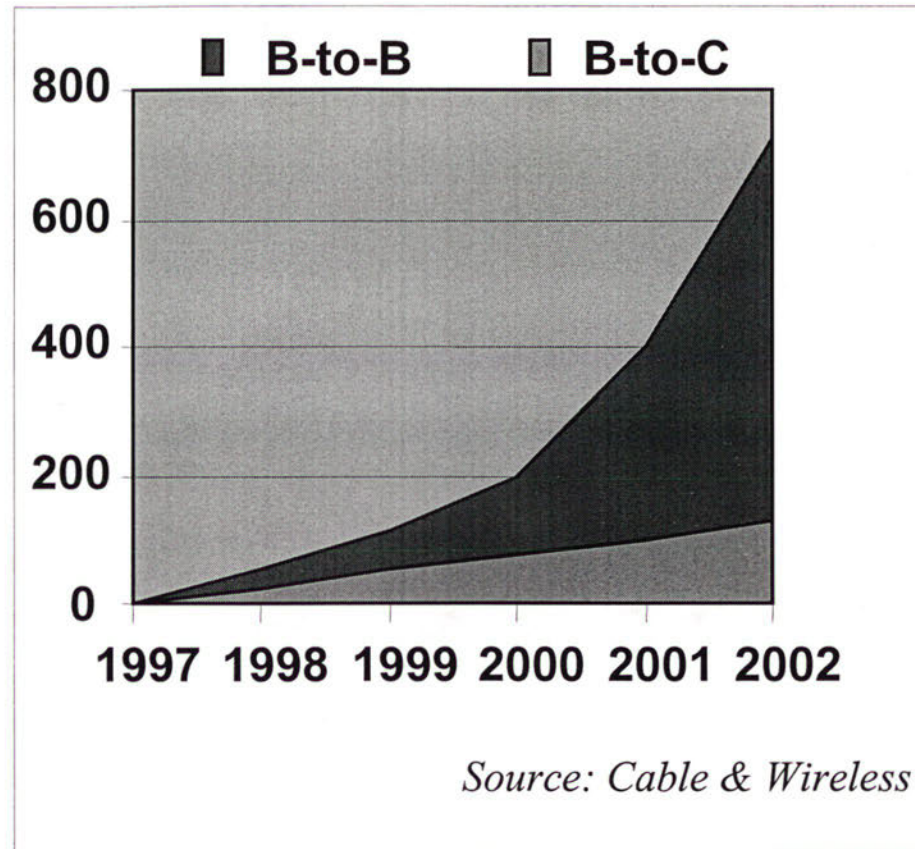
- | | |
|--|--|
| ▪ Telecom as “public utility”
(natural monopoly) | ◆ Competition/Private
sector lead |
| ▪ PTTs as regulators/
regulation: infrastructure
specific | ◆ Independent regulatory
authorities/convergence |
| ▪ Circuit-switched + Wired | ◆ Packet-switched +
Wireless |
| ▪ Computers: “luxury goods”
operating as “islands” of
information processing | ◆ Computers:
“commodities” operating
in networks/ubiquitous
computing/ebusiness |
| ▪ Scarcity of information | ◆ Deluge of information |

Recent Trend: Signals of The Internet Revolution



Recent Trends:

Transforming business and society



**E-Commerce Revenues
Worldwide (\$Billion)**

The Threat of a Digital Divide



A few numbers behind the Digital Divide

- Rwanda has a population over six and a half million. It has fewer telephones than the World Bank.
- In 1998, Bangladesh had a population of 125 million. In that year, it had about one fifth the number of Internet users than sat in the World Bank.
- A recent host survey by Network Wizards shows that Africa outside of South Africa generates about 0.02 percent of global content.

Cross-Country Inequality: Urban/Rural Disparity

Telephone Lines per 100 Population

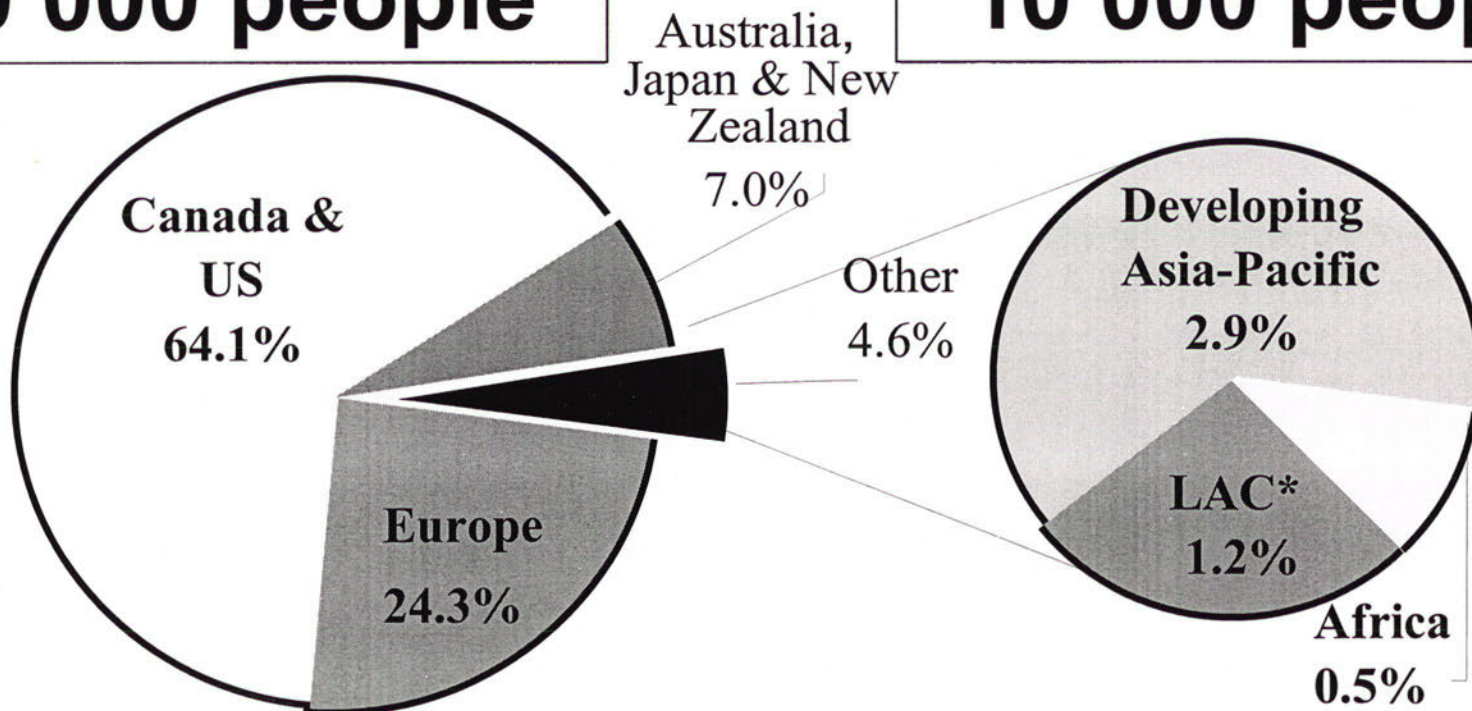
	Teledensity	Urban	Rest of the Country
High Income	49.5	60.2	47.8
Upper Middle Income	15.4	24.3	13.8
Low Middle Income	8.0	23.3	6.6
Low Income	1.4	5.7	1.0
World Average	10.3	25.0	9.1

Source: ITU, World Telecommunication Development Report, 1999

Cross-Country Inequality: Internet Diffusion (fast, but quite uneven)

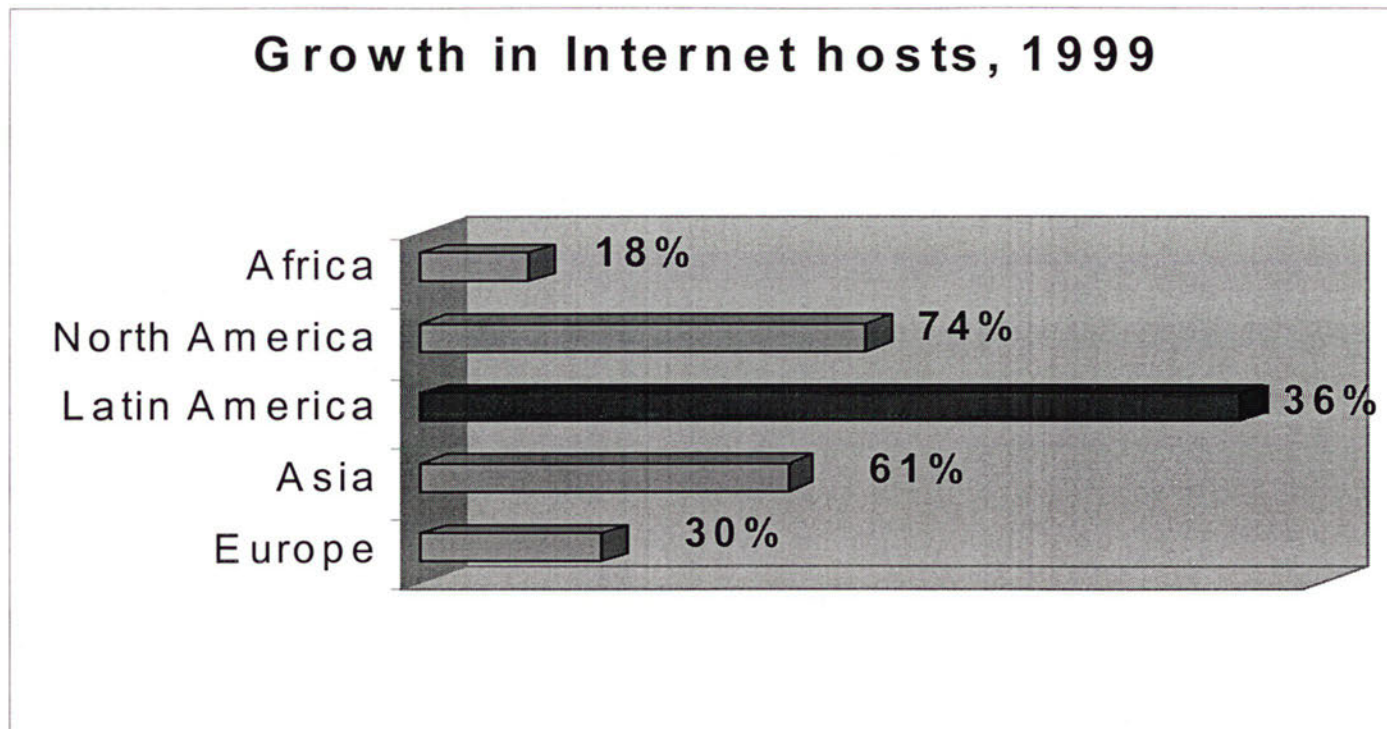
**Developed:
312 host per
10'000 people**

**Developing:
6 host per
10'000 people**



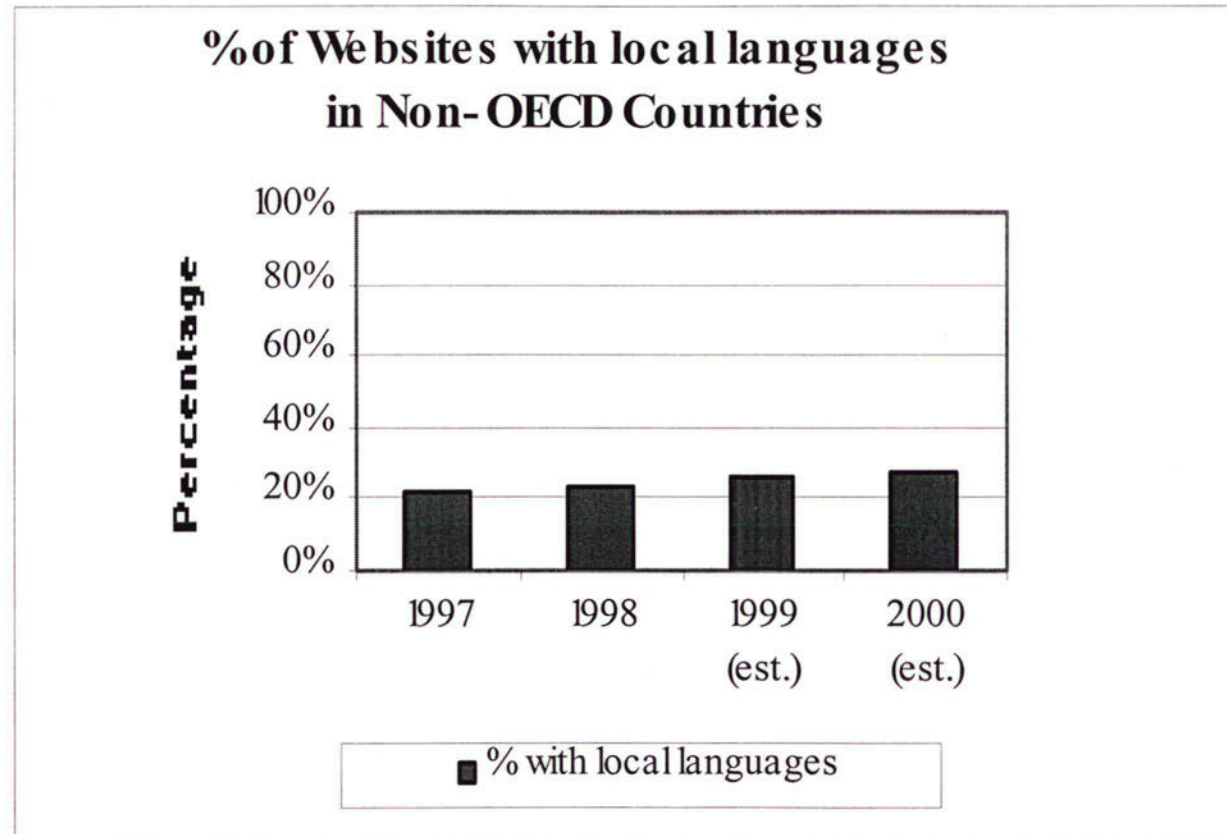
Source: ITU 1999 "Challenges to the Network: Internet for Development"

Regional Patterns of Convergence and Divergence



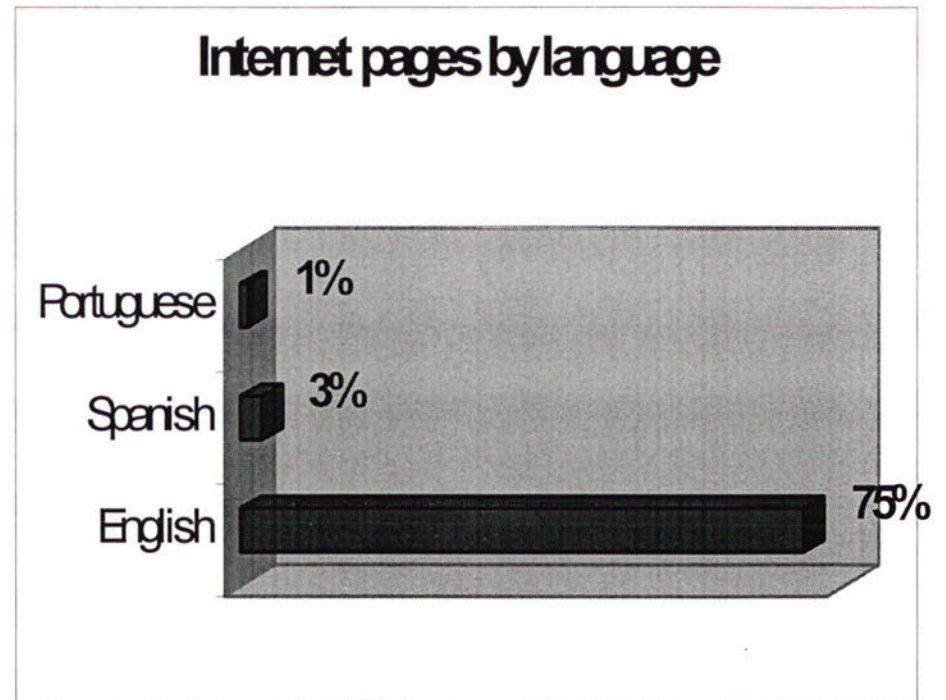
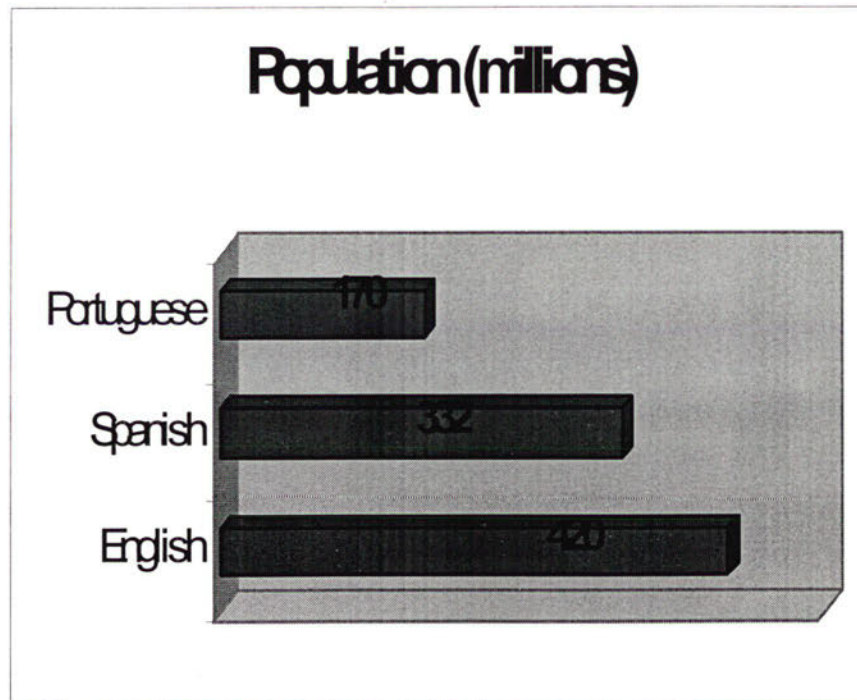
Data Source: ITU

Cross-Country Inequality: Availability of Local Language Content Low



Data Source: Pyramid Research, 2000

Presence of Spanish and Portuguese on the Internet



Data Source: ITU/Terra Networks

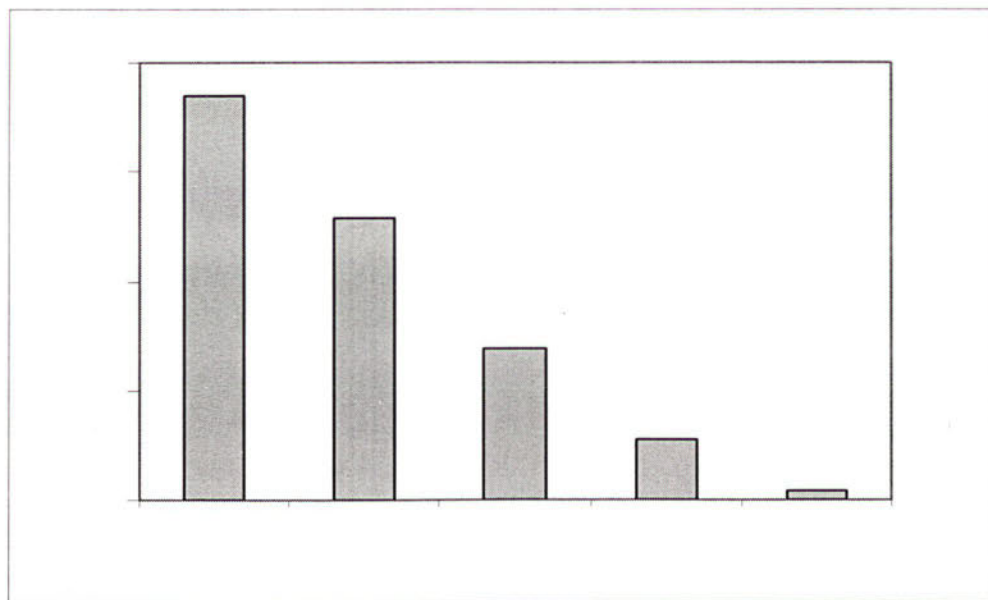
Cross-Country Inequality: Spending per Capita on Information Infrastructure in 1998 (US\$)

OECD Countries	129.11
Middle East & North Africa	18.12
Sub-Saharan Africa	9.25
Latin America & Caribbean	29.77
Eastern Europe & Central Asia	19.9
Asia Pacific	14.99

Source: Pyramid Research

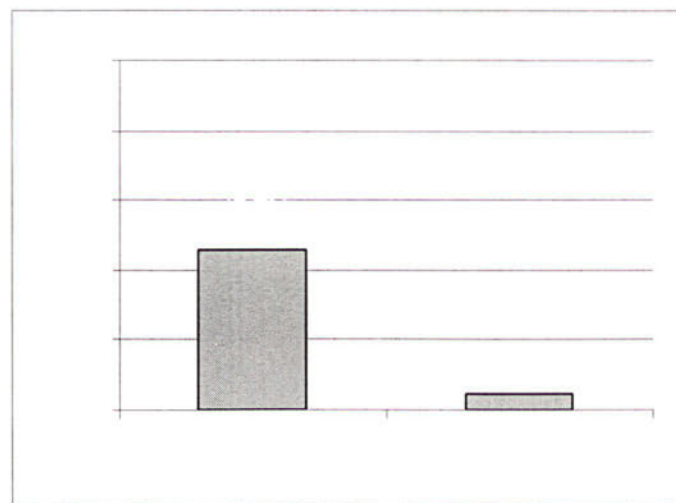
Within-Country Inequality

By Income: % of Households with Private Telephones



Panama

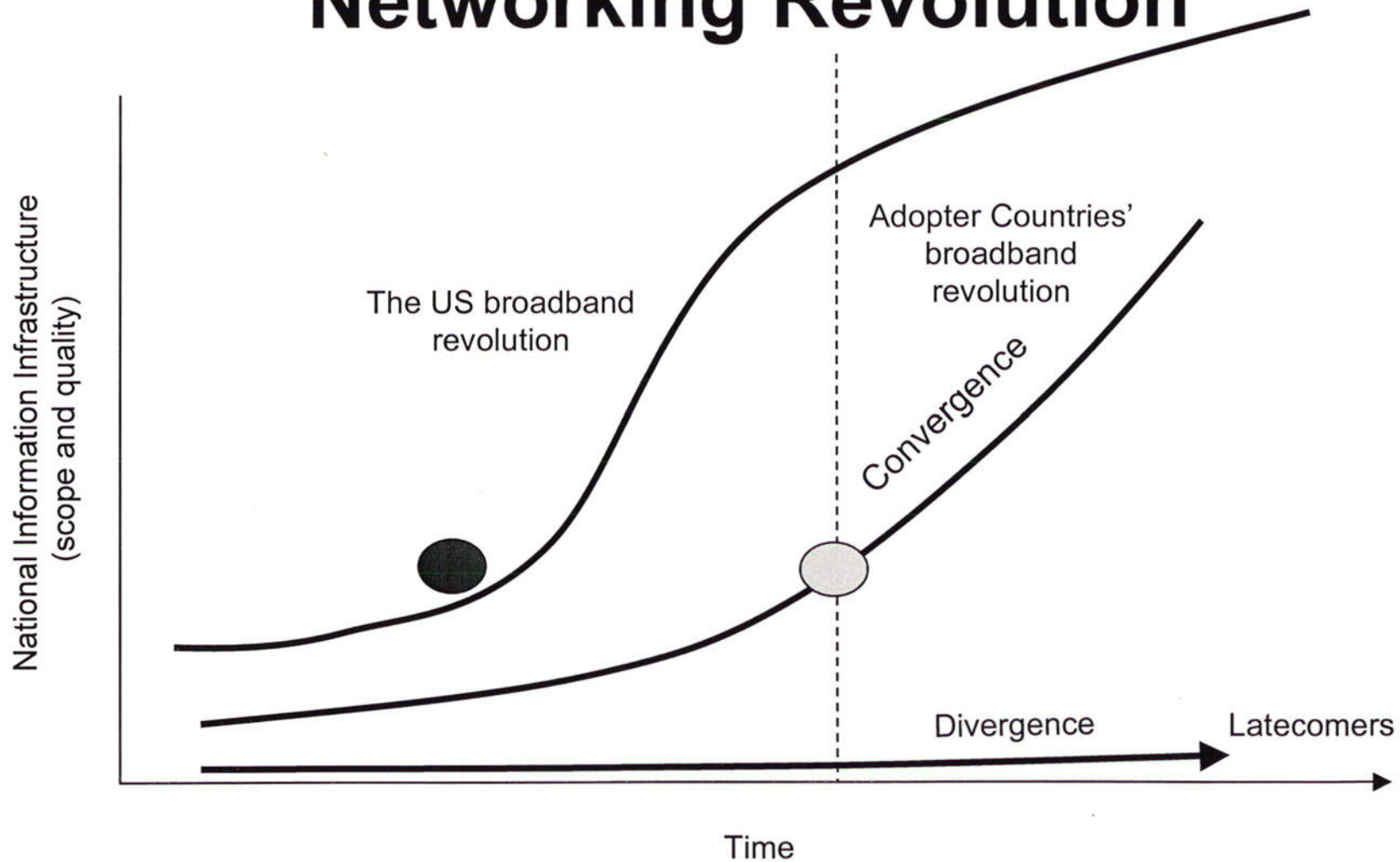
By Geographic Region: % of urban/rural households with telephones



South Africa

Source: LSMS, the World Bank

The Promise and Peril of the Networking Revolution



***Embracing the Networked Economy:
An Agenda for Action***

Strategies

⊕ **Connectivity is the Goal**

It is next to impossible to envision markets with less than 5% voice penetration leapfrogging into Internet connectivity

⊕ **Competition is the Vehicle**

Competition leads to decreased prices, subscriber growth & new technology development. We must promote competition, while supporting universal access via innovative government support, focusing on convergence issues

⊕ **Infrastructure Support Systems Are Critical**

Systems and services that support and deliver information such as postal and financial services, are a vital component of public action

⊕ **Education is the Enabler**

Internet has higher social entry barriers than voice, requiring literacy and IT technology exposure at a minimum



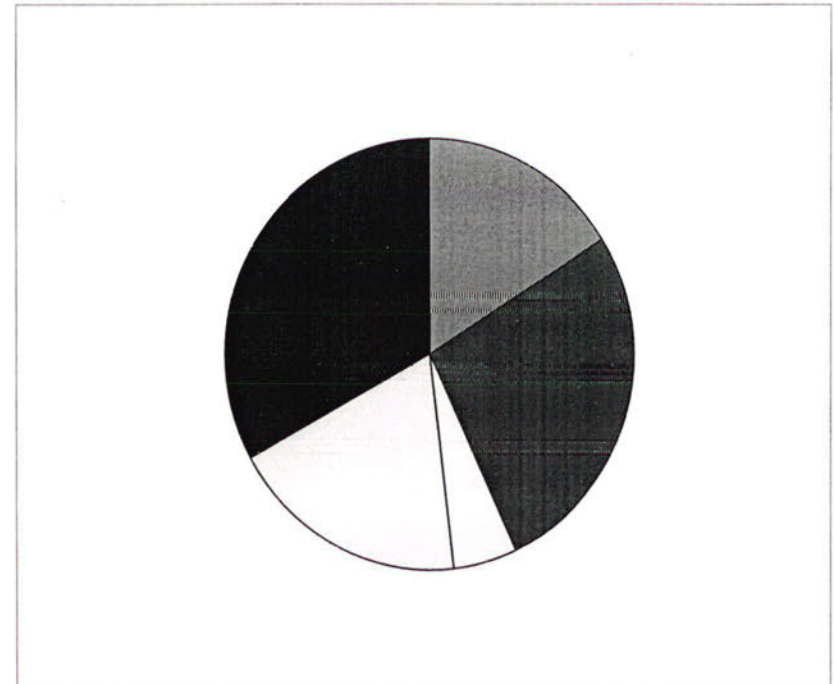
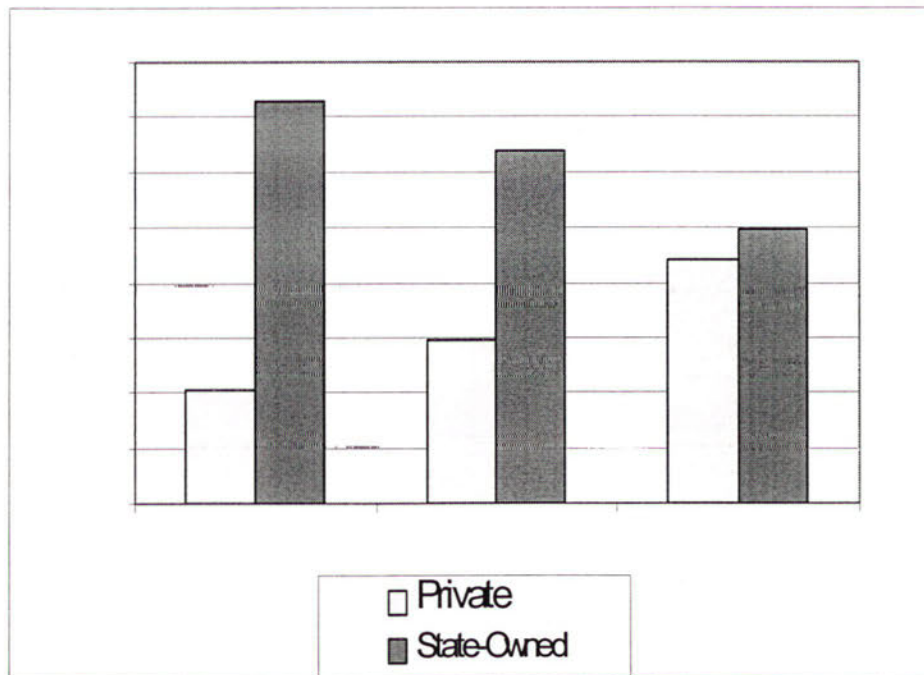
Closing the Digital Divide: A Four-Part Program

- ◆ Facilitate Infrastructure Financing
- ◆ Support Competition and Privatization Policies (e.g., regulatory reform)
- ◆ Invest in Digital Literacy
- ◆ Launch Pilot Projects: Digital Opportunities



Privatization of Incumbents:

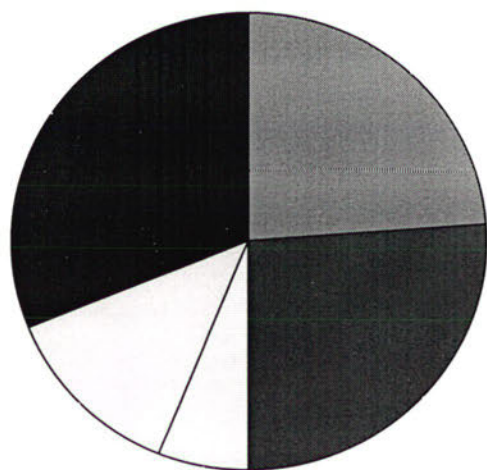
Total Number of Countries: 88



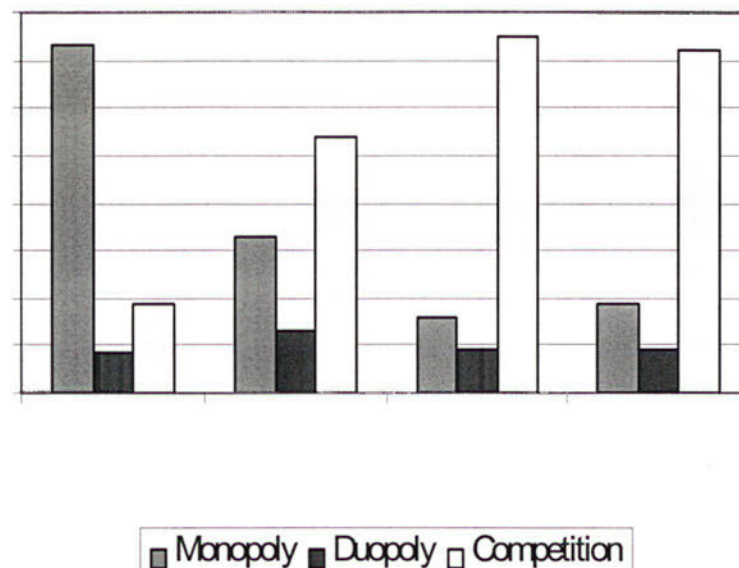
Source: ITU World Telecommunication Regulatory Database, 1999

Regulation and Competition

Booming Growth of Separate Regulators



Total #: 84

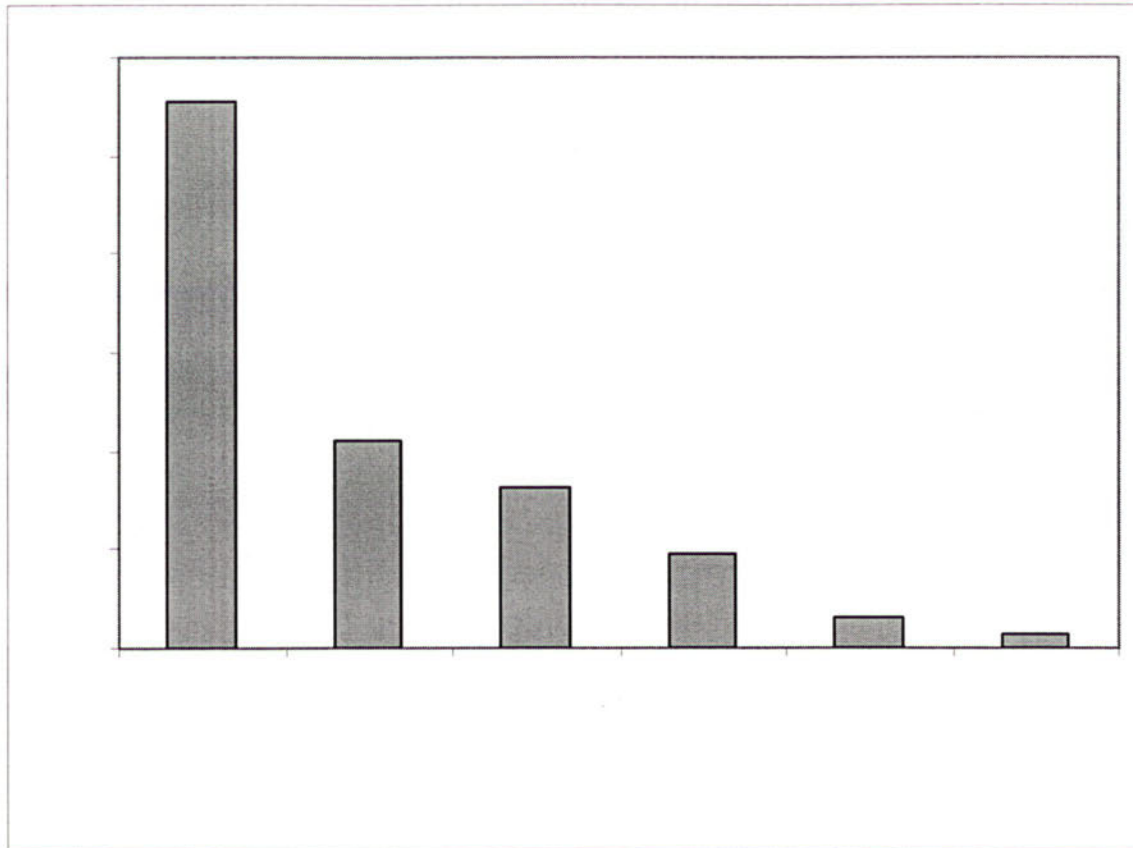


**Increasingly Competitive,
But Still A Long Way to Go**

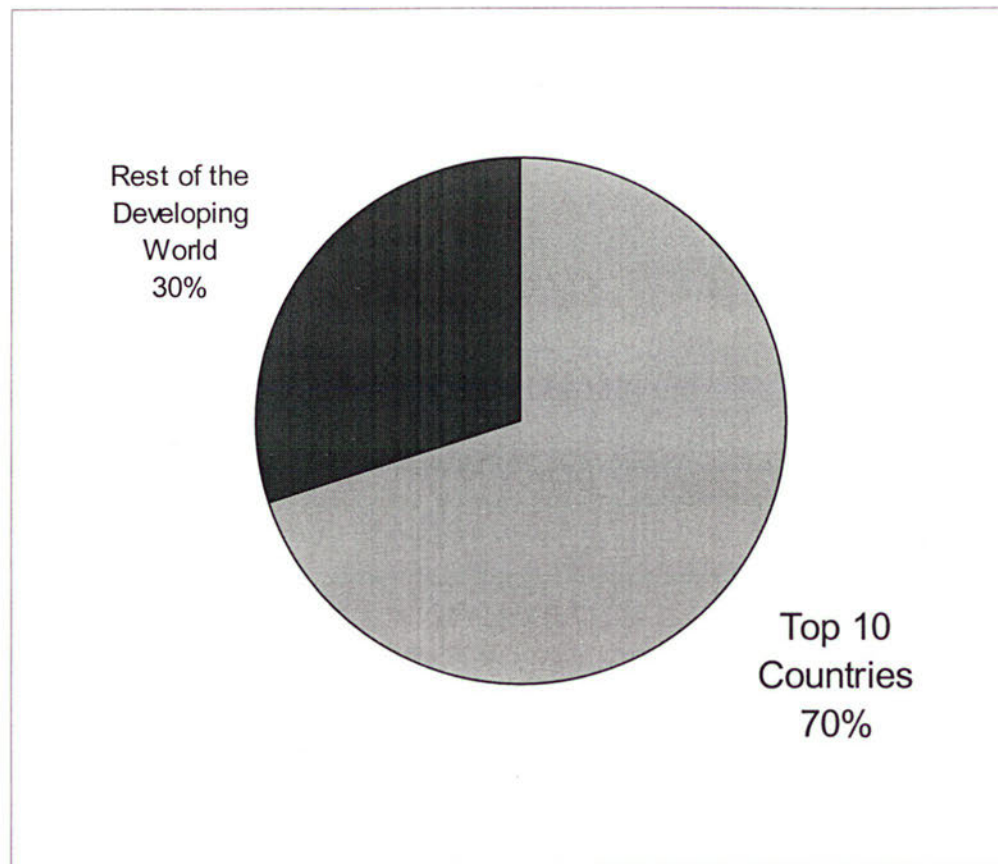
Source: ITU World Telecommunications Regulatory Database and WTO, 1999

Telecommunications Projects with Private Participation in Developing Countries: Latin America Leads the Way

1998 US\$
Billions



Net FDI in Developing Countries in 1998



Top 10 Countries:

China

Brazil

Mexico

Argentina

Poland

Chile

Malaysia

Venezuela

Russia Federation

Thailand

Source: Global Development Finance, 1999

ICTs and Poverty Reduction

- **ICTs for Economic Growth**

- enhanced competitiveness
- increased business opportunities
- access to market for rural communities

- **ICTs for Improved Delivery of Social Services**

- better provision of health and education
- reducing vulnerability to natural disasters

- **ICTs for Greater Transparency**

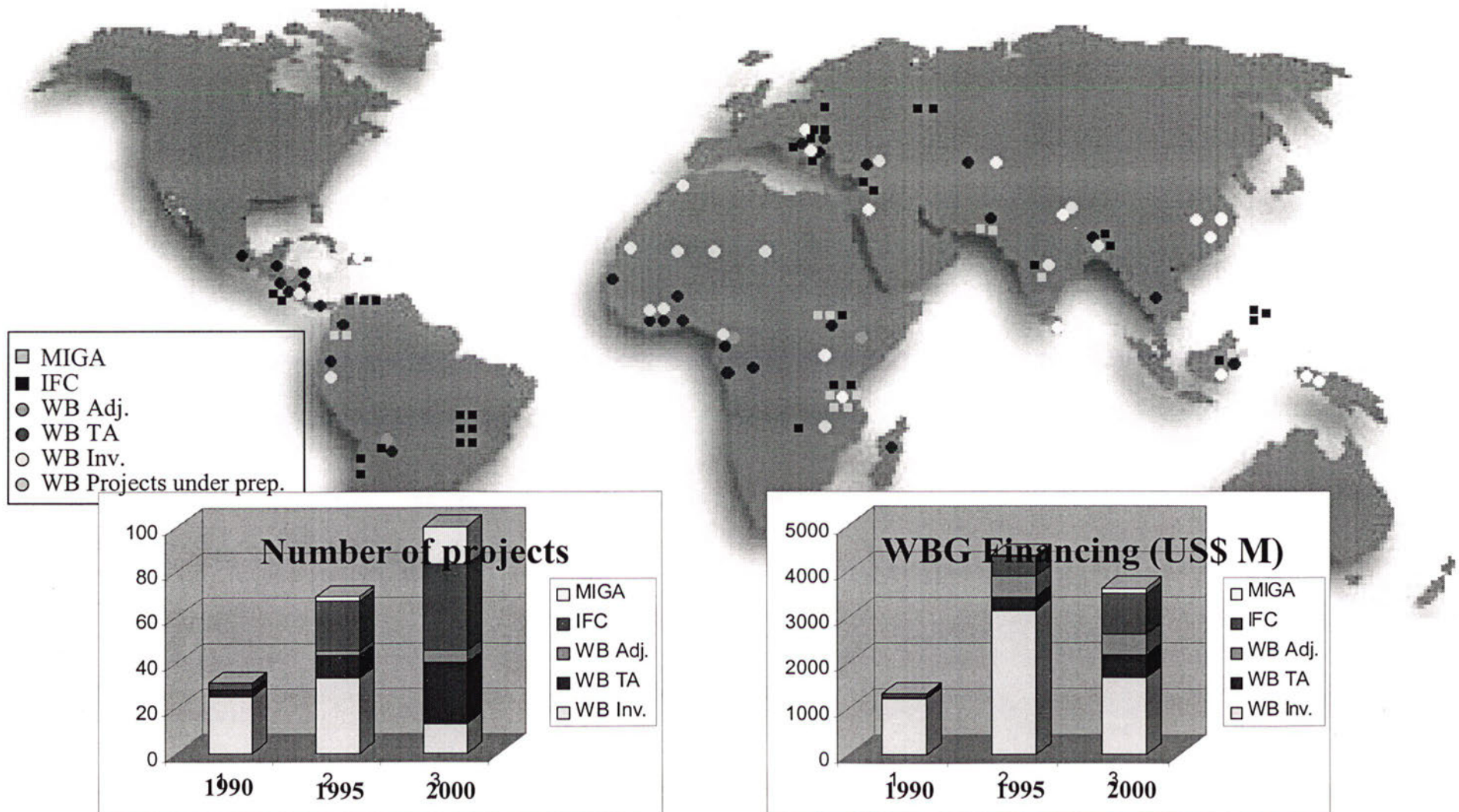
- improved efficiency on government procurement
- reduced corruption
- increased civil society participation

- **ICTs for Empowerment of the Poor**

- allowing the poor to better communicate their concerns

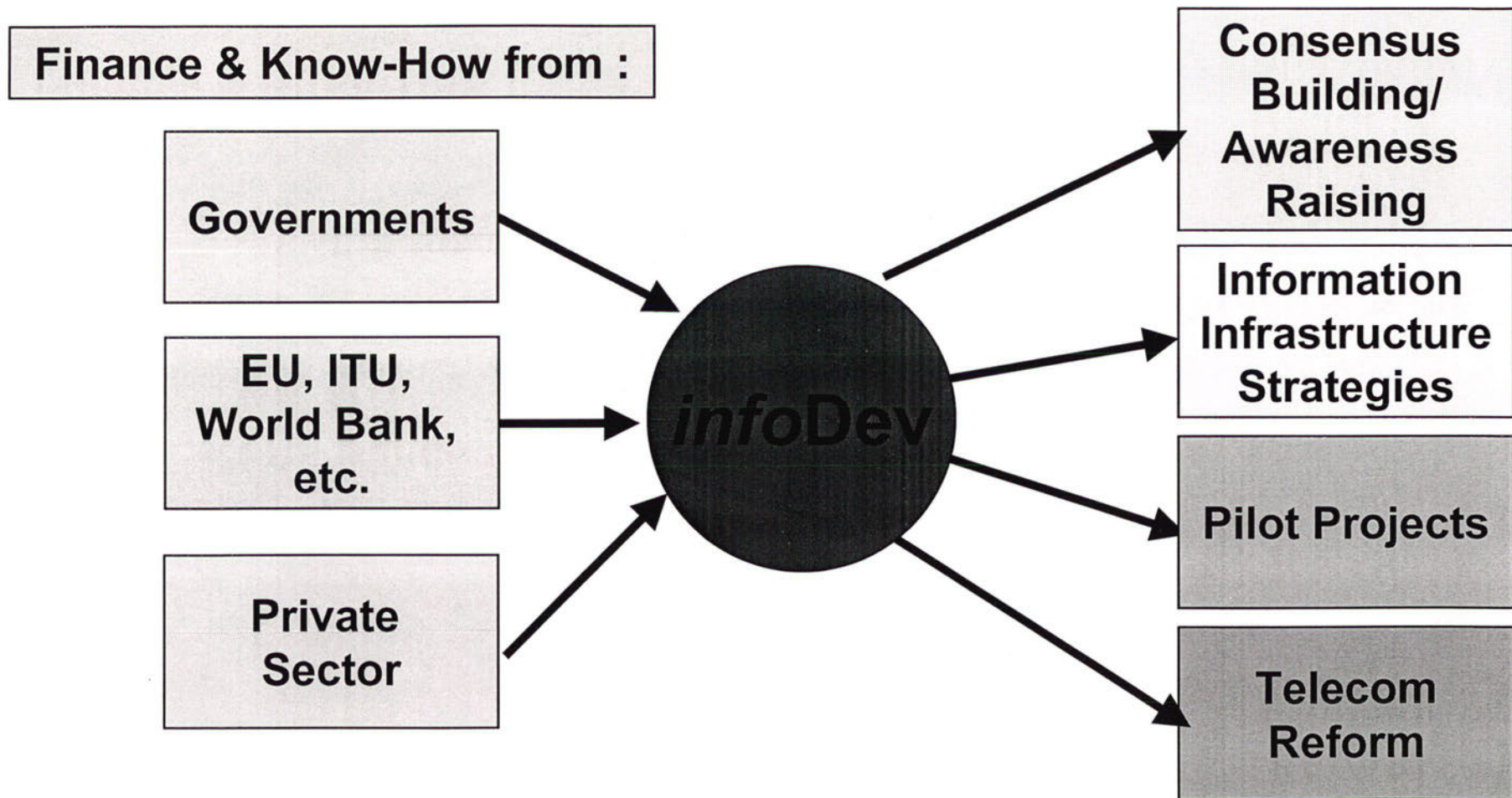
World Bank Group Initiatives

WBG Telecom Projects under Implementation

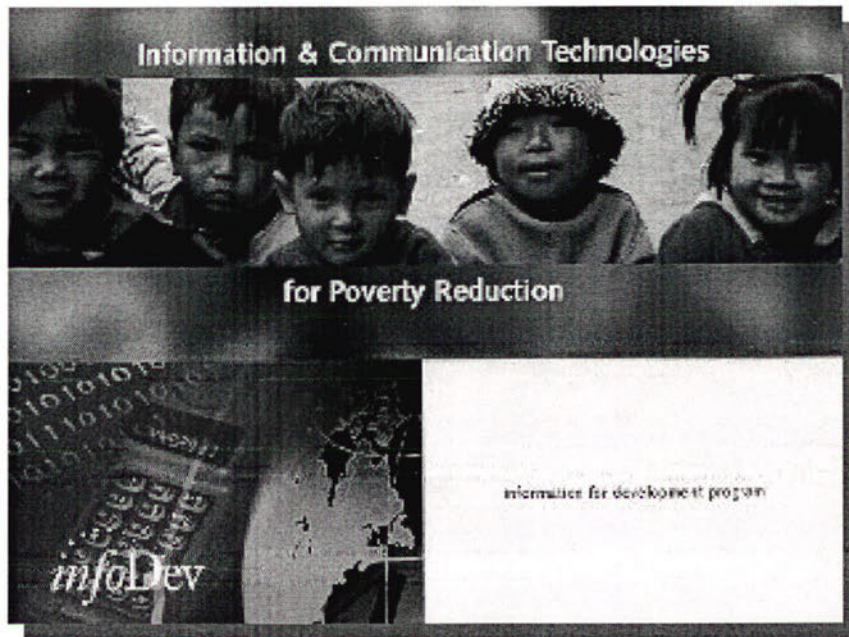


* : Stand-alone Telecom projects and projects with major Telecom component

infoDev: The Concept



infoDev: Our Mission



*infoDev mission is to
utilize ICTs for
economic and social
development, with a
special emphasis on
the needs of the poor*

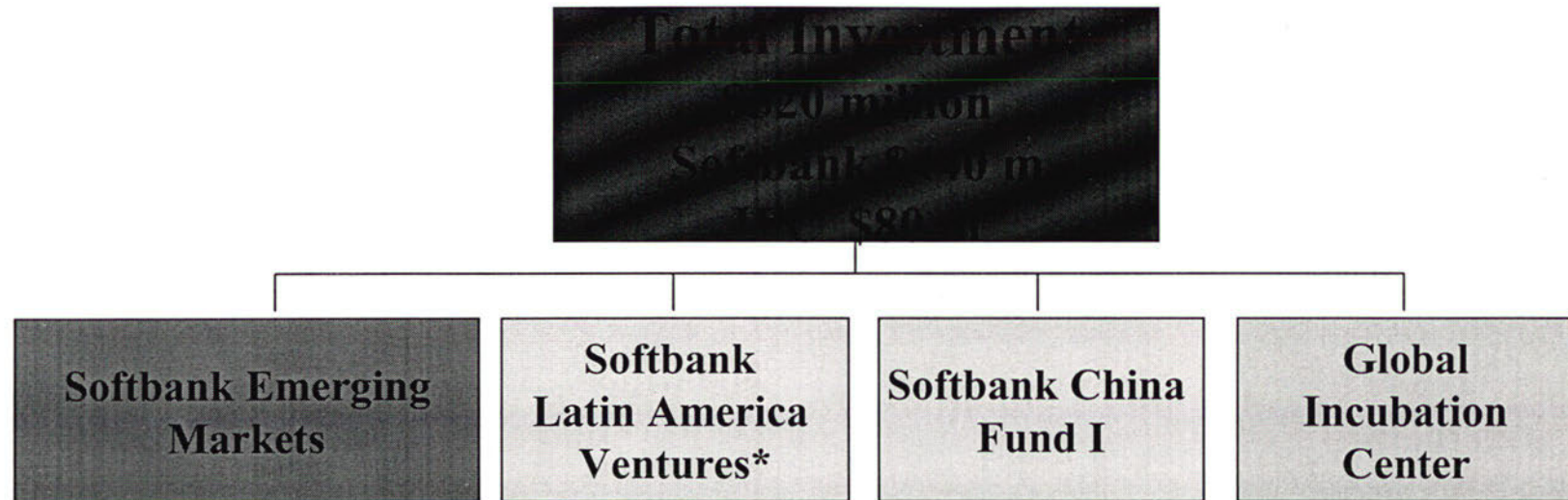
infoDev: Taxonomy of Completed and Active Projects

Active and Completed Projects by Category & Main Activity

Activities & Categories	Telecoms	Internet	Education	Health	Environment	Government	E-Commerce	Total
Networks and Communities of Interest	2	6	2	2	3		1	14
Policy	1	4	.	.			1	18
Capacity Building	8	7	2	2	4		2	25
Pilot and Demonstration	2	3	5	7	5	6	2	30
Total	25	20	9	11	11	6	6	87

December, 1999

ICTs for ECONOMIC GROWTH



Softbank	150	135	135	17.5
IFC	50	15	15	2.5
Project Cost (Millions \$)	200	150	150	20.0

** Mexico, Brazil, and Argentina are Primary Targets*

ICTs for improved social services: EDUCATION



The screenshot shows the WorLD website interface within a web browser window. The browser's address bar and toolbar are visible at the top. The website header includes "THE WORLD BANK GROUP", language links for "Français" and "Español", the slogan "A World Free of Poverty", and a "HOME" button. A navigation menu on the left lists "World home page", "about the WorLD program", "Countries", and "Resources". The main header features the "WorLD" logo with the tagline "World Links for Development" and the subtitle "... opening a world of learning". To the right of the logo is a sidebar with links: "School Internet Projects", "Discussion forum", "Contacts - find a partner", and "Help - site map". Below the header, a breadcrumb trail reads "You are here: Home". A large text block describes the WorLD program: "The World Links for Development (WorLD) program provides Internet connectivity and training for teachers, teacher trainers and students in developing countries in the use of technology in education. WorLD then links students and teachers in secondary schools in developing countries with schools in industrialized countries for collaborative learning via the Internet." To the left of this text is a small image of two children. Below the main text are several sections: "news" with a list of 9 items (1. SRI report, 2. Training updates, 3. Uganda Schoolnet formed!, 4. neat projects, 5. spotlight on Chile, 6. I*EARN reminder, 7. Schools Online, 8. Y2K, 9. Cool sites) and a "subscribe to our newsletter!" link; "about WorLD" with a description of the program; "countries" with a list of participating countries and local programs; "school Internet projects" with a list of projects; "resources" with a list of teaching and technical materials; "discussions" with a list of discussions; and "program status" with a table showing the number of pilot schools, developing countries, other countries, and teachers trained. A "search" button is located at the bottom right of the main content area. The footer includes a "QuickLinks" section and a small image of a person's face.

THE WORLD BANK GROUP

Français | Español

A World Free of Poverty

HOME

World home page

about the WorLD program

Countries

Resources

WorLD World Links for Development ... opening a world of learning

School Internet Projects

Discussion forum

Contacts - find a partner

Help - site map

You are here: Home

The World Links for Development (WorLD) program provides Internet connectivity and training for teachers, teacher trainers and students in developing countries in the use of technology in education. WorLD then links students and teachers in secondary schools in developing countries with schools in industrialized countries for collaborative learning via the Internet.

news

latest news

1. SRI report
2. Training updates
3. Uganda Schoolnet formed!
4. neat projects
5. spotlight on Chile
6. I*EARN reminder
7. Schools Online
8. Y2K
9. Cool sites

subscribe to our newsletter!

about WorLD

who we are & what we do, plus news, partners, videos, and more ...

countries

participating countries and local WorLD programs...

school Internet projects

projects that WorLD schools are doing -- or have already done...

resources

teaching and technical materials and links for schools...

discussions

the WorLD brainstorming center for training activities

program status

320	pilot schools connected in
15	developing countries, partnered with schools in
25	other countries
1240	teachers trained

search

QuickLinks

WorLD

Provides Internet connectivity and training in the use of technology.

This program is operational in 15 countries, involving 40,000 developing country teachers and students, 65% from outside the capital cities. They are working with teachers and students from over 750 schools in the developed countries.

Other Important Initiatives and Partnerships

- **African Virtual University -- networked learning centers for distance education hosted by African universities**
- **Global Distance Learning Network -- supporting learning through video-conferencing, the Internet and print**
- **Knowledge Assessments/WBI**
- **Global Knowledge Partnership**
- **Global Development Network (networking social sciences research centers)**
- **The Global Development Gateway**



Global Development Gateway Main Page (draft)

[My E-mail](#) • [Projects](#) • [Directories](#) • [Maps](#) • [Site Map](#) • [Partners](#) • [Contact Us](#) • [Help](#)

 **GlobalGateway**

Member Log-in

Search: All GO

Choose your Community:


Civil Society


Government


Private Sector


Donor Agencies

Select a Language GO

Select a Country GO



Welcome to your Network of Development Solutions

Topics

Aid Effectiveness
HIV/AIDS
Agriculture
Development Operations & Activities
Education
Energy
Environment
Finance
Governance
Health & Nutrition
Human Settlements
Indigenous People
Industry & Mining
Informatics

International Economics & Trade
Labor & Social Protections
Law and Justice
Macroeconomics & Economic Growth
Population
Poverty
Private Sector Development
Science & Technology
Social & Cultural Development
Telecommunications & Communication Systems
Transport
Water Supply & Sanitation

Ask A Question | Contribute Content | How Helpful is this Page?

CIVIL SOCIETY

[Home](#) • [My E-mail](#) • [Projects](#) • [Directories](#) • [Maps](#) • [Site Map](#) • [Partners](#) • [Contact Us](#) • [Help](#)



GlobalGateway

Civil Society

Search:

All

GO

[Home](#)

[Communities](#)

[Governments](#)

[Private Sector](#)

[Donor Agencies](#)

[NGOs](#)

[Indigenous People](#)

→ Your Topics

[HIV/Aids](#)
[Biodiversity](#)
[Civic Engagement](#)
[Community](#)
[Development](#)
[Children](#)
[Conflict and Development](#)
[Debt Relief](#)
[Environment](#)
[Emergency Relief](#)
[Food Security](#)
[Gender](#)
[Global Trade](#)
[Globalization](#)
[Slum Upgrading](#)
[Governance](#)
[Human Rights](#)
[Immunization](#)
[Indigenous Peoples](#)
[Literacy/Basic Education](#)
[Microfinance](#)
[Participation](#)
[Poverty](#)
[Refugees](#)
[Social Protection](#)
[Social Exclusion](#)
[Social Justice](#)
[Women's Health](#)

→ General Guides

[Aid Effectiveness](#)
[HIV/AIDS](#)
[Agriculture](#)
[Education](#)
[Energy](#)
[Environment](#)
[Finance](#)
[Governance](#)
[Health & Nutrition](#)
[Human Settlements](#)
[Industry & Mining](#)
[Informatics](#)
[Poverty](#)
[+ 20 more ...](#)

Breaking News

► World Summit for Social Development

Special Session on June 26-30, 2000 at the United Nations General Assembly on Social Development.

► Voices of the Poor

A participatory Consultations study to learn from the poor about poverty and development for the World Development Report 2000/2001.

► The State of the World's Children 2000

UNICEF Report on a vision for the next Millenium to secure the rights of all children.

[more breaking news...](#)



One of our partners

Innovations

Fostering Civic Engagement

Peru pilot - Civil Society engaged in local decision making

Promote and Build Network

Grassroots Knowledge Sharing

Grassroots knowledge sharing

Addressing the Digital Divide

With all its advantages, the Internet hits up against barriers in developing countries that will take many years to overcome. Indeed the very advantages that come with the Internet may exacerbate the power differential between those who can get access to it and those who cannot.

Features - Community Radio

Broadcasting and the Internet in Developing Countries

All India Radio

Centro de Comunicación y Desarrollo Andino - CENDA

Kothmale Community Radio Internet Project

Communities

[Civicus](#)
[The Association for Progressive Communications- APC](#)
[EcuaNex](#)
[Fundacion Chasquinet](#)
[International Development Network](#)
[Women Watch](#)
[Convention on Biological Diversity- Clearing House Mechanism](#)
[Microcredit Summit](#)
[MicroFinance Network](#)

Tools

[Funding Matchmaker](#)
[Project Finder](#)
[IDN Training Network](#)
[NGOs and the Internet](#)

Directories

[Action without Borders](#)
[Summit of the Americas](#)

Databases

[Indev- India Development Network](#)
[Ceiba- Central American NGOs](#)
[GuideStar](#)
[Foundation Center](#)

Discussions

[Development Forum](#)
[Online Discussion on Partnering with Civil Society](#)
[Africa Policy](#)
[Information Center- Electronic Roundtable](#)

MAYOR'S PAGE

Home • My E-mail • Projects • Directories • Maps • Site Map • Partners • Contact Us • Help



GlobalGateway

The Mayors Page

Search:

All

GO

Home

Communities

Governments

Private Sector

Donor Agencies

Mayor

→ Your Topics

Corruption
Disaster Management
Employment
Environment
Finance
Governance
Housing
Local Economic Dev't
Management
Poverty
Procurement
Service Delivery
Slum Upgrading
Taxation
Transportation
Water

→ General Guides

Aid Effectiveness
HIV/AIDS
Agriculture
Education
Energy
Environment
Finance
Governance
Health & Nutrition
Human Settlements
Industry & Mining
Informatics
Poverty
+ 20 more ...

Breaking News

- ▶ Surveys Rank Unemployment As Number One Concern For Mayors
- ▶ Study Shows Direct Link Between Crime and Neighborhood Design
- ▶ India Repeals its Urban Land Ceiling and Regulation Act

[more breaking news...](#)



One of our Partners

Innovations

A One - Stop Shop for City Services in Brisbane

Brisbane City Council produces an integrated approach to the delivery of services to its customers. Now it is marketing its customer service idea internationally.

Water Treatment Kiosks

The water treatment kiosk, sold by Aqua Technique in Paris, is a device designed to be installed in hospitals, schools, bus stations and similar locations. It avoids contamination by treating water at the point of consumption and is a compact, container-sized unit that can be connected to local networks or bore holes.

[more innovations...](#)

Features

Where the Public Controls the Purse Strings

Inspired by the political philosophy of the former mayor, Tarso Genro, the people of this city are making the decisions of government through a new form of participatory budgeting process in Belo Horizonte Brazil. How does the process work; did it succeed; who was involved? more...

Linking Africa's Farms and Cities

As cities across Africa demand more abundant and affordable food supplies, local officials look for ways to improve systems that have always relied on personal relationships and cultural ties, not formal markets or government regulations. Building Links Between Africa's Farms And Cities

Homebuilder for the Philippino Poor

Manuel Villar made millions selling low cost homes to the Philippino poor. Then he entered politics and became Speaker of the House of Representatives. Now he is trying to do something about the nations shortage of 3 million homes.

Calendar of Events

Urban conferences, distance learning, professional training, etc.
Calendar of international water events

Survey

[Survey Results](#)

Tools

Local Government
Investment and Access to Markets
Role of Financial
Mediation for Local Governments
Links to Capital Markets Infrastructure
Municipal Governance and Management
Project Finder

Discussion Groups

[One World Europe Think Tank](#)

City Resources

News Sources

The U.S. Conference of Mayors Newspaper
International Water Resource Association
Texas Newsletters
U.S. Environmental Protection Agency newsletters

Databases

[Slum Upgrading Database, Cities](#)

PRIVATE SECTOR

[Home](#) • [My E-mail](#) • [Projects](#) • [Directories](#) • [Maps](#) • [Site Map](#) • [Partners](#) • [Contact Us](#) • [Help](#)



GlobalGateway

Private Sector

Search:

All

GO

[Home](#)

[Communities](#)

[Governments](#)

[Private Sector](#)

[Donor Agencies](#)

[My Marketplace](#)

→ Your Topics

[FDI Analysis Online](#)
[Investment Promotion](#)
[Business Guide By Region](#)
[Business Guide By Sector](#)
[Resources Online](#)
[Capital Markets](#)
[Country Risk Insurance](#)
[E-commerce](#)
[Funding Sources](#)
[Public-Private Infrastructure Initiatives](#)

→ General Guides

[Aid Effectiveness](#)
[HIV/AIDS](#)
[Agriculture](#)
[Education](#)
[Energy](#)
[Environment](#)
[Finance](#)
[Governance](#)
[Health & Nutrition](#)
[Human Settlements](#)
[Industry & Mining](#)
[Informatics](#)
[Poverty](#)
[+ 20 more ...](#)

Business Opportunities



Powered by:

MIGA's IPAnet

One of our partners

MarketMatch

Services that facilitate business by linking firms, projects, opportunities and resources.

Global Investment Exchange

Weekly web and e-mail based information service providing investment opportunities and related business information.

Development Business Online

Information about new procurement and sub-contracting opportunities arising from development bank lending and purchasing activities of governments around the world.

PrivitizationLink

Country and sector information service featuring detailed profiles of enterprises slated for divestiture in emerging markets.

Investment Promotion Network (IPAnet)

Global clearinghouse of investment and business information.

New Ideas

African Connection

This French and English Website provides a comprehensive database on the telecommunications sector in Africa.

PrivatizationLink Russia

Bilingual service featuring profiles of privatization-related investment opportunities in Russia.

Directories

[Organizations by Type](#)
[Organizations by Region](#)
[Organizations by Sector](#)

Discussions

[WAIPA Discussion Forum](#)
[Investor Testimonials](#)

Events Calendar

[Investment Promotion Events](#)

News

[Investment Promotion News](#)
[Northern Light business and finance news](#)
[IPAnet Briefing](#)

Perspectives

[Environment and Business](#)
[Gender and Business](#)
[Small Business](#)

MarketPlace

[Shopping Mall in Uganda Seeks Investors](#)
[National Housing Corporation](#)

AID EFFECTIVENESS

Home • My E-mail • Projects • Directories • Maps • Site Map • Partners • Contact Us • Help

 **GlobalGateway**

Aid Effectiveness

Search: All GO

Home : Aid Effectiveness

→ Aid Eff. Topics

Aid Conditionality
Aid Coordination
Aid Dependence
Aid Evaluation
Aid Management
Aid Policy

→ General Topics

Aid Effectiveness
HIV/AIDS
Agriculture
Education
Energy
Environment
Finance
Governance
Health & Nutrition
Human Settlements
Industry & Mining
Informatics
Poverty
+ 20 more ...

Spotlight

Conclusions on the First Generation of Aid to the Sahel

In preparation for the second generation of development cooperation with the Sahel, the partners in the Club du Sahel decided to examine what lessons could be learned from the experience of the last 25 years.

Assessing Aid - What Works, What Doesn't, and Why

Aid is a combination of money and ideas. Money has a big impact, but only if countries have good economic institutions and policies. The ideas side of aid is critical for helping countries reform and for helping communities effectively provide public services.

Key Issues & Questions

How does the extent of civil liberties and democracy in a country affect the performance of its government's investment projects?

Empirical analysis demonstrates that the extent of civil liberties in a country affects the performance of a government's investment projects. This finding contributes to accumulating evidence that the degree to which citizens' "voices" in the public sphere are repressed or are allowed to be "heard" has an important influence on whether the accountability necessary for government efficacy will be created. In what is perhaps a surprising contrast, there is no clear relationship between indicators of electoral politics or "democracy" and the performance of government investments.

More Questions

Can Aid Conditionality Help Governance Reform?



Selected Links on Aid Effectiveness

Aid Effectiveness as a Multilevel Process

A closer look at the organisational complexities and political constraints under which development cooperation is expected to perform effectively may help to improve current aid management approaches.

Aid Dependence Reconsidered

When foreign aid undermines institutions, countries can become aid-dependent - even if donors and recipients have the best intentions.

Community Contributions today

Contribution One

Nice contributor-supplied abstract for Contribution One including the type of resource.

Your Guide on Aid Effectiveness



Heidemarie Wiczorek-Zeul

Communities

Euforic

Directories

Multilaterals &
Bilaterals
Government Agencies

Discussion Forums

Aid Effectiveness
Forum

Event Calendar

Euforic Agenda

News Sources

MandE News

Tools

Funding Matchmaker
Project Finder

Web Resources

Aid Effectiveness
Aid Evaluation
Aid Management
Aid Policy

COUNTRY GATEWAYS

Home • My E-mail • Directories • Maps • Site Map • Partners • Contact Us • Help

GlobalGateway **Romania**

Search: All

Select a Country

Home Communities Governments Private Sector Donor Agencies

→ Economy & Reform

Macroeconomy
Key Statistics
Economic Sectors
Analysis
Reform Process
Weekly Update

→ Marketplace

Business Environment
Investment
Banking
Capital Market
Privatization
Companies &
Industries

→ Comprehensive Development Framework

The CDF in Action in
Romania
Results and Feedback
CDF - Create a Sense
of Urgency
CDF - Source of
Potential Change
CDF in Romanian
Media

→ Legal Framework

Investment
Privatization
Banking & Finance
Trade & Taxes
Others
Consulting

→ General Guides

Aid Effectiveness
HIV/AIDS
Agriculture
Education
Energy
Environment
Finance
Governance
Health & Nutrition
Human Settlements
Industry & Mining
Informatics
Poverty
+ 20 more ...

News

Access to the former Securitate files still blocked

The Parliament approved Wednesday the membership of the College to analyze the Securitate Archives. The Chamber of Deputies and the Senate approved Wednesday the membership of the National Board College for the Analysis of the Securitate Archives in absence of the opposition parties.

[read full article](#)

[Source](#) Monitorul online



Features

Andrew Vorking, World Bank's Country Director for Romania and Bulgaria, about CDF

Comprehensive
Development
Framework



Romania Links

Arts

Organizations, Publications, Artists, Events

Business

Business Opportunities, Companies, Employment, Classified, Finance, E-commerce

Legislation

Authorities, References, Publications

Education

Universities, Research Institutes, High Schools, Publications, Distance Learning

Reference

Yellow Pages, White Pages, Web Directories, Dictionaries

News & Media

Newspapers, Magazines, Radio, TV, E-zines

Travel & Leisure

Tourism Agencies, Sports, Resorts, Publications, Transportation

Sciences

Medicine, Geography, History, Mathematics, Physics, Biology, Social Science

Directories

Government
Directories
Multi Government
Listings
The Municipal Yellow
Book

News

Latest News
Press Reviews
Media Directory
Archives

Statistics

World Development
Indicators

Currencies

1USD	18400ROL
1UK	20000ROL
1FR	10000ROL

Weather

Bucarest	14 C
Lasi	3 C
Timisoara	15 C

Stocks

Shanghai	28.23
Nikkei	28.23
Nasdaq	9.62
Straits	122.39

CONTENTS

<u>ARTICLE</u>	<u>SOURCE</u>	<u>DATE</u>
----------------	---------------	-------------

A. JAN KRZYSZTOF BIELECKI

Bielecki Profile

“Poland’s Economy: Immune to Political Crisis?”	Polish News Bulletin	6/07/00
“Bielecki: Budget Immune to Government Crisis”	PAP News Wire	5/30/00
“Poland’s Former Premiers Urge Joint Effort toward ...”	IPR SBI Database	5/14/00
“Zloty Falls Nearly 4 Percent”	Polish News Bulletin	5/08/00
“On Poland’s Bid for Rapid Integration with the EU”	Polish News Bulletin	5/08/00

B. KENNETH COURTIS

Courtis Profile

The Monetary Influence, by Kenneth Courtis	Tradewinds-tv.com	
“China: The Macroeconomic Picture”	Canada China Business Council	
“India Undertaking the Next Phase of Reforms...”	ciionline.org	12/06/99
Article: “There is a Way Out” by Kenneth Courtis	TIME Asia	2/09/98
“Taiwan Newspaper Highlights”	Asia Pulse	6/08/00
“Experts Optimistic on Taiwan’s Success in New Economy”	Central News Agency	6/07/00
“Reversal of Fed Policy forecast to benefit HK”	South China Morning Post	5/17/00
“Asian Storm: The Economic Crisis Examined”	Japan Times	5/16/00
“Sony Recharges its Batteries with an Internet Strategy”	LA Times	5/14/00
“China Bans New Investment”	BBC News	8/23/99
“Asia Seeks its Own Path to Globalization”	LA Times	8/11/99
“Davos Snow Job”	Asia Times	2/02/99

C. JOHN GANNON

Gannon Profile

“Serious Disease Threat”	Augusta Chronicle	4/29/00
“Assessing Threats to US Security”	Arkansas Democrat-Gazette	4/23/00
SPEECH: “Global Economic Intelligence”	www.cia.gov	10/31/97
SPEECH: “The Outlook for China”	www.cia.gov	11/20/96

D. GORDON SMITH

Smith Profile

Book Review: “Altered States”	IIRDC Booktique CRDI	
PRESS RELEASE: “New Book Proposes Central Action...”	www.irda.ca	3/23/00
PRESS RELEASE: “New Chairman at IDRC’s Board...”	www.irda.ca	8/07/97

PROFILE



Dr. Gordon S. Smith

President, Gordon Smith International

Dr. Gordon Smith is presently President of Gordon Smith International. In 1997, Gordon Smith was appointed Chairman of the Board of Governors of the International Development Research Centre (IDRC). From 1994 until recently, Dr. Smith was Deputy Minister of Foreign Affairs. He was also the Prime Minister's personal representative (Sherpa) for economic summits. In June 1997, he retired from the Public Service after 31 years of service.

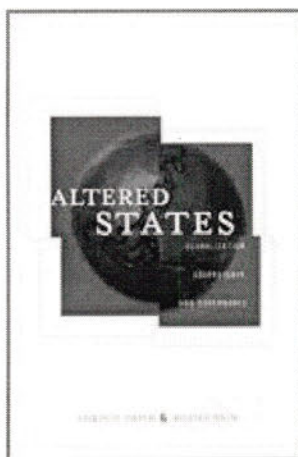
Gordon Smith was also recently appointed as Senior Fellow to the newly created Liu Centre for International Studies at the University of British Columbia and as advisor on globalization to the President of the University of Victoria. Gordon Smith has a doctorate in Political Science from the Massachusetts Institute of Technology (MIT).

During his long career in the Public Service, Dr. Smith held a variety of postings. Among these, he was Ambassador and Head of Mission of Canada to the European Union in Brussels (1991 to 1994); Secretary to the Cabinet for Federal-Provincial Relations (September 1990 to June 1991), where he worked as the Government's senior advisor on unity and constitutional questions; and Ambassador and Permanent Representative of Canada to NATO (1985 to 1990).

From 1981 to 1984, Dr. Smith was Secretary of the Ministry of State for Social Development; in 1980-81, he worked as Deputy Under-Secretary of State for Management and Planning in the Department of External Affairs; and from 1972 to 1980, he was in succession Deputy Secretary (Plans), Senior Assistant Secretary (Machinery of Government) and Director of Government Organization at the Privy Council Office.



booktique
IDRC · CRDI · CIID



Altered States

Globalization, Sovereignty, and Governance

Gordon Smith and Moisés Naím

IDRC 2000, ISBN 0-88936-917-8, \$15

96 pp., paper, 5¾" x 8¾"

Version française

The dangerous turmoil is plain to see in the everyday failures of governments. Economic insecurity, polluted environments, the transfiguring power of global media, brooding conflicts of tribe and territory: all confound the capacity of even the most powerful state to govern alone, even on its own territory. For all the opportunities that globalization promises, it raises urgent questions of governance. Can states any longer govern? Has the achievement of democratic government come too late for most of the world? Can globalization be democratized?

In ***Altered States***, Gordon Smith and Moisés Naím provide practical recommendations for improved governance and for strengthening and reforming the United Nations. They explore the dynamics of globalization and discuss what makes today's globalization distinct. They test the prevailing wisdom about sovereignty and state capacity, and sort out the humbug. They consider whether sovereignty itself is an impediment or a requirement to security and prosperity. And, in three urgent areas ripe for progress — preventing deadly conflict, providing opportunities for the young, and managing the many harms of climate change — they advance plans of action by which states, with others in the global community, can govern successfully in the future.

The message of ***Altered States*** is one of both hope and warning: globalization opens great possibilities of prosperity, security, and human well-being, but only if new ways of governance are constructed. The United Nations must lead in this process and, at the Millennium Assembly in September, seize the opportunity to reconstruct our future.

The Authors

Gordon Smith is Director of the Centre for Global Studies at the University of Victoria and a Senior Fellow in the Liu Centre at the University of British Columbia, Canada. He is Chairman of the Board of Governors of Canada's International Development Research Centre and the Canadian Institute for Climate Studies, and directs the Canadian Global Change Program. Previously, Dr Smith was Deputy Minister of Foreign Affairs and Personal Representative of the Prime Minister of Canada for the G7 and G8 summits. He has also served Canada as its Ambassador to NATO and as its Deputy Minister of Social Development. Dr Smith was educated at McGill University and received his doctorate from the Massachusetts Institute of Technology.

Moisés Naím is the Editor of *Foreign Policy* magazine. He has written extensively on the political economy of international trade and investment, multilateral organizations, economic reforms, and on globalization. He is the author or editor of eight books and of numerous articles. Dr Naím served as Venezuela's Minister of Trade and Industry and played a central role in the initial launching of major economic reforms in 1989. Preceding his ministerial position, Dr Naim served as Professor and Dean at the Instituto de Estudios Superiores de Administración in Caracas. Between 1992 and 1996, he was the Director of the Projects on Economic Reforms and on Latin America at the Carnegie Endowment for International Peace in Washington, DC. Dr Naim has also been associated with the World Bank, first as an executive director and some years later as Senior Adviser to the President. Dr Naím holds doctorate and master's degrees from the Massachusetts Institute of Technology.

Contents

[Foreword](#) — *Maureen O'Neil (President, IDRC)*

[Preface](#)

[Executive Summary](#)

[Introduction](#)

GLOBALIZATION: HOPES AND WARNINGS

Globalization challenges and reinforces the power of the state. Governance is tested in a turbulent confusion of opportunity, insecurity, and anxiety. The Millennium Assembly of the United Nations offers the chance for productive debate on how humankind will govern itself in the global village.

[Part 1](#)

SOVEREIGNTY AND GLOBALIZATION: GOVERNMENT IN A STATE OF CONFUSION

What do the World Bank, Microsoft, and Greenpeace have in common? The noisy town square of world politics is populated by all manner of nonstates. Part 1 explores how failures of governance are related to pressures of globalization. It then suggests how governments might respond to urgent problems of peace and security, social equity, and protecting the global environment.

[Part 2](#)

FOR THE MILLENNIUM ASSEMBLY:
THREE IMPERATIVES OF GOVERNANCE

Preventing deadly conflict, providing opportunities for the young, and managing climate change - three urgent obligations of governance. Part 2 examines these imperatives in their complex dimensions: South-North; foreign-domestic; public-private. Practical recommendations for improved governance are proposed for the consideration of the Millennium Assembly.

Conclusion

GOVERNING PRINCIPLES:
THE UNITED NATIONS AND THE MILLENNIUM ASSEMBLY

Globalization demands that we develop new forms of governance. And, as a natural nexus to the growing global networks of governance, the United Nations can lead in this process. Just as in 1944 at Bretton Woods, in Manhattan at the turn of the millennium, we can seize the opportunity to reconstruct our future.

Appendices

1. Sources and Resources
2. Friends of the United Nations
3. List of Acronyms
4. The Authors, the Publisher, and the Sponsor

ID #: ISBN 0-88936-917-8

Price • Prix • Precio : **\$15.00**

Quant.: Add • Ajoutez • Añadir



basket • panier • bandeja



Copyright 1999, 2000 © IDRC CRDI
International Development Research Centre /
Centre de recherches pour le développement international
PO Box 8500
Ottawa, Canada / K1G 3H9
pub@idrc.ca

News Releases

idrc.ca

[Media Home Page](#)

[Search](#)

[Site Map](#)

[IDRC Home Page](#)

► FRANÇAIS

FOR IMMEDIATE RELEASE : March 23, 2000

NEW BOOK PROPOSES CENTRAL ACTION ROLE FOR A RENEWED UN

OTTAWA - On Thursday March 16, 2000, Maurice Strong, as Special Advisor on United Nations Reform, accepted, on behalf of Kofi Annan, Secretary General of the United Nations, a copy of the new book ***Altered States - Globalization, Sovereignty, and Governance*** published by Canada's International Development Research Centre.

In ***Altered States***, the authors, Gordon Smith, Director of the Centre for Global Studies at the University of Victoria B.C., and Moisés Naím, Editor of Foreign Policy magazine, provide practical recommendations for improved governance and for strengthening and reforming the United Nations.

"There are many books today that describe the horrors and tragedies of today's world and even some that trace the causes of the turmoil," said Mr Strong. "***Altered States*** offers constructive solutions that will allow nations not only to weather the problems of the new Millennium, but to adapt and rise above them." Mr Strong added that ***Altered States*** reinforces the need for a strong UN that can lead the world into a peaceful global democratization.

The authors explore the dynamics of globalization and discuss what makes today's globalization distinct. Smith and Naím test the prevailing wisdom about sovereignty and state capacity, and sort out the humbug. They consider whether sovereignty itself is an impediment or a requirement to security and prosperity. And, in three urgent areas ripe for progress — preventing deadly conflict, providing opportunities for the young, and managing the many harms of climate change — they advance plans of action by which states, with others in the global community, can govern successfully in the future.

The message of ***Altered States*** is one of both hope and warning: globalization opens great possibilities of prosperity, security, and human well-being, but only if new ways of governance are constructed. The United Nations must lead in this process.

"IDRC believes that the United Nations is the forum to address these challenges."

IDRC believes that the United Nations is the forum to address these challenges, commented Maureen O'Neil, President of IDRC. "But to be an effective forum, the UN needs to find itself at the centre of improved global governance. The authors of ***Altered States*** propose such an agenda."

Altered States was commissioned in 1999 by the United Nations Foundation and its Better World Fund as a contribution to preparations for the UN Millennium Assembly, to be held in September 2000.

The International Development Research Centre (IDRC) is a public corporation created by the Parliament of Canada in 1970 to help developing-country scientists and communities find their own solutions to social, economic and environmental problems through research. By bringing together people, institutions and ideas, IDRC tries to ensure that the benefits of this research will be shared equitably among all its partners in the North and the South.

- 30 -

ATTENTION : REVIEW COPIES FOR MEDIA ARE AVAILABLE

Please contact:

Diane Hardy, Head, Media Relations

IDRC- CRDI, PO Box 8500 Ottawa, (On) K1G 3H9 Canada

Tél. : (613) 236-6163, ext. 2570 – Fax: (613) 563-2476

E-mail : dhardy@idrc.ca – Web : <http://www.idrc.ca>

Scott Phipps, Media Relations, IDRC, Ottawa -- Tel : (613) 236-6163, ext. 2123

FULL-TEXT ONLINE AVAILABLE AS WELL AT:

http://www.idrc.ca/booktique/index_e.cfm

ABOUT THE AUTHORS

Gordon Smith is Director of the Centre for Global Studies at the University of Victoria and a Senior Fellow in the Liu Centre at the University of British Columbia, Canada. He is Chairman of the Board of Governors of Canada's International Development Research Centre and the Canadian Institute for Climate Studies, and directs the Canadian Global Change Program. Previously, Dr Smith was Deputy Minister of Foreign Affairs and Personal Representative of the Prime Minister of Canada for the G7 and G8 summits. He has also served Canada as its Ambassador to NATO and as its Deputy Minister of Social Development. Dr Smith was educated at McGill University and received his doctorate from the Massachusetts Institute of Technology.

Moisés Naím is the Editor of Foreign Policy magazine. He has written extensively on the political economy of international trade and investment, multilateral organizations, economic reforms, and on globalization. He is the author or editor of eight books and of numerous articles. Dr Naím served as

Venezuela's Minister of Trade and Industry and played a central role in the initial launching of major economic reforms in 1989. Preceding his ministerial position, Dr Naim served as Professor and Dean at the Instituto de Estudios Superiores de Administración in Caracas. Between 1992 and 1996, he was the Director of the Projects on Economic Reforms and on Latin America at the Carnegie Endowment for International Peace in Washington, DC. Dr Naim has also been associated with the World Bank, first as an executive director and some years later as Senior Adviser to the President. Dr Naim holds doctorate and master's degrees from the Massachusetts Institute of Technology.

[Return to Top of News Release](#)

[Return to the News Release Index](#)

Copyright 2000 © International Development Research Centre, Ottawa, Canada media@idrc.ca

|

23 March 2000

[Media Home Page](#) | [Search](#) | [Site Map](#) | [IDRC Home Page](#)

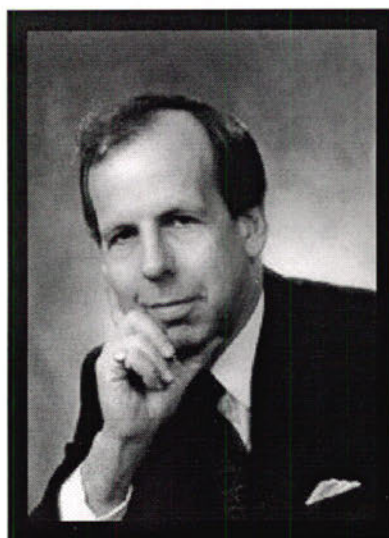


IDRC: Institution Media

FOR IMMEDIATE RELEASE : AUGUST 7 , 1997

NEW CHAIRMAN AT IDRC'S BOARD OF GOVERNORS

OTTAWA -- In a news release issued June 25, 1997, the Prime Minister of Canada, the Right Hon. Jean Chrétien, announced the appointment of Dr. Gordon S. Smith as Chairman of the Board of Governors of the International Development Research Centre (IDRC).



"We are very happy with this appointment and we are sure Dr. Smith's vast experience in the international field will benefit IDRC", commented Ms. Maureen O'Neil, President of IDRC.

From 1994 until recently, Dr. Smith was Deputy Minister of Foreign Affairs. He was also the Prime Minister's personal representative (Sherpa) for economic summits. In June 1997, he retired from the Public Service after 31 years of service. Gordon Smith was also recently appointed as Senior Fellow to the newly created Liu Centre for International Studies at the University of British Columbia and as advisor on globalization to the President of the University of Victoria.

Gordon Smith has a doctorate in Political Science from the Massachusetts Institute of Technology (MIT). During his long career in the Public Service, Dr. Smith held a variety of postings. Among these, he was Ambassador and Head of Mission of Canada to the European Union in Brussels (1991 to 1994); Secretary to the Cabinet for Federal-Provincial Relations (September 1990 to June 1991), where he worked as the Government's senior advisor on unity and constitutional questions; and Ambassador and Permanent Representative of Canada to NATO (1985 to 1990).

From 1981 to 1984, Dr. Smith was Secretary of the Ministry of State for Social Development; in 1980-81, he worked as Deputy Under-Secretary of State for Management and Planning in the Department of External Affairs; and from 1972 to 1980, he was in succession Deputy Secretary (Plans), Senior Assistant Secretary (Machinery of Government) and Director of Government Organization at the Privy Council Office.

The International Development Research Centre (IDRC) is a public corporation created by the Parliament of Canada in 1970 to help developing-country scientists and communities find solutions to social, economic and environmental problems through research. By bringing together people, institutions and ideas, IDRC tries to ensure that the benefits of this research will be shared equitably among all its partners in the North and the South. The Board is international, consisting of 11 Canadian members and 10 non-Canadian members.

- 30 -

Information:

Diane Hardy , Head, Media Relations, IDRC

Tel.: (613) 236-6163, ext. 2570

Fax: (613) 563-2476

Internet: dhardy@idrc.ca

Web Site: www.idrc.ca

Mike Boulet, Media Relations Assistant, IDRC

Tel.: (613) 236-6163, ext. 2108

Fax: (613) 563-2476

Internet: mboulet@idrc.ca

[Resources](#) | [Research Programs](#) | [The Institution](#) | [CRDI en français](#)

PROFILE



Kenneth Courtis

Vice Chairman, Goldman Sachs

Professor Kenneth S. Courtis is a Vice-Chairman at Goldman Sachs, where he has served as a managing director. Previously, Courtis was First Vice-President of Deutsche Bank Asia Pacific. As Strategist and Chief Economist, he conducted economic and policy research, investment and strategic analysis throughout the Asia-Pacific, in Europe and North America.

He has won numerous prizes and distinction for his research and is an adviser on international economic, financial and investment matters. He has lectured and written widely on the related fields of international finance, macro-economic policy, global capital markets and strategy.

His recent book on Japan's financial crisis and policy prescription has gone to a second printing and has had a wide influence both in Japan and internationally. His articles and comments have appeared in *Euromoney*, the *Harvard Business Review*, the *Financial Times*, *Nihon Keizai*, *Foreign Affairs*, *Forbes*, *Fortune*, *Business Week*, *Business Tokyo*, *The Economist*, and numerous leading international publications.

Professor Courtis lectures on international economics at Keio and Tokyo Universities, and is Visiting Professor of the Stockholm School of Economics. After graduating with honors from Glendon College in Toronto, Mr. Courtis took an M.A. in international economics at Sussex University, England, an M.B.A. in finance and strategy at INSEAD, (European Institute of Business Administration), and a Doctorate, with honors and the highest distinction, at the Institute of Economic and Political Studies in Paris.

Dr. Courtis serves on the International Research Council of the Center for International and Strategic Studies (CSIS) in Washington. He is also a member of the advisory boards of the international M.B.A. program of York University in Toronto, and of the Economic Strategy Institute in Washington.

Magazines

Business Centres

Tradewinds*The Why's***The Monetary Influence**

Prevailing exchange and interest rates have a strong impact on the financing and profitability of exporting companies. They are impossible to predict and thus, cannot be controlled. **Kenneth Courtis**, vice president of the Deutsche Bank, believes that the best shelter from rate fluctuations lies in exporting products which are unique and in strong demand. If this is the case, the buyers will absorb the risks.

An Unpredictable Force

Today's financial markets are a permanent constraint for companies, particularly small and mid-size companies. Their survival depends on interest rates, foreign exchange rates, and the availability of investment funds.

Interest Rates: The cost of credit is determined by supply and demand. Money has a price, just like bananas, which is set by those who have it and those who want it to invest, or to spend. The way financial markets manage the relative shortage of available money creates a situation in which there are winners and losers.

Currency Exchange Rates: The currency exchange rate is also determined by the relationship of supply and demand. Currency supply stems from the monetary policies of central banks, and the demand for a currency comes from the perception that world markets have of its value, and the extent to which it is involved in the world economy - if it is used by other countries in their transactions, like the U.S. dollar is today.

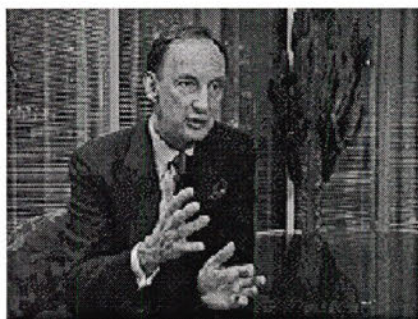
Interest rates and currency exchange rates are key elements in the cost structure of an exporting venture. While the cost of production can stay within a certain margin, the money rates cannot be calculated with any safety. In the case of a small or mid-size company that exports, the exchange rate is critical when placing a product in a foreign market. A sudden fluctuation in the exchange rate can wipe out an exporting venture by destroying the competitive base.

Because small and mid-size companies are more and more involved in exporting, they are more at risk of having their profits disappear if the currency moves in the suddenly wrong direction. They are, by definition, too small to impose themselves on others and to negotiate contracts which protect them from fluctuations in currency rates. To stay competitive today, smaller companies should not try to speculate on currency or interest rate movements, but should provide products

for which there is a strong demand.

An Indispensable Product Stays Competitive

As the world economy becomes integrated, management will grow more complex for small and medium-sized companies. They are obliged to export and they cannot hope to escape the great gales that shake the global market. The best long-term protection and the most viable strategy for them is to become indispensable to their clients. If a product or a service is absolutely needed in a foreign market, the client will accept to pay a higher price; this will amortize the effects of any monetary fluctuations that may occur. In this way, the risks of the financial market or the foreign exchange market are transferred to the client.



Kenneth S. Courtis was born in London and grew up in Canada. He studied at Glendon College in Toronto, at INSEAD and at the Intsitut politique in Paris. He taught at Laval University, and has worked in Asia for several years. He is now vice president of Deutsche Bank Capital Markets, responsible for economic and strategic analysis for Asia. He also teaches at the universities of Keio and Tokyo. Peter C. Newman calls Kenneth Courtis "the world's best-connected economist," and Jeffrey E. Garten, former Undersecretary of State for International Trade in the Clinton administration, describes him as "one of the world's most thoughtful economic and business strategists."

Back to Summary



Information, Data & News

[Annual General Meeting](#)
[China-Related Web Sites](#)
[Cities of Tomorrow](#)
[Commonly Asked Questions](#)
[What's New](#)

Annual General Meeting

China: The Macroeconomic Picture & The Political Economy

[continued...]

In concluding his address, Dr. Boeckh expressed his confidence in the ability of China's leadership to overcome the challenges that await them. This confidence, he stated, was based on an eminently pragmatic assessment of factors that play to China's advantage. First, China had a good run at its inflationary bubble before other nations succumbed to attacks on their currency. Second, China has a huge pool of domestic savings. Third, SOEs own approximately RMB 6 trillion in real estate. Mergers and acquisitions will consolidate the capital structure of China's state sector. Finally, China's policymakers will ease monetary policy, sending the economy into another cyclical upswing.

Ken Courtis, the final speaker of the panel, delivered a synthetic appreciation of China's development to 2020 in an address entitled "After 20 Years of Reform: The Course Ahead for the Chinese Economy." At the outset of his presentation, Dr. Courtis reminded his audience how quickly the nature of pundits' and interested observers' concerns regarding both China and the region at large had changed over the past 12 months. "One year ago," Dr. Courtis stated, "most people believed that China would be the source of regional instability — fears of secession in Taiwan and upheaval in Hong Kong fuelled an entire sub-industry of reports and analyses which painted China as the greatest threat to stability. Events have proven otherwise. China has been, in fact, a paragon of stability!"

Since 1978, China has realized four great achievements. The first and most notable is the marketization of the Chinese economy. In 1978, 93% of China's industry was composed of SOEs. By 1997, this figure had dropped to under 30%. Township and village enterprises (TVEs), a type of cooperative or quasi-public entity that has emerged from the remains of the old communes, have taken on a critical role in the economy. Many of the most successful TVEs have benefited from ties with overseas Chinese ready to assist their ancestral localities with both capital and connections with foreign markets. As recently as 1995, the 26 million TVEs employed about 140 million people, produced 37% of China's GDP, and accounted for about 35% of China's dollar export earnings. The most successful of these enterprises produce and export light consumer goods, mainly textiles, shoes, toys, and some electronics.

China's second achievement is its transition from an essentially agricultural economy to an industrial economy. "For nearly 20 years," Dr. Courtis stated, "the economy of a nation of nearly 1.3 billion people has been growing at roughly 10% per year. Every year roughly one percent of the population — about 12–13 million people

— has shifted from primarily agricultural to non-agricultural employment.” In 1978, only 22% of China’s economic output came from its urban industry, and industrial investment was a mere 2.9% greater than that invested in the agricultural sector. These figures could not contrast more starkly with those recorded in 1997: 54% of China’s economic output is now the result of the non- agricultural sector; investment levels in industry are now 27.5% in excess of those in agriculture.

The third great achievement is China’s opening to the world economy. When reform began two decades ago, direct foreign investment was miniscule. Last year it was US\$42.6 billion and represented fully a third of all direct foreign investment in emerging markets. In 1978 when China began its reform policies, the country’s total trade was just over US\$50 billion. In 1997,

China’s surplus with the United States comfortably exceeded US\$50 billion. However it is measured — travel, investment, information, trade, and commerce — China’s economy is opened today in a way it has never been in the past. China’s fourth significant achievement is the constant, steady track of growth and development that has not only pulled 350 million Chinese peasants out of poverty, but has also bound together China’s variegated population and disparate cultures. Never in history has a single government attempted to rule so many people within a single political system. China consists of 31 provinces, 160 prefectures, 2,500 counties and cities, nearly 100,000 townships and urban wards, and over a million rural villages. Seven layers of government separate the rulers at the top from the grassroots level. What is more, 15 million additional labourers enter the urban and rural workforce annually! Since 1972, the country’s population has increased by over 400 million people. As this great number was absorbed, the absolute number of people living in poverty fell dramatically and employment opportunities for all workers expanded rapidly.

[to be continued...]

Next	Previous	Top	E-mail Us
----------------------	--------------------------	---------------------	---------------------------



CONFEDERATION OF INDIAN INDUSTRY

India's Premier Business Association

Feedback
Site Map
Search
Contact Us

• INDIA OVERVIEW

• CII NEWS

• BUSINESS SERVICES

• EVENTS

• POLICY WORK

• ABOUT US

• CII INTERACTIVE

• HOME PAGE

CII News

Press Releases : 1999 : December

INDIA UNDERTAKING THE NEXT PHASE OF REFORMS IN A FAVORABLE GLOBAL SCENARIO: COURTIS

India was undertaking the next phase of the reforms process in the backdrop of a more favourable global economic scenario observed Mr. Kenneth Courtis, Chief Economist and Strategist, Deutsche Bank Group Asia Pacific, Japan. Mr. Courtis made these comments at the session on "The Backdrop to the Global Economy" at the India Economic Summit 1999 organised by the World Economic Forum (WEF) and the Confederation of Indian Industry (CII), here today.

He observed that the economies that had contracted during the previous year had now started to expand once again. Countries such as Korea were witnessing a turn around of sorts. Korea had cut costs by around 55%, devalued its currency and reduced red tape. The story, Mr. Courtis stated, was the same right across the rest of East Asia. These countries were coming back into the game once again, he added.

Mr. Courtis, however, observed that the exceptions to this were China and Japan. China had yet to devalue its currency and Japan, he added, was expected to undergo a prolonged period of difficulty.

Europe, he observed, was undergoing a period of dynamic restructuring and change. With the number of mergers and acquisitions increasing in Europe, the corporate sector was facing an extremely challenging environment. The U.S. economy was expected to slow down slightly in the year 2000, he added.

Tracing the genesis of the slowdown witnessed by the global economies, Mr. Courtis stated that this was a combination of a number of factors. One of these, he stated, was the excess capacity built up over a period of time. He stated that during the next year, the world would produce 76 million cars but would sell only 50 million. This story was the same across most industries. Inventories continued to build and the corporate sector continued to mount losses. Mr. Courtis pointed out that most of Europe and the US had high current account surplus, however, this capital was not flowing adequately to finance developing country growth.

The high debt levels across the world was another factor which contributed to the global slowdown. He stated that most countries had debt levels amounting to 150 - 200% of GNP.

[click here to search our membership database of over 3700 indian companies](#)

In this section:

- [Hot Topics](#)
- [Press Releases 2000](#)
[January](#)
[February](#)
[March](#)
[May](#)
[June](#)
1999
[January](#)
[February](#)
[March](#)
[April](#)
[May](#)
[June](#)
[July](#)
[August](#)
[September](#)
[October](#)
- [Mailing List](#)
- [Media Desk](#)
- [Newsletters](#)

It was in this backdrop, the Asian crisis took shape. This led to the building up of tensions in the markets, banks started to pull back loans and the world was on the brink of a major depression, he added.

Mr. Courtis said that governments around the world then launched a massive operation to reflate the global economy through monetary policy. Supported by the International Monetary Fund and the World Bank, governments around the world initiated a major restructuring exercise to stimulate demand. This he stated has now started to take effect. Some of the worst affected economies such as Russia and Korea were now poised to witness a period of strong growth for at least another eighteen months, he added. It is this period that India should take advantage of, Mr. Courtis observed.

This address was followed by a brainstorming session on issues such as exports, education, internet, starting a new business, infrastructure development, public governance, access to capital, banking, joint ventures and intellectual property.

Mrs Colette Mathur, Director, World Economic Forum, introduced Mr. Kenneth Courtis to the participants and also delivered the vote of thanks.

New Delhi
6th December, 1999

The 1999 India Economic Summit webpage is available at:

<http://www.weforum.org/activities/regional/ies/>

NEW Comment on this press release

Send us your name, email address, and your comments on this press release.

Name	
email id	
Your comments	
Submit Reset	

eCompany
NOW

ebusiness

MEDIA KIT



DAILY
MAGAZINE
U.S. Edition
Asia Edition
International
Archive
COMMUNITY
SPECIAL REPORTS
SERVICES

ASIA

FEBRUARY 9, 1998 VOL. 151 NO. 5

There Is a Way Out

The Big Three helped create Asia's mess. Now they must set things right

BY KENNETH S. COURTIS

While violent debt deflation is squeezing asia's economies, some of the region's most troubled markets have begun to breathe in recent days. Is this just a pause in the maelstrom? Or is it the first sign that there is a bottom, somewhere, and that we are getting close to it? The answer depends on the decisions of Beijing, Washington and Tokyo.

The origins of Asia's crisis are woven of many threads: insufficient supervision of domestic financial markets, local regulation that sheltered industries from the vast changes in the global economy, new technology that collapsed borders, the emergence of powerful new competitors--in particular China--for Asia's now-tattered tigers, and the integrated global flows of money and information. At the core of Asia's crisis is excess investment in insufficiently profitable assets, whether apartments in Bangkok, or cars and chips in Korea. With cash flows inadequate to service the debts incurred to make these investments, a deadly cycle of default is devouring Asia's growth.

But unwise investment is not the sole explanation. Broader forces have been at play. First was China's decision to devalue its currency at the end of 1994. That move was designed to cushion the downward pressure on the economy as part of a campaign to smother the runaway inflation of the early 1990s. With that decision, East Asia's low-end exports were essentially priced out of the market overnight.

Second was the decision of the U.S. to adopt a strong-dollar policy in the mid-'90s. With East Asia's tigers having tied their currencies to the greenback, many of their investments quickly became unprofitable. Third was Japan's unwillingness to resolve its own financial crisis, a

lapse that caused a near-meltdown. As it scrambled to shore up its crumbling banks, Tokyo cut interest rates virtually to zero.

Together these three decisions set up the dynamic for disaster. As Japan's financial institutions desperately searched for new sources of profit, they flooded East Asia with new lending. As the dollar went up, so did East Asia's currencies. That made the region's economies sitting ducks for China's suddenly muscular exporters, doped with a super-cheap renminbi. Almost overnight the region saw its current-account balances melt. At the same time, East Asia's central banks--the very best students of the IMF!--were trying to prevent their hothouse economies from running higher inflation rates, so they kept local interest rates high.

Normally, these two forces--overvalued currencies and high local interest rates--would have provoked a welcome economic downturn. But with the yen sliding and Japan driving its interest rate through the floor, ultra-cheap credit suddenly became available. Virtually every entrepreneur in the region became a George Soros. They could borrow almost limitless amounts from profit-starved Japan--and in yen that were being devalued against their own dollar-linked currencies. The cost of capital became in effect negative!

Just as the three superpowers of the Asia-Pacific set the region on course for crisis, so now they have it within their power to help reverse course.

CHINA must awaken--quickly--to the downward drift of its economy. Consumer spending and investment are falling across the country. Prices are deflating. Unemployment is climbing. Profits are squeezed, and investment has slowed. Beijing has indicated it will not devalue, but if it doesn't take a few quick measures, that promise will be hard to keep. Already in the black market, the renminbi has fallen 10% in the past month. China can do three things to put its economy back on track. It has the scope to cut interest rates by as much as three percentage points. It can increase public investment for infrastructure. It can open its economy more fully to imports from Southeast Asia.

THE U.S. in these deflationary times can reduce interest rates without any fear of inflation. That would send a positive signal to markets and ensure that America's own economy continues to churn smoothly. Whatever the U.S. does, its trade deficit will increase dramatically as East Asia's economies face the simple dilemma of export-or-die. Lower rates in the U.S. would guarantee continued strong growth and full employment, the two key ingredients in neutralizing what could otherwise be a sharp increase in protectionist sentiment.

JAPAN has in recent weeks begun to address its vast problems. But it has to do more. It must adopt tax cuts and targeted measures of deregulation that will free up domestic demand. As Japan's economy

begins to expand it will help keep East Asia's deflation from spreading beyond the region. Japan's problem is not money: its citizens are manic savers. Japan's problem is its unwillingness to use that financial might in its own interests.

Beijing, Washington and Tokyo now have a rare opportunity: they can transform the current hiatus in Asia's crisis into a reversal. But the moment is now. Should it be missed, large problems lie ahead, not just for Asia, but for the world.

Kenneth S. Courtis is strategist and chief economist at Deutsche Bank Group Asia Pacific in Tokyo

time-webmaster@pathfinder.com

Copyright 2000 Asia Pulse Pte Limited
ASIA PULSE

June 8, 2000

SECTION: Nationwide Financial News

LENGTH: 349 words

HEADLINE: TAIWAN NEWSPAPER HIGHLIGHTS - JUNE 8, 2000

SOURCE: Newspaper Summary

DATELINE: TAIWAN, June 8,

BODY:

Highlights of today's newspapers:

CHINA TIMES

- Taiwan's foreign exchange reserves slipped 541 million dollars to US\$ 113.12 billion at the end of May from the previous month, the central bank said Wednesday. But the figure was nearly \$ 17.42 billion more than the same month in 1999 because of a large inflow of foreign funds over the year, according to the Central Bank of China.

- Internet portal service provider chinadotcom Corp. will invest \$ 100 million in two or three South Korean companies by the end of this year, reports said Wednesday.

- A financial executive and economics expert said on Wednesday that Taiwan is well prepared to face the "technological shift" of the "new economy." **Kenneth Courtis**, managing director and vice chairman of Goldman Sachs Asia, said that the world economy is now engaged in a period of change of the same scope and dimension as the 19th century Industrial Revolution. The changes are shifting the balance of global economic and political power, he added.

- Taiwan was ranked as the fifth-best place for investment among fifty countries surveyed by a Swiss consultancy firm, the Ministry of Economic Affairs (MOEA) disclosed on Wednesday.

- A Paraguayan company is considering shipping "three to four cartons" of frozen beef to Taiwan by air in an attempt to crack the island's growing red meat market, business sources in the Paraguayan capital said on Wednesday. Arsenio Vasconsellos, a manager of a Paraguayan refrigeration company, said that the first batch of three to four cartons of frozen beef would go on trial sale to sound out how Taiwan consumers like the beef from far-away Paraguay.

- Prices on Taipei's stock index futures market reported positive results on Wednesday when the Taiwan Stock Exchange Capitalization Weighted Index Futures for June moved up 134 points to

close at 9,175, with 3,484 contract transactions.

- The new Taiwan dollar appreciated NT\$ 0.001 against the greenback on the Taipei foreign exchange market on Wednesday, closing at NT\$ 30.791.

ASIA PULSE

LANGUAGE: ENGLISH

LOAD-DATE: June 8, 2000

FOCUS™

Search: General News;kenneth courtis

To narrow this search, please enter a word or phrase:

FOCUS

Example: House of Representatives

[About LEXIS-NEXIS](#) | [Terms and Conditions](#) | [What's New](#)
Copyright © 2000 LEXIS-NEXIS Group. All rights reserved.

Copyright 2000 Central News Agency
Central News Agency

June 07, 2000, Wednesday

LENGTH: 330 words

HEADLINE: EXPERTS OPTIMISTIC ON TAIWAN'S SUCCESS IN NEW ECONOMY

BYLINE: By Wen-Hung Fang

DATELINE: Taipei, June 7

BODY:

A financial executive and economics expert said on Wednesday that Taiwan is well prepared to face the "technological shift" of the "new economy."

Kenneth Courtis, managing director and vice chairman of Goldman Sachs Asia, said that the world economy is now engaged in a period of change of the same scope and dimension as the 19th century Industrial Revolution. The changes are shifting the balance of global economic and political power, he added.

Courtis made his comments at the Taipei Roundtable 2000, the seventh of such meetings held in Taipei for US and local experts to exchange their views on a broad range of political and economic issues. The seminar is jointly organized by Chinatrust Commercial Bank and the Center for Strategic and International Studies (CSIS), a Washington think tank.

Courtis said that he is very optimistic about Taiwan's future, citing Taiwan's eager embrace of digital technology and the new economy as a recipe for certain success. He added that those who can ride the wave across the digital divide will become important political leaders in the region.

Courtis noted that in the distant past, American companies were differentiated between "electrical" and "non-electrical" firms, but it is now impossible to imagine how a "non-electrical" company could survive. Similarly, he added that there may be differences between new economy and old economy companies now, but in the future, there will only be successful companies and dead companies that are "dinosaurs in the economic Jurassic Park."

Yang Shih-chien, former ROC minister without portfolio, noted that a digital economy is indeed emerging in Taiwan along with its industrial reform. He predicted increased economic competitiveness from Taiwan within the next two or three years due to its entry into the information age, which he said will force mainland China to carry out its own reforms.

LANGUAGE: ENGLISH

LOAD-DATE: June 8, 2000

FOCUSTM

Search: General News;kenneth courtis

Copyright 2000 South China Morning Post Ltd.
South China Morning Post

May 17, 2000

SECTION: BUSINESS POST; Pg. 1

LENGTH: 485 words

HEADLINE: Reversal of Fed policy forecast to benefit HK

BYLINE: Cathy Holcombe

BODY:

What goes up must come down - including interest rates.

Some strategists looking for a sentiment buoy in a rising interest rate environment are focusing not on the current cycle of tightening in the United States, but beyond.

They said Hong Kong and other Asian markets could see a rush of funds in the third or fourth quarter as the US Federal Reserve switched to a neutral or even an easing bias after a series of interest rate rises.

In the meantime, markets will suffer more pain, but this period could offer cheap buying opportunities.

Morgan Stanley Dean Witter regional co-head of research Peter Churchouse sees the Hang Seng Index crumbling to below 14,000 points as the Fed continues to tighten throughout the summer, but ending the year stronger than 19,000 points.

Such a scenario gives investors a potential 35 per cent upside.

Mr Churchouse's rates outlook is based on the assumption that US economic growth has peaked and is now decelerating, and that inflation growth will peak in the third or fourth quarter. Because the consumer price index is the lagging indicator, he believes the Fed will swiftly shift to at least a neutral bias - and indeed may be forced to reverse policy.

"If (the bias change) happens when the Japanese economy is safely expanding and China's economy is doing okay, this could be a major catalyst for Asia markets, not just Hong Kong," Mr Churchouse said.

HSBC Securities regional strategist Abhijit Chakraborti expects the best scenario for Hong Kong is that the Fed tightens too quickly, inadvertently forcing a hard landing in the US economy.

"I think for Hong Kong the hard landing scenario is very positive, almost preferable - we would see an instantaneous reversal in interest rate policy and a big weakening of the US dollar," he said.

Betting on such a scenario is a bit risky because unlike Mr Churchouse, Mr Chakrabortti believes a soft landing of the US economy would be a problem for Hong Kong.

In a soft landing, he said, Hong Kong's external demand would moderate and the US dollar would remain fairly strong, weighing on the SAR's competitiveness and importing deflation.

"By hoping for a hard landing you're calling for a (Fed) miscalculation . . . you can't entirely rule the possibility out," he said.

Such a scenario would not be unprecedented. As Dresdner Kleinwort Benson economist Ian Harwood noted in a recent report, "US economic history is replete with examples of the Fed overdoing the tightening."

Based on the Fed's recent history, Goldman Sachs Asia vice-chairman **Kenneth Courtis** thinks the odds of a Fed miscalculation are low.

"Sure you could overshoot at some point . . . only God with his chartbook in the sky knows for sure," Mr Courtis said.

However, Mr Courtis expects US policy-makers "will proceed at a gradual pace until they dampen but not break (the growth cycle)".

LANGUAGE: ENGLISH

LOAD-DATE: May 19, 2000

FOCUS™

Search: General News;kenneth courtis

To narrow this search, please enter a word or phrase:

FOCUS

Example: House of Representatives

Copyright 2000 The Japan Times Ltd.
The Japan Times

May 16, 2000, Tuesday

LENGTH: 2089 words

HEADLINE: Asia's storm clouds haven't dispersed

BODY:

ASIAN STORM: The Economic Crisis Examined, by Philippe Ries. Translated by Peter Starr. Tokyo: Tuttle, 2000.

Reviewed by JEFF KINGSTON

The economic typhoons that swept through Asia in 1997 capsized regional economies, sent the misery index skyrocketing, wiped out colossal amounts of wealth, swept away an aging dictator and exposed the vulnerabilities of the global financial structure. This excellent book is essential reading for anyone wishing both to understand the complex forces that generated this financial implosion and to grasp the regional consequences.

As a reporter for Agence France Presse stationed in Hong Kong in 1997-98, Philippe Ries had ringside seats for the unfolding dramas and excellent access to those involved. His analysis and writing are clear and persuasive, providing a good weekend's read about the follies of markets and those who would conspire with and against them.

This is not a conventional whodunit because there are so many plausible suspects with plausible alibis. To his credit, Ries eschews the straightforward, easy-to-swallow explanation, surveying a range of factors capable of hatching such a grim scenario. He argues that "the Asian financial turmoil had its origins in the violent meeting of opposing masses - rigid monetary arrangements vs. the chronic instability of the yen against the dollar; the power of international capital flows vs. fragile local banking systems; and the complexities of the market economy vs. the weakness of institutional mechanisms."

Prime Minister Mohamad Mahathir of Malaysia, the class clown among regional commentators about the origins of the crisis, gets a thorough and well-deserved going over for his intemperate assertion that Jewish speculators had purposely engineered this debacle to put Asians in their place. Mahathir and other leaders were eager to blame speculators, hedge funds or other convenient targets because they wanted to shift attention away from their own responsibility for what were, in many respects, homegrown problems.

Ries suggests that regional governments have a lot to answer for because corrupt and opaque policies and practices, combined with a fragile institutional architecture, created conditions that facilitated the meltdown and impeded international rescue efforts.

Ries persuasively argues that it was not deregulation measures and liberalization of markets per se that caused the collapse, but rather halfhearted and halting measures that bestowed the risks of market forces while minimizing the unwelcome discipline of transparency, prudence and scrutiny. Thus, the lesson of the crisis is not reregulation, but a more sweeping embrace of liberalization that

renders governments and financial institutions fully accountable.

He charges that the "governments that denounced markets for being blind and acting like sheep were often the same governments with the biggest clouds swirling around their own economic management. ... The half-truths and lies tarnished the information policies of those in power. As the crisis deepened, increasing intimidation and even direct threats caused analysts to censor themselves or simply shut up. The victims were, of course, the very governments that maintained a tight lid on information, keeping things dark and obscure and encouraging their people to distrust markets. But international investors were like children - they love to be dazzled but were afraid of the dark."

Japan played a key role in pumping up and then bursting the regional bubble, replicating the conditions that have undermined the credibility of its financial mandarins and almost caused the collapse of its own banking sector. In the wake of the bubble, and with few promising prospects at home, Japanese banks sought to bolster their profits by aggressively lending in Asia. The same lack of careful credit-risk assessment, scrutiny of business plans or prudence in lending produced the same results. Borrowed money poured into speculation in land and stocks, creating a chimera of growth and prosperity that proved fleeting. The region is still wincing from a thumping hangover of debts, bankruptcies, asset depreciation and joblessness.

The Asian storm was also triggered by the reverse Plaza accord in 1995, when the United States acquiesced in the Japanese government's efforts to drive down the value of the yen to bolster its anemic economy. This deliberate policy put currencies tied to the dollar, like the Thai baht, at risk because they suddenly became overvalued. In addition, the practice of borrowing cheap yen at low interest rates in Tokyo, converting them to higher-yielding dollars and lending offshore in Asia was an accident waiting to happen. Now the Asian economies know what it feels like to be ants while the elephants dance.

Ries comments, "Amid the smoking ruins of the Asian 'miracle,' as hundreds of millions of individuals shifted through the ashes of their dreams of prosperity, economists started to settle scores. East vs. West, markets vs. planning, the American model vs. the Japanese model. After years of polemics and entire shelves full of literature on the subject, one thing had finally become clear - it was no longer a fight between equals. Japan had lost."

This assessment echoes the opinion expressed by Merton Miller, a Nobel Prize winner, who quipped, "If the current crisis has done nothing more than discredit the Japanese and Korean models and banking practices, then some day we will look back at these days as a blessing."

The ongoing wave of bankruptcies in Japan has exposed systemic malfeasance and the true costs of undermining good corporate governance, transparency and accountability.

According to Toyoo Gyohten, former financial mandarin and president of the bank of Tokyo, the response to the sharp appreciation of the yen after the 1985 Plaza accord was a missed opportunity to reshape corporate Japan and dodgy financial practices. Rather than using the high yen to push restructuring and further liberalization aimed at rendering the economy more competitive, "bureaucrats and politicians rushed to the rescue without thinking too much."

Thus, restructuring and the overhaul of fiscal policy were pushed onto the back burner, and the government relied on a lax monetary policy to fatally ease the pressures of a high yen, inadvertently pumping up the bubble. This was the path of least resistance, but - in Gyohten's view - a tragic error.

The mistakes in creating and deflating the bubble have been compounded by what Ries views as bungled policies in the 1990s. He discusses the scandals that rocked the Ministry of Finance, the folly of "Herbert Hoover" Hashimoto, the collapse of Yamaichi Securities and what he calls the close call in November 1997, when the insolvent financial system teetered on the edge of oblivion. He quotes **Kenneth Courtis'** wry observation: "In April 1997, Japanese officials wanted to prove that Herbert Hoover was not wrong by raising taxes during a period of economic crisis." For international financiers it was like watching a horror movie and wanting to scream at the hapless next victim, "No, don't go in that room!"

Tokyo has gained some kudos for proposing an Asian Monetary Fund in response to the regional crisis, but not from Washington, the International Monetary Fund or our author. Ries argues that there were good reasons for the international community to cast a jaundiced eye on a plan that seemed to be just what the patient needed. In his view, the AMF disagreement was not just a bilateral spat between Tokyo and Washington over regional influence. He points out that all the other G-7 members were strongly opposed to the plan because it would undermine the IMF and ease pressure on regional governments to adopt financial discipline and overdue reforms. Ries argues that by extending a lifeline of easy money, Japan was perpetuating the problem it had created and postponing painful adjustments.

It is glaringly apparent that, in digging out from the debris left after the storm, regional institutions neither covered themselves in glory nor met the test of leadership. ASEAN? APEC? These acronyms in search of a mission were AWOL during the turmoil and have stood on the sidelines while the IMF did all the heavy lifting. Perhaps Michel Camdessus and the IMF will blush to read their rave reviews in this book, but in the author's view they helped prevent a worse catastrophe and have promoted the type of reforms needed to prevent a relapse. However, now that the pressure is off and recovery is under way, expedient policies may thwart reform. Japan has dithered for a decade at great cost, but why bite the bullet now when hard choices can be postponed and foisted onto others? The unfinished agenda of realizing greater transparency and accountability hangs in the balance, but the odds on complacency prevailing are awfully tempting.

Jeff Kingston teaches history at Temple University Japan.

LANGUAGE: ENGLISH

LOAD-DATE: May 15, 2000

FOCUSTM

Search: General News;kenneth courtis

To narrow this search, please enter a word or phrase:

FOCUS

Example: House of Representatives

Copyright 2000 Times Mirror Company
Los Angeles Times

View Related Topics

May 14, 2000, Sunday, Home Edition

SECTION: Business; Part C; Page 1; Financial Desk

LENGTH: 1261 words

HEADLINE: JAMES FLANIGAN;
SONY RECHARGES ITS BATTERIES WITH AN INTERNET STRATEGY

BYLINE: JAMES FLANIGAN

BODY:

Sony Corp. made news last week with the U.S. launch of its visionary PlayStation2 product in Los Angeles and the naming of a new president in Tokyo, whose appointment signals that the company will continue internal reforms to prepare itself for a future dominated by the Internet.

In Japan, Sony is regarded once again as a model, leading its country's industries into a new age of technology and international opportunity. It has put defeat behind it.

Everyone recalls Sony's dramatic history. It's the company whose legendary co-founder, the late Akio Morita, came to America in the 1950s to learn its ways and to spread the name of his fledgling transistor radio company.

Sony became a world leader in consumer electronics, known for the Walkman, the camcorder, Trinitron television sets and many other products.

Alas, it also became known for disastrous investments in the movie business. Under the illusion that linking entertainment software with its hardware was a simple matter, Sony purchased Columbia Pictures and other studios in 1989 and promptly lost its shirt and became an object of ridicule.

For most of the 1990s, Sony profit fluctuated and the company's stock price remained flat--until the last year when the price, for its U.S. listing on the New York Stock Exchange, rose to more than \$ 300 a share. The stock has since fallen to \$ 219 a share--and it will be split two-for-one this week.

The stock has risen on investor enthusiasm for the vision of Nobuyuki Idei, Sony's chief executive since 1995, who sees the PlayStation2 as an all-purpose gateway to the Internet of the future.

PlayStation2, introduced to the U.S. market at the Electronic Entertainment Expo in Los Angeles, is a game machine that can be connected to the Internet. It can play digital videodiscs, or download movies and music videos. Powered by an advanced Toshiba processor, the machine has so much capability that it can be adapted to guide a ballistic missile--and caused concern in the Japanese government about letting it out of the country.

But the product's real promise and the gist of Idei's vision is that PlayStation2, when homes have broadband Internet capabilities, will eliminate distance and allow people to enjoy interactive family celebrations across continents and oceans--with the aid of Sony camcorders, PlayStations and the Internet.

That's the not-too-distant future. Meanwhile, PlayStation2 can produce extraordinary graphics for interactive games.

Games are a serious business--an estimated \$ 7-billion industry worldwide that is growing 25% a year. It's a business of young people from every corner of the Earth, devising new ways to adapt computer and Internet technology to graphic storytelling, as movie pioneers did a century ago in storefront theaters.

That Sony--a big company with \$ 63 billion in annual sales and 175,000 employees--is in touch with the youth movement of the games industry is a tale that holds lessons for business everywhere--and insights into the prospects for global entertainment and markets in the coming decade.

Idei, 62, stepped up to chairman last week so he could pursue long-range reform of Sony and named Kunitake Ando, 58, as president, putting him in charge of day-to-day operations.

Idei wants to make Sony a holding company, with some operational divisions spun off as separate entities. Among the options under consideration is combining Sony Music and Sony Pictures, which together contribute \$ 11 billion or 17% of Sony's annual revenues, in a separate company.

Such moves by a U.S. company would raise no eyebrows, but in the traditional corporate cultures of Sony and Japan they are revolutionary.

But Sony has already moved beyond its old ways. Five years ago, it was going to rely on Nintendo to supply games for the original PlayStation game machine. But Nintendo turned Sony down because of technical differences.

So Sony reached out to independent game developers, courting and financing them and securing their output for PlayStation. As a result Sony leads the field in Japan--and will have a head start on Microsoft and others in world markets with the advanced machines.

"Sony will have 30 million PlayStations in world markets by the fall of 2001, when Microsoft's X-box comes to market," notes analyst Mitsunobu Tsuruo of Nomura Securities in Tokyo.

But if Sony is respected in Japan, it arouses less enthusiasm so far among U.S. institutional investors. One major money manager, who asks to speak anonymously, doubts Sony's ability to gain a place on home Internet services because it has no alliances with U.S. cable or television networks to ensure distribution for its entertainment products.

Where other companies are combining, its critics say, Sony remains an inward looking Japanese company.

The critics have a point. As mergers create entertainment powerhouses, Sony would seem to need alliances. Sony has held talks with other music companies--Bertelsmann and Seagram--but no ventures have resulted. Talks with NBC and its parent company, General Electric, have likewise come to naught.

That could change as Ando becomes more prominent in company affairs. "Ando, who was once personal assistant to Morita, is even more at ease internationally than either Morita or Idei," says John Nathan, author of "Sony: The Private Life," a 1999 book about the personalities that built the company.

Sony is making a technological alliance with Palmtop Computing to bring a hand-held Sony computer to market this summer.

What U.S. critics may miss is that Sony's perspective is different. It sees the Internet as a wireless communications medium--and PlayStation2 as a device primarily for wireless Internet transmission.

Japan, which has lagged most major technology trends of the 1990s, is catching up fast in wireless. It is now second to the Scandinavian countries in use of cellular telephones, and it is first in use of wireless phones for Internet connections,

Furthermore, Sony is looking to wider world markets than just the United States. It is definitely looking to its own backyard in Asia, where by the end of this decade "two thirds of all the world's people aged 15 to 40 will reside--the prime ages for consumer markets," notes **Kenneth Courtis**, the Tokyo-based vice chairman of Goldman Sachs Asia.

Already Tokyo is a powerful influence on the pop culture of that region: Much of the pop music that Chinese youngsters listen to originates in Tokyo; youth magazines in Asia originate in Tokyo. That's not generally recognized by U.S. experts. But then they may be looking inward too much in a changing world.

*

James Flanigan can be reached at jim.flanigan@latimes.com.

(BEGIN TEXT OF INFOBOX / INFOGRAPHIC)

Sony's World

Sony gets roughly equal revenues from the United States and Japan, plus a sizable chunk from Europe. Sony's revenue split:

*

Japan: 32%

U.S. 30%

Europe: 22%

Other areas: 16%

*

Source: Company reports

Entertaining Choices

Sony, which has just launched its PlayStation2 game machine, likes to point out that consumers worldwide are spending nearly as much on video games as they do at movie theaters. Still, total film revenues--including video rentals and sales--remain far higher than those of games. Consumer spending, in billions of dollars, in 1999:

*

Music: \$ 14.0

Home video rentals: 9.8

Home video sales: 8.8

Movie box office: 7.5

Video and computer games: 6.9

*

Sources: Recording Industry Assn. of America, NPD Group, Video Store magazine

GRAPHIC: GRAPHIC: Entertaining Choices, Los Angeles Times GRAPHIC: Sony's World, Los Angeles Times

LANGUAGE: English

LOAD-DATE: May 14, 2000

FOCUS™

Search: General News;kenneth courtis

To narrow this search, please enter a word or phrase:

FOCUS

Example: House of Representatives

[About LEXIS-NEXIS](#) | [Terms and Conditions](#) | [What's New](#)
Copyright © 2000 LEXIS-NEXIS Group. All rights reserved.

BBC News Online: Business: The Economy

[Front Page](#) | [World](#) | [UK](#) | [UK Politics](#) | **[Business](#)** | [Sci/Tech](#) | [Health](#) | [Education](#) | [Sport](#) | [Entertainment](#) | [Talking Point](#) | [High Graphics](#) | [Feedback](#) | [Help](#) | [Noticias](#) | [Newyddion](#) |

Monday, August 23, 1999 Published at 20:18 GMT 21:18 UK

China bans new investment



China bans new investment

Vistors and consumers in China have never had it so good. Big screen TVs sell for less than £100 (\$160), while shirts can be bought for less than £2 (\$3). But for the Chinese government it is part of a deflationary spiral that is threatening to undermine its attempts to modernise its economy.

The retail price index has fallen by 2.6% this year, its second year of decline, and the price of popular consumer goods like refrigerators, washing machines and bicycles has fallen even faster.

The decline in prices has made it harder for China's mainly state-run industries to move into profit, and has led to fears of more factory closures.

And the fear of unemployment has meant that Chinese consumers are not buying, even at the low prices.

In an attempt to boost profits, China on Monday banned new investment in plants producing household electrical goods, with the official China Daily's headline 'No More VCRs!'

Investment bans on a wide range of goods, including bicycles, toothpaste, candy, and microwave ovens, were announced last week. The bans take effect on September 1.

And the government says it is also planning to block the construction of new department stores and luxury hotels to counter a real estate glut.

The moves are a desperate attempt to stabilise prices by restricting output.

The government has already tried stimulating the economy by raising the wages of state officials, by increasing the government's budget deficit, and by spending more on infrastructure projects.

Backtracking on modernisation

Meanwhile China's President, Jiang Zemin, has been visiting factories, exhorting the workers to reinvigorate state companies.

"The good performance of state enterprises is not only a major economic issue .. but also a major political issue," said Jiang as he toured factories in the industrial Northeast.

But many economists believe that the campaign to restrict output is a heavy-handed approach which will ultimately backfire.

"Money is going only to those who know how to destroy capital. They can keep pulling all the levers, but until the basic mechanism changes, the economy won't recover," said Ken Courtis of Deutsche Bank Capital Markets.

Slower growth ahead

Many economists are predicting that China's economic growth rate - which the government would like to keep at around 8% to ensure a rising living standard - will inevitably fall back this year.

China's export-led growth slowed significantly this year, as the Chinese maintained the value of their currency, the yuan, against the dollar, while other Asian currencies plummeted, making their goods cheaper.

According to Ye Zhen of the State Statistical Bureau, growth could drop to 6% by the fourth quarter of 1999.

"This is unfavourable both to the country's economic takeoff next year, and its effort to maintain a long-term, stable and sustained growth rate," he said.

Particularly worrying is the social unrest that could result from not enough jobs for new workers and those who may have to be laid off from the state factories.

Trade wars

The ban on consumer investment projects is bound to discourage foreign investment in China, which has dropped off sharply this year.

China's appetite for engagement with the West in modernising its economy seems to have faded since the United States rejected its proposals to open more sectors of its economy to foreign competition in return for support for Chinese membership of the World Trade Organisation.

The main architect of that approach, Premier Zhu Rongji, has been noticeably absent from the recent economic campaign.

Managers say that valuable work time has been used by the government's "three stresses" campaign which calls for emphasis on theoretical study, political consciousness, and 'healthy' trends.

The recent crackdown on the Falun Gong sect has also distracted attention from the economic difficulties.

How China resolves its current economic difficulties could shape its political as well as economic path for years to come.

[The Economy Contents](#)

Relevant Stories

[China proves fragile investment](#) (19 Aug 99 | The Economy)

[China hints at devaluation](#) (19 Jul 99 | The Economy)

[China's economy slowing down](#) (16 Jul 99 | The Economy)

[China's trade block](#) (14 Apr 99 | The Economy)

[Investment in China to plummet](#) (09 Mar 99 | The Economy)

[China sinks into the red](#) (04 Mar 99 | The Economy)

Internet Links

[China.com](#)

The BBC is not responsible for the content of external internet sites.

In this section

[Inquiry into energy provider loyalty](#)

[Brown considers IMF job](#)

[Chinese imports boost US trade gap](#)

[No longer Liffe as we know it](#)

[The growing threat of internet fraud](#)

[House passes US budget](#)

[Online share dealing triples](#)

[Rate fears as sales soar](#)

[Brown's bulging war-chest](#)

[Oil reaches nine-year high](#)

[UK unemployment falls again](#)

[Trade talks deadlocked](#)

[US inflation still subdued](#)

[Insolvent firms to get breathing space](#)

[Bank considered bigger rate rise](#)

[UK pay rising 'too fast'](#)

[Utilities face tough regulation](#)

[CBI's new chief named](#)

[US stocks hit highs after rate rise](#)

[US Fed raises rates](#)

[UK inflation creeps up](#)

[Row over the national shopping basket](#)

[Military airspace to be cut](#)

[TUC warns against following US](#)

[World growth accelerates](#)
[Union merger put in doubt](#)
[Japan's tentative economic recovery](#)
[EU fraud costs millions](#)
[CBI choice 'could wreck industrial relations'](#)
[WTO hails China deal](#)
[US business eyes Chinese market](#)
[Red tape task force](#)
[Websites and widgets](#)
[Guru predicts web surge](#)
[Malaysia's economy: The Sinatra Principle](#)
[Shell secures Iranian oil deal](#)
[Irish boom draws the Welsh](#)
[China deal to boost economy](#)
[US dream scenario continues](#)
[Japan's billion dollar spending spree](#)

[Front Page](#) | [World](#) | [UK](#) | [UK Politics](#) | **[Business](#)** | [Sci/Tech](#) | [Health](#) | [Education](#) | [Sport](#) |
[Entertainment](#) | [Talking Point](#) | [High Graphics](#) | [Feedback](#) | [Help](#) | [Noticias](#) | [Newyddion](#) |

[Back to top](#) | [BBC News Home](#) | [BBC Homepage](#) | ©

www.asiamedia.ucla.edu

asiamedia

South China Morning Post

Bangkok Post

The Straits Times

The Japan Times

Los Angeles Times

Herald Tribune

The Korea Times

[Home](#)
[Deadline](#)
[Scholar](#)
[Contact Us](#)
[Archives](#)

Los Angeles Times

August 11, 1999

Asia Seeks its Own Path to Globalization

By Tom Plate

A key to Asia's emergence as a regional financial force is to shore up APEC and listen to its members' success stories.

There's more than one way to survive a crisis. It was about a year ago this month that two Southeast Asian economies ignored the West's advice, introduced strikingly unorthodox measures to protect their fast-weakening currencies and roiling economies and triggered a transpacific diplomatic storm. The West, especially America, howled, as if some holy Adam Smith commandment had been violated. But that did not stop Hong Kong from engineering an unprecedented shoring up of its stock market and Malaysia from erecting an extraordinary firewall to protect its besieged currency. What happened next was the stuff of regional legend: The unprecedented moves actually worked, and the West's extreme unease with such economic unorthodoxy-- aimed at western stock and currency speculators-- looked, in retrospect anyway, suspiciously over-wrought.

Happy anniversary, Hong Kong and Malaysia -- it looks like you were right and the West was wrong.

Neither is gloating, of course -- not yet, at least. Though today their economies seem much improved over a year ago, they -- and Asia in general -- are still slogging their way through regional financial turmoil. But this dramatic tale of two economies that publicly ignored Uncle Sam's avuncular advice is an object lesson. The truth is, every Asian nation will inevitably have to fashion its own survival strategy, whether Washington likes it or not. Hong Kong and Malaysia got the chilly brunt of American criticisms for intervening heavily in their supposedly free markets, but everyone knew that other Asian nations, though more quietly, were stitching together their own approaches to economic survival in the age of globalization. Nothing wrong with that, says Ken Courtis, the

APMN

ASIA PACIFIC
MEDIA NETWORK

TOM PLATE

Founder and Director

ALICE S. WU

Associate Director
FrontPage Editor

LUCY W. YU

Chief of Research
Executive Assistant

Editorial Consultants:
 Dr. TUEN-YU LAU
 Ambassador JOHN
 MALLOT
 WEBSTER K. NOLAN
 LEILA NOSRATI
 (Columbia University)

Deadline Scholar Assistant
 Editors:
 ANDREW ADAMICK
 JENNIFER TSE

Deadline Scholar Interns:
 BRIAN FISHMAN (UCLA)
 ANN LEE (Columbia)
 VAN PHAN (UCLA)

renowned chief international economist of Deutsche Bank in Tokyo. In fact, he admires such nimbleness: "The key to these Asian economic recoveries is their ability to quickly adopt new strategies and tactics." Adds Courtis, one of the very few economists to foresee the Asian crisis, "For example, no Asian economy has been quicker or more adaptive than Taiwan."

But if Asia frequently complains, usually under its breath, about America's economic dogmatism, America is often right to call attention to the Asian penchant for inertia. It's a serious issue: If the region plans to compete effectively in the global economy, it's not going to do so without modernizing, especially regarding financial transparency, government oversight and banking systems. In fact, top-flight Asian executives know this better than anyone, according to a recent regional survey conducted by the research unit of Rabobank International of Singapore. It found that few Asian professionals believe reforms have gone very far; indeed, most doubt that the programs have even made it to the halfway mark.

Such reforms are among the big issues sure to arise at next month's annual get-together of the Asia Pacific Economic Cooperation group in New Zealand. APEC is now the region's leading multinational organization, and this could prove one of the most important meetings ever for America and its Asian friends. For if the flu flares anew, and yet millions more Asians are thrown out of work, the U.S. could lose more than just a region-full of healthy trading partners. Warns Princeton Prof. Richard Falk, in a penetrating essay in the current issue of *Harvard International Review*, "Further retreat [from Western ways] could be prompted by instability, generated in part by a spreading sense that the benefits of economic globalization are being unfairly distributed."

Asia and America need APEC to take the lead in bringing the region together. It was only six years ago that APEC, then nothing more than an annual ministerial get-together in which the U.S. routinely participated, rose from the mundane, when President Clinton dramatically decided to attend the organization's annual meeting; overnight, virtually every other Asian head of state showed up. That ceremonial sequence changed the very nature of APEC, also virtually overnight. Next month the American president is expected to be in Auckland (Everyone is hoping he doesn't cancel at the last minute; he has missed two of the last four APECs.) He's scheduled to bring along a top team, including America's tough-minded, highly-respected chief trade negotiator, Ambassador Charlene Barshefsky, who has cabinet rank. APEC, she concurs, needs to become a premier venue for better Asia-U.S. understanding: "Asia's future is tied up in regionalism, so an absolute priority in Auckland is to build APEC up." This is the long-range vision U.S. diplomacy needs.

Among other things, Barshefsky believes the APEC summit will help create new momentum for China's accession into the World Trade Organization. Its annual meeting is in Seattle in November. And she believes that the high-pressure, star-studded atmosphere in Auckland will seal market-opening agreements with long-shuttered Vietnam. That kind of progress could put APEC in the center of anyone's map. Neither Asia nor America should expect broader institutions like the United Nations to serve as a good forum for the region. They're too big and serve too many interests. Like predecessor institutions to the current European Union, APEC

could be an important evolutionary step on the way to true Asian regional union. Sure, that idea's a long shot. But so were those long shots in the dark that Hong Kong and Malaysia took a year ago in order to survive.

Los Angeles Times contributing editor **Tom Plate** teaches in UCLA's policy studies and communication studies programs. He is Founder and Director of the Asia Pacific Media Network, a trans-Pacific nonprofit consortium. His syndicated column appears weekly.



February 02, 1999

atimes.com



Editorials

Davos snow job (Jan. 29, 1999)

"Responsible Globality" - what a title and what a semantic abomination.

But be that as it may, as the participants in this year's Davos World Economic Forum trudge through snow half a meter deep to attend one or another of 300 conference sessions, few - we suspect - expect enlightenment on how best to "manage the impact of globalization," which is the forum subtitle. Disagreements, as the IMF/Worldbank October 1998 Washington confab showed, run deeper than the Davos snow, with no convergence of views between the Anglo-Saxons, on the one hand, and the continental Europeans and the Japanese, on the other, anywhere in sight.

Well, never mind. Most WEF attendants know from previous years' experience that the real fun is elsewhere, away from the seminars, in after-dinner parties or impromptu press statements, as the world's star economists, government ministers and finance wizards reduce their wisdom to sound bites and issue their fearless forecasts of gloom or prosperity to come.

Here are the first of this year's goodies:

Fred Bergsten, Institute of International Economics and former APEC Eminent Person:

- As the U.S. current account deficit rises to \$300 billion, the dollar will fall by 10 - 15 percent this year, to 100 yen and 1.25 - 1.30 euro.

Ken Courtis, chief economist, Deutsche Bank, Tokyo:

- Low interest rates, tax cuts and pump-priming will revitalize demand for commodities; so buy the commodity currencies, the Australian and Canadian dollars.



Ruediger Dornbusch, famous MIT economist:

- The U.S. economy and markets will achieve a soft landing; Japan will be more of a problem than China.

Eisuke Sakakibara, "Mr. Yen", vice minister for international affairs, Japanese Ministry of Finance:

- Japan will recover after mid-year.

And so it goes. But in any case, if those guys can do it, so can we. Here are our fearless 1999 forecasts:

- Japan will recover, as will South Korea; Thailand will remain far behind.

- China will hold on to the current yuan value, but will experience severe financial crisis by mid-year.

- The U.S. economy and markets will continue to do just fine.

- Socialist governments in Europe will mess up their economies; growth will be anemic, and a European financial crisis is in the offing.

But such forecasts are all a bit too serious. If the world stops turning, just get off before it does.

updated each business day **atimes.com**

[Front](#) | [China](#) | [Southeast Asia](#) | [Japan](#) | [Koreas](#) | [India/Pakistan](#) | [Central Asia/Russia](#) | [Oceania](#)

[Business Briefs](#) | [Global Economy](#) | [Asian Crisis](#) | [Media/IT](#) | [Editorials](#) | [Letters](#) | [Search/Archive](#)

[back to the top](#)

©1999 Asia Times Online Co., Ltd.

PROFILE

John Gannon

Chairman, National Intelligence Council

John Gannon is Chairman of the National Intelligence Council. The NIC is managed by Gannon and a Vice Chairman, and is comprised of National Intelligence Officers—senior experts drawn from all elements of the intelligence community and from outside the government. The National Intelligence Officers concentrate on the substantive problems of particular geographic regions of the world and of particular functional areas such as economics and weapons proliferation. They serve the DCI in his role as leader of the Intelligence Community by providing a center for mid-term and long-term strategic thinking and production.

Copyright 2000 Southeastern Newspapers Corporation
The Augusta (Ga.) Chronicle

April 29, 2000, Saturday, ALL EDITIONS

SECTION: EDITORIAL, Pg. A4

LENGTH: 445 words

HEADLINE: SERIOUS DISEASE THREAT

BODY:

Just a few years ago there was great optimism that many of the world's infectious diseases would be eradicated. Polio was beat back, tuberculosis was on the retreat and no one had seen a case of bubonic plague in years.

But the National Intelligence Council has issued a chilling report that should be heeded by Americans and their representatives on Capitol Hill. Analysts are concerned that infectious diseases pose an increasing threat to U.S. citizens, not only at home, but abroad, according to National Intelligence Council head John Gannon.

His group's recently-released report, "The Global Disease Threat and its Implications to the United States," says at least 30 previously unknown diseases have appeared globally in recent decades, ranging from the deadly HIV virus and Hepatitis C to Indonesian Nipah virus (which causes encephalitis). We're talking about diseases like mad cow disease, Ebola and Hanta viruses. Many of these new viruses and bacteria have no known cure or vaccine. They add fuel to the fire of such old-news but still problematic diseases as measles, whooping cough and meningitis.

The report says infectious diseases kill about 170,000 Americans annually and that such deaths are soon likely to account for more military hospital admissions than battlefield injuries.

The report puts light on a problem pointed out in 1996 by the World Health Organization in a report that said the planet is on the brink of an infectious disease crisis, and blamed population growth, wars, civil turmoil and natural disasters as some of the contributing factors to the looming problem.

America's far-flung military operations can cause soldiers to acquire diseases in faraway places, and they can bring those illnesses home and infect others. Also, the report notes that uncontrolled illegal immigration is a major new source of spreading infectious diseases, a phenomenon that is true of all countries experiencing large influxes of refugees. Massive refugee movements from war or economic hardship, have historically created major health problems across the planet.

That being the case, politicians calling to curtail overstretched military operations and controlling unchecked immigration have a new argument: The threat new, serious diseases pose to our shores.

Policy makers need to remember, however, that a stable political climate across the continents is one of the best defenses against the spread of infections. Where there is upheaval, war and resulting refugees and famine, there will be polluted drinking water, unsanitary living conditions and

epidemics. And that could make us all prisoners of our own borders.

LANGUAGE: ENGLISH

LOAD-DATE: May 3, 2000

FOCUSTM

Search: General News;john gannon

To narrow this search, please enter a word or phrase:

FOCUS

Example: House of Representatives

[About LEXIS-NEXIS](#) | [Terms and Conditions](#) | [What's New](#)

Copyright © 2000 LEXIS-NEXIS Group. All rights reserved.

Copyright 2000 Little Rock Newspapers, Inc.
The Arkansas Democrat-Gazette

April 23, 2000, Sunday

SECTION: PERSPECTIVE; Pg. J1

LENGTH: 2250 words

HEADLINE: ASSESSING THREATS TO U.S.SECURITY A new age brings new fears

BYLINE: David Wood, Newhouse News Service

BODY:

Joseph Cirincione, director of the Non-Proliferation Project at the Carnegie Endowment for International Peace, and Frank Gaffney, director of the Center for Security Policy, both vehemently insist that the CIA slants its analysis of the ballistic missile threat from countries such as North Korea and Iran. Cirincione says the CIA systematically over-estimates the threat; Gaffney swears the CIA is "repressing" the more alarming truth. Both represent powerful constituencies in Washington. The argument about the missile threat is central to the issue of whether the United States ought to build a highly controversial \$ 30 billion missile defense system.

WASHINGTON -- In the 10 years since the Cold War's certainties collapsed with the Soviet Union, the United States has struggled unsuccessfully to understand and document the new threats and challenges it faces from abroad.

Cold War threats were obvious, limited in number, and quantifiable: how many Russian tanks in East Germany, for instance. Tomorrow's challenges, in contrast, are uncountable, ambiguous and perhaps unknowable: What will China be like in 25 years? If a minor Pakistani cult gets chemical weapons, what might it do with them?

Accordingly, what once was a fairly clear line directly linking threats to American foreign and defense policy--and to the defense budget--has now become a confusion of bitter debate driven by domestic politics, ideological pressure groups and corporate money interests.

Trying to wrestle this chaos into manageable form, the U.S. intelligence community is using surprising new techniques to help understand how severe these potential threats may be, and in what form and when and where they might suddenly appear.

But seasoned intelligence officers and policy-makers alike acknowledge that the task is beyond them.

"There are and there will remain significant gaps in our knowledge," CIA Director George J. Tenet recently told the Senate Foreign Relations Committee.

And if during the Cold War there was possibility for failing to predict accurately, Tenet and others believe that possibility is expanding, dangerously.

"There is continued and growing risk of surprise," Tenet said.

Or as **John Gannon**, the CIA's senior analyst, impishly put it, "The intelligence community, to date, has no sources in God's inner circle."

The task is equally dismal for those who must grapple with turning ambiguous threats into strategy and budget decisions.

Some threats simply don't translate easily into decisions to buy and use hardware. Two years ago, for example, as the Pentagon was gearing up for another confrontation with Iraq, the Air Force was convinced the Iraqis were hacking into their computer logistics network.

"Turns out it was bunch of kids from California joy-riding on the Internet," said an administration official who works on national security issues. "But that shows why, if you have a cyber intrusion into the Pentagon, you can't just send an aircraft carrier battle group off the coast of country X." This is a problem for Congress, too. A member of the House Armed Services Committee, Rep. Mac Thornberry, R-Texas, was asked in an interview how he explains to his constituents that logic connects threats with strategy and budget.

"You don't," he said. "I don't think you make any pretense that there is such a logical connection. If you try to say this is all thought out and there's a clear line from A to B to C, then you're really misleading people."

The task seems so hopeless that some defense and foreign policy strategists are beginning to ask a different question. Rather than linking budget and strategy decisions only to threats, why not also link them to opportunities?

On Wednesday, a blue-ribbon panel, the U.S. Commission on National Security in the 21st Century, recommended such a "positive vision" approach, arguing that it makes sense to design strategies specifically to advance critical U.S. goals such as global economic growth and political pluralism. The Pentagon-chartered commission is co-chaired by former Sens. Gary Hart and Warren Rudman, and includes such luminaries as former House Speaker Newt Gingrich and former U.N. Ambassador Andrew Young.

But their approach seems unlikely to end today's disagreements, which encompass those who, on one side, see no threats and push for a dramatic cut in defense spending, and those who on the other side are convinced that the nation is in peril and who strive to add billions more to defense.

TWO SIDES OF AN ISSUE

Case in point: Joseph Cirincione, director of the Non-Proliferation Project at the Carnegie Endowment for International Peace, and Frank Gaffney, director of the Center for Security Policy, both vehemently insist that the CIA slants its analysis of the ballistic missile threat from countries such as North Korea and Iran. Cirincione says the CIA systematically over-estimates the threat; Gaffney swears the CIA is "repressing" the more alarming truth.

Both men represent powerful constituencies in Washington. The argument about the missile threat is central to the issue of whether the United States ought to build a highly controversial \$ 30 billion missile defense system.

"This is going to get worse, not better," Thornberry predicted.

A KNOWN ENEMY

It used to be easier. During the roughly four decades of the Cold War, Americans and Russians studied each other obsessively and productively.

Men on one side who designed, say, tank armor, knew the other side's armor designers and even admired their work. It got so that, old Pentagon hands recall fondly, they knew precisely what year the Russians would introduce a new kind of armor and they also knew, precisely, what year the U.S. Army would have to start fielding new armor-piercing shells in response.

That pattern was reflected in nearly every aspect of the superpower confrontation. Confidently, the Pentagon began planning its budget in five-year cycles.

It still does.

But everything else has changed.

Take the potential threat of attack by chemical or biological weapons. Twenty years ago the threat was from the Russians, only. They might use such weapons in a major war, only. And they would use bombs or missiles to deliver the chemical or biological agents.

Today, almost any terrorist at home or abroad can make chemical or biological weapons, and so can most governments, acting from almost any imaginable motive. Such weapons could be used in wartime or in peacetime, in random terrorist attacks using missile warheads, in an aerosol can left on a crowded subway car or through any number of other methods.

Swamped by the exploding number of potential threats that need studying, the White House and

intelligence agencies in 1995 devised a priority list of possible threats. Set 1 of "hard targets" for study were problems that would require immediate U.S. military action. Set 2 listed problem countries like North Korea and Iraq, and Set 3 contained broad problems such as terrorism and illicit narcotics.

Everything else, the CIA dumped into a "rest-of-the-world" file which quietly gathered dust. Eighty percent of the CIA's money and attention were focused on Sets 1 and 2.

Then in 1998 the "rest of the world" struck and smashed that plan to bits.

First came the global financial crisis, which the CIA was unprepared to explain or react to. Then India and Pakistan tested nuclear weapons, again a surprise. Terrorist groups were under close surveillance, but U.S. intelligence, with limited resources, was watching only high-priority U.S. targets abroad. When terrorists bombed American embassies in Nairobi and Dar es Salaam, that was a nasty surprise, too. Then North Korea test-fired a missile (not a surprise) but it was a sophisticated three-stage missile (a big surprise).

"You had to explain how a country about three years past failed-state status had invested a shrinking economy into the development of a potential ICBM capability," said Gannon, chairman of the CIA's National Intelligence Council.

MORE FACTS TO EXAMINE

These shocks hammered home three lessons to intelligence analysts.

First, they had to assess a much broader range of facts than they had looked at previously, such as detailed banking and financial data, and genetic engineering.

Second, analysts had to nail down not just capability but intent: not only what a terrorist group can do, for instance, but what it is willing to risk. Would Middle Eastern terrorists really kill several hundred Africans just to murder 12 Americans?

Third, they had to do this unimaginably fast, for today's threats materialize and morph into some new form almost immediately.

"This is definitely more challenging; it gets into a kind of analysis we really haven't done in the past," said a senior official of the Defense Intelligence Agency. The official refused to allow his name to be printed.

"We have people who can monitor the health effects of biological weapons, but as you go into the genetic advances that are occurring on a daily basis, that's very difficult for anybody to keep up with," the official said.

As the CIA's Gannon observed in an interview, "Not only have the issues themselves become much more diverse and complex around the world, but the speed and volume of information are forcing us to have to move much faster."

So intelligence analysts have started using a slightly different approach, launching their analysis with this set of questions: What do we need to know? Where is that expertise, and how are we going to get it?

The presumption is that expertise will lie outside the CIA and may lie outside the constellation of roughly a dozen separate U.S. agencies that make up the intelligence community. Increasingly, the information is available from public sources, and doesn't have to be pried out by spies.

Outside expertise, whether it comes from the national Centers for Disease Control and Prevention or Harvard Medical School or the Armed Forces Medical Intelligence Center, is brought in not only to help define the problem, but to provide knowledge as the analysis proceeds and to review the finished product.

This process, intelligence analysts said, often identifies specific gaps in knowledge that can be filled by focused espionage.

The end result is likely to be what the Defense Intelligence Agency calls a "knowledge base" that is constantly updated, rather than a fixed, printed "intelligence estimate" common during Cold War days.

"What I worry about is not being wrong," Gannon said, "because we're dealing with issues that have

huge gaps (of knowledge) so the expectation that you're always going to be right is silly.
"No, I worry that six or 12 months down the road the president will turn to me and say, 'There was better information around and you didn't avail yourself of it.'
"The trap we would fall into is if we relied only on the intelligence community and what it knows," Gannon said.

A NEW APPROACH

This approach has led to some cautious collaboration between the major agencies who were Cold War competitors, including the CIA and the DIA, the National Security Agency, which specializes in electronic eavesdropping, and the State Department's Bureau of Intelligence and Research, which also does strategic and military analysis.

Does all this really matter at a time of unprecedented peace?

Public policy experts are increasingly convinced that it does.

"Even though we are the principal military power in the world, we will be more vulnerable to an increasing range of threats not just against American forces but against American citizens overseas and also even at home," said Lee Hamilton, former Democratic congressman from Indiana who is now director of the Woodrow Wilson International Center for Scholars in Washington.

Hamilton, who established a reputation as a thoughtful and moderate foreign affairs specialist during his 34 years in Congress, said the United States now has to consider such exotic potential threats as a cyber attack on the U.S. air traffic control system and biological attacks using genetically altered pathogens.

"We will as a country become vulnerable to attacks on our homeland," Hamilton said in an interview.

There is broad agreement among veteran observers that there is a serious "disconnect," as Hamilton put it, between these potential threats and the corresponding national security strategy and budget. There has been almost no mention of national security issues in the presidential campaign, for instance, and senior campaign advisers don't expect any.

That worries policy-makers and intelligence professionals alike.

"I do think there has been an inadequate link between the strategic work we do and the budget- and priority-setting exercises in the public debate," said the CIA's Gannon.

"There are so many more issues out there that matter, and they're not stable; things change constantly," said Gannon. "We need, irrespective of the domestic debate, to attempt to look seriously at these issues. All of them."

Graph: Knight-Ridder/Tribune

A 'search and destroy' mission

SOURCES: Federation of American Scientists, Ballistic Missile Defense Organization

Cutline: Associated Press file photo

President Clinton signs the \$ 289 billion defense bill in 1999 at the Pentagon. Today's disagreement on defense spending comes down to those who see no threat of war and push for cuts in spending and those who say the nation is in peril and want to add billions to defense.

LANGUAGE: ENGLISH

LOAD-DATE: April 25, 2000

FOCUSTM

Search: General News;john gannon

To narrow this search, please enter a word or phrase:

[CIA Homepage](#)[Contact Us](#)[Notices](#)[Search](#)[Site Map](#)[Index](#)

SPEECHES AND TESTIMONY

Remarks By John Gannon

**Chairman of the National Intelligence Council
To The Washington International Corporate Circle**

31 October 1997

"Global Economic Intelligence"

Thanks. As you looked over the program this morning, you might have wondered why an intelligence officer has been invited to address this group. I'm not a professional economist. Nor am I a soothsayer or prognosticator. (If I could predict the future, I'd probably have gone into finance and be retired by now, sitting on my private island, watching the surf, drinking Mai-Tais.)

I hope that I can add another dimension to the conference by talking about the challenges to US Intelligence, including policymakers' requirements for economic intelligence, as well as many other issues on our agenda today. I should add, and stress, that intelligence officers do not make or recommend policy. Rather, the function of intelligence is to help US decisionmakers to better understand the forces at work in any situation, and the opportunities and consequences of any course of action so that policymakers can make informed decisions.

What follows is my own thinking about some of the strategic challenges that confront the United States government, and by extension, other key players in the international economy.

Intelligence Challenges

Let me highlight for you the five general categories of national security challenges:

- First, there are the great powers in transition: Russia and China. Each unique, both nuclear armed, both undergoing major economic transformations, both of concern to their neighbors and to us.
- Second, there are those non-democratic states whose hostile policies undermine regional stability and threaten, directly or indirectly, our interests abroad, including Iran, Iraq, and North Korea.
- Third, there are transnational issues that transcend country and region and could strike any of us at home or abroad with little notice: terrorism, the proliferation of weapons of mass destruction, international organized crime and drug trafficking, economic issues, and threats to our information and computer systems.
- Fourth, there are regional hotspots, where tensions between nations can erupt into conflict, cost lives, and take unpredictable turns: the Middle East, the South Asian subcontinent, Bosnia, and the Aegean.

- The fifth category we can just call humanitarian crises. From Bosnia to Burundi, there are states and regions immersed in ethnic conflict, civil war, natural disaster, forced migration, refugees, disease, and starvation. These crises have resulted in heavy demands on US intelligence, diplomacy, and military capabilities.
- Providing American policymakers, warfighters, and other officials with good intelligence on each of these issues is a complex and difficult undertaking. But it is just as important to our security and well-being as ever. Failure to collect and analyze information on these issues today only risks a heavier diplomatic or military price to pay down the road.

The Role of the NIC

The National Intelligence Council has a special role to play in preparing policymakers for the challenges ahead. The Council produces intelligence products that look beyond today's horizon--from six months to a decade or more--and point out potential complications. National Intelligence Estimates, or NIEs, are coordinated--and agreement does not always come easy--by the heads of the various intelligence agencies--CIA, DIA, the State Department, the military services, Treasury, Energy, and as appropriate the FBI--so that policymakers get the views of the entire Intelligence Community in a single document.

In the last year or so, the NIC has produced NIEs and a variety of other papers on a wide range of issues--including weapons of mass destruction, humanitarian emergencies, narcotics trafficking, the environment and critical regions and countries all over the globe.

The NIC also brings experts from outside the Intelligence Community to get their perspectives--and this will be an increasingly important value added by the NIC for an Intelligence Community that is relying on outside expertise more than ever before.

For example, in Fall 1996 the NIC and the Institute for National Strategic Studies held a series of conferences at National Defense University to identify key global trends and their impact on major regions and countries. The exercise was designed to help predict and assess major features of the world in the year 2010. Participants in the conferences were drawn from academe, journalism, business, the US Government, and other professions. Following the conference, we published a document outlining likely global trends in the year 2010. We think it is critical that policymakers think beyond the crises of the day and consider some of the evolutionary trends that will shape our future, both from a national security and an economic perspective. I'd like to mention a few of these trends:

- First, population will increase by 1.2 billion to over seven billion by 2010. About 95% of this growth will be in developing countries. This growth will be accompanied by increased urbanization: about half of the world's population will live in cities compared with one third today. There will be many more mega-cities with populations in excess of 8 million, mostly in developing countries. Countries such as Mexico and Saudi Arabia that hold key geopolitical positions will be among those heavily affected by population pressures. In some societies a "youth bulge"--the growing number of people between 15 and 24--will strain educational systems, infrastructure, and the job market. Population growth will also fuel migration pressures--Haiti's population, for example, is expected to double over the next 20 years.

For the industrialized world, the population problem will not be associated with growth but with increasing life spans and decreasing birth rates. The "Social Security-Medicare" debate already reverberating throughout the developed world will become even more acute. Governments will struggle to provide social welfare and health services to an aging population, while the labor force--the pool whose taxes help finance these services--

shrinks.

In the Former Soviet Union the issue is not buttressing a safety net, but creating one to cope with a wide range of economic and social problems, the solutions to which will take many years of concerted effort in health, environmental, and economic policies. The extent of Russia's demographic ills is reflected in a sharp and unprecedented decline in male life expectancy.

- Second, the NIC study points to a growth in per capita income. The study projects real growth in per capita income of over 2% per year between now and 2010. Growth will be uneven; not every state, nor every citizen in every state, will benefit equally. Some will not benefit at all, or may lose out. The pace of technological change will be rapid and the fear of being left behind will lead to tensions between countries- and within them- as income gaps widen. More winners will be in East Asia and the West; more losers will be in Africa and the Middle East. Among relative losers will be those states that, unwilling to accept the consequences of their failure will resort to force to alter their status.

Growth will increase demands on infrastructure- such as water, energy, communications, waste disposal, urban transportation, public health, housing, and education. Failure to accommodate these demands will trigger disaffection with government, emotional backlashes against modernization-and clashes against Western policies, philosophies, and presence.

- The third trend will be the problem of feeding a burgeoning population. According to the experts who drafted the NIC study, the problem is not agriculture or science, but rather political stability, transportation and distribution. Indeed, food production is likely to keep pace with overall demand. The authors anticipate genetic engineering fueling a fourth agricultural revolution by the end of this time span. As in the past, shortages will be man-made. Serious pockets of poverty will put people in developing countries- particularly in Africa- at risk of death from disease and starvation.
- The fourth trend is that the continued digital data and communications revolution will shrink distances and weaken barriers to the flow of information. Communications technology will become so inexpensive that most countries will be able to pay the cost of connecting to the global information infrastructure. Optical fiber will add enormous capacity for data transmission among nodes around the globe. The United States, Europe, Asia, and Latin America will be in the forefront of this communications revolution. To compete, businesses will continue to move beyond regional or national perspectives to optimize global trade. Governments will benefit from the success of these businesses. However, communications will also thwart their efforts of government to control the flow of information, which will undermine authority over time.
- The fifth trend is that growing populations and per capita income will drive the demand for more energy, particularly as the Chinese and Indian economies expand. By 2010 the world will require added production of petroleum on the order of what OPEC produces now. Technological advances, however, can meet this demand. Problems will arise not out of overall shortages but out of short term disruptions in the flow of oil stemming from political-military instabilities. Improvements in the efficiency of solar cells and batteries will result in greater use of these and other renewable energy resources, but they are unlikely to significantly affect global reliance on fossil fuels during this time period.
- The sixth and final trend outlined in the study pertains to military technology & deterrence. Precision-guided munitions and information technologies will be the hallmarks of the revolution in military affairs. Other countries will have technologically advanced military equipment at their disposal, obtained from arms merchants and other governments.

However, no power will be able to match US battlefield technological capabilities at least up to 2010, and potential adversaries are unlikely to repeat Iraq's mistake in challenging the United States via set-piece conventional warfare.

Policymakers' Interest in Economic Intelligence

Intelligence officers have to think hard about all of these longer term trends. Economic issues are inextricably linked to all other national security issues--political, military and transnational--and economic analysis has always been a big part of what we do.

Today, senior US officials are more interested than ever in the contribution of economic intelligence to international policymaking. Policy officials increasingly view developments and trends in the international economy as a vital element of US national security-affecting the performance of the US economy, altering political relations both within and between nations, and causing shifts in regional and global power balances. They look to economic intelligence to help them better understand the threats to political stability, economic welfare, and US national security worldwide.

Before I describe more specifically the mission of economic intelligence, let me define the parameters:

- First, economic intelligence is helping US policymakers understand the general economic forces faced by foreign officials in key countries that will directly or indirectly affect their policy options, particularly toward the US.
- Second, it is helping US policymakers understand foreign positions and practices towards international agreements, especially those involving the United States.
- Last, it is helping US policymakers understand how foreign governments are violating laws, breaking international agreements, or behaving outside the norm.
- As for the other side of the line, US Intelligence does not engage in "industrial espionage"--spying on foreign companies for the purpose of providing information to US firms.

The Mission of Economic Intelligence

There are two broad missions for economic intelligence.

- The first is to provide strategic warning of international economic trends that could have a significant impact on US interests.
- The second is tactical-providing information and analysis on important international economic issues to US policy and enforcement officials in support of their day-to-day decisionmaking and interactions with foreign counterparts.

The Intelligence Community monitors the pace, scope, and direction of economic reform in the former Soviet Union, Eastern Europe, and China, and it tracks economic policies and performance in other key emerging markets of concern to US interests.

Specifically, Intelligence Community economic analyses includes:

- Warning. Anticipating economic crises by providing timely assessments of financial

vulnerabilities, national economic performance, and threats to world energy supplies. More integrated international markets increase the risk that an economic crisis in one country will spill over to other trading or financial partners.

- Understanding foreign economic policy making. Identifying and assessing the complex interaction between economic, political, and social factors that drive policymaking and economic performance in emerging economic powers and in countries of strategic interest. This includes the analysis of obstacles to these countries instituting market-based economic reform.
- Rogue states and illicit activities. Monitoring the domestic performance and external economic relations of rogue states--North Korea, Iran, Iraq, and Cuba--monitoring the economic impact of sanctions, and developing approaches that track the complex financial networks that support drug traffickers, terrorists, and proliferators of weapons of mass destruction.
- Helping to ensure that all countries are playing by the same economic rules so we have a "level playing field." The Intelligence Community is not involved in enforcement, but we do report our findings to appropriate officials.

Economic intelligence has been critical to addressing some of the issues US policymakers have faced over the past year:

- Economic analysis helped policymakers better understand the economic conditions in North Korea.
- Analysis of the economic changes taking place Russia have enhanced policymakers' understanding of Russian military reforms as well as political developments.
- Knowledge of Iraqi economic pressures has helped policymakers evaluate the conditions for Iraq's political leadership and the likelihood of adherence to the UN agreements.

I hope I've given you a sense of our view of the global scene, the role of economic intelligence, and some of the forces that we think will shape our future.

31Collecting information on economic trends and assessing their implications for US national security will continue to be key facets of the Intelligence Community's effort to help policymakers understand and address the key foreign policy and security challenges facing the United States in the 21st century.

[Speeches and Testimony Page] [Public Affairs Page] [CIA Homepage]

Page last updated: 05/17/00 20:07:01.

If you have questions or comments about this Web site, Contact Us.

[CIA Homepage](#)[Contact Us](#)[Notices](#)[Search](#)[Site Map](#)[Index](#)

SPEECHES AND TESTIMONY

An The Outlook for China: A CIA Perspective

**Address by Deputy DDI John Gannon
at the College of the Holy Cross
Worcester, Massachusetts**

20 November 1996

Good evening. Thank you for that warm welcome. It is always a pleasure to return to my hometown and a real kick to come back to my alma mater.

I want to talk about China tonight. But first let me say a couple of words about the Jesuits.

As some of you undoubtedly know, the Jesuits have a strong link to China, which is the subject of my address tonight. Italian-born Father Matteo Ricci (1552-1610) brought the first Jesuit missionaries to the then-village of Shanghai in the late 1500s. He adopted the language and culture of China and gained access as a teacher to its elite. He converted a Chinese scholar official, Xu Guangqi, who later became Grand Secretary to the Ming Emperor. Because of Xu's influence, the Jesuits were able to start a congregation in Shanghai, and ultimately they brought much Western science and learning to China. The Jesuits also taught an ignorant West a great deal about China. Their great cathedral, St. Ignatius, is still in Shanghai, and the observatory they founded continues to provide weather data for the central China coast.

China today is the world's most populous country--1.2 billion people in an area slightly larger than the United States--and it is in dramatic transition. As we look for solid trends, the indicators are bound to be contradictory. Economic reform has fostered economic growth, for example, but China's leaders continue to resist political reform and improvement in human rights for its citizens. For some experts, it is the dark scenarios that will prevail. The painful memory of Tiananmen in 1989 and the later arrests of dissidents Wei Jingsheng and Wang Dan remind us that political freedom is still more of a hope than a reality in contemporary China.

My own assessment of China's future, despite the downsides, is admittedly on the bullish side. We'll see fits and starts, peaks and valleys. China's development will not be linear. But the broader, long-term trends will be decidedly positive for China. And development will benefit from the legendary energy and ingenuity of the Chinese people--which I have seen firsthand.

Making sense of such an enormous, diverse country as China can be a little overwhelming. For instance, you might recall that when Nixon made his historic visit to China in February 1972 he took some time out to tour the Great Wall. Naturally, he was joined by a grand entourage of reporters and cameramen, all eager for a story. When one reporter asked Nixon what he thought of the tour, Nixon, apparently a bit flustered, paused and tried to give his most statesman-like response: "This I would have to say is truly a . . . great wall."

In characterizing the outlook for China, I will make five points:

- First, China is pursuing the right mix of economic policies needed to sustain economic growth into the next century.
- Second, China is developing the labor force and technical base necessary to compete internationally and support military modernization.
- Third, China is pursuing a vigorous military modernization program that will enhance its force- projection capability.
- Fourth, although China's future political leadership remains unsettled, it seems quite capable of governing for now.
- Finally, China's leadership seeks to deter challenges to Chinese interests by combining all the elements I just noted and gaining for China recognition as a great power.

Scholars can and do debate what constitutes power status. The intelligence officer at CIA who oversees most of our work on Asia argues for a simple test: a nation is powerful to the degree that it is a valued friend or a feared foe. By this measure China has been a potential power for some time. Now, however, we are starting to see that potential realized.

First, China has been the fastest growing major economy in the world over the last decade. At some point in the not-too-distant future it will become the largest in the world, surpassing the United States. In the past few years, China has taken steps to overcome the boom-bust cycle that has plagued it since the reforms were launched by Deng Xiaoping in 1979.

Chinese officials project that in 1996 China's GDP will grow by about 10 percent and retail price inflation will be about 7 percent. China continues to run a trade surplus with the world, and Chinese officials predict it will be about \$6 billion this year.

What is significant for the long term is the series of recent reforms that address China's troubled state enterprise sector. These bloated relics of the past are a major drain on state coffers and are contributing less and less to China's total industrial output. The problem is that any reform will increase unemployment and remove the social safety net for a large portion of the urban population.

But China is stepping up to this challenge. It has put in place a number of laws that it hopes will allow it to strengthen the performance of the 1,000 most important state enterprises while instituting ownership reform in 90,000 others.

China has a long way to go, and structural problems will not be easily overcome. Infrastructure, energy, corruption, distribution of income, and a host of other issues must also be dealt with.

But it is important to keep the problems in perspective. Legitimate concerns about the accuracy of Chinese statistics notwithstanding, living standards in China have increased dramatically in less than 20 years, and the upward trend should continue.

A second element of national power is China's technological base. China remains at heart an agricultural nation--more than 80 percent of its population are farmers. But we cannot dismiss China as a nation of peasants. Its scientific and technological capabilities are robust and growing. We see these capabilities reflected in the composition of its exports, which include not

just squirt guns and firecrackers but also fiber optics and semiconductors.

A third key element is a large, skilled labor force. China has a highly disciplined, talented, and energetic population that values education and has a demonstrated flair for business. There is also a tradition of sacrifice and respect for authority, as long as authority fulfills its responsibilities. In China that means maintaining order locally and looking after Chinese interests globally.

Any government would be challenged to manage a country that is home to almost one-fourth of the world's population. But before we conclude that the Chinese leadership cannot meet the demands for jobs, schools, and infrastructure, we need to remember that the four out of five Chinese who live in the countryside ask remarkably little of Beijing.

China's military modernization, the fourth element of national power, stands out among nations in the post-Cold War period. We see in China a military that is concentrating on building its force-projection capabilities with an eye to defending China's strategic perimeter out to the first island chain--that is, Japan, the Philippines, and Indonesia.

As part of its modernization effort, China has made some high-profile purchases of military equipment, such as Su-27 aircraft and Sa-10 missiles from the former Soviet Union. More significant for the longer term in our judgment is China's indigenous development. It will soon field a F-16-class multirole aircraft. It is continuing to develop new naval systems, including attack submarines and destroyers. It continues to weigh the wisdom of developing or acquiring an aircraft carrier.

China continues to improve and expand its strategic forces, including developing mobile missiles. All this speaks to the previous points I made: the robustness of the Chinese economy, which can afford this sort of investment, and the quality of China's technological base and work force, which can support military R & D.

China's military modernization is more than just hardware. We are also seeing an evolution in Chinese military doctrine. The Taiwan Straits exercise this spring was notable on three levels. First, it featured China's most advanced military hardware, including the Su-27s and short-range ballistic missile. Second, China displayed a level of sophistication and integration in its forces that was unprecedented. The exercise was heavily scripted and subject to weather, but it is clear that, in addition to new equipment, the PLA is also acquiring the skills to use it effectively.

Lastly, the exercise was significant for what it says about China's willingness to use intimidation and force to achieve political ends, in this case sending a strong message to Taiwan about its efforts to raise its international profile. There are many inefficiencies and deficiencies in China's military forces, and China is still not a global military power, but there is no question it has the potential to be one.

The final element is leadership, and here the picture is more mixed. China's senior statesman, Deng Xiaoping, is 92 years old and ill, and he has not been a factor in policy decisions for nearly a year. For all intents and purposes, China is now governed by a younger post-Deng leadership. By younger, I mean leaders in their sixties and seventies.

This leadership exhibits a mixture of hubris and insecurity. It is made up of men of approximately the same political strength and with little affection for one another. And there is no visionary or strategic thinker in the present group that we can identify--someone like Mao or Deng.

It is a group that takes great pride in what China has accomplished in the last 15 years, but it

also fears the forces it has unleashed in the process that could limit Beijing's control.

It follows, therefore, that this group takes a cautious and uninspired approach to policymaking. And with the de facto death of Marxism as an ideology, it is a group that seems to be relying more and more on nationalist appeals for popular support that unnerve some of China's neighbors.

We do not foresee the sort of factional infighting or succession struggles that marked the passing of Mao. This group may be uninspiring, and ultimately it may be a transitional leadership, with the ultimate heir to Deng emerging several years from now. But it seems capable of making major decisions and dealing with the issues that will face China.

Let me make a small aside at this point and address two notions about China that surface periodically that I believe are mistaken. Sometimes we hear predictions China is going to fragment. We think this line of analysis tends to overstate the tensions and faultlines between regions and classes. Chinese everywhere think of themselves as Chinese, accept that Beijing is the capital of China, and share a cultural fear of chaos and disorder--"luan" in Chinese--that their history teaches them is the certain result of dissolution. The pressures are there, but the fact is the glue remains strong.

The second notion we hear is that China's economic bubble will inevitably burst--that it will not be able to feed itself or that it will run out of steam for lack of energy. It is useful to remember that Japan can also be described as resource poor. When a nation exports as successfully as China has, it should be able to buy whatever it needs on the world market.

This does not mean the Chinese economy is free of problems. Double-digit growth rates are neither sustainable nor desirable over the long run. But the Chinese have shown a remarkable ability to reform a Stalinist economy and learn from their mistakes.

So, to return to my question: are the elements present that will propel China to major power status? Yes. The real question then is not whether China will be a major regional power, but rather how big a power will it be and, more important, how it will use its power.

Before I can address that question, I want to make a small digression and address a widely held but incorrect perception that the job of intelligence officers is to predict the future. That is not the case. Only God is omniscient, and only the Pope is infallible; intelligence officers are too savvy to compete in that league.

Rather, the function of intelligence is to help US decisionmakers better understand the forces at work in any situation, the other fellow's perspective, and the opportunities and consequences of any course of action so that US policymakers can make informed decisions. I should add, and stress, that intelligence officers do not make or recommend policy. What follows then is my own perspective on China's future, based on current trends.

When I think about China's tendencies I am inclined to agree with China scholars who argue that China is not a "status quo power." What Beijing wants is change. It wants to be admitted to the club. It wants to help make the rules, especially on such matters as global trade and proliferation and arms control.

More fundamentally, what China wants most is respect. This is sometimes hard for Westerners to comprehend. China's leaders, some of whom were born under the last Emperor, experienced firsthand the unequal treaties that denied China sovereignty on its own soil. These leaders fought a long civil war, a war that is not over in their eyes and that continues only because of US intervention. They fought Japanese invaders who were incredibly brutal. They suffered because Stalin sacrificed their interests for his domestic political needs, and they experienced

international isolation. This leadership feels deeply and personally what it views as the century of humiliation at the hands of the West. It seeks recognition as a powerful nation whose views ought to be sought and given weight, especially by other Asian nations.

These feelings are not likely to fade with the passing of this generation either. The Chinese time horizon is a long one. Whereas Americans tend to think in terms of years or decades, the Chinese think in terms of centuries and dynasties. It is an important distinction. You might remember when Kissinger asked Zhou Enlai for his views on the French Revolution and the response, "It's too soon to tell."

In 5,000 years there have been 22 Chinese dynasties, 13 of these have endured as long or longer than the entire history of the United States. It follows that the Chinese are acutely aware of their history, intensely proud of their ancient civilization, and sometimes wary of the United States with its global reach and infectious popular culture.

In the past two years the Chinese have bristled at Washington's decisions to approve the visit of Taiwan's President Li Teng-Hui to the United States in May 1995; to send two aircraft carriers to waters near the Taiwan Strait in March 1996; to keep selling arms to Taiwan; to levy persistent criticism against China's human right record, its proliferation policies, and its pirating of US technology; and to sign the US-Japan security agreement last spring. Some elements of China's leadership misperceive all this as a US scheme to contain China.

Consider the popularity in China today of such books as *China Megatrends* and *The China That Can Say No*. We would call these jingoistic if they were written by Americans about the United States, but they speak to the deep feelings in China of alienation from the United States and the West.

Given all this, we should expect China to have ambivalent feelings about the United States for the foreseeable future. Now China recognizes that a peaceful East Asian environment is essential for its continued economic development, and it appreciates the vital role US forces have played and continue to play in guaranteeing peace in the region.

But Beijing also believes that role is rightfully its own, and at least some elements in the leadership (and especially the military) see the United States today as the main obstacle preventing Beijing from reassuming its historical place as the paramount power in Asia. The latest visit of Secretary of State Warren Christopher to China, which is under way as I speak, will undoubtedly surface some of these mixed Chinese feelings toward the United States.

Particularly troubling to me at this time is the absence in the Chinese leadership of anyone with a personal stake in a strong bilateral relationship with the United States. Deng had such a stake, and perhaps another leader will assume that role in the future. In the meantime, there will be a strong temptation among Chinese leaders to seek immediate tactical and largely domestic political gains by "standing up to Washington" and others in defense of Chinese interests. Making sense of the next generation of leadership will keep the Agency busy.

I want to stress that Sino-US hostility is not preordained. Our interests run parallel in many areas, and we are working together very productively in many areas. Senior US officials have stated repeatedly that a stable, secure China--one that is comfortable with its neighbors and whose neighbors are comfortable with it, a China that believes it has a stake in the positive trends now under way in Asia--is in the best interests of the United States and is essential for regional peace. How the US-China relationship unfolds in my judgment will have much to say about how China actually evolves.

Our national leaders will need good intelligence in order to understand Chinese behavior and to develop the right policy tools to deal with it. CIA has made a major commitment to analyzing

China's political, economic, and military development.

In today's tough budget climate, we need to target our efforts where we can make a real contribution. Based on comments I receive from senior officials, I know that our analysis is making a significant impact on a wide range of China issues. This administration has relied heavily on the DI to guide it in its deliberations with the Chinese on trade issues, human rights, and proliferation.

China presents a major foreign policy challenge for the United States and an equally challenging one for the Intelligence Community. It is an exciting challenge that I think the Central Intelligence Agency and its Directorate of Intelligence, which I am honored to lead, can meet.

Thank you. I'd be happy to take questions about China or any other issue.

[\[Speeches and Testimony Page\]](#) [\[Public Affairs Page\]](#) [\[CIA Homepage\]](#)

Page last updated: 05/17/00 20:06:56.

If you have questions or comments about this Web site, [Contact Us](#).

PROFILE



Jan Krzysztof Bielecki

Director, European Bank for Reconstruction and Development (EBRD)
and Former Prime Minister of Poland

Jan Krzysztof Bielecki was born in 1951 in Bydgoszcz, Poland. An economics major, he graduated from Economics College in Sopot. Bielecki served as Prime Minister to Poland from January to December 1991, and as a minister for European Integration in the Suchocka government from July to November 1992. He is presently an executive director in the European Bank for Reconstruction and Development, an organization devoted to fostering the transition towards open market-oriented economies and the promotion of private and entrepreneurial initiative in the countries of central and eastern Europe and the Commonwealth of Independent States (CIS) through the application of the principles of multiparty democracy, pluralism and market economics.

In recent months, Bielecki has been mentioned in the press for his involvement in two ongoing situations: Poland's integration into the European Union, and the economic effects of Poland's recent governmental crisis. Bielecki has expressed concern that internal rivalries within Polish leadership may hurt Poland's chances of obtaining funds earmarked in the EU budget for new members. Bielecki also appears confident that the political situation in Poland will not have a negative bearing on its position in foreign markets.

Copyright 2000 Polish News Bulletin
Polish News Bulletin

07 June 2000

SECTION: ANALYSES AND COMMENTARIES

LENGTH: 686 words

HEADLINE: Poland's Economy: Immune to Political Crisis?

BYLINE: anco

BODY:

When Freedom Union leader and Finance Minister Leszek Balcerowicz announced his readiness half a year ago to resign over Solidarity Elections Action's (AWS) resistance to his tax reform proposal, the zloty fell five percentage points to the US dollar and the reaction of Warsaw Stock Exchange (WSE) investors was equally nervous.

So far, the latest political crisis within the ruling Solidarity Election Action-Freedom Union (AWS-UW) coalition has not affected Poland's economic situation, notes Prof. Edmund Pietrzak, a member of the Macroeconomic Council linked to the Finance Ministry. Investors, he says, have grown accustomed to the fact that seemingly big political storms in Poland produce little thunder.

In the opinion of Prof. Jan Winiecki, the fact that Poland's economy is not reacting so nervously to the current crisis is a sign of its strength. To be sure, Poland is not yet Italy, where frequent cabinet crises do not affect the economy, but Poland's economy is also becoming increasingly resistant to political tremors. The latest disturbances no longer set Poles rushing to exchange zlotys for dollars. In fact, to the surprise of observers, the zloty actually gained in the first few days of the current cabinet crisis.

For most foreign investors, Leszek Balcerowicz is still a personal guarantee of the stability of Poland's economy and of reforms being continued to their successful conclusion, say most analysts. For others, such as Prof. Cezary Jozefiak, a member of

the Monetary Policy Council (RPP), personnel decisions are less important than a further stabilisation of fiscal policy.

Next year's budget is the most important consideration for investors, claims Krzysztof Rybinski of ING Barings, the Dutch investment bank. The vital question is whether it will be possible to keep the budget deficit at 1.5 percent of gross domestic product. Even without the present cabinet crisis, it was difficult for the two coalition partners to hammer out a joint budget, with the UW trying to restrict some AWS MPs from increasing public expenditures. A minority cabinet might have even greater problems in getting the budget bill passed.

Meanwhile, additional budget expenditures could soon lead to a currency and financial crisis, warned Rybinski. In his opinion, Balcerowicz's departure from government is bound to upset the financial markets, while the two former partners will find it more difficult than ever to jointly push the budget bill through the Sejm against the left and far-right opposition. According to Marek Goliszewski, chairman of the Business Centre Club (BCC), next year's budget may prove a real stumbling block for an AWS minority government. If the Sejm fails to pass a budget draft for next year within the statutory time-limit, the president is constitutionally empowered to dissolve the parliament and to call early elections.

Negotiations with the European Union are the next most important long-term issue which may be affected by the present political crisis. Poland already has serious legislative delays in adjusting its laws to EU standards. The task calls for passing almost 200 legislative acts. A future AWS minority government, lacking a parliamentary majority, will be unable to force even the most necessary bills through the Sejm, claims former Prime Minister **Jan Krzysztof Bielecki**, now an executive director at the European Bank for Reconstruction and Development (EBRD).

Jan Kulakowski, Poland's chief EU negotiator, concedes that every minor political and economic crisis in Poland indirectly affects Poland-EU accession negotiations. Nevertheless, the latest crisis has not had any direct negative impact on the accession process since it has not concerned EU negotiations. Nevertheless, if the crisis continues for a protracted period of time, paralysing the decision-making process, his negotiating mission could become difficult, concedes Kulakowski.

LANGUAGE: ENGLISH

LOAD-DATE: June 7, 2000

FOCUSTM

Search: General News;"jan krzysztof bielecki"

To narrow this search, please enter a word or phrase:

FOCUS

Example: House of Representatives

[About LEXIS-NEXIS](#) | [Terms and Conditions](#) | [What's New](#)
Copyright © 2000 LEXIS-NEXIS Group. All rights reserved.

Copyright 2000 PAP Polish Press Agency
PAP News Wire

May 30, 2000, Tuesday

SECTION: NEWS

LENGTH: 202 words

HEADLINE: Bielecki: budget immune to gov't crisis

BODY:

London, May 30: The present government crisis will have no bearing on the national budget, Poland's representative in the European Bank for Reconstruction and Development (EBRD), **Jan Krzysztof Bielecki**, told PAP Tuesday.

Bielecki said that the 2001 budget may bring considerable improvements to Poland's economy and assured that it would not become a subject of the present political tussles.

According to him, Solidarity Election Action (AWS) will be "more Catholic than the Pope" in budget matters if it remained in minority government as it would not want to lose the public confidence it still had.

An initial draft of the 2001 budget assumes a drop in Poland's public finance deficit from 2.7 to 1.5 percent.

Bielecki said that agreement on budget matters was one of the conditions for a successful rebuilding of AWS' coalition with the Freedom Union (UW). He added that UW expected AWS to discipline its Sejm deputies into voting the budget through.

In Bielecki's opinion the political situation in Poland will have no negative bearing on its position on foreign markets as internationally Poland was judged more on the strength of its solid economy than temporary political troubles. (mb)

LANGUAGE: ENGLISH

LOAD-DATE: May 31, 2000

FOCUSTM

Search: General News;"jan krzysztof bielecki"

To narrow this search, please enter a word or phrase:

FOCUS

Example: House of Representatives

Copyright 2000 Info-Prod Research (Middle East) Ltd.
IPR Strategic Business Information Database

May 14, 2000

LENGTH: 167 words

HEADLINE: POLAND'S FORMER PREMIERS URGE JOINT EFFORT TOWARD EU MEMBERSHIP

BODY:

Four former premiers--Tadeusz Mazowiecki and Hanna Suchocka from the Solidarity camp and Jozef Oleksy and Wlodzimierz Cimoszewicz from the left wing--**appealed on 11 May to all political forces to join forces in the country's EU membership bid, PAP reported.** Mazowiecki said the drive for membership in the union should be free of "political infighting." Cimoszewicz and Oleksy said the leftist opposition is ready to support the government in its European integration effort. Cimoszewicz urged the coalition to allow opposition members to take part in the accession talks with Brussels in order "to enable smooth continuation" of those talks after there is a change of government in the country. Former cabinet heads Jan Olszewski and Waldemar Pawlak did not show up to sign the appeal. Former Premier **Jan Krzysztof Bielecki, currently abroad, reportedly agreed to sign it later.** JM
Copyright (c) 1999. RFE/RL, Inc. Reprinted with the permission of Radio Free Europe/Radio Liberty

LANGUAGE: English

LOAD-DATE: May 15, 2000

FOCUS™

Search: General News;"jan krzysztof bielecki"

To narrow this search, please enter a word or phrase:

FOCUS

Example: House of Representatives

Copyright 2000 Polish News Bulletin
Polish News Bulletin

08 May 2000

SECTION: ECONOMY

LENGTH: 389 words

HEADLINE: Zloty Falls Nearly 4 Percent

BYLINE: anss

BODY:

After the release of unfavourable current account deficit data, the zloty lost nearly 4 percent to the dollar on Friday, falling from ZL4.57 to the dollar to ZL4.65 at the close, after touching ZL4.74 to the dollar when an economic expert told the press that the zloty's exchange rate to the euro was 10 percent too high. "Panic is perhaps too strong a word, but it was kind of a panic. Foreign investors were selling off zloties and Polish securities, buying dollars and euro," said one currency dealer. The zloty was then saved by Hanna Gronkiewicz-Waltz, chairman of the National Bank of Poland (NBP), who said that she did not see any direct threats to the zloty's stability, but did not rule out that the NBP might intervene to defend the weakening currency. Gronkiewicz-Waltz announced that the Monetary Policy Council (RPP) will meet at an extraordinary session today, and added that the RPP will "maintain a restrictive approach in monetary policy." Some analysts took it as a sign of a possible interest rate increase, especially since the official goal of pushing down inflation from the present 10.4 percent to 6.8 percent in December seems increasingly unrealistic. Gronkiewicz-Waltz said that the zloty's recent depreciation would not be so sharp if investors did not strengthen the currency in March against already clear warning signals, and added that the zloty's weakness was further stimulated by a lack of large privatisation deals in the recent period. Commenting on the situation on the foreign exchange market, Jan Krzysztof Bielecki, a former PM and now a director at the EBRD, said that the turbulence was caused by the fact that Poland's strong economic growth was based on domestic demand. "Such a situation cannot go on. If fiscal policy does not adapt, the market will force the currency to adapt," Bielecki said. In his opinion, the present situation could be remedied by accelerating the privatisation of the TP SA state telecom, or introducing

temporary limitations on the flow of foreign capital, especially speculative capital. But such a move, Bielecki admitted, would be ill-perceived abroad. "The key to improving the situation is for investors to resume their trust in the Polish economy," Bielecki said.

LANGUAGE: ENGLISH

LOAD-DATE: May 8, 2000

FOCUS™

Search: General News;"jan krzysztof bielecki"

To narrow this search, please enter a word or phrase:

FOCUS

Example: House of Representatives

[About LEXIS-NEXIS](#) | [Terms and Conditions](#) | [What's New](#)
Copyright © 2000 LEXIS-NEXIS Group. All rights reserved.

Copyright 2000 Polish News Bulletin
Polish News Bulletin

8 May 2000

SECTION: Weekend Supplement;

LENGTH: 539 words

HEADLINE: Opinion

BYLINE: gsco

SOURCE: Based on various media reports including the 19 April 2000 issue of Gazeta Wyborcza

BODY:

On Poland's Bid for Rapid Integration with the European Union

Jan Krzysztof Bielecki, former prime minister and a director at the European Bank for Reconstruction and Development:

To date, there has been little talk in the West about Poland's delay in adopting the EU legal system. The EU is not concerned about this because it is playing for time. But for us this fact should be important because we may be blamed for the delay later.

Romano Prodi's statement several weeks ago about the need for caution in expanding the EU was unfortunate, and it's a good thing that we reacted sharply toward it. The EU should not be shifting its own problems onto us.

Prime Minister Jerzy Buzek's visit to Brussels came out positively. But we should be more disciplined. There are several more points to win. The EU is taking its time preparing the SAPARD programme. We could take advantage of this, demanding more favourable conditions for the programme's implementation -- so that whatever money remains in a given year could be used the next year.

We have a battle to wage over the use of funds earmarked

in the EU budget for new members beginning in 2002. However, the rivalry among Polish government agencies for influence and control of individual grant assistance programmes might lead to a situation in which we will lose these funds.

In our diplomatic campaign we cannot limit ourselves to carrying out stopgap operations. The long-term perspective of the process is important and the need to build personal ties between our officials and EU officials.

A fuller assessment will be made this autumn, when the EU presents its annual assessment of the candidate countries. Then we will learn how we compare to other candidates.

Jacek Pawlicki, a commentator in Brussels, in Gazeta Wyborcza:

Do we have reason for concern? After two years of negotiations we are not even at the halfway point. The most difficult areas are still ahead: agriculture and the labour market. The debate on these areas may last a long time, especially as we are -- rightly -- making high demands, referring to the principles of European solidarity. The EU, on the other hand, is hesitating -- for good reason -- because meeting these demands would be expensive, and moreover it is not at all certain that it would be reasonable. Perhaps, it is really better to reform EU agriculture and limit subsidies rather than pay huge amounts of money to our producers, thus upsetting the income relationship in Poland between rural and urban areas. However, this would require a major debate in the 15 countries. Perhaps such a debate is unavoidable. It's just that this would take time.

Some politicians in Warsaw dream of some secret impulse which would open the EU door, or something that would force the EU to make speedy decisions. Perhaps some political crisis in Russia or Belarus? Or financial upheavals in Europe? Unfortunately, by waiting for a miracle to happen one can be let down bitterly. Besides, even a miracle must be approved by the 15 countries at the same time.

LANGUAGE: ENGLISH

LOAD-DATE: May 8, 2000

FOCUSTM**Search: General News;"jan krzysztof bielecki"**

To narrow this search, please enter a word or phrase:

FOCUS

Example: House of Representatives

[About LEXIS-NEXIS](#) | [Terms and Conditions](#) | [What's New](#)
Copyright © 2000 LEXIS-NEXIS Group. All rights reserved.