THE NEWSLETTER ABOUT REFORMING ECONOMIES

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China's Economy At a Crossroads

In the following block of articles, we take a closer look at China's present economic situation, analyze some of the latest reform proposals, examine the role and history of local reform experiments, and report about impressions gained during a recent visit to Southern China.

Will China Resist the Asian Flu?—An Economic Roundup

According to the Chinese zodiac, we have entered the year of the Tiger. Certainly this will not be the year of East Asia's wounded tigers. But what about China? Can it overcome the odds and continue its high growth? The country has problems in common with its neighbors: some privileged insiders enjoy special access to scarce resources, particularly bank loans; banks are loaded down with bad loans to overextended companies that are not competitive; signs of overinvestment and excess capacity abound.

But it is unlikely that China will experience a crisis similar to the one unfolding in Southeast Asia, for the following reasons:

- Incoming capital is predominantly long-term foreign direct investment, and little of China's borrowing is short-term.

- The Chinese currency is not convertible for capital account transactions.

- China in the mid-1990s experienced record trade and current account surpluses (unlike Korea or Thailand).

- By the end of 1997 China had amassed $140 billion in foreign exchange reserves, enough to finance more than a full year of imports.

Nonetheless, the Chinese leadership has to solve some major problems this year. To achieve the targeted 8 percent economic growth in 1998, fixed asset investment must rise by at least 12 percent, according to Zhang Hanya, a member of a State Planning Commission think tank. The economy last year grew 8.8 percent, with a 10.1 percent expansion in fixed asset investment. (Between 1992 and 1996 China achieved an average annual growth rate of 11 percent.) Zhang said 20 million jobs would have to be created each year for the next several years to meet the needs of the baby boom of the 1980s. In addition, 10 million surplus rural workers are expected to head to cities each year to look for jobs. (Zhang noted that more than 10 million people had so far been thrown out of work as a result of China's campaign to turn around loss-making state industry.)

What's Inside

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Deflation Ante Portas

Economic growth has been dragged down by falling domestic demand and is likely to be hit further this year by a slowdown in exports and foreign investment inflows. Foreign direct investment in China hit a record $45 billion in 1997, but, linked to the Asian financial meltdown, it could well drop this year, *China Daily* has quoted an unnamed senior trade official as saying. Contract foreign investment, a reliable measure of future trends, plunged 33 percent in the first 11 months of last year, according to government statistics. Exports continued to boom in 1997, with growth of around 18.5 percent, generating a $40 billion trade surplus. However, in 1998 the impact of improved South-east Asian export competitiveness—resulting from regional currency falls—could result in falling export growth.

The evidence of emerging deflationary tendencies in the Chinese economy is clear. Between January and November the retail price index rose by just 0.9 percent year-on-year. The retail price index fell by 0.4 percent and 0.8 percent in October and November, respectively. In recent months food prices have fallen, while manufactured goods prices have remained stable and those of service-related items have experienced sharp rises. A variety of factors, including high inventory levels amounting to an estimated $70 billion, or 8 percent of GDP, are likely to sustain this deflationary trend in 1998. In recent years the supply of consumer durables, such as cars and electrical appliances, has significantly outstripped growth in domestic demand. Large stockpiles of unwanted goods and excess industrial capacity are a legacy of the boom begun in 1992, when growth in fixed-asset investment hit a peak of 50 percent year-on-year. Consumer products manufacturing will probably once again outpace shrinking demand in 1998. Meanwhile, the property glut is likely to persist, despite tax cuts and other incentives introduced to stimulate demand.

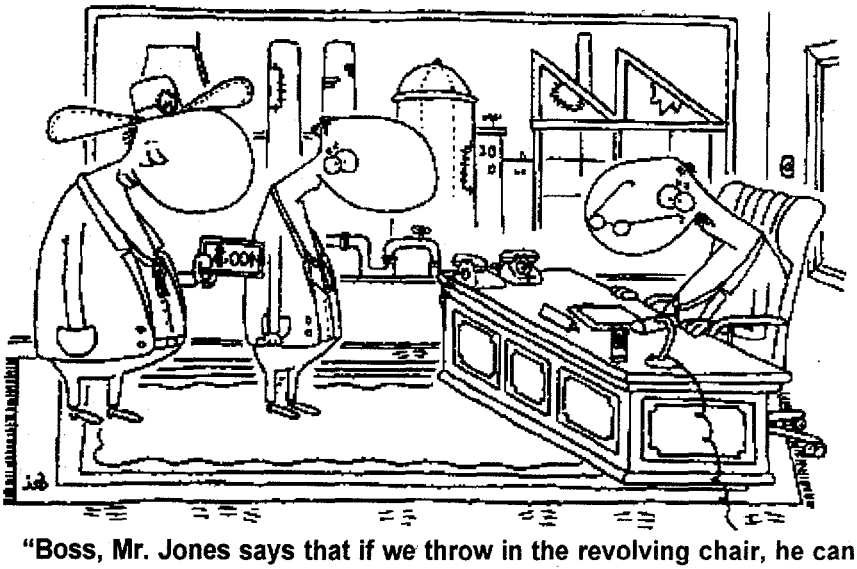
The plight of state-owned enterprises (SOEs), many of which suffer from overstaffing, inefficiency, and heavy indebtedness, will worsen in a sluggish economy. In the past China has tried to spend its way out of downturns by opening the credit tap to state enterprises. In recent years SOEs have received 80 percent of the loans extended by state banks. But following the guidelines of the 15th Communist Party Congress, held last September, China is trying to reduce a mountain of nonperforming bank debt and has ruled out a repetition of easy credit. Heavy loss-making SOEs will be merged, sold off, or forced into bankruptcy.

Urgent Bank Cleaning Required

China's financial system has been weak, characterized by a rapid buildup of nonperforming loans to SOEs financed largely by household deposits. Central bank governor Dai Xianglong has called 1998 a "crucial year" to carry out dramatic reform of the nation's shaky banking system and avoid an Asia-style meltdown. He outlined reforms that would revamp the central bank along lines similar to the U.S. Federal Reserve, clamping down on reckless lending by local branches of state banks and introducing Western-style accounting and credit-risk procedures. Dai also pledged that Beijing would nearly double the funds used to write off bad debt this year to 50 billion yuan ($6 billion) and further raise the pool to 60-70 billion yuan a year in 1999 and 2000.

The four main commercial banks—the Bank of China, the Industrial and Commercial Bank, the Bank of Agriculture, and the China Construction Bank—are technically insolvent. They had a total capital base of 201 billion yuan ($24.2 billion) and total loans of 5,000 billion yuan at the end of the first half of 1997. Official estimates show 20 percent of their loans—equal to 1,000 billion yuan—are nonperforming. If half that amount could be recovered, it would still leave bad debt of 500 billion yuan, more than double the bank's capital base. Loan loss reserves were well under 1 percent of loans. (A recent World

Privatization



"Boss, Mr. Jones says that if we throw in the revolving chair, he can double the price for the factory..."

From the Budapest-based magazine *Hungarian Economy.*

Bank report on bank restructuring pointed out that financial distress is likely to become systemic when nonperforming loans, net of provisions, reach 15 percent of total loans.) Just before going to press China announced that it will float a $32.5 billion domestic bond issue to recapitalize the four giant state-owned commercial banks.

A large part of the accumulated bad (unpaid) loans were originally "policy loans," initiated by the government to enable state companies to provide housing, schools, and hospitals. The annual 21 percent increase of bank credit in China is similar to that experienced in other countries prior to the emergence of major banking crises. This excessive reliance on expanding bank credit is reflected in China's unprecedented high ratio of incremental bank credit to annual government fiscal revenues. As fiscal revenues dramatically declined relative to output, an ever-increasing share of the government's expenditure program was financed through the quasi-fiscal operations of banks. (By 1995 the annual increase in credit extended through the state-owned banking system was half again as large as the combined annual budgetary expenditures of central, provincial, and local governments—a ratio of 1.5:1. In the mid-1980s this ratio in industrial countries ranged from about 0.15:1 in the United States to as high as 0.81:1 in Japan.)

Chinese banks and other financial institutions are heavily exposed to real estate lending, although market values has declined sharply by the second half of 1995. In Beijing, Shanghai, and Shenzhen millions of square feet of luxury villas and townhouses are unoccupied and even more first-class office space is vacant.

If a program of financial reform—including recapitalization and commercialization of the banking system, adherence by enterprises to hard budget constraints, and tax revenue increases sufficient to finance the recapitalization program—is carried out, China can emerge with a more efficient financial system and will be more likely to maintain high rates of domestic savings. Related financial reform measures include:

- Some economists call for the creation of a "bad debt bank" that would buy up all bad debts at a discount and try to make them worth something, much as the Resolution Trust Corp. did in rescuing the U.S. savings and loan industry. Others say the government should write off the bad debt and recapitalize the banks, borrowing money from the private sector or selling equity to outside investors.

- In early February China lifted lending credit quotas for state-run commercial banks (this is likely to result in decreased lending to SOEs).

- Banks will be authorized to adjust interest rates, now fixed, within a certain band depending on the bank's risk analysis of the borrower.

- There are plans to reduce the number of trust and investment companies to only one to two per province or municipality and to close badly managed and thinly capitalized financial institutions.

- The central bank plans to consolidate its own local branch network into 12 or 13 new regional offices, and to reform the numerous rural credit cooperatives, which have proliferated in recent years.

How to Save Growth?

The central bank cut interest rates three times between May 1996 and October 1997 in an attempt to stimulate growth. As actual interest rates remain at around 6 percent, experts believe there may be room for rates to be lowered by a further 1 or 2 percent. (The yuan is not freely convertible and does not require high interest rates to protect it.) This move would reduce the debt burdens of loss-making SOEs. Officials claim the interest rate reduction would help promote the development of a securities market and thereby create an environment in which SOEs can be transformed into joint stock companies. Given high inventory levels, it is not clear that reductions in interest rates would have an immediate stimulative effect on industrial investment.

Vice Premier Li Lanqing, speaking at the World Economic Forum in Davos, pledged to protect the value of the yuan. He explained that a devaluation would lead to devaluations of other currencies in the region, and this would have a snowballing effect, disastrous for stability and growth in Asia and growth of the world economy. (Asia is the source of more than half of China's investment and the destination of about 30 percent of its exports. A devaluation of the yuan would make imported goods—machinery, petroleum, and wheat—more expensive and possibly reignite inflation. About half of China's exports rely on imported raw materials.)

Vice Premier Li also confirmed that China would invest $750 billion in infrastructure and environmental projects over the next three years to stimulate economic growth. Building more roads, subways, and extensions of the railway network, economists have pointed out, will more effectively promote growth than allowing state-owned enterprises to pursue more irrational expansion. In mid-February Premier-designate Zhu Rongji confirmed that China is working on a New Deal-like program to stimulate the economy and relieve increasingly high unemployment.

Based on reports of Oxford Analytica, the international research group based in the U.K., as well as on news agency reports.

China's State-Owned Companies Need Urgent Reform

by Chi Fulin

Economic reform in China has entered a critical stage. How to solve problems and difficulties confronting the state-owned economy is in the forefront of reformers' agenda. The 15th National Congress of the Chinese Communist Party has decided to accelerate the reform of state-owned enterprises (SOEs) and consolidate the situation in three years. The transformation of large and medium-size SOEs into shareholding companies (corporatization) seems an effective way to achieve this goal. Since the mid-1980s both private companies and selected SOEs have chosen to issue shares in order to raise capital. Corporatization has also helped to find motivated owners for SOEs and establish the structure of modern corporations. But many questions have been raised:

1. How can the conversion of SOEs be integrated into the strategic restructuring of the larger national economy and how can the process be accelerated? Certainly, SOEs in competitive industries should go ahead with corporatization and complete it within three to five years; in particular, the state-owned public utilities sector (including telecommunications, the power industry, civil aviation, and railway and highway systems) should be reformed, as should the financial sector, with special attention paid to reforming the state-owned commercial banks.

Unresolved issues include:

- Establishing sound enterprise groups through merger and acquisition of profit-making joint stock companies. Through the formation of transregional, transindustrial, and transnational enterprise groups, the public sector could concentrate resources, finance the envisaged key public projects, and improve overall competitiveness. (Some authorities force the mergers administratively from above. Playing matchmaker, governmental departments are forcing well-performing enterprises to take over poorly performing ones.)
- Separating successful enterprise groups from indebted underperformers, and encouraging their listing on the stock exchange.
- Attracting foreign and domestic investors to buy into large and medium-size SOEs. This would improve their ownership structure and management efficiency, accelerate adaptation of advanced technologies, and increase their international competitiveness.
- Consolidating banks that are burdened with the accumulated bad (unpaid) debts of borrowing enterprises (these liabilities can be transferred to separate debt trusteeships).
- Coping with the social consequences of the necessary mass redundancies and relieving—at least partially—SOEs of their obligation to provide social services to their employees, without endangering the social security of the people.

2. How can the capitalization of the economy be accelerated? In other words, what should be done to develop a securities market that could meet the SOEs' needs for capital increase through stock offerings. (At present, capitalization of the economy—financial assets on the capital market as a share of total financial assets—amounts to only 10.06 percent.) Some suggestions:

- A larger volume of transferable corporate bonds should be made available on the capital market. Right now, this bond market is hardly developed. At the end of 1995 the total value of corporate securities on the capital market reached 178.8 billion yuan, while as recently as 1997 enterprises issued only 4 billion yuan worth of transferable corporate bonds.
- Investment funds, particularly restructuring funds of SOEs, should be strengthened in order to pool dispersed individual savings and channel them into investment. Part of the state-owned shares of listed companies should be trusted to investment funds. These combined resources can facilitate strategic restructuring of SOEs. Further experiments with these funds should be conducted in selected regions before instituting them across the country.
- Performance of listed companies should be improved and poorly performing companies should be restructured without delay. The overall quality of the listed companies is good. Over the past seven years their average return on net assets has been 13.9 percent. This rate, however, has deteriorated in recent years. The 1995 corresponding figure dropped to 10 percent and 16 listed companies made losses.

3. How can state-owned assets be managed effectively to promote corporatization—the transformation of SOEs into joint stock companies? Should central and local government agencies be the direct owners (owner representatives) of state companies, whether listed or not?

With the exception of vital sectors or strategic industries, the state should entrust state-owned assets and state-owned stock rights to relevant institutions such as commercial banks and investment banks. Joint stock (shareholding) companies cannot perform optimally if government administration is not separated from enterprise management. Fully state-owned enterprises should develop a diversified ownership structure. State-owned holding companies should be entrusted with asset

management of state-owned stocks, maintaining and increasing their value.

4. How can an effective corporate governance structure for the shareholding companies be built? Performance of stock companies ultimately depends on effective operation that is compatible with market conditions. Creating an effective corporate governance structure and rational operating mechanism is thus of utmost importance. The following issues need special attention:

- The proportion of state-controlled stock companies is too high. Out of the 530 listed companies 373 are controlled by the state, accounting for 53 percent of the total capital stock. The second-largest stockholders own no more than 5 percent of the shares on average. The state's dominant ownership of shares can distort enterprise behavior. More diversified ownership would promote more efficient operations.
- The complex relationship between shareholders, the board of directors, and management needs to be defined and standardized. In Shaanxi Province, out of 62 stock companies only 16 are listed on the stock exchange. Most of the unlisted but corporatized firms haven't introduced regular meetings for shareholders, and even if they did, the meetings have seldom served a practical function. In many companies the chairman of the board of directors is also the general manager. It is urgent to establish effective corporate governance structures, with due consideration to a sharing of responsibilities, in accordance with the Corporate Law.
- Within the conditions of a socialist market economy, improved employee performance needs to be encouraged. The interests of employees and employing enterprises should be coordinated. Employee ownership could be one solution. It pools workers' savings and channels them into investment. If employees were able to buy enterprise assets (and receive some free), the relationship between the enterprises and their employees would become closer. Some experts suggest, though, that employee ownership could lead to a "free ride," unjustified wage increases, and distribution of bonuses. They question whether enterprises that are partly or fully owned by employees can be managed and operated efficiently. Still, establishing a rational relationship between enterprises and their employees will be an important factor in improving enterprise performance, itself crucial to the successful corporatization of SOEs and proliferation of shareholding cooperatives—both key goals of the economic reform.

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The Sale Goes On—Transforming Small Enterprises in China

by Yuanzheng Cao, Yingyi Qian, and Barry R. Weingast

China's small and medium-size enterprises number roughly 285,000, out of a total 300,000 state-owned enterprises (SOEs), accounting in 1993 for 57 percent of employment and 43 percent of state industrial output (see table).

State-owned Industrial Enterprises, Characteristics and Performance, by Size, 1993
(as percentage of total SOEs)

Size of enterprises	*Share of enterprises*	*Output*	*Employment*	*Net value of fixed assets*	*Profits and taxes*
Large	5.0	57.0	43.0	62.0	66.7
Medium	13.0	23.0	26.0	19.0	19.4
Small	82.0	20.0	31.0	19.0	13.9
Total	100	100	100	100	100

Small and medium-size SOEs fall mainly under the supervision of county and city governments (some are supervised by provincial governments) and are often engaged in competitive industries such as machinery, electronics, textiles, and food processing. The central government supervises most very large enterprises, some of which are in natural monopoly industries such as telecommunications and railroad transportation, and some in government monopoly industries such as airlines, banks, electricity, oils, and petrochemicals.

"Release the Small"

By the early 1990s it had become evident that the unreformed state enterprise sector was an obstacle to China's development. SOEs continued to consume a great portion of bank credit and other resources; most had excess employment, and close to half were loss-makers. In terms of capital structure, small SOEs generally carry more debt than large and medium-size SOEs, themselves highly leveraged by international standards. In 1995, in the industrial sector the debt-asset ratio was 71.5 percent for small SOEs, compared with an average 65.6 percent for all SOEs; and the debt-equity ratio was 2.49, compared with the SOE average of 1.92 and the international average of around 1. In 1994, 90 percent of loss-making SOEs were small. About 60 percent of small SOEs are making losses.

In 1994 China quietly began privatizing and restructuring its SOEs under a reform program intended to "grasp the large and release the small." By the end of 1996 pioneering provinces had privatized up to 70 percent of their small

SOEs and in many other provinces about half were privatized. Local governments have been the driving force behind the reforms, which have proceeded relatively smoothly and with fewer social problems than expected. The privatization programs in Eastern Europe and Russia were linked somewhat to the liquidity and wealth constraints of potential buyers of firms and was thus one reason for the free distribution of shares. Such constraints are less of a problem in China.

After more than 15 years of reform, households have accumulated huge private savings in the form of bank deposits. But, as noted earlier, most SOEs' debt-asset ratios are very high, particularly those of small SOEs, and thus the net worth of firms is small relative to total assets—sometimes even close to zero. When such a firm is sold to employees or outside investors, the transfer price of equity is very low. In many cases the employees can afford to purchase the enterprise with their own savings. In some cases "zero price transfer" is used, with buyers assuming control of a firm and its debt for nothing. This is the equivalent of buying firms with borrowed capital.

The major forms of ownership reform are stock cooperatives, in which enterprises shares are sold mostly to employees, followed by sales to a private domestic or foreign investor or firm; and corporatization, in which the enterprise is transformed into a limited liability or joint stock company. A survey of several provinces showed these reform models accounted for more than half of all conversions. The rest included bankruptcies and takeovers by other enterprises.

Incentives to Privatize

What incentives do local governments have to privatize and restructure the firms under their supervision? China's market-preserving federalism requires that local governments:

- Assume primary authority and responsibility for their local economies.
- Impose hard budget constraints.
- Open their economies to outside competition.

Local Governments—Testing Grounds for Reform, Chinese Style

Economic reform, Chinese style, relies on local governments, as a kind of "laboratory." Many major reform efforts have been tried first on an experimental basis in a few local areas. Successes were learned from and imitated on a moderate scale by a few provinces. And if these experiments succeeded, the reforms were recommended and promoted by the central government as national policy. The introduction in the late 1970s of the agricultural household responsibility system started with experiments in Anhui and Sichuan provinces and was later promoted by the central government. The rapid development of township-village enterprises in the early and mid-1980s grew out of successful initiatives in a few coastal areas (such as Jiangsu province), undertaken without the central government's planning. While the central government at first only tolerated such enterprises, it later came to support them, and many inland provinces later followed suit.

In the development of markets in the late 1980s some areas (such as Guangdong province) liberalized prices and opened their markets while others (Hunan and Heilongjiang provinces) chose to regulate prices and stay closed. Over time other provinces began to liberalize their markets. The same pattern is emerging for SOE reform in the 1990s. In September 1997 the central government announced a national policy in favor of privatization, but as with previous reform issues the announcement is a formal sign of acceptance and support for what has been going on in some local areas for several years.

Until 1978 the central government forced all regional and local governments to adhere to the same centrally dictated reform models. This "one size fits all" approach left no room for independent experimentation, adaptation, or local government autonomy of decisionmaking. This approach to institutional change failed miserably. Since 1978 reform has taken place within the framework of federalism, Chinese style. Central and local government roles were altered in fundamental ways: the central government no longer attempted to establish the model of reform. Local governments have had the authority to decide on the nature and speed of reform and to adapt reform measures to local needs. Given hard budget constraints and an open economy, local governments cannot afford to make big mistakes for an extended period.

Economic reform, Chinese style, differs considerably from economic reform in Eastern Europe and the former Soviet Union. Reform in those economies is far more centrally driven. The more diffused, federal perspective on reform in China—where large numbers of local governments are seeking ways to promote economic gain and remove sources of economic inefficiency—provides important insights to the economic and political dynamics underlying privatization, as well as other reforms in China.

Hard Budget Constraints. Both fiscal and financial reforms between 1994 and 1996 have played important roles in hardening the budget constraints of local governments. The 1994 tax reform introduced a clear distinction between national and local taxes and determined that the value added tax, as a major indirect tax, would be shared by the national and local governments at a fixed rate of 60:40. The 1995 Budget Law required that local governments balance their budgets, introduce strict control over their bond issuance, and limit their borrowing in the financial market. In 1994 the central bank instructed its local branches to report exclusively to its central headquarters, which sets national monetary policy. (Before, these branches were under dual supervision, reporting both to the bank's central headquarters and to the local government in their region.) Yet local governments have continued to assume primary responsibility for managing local economies and maintaining their own revenue sources.

Market Competition. Both foreign firms and domestic nonstate firms—including township-village enterprises and private enterprises—have become major sources of competition for the SOEs. Since 1993 China has been the second most attractive destination for foreign direct investment (FDI), after the United States, and by mid-1997 it had accumulated a total of $200 billion in FDI. Rural enterprises have expanded in the 1990s, becoming a major domestic competitive force. In 1993 rural enterprises accounted for 70 percent of canned food production, 61 percent of electric fans, 59 percent of paper, 45 percent of coal, 42 percent of silk products, and 37 percent of cement. By the mid-1990s foreign firms together with rural enterprises accounted for more than half of China's industrial output. Competition pressure on SOEs from nonstate firms reached a new level.

Maintaining inefficient enterprises is increasingly costly for local governments, some of which have been unable to pay schoolteachers for several months. Propping up inefficient SOEs deters employment creation and diverts local governments' attention from their mandate to be good regulators of local economies that are increasingly populated by nonstate firms.

The small SOEs cannot compete with rural enterprises or foreign firms, because of a lack of incentives. Nor can they compete with the large SOEs, since they lack technology and human capital and cannot profit from economies of scale or monopoly power. Small SOEs are thus squeezed between nonstate firms and large SOEs. As a result loss-making SOEs are concentrated in small SOEs, which are mostly supervised by county governments: 90 percent of loss-making SOEs are small SOEs, and 60 percent of all small SOEs are unprofitable. Privatization of these loss-making SOEs is thus a pressing issue: harder budget constraints combined with increased competition from the nonstate sector have translated into strong financial pressures on many local governments to address the SOE problem.

Excerpted from the authors' recent working paper From Federalism, Chinese Style, To Privatization, Chinese Style, *which can be downloaded from the Web site: http://www-econ.stanford.edu/econ/workp/swp97049.html.*

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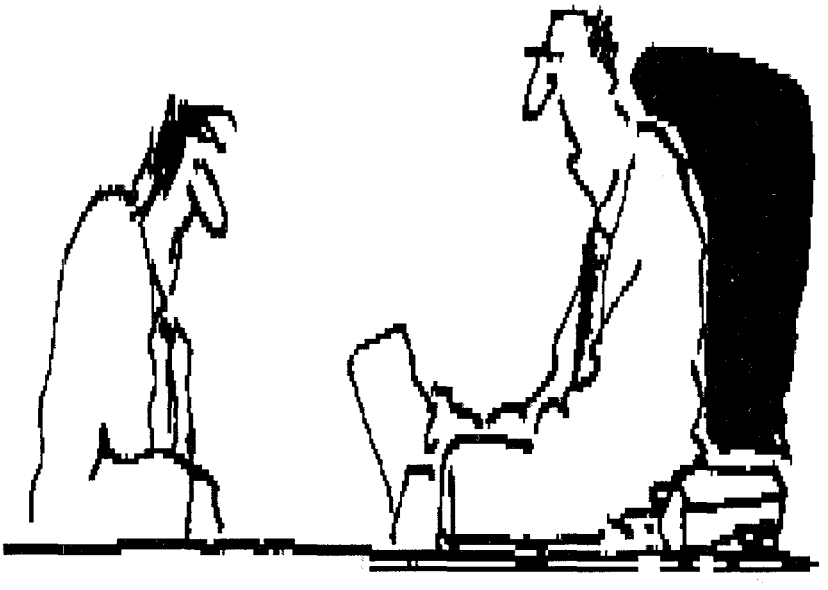


"We're a forward-looking company, Smyth, and I can see you're being sacked next week."

From the *World Press Review.*

Where Reformers Shape the Future—A Visit to Southern China

by Richard Hirschler

Late last year, I participated in an economic conference on the exotic island of Hainan and visited the explosively developing city of Shenzhen, showcase of Guangdong province in southern China, which itself—together with Hong Kong and Taiwan—is the world's economically most dynamic region. In the following "traveler's tale," I hope to illustrate, through personal impressions and conversations with economic researchers and corporate executives, that China's long reform march is continuing.

From the distant sandy beach, across the bay, the Haikou skyline of looks almost like Hong Kong: huge office buildings, impressive residential developments, postmodern hotels surrounded by palm trees. Haikou is the capital of Hainan, a tropical island at the southernmost tip of China. Until 15 years ago it was considered one of the most destitute, impoverished regions of the country—emperors once found this a reassuringly distant place to send their political opponents.

Dreams and Reality

In the early 1980s things changed for the better when the island was declared a special economic zone (SEZ). An unprecedented construction boom began, and real estate prices went sky-high. A Japanese conglomerate began building at Yangpu, on the barren western coast of the island, an SEZ within the SEZ—a "turnkey" offshore city for half a million people. Some officials envisioned in Hainan an island paradise that would combine the best features of Hong Kong, Taiwan, and Hawaii, becoming both a flourishing financial-economic center and a major tourist attraction. For a while things looked rosy. No fewer than 1,200 real estate companies signed leases at Yangpu to sublet property in the area and, they hoped, reap great profits. Others bought land around Haikou. Nobody wanted to be left out of the coming boom. But it never materialized. In 1992 and 1993 hundreds of new special zones were created, and the far-away island lost its uniqueness. Real estate prices nose-dived, and today, few believe that the new city will ever be built.

Coming closer to Haikou, the visitor discovers that the impressive skyline was deceptive: the facades hide half-finished structures and abandoned building sites—sad reminders of the burst real estate bubble. Expectations of a tourist boom have not materialized either: the seashore, with its copies of Greco-Roman statuary, is deserted; the five-star hotels have to content themselves primarily with domestic tourist groups.

Haikou Beach

It seems ironic that while the island is suffering the consequences of serious economic misjudgments, Haikou is home to one of China's leading reform think tanks, the China Institute for Reform and Development (CIRD), which has been recognized for its painstakingly precise economic evaluations and reliable forecasts. The institute was established in 1991 under the leadership of Director Gao Shangkuan and Deputy Director Chi Fulin. The small but enthusiastic team of researchers and educators are constantly working on new reform proposals to address such diverse issues as separating ownership and management, restructuring enterprise debt, developing capital markets, dealing with the mass dismissals of workers arising from state enterprise transformation, and protecting the interests of minority shareholders. The institute organizes international symposiums to exchange ideas with foreign experts and runs training courses for enterprise and bank managers. Last November CIRD organized a symposium that focused on converting China's state-owned enterprises into joint stock companies (see Chi Fulin's article on page 4).

The timing of the symposium could not have been more opportune. The Chinese economy has started to show signs of losing steam. The huge accumulation of bad debt in state-owned banks and its mirror image, the massive indebtedness of SOEs, have become a huge problem requiring urgent attention. Transformation of SOEs was the major topic at the annual meeting of bankers and economists in Beijing, under the chairmanship of Premier-designate Zhu Rongji.

Private conversations increasingly turned toward the possible effects and lessons of the East Asian economic crisis. Some argued that the faltering of the East Asian miracle should be seen as a warning: China should delay new reform measures, especially the planned liberalization of the financial sector. Others took just the opposite view, maintaining that ownership diversification was urgent, together with better bank regulation, greater transparency, and meticulous monitoring of banks and enterprises. East Asia's economic miracle, they pointed out, was based in large part on the cozy, secretive relationship between government officials, bankers, and entrepreneurs. When some big companies and banks got into trouble, the government was a partner to the failure and covered it up. Structural realignment was thus delayed too long and now requires too much sacrifice. China, it was argued, should heed this lesson and eliminate special protection for whole industries, and instead use scarce resources to alleviate the unavoidable social distress that accompanies transformation of state-owned enterprises.

Haikou—Old Town

The atmosphere was heated during the CIRD conference. Foreign experts, Chinese managers, local party leaders, government officials, and scholars participated in the debate. Questions and opinions flew: How to counter political interference in the appointment of company managers when the board of directors is forced to rubberstamp selections? How to make corporate governance effective? What should be the role of the Party secretaries in the shareholding companies? A Hong Kong scholar warned participants of the risks of listing companies on the stock exchange—described as a casino for speculators—and also talked at length about the hazards of market failure. But the majority of those present could not be scared away. They supported the conversion of SOEs into listed joint stock corporations and specified the advantages: market-oriented behavior; and a well-defined principal-agent relationship among shareholder owners, their representatives on the board of directors, and managers. It was clear that the promise of increased profits and the opportunity to raise capital on the stock market are a powerful motivation. The two-day conference seemed a ringing endorsement of the views of those who want to go ahead—Chinese style—with ownership reform.

Just a one-hour flight from Hainan and we are in Shenzhen, Hong Kong's "extension" in Guangdong province. (Extension not only in a geographic but also a social and cultural sense: Hong Kong TV was on wherever we went, and people regularly visit Hong Kong, though both cities are fenced off from the rest of China.)

In 1980 Shenzhen, a small fishing village, was selected to become one of the first four special economic zones—China's "windows to the world," after its long isolation. More than just a customs-free industrial area, the zone has served as a testing ground for new reform ideas.

The Frontier City

Shenzhen became a free-enterprise enclave, where a huge number of foreign, primarily Hong Kong companies settled, taking advantage of the relatively cheap labor and churning out toys, textiles, leather goods, and other consumer products for export. The Hong Kong dollar circulates freely in this city, and speculation on the stock exchange is part of life. Every fourth person has a telephone, making Shenzhen the most "telephonic" city in China.

While the original expectations of transforming Shenzhen into a science-based hi-tech center haven't been realized yet, a dazzling 45 percent annual growth rate has catapulted it into a unique metropolis of 4.5 million people. The visitor becomes disoriented and confused in this huge, turbulent, bustling "frontier" city that defies all urban planning. But the hype may slow down: according to the latest surveys, vacant office space in late 1997 was the equivalent of three years of take-up. An additional 22.6 million square feet was under construction and scheduled to be completed in 1998–2000. Oversupply is expected to last for 10 years.

Like Hainan, Shenzhen seemed to lose its uniqueness when SEZs began springing up like mushrooms, numbering 1,700 by 1992. But in 1992 it managed to become the first Chinese city to be given legislative authority (Municipal People's Congress). And in 1994 Shenzhen was the first to make an all-out effort to

Shenzhen

separate the management of converted state enterprises from the administrative authority of the owner-government. Three levels of management were introduced: the State Asset Management Office, which supervises the investment holdings, which in turn supervise the enterprise groups. Members of the State Asset Management Office are Party and government officials, including the Party secretary and the vice mayor of Shenzhen. The office, which took over the administrative role of the ministries, supervises the investment holdings, sets their performance targets (mainly measured by growth in asset value), and recommends individuals to sit on the holdings' boards of directors. Interviews with senior officials of holdings and enterprise groups revealed details that were not obvious from the literature.

The Management Pyramid

Shenzhen Investment Holding Co. (SIHC) was the first holding of its kind in the city. It became so huge that in late 1996 the construction enterprises and the trading companies were uncoupled and grouped into two other separate holdings. Now all three have their own board of directors and supervisory committees. The three holdings are fully owned by the Shenzhen municipal government and are entrusted—as shareholders—with the management of fully or partly state-owned enterprises or enterprise groups. Representatives of the holdings sit on the enterprise groups' boards of directors and are involved in major business decisions. The holdings, which collect investment returns from the enterprises, in proportion to their shareholdings, have discretion over how much money should be reinvested in the individual enterprise groups—making them extremely powerful players.

Xia Deming, president of SIHC, is also the party secretary of the holding company. He supervises an empire of enterprises involved in everything from producing electronics, to supplying energy, to running Shenzhen's airport. SIHC holds shares in 36 enterprise groups—of which 16 are fully, and 20 partly owned—and has total assets valuing 84 billion yuan (about US$10 billion). The president proudly notes that since investment holding companies took over the supervisory job, administrative interference in enterprise affairs has been muted, the enterprise groups have become more efficient, and their products have become more competitive. Less conclusive is the holdings' behavior when it comes to loss-making enterprises. A jewelry company belonging to a member enterprise group went bankrupt, but a pharmaceutical firm bought it up and assumed all liabilities. The lender banks hastened to waive interest on their earlier loans over five years. In another case, a finance and trading company went bankrupt through court liquidation.

Enterprise groups—one step down in the management hierarchy—hold shares in individual SOEs and are supervised by their respective investment holdings. The groups (themselves holdings) appoint representatives to the boards of directors of individual enterprises. Although enterprise groups do not usually participate in the daily operations of individual enterprises, they are involved in outlining longer-term business, financial, and marketing strategies, research and development programs, and staff training. Enterprise groups can borrow money at their own discretion if the amount is less than 30 million yuan. If they want to borrow more, they must have the prior approval of the investment holding.

The New Entrepreneur

Founder-president-general manager of China Vanke, the dynamic 45-year-old Wang Shi is the archetype of China's new entrepreneur. He openly admits that profitmaking is his job but also his hobby. He is also a driving force in Shenzhen's entrepreneurial lobby. In 1984 he invented, organized, and later managed Vanke's predecessor company, the state-owned scientific and educational exhibition center in Shenzhen. It developed quickly and in 1988 changed profile, becoming a listed, joint stock company. Seventy-six percent of Vanke's shares are circulated on the stock exchange. As a result of a series of public offerings, the proportion of state-owned shares has been reduced to 10 percent. Last year it posted a 17.5 percent profit rate, with almost 3 billion yuan in total assets. (Investment business proved the most profitable, generating more than a third of the profits, though this activity represented a mere 0.35 percent of turnover.) Wang Shi received the city's "best entrepreneur" award.

The company's major activity (85 percent) is real estate development in 12 cities, primarily in Shenzhen, Beijing, and Shanghai. It specializes in offices and residential homes. The many Vanke City Gardens—luxurious low-rise apartment developments, with swimming pools and other amenities—are the company's trademark. These apartments, tailored mainly for overseas Chinese valets, are 100-square-meter units costing on average 800,000 yuan (almost US$100,000). Besides property development, Vanke is also active in finance, investment, retail business, the manufacture of gift items, media advertising, and film production.

The company has quickly adjusted to the new leaner environment. It radically cut back on office construction and turned toward more affordable, lower-priced housing developments—under government contract. In the coming years it will concen-

Mr. Wang Shi

One of Vanke's Home Developments

trate its resources, limiting new housing developments mainly to Shenzhen, Beijing, and Shanghai, and will trim back on advertising and film production, enterprises that are far from its main line of activity. But the company remains faithful to one favored offspring—the Tianjin Vanke Soccer Team, which won the national championship in its class. As the glossy annual report put it: "The highly efficient management style of Vanke has revitalized the whole soccer team."

Warning by Shenzhen's Think Tank

These interviews had been organized by the China Development Institute, the first nongovernmental think tank, founded by economists, entrepreneurs, and social activists. It has a staff of 70, with assets exceeding 100 million yuan. Two-thirds of its operating budget is raised through selling marketing analysis, economic forecasts, and other studies ordered by enterprises and government organizations. The rest of the budget is still provided by the state. As Vice Chairman Li Luo Li and Vice Director Liu Zhan Jun explain, the institute is trying to convince both decisionmakers and the public that restructuring industries in Guangdong province cannot be delayed any longer. In this province 10,000 joint ventures offer work to 4 million people. Here 5 percent of China's population produces 10 percent of the GDP and delivers one-third of the country's total exports.

The latest economic signals are disquieting: 1998 will bring a definite economic slowdown in the province. The institute predicts a less-than-10 percent increase in exports and a net outflow of foreign capital. Labor costs are increasing, relative to other provinces (officially, the average monthly wage for workers employed in the province is about 800 yuan, less than $100).

The institute is calling for urgent action, according to Jie Tang, professor and author of several studies on issues involving regional development and regional disparities. The province's authorities should counter the dangerous trends with increased tax incentives to foreign and domestic investors, and attract high-tech companies to the area, in order to change the labor-intensive character of the present production base. Such measures, adds the professor, will require more sophisticated, more committed market-oriented policies.

Will the reunited Hong Kong be the new testing ground for reform, Chinese style? My personal impressions were strengthened by a recent statement of Dong Fureng, the highly respected senior economist who is also Vice Chairman of the Economic and Financial Committee of the People's Congress (parliament): "Political reform is inevitable and indispensable." In an interview with the *China Economic Times* he urged the government not to intervene in areas that can be better managed by the market. He called for streamlining the bureaucracy, strengthening the rule of law, making policies public and transparent, and providing more market-related information.

Great reform decisions are brewing in China, and I was fortunate enough to visit this compelling country at a critical moment in its history.

The contributions of Wai Sun Yung of the World Bank's Beijing Office, are greatly appreciated.

Milestones of Transition

Central and Eastern Europe

European Commission releases its CEE forecast: growth and large trade deficits to continue, inflation to slow. The European Commission forecasts that GDP in Central and East European countries will rise by an average of 3.8 percent this year and 4.5 percent next year. Last year CEE economies grew an average of 3.2 percent. Average inflation is expected to slow from an average of 53.8 percent last year to 15.4 percent this year and 11.6 percent in 1999, due mainly to economic improvements in Bulgaria and Romania. Trade deficits in the region are expected to remain high.

Country	*GDP '98(97)*	*Inflation '98(97)*	*Trade balance as a percent of GDP*
Bulgaria	1.2 (-7.4)	35.0 (1000)	2.7 (4.1)
Czech R.	2.6 (1.2)	9.5 (8.9)	-8.5 (-10.5)
Estonia	4.7 (5.2)	8.5 (10.8)	-25.4 (-27.8)
Hungary	3.8 (3.1)	14.0 (18.2)	-7.2 (-6.5)
Latvia	4.1 (3.5)	7.0 (8.5)	-22.1 (-20.7)
Lithuania	5.4 (5)	8.6 (9.2)	-21.3 (-18.7)
Poland	4.7 (6)	16.0 (15)	-10.0 (-9.8)
Romania	2.2 (-3)	30.0 (125)	-4.4 (-5.5)
Slovakia	4.5 (5.3)	7.0 (6.4)	-9.1 (-9.6)
Slovenia	4.3 (3.4)	8.9 (9.2)	-5.3 (-5.2)

The European Investment Bank (EIB) will grant a total of Ecu 7 billion in loans over the next three years to ten Central and East European countries aiming to join the European Union, as against the originally planned Ecu 3.5 billion. ($1 equals Ecu 0.9.) The EU will provide a 70 percent guarantee on Ecu

Continued on page 27

Asian Lessons for the Transition Economies

by Gail Buyske

One lesson from the Asian financial crisis stands out for the transition economies: without significant changes, the structure of these economies can create their own homegrown crisis. Russia provides a particularly compelling example of this risk.

Russia's vulnerability to the Asian panic is an ironic version of capitalism's revenge, so little did Russia share the characteristics that sent Asia into a tailspin. The now troubled Asian economies had enjoyed years of phenomenal economic growth. According to the World Bank the eight high-performing Asian economies, which includes all of those currently suffering financial crises, experienced average per capita real income growth of 5.5 percent every year from 1960 to1990. Average annual GDP growth for developing East Asia from 1990 to 1995 was approximately 8 percent.

This growth was actively supported by the state and financed by ever-increasing levels of domestic lending. Standard & Poor's reports, for example, that domestic credit to the private sector and public enterprises in Thailand increased from 60 percent of GDP in 1988 to 130 percent in 1995. Rapid economic expansion was also fed by high levels of foreign investment, which was attracted by the unrelenting growth as well as by political stability and fixed exchange rates. This go-go environment led to overproduction, overleveraged lenders and borrowers, and inflated property values.

The contrast with Russia is almost comically extreme. The paltry 0.4 percent GDP increase in 1997 represented the country's first year of economic growth since the demise of the Soviet Union. Russian companies are notably underleveraged, partly because high interest rates have scared them off and partly because Russian banks have found the Russian treasury bill market substantially more lucrative than lending. Standard & Poor's estimates that year-end 1997 domestic credit to the private sector and public enterprises as a proportion of Russian GDP was a mere 12 percent. This contrasts with 147 percent in South Korea and 193 percent in Japan.

And although foreign investment in Russia has been increasing, its starting point was remarkably low. Except for Macedonia, Russia had the lowest level of foreign investment per capita ($34) of 13 countries in the region for the cumulative five-year period prior to 1997, according to the European Bank for Reconstruction and Development.

Despite these stark differences with Asia, Russia has not been immune to the emerging market virus. As a deputy central bank governor commented plaintively to the *Financial Times*, the fundamentals are the same as they were three months ago, so what has changed? What changed is that jittery foreign investors suddenly cast a harsher light on Russia's tax regime problems, interenterprise debt arrears, and recurring budget deficits. Russia is particularly vulnerable to external sentiment because foreigners account for an estimated 30 percent of its treasury bill market, which finances close to 40 percent of Russia's troublesome budget deficit. As a result of investor anxiety, treasury bill yields were forced up from 17 percent to a peak of 47 percent. [Yields have since dropped to 30-32 percent. The editor] The central bank has spent billions of dollars to support the ruble. In addition, Russia's stock market fell almost 45 percent by year-end (although it is still up almost 100 percent in dollar terms), with a further decline of more than 20 percent by early February.

After some initial delays, Russian economic policymakers recognized the Asian threat for Russia and responded proactively, including negotiating a secret loan of almost $1 billion from Western banks. Additional support came from the IMF with the release of a previously delayed $680 million loan tranche (see box on next page). Ongoing crisis management efforts as of mid-February are focusing on supporting the ruble, because of the negative political and economic ramifications of a devaluation.

Nevertheless, it is critical to recognize that the Asian lesson for Russia extends beyond crisis management. The deeper threat for Russia—as for some of the other transition economies—is that the structure of its economy will increasingly show evidence of the structural fault lines in the Asian economies. The financial sector of the struggling Asian economies was the lightning rod for their collapse. Already substantially overleveraged, due to rapid loan expansion and a failure to recognize bad loans, the banks had no cushion to protect themselves when their home currencies plummeted. Not only did the banks' foreign currency obligations become prohibitively expensive, but their own foreign currency borrowers became unable to repay the banks. How did the banks get so far out on a limb?

Three structural factors played a key role:

- First, these economies are characterized by an intertwined relationship between the state and the private sector in which favors are exchanged behind closed doors.
- Second, the opaque financial and ownership relationships within financial-indus-

trial conglomerates, such as the Japanese *keiretsu* and the South Korean *chaebols*, make supervision and regulation a major challenge. It can also be extremely difficult for outside investors or even rating agencies to accurately assess the risk profile of these conglomerates.

- Third, the financial supervisory bodies in these countries are dangerously weak. Why should a bank take government supervisors seriously when no bank within memory had been allowed to fail—as in Japan—until November?

The parallels with Russia are striking. The power of Russia's financial-industrial groups, which typically combine significant financial, media, and natural resource interests, is growing constantly. The close relationship between the state and the top Russian financial elite has created the term *semibankirshchina*—the rule of the seven bankers (see page 15).

While Russia's central bank has made noteworthy progress in strengthening its position over the past year, its starting point was very weak. Its hostile relationship with the Federal Securities Commission continues to prevent comprehensive and effective financial sector supervision. Meanwhile, there is a bill pending in the Duma that would reduce the central bank's financial independence. Persistent rumors about problems at some of Russia's larger banks also raise questions about whether they are being supported by the central bank, potentially creating unhealthful precedents.

Russia's situation is not unique among the transition economies. The Czech Republic, for example, which until recently appeared to be in the transition vanguard, suffered a government-toppling crisis in 1997 generated by opaque and poorly regulated relationships between the state, the banks, and privatized companies. Bulgaria and Ukraine, less far along on the transition path, provide examples of countries that are only beginning to face the challenge of establishing transparent and arm's-length relationships between the state and the private sector, in particular the financial institutions.

The most important lesson from Asia so far is that growth built on structural fault lines eventually implodes. A lesson that Asia might still teach us in the future is equally important for the transition economies: when the growth disintegrates, social stability can be threatened as well.

The author is a New York–based consultant specializing in financial sector reform in transition economies.

IMF Eases Lending to Russia

Faced with reverberations from Asia, the International Monetary Fund plans to release another installment of IMF money for Russia and extend by an extra year its three-year, $10.1 billion Russian loan program, which had been scheduled to expire next year. (The credits available under the newly agreed 1998 IMF program would begin flowing after a regular quarterly review. That means Russia is unlikely to receive its next quarterly loan tranche of about $670 million before May.) The Fund relaxed its insistence that tax collection improve as a condition for further funds.

IMF director Michel Camdessus admitted during his Moscow visit that the Fund would back down on demands that Russia meet precise targets for increased tax revenues. The 1998 program would emphasize improving Russia's poor system of corporate governance and strengthening its public finances. "I am now in the business of seeing that countries that could be targets of this still not totally understood contagion phenomenon try to better strengthen their defenses," he added. The Asian crisis has led to a decline in the ruble, the central bank has been forced to raise interest rates to 39 percent, Russian share prices have collapsed by nearly 50 percent, and foreign investment has declined. The result has produced growing concern about the stability of the Russian economy.

In 1996, the first year of the IMF loan, the Fund targeted Russia's budget deficit—one way to measure revenue collection—at 4 percent of gross domestic product. But the deficit swelled to 8.2 percent that year. In 1997, by the end of September, the government had raised $29 billion in revenue, compared with a target of about $56 billion. In October 1997 the IMF suspended the scheduled loan installment to Russia. Moscow met the target in the last quarter of 1997 only because the IMF lowered the goal; even then the government had to employ an accounting gimmick, counting expected revenue as actually collected. Last December the IMF reinstated its lending after Russia made new pledges to improve tax collection and cut government spending. The IMF also relaxed its ambitious revenue collection goal for 1998 and told Russia to collect slightly more than its poor performance last year.

The IMF's decision comes in the wake of criticism from other countries that have fallen on hard times, especially in Asia, and have been subject to its bailouts calling for budget cuts, tax increases, and other steps designed to relieve the crisis. Several economists, finance ministers, and political leaders have worried that the IMF's medicine may exacerbate the troubles rather than relieve them.

Based on news agency reports.

World Bank Official Spotlights Tax Dodgers in Russia

The following article is a shortened version of the presentation by World Bank Europe and Central Asia Chief Economist Marcelo Selowsky at the recent U.S.-Russian Investment Symposium, held at Harvard University and well attended by foreign investors and the Russian corporate sector.

Since last May the World Bank has sharply stepped up its assistance to Russia; total (cumulative) lending increased from $6.5 billion to $10 billion—a 50 percent increase in exposure in just eight months. This support is a sign of the Bank's confidence that the Russian government and its economic team is strongly committed to sustaining the reform process. To improve public finances, the Bank—working closely with the IMF—supports tax reform and the creation of a more transparent budgetary and treasury system. The Bank is also assisting more transparent case-by-case privatization and increasing competition in the energy and infrastructure sectors. The Bank is ready to provide private investors with its new partial-risk guarantees against the risk of reversals in the government's regulatory framework.

The Bank has also been very active on the social front. During 1997 two large loans, each for $800 million, were approved to support pension reform, better targeting of social assistance, and, particularly, relief for families affected by the downsizing of the coal sector. To encourage reform at the local level, the Bank has been working with selected regional and city governments who are ready to reform their utility and other services on a cost recovery basis. If the government's policy performance continues to improve, the Bank will substantially expand its Russian program, and new commitments could reach about $3 billion annually over the next two to three years.

What major challenges confront the Russian government as it continues to reform, and what will this mean for World Bank support?

1. **The new fiscal action plan needs urgent implementation.** Last year Russia's budget revenue declined to less than 10 percent of GDP, down from 13 percent in 1996. The government, to meet fiscal targets, was forced to withhold wages of public employees and cut expenditures across the board. A new draft tax code that is still under consideration in the Duma has fewer taxes, lower rates, and fewer exemptions. It clarifies federal-regional tax assignment. It also improves the transparency and uniformity of the tax system. Adopting sanctions against large tax debtors would quickly generate additional revenues. Tax arrears of those who owe more than half a million dollars account at present for 70 percent of total tax arrears. There are 250 enterprises that each owe more than $17 million in taxes—for a total of at least $4 billion, equivalent to 1 percent of GDP.

2. **FDI in Russia—at about $3 billion a year—is still very low relative to the size of the country's economy.** Indeed, it roughly equals FDI in Poland, whose GDP is only one-fourth that of Russia's. Annual FDI in Brazil is five times greater than in Russia, although GDP in the two countries is about the same. Private savings remain high in Russia (about 20 percent of GDP), even if a significant slice of those savings still ends up abroad. Thus, at least in the short run, savings are not constraining investment or output recovery. The constraint is on the demand side: **incentive or desire to invest in the domestic economy is still weak**. Therefore, the privatization of large enterprises should be accelerated, with outsiders brought into the process. Open, transparent, and competitive sale of large blocks of shares would send the right signal to both domestic and foreign investors. Although Russia today has a relatively open trade regime there is still room for increased competition. Barriers and red tape frequently prevent new firms from entering the market.

The World Bank will be working closely with the Russian government to create a more favorable investment environment and more transparent investment rules. We hope that as a result, risk-corrected rates of return on investment in Russia will increase. But we also expect support from the domestic and international private sector. Many of them are represented here at the conference.

These are not ordinary times for Russia, so let me be very candid: **Russia's large corporations must honor their tax obligations.** How can we expect emerging small entrepreneurs and enterprises to pay their taxes if the large enterprises are not doing so? The domestic corporate sector should not resist government efforts to ease market entry by foreign entrepreneurs and promote competition. Foreign investors, for their part, should not pressure the government for special tax exemptions such as low imports tariffs on their foreign purchases or higher protective tariffs aimed at reducing foreign competition with their domestic sales.

Only genuine partnership can assure what we all want: sustained recovery of growth and improved social well-being in Russia.

The Big Seven—Russia's Financial Empires

Special Report of Radio Free Europe

Many large banks in Russia have major stakes in large industrial enterprises, usually bundled together in holding companies called Financial-Industrial Groups (FIGs). In the fall of 1996 former Security Council Secretary Boris Berezovsky, who heads LogoVaz financial empire, bragged that he and six fellow tycoons—the "Big 7"—controlled half of Russia's economy. The elite banks and their FIGs are also the key financial players in the constantly shifting, informal networks of competing alliances—sometimes called clans—that dominate Russian politics. The Big 7 are considered Russia's leading banks because of their overall clout based on political connections, industrial and media holdings, and financial capital (see table 1).

Table 1. Capital Strength
(January 1997, millions of rubles)

	Capital	*Rank*
Alfa	9.8	15
Inkombank	22.2	3
LogoVAZ	NA	NA
Menatep	12.2	9
Most	11.0	11
Oneximbank	20.5	4
SBS-Agro	13.8	8

NA Not available.

Table 2. Authorized Government Funds
(January 1997, millions of rubles)

Bank	*Gov't Funds*	*Rank*
Alfa	NA	NA
Inkombank	NA	NA
LogoVAZ	NA	NA
Menatep	297	6
Most	166	9
Oneximbank	2,100	1
SBS-Agro	79	17

NA Not available.

Authorized banks are entitled to handle funds of central or local governments (table 2); for example, they may collect and transfer to the state budget customs payments and tax revenues. They can make huge profits by delaying budget transfers so that managers can use the money to invest in the high-yield government securities market. (Firms usually transfer customs payments in advance of actual delivery of goods, for example, leaving the money in authorized banks for up to two weeks.) Obtaining status as a favored, authorized bank is highly dependent on the political connections of the bank's management and is widely believed to have fostered corruption.

1. Alfa Group

Alfa Group is led by Chairman of the Board Mikhail Fridman and President Pyotr Aven (former Minister of Foreign Economic Relations, Russia). Alfa Bank grew out of Courier, a trading company founded in 1987 by graduates of the Moscow Steel and Alloys Institute. Alfa later thrived on foreign trade activities and connections to the Ministry of Foreign Economic Relations. In 1996 the Alfa bank reaped large profits on government treasury bills (GKOs). It also handles funds of the State Customs Committee.

Alfa's key holdings and signature companies are Alfa Eco Trading and Tyumen Oil. It is also involved in chemicals, pharmaceuticals, food processing, glass, electricity, construction, and cement (eight companies). Alfa owns an art dealership, a supermarket chain, and has its own brand of tea. It also exports oriental carpets and is the major importer of liquor from Moldova and Ukraine. It owns 38 percent of ORT Television.

2. Inkombank

Inkombank is led by Chairman Vladimir Vinogradov. In the 1980s Vinogradov, an economist at Promstroybank Rossiya, helped develop the commercial activities of the Komsomol (Young Communist League) through the Saburov Youth Construction Complex. Inkombank was founded to service these commercial activities, with the help of the Soviet Finance Ministry and the Soviet State Bank. The bank was officially created in 1988. It handles accounts for the State Customs Committee and some of Russia's financial relations with China and is the authorized bank for the city of Moscow. Inkombank actively seeks to expand its regional presence and has 68 regional branches and agreements with 34 regional administrations and 11 city governments. Inkombank reportedly has ties to the defense, security, and law enforcement ministries.

A *Kommersant Daily* report in 1996, based on a leaked report by the central bank, warned of liquidity problems at Inkombank and provoked a $39 million run by investors (15 percent of total deposits). Inkombank claimed the leak was in retaliation for its public criticism of loans-for-shares auctions. The bank appears to have recovered from recent setbacks and made peace with former rivals Menatep and Oneximbank. Its key holdings are

Inkom Capital, Samara Aluminum, Babayev Food Processing, Magnitogorsk Steel, Nostas Pipe, and Sokol Aircraft. It also controls 15 percent of the Russian confectionery market.

3. LogoVAZ

LogoVaz is led by founder Boris Berezovsky (former deputy secretary, Russian Federation Security Council). Berezovsky, a mathematician and expert on decision theory, began his business career in 1989 as general director of LogoVAZ, the country's first capitalist car dealership. By 1994 he had developed that into a media, banking, and oil empire. AvtoVAZ Bank, a holding of LogoVaz, is authorized to handle funds for Aeroflot. A 1996 *Forbes* magazine article alleged that Berezovsky used organized crime to build his business empire.

LogoVAZ holdings and companies also include Obedinionny Bank, Oil Finance Company, and Sibneft Oil. Aeroflot owns 8 percent of ORT Television. Obedinionny Bank, affiliated with LogoVAZ, is part of a consortium of four banks that owns 38 percent of ORT. The bank also owns 37 percent of TV-6, has a controlling stake in *Nezavisimaya Gazeta* through Obedinionny Bank, and owns shares in the magazine *Ogonyok*.

4. Rosprom Group (Menatep)

Rosprom is led by founder and former Chairman Mikhail Khodorkovsky. The Soviet Communist Party created tax-free Youth Scientific Technical Creativity Centers in the mid-1980s to engage in commercial activities. In 1987 Khodorkovsky, a graduate student in chemistry and a Komsomol deputy secretary for the capital's Frunze district, became the head of the local center. ("Menatep" is the acronym for Frunze's Inter-Branch Center for Scientific and Technology Program, the local chapter.) Menatep Group evolved from those business activities, especially through the trading of computers. The bank was officially registered in 1988. Its public offering in 1991 was the first since the Bolshevik Revolution. The bank grew quickly after 1991 on currency speculation.

As the authorized bank for the federal government, the bank supported several federal programs, including the Chernobyl cleanup and a sugar-for-oil deal with Cuba. The bank also distributed money for the rebuilding of Chechnya. In 1996 Menatep was the largest holder of Finance Ministry guarantee papers, and in 1993 it was appointed authorized bank for the city of Moscow. Menatep also serves as the authorized bank for regional governments including Yaroslavl, Sverdlovsk, and St. Petersburg.

Rosprom groups together the Alliance-Menatep Investment Bank, SKB Samara Bank, Menatep Trading Company, Menatep Impex, Yukos (oil), Koloss (food), Avisma (titanium and magnesium), Apatit (fertilizer), Orenburg (copper), Syktyvkar (timber), Ust-Ilimsk (paper and pulp), Russkii Tekstil, ORT Television (part of a bank consortium owning 38 percent), and *Literaturnaya Gazeta* (controlling stake). It has a minority stake in Independent Media, which publishes the English-language *Moscow Times*, the weekly *Kapital*, and various entertainment magazines, including *Playboy* and *Cosmopolitan*.

5. Most Group

Most is led by founder and General Director Vladimir Gusinsky. In the mid-1980s Gusinsky, a former theater director, started cooperatives that sold office supplies. He later founded Infeks, a legal and business consulting cooperative, and won contracts to renovate office buildings. He bought factories to make the supplies. Most Bank was established in 1989 to finance these operations. Most grew wealthy in the early 1990s as the main authorized bank for the city of Moscow, especially by financing real estate development in the city center.

In 1994 the bank was authorized to handle Moscow accounts for finance, housing, licensing, and social protection, as well as the city's special services and international relations. Currently it is the authorized bank for regional governments in Central and South Central European Russia and the government of Azerbaijan. The security forces of Presidential Guards chief Aleksandr Korzhakov raided Most headquarters in December 1995 for reasons that have never been explained.

Most Group includes NTV-Holding Media Most, Most Investment, Most Development, and Most Engineering. NTV-Holding, formed in 1997, combines Most media assets: NTV television network, the satellite network NTV-Plus, radio station Ekho Moskvy, satellite company Bonum-1, and TNT Teleset, which, as of January 1998, provided programming and financing for some 50 regional television stations. Most Group controls 70 percent of the shares in NTV and has a controlling stake in radio station Ekho Moskvy. Most also has full control of Seven Days publishing house, which publishes the daily *Segodnya*, the weekly *Itogi*, and the entertainment weekly *Seven Days*. Most also has invested in weeklies *Obshchaya Gazeta* and *Novaya Gazeta* and subsidizes the daily newspaper *Smena* in St. Petersburg.

6. Oneximbank

Oneximbank is led by President Vladimir Potanin (for a while Russia's first deputy prime minister), chairman of the board. Potanin started his career in the Soviet Foreign Trade Ministry. In the early 1990s, with a $10,000 loan from his colleagues, he created his own trading firm.

This evolved into the International Company for Finance and Investments (MFK). The MFK thrived as the disbursing agent for ruble credits to state-owned industrial firms. In 1993 Oneximbank became the paying agent for Finance Ministry bonds and a servicing bank for the city of Moscow's external economic activities. In 1994 it became the depository and paying agent for treasury obligations and in 1995 the authorized bank for the federal agency, dealing with bankrupt enterprises. It is the authorized bank for many regional governments, especially in Northwest Russia and the Far East. It holds seven accounts of the Finance Ministry, containing government tax receipts totaling almost $150 million in foreign currency. At the end of 1997 the Customs Service accounts, which had helped the bank reap windfall profits, were transferred to the central bank.

Oneximbank is considered the most powerful bank in Russia. The bank's status as the government's semi-official import-export bank, combined with its powerful backers in the Kremlin and the government, have enabled it to grow faster than any other financial institution. Oneximbank was the originator of the 1995 loans-for-shares proposal under which banks lent money to the government and took shares in large enterprises as collateral. The bank was a major contributor to Yeltsin's presidential campaign. In July 1997 Oneximbank led a consortium that was awarded a 25 percent stake in Svyazinvest, Russia's largest-ever sale of a state asset. The outcome triggered attacks on the bank by media owned by losers Berezovsky and Gusinsky, who claimed the auctions were rigged. Oneximbank was the first Russian bank approved by the U.S. Securities and Exchange Commission to handle depository activities of U.S. investors.

Business Week reports that the Group has $38 billion in assets and had $16 billion in sales in 1996—nearly 10 percent of Russia's gross domestic product. Its holdings and companies include: Interros (includes more than 30 companies), International Finance Corporation (MFK), Balt-Oneksim (St. Petersburg), Renaissance Capital, Norilsk Nickel (51 percent voting control), Zil Auto Works (26 percent), North West River Shipping (25 percent), Kuznetsk Aluminum, Oktyabrskaya Railroad, Svyazinvest Telecommunications (25 percent), Sidanko Oil (85 percent), Novolipetsk Steel (15 percent), Lomo Precision Optics (40 percent), Perm (aircraft), Motors (27 percent), and the Central Army ice hockey and basketball teams (75 percent). It also partly or fully owns *Komsomolskaya Pravda* (shares), Russky Telegraf (full control), *Izvestiya* (controlling stake), and Ekspert (34 percent).

7. SBS-Agro (formerly, Stolichny)

SBS-Agro is led by President Aleksandr Smolensky, an Austrian citizen whose family lives in Vienna. The bank had ties to party and government financial sources during *perestroyka*. From 1987 to 1989 Smolensky headed the Moskva-3 cooperative. The bank is especially active with regional governments in South European Russia, the Urals (Sverdlovsk Oblast), and West Siberia. The bank has increasingly focused on retail banking in Russia's regions. The 1996 acquisition of the failing Agroprombank gives it 1,500 branches in 62 regions. SBS had to give 24.5 percent of Agroprombank stock to the Agriculture Ministry as part of the deal. The bank also participates in a small business loan program with the European Bank for Reconstruction and Development (EBRD). Its member-company is the Finance Oil Company. The bank generally steers clear of industrial holdings. In the media it partly or fully owns: ORT Television (38 percent), *Stolitsa* magazine, *Kommersant Weekly*, *Kommersant Daily*, and *Dengi* business journal (through investment credits in Kommersant Publishing House). It also controls *Domovoi* and *Avtopilot* entertainment magazines.

Excerpted from the report of Donald N. Jensen, Associate Director of REF/RL.

Vladimir Gusinsky, head of the Most Group, campaigning against drug abuse.

From the Russian daily *The Moscow Times*.

Economic Program of Hungary's Mainstream Opposition

Interview with Economic Adviser Gyorgy Matolcsy

Although the polls predict a comfortable victory for the Hungarian Socialist Party in the May 10 parliamentary election, one can never count out the element of surprise, especially as one-third of the electorate is still undecided. If the major opposition force, the Alliance of Young Democrats (FIDESZ)–Hungarian Civic Party were able to form Hungary's next coalition government, in what way would they change Hungary's economic policy? Gyorgy Matolcsy, top policy adviser and co-author of his party's economic program, made it clear in an interview with *Transition* editor Richard Hirschler that a FIDESZ-led coalition government would protect foreign investors, strive for EU accession, and keep its NATO commitments.

Q. There have been reports in the Western press that if FIDESZ wins the Hungarian election, the new government would review contracts with foreign companies and renegotiate some privatization agreements. What is your comment?

A. These are groundless accusations. No one in FIDESZ questions the present ownership arrangements. I would dare to say that under a FIDESZ-led coalition, multinational enterprises would enjoy more benefits than today. Our program is committed to a doubling of the gross national product in 10 years' time, which means annual economic growth of 7 percent. This would mean higher investment and greater consumption—and higher rates of return for foreign enterprises operating in Hungary. The program would offer significantly more support to local small and medium-size enterprises, so international companies would be able to rely on a broad network of Hungarian suppliers.

Q. It will be difficult to outshine the Socialists in this respect—their policy toward the multis was extremely client-friendly....

A. Nevertheless, we could offer them new business opportunities. We are ready to initiate major public works to build new highways, to develop the infrastructure in southern and eastern Hungary. Foreign direct investment has so far avoided these relatively underdeveloped regions, primarily because of the lack of infrastructure. Most foreign investment is concentrated in the great metropolitan area of Budapest and in western Hungary. These extreme regional disparities have to be narrowed, and clearly, foreign capital has a big role to play in this.

Q. And how would you answer the claim that a FIDESZ-led government would ignore the policy advice of the IMF and the World Bank, and would start a careless expansive economic policy that would generate inflation and a huge imbalance in the current account?

A. The truth is that we intend to pursue responsible monetary and fiscal policies. We would keep government expenditures under control. That commitment is not out of keeping with our plans to spend significantly more on new housing developments and—as I mentioned—to expand investment in infrastructure. Considering that Hungary's GDP per capita is $6,000-$7,000—and not $4,000 as shown in official statistics (the difference being attributable to the vast underground economy)—the proposed government expenditures on health, education, and the like are extremely low compared with other countries with comparable per capita GDP levels. Research and development expenditures, for example, would be 0.7 percent, while the OECD average for countries with similar per capita GDP figures is 3.7 percent. Balancing the budget is important, but the present government has overdone it and persists with a restrictive, deflationary policy. As a consequence, at least 3 million people, one-third of the population, live around the poverty level, and much of the middle class faces an uncertain future.

Q. What is the FIDESZ attitude toward the IMF and the World Bank?

A. Hungary has terminated its borrowing from the IMF, though—no matter what government comes to power in May—consultations will continue. We want to carry on with the World Bank programs. We have gained lots of experience during our collaboration with the Bank; it would be worthwhile to engage in a dialogue about which programs were successful and which programs didn't meet expectations, and to shape our future cooperation accordingly.

Q. What major policy changes does FIDESZ propose in its economic program?

A. Although Hungary's economy is on a growth path, it does not seem to be sustainable growth. It is generated almost exclusively by foreign multinationals. No question, the country has made tremen-

dous strides: its obsolete industrial structure has been revamped. But it is disquieting that three companies (IBM, Phillips, and TDK) supply 20 percent of Hungary's total annual exports ($18.6 billion in 1997), and about three-quarters of economic growth is generated by a dozen or so multinationals. And regional disparities, as I've mentioned, are a problem.

Thus ours is a policy of inclusion: to encourage small and medium-size enterprises, neglected regions, and ignored groups of the population to participate in efforts to accelerate economic progress and share in the benefits of growth. We believe that 7 percent annual growth will allow us to get closer to the EU's development level. [In the European Union average annual GDP growth is 3 to 4 percent. The Editor.] We have to radically change our tax system, which currently takes an average of 35 to 40 percent of the Hungarian taxpayer's income. Our tax reform proposal would significantly cut income tax and social security contributions; but it would also reduce indirect value added tax rates in order to lower labor costs and thus contain the tax avoiding second, or underground, economy. Further, we would double expenditures on education, enabling an additional 40,000 high-schoolers to enter university—current university enrollment, 42,000, is very low for a country of 10 million people, particularly in comparison with the much higher corresponding figures in the West. We would also significantly expand housing construction, and introduce mortgage-loans, to help homebuyers short of cash.

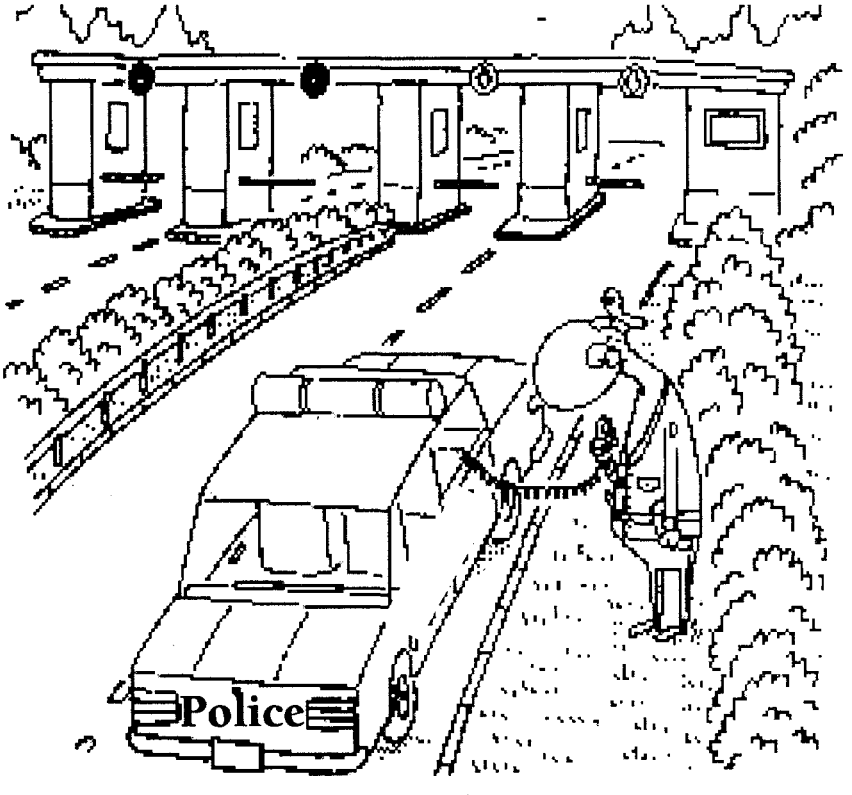
Q. Victor Orban, leader of FIDESZ, has been demonized lately in the Hungarian media, depicted as a right-wing nationalist who, in power, would endanger Hungary's NATO membership and would make accession to the European Union more difficult.

A. These ridiculous charges have clearly been concocted by the party's political opponents. Orban recently confirmed in London that the opposition has no intention of making any fundamental change in Hungary's European integration policy. He has also been quite clear that Hungary's commitments to both NATO and accession to the EU would be sustained. It is true that in dealing with our EU partners we would like an agreement that clearly recognizes Hungary's economic and political interests. I'm afraid this is not the case with the present government.

Q. Your program sounds quite impressive. Still, you lag behind the Socialist Party in the polls—the latest shows the Socialists can count on 43 percent of committed votes, while FIDESZ, the second most popular party, trails behind with only 24 percent. Why?

A. Citizens are perhaps rightfully wary of another drastic change in the country's political landscape. Too, it is difficult to mount an effective campaign when the economy is slowly picking up speed. But we believe that the country's potential is much greater than is recognized by the present coalition. And we hope to convince the electorate that our program, based on dynamic growth and fiscal-monetary moderation, is the winning proposition. The Polish election results—the ex-Communists seemed the sure winners, but they lost—give us hope and optimism.

Tight Budget



"Chief, I can't pursue the bankrobbers. They took the toll road..."

From the Budapest-based magazine *Hungarian Economy.*

They Are Watching—NGO Report on the World Bank's Latest Reorganization

With East Asian markets in turmoil, debate has intensified over the future role of the IMF and the World Bank. Even before the crisis the World Bank had launched a host of new initiatives, which are part of President Wolfensohn's Strategic Compact with the Board of Executive Directors. In the past, the lending process was often criticized for the following reasons:

- In many cases project completion took too long, and loan disbursements were too slow, especially in the early phase of the project. In one extreme case, a forest that a project was intended to protect was mostly destroyed during the extended project preparation.
- Assumptions that a flawless "blueprint" can be designed at project initiation, and successfully implemented in a multi-year timeframe, may work for constructing a bridge, but it doesn't work for heuristic, participatory development involving constant learning and involvement of the affected stakeholders (e.g., postconflict reconstruction, urban upgrading, dam construction, environmental protection).
- The "pulling the string" approach to lending assumes that World Bank experts or consultants can pull the strings of a project or program and make it dance. But stakeholders, who are not inanimate objects, often rebel. Frequently governments do not comply with the conditions attached to the loans.

The 1992 Wapenhans portfolio evaluation pointed to the complexity of loans as an important factor in their failure. The evaluation also stated that a principal cause for poorly performing loans was the "approval culture" of the Bank, wherein Bank management spent inordinate amounts of time and money getting projects ready for Board approval. Little time or money was spent on implementing and supervising projects. President Wolfensohn pledged to shift the Bank from an approval to an implementation culture.

The new initiatives would create stronger partnerships with groups outside the Bank, reinvigorate middle management, facilitate information and knowledge sharing, decentralize operations to countries, build professional excellence, and launch new products. A long-awaited cost-effectiveness review (CER) was jointly performed by an independent firm, KPMG, and management of the Bank. The review analyzes the lending decision process, the performance of economic and sector work (ESW), and the functioning of the Bank's information systems. (One finding of the CER is that the Bank consumes 900 million pages per year, or 90,000 pages per staff member. This level of consumption translates into the felling of 152 pulp trees per day.) The report concluded that increased demand for improved Bank services could boost lending from the fiscal 1997 total of $19 billion to $25 billion annually.

Bank management has even more ambitious plans: to expand its overall lending from $19 billion in fiscal 1997 to $33 billion in fiscal 1999. Lending then contracts moderately to $27 billion in fiscal 2000. (Source: World Bank Health, Nutrition and Population Sector Strategy, 1997). The cost-effectiveness review shows that the Bank can save $170 million per year by fiscal 2001, and that about half of these savings can be achieved by cutting staff costs. Layoffs are estimated to number about 500 to 700.

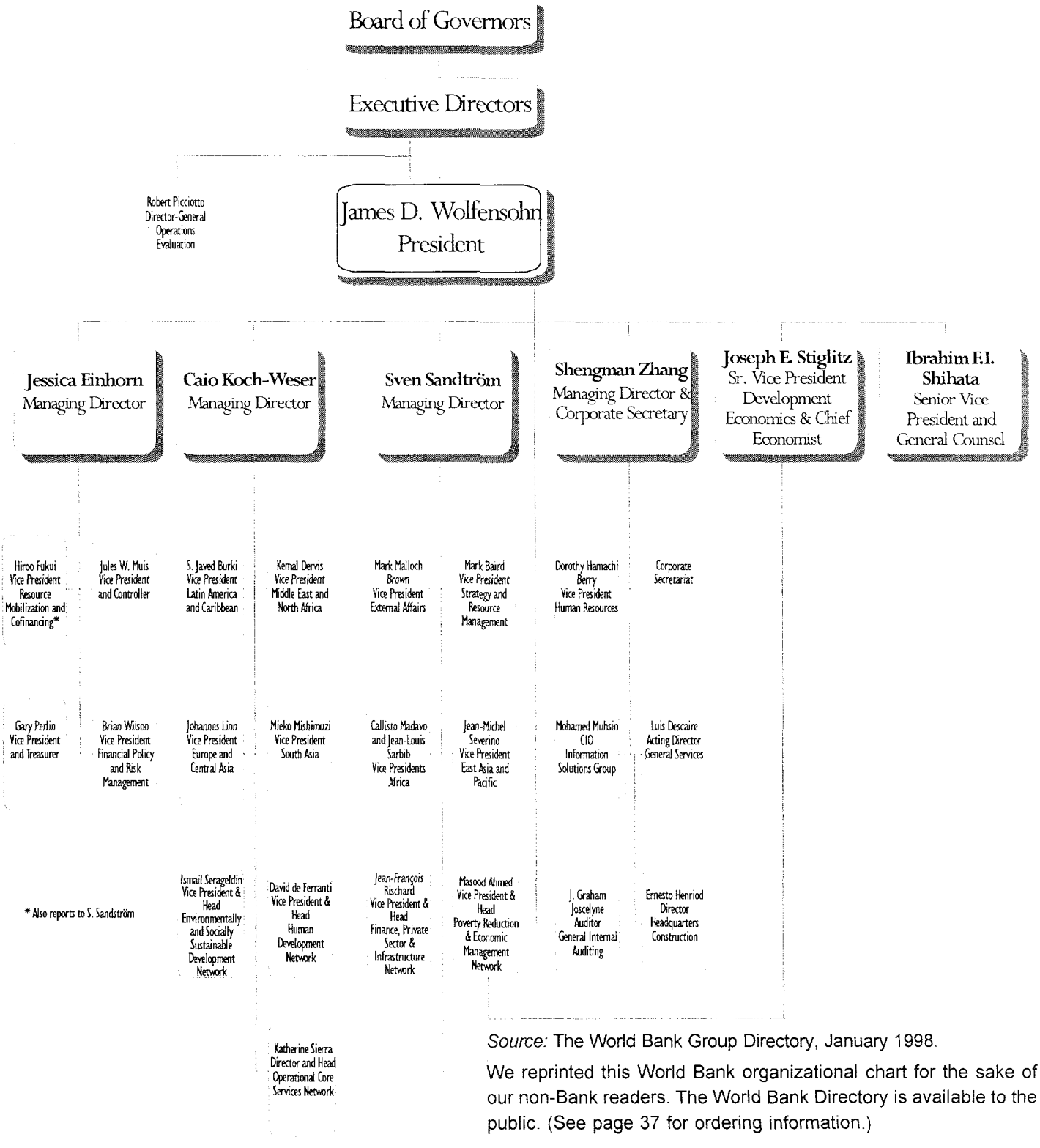
To understand why the Bank staff is shrinking, it is necessary to understand how the reorganized Bank works. Newly appointed managers run two components of the reorganized Bank:

- Country Management Units (CMUs) have control over the country budgets and are organized by six geographic regions (Africa, East Asia & the Pacific, Europe & Central Asia, Middle East & Northern Africa, South Asia, and Latin America & the Caribbean). They buy services from the Sector Management Units (SMUs) or other partners inside or outside the bank.
- Sector Management Units (SMUs), with large staffs and small budgets, are organized into the following networks: Finance, Private Sector & Infrastructure (FPD), Poverty Reduction & Economic Management (PREM), Environmentally & Socially Sustainable Development (ESD), Human Development (HDN), and Operational Core Services (OCS). They supply the expertise requested by the CMUs.

While CMUs usually employ few staff (a country director, plus some assistants), they control most of the Bank's resources. The SMUs, which employ large numbers of staff have a budget that is usually only one-tenth that of the CMUs. Fiscal 1998 budget allocations make it clear that CMUs hold the reins of power: the regions and CMUs were allotted $776 million, whereas the Networks and SMUs received $80 million.

The CMUs and, ultimately, the country directors, have responsibility and accountability for the size and quality of

Organizational Chart of the World Bank, January 1998



Source: The World Bank Group Directory, January 1998.

We reprinted this World Bank organizational chart for the sake of our non-Bank readers. The World Bank Directory is available to the public. (See page 37 for ordering information.)

all Bank-financed operations in a country. SMUs and, ultimately, sector heads, contribute to quality control by constituting task teams with the requisite skills, designing and integrating sector strategies into country programs, and ensuring the integrity of quality assurance operations.

For each country under its auspices, a CMU—in close cooperation with the SMUs—drafts a country assistance strategy (CAS), which constitutes the "master plan" for policy reforms and project investments in the country. The CMUs use their budgets to contract with individuals in the SMUs to carry out the master plan as outlined in the final CAS. If SMU staff fail to contract out fully their yearly "staffweeks" (units of intra-Bank settlements) with the CMUs—and that can easily happen as contracts are awarded to the best bid in keen competition between staffers and outside experts—they could find themselves out of their jobs.

According to the Bank's internal pricing formula, the cost of hiring many staffers is prohibitively high. It is not unusual that many team leaders and task managers—instead of contracting Bank staff—are hiring outside consultants to prepare and implement projects, sometimes without regard for qualifications and experience.

Based on "News & Notices for World Bank Watchers," No. 19, December 1997, published by the Development Bank Watchers' Project, Bread for the World Institute, 1100 Wayne Avenue, Suite 1000, Silver Spring, MD 20910. To contact Director Nancy Alexander: ncalexander@bread.org. Bread for the World Institute's website: http://www.bread.org.

Looming AIDS Epidemic in Transition Economies—Can it be Avoided?

by Martha Ainsworth

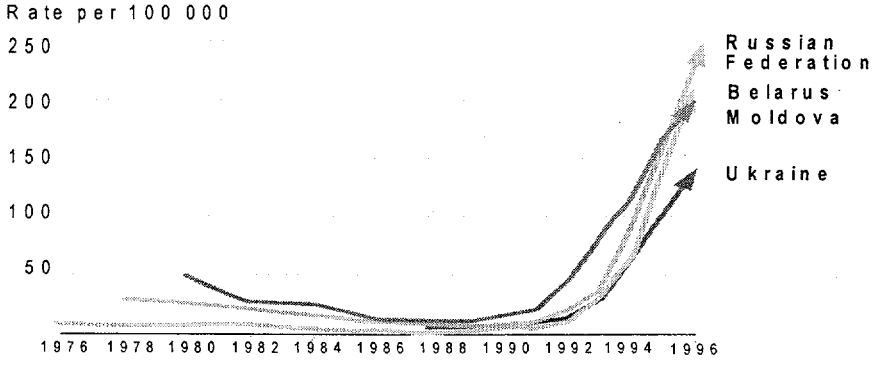
As of the end of 1997, 30.6 million people worldwide were infected with the human immunodeficiency virus (HIV), the virus that causes AIDS. Nine of every 10 infections were in low- and middle-income economies, and roughly half of these were among women. Almost all infections are among prime-aged adults, the most productive segment of society. There is no cure for HIV/AIDS and, despite recent advances, AIDS remains fatal. In the hardest-hit low-income countries, AIDS has already lowered life expectancy by a decade or more.

So far, Eastern Europe and Central Asia have not been greatly affected by the epidemic; fewer than 150,000 adults are thought to be infected in these regions, representing only 0.5 percent of worldwide infections. Western Europe and North America are more seriously affected, with half a million and 850,000 infections, respectively. Two-thirds of all infections worldwide—21 million—are in Sub-Saharan Africa. Given all of the other pressing challenges faced by transition economies, why should policymakers be concerned about an AIDS epidemic? And if concern is warranted, what priority actions they should take? There are at least three important reasons why preventing AIDS is a priority in the transition economies of Eastern Europe and Central Asia.

Rapid social and political change spread HIV. Throughout the world, HIV is primarily a sexually transmitted disease (STD). It spreads rapidly among men and women who have many sexual partners, who do not use condoms, and who have other sexually transmitted infections. HIV also spreads rapidly among people who inject drugs and who share unsterilized needles and syringes. While these behaviors, which are often clandestine, are difficult to measure in any society, there is anecdotal evidence that the vast economic and political changes under way in many transition countries are fostering an explosion in prostitution and in injecting drug use, which make the region highly vulnerable to epidemics of HIV and other STDs.

The clearest evidence of the change in sexual behavior is the extraordinary in-

Number of new syphilis cases in four transition countries

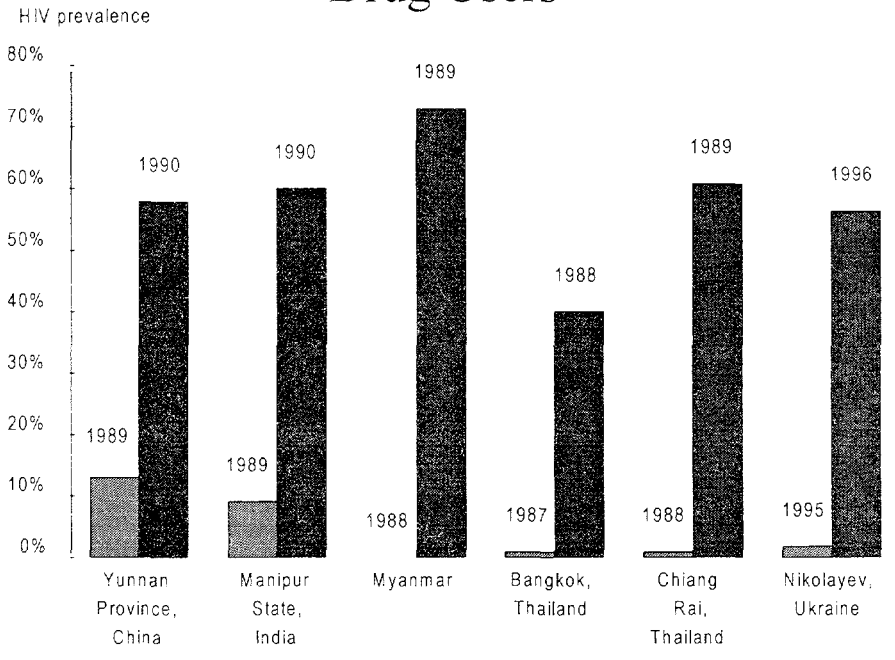


crease in the number of new cases of other STDs, such asvsyphilis and gonorrhea. In Russia the number of new syphilis infections has risen from 5 per 100,000 population in 1990 to more than 263 per 100,000 in 1996 (see figure 1). Syphilis rates in Belarus, Estonia, Kazakhstan, Latvia, Lithuania, Moldova, and Ukraine have risen 20-fold to 100-fold since 1990. Higher STD infection rates not only portend a sexually transmitted HIV epidemic; HIV is spread more efficiently among people who also have these "classic" STDs.

Injecting drug use is on the rise throughout the region. Needle-sharing among addicts seems to be common, spawning epidemics of hepatitis and HIV. In Nicolayev, Ukraine, the HIV infection rate among injecting drug users rose from less than 2 percent in early 1995 to nearly 60 percent in less than a year, which is similar to the experience in Asia (see figure 2). HIV typically spreads sexually from injecting drug users to their spouses and sexual partners, then eventually from infected mothers to their children. The number of new HIV infections annually in Ukraine has risen from fewer than 2,000 in 1995 to 12,000 in 1996 and more than 14,000 in 1997. Most new cases are among young injecting drug users.

HIV/AIDS is a very costly disease. Newly developed "triple-drug" antiretroviral treatments have extended the lives of many AIDS patients in industrialized countries. In the United Kingdom the drugs and medical and diagnostic services to support one AIDS patient cost roughly $20,000 per year. Middle-income countries, like Thailand, have been able to reduce the cost to about $10,000 per year by negotiating lower prices with drug companies. In contrast, the average level of health spending from public and private sources in Eastern Europe and Central Asia is only $138 annually per person. Clearly, even a few AIDS patients will be very expensive to treat. Because there is an average lag of about 10 years between HIV infection and development of AIDS, today's AIDS patients are a small fraction of those already infected who will eventually need care.

Rapid Increase of HIV among Injecting Drug Users



Early action can forestall a widespread epidemic. If transition economies act now, there is still an opportunity to avert an epidemic that will drain resources away from other pressing health and development objectives. A new World Bank report, "Confronting AIDS: Public Priorities in a Global Epidemic," argues that governments have a key role in fighting AIDS. They should give priority to funding activities essential to stopping the epidemic that the private sector has insufficient incentive to provide on its own. Two key activities are particularly important for preventing an epidemic in transition economies.

1. Preventing infection among people with the riskiest behavior. HIV tends to spread in a series of small, overlapping epidemics among people with the riskiest behavior, then outward to others who practice lower-risk behavior. Therefore, programs that prevent HIV among people with many sexual partners or who inject drugs indirectly prevent many infections among the whole population; this is the most cost-effective way of preventing an epidemic in its early stages.

There are two successful strategies for changing high-risk behavior. First, information about how to prevent HIV infection can be highly effective and is essential. However, information alone is often not enough to induce people with the riskiest behavior to change. A second strategy is to lower the costs of safer behavior—through programs that subsidize condoms and popularize their use, and through "harm reduction" programs that encourage injecting drug users not to share needles and to use sterile equipment. Thailand, which adopted a package of programs to raise condom use among brothel-based sex workers and

their clients to nearly 100 percent, has reduced the number of men with other STDs by 90 percent and has halved the prevalence of HIV among young army recruits, from 4 percent to 2 percent.

Many countries have popularized the use of condoms through condom social marketing programs, which sell condoms at highly subsidized rates and employ widespread publicity to popularize their use. Among the transition economies, only Albania, the Russian Federation, and Uzbekistan had these programs in 1996 and condom use throughout the region was low. Programs that lower the costs of safer behavior among those who inject drugs have succeeded in keeping HIV infection at less than 5 percent in cities like Glasgow (Scotland), Lund (Sweden), Sydney (Australia), Tacoma (United States), and Toronto (Canada)—while in neighboring cities without these programs, HIV infection has soared.

Many countries have also tried to reduce risky behavior by raising its costs—by increasing the penalties for prostitution and drug use and imprisoning those involved. While enforcement actions have sometimes reduced these social ills—though not eliminated them—such policies can actually *increase* the transmission of HIV and other STDs. Those who continue to engage clandestinely in these risky behaviors will be more difficult to reach with prevention programs. Unfortunately, such policies are found in many transition economies and are likely to exacerbate, not reduce, the epidemic.

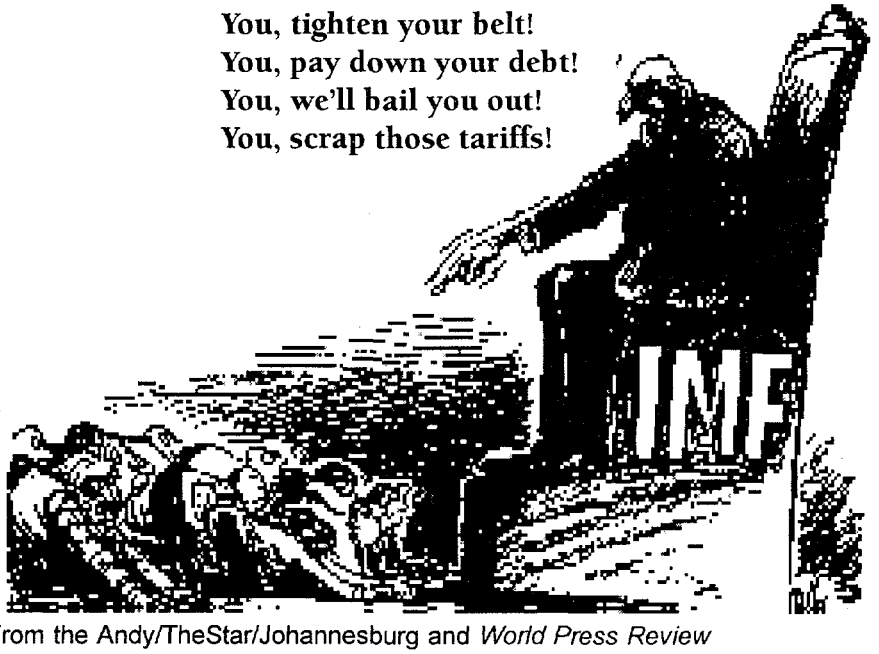
2. Collecting information on the prevalence of HIV and risky behavior. Designing effective prevention programs depends critically on an understanding of the patterns of risky behavior and the prevalence of HIV and STDs. In fact, this information is almost nonexistent in the transition economies. Further, to the extent that HIV infection is monitored, governments prefer to sample people who are among the *last* to be infected in an HIV epidemic—pregnant women, blood donors, and people in the general population—instead of those most likely to contract and spread HIV early in the epidemic. For example, of 22 transition countries surveyed, more than 90 percent monitor levels of HIV among pregnant women, while only a third monitor HIV among STD patients, a quarter monitor injecting drug users, and only one country had information about infection levels among prostitutes.

Governments, in any circumstances, have to make important investments in the health system simply to maintain the same quality of care as before the HIV epidemic broke out—training of medical staff, adopting universal precautions to prevent HIV transmission within the medical care system, and ensuring a safe blood supply.

To sum up, the key to reducing the impact of the HIV/AIDS epidemic in the early stages in which most transition countries find themselves is to invest vigorously in improved information and strong prevention programs that encourage people to adopt safer behavior while protecting them from discrimination. These countries can learn from the experience of others and act now to avert a tragic and costly epidemic that will otherwise exacerbate social ills, drain government finances, and draw resources away from other important economic and social objectives.

Martha Ainsworth is a Senior Economist in the Development Research Group of the World Bank. She is co-author, with Mead Over, of Confronting AIDS: Public Priorities in a Global Epidemic (Oxford University Press for the World Bank, 1997). Summaries are available in Russian and the book will be available in Russian in mid-1998. For more information, see the "Economics of AIDS" web site: http://www.worldbank.org/aids-econ/.

New World Order



From the Andy/TheStar/Johannesburg and *World Press Review*

Cartoon from South Africa—Blaming the Messenger

Transition—A Mixed Blessing for Women

When Maria Slavov, a Bulgarian attorney, applied for a job a few years ago, she was told, "You're just going to marry and have children. If there's a male candidate, he'll get the position no matter how well qualified you are." Klelija Balta, a former hydrogeology engineer in Bosnia-Herzegovina, wanted to become deputy director of her mining institute. One of her male colleagues discouraged her: "You are good, but we need a deputy director to be a strong man." To get a job, women in most East European countries have to answer ads that specify "attractive female receptionist" or "girl under 25." Women sometimes must promise not to get pregnant for five years—or if they do, to leave "of their own volition." Says Slavov, "Even if you're highly educated, you still have to bring the coffee."

In postcommunist countries such discrimination against women at work has not been uncommon since the fall of communism. As these countries have privatized industries and established new market economies, labor demands have shifted and competition for jobs—and economic survival—has become fiercely aggressive. "Women gained political freedom, but they have to struggle just as hard for economic freedom and for job opportunities," concluded a recent conference held in Vienna, entitled Vital Voices: Women in Democracy. About 300 women from the East and West discussed common concerns, including earning a living in a male-dominated job market. Perhaps most difficult for working women has been losing liberal maternity leave and free child care, kindergartens, and health care, formerly provided by the state.

Unemployment and poverty is rampant among women. In Ukraine 80 percent of the jobless are women. In Russia women now constitute 62.5 percent of the total number of the officially registered unemployed and have suffered job losses at about 10 times the rate of men, according to one government report. The layoffs could be critical for the 2.5 million single-mother families in Russia. About 80 percent of the newly unemployed are women. Many highly educated women: often those with higher degrees in engineering and physics, are told to take jobs requiring lesser qualifications.

Under communism women worked mostly in manufacturing and agriculture or in government-funded offices and scientific research institutes. Now those jobs, once guaranteed by the state, either no longer exist or have gone to men during downsizing and gender-based layoffs. Available jobs are more likely to be in trade and tourism or in information, financial, and social services—all of which require new training that women are less likely than men to get. As Russian Labor Minister Gennady Melikyan put it a few years ago, "Why should we employ women when men are out of work?" In Russia women's wages were 70 percent of men's in 1989; in 1995 they had slipped to only 40 percent.

For entrepreneurial women a way out of this situation is to start their own businesses, despite the difficulties in obtaining credit and the risks of trying to survive alongside the black-market "shadow" economy. Business incubators can help—these are large facilities that provide low-rent office space with access to computers, fax, and copying machines and provide consultants and business training courses. One successful incubator, founded in Russia's Volkhov region, was initiated by the Alliance of Russian and American Women at the request of the female mayor of Volkhov, with financing arranged by the U.S. Agency for International Development. About 60 percent of the Volkhov incubator's businesses—bakeries, print shops, photo-processing labs, knitwear and mushroom-growing companies—are run by women.

Women have received nearly half of the loans made so far to small Russian businesses by a $300 million revolving fund of the European Bank for Reconstruction and Development. A number of international investment funds have taken stakes in female-owned businesses, including a $1.5 million investment by British financiers in a fashion-design company in the Urals. First Woman East, a new venture capital fund in London, plans to target companies owned and managed by women across Central and Eastern Europe, with a special emphasis on Russia. Businesswomen are serving up crucial goods and services: bakeries, magazines, media companies, textiles, language schools, and training centers for accountants and secretaries.

Since most new businesses operated by women cannot be nurtured in incubators—and since women face so much discrimination and have so few connections to get ahead—East European women seem aware of the importance of banding together. In St. Petersburg, where rents can cripple a startup business, a group of women formed the Apparel Innovation Center, where designers rent cubicles for $50 a month or studios for $150. Shared assets include pressing machines, a library, and a marketing department. The center's 15 small businesses are helping create jobs and fill a clothing gap left after the breakdown of the city's once-booming apparel industry.

In Moldova the 27 chapters of the Women's Association, a national organization, are giving financial assistance and technological support to female entrepreneurs. In the Czech Republic women make up 15 percent of parliament.

In Lithuania, where women constitute only 7 percent of parliament, a strong Women's Party is emerging. At present there are more than 400 women's organizations of various types officially registered in Russia. The Russian president's decree on enhancing the role of women envisages a set of measures to overcome discrimination in personnel policies. But in the Russian government itself there is only one female minister, and women are not represented at all in the Security Council or the Defense Council, Russia's key decisionmaking bodies.

Based on press reports and on presentations by Yekaterina Lakhova, Chairperson of Russia's Presidential Commission for Women's Issues, and of Grace Kennan Wamecke, Chairman of SOVUS Business Consultants, New York.

A Review of Women's Emancipation in Hungary: Limited Successes Offer Some Hope

by Katalin Medvedev

Women have always outnumbered men in Hungary. Yet women historically have not been empowered by the strength of their numbers and have exerted little influence over the political decisionmaking process. At present only about 11 percent of parliamentary representatives are female. With the resignation of the labor minister, no woman currently serves in the national government. In local politics the picture is slightly more positive: women have been elected in relatively high numbers to serve as mayors and have been appointed as senior officials, although only in small and less-developed cities and villages.

Beginning in the early 1950s under communism women were integrated into the wage-earning labor force ever-growing numbers. Industries needed cheap, unskilled and semiskilled labor, and women—most of whom had stayed at home before the war—were now forced to become second-wage earners. Also during this period women attained the vote (1948), and the universities, which had discriminated against women for so long, finally opened their doors to female students. Thus, paradoxically, in the midst of the darkest Stalinist oppression, for most Hungarian women the road to upward mobility and power opened up for the first time. Overnight women became professionals, leaders, and decisionmakers, performing high-profile, public roles without prior experience. Despite these inroads, however, women's pay in the 1960s and 1970s—in the same job—was roughly 75 percent that of men, the largest disparity between male and female wages in Eastern Europe.

Full employment (in reality, there was hidden unemployment within factories) was threatened in the late 1960s, when economic reforms forced firms to deal with the labor situation. Women became most vulnerable to layoffs. The government could not officially tolerate unemployment, however. Against this background, perhaps the most important "Communist privilege" women in Hungary enjoyed—the paid, three-year maternity leave—was introduced. It was cheaper for the state to pay meager maternity allowances than to create jobs for women. On the positive side, however, this system did offer job security. Employers were required to reemploy female workers returning from maternity leave, in their original post or in a comparable one. Women could not just be laid off.

In the 1970s participation in the semiprivate, second economy, as a means of enhancing economic well-being, became widespread. Virtually every physically capable man moonlighted, taking a second and even a third job to bring home more money. Women performed their regular jobs but also managed the household and took care of the children. This division of labor was a logical extension of Hungarian patriarchal society. The familiar patterns—women's lower earning power, coupled with women's entitlement to lengthy maternity leave, that is, being paid essentially to be full-time mothers—was a convenient arrangement for the whole society, as it provided "free" money for families and averted official unemployment. Thus women, entrapped in their biological role as mothers, cemented the traditional division of labor in families and contributed to their own economic devaluation. When full employment became a nuisance, beginning in 1990, women became the first targets of enterprise downsizing, and the longstanding maternity leave payment, frozen in an inflationary environment, practically lost any remaining value.

And what is the situation today? An eight-member government commission was established in 1997 to guarantee equal opportunities for women. As the new labor minister has admitted, even though discrimination on the basis of sex is illegal in Hungary, women still earn 10 to 15 percent less than men employed in the same positions. Two-thirds of women in the country work in so-called "female positions." Women, relative to men, still play little role in public life and hold few leading positions. In business there is this encouraging sign: about 40 percent of new businesses are being started by women. But official support for the betterment of women's lives has been discouraging: efforts to combat poverty among women, to improve health care and social welfare benefits for women, and to fight violence against women, were alloted a pathetic $160,000 in the 1997 national budget.•

The author is Professor at the Teachers' Training College of the University of Sciences, "Eotvos Lorand," Budapest.

Milestones of Transition

Continued from page 11

3.5 billion, but the second Ecu 3.5 billion will be granted at the bank's own risk, EIB president Sir Brian Unwin announced.

European Commission approved accession partnership programs that will lead to EU membership, including special preparatory plans for the 10 Central and East European candidates. The individual governments have until late March to approve national programs that include a timetable for implementing measures necessary to extend the European standards to such areas as liberalization of capital and financial services, consumer protection, domestic and judicial policy, agriculture, transport, employment, environmental protection, and regional policies.

Baltic banks grew in 1997. Banks got bigger throughout the Baltics last year. The aggregate total assets of Estonia's commercial banks at the end of last year was 38.76 billion kroons ($2.7 billion), up 77 percent from end-1996. The total assets of Latvian commercial banks at the end of last year was 1.85 billion lats ($3.1 billion), an increase of 63 percent for the year. The total assets of Lithuanian commercial banks at the end of last September was 8.68 billion litai ($2.2 billion), up 25 percent from September 1996. In spite of the rapid growth, the Baltic banking system as a whole is still relatively small. For example, the combined assets of Finnish commercial banks at the end of June 1997 was 515 billion Finnish marks, about $100 billion. At year's end, the largest Baltic bank in terms of total assets was the Estonian Hansapank, with a balance sheet of 9.6 billion kroon ($680 billion).

Albania

None of Albania's five largest pyramid investment companies is able to pay back its debts, according to the French auditing firm Deloitte & Touche. A report handed to the government on February 2 concludes that 56 businesses belonging to pyramid firms generate income but 273 do not. It notes that the pyramids as a whole continue to generate losses. The VEFA investment company is losing $200,000 a month because of poor management. It has only $7 million in assets. It is believed to have received more than $300 million in recent years from some 90,000 investors. The French company is investigating recent Albanian media reports that VEFA owner Vehbi Alimucaj has $40 million in bank accounts in Greece. Meanwhile, 200,000 creditors have reported their claims to a government office.

Bosnia-Herzegovina

First IGA Guarantee in Republika Srpska. IGA, the Investment Guarantee Agency of Bosnia and Herzegovina, has issued its first political risk guarantee for a business transaction in Republika Srpska (RS). The DM 3.7 million guarantee has been offered to Germany's Siemens, which will provide medical equipment and supplies for several hospitals. IGA—an independent corporation owned by the government of Bosnia and Herzegovina—has offered 10 companies guarantees for a total of DM 23 million, including temporary import of machinery to rehabilitate the Sarajevo Airport, power plant equipment, parts for locally assembled radiators and heaters, and medical equipment.

Bulgaria

Corruption among Bulgarian officials is rampant, suggests an opinion poll conducted by the Center for Democratic Studies. Eighty-six percent of the respondents said bribes are essential to obtain proper medical treatment. Seventy-four percent said bribes are readily accepted by custom officers, while 63 percent named judges and 56 percent police as bribe-takers. Fifty-seven percent of the respondents believe "it is a waste of time" to report cases of corruption, while 31 percent said paying bribes was "bad, but unavoidable."

Croatia

Croatia is to boost employment and ease tax burdens on the economy, Prime Minister Zlatko Matesa announced. Further reforms are in the pipeline to improve a fragile social situation. "We are working intensely on preparations for the reform of the pension system which, I must stress, is vital for Croatia," he said, noting that improving the status of some 900,000 pensioners hinged on revamping the whole system. Another project being prepared involves changes to public health services that focus on providing free basic care, particularly to children and the elderly, Matesa said, adding that both projects are being conceived in consultation with the World Bank, which has promised considerable funding to back up public sector reforms (although preparations have been very slow).

Czech Republic

Modest 1.6-2.2 percent economic growth is expected in the Czech Republic, in 1998, according to the Statistical Office. However, this year's trade deficit is now forecast at 113-123 billion koruny ($3.2-$3.5 billion), as against the office's earlier 121-129 billion koruny figure. Although the weakening currency will boost exports, this appears unlikely

to compensate soon for the reduction in domestic demand that resulted from last year's austerity measures and that will be sustained under the new government.

Estonia

Estonia's foreign trade deficit was up almost 66 percent last year, compared with 1996 levels. Exports totaled some 41.3 billion kroon and imports 65.3 billion kroon (the corresponding figures for 1996 were 26 billion and 40.5 billion kroon). Estonia's main export partners were Russia (17.8 percent), Finland (16.8 percent), and Sweden (13.4 percent), while most imports came from Finland (30.9 percent), followed by Russia (11.7 percent), Sweden (9.6 percent), and Germany (9.2 percent). Estonia's main exports are machinery, electrical appliances, and textiles.

Hungary

Budapest is among the world's cheapest cities. The Economist Intelligence Unit found in a recent study that Budapest is one of the world's cheapest cities to live in for those living on dollars, as the cost of living here is 49 percent of New York levels. Budapest was 116th on a list of 120 cities surveyed. The world's most expensive cities are Tokyo, at 154 percent of New York prices, and Osaka-Kobe, at 148 percent. Only Tripoli, Bombay, New Delhi, and Tehran are less expensive. The EIU says costs of living are influenced by such factors as imports dependence, taxation, land prices, wages, population density, economic development, foreign exchange policy, and imports policy (whether imports can compete with domestic products).

Hungary is last on an OECD list of per capita health expenditure in 27 countries. The rankings, published in the German medical publication *Krankenpflege Journal*, show that annual per capita spending on health is only $306 in Hungary. Switzerland tops the list with $4,210 in 1995, followed by the U.S. with $3,644 and Germany with $3,089. Welfare Minister Mihaly Kokeny said health spending will not decrease in real terms this year and the ministry's long-range objective is to see that Hungary devotes at least 7 percent of GDP to health purposes, as in West European countries.

Poland

Foreign capital inflows put pressure on Poland. Foreigners' appetite for Polish investments has pushed up the zloty in inflation-adjusted terms this year. (The zloty ended 1997 at 3.51 to the dollar and now hovers at around 3.54.) The central bank has intervened heavily to slow the currency's appreciation. A new banking law that takes effect this spring allows the central bank to slow portfolio flows through compulsory bank deposits by investors and delayed redemption of proceeds from short-term investments. So far this year, the Warsaw Stock Exchange's WIG index has surged 14 percent. International investors also take advantage of the country's high interest rates (52-week Treasury bills auctioned recently at a yield of 23 percent). The $4 billion that is now invested in Polish equities and Treasury securities—writes Daniel Michaels of the *Wall Street Journal*—isn't huge by global standards, but relative to Poland's small capital markets, it is having a big impact. Analysts expect up to $3 billion more in portfolio investments during 1998.

Limiting the 1998 budget deficit to 1.5 percent of GDP and targeting GDP growth at 5.6 percent, Finance Minister Leszek Balcerowicz recently pushed an austerity budget through Parliament. Poland's gross domestic product grew 6.9 percent in 1997, its fourth straight year of growth above 5 percent, while inflation dropped to 13.2 percent last year from 18.5 percent in 1996. Unemployment has eased to 10.5 percent, well below levels in many European Union countries including France and Germany. The current account deficit, at roughly 3.4 percent of GDP in 1997, was below mid-year forecasts and its growth rate has slowed. Foreign direct investment last year hit $6.6 billion, an annual record for any country in the region. Poland has pulled in $20.6 billion in foreign direct investment since 1989. Analysts expect another big jump this year as the economy of 39 million consumers continues to grow.

Romania

Romania's GDP declined by 6.6 percent and industrial production by 5.9 percent last year, data released February 9 by the National Statistical Commission show. Investments were down some 19 percent. Inflation in 1997 was 151.7 percent, almost double the level the previous year. The 1998 economic program envisages an annual inflation of 37 percent (compared with 151 percent in 1997) and a budget deficit equivalent to 3.6 percent of GDP (4.5 percent in 1997). Prime Minister Victor Ciorbea announced that this year will see the end of GDP decline and the start of economic recovery, together with stabilization and the acceleration of privatization: about 1,600 companies will be sold out of a total of 2,744 (including the huge state monopolies ROMTELECOM, ROMGAZ, and the electricity company RENEL), as will three large banks. Forty percent of the budget outlays will be earmarked for social protection.

CIS Countries

Kazakhstan

Kazakhstan has halted oil and gas privatization until the government has selected a "strategic partner" for the national oil company, Prime Minister Nurlan Balgimbayev announced on February 10.

He denied that Kazakhstan is unable to fill quotas for oil to the Caspian Pipeline Consortium project, noting that the country last year produced a record 27 million tons of oil and expects that amount to grow to 170 million tons by 2020.

Kazakh GDP grew 2 percent last year and reached 1.68 trillion tenge (about $22 billion), Yeryan Utembayev, chairman of the Agency for Strategic Planning and Reform, announced. Food production grew by 28 percent, ferrous metals by 24 percent, and natural gas by 20 percent. Inflation last year reached 11.2 percent (17 percent had been forecast). However, the Finance Ministry released data showing production declines of 17.5 percent in the oil refining sector, 14.7 percent in electricity, 29.8 percent in mechanical engineering, and 34.3 percent in the chemicals sector. According to the same data, 55 percent of the country's industries made no profit in 1997.

Moldova

Of Moldova's 750,000 pensioners, 80 percent receive pensions totaling a mere 60-100 lei ($13-21) a month, noted President Petru Lucinschi on February 9, calling on the public to render every possible assistance to the elderly. He said the Pension Fund was expected to have revenues of 3 million lei a month to pay out pensions but that it receives less than half that amount. Pensions arrears, which 12 months ago amounted to 315 million lei ($70 million), were reduced by 90 percent, and the government hopes to make all back payments by the end of March. Lucinschi said that the situation can be changed only after an improvement in the economy. It has become necessary to set up charity funds that will accept donations from both Moldova and abroad, he said.

Russia

Defense industry in steep decline. Deputy Economics Minister Vladimir Salo announced in early February that production in the defense industry declined by 16.4 percent in 1997 and production of arms and military hardware by 31.2 percent. (Overall industrial production was up 3 percent for the year.) Salo attributed the decline to government debts to the sector. He noted that spending on conversion programs for defense enterprises totaled just 11 percent of budget targets in 1996 and virtually nothing in 1997. Duma Defense Industry Conversion Committee Chairman Georgii Kostin said that output in the industry has fallen elevenfold over the last six years. According to *Izvestiya* on February 14, the government is planning to reduce the number of defense enterprises from 1,700 to some 600 by the year 2000.

The proposed tax code would reduce the overall tax burden on the economy by 60 billion rubles ($10 billion) or some 2 percent of GDP, Deputy Finance Minister Mikhail Motorin pointed out on February 10. But *Kommersant Daily* argued a day later that the proposed code would increase the tax load on most individuals by 3-5 percent. The newspaper noted that the code would maintain the value-added tax of 20 percent on most goods and maintain or raise excise duties on alcohol and tobacco products, gasoline, and some automobiles.

Russian oil firms face investigation of alleged shareholder abuses. Russia's Federal Securities Commission will investigate, in separate probes, complaints lodged by Western investors that two of the country's leading oil holding companies—Yukos and Sidanco—are violating minority shareholders' rights—reported Matthew Brzezinski of the *Wall Street Journal*. Yukos is allegedly stripping assets from its subsidiaries. (It is common practice in the Russian oil industry for holding companies to transfer value from subsidiaries to the parent company by buying the output of their units at knock-down prices and reselling through the parent at world market levels.) Sidanco is charged in a separate complaint with allegedly diluting stock held by minority shareholders, including Paribas and the emerging-market fund, Hermitage Capital Management.

(Minority shareholders were excluded from participating in a le-bond issue last December. Sidanco is 85 percent owned by Oneximbank and affiliates such as the Moscow investment house, Renaissance Capital Group.

Russia increased import duties on meat, meat products, pasta, certain milk products, fresh and canned vegetables, leather goods, knitwear and textiles, and kitchen utensils and bathroom fixtures. The duties are charged as a percentage of the declared price of the item, but at no less than a specified ECU-denominated amount. The first such duty was applied in spring 1996, and such duties now are applied to nearly all food imports. For example, the duty for beef is presently taxed at a rate of 15 percent of the price paid, but no less than ECU 0.2 a kilogram.

Russia's Duma approved an amendment to the central bank law that would compel the Bank of Russia to retain partial ownership in Sberbank (currently holding 55 percent), Vneshtorgbank (97 percent), and five banks abroad. The foreign banks are Moscow Narodny Bank, London (89 percent); Eurobank, Paris (78 percent); Ost-West Handelsbank, Frankfurt (51 percent); Donau Bank, Vienna (51 percent); and East-West United Bank, Luxembourg (49 percent). The central bank would be free to sell shares in any of the above-mentioned banks, including to foreigners, but would be required to retain at least a 50 percent stake in certain banks. Under the present central bank law Russia's central bank

should divest its holdings in other banks by the beginning of 2000.

Number of banks in Russia falls. At the beginning of 1998 Russia had 1,675 banks and 22 other credit institutions. In 1997 the number of banks fell by 333, as large Moscow banks move into the regions to grab new business. Foreigners had participation in 145 credit institutions. Of these, foreigners had 100 percent ownership of 16 credit institutions and a stake of more than 50 percent in 10 others. Many Russian banks are on a shaky footing. Russian Central Bank Deputy Chairman Denis Kiselyov said that 200-300 Russian banks are "unstable, though they only represent about 4 percent of the assets held by the entire Russian banking system. The assets are concentrated in Russia's 200 largest banks, which control 88 percent of assets.

Ukraine

Ukraine's Parliament ends freeze on privatization. Lawmakers on February 13 approved a privatization program, ending a legislative ban on the sale of state assets. The program, submitted by President Leonid Kuchma, allows for the privatization of the energy and telecommunications sectors but does not permit the sale of farmland. Prime Minister Valery Pustovoytenko said he expects privatization to add about 1 billion hryvna ($521 million) to state coffers this year. Parliament put a freeze on the privatization process in November after several reports of inefficiency and corruption. In other news, the National Statistics Committee said on February 13 that Ukraine received $760 million in foreign investment last year. That is a 42 percent increase over the previous year.

Transition Economies

Energy sector drives eastern FDI. The Economist Intelligence Unit estimates that foreign investors involved in financing oil and gas projects were particularly active last year. Investments in hydrocarbon resource development doubled from the 1996 level, to exceed $5 billion, and was, for example, the main reason for FDI flows to both Kazakhstan ($3.5 billion) and Azerbaijan ($1.5 billion). Russia outpaced Hungary ($1.5 billion) for the first time, with FDI inflows of $2.2 billion. Poland continued to attract FDI with $3.2 billion. Investments in the Czech Republic fell to $1.1 billion. Ukraine, with just $466 million, also seemed to lack investor appeal. FDI to Romania ($1.3 billion) and Bulgaria ($681 million) was up. In the Baltics, FDI levels continued rather stable, with Latvia receiving $142 million, Estonia $106 million, and Lithuania $46 million.

We appreciate the contributions of FRE correspondent Robert Lyle.

World Bank/IMF Agenda

Japanese Professor Appointed Chief Economist for East Asia Region

Masahiro Kawai, Professor of Economics at the University of Tokyo's Institute of Social Sciences, has been appointed Chief Economist of the World Bank's East Asia and Pacific Region (which includes China and Vietnam), and Sector Manager for the Poverty Reduction and Economic Management (PREM) Sector Unit. Professor Kawai's most recent book is entitled: **The New World Fiscal Order: Implications for Industrialized Nations**. His works have covered such diverse fields as international finance, open-economy macroeconomics, economics of commodity and futures markets, housing demand, and Asian money and capital markets.

World Bank to Support Hungary's Higher Education...

The World Bank approved February 26 a $150 million loan to Hungary in support of the government's comprehensive reform program for higher education. To be eligible for support, universities and other institutions will have to introduce a credit system, reduce compulsory lecture hours, impose tuition fees, and implement student financial aid. Since Hungary joined the World Bank in 1982, commitments have totaled approximately $4.35 billion for 40 projects.

... And its Path Breaking Pension Reform

Earlier, on January 27, the Bank approved a $150 million public sector adjustment loan (PSAL) in support of Hungary's pension reforms. This involves a switch from a public pay-as-you-go (PAYG) system to a three-pillar system that will maintain a downsized PAYG system and the network of voluntary pension funds and will introduce a new pillar of private pension funds that will be mandatory for new entrants into the labor force as of July 1, 1998. Employees who have already acquired pension rights under the current system, and those who enter the labor market by July 1998, will have the option of staying in the reformed PAYG or switching to the new system. The new system began operating on January 1, 1998. Workers will be given two years to exercise their right to switch to the new system. At present, about 250,000 people have chosen voluntarily to participate in the new system. Social assistance will be introduced for those who do not qualify for a minimum pension.

Latvia Generates Methane from Landfills

With the help of a $7.95 million World Bank loan (approved on February 26) and a $5.12 million grant from the Global Environment Facility Trust Fund (GEF) the Latvian government is developing a locally managed solid waste management system through the collection of methane gas generated from landfills. (As a result of decentralization, local governments are largely responsible for providing municipal services, including water, sewerage, and solid waste collection and disposal.) Using the gas as an energy resource will reduce greenhouse gas emissions. Since Latvia joined the World Bank in 1992, commitments have reached $253 million for 10 projects.

Support to Armenia's Small Farms...

The World Bank's new $14.5 million IDA credit to Armenia (approved on January 27) will support private farming and agroprocessing and strengthen agricultural institutions and services. A network of village credit associations will be set up to provide loans and financial services to small farmers and rural microenterprises. An estimated 35 percent of the credit proceeds will be passed on to private banks for periods of 10-15 years at a floating LIBOR-based interest rate for onlending to small-scale farmers and other rural entrepreneurs. The credit will be repayable on standard IDA terms with a maturity of 35 years, including a 10-year grace period. Since Armenia joined the World Bank in 1992 and IDA in 1993, IDA commitments have totaled approximately $314.5 billion for 13 projects.

... Vietnam's Electricity Sector...

To improve Vietnam's electricity transmission and distribution network and support restructuring of the power sector, the World Bank on January 21 approved a $199 million IDA credit. A portion, $10 million, will help restore electricity distribution networks devastated by Typhoon Linda in 10 southern provinces.

... Ukraine, to Set Up Treasury System

To help design and implement a fully functional, automated treasury system that would serve as an effective instrument for budget execution and cash management, the World Bank approved on February 24 a $16.4 million loan. Since joining the World Bank in 1992, Ukraine's commitments have totaled over $2 billion for 13 projects, including 2 guarantees. (Ukraine's Deputy Prime Minister in charge of economic reform, Serhiy Tyhypko, expressed hope that the World Bank will provide over $1 billion in 1998 to help prop up market reforms in the country. "About $650 million will go to cover our deficit, while more than $400 million will go to investment projects," he asserted.)

... Georgia, to Preserve Historic Sites...

Before independence, tourism in Georgia, centered around the city of Tbilisi and the Black Sea coast, attracted large numbers of visitors from Eastern Europe and the former Soviet Union. Since the breakup of the FSU, Georgia's tourism has collapsed and fiscal constraints have prevented essential maintenance of cultural sites and visitors programs. A new IDA credit of $4.49 million (signed on February 18) will help the country to restore historic sites, including Tbilisi's old town.

...Cambodia, to Provide Running Water, and ...

Water supply in Cambodia has been devastated by years of war and neglect. Only 32 percent of the population has access to clean water and 16 percent to adequate sanitation. The Bank's $30.96 million IDA credit (approved on February 18) will address the inadequate and deteriorated water supply system of Cambodia's two largest cities, Phnom Penh and Sihanoukville.

...FYR Macedonia, to Restore Hydro-Electric Power Plants

A $35 million World Bank loan approved on February 17 will help Elektrostopanstvo Na Makednoija (EMS) restore the six largest hydropower plants in Macedonia, which represent 91 percent of the country's hydropower capacity and begin the rehabilitation of the electricity distribution system. Since FYR Macedonia joined the World Bank in 1993, Bank commitments have totaled roughly $375 million for 12 projects.

Recommendation to Slovenia: Speed Up Reform

The IMF and the World Bank have recommended that Slovenia accelerate structural reforms to ensure steady growth in the future, Slovenia's Finance Minister Mitja Gaspari said, back from a visit to Washington. Slovenia should begin privatizing public sector companies, accelerate pension reform, eliminate the budget deficit, and liberalize foreign investment. The two institutions also urged Slovenia to reform the insurance and banking sectors, increase labor market flexibility and gradually open up to foreign competition. (Slovenia's GDP is expected to have grown by 3.7 percent in 1997. Inflation has remained "stuck" in the annual 7-11 percent range since August 1995.)

World Bank Backs Bulgaria's Push for More Reform

Director of the World Bank's team for Bulgaria, Kenneth Lay late January outlined current priorities for the World Bank in

support of Bulgaria's ongoing efforts to foster strong, private sector-led growth and a sustainable social safety net. These include: reform of the state administration, legal and judicial systems, creation of an efficient social safety net and pension system, as well as measures to reform the electric power industry, and improve energy efficiency in district heating systems. The World Bank will also be active in reform of the agricultural sector, urging the government to lift remaining trade restrictions for land and commodities. The director also recommended accelerated completion of the privatization process, especially the sale of the five largest state banks.

Vietnam Debt Settlement

To help finance a settlement between Vietnam and its London club creditors signed in December 1997, the World Banking early January approved a $35 million IDA credit. Vietnam will settle all its outstanding private uninsured commercial debt in arrears, totaling $797 million. Bankers expect Vietnam to issue Brady Bonds as part of the settlement. Thus, major impediment to Vietnam's access to international capital markets, and particularly to trade credits, will be removed. Vietnam's total hard currency debt amounted to an estimated $5.4 billion, or about 23 percent of GDP, at the end of 1996. Debt denominated in transferable rubles accounted for about TR10 billion and was owed mostly to the former Soviet Union. The government is currently negotiating about this obligation with the Russian government.

Business Partners for Development

British Petroleum is the first company to have agreed to join the World Bank's new initiative, "Business Partners for Development," which will initially involve projects in education, youth, water, and natural resources across 10 countries, and will induce private enterprises to get involved directly in development projects. The incentives for interested businesses would be to improve their standing with local communities and employees, rather than to earn profits on the projects themselves. The projects might also encourage participating companies to adopt better practices on matters such as education and sanitation. Initially, the scheme is to last three years, but the Bank hopes the pilot projects will be followed by larger programs.

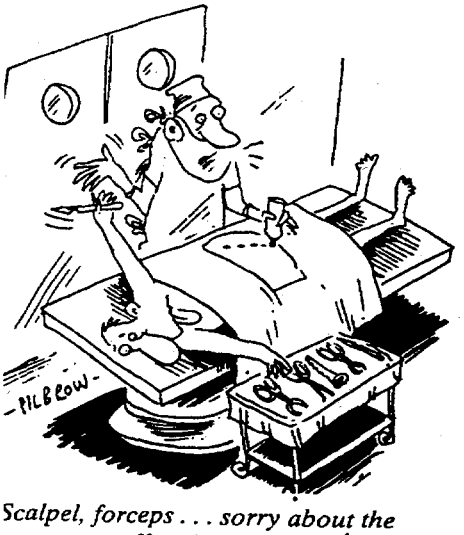
Rory O'Sullivan: Bosnia Faces Crucial Test in 1998

Bosnian political leaders must adopt sweeping economic reforms in 1998, including reforms of privatization, the financial sector, and public finance, to sustain a healthy postwar growth rate fueled by reconstruction aid, Rory O'Sullivan, head of the World Bank's Sarajevo Office, noted. Bosnia's economy grew at a rate of 50 percent in 1996 and about 35 percent in 1997. Some $1.5 billion in reconstruction aid dispersed by industrialized countries has been the primary catalyst for the high growth rate. Bosnia still lacks major foreign direct investment. Only a proper legal framework can attract that investment and boost exports. Privatization in Bosnia's Moslem-Croat federation has been held up because political parties have yet to adopt foreign investment legislation as well as laws that would clean up the balance sheets of insolvent state enterprises and banks. Auctions for small-scale privatization in the federation could begin as soon as April if the necessary legislation is adopted, O'Sullivan pointed out. He added new progress is expected in the Republika Srpska in 1998 following the appointment of a dynamic new government headed by Mr. Dodic. This part of Bosnia is now expected to emulate the high growth rates achieved by the Federation in 1996.

On January 22 the Bosnian joint presidency and the World Bank signed two credit agreements, worth $27 million dollars, aimed at financing reconstruction projects. The first agreement ($17 million) would back up investment in various sectors in the Serb republic, such as the reconstruction of housing, water supplies, sewerage systems, electrical systems, and agriculture. The second agreement ($10 million) would be used to repair the gas supply in Sarajevo, which was seriously damaged by the Serbs' siege from 1992 until 1995.

Political Risk Guarantee for Albania

A $10.25 million IDA credit, approved on February 10, will help establish a political risk guarantee facility for enterprises and their financiers that want to engage in commercial activities in Albania. The government has established an independent corporation, the Albanian Guarantee Agency (AGA), to manage the facility. The project seeks to revive private manufacturing in Albania, which is recovering from a financial crisis, by reducing the risk to potential investors and boosting investor confidence. Since Albania joined IDA in 1991, 25 projects have gone forward with commitments totaling approximately $313 million.



Scalpel, forceps . . . sorry about the staff cutbacks."

From the *World Press Review*.

Conference Diary

For the Record

ECPD Permanent Study Group on Transition and Privatization
October 24-25, 1997, Sveti Stefan, FR Yugoslavia

Organized and sponsored by the European Center for Peace and development (ECPD) of the University for Peace, established by the United Nations. Focus was on the results of privatization in the East European countries and the former republic of Yugoslavia, in light of comparative experience of privatization, with particular reference to development and new information available since the first meeting of the Group, held in December 1995.

In assessing the advantages and disadvantages of different methods of privatization, the primary concern appeared to be minimizing social costs. Participants agreed that more research was needed in order to arrive at reliable comparative indicators of the relative efficiency of privatized firms. They recognized that short-term results of privatization could differ significantly from those obtainable in the longer term, partly depending on the rate of progress of institution building, which is essential for efficient functioning of a private sector–oriented economy. A functioning capital market, reliable monitoring, and effective regulatory institutions were considered to be of decisive importance. The conference participants agreed that strengthening corporate governance was indispensable for successful privatization. Foreign finance in the form of aid, credit, or investment is crucial. In some cases social assets were offered to foreign buyers at unjustifiably low prices without adequate transparency and accountability.
Information: Ms. Gordana Hofmann, ECPD, Terazije 41, 11000 Belgrade, tel. 3811-324-6041, fax 3811-324-0673, Email: ecpol@afrodita,rcub.bg.ac.yu

Upcoming

Annual Meeting of the German Society for Research on Eastern Europe
March 12-14, 1998, Bremen, Germany

Organizer: Deutsche Gesellschaft fuer Osteuropakunde.
Language: German.
Topics: Sociology of transformation in Eastern Europe: state and social dimensions.
Information: Deutsche Gesellschaft fuer Osteuropakunde e.V., Schaperstr. 30, 10719 Berlin, Germany, tel. 49-30-21478412, fax 49-30-21478414, Email: dgo@zedat.fu-berlin.de

State-building and Social Change in the New Eastern Europe
March 12-14, 1998, Bremen, Germany

Organizer: German Society for East European Studies.
Topics: Categories and concepts in the discussion: revolutions and continuities—the social basis for the consolidation of political systems in Eastern Europe; The state dimension: the nation-state—power structures and constitutionality based on the example of Ukraine.
Information: Deutsche Gesellschaft fuer Osteuropakunde e.V., Schaperstr. 30, 10719 Berlin, Germany, tel. 49-30-21478412, fax 49-30-21478414, Email: dgo@zedat.fu-berlin.de

Regional Inequality in an Enlarged Europe: Regional Performance and Policy Responses
March 12-13, 1998, Brighton, England

Organizer: Sussex European Institute's Centre on the Changing Political Economy of Europe.
Registration is required.
Information: Dr. Adrian Smith, School of Social Sciences, University of Sussex, Falmer, Brighton, BN1 9QN, United Kingdom, tel. 1273-606755, fax 1273-673563, Email: A.M.Smith@sussex.ac.uk

Change Management—Business Cultures for the 21st Century: Comparing the European Experiences of Hungary, Poland, Czech Republic, and Germany
March 19, 1998, Kassel, Germany

Organizer: Ost-West-Wissenschaftszentrum.
Language: German.
Information: Irma Rothley, Stephanie Winterhagen, OWWZ, Hollaendische Str. 36-38, 34109, Kassel, Germany, tel. 49-561-804-3609/3567, fax 49-561-804-3792, Email: gorzka@hrz.uni-kassel.de

Energy in the FSU: Industrial Structure, De-monopolization, Corporate Governance and Financing—The Microeconomics of Transition
March 20-21, 1998, Oxford University, St. Antony's College, United Kingdom

Organizers: The Russian and East European Centre, St. Antony's College, Oxford; and The Energy Institute, College of Business, University of Houston; sponsored by British Petroleum.

The conference will bring together a mix of academic economists, consultants, corporate representatives, and government officials and advisers to discuss policy, update information, and suggest ways of analyzing the impact of corporate governance problems (including issues relating to Financial Industrial Groups and corporate finance) on the energy sector of FSU countries. The discussion will deal mainly with oil and gas, because of the potential of these "leading sectors" to promote economic

recovery, attract foreign capital, and create new corporate governance structures.
Information: Carol Scott Leonard, St. Antony's College, Oxford OX2 6JF, tel. 44 1865-284767, fax 44-1865-310518, Email: carol.leonard@economics.ox. ac.uk; or Paul Gregory, Department of Economics, University of Houston, Houston, Texas 77204-5882, fax 1-713-661-1968, Email: 74771.1300@Compuserserve.com; or Jochen Wermuth, Deutsche Bank, Moscow, Russia, tel. 7-095-244-9538.

The Euro and Eastern Europe
March 23, 1998, Frankfurt am Main, Germany

Organizer: Hessian State Center for Political Education.
Language: German.
Information: Hessische Landeszentrale fuer politische Bildung, Referat VI, Rheinbahnstr. 2, 65185 Wiesbaden, Germany, tel. 49-611-99197-26.

Has Russia Finally Turned a Political and Economic Corner?
March 27-29, 1998, Harriman Institute, New York, United States

Organizers: Davis Center for Russian Studies at Harvard and the Harriman Institute of Columbia University.
Topics: After Yeltsin, Who?; NATO Expansion: What Next; The Economy: Is the Worst Behind Us?; Operating in Russia; Making Russia Safe for Investment; Prospecting for Oil in the Former USSR; Russia as an Emerging Market for Foreign Investors.
Information: Marshall Goldman, tel. 617-495-4485; fax 617-495-8319; Email: goldman3@fas.harvard.edu; Internet http://www.fas.harvard.edu/~daviscrs/ardenhouse.html

SME Forum and Conference: SMEs and SME Policy in the Central and Eastern European Economies
April 2-4, 1998, Budapest, Hungary

Organizer: Hungarian Small Business Association.
Fee: 250 ECU until Jan. 31 and 300 ECU thereafter.
Information: Hungarian Small Business Association, Szeher ut. 7, 1021 Budapest or P.O. Box 132, 1502 Budapest, Hungary, tel./fax 36-1-319-3159/275-3513, Email: soko@econ.core.hu

Tenth Annual Bank Conference on Development Economics (ABCDE)
April 20-21, 1998, Washington, D.C., United States

Welcoming address will be given by James D. Wolfensohn, President of the World Bank, the opening address by Joseph E. Stiglitz, keynote address by James Tobin, and tenth anniversary address by Stanley Fischer. The themes of the conference sessions are: Is Geography Destiny? (Paul Krugman and John Luke Gallup/Jeffrey Sachs), Competition and Regulation Policy in Developing Countries (Paul Joskow and Jean Jacques Laffont); Financial Market Liberalization in Developing Countries: Theory and Practice (Bruce Greenwald and Asli Demirgüç-Kunt/Enrica Detragiache); and Ethnic Conflicts (Donald L. Horowitz and Paul Collier). Participation by non-Bank and non-IMF staff is by invitation only. The conference is sponsored by Joseph E. Stiglitz, Senior Vice President Development Economics and Chief Economist.
Information: Boris Pleskovic or Gregory Ingram, Research Advisory Staff, World Bank, 1818 H Street, NW, Room MC4-391, Washington, D.C. 20433, tel. 202-473-1062, fax 202-522-0304.

The Role of Social Science in the Development of Education, Business and Government Entering the 21st Century
April 30-May 2, 1998, Kaunas, Lithuania

Organized by Kaunas University of Technology, Central and East European Management Development Association, Norwegian Business School.
Topics: Modernization of Management: Trends, Problems and Possibilities; Service Management and Marketing; The Challenge of European Integration for Eastern European Countries: Research Needs and Policy Implications; Regional Development: Cooperation by Universities, Business and Government; Modernization of Education for Knowledge and Information Society; Sociology's Role in Restoring the Public Trust; Problems of Gender Equality in the Contemporary World.
Fees (paid upon arrival): Conference fee (includes participation, conference materials, cocktail party, coffee breaks, opera ticket): for students and participants from Central and Eastern Europe $50, for other participants $100; Individual cultural program, May 3, $30; Closing Gala Party, $30.
Information: Ruta Aidis, Email: raidis@pub.osf.lt

Poland: Legal Conditions for Investment and Trade
May 7, 1998, Koblenz, Germany

Organizer: East-West-Institute, Koblenz University.
Information: Anette Kasten, East-West-Institute, Koblenz University, Rheinau 1, 56075 Koblenz, Germany, tel. 49-261-9119-721, fax 49-261-9119-722.

Babson International Colloquium for Entrepreneurship Educators: The Art of Entrepreneurship
June 22-26, 1998, Ljubljana, Slovenia

Organizer: Babson College, United States.
Application: Open to educators, professors, and program directors from universities and institutions in Central and Eastern Europe. Due February 15, 1998.
Fee: US$890 if paid by February 28.
Call for papers: 15-line summary due with application.
Information: GEA College of Entrepre-

neurship, Dunajska 156, 1000 Ljubljana, Slovenia, tel. 38661-1687002, fax 38661-168-8213, Email: bicee6@gea-college.si; Program Coordinators: Dr. Larry Godtfredsen, Email: Godtfredsen@BABSON.edu; Dr. Marjana Merkac, Email: Marjana.Merkac@guest.arnes.si

European Integration Towards 2000
July 11-13, 1998, Lodz, Poland

Organizer: Foundation for European Studies, European Institute.
Topics: The shape of the future Europe, enlarged to the associated Central and Eastern European countries, in the perspective of the year 2000.
Information: Dr. Maria Karasinska-Fendler, General Director, Foundation for European Studies, European Institute, 262/264 Piotrkowska str., Poland, tel. 48-42-37-5047/5048, fax 48-42-37-0586, Email: obeul@plnlo51.bitnet

Program on Fiscal Decentralization and Financial Management of Regional and Local Governments
August 3-21, 1998, Cambridge, Massachusetts, United States

Topics: Roles of Central and Subnational Governments; Trends in Political, Administrative and Fiscal Decentralization; Strategies for Effective Decentralization; Joint Venture in Intergovernmental Cooperation and Administration; Public Choice and Fiscal Federalism; Allocation of Expenditure and Revenue; Responsibilities of Government Enterprises and Privatization Alternatives for Enhancing Resource Mobilization.
*Information: Dr. Roy Kelly, Director, Program on Fiscal Decentralization and Financial Management of Regional and Local Governments (PFD), International Tax Program, Harvard Law School, 1563 Massachusetts Avenue, Cambridge, MA 02138, United States, tel. 617-495-4748, fax 617-495-0423, Email: PFD@hiid.harvard.edu _PFD@hiid.harvard.edu_*

International Workshop: Transition and Enterprise Restructuring in Eastern Europe
August 20-22, 1998, Copenhagen

Organizer: Center for East European Studies, Copenhagen Business School.
Topics: corporate governance; internationalization of business; management in transition.
Call for papers: Deadline for abstracts is April 1, 1998.
Fee: 1,000 DKK (approx. US$150).
Information: Administrator Christina Pind or Associate Professor Niels Mygind, Center for East European Studies, Copenhagen Business School, Dalgas Have 15, DK-2000 Frederiksberg, Denmark, tel. 45-3815-3030, fax 45-3815-3037, Email: cp.cees@cbs.dk

The Sixth Annual International Conference: Business and Economic Development in Central and Eastern Europe: Implications for Economic Integration into Wider Europe
September 2-3, 1998, Brno, Czech Republic

Organizer: Technical University of Brno, Czech Republic; Nottingham Trent University, United Kingdom; Nicholas Copernicus University, Poland; and University of Wisconsin-Whitewater, United States.
Topics: business and economic development with emphasis on technological, political, social, and legal issues unique to these countries; comparative studies between business and economic development in CEEC and EU; business and economic integration into wider Europe using theories developed in market economies; and research methods in business and economic development in the CEEC to improve business and economic restructuring.
Call for papers: One-page abstracts of papers and proposals are due January 31, 1998. All material must be submitted in English. The final papers, posters, and outlines of panels, consortia, and discussion sessions are due March 1, 1998, for final review.
Information: Professor George Tesar, Conference Chairman, College of Business and Economics, University of Wisconsin-Whitewater, Whitewater, Wisconsin 53190, United States, tel. 414-472-4951, fax 414-472-4863, Email: tesarg@uwwvax.uww.edu, http://www.fbm.vutbr.cz/czech/call/call.htm; or Dean Karel Rais, Faculty of Business and Management, Technical University of Brno, Technicka 2, CZ-616 69 Brno, Czech Republic, tel. 4205-4114-2685, fax 4205-4121-1410, Email: rais@fbm.vutbr.cz

The 14th International PROGRES Seminar (Program of Research on the Economy of Services)
September 11-12, 1998, Geneva, Switzerland

Organizers: Julian Arkell of International Trade and Services Policy and The Geneva Association.
Call for papers: see following topics.
Topics: the GATS framework; outlook for sectoral negotiations; schedules of specific commitments: how to make them more accessible and user-friendly; review of service sectors under Article 19 and services statistics; lobbying for improved specific commitments on services; new WTO accessions: level of specific commitments undertaken.
Information: Julian Arkell, The Geneva Association, 18, chemin Rieu, CH-1208 Geneva, Switzerland, fax 34-7135-0845, fax 4122-347-20-78, Email: arkell@infotelecom.es

25th Seminar of the European Group of Risk and Insurance Economists
September 21-23, 1998, Vienna, Austria

Organizer: The Geneva Association.
Call for papers: Papers are welcome on any topic of economics, finance, or man-

agement science as related to risk and insurance. The deadline is April 30.
Information: Professor Christian Gollier, Institut d'Economie Industrielle, Universite des Sciences Sociales, Place Anatole France, F-31042 Toulouse Cedex, fax 33-5-61-128637, Email: gollier@cict.fr; or Professor Heinrich Stremitzer, Department of Risk Management and Insurance, Wirtschaftsuniversitaet Wien, Augasse 2-6, A-1090 Vienna, Austria , fax 43-1-313-36-712, Email: stremitzer@wu-wien.ac.at

Institutions in Transition
September 24-26, 1998, Lake Bled, Slovenia

Organizer: Institute of Macroeconomic Analysis and Development.
General topic: transition as a complex process of institutional innovation in which outcomes depend critically on interests and constraints of actors involved. Specific topics: institutional innovations in particular countries, the role of foreign advisers, European Union enlargement.
Information: Janez Sustersic, fax 386-61-1782070, Email: janez.sustersic@ zmar.sigov.mail.si, Internet http:// www.sigov.si/zmar/imad.html

Management of Organizations: Regional Factors in the Process of European Integration
September 24-26, 1998, Kaunas, Lithuania

Organizer: School of Business and Management, Vytautas Magnus University.
Call for papers: 8-15 pages; deadline is May 15, 1998.
Topics: genesis of the concept of organization, organization and economic environment, management development trends, organization in the process of integration.
Information: Edita Slamaite, School of Business and Management, Vytautas Magnus University, Daukanto 28, Kaunas 3000, Lithuania, tel. 370-7-228197, fax 370-7-203858, Email: Edita-Slamaite@fc.vdu.lt

The Use of Cultural Standards in Cross-Cultural Business Training and Education of Business Students
October 19-22, 1998, Burgenland, Germany

Information: Claudia Feichtinger, Research Institute for European Affairs, A-1090 Wien, tel. 431-31336-4141, fax 431-31336-752, Email: Feichtin@fgr.wu-wien.ac.at

Regionalism in Europe
November 1998, Bonn, Germany

Organizer: ZEI - Center for European Integration Studies.
Information: Professor Juergen von Hagen, Zentrum fuer Europaeische Integrations-forschung (ZEI), Walter Flex Str. 3, 53113 Bonn, Germany, tel. 49-228-739199, fax 49-228-731809, Email: vonhagen@ sfbb4.econ1.uni-bonn.de

Marketing Strategies for Central and Eastern Europe
December 2-4, 1998, Vienna, Austria

Organizer: Kellstadt Center for Marketing Analysis and Planning, DePaul University, Chicago, and the Department of International Business Administration, University of Economics and Business Administration, Vienna.

A primary goal of the conference is to promote an international dialogue between decisionmakers and business and government leaders from Central and Eastern Europe and Western industrial countries. The conference will present information about the process of economic transformation in CEE and stimulation of entrepreneurial activity and will contribute to the theory of global marketing. A central question raised will be whether, and eventually how, the concepts of marketing can be adapted for the cultivation of markets in economies undergoing transition.

Empirical research, case studies, or discussion sessions are sought that address such topics as comparative analysis of conditions of market entry in CEE countries, market entry through exports versus market entry via capital investment, acquisitions as opposed to joint ventures in CEE, marketing strategies to reach CEE consumers, marketing-mix decisions for markets in CEE, financial strategies for opening CEE markets, case studies of CEE experiences by Western firms.
Call for papers: Abstracts of papers, in English, should be received by August 31, 1998.
Final papers must be ready by October 31, 1998. For more information or to send abstracts contact either of the conference sponsors.
Information: Prof. Dr. Reiner Springer, Wirtschaftsuniversität Wien, Althanstr. 51, 1090, Wien, Austria, tel. 43-1-313 36/371, fax 43-1-313-36/751, Email: springer@isis.wu-wien.ac.at; or Prof. Dr. Petr Chadraba, Kellstadt Center for Marketing Analysis and Planning, DePaul University, 1 East Jackson Boulevard, Chicago, Illinois 60604, tel. 312-362-6200, fax 312-362-5647, Email: pchadrab @wppost.depaul.edu

We appreciate the contributions of the Cooperation Bureau for Economic Research on Eastern Europe, Koenigin-Luise-Str. 5, D14195, Berlin, Germany, tel. 4930-8977708-68, fax 4930-897708-99, Email: tribakova@diwberlin.de or dbowen@diw-berlin.de.

New Books and Working Papers

The Macroeconomics and Growth Group regrets that it is unable to provide the publications listed.

World Bank Publications

To receive ordering and price information for World Bank publications, write: World Bank, P.O. Box 7247-8619, Philadelphia, PA 19170, United States, tel. 202-473-1155, fax 202-676-0581; or visit the World Bank bookstores, in the United States, 701-18th Street, N.W., Washington, D.C., or in France, 66 avenue d'Iena, 75116 Paris, Email: books@world bank.org; Internet: http://www.world bank.org.

Working Papers

Harry G. Broadman and Xiaolun Sun, **Distribution of Foreign Direct Investment in China,** WP 1720, February 1997, 20 p.
To order: Joan Grigsby, 202-458-2423, fax 522- 1556, Email: jgrigsby@world bank.org

China's 12 coastal provinces have attracted more than 90 percent of foreign direct investment since 1989, most of it going to Guangdong province. A possible explanation is that coastal areas have a higher level of autonomy when it comes to investment, production, and other economic policies. Tight cultural and linguistic links between southern China and the overseas Chinese communities have also contributed to this pattern.

Much of the private capital flows to China is concentrated in the real estate sector, especially hotels and other tourism-related projects. Telecommunications, banking and insurance, accounting and auditing, legal services, and computer processing—critical areas for building a modern industrial economy—have attracted far lower levels of foreign direct investment.

FDI Agreements in China in 1995, by Sector
(millions of U.S. dollars)

Sector	*Value*	*Share (percent)*
Total	91,282	100
Agriculture	1,736	1.9
Industry	61,648	67.5
Construction	1,918	2.1
Commerce	3,427	3.7
Transportation /communication	1,700	1.9
Real estate	17,835	19.5
Other	3,018	3.4

Source: China Statistical Yearbook, 1996.

Martha de Melo, Cevdet Denizer, Alan Gelb, and Stoyan Tenev, **Circumstance and Choice: The Role of Initial Conditions and Policies in Transition Economies,** WP 1866, December 1997, 54 p.

Initial conditions and economic policy jointly determine the large differences in economic performance among 28 transition economies in Asia, Central and Eastern Europe, and the former Soviet Union. Initial conditions dominate in explaining inflation, but economic liberalization is the most important factor determining differences in growth. But reform policy choices are not exogenous. Liberalization depends, in turn, on both initial conditions and political reform.
To order: Cynthia Bernardo, Room MC2-501, tel. 202-473-1148, fax 202-522-1154, Email: cbernardo@worldbank.org

Przemyslaw Wozniak, **Relative Prices and Inflation in Poland, 1989-97: The Special Role of Administered Price Increases,** WP 1879, February 1998, 41 p.

In Poland between 1989 and 1997, growth in money and wages fueled inflation and appreciation of the real exchange rate lowered it. Large administered price increases—associated with adjustment in utilities and other sectors controlled by the government—produced substantial upward inflationary pressures. Ideally, future administered increases should be frequent and moderate to prevent the large price shifts that increase inflation. But because frequent price increases are likely to be politically unpopular, sizable increases may be called for so that the current undervaluation of numerous services will diminish more quickly.
To order: Luca Barbone, Room J7-133, tel. 202-473-2556, fax 202-473-8466, Email: lbarbone@worldbank.org

Discussion Papers

Aymo Brunetti, Gregory Kisunko, and Beatrice Weder, **How Businesses See Government: Responses from Private Sector Surveys in 69 Countries,** IFC Discussion Paper 33, 1998, 76 p.

Results of a survey of some 4,000 entrepreneurs from 69 countries (including 6 transition economies), regarding major obstacles encountered in their business operations, show that corruption, crime, and theft, as well as tax regulations, present the most serious hurdles, blocking business activity.

Jeff Huther, Sandra Roberts, and Anwar Shah, **Public Expenditure Reform under Adjustment Lending: Lessons from World Bank Experiences,** Discussion Paper 382, December 1997, 65 p.

Garry Christensen and Richard Lacroix, **Competitiveness and Employment: A Framework for Rural Development in**

Poland, Discussion Paper 383, 1997, 65 p.

Technical Papers

Magda Lovei, **Phasing Out Lead from Gasoline: Worldwide Experience and Policy Implications,** World Bank Technical Paper 397, January 1998.

Greg Felker, Shekhar Chaudhuri, Katalin Gyorgy, and Melvin Goldman, **The Pharmaceutical Industry in India and Hungary: Policies, Institutions, and Technological Development,** World Bank Technical Paper 392, December 1997, 53 p.

Other World Bank Publications

Branko Milanovic, **Income, Inequality, and Poverty during the Transition from Planned to Market Economy,** World Bank Regional and Sectoral Study, February 1998, 256 p.

The collapse of Communism proved to be an epoch of great turmoil. The period witnessed dramatic declines in income, growing poverty and unemployment, and great uncertainty, but also the making of great fortunes, the availability of consumer goods of incomparably better quality, and opportunities for people to control and alter their lives. This book studies income, inequality, and poverty during this remarkable period and the "construction" of capitalism in 18 former socialist countries—from the Czech Republic in the West to Kazakhstan and Russia in the East. It examines what has happened with regard to the real incomes of the populations, the inequality with which incomes and expenditures are distributed, and poverty—and explores reasons for these changes.

Poverty Reduction and the World Bank: Progress in Fiscal 1996 and 1997, January 1998, 200 p.

Key to the Bank's new approach is the recently formed Poverty Reduction and Economic Management Network. The network has a Poverty Reduction Board that has identified two changes in implementation strategy: a. a shift away from describing poverty and toward formulating strategies for reducing poverty—with work to be linked primarily to operational strategies in individual countries; and b. a shift away from counting poverty-focused projects and toward assessing their impact on the poor (as part of a move toward better evaluation of the impact of lending and projects on household welfare). The World Development Report 2000, the institution's annual flagship research study, will focus on poverty.

Vinod Ahuja, Benu Bidani, Francisco Ferreira, and Michael Walton, **Everyone's Miracle: Revisiting Poverty and Inequality in East Asia,** 1997, 116 p.

Poland: Country Economic Memorandum—Reform and Growth on the Road to the EU, 1997, 102 p.

A strategy of fast, sustainable growth could propel Poland smoothly into the EU. The overall savings rate should show an increase of 5 percent of GDP annually over the next seven years, and public expenditures will need to be cut by more than 6 percent, from 48 percent of GDP (the likely proportion in 1997). To reduce public expenditure, Poland will need to reform its pension system, privatize and restructure state-owned enterprises and banks, and introduce regulatory reforms. Further steps include lowering income tax rates, eliminating preferential VAT rates, and improving tax administration. Further goals include:

•**Improving the investment climate,** through accelerated privatization and reforms in the trade and investment regime, as well as in the legal, institutional, and regulatory framework. That would mean eliminating the bureaucratic micromanagement that is still dominant in some areas of imports, reducing tariffs for most-favored-nation partners to the level of the EU common external tariff, getting rid of nontariff import barriers, and eliminating remaining barriers to foreign direct investment. EU accession will require large infrastructure investments, mainly in environment-related areas, such as improving the water supply and sewerage system and fighting air pollution. Infrastructure policies will need to be harmonized with the EU's regulatory framework.

•**Accelerating privatization,** targeting the large state-owned enterprises in industries such as coal, steel, and chemicals. State-owned enterprises still account for 36.5 percent of Poland's GDP. Privatization of the coal industry should include closing down the loss-making mines and those with almost exhausted resources. Miners should receive training in more marketable skills.

•**Restructuring the financial sector** and upgrading banking and insurance supervision. This will help the banking sector withstand the increased competition in the European single market. The leading rural bank (BGZ), the housing and savings bank (PKO BP), and the national insurance company (PZU) need to be restructured.

•**Creating an efficient capital market.** Further privatization will raise the number of listed companies and attract more foreign investment. The development of municipal finances, a fast-growing area of capital markets, will require better financial planning, greater reliance on own-resource revenues, better access to long-term funds of domestic banks, and increased transparency of matching grants.

•**Creating Efficient labor markets,** which are crucial to absorb the outflow of employment from agriculture and heavy industry into higher-productivity areas of the industrial and service sectors. Active labor market policies must focus on retraining. Reforms in housing and transport will be necessary to

increase labor mobility.

•**Shaping the new social security system** in ways that will address the problems of high and distorted payroll taxes (*currently 48.5 percent of net wages*), sector-specific privileges, large expenditures on survivor and disability benefits, generous old-age benefits, and liberal early retirement. The government has proposed rationalizing the pay-as-you-go system by introducing a multipillar system with privately managed pension funds and creating an independent supervisory agency for pensions.

•**Reforming the agricultural sector** to raise the quality of products, improve the efficiency of land and rural financial markets, and harmonize the institutional framework with EU norms. The state should eliminate price and production subsidies and instead enhance market institutions, develop basic infrastructure, and provide training and income support schemes for the truly vulnerable.

•**Devising environment protection strategies** that concentrate on those areas where the EU's requirements and national priorities overlap.

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IMF Publications

To order: IMF Publication Services, 700-19th Street, N.W., Washington, D.C. 20431, United States, tel. 202-623-7430, fax 202-623-7201, Email:publications@imf.org, Internet:http://www.imf.org

Elaine Buckberg, **Legal and Institutional Obstacles to Growth and Business in Russia,** Working Paper 97/8, November 1997, 9 p.

The most critical reforms for promoting private sector development include reforming the tax system, reducing red tape and bureaucratic corruption, strengthening the judicial system, and improving capital market infrastructure.

G. A. Mackenzie, **The Macroeconomic Impact of Privatization,** Working Paper no. 97/9, November 1997, 17 p.

It is tempting to treat privatization proceeds as revenue. But privatization proceeds should be treated as financing. Unlike taxation, privatization never reduces private sector wealth. It should not warrant a loosening of the fiscal stance to maintain aggregate demand. In exceptional cases it may reduce the propensity to invest and depress domestic absorption as would a tax increase.

Charles Enoch and Anne-Marie Gulde, **Making a Currency Board Operational,** Working Paper 97/10, November 1997, 29 p.

Successful establishment of a currency board requires that, in addition to adopting appropriate macroeconomic policies, the authorities make careful preparations for the technical aspects of the transition, such as changing the central bank law, reorganizing the central bank, devising new guidelines for reserve management, and adapting the government's cash and debt management activities. Additional measures are required for countries that recently experienced a crisis in their banking sector.

Vivek B. Arora and John Norregaard, **Intergovernmental Fiscal Relations: The Chinese System in Perspective,** Working Paper 97/129, October 1997, 27 p.

Kornélia Krajnyák and Jeromin Zettelmeyer, **Competitiveness in Transition Economies: What Scope for Real Appreciation?** Working Paper 97/149, November 1997, 55 p.

This study estimates equilibrium dollar wages—interpreted as full employment wages, consistent with a country's physical and human capital endowment—for 15 transition economies by regressing actual dollar wages on productivity and human capital proxies in a short (1990-95) panel of 85 countries. Equilibrium dollar wages have appreciated steadily in fast-reforming Central and East European (CEE) transition economies, including the Baltic countries, but have been flat in most CIS countries. The 1996 actual dollar wages remained below estimated equilibrium dollar wages for most transition countries covered.

Omotunde Johnson, **Cooperation, Emergence of the Economic Agency Role of Government, and Governance,** Working Paper 97/150, November 1997, 45 p.

Anthony G. Turner and Stephen S. Golub, **Towards a System of Multilateral Unit Labor: Cost-Based Competitiveness Indicators for Advanced, Developing, and Transition Countries,** Working Paper 97/151, November 1997.

Michael Sarel, **How Macroeconomic Factors Affect Income Distribution: The Cross-Country Evidence,** Working Paper 97/152, November 1997, 25 p.

Vincent Koen and Paula De Masi, **Prices in the Transition: Ten Stylized Facts,** Working Paper 97/158, November 1997

Ilan Goldfajn and Rodrigo O. Valdés, **Are Currency Crises Predictable?** Working Paper 97/159, December 1997, 19 p.

Ramana Ramaswamy and Torsten Sloek, **The Real Effects of Monetary Policy in the European Union: What Are the Differences?** Working Paper 97/160, December 1997, 25 p.

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CEPR Publications

To order: Centre for Economic Policy Research, 90-98 Goswell Road, London EC1V 7DB, United Kingdom, tel. 44-171-

878-2900, fax 44-171-878-2999; Email: cepr@cepr.org

Bernard Hoekman and Simeon Djankov, **Competition Law in Post–Central Planning Bulgaria,** Discussion Paper 1723, November 1997, 20 p.

Bulgaria's competition office, the Commission for the Protection of Competition, has attempted during 1991-95 to concentrate its efforts on nontradable sectors, targeting both cartels and abuses of dominant positions. The measures applied appear to have been rather ineffective. Instead of taking a tough stance on behavior aimed at thwarting competition, the Commission has concentrated its attention on so-called unfair competition (for example, false advertising, trademark infringement). Proposed amendments to the competition law should allow the Commission to strengthen the deterrent aspect of the law.

Irena Grosfeld and Jean-Francois Nivet, **Wage and Investment Behavior in Transition: Evidence from a Polish Panel Data Set,** Discussion Paper 1726, November 1997, 30 p.

John S. Earle and Saul Estrin, **After Voucher Privatization: The Structure of Corporate Ownership in Russian Manufacturing Industry,** Discussion Paper 1736, December 1997, 96 p.

A random sample of 439 state and privately owned firms conducted just after the voucher privatization program, completed in July 1994, suggests that the privatization process has transformed the balance between state and private ownership in Russia: from virtually a 100 percent share in the Soviet era, the state's average holding has fallen to 38 percent across all Russian firms (including the 27 percent of previously state-owned firms that had not been privatized by the summer of 1994), and to only 15 percent in privatized enterprises. But the new private owners are not the external private actors or institutions typical of Western capital markets. Disproportionately, private ownership has gone into the hands of insiders—managers, workers, or both. Thus, in all privatized firms insiders on average hold 66.1 percent of shares, divided between workers with 46.2 percent and managers with 19.6 percent. Outsiders hold only 18.9 percent of all shares. An analysis of firms according to dominant ownership (majority stake) shows that 50 percent of privatized firms are worker-owned, 15 percent are management-owned, and only 9 percent of enterprises are outsider-owned.

The main finding of this paper is that private ownership does improve enterprise performance, with ownership by managers and institutional investors having the strongest effects. As the secondary market becomes more established and the capital market becomes more liquid, the relative weight of institutional ownership will certainly increase.

Lubomir Lizal, Miroslav Singer and Jan Svejnar, **Enterprise Breakups and Performance during the Transition** [in Czechoslavakia], Discussion Paper 1757, December 1997, 31 p.

Alain de Crombrugghe and Gregory de Walque, **Fiscal Norming of Wages to Promote Employment with Monopoly Unions,** Discussion Paper 1766, December 1997, 25 p.

Alain de Crombrugghe, **Wage and Pension Pressure on the Polish Budget,** Discussion Paper 1767, December 1997, 46 p.

Jozef Konings, **Competition and Firm Performance in Transition Economies: Evidence from Firm Level Surveys in Slovenia, Hungary and Romania,** Discussion Paper 1770, December 1997, 30 p.

Clemens Grafe and Charles Wyplosz, **The Real Exchange Rate in Transition Economies,** Discussion Paper 1773, December 1997, 34 p.

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Katholieke Universiteit Leuven Publications

To order: Katholieke Universiteit Leuven, Leuvens Instituut Voor Centraal-En Oost-Europese Studies, Deberiotstraat 34, 3000 Leuven, Belgium, tel. 3216-326-598, fax 3216-326-599.

M. Jackson, **Restructuring or Structural Change in Industry of Transition Countries: A Review of Issues,** Working Paper 63, 1997.

M. Jackson and A. Repkine, **A Comparison of Structural Changes among the Branches of Industry in Seven Transition Countries,** Working Paper 64, 1997.

S. Janssens, **The Effects of Product Market Competition, Globalization and Unions on Productivity—Survey Evidence from Belgian Firms Exporting to Central and Eastern Europe,** Working Paper 65, 1997.

J. Konings and A. Repkine, **How Efficient Are Firms in Transition Countries? Firm Level Evidence from Bulgaria and Romania,** Working Paper 66, 1997.

Nick van der Lijn and Marno Verbeek, **Excess Demand, Repressed Inflation, and Forced Saving in the Soviet Union,** Working Paper 67, 1997.

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United Nations Children's Fund (UNICEF) Publications

To order: UNICEF, International Child Development Centre, Economic and Social Policy Programme, Piazza

Santissima Annunziata 12, 50122, Florence, Italy, tel. 3955-2345-258, fax 3955-2448-17, Email: ciusco@unicef-icdc.it

John Mickelwright and Gyula Nagy, **The Implications of Exhausting Unemployment Insurance Entitlement in Hungary,** Occasional Paper 58, 1997, 28 p.

Kitty Stewart, **Are Intergovernmental Transfers in Russia Equalizing?** Occasional Paper 59, 1997, 46 p.

The impact of intergovernmental transfers in Russia has been minimal. Lower-revenue regions may have received more in transfers than higher-revenue regions, but not nearly enough to offset the difference in revenue. The weakness of the system can be attributed to two main causes:

- The amount set aside for transfers is small. In 1995 transfers formed 12 percent of regional budget revenue, only half the share of federal grants in state and local budgets in the United States.
- Too many regions qualify for transfers. In 1995 more than 90 percent of regions qualified as being in need of support, defeating the purpose of a system that is by definition about relative need. Unless the transfer mechanism is revised, public services in poorer and less successful regions will further deteriorate.

Jeni Klugman, **Decentralization: A Survey from a Child Welfare Perspective,** Occasional Paper 61, 1997, 51 p.

Suraiya Ismail and John Micklewright, **Living Standards and Public Policy in Central Asia: What Can Be Learned from Child Anthropometry?** Occasional Paper 62, 1997, 29 p.

Amartya Sen, **Mortality as an Indicator of Economic Success and Failure,** lecture, 1995, 31 p.

Children at Risk in Central and Eastern Europe: Perils and Promises—A Summary, The Monee Project, Regional Monitoring Report Summary no. 4, 1997, 22 p.

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Other Publications

Petr Chadraba, **Proceedings of the 5th Annual Conference on Marketing Strategies for Central and Eastern Europe: December 10-12, 1997,** DePaul University Chicago/Reiner Springer, Austria.
To order: Gertrude.Seidelmann@wu-wien.ac.at.

Maria Csanádi, **Party-States and Their Legacies in Post-Communist Transformation, Studies of Communism in Transition,** Edward Elgar Publishing, Inc., Massachusetts, 1997, 386 p.
To order: Edward Elgar Publishing, Inc., 6 Market Street, Northampton, Massachusetts 01060, United States.

Anna Grimshaw (ed.), **Special Delivery: The Letters of C.L.R. James to Constance Webb, 1939-1948,** Blackwell Publishers, Massachusetts, 1996, 393 p.
To order: Blackwell Publishers Ltd., 108 Cowley Road, Oxford OX4 1JF, United Kingdom, or 238 Main Street, Cambridge, Massachusetts 02142, United States.

George C. Petrakos, **The New Geography of the Balkans: Cross-Border Cooperation between Albania, Bulgaria and Greece,** Series on Transition in the Balkans, volume 1, University of Thessaly, Greece, 1996, 283 p.

After years of separation, a large regional market of 70-80 million people in Southeastern Europe is shaping up, creating significant opportunities for cooperation, specialization, and trade. A regional market is gradually emerging in the Balkans, driven by distance (from countries of the European core region), size, and proximity (to each other). This new market is characterized by intensive economic relations, especially between countries with common borders, such as Albania and Greece and Bulgaria and Greece. Developing cross-border cooperation is becoming a strategy of growth for the region. This in turn gives added significance to interregional cooperation at both the national and local levels.
To order: University of Thessaly, Department of Planning and Regional Development, Pedion Areos, Volos 38834, Greece, tel. 30421-69781-4, fax 30421-63793.

Russian Federation, OECD Economic Survey, 1997, 139 p.

Russia's economy will not take off without further, deep reforms. Macroeconomic prospects largely hinge on how decisively structural reforms are pushed through. In the shorter run financial stabilization requires urgent consolidation: sticking to an ambitious monetary policy, streamlining the tax system, and phasing out blanket subsidies for housing and other services, replacing them with more targeted assistance. Revival and sustained growth of the economy should be supported through enforcing the rule of law, enhancing competition, improving the budgetary process, strengthening capital markets, facilitating bankruptcies and liquidations, reforming the tax system, and attracting foreign investment.

Dr. Pyotr Joannevich van de Waal-Palsm and others, **Understanding Russian Banking,** Washington, December 1997, 300 p.
To order: Waal Palms Harbor Lights Building #103, 515 Lake Street South, Kirkland (Seattle), Washington, 98033, United States, tel. 425-828-6774, fax 425-827-5528, Email: russia@aa.net, Internet: http://www.aa.net/~russia.

M. Mitchell Waldrop, **Complexity: The Emerging Science at the Edge of Order and Chaos,** Simon and Schuster, New York, 1993, 380 p.

To order: Touchstone, Simon & Schuster Building, Rockefeller Center, 1230 Avenue of the Americas, New York, New York 10020, United States.

Iliana Zloch-Christy (ed.), **Eastern Europe and the World Economy: Challenges of Transition and Globalization,** Edward Elgar Publishing, Inc., Massachusetts, 1998, 293 p.

The transforming East European countries opened up their economies after 1989 and are on their way to joining the integrated world economy. Economic development varies across countries and depends on institution building (private property and market-based trade), geography (for example, their proximity to Western markets and their natural endowments), history, and human capital. Economic success also depends on the quality of governance, the international economic environment, and whether the conditions for a competitive market economy are in place. To face these challenges a strong but limited government is needed. Government leadership is important in designing manpower policies, industrial (competition) policies, and socioeconomic policies.

The book contains the following chapters: Post-communist Eastern Europe: Privatization and the second fundamental theorem; A comparative analysis of privatization: A Chinese way and a Polish way; Integration compatibility of the Hungarian economy; Economic conditions of accession of the east European transforming economies to the European Union; Eastern Europe and the World Trade Organization: The present position and prospects of accession; and Industrial policy: does Eastern Europe need one?
To order: Edward Elgar Publishing, Inc., 6 Market Street, Northampton, Massachusetts 01060, United States.

John L. Simpson, **Communism to Capitalism in Mongolia** [foreign investment, privatization, international trade, economic reform] University Working Papers 1-4, February 1998.
To order: Curtin University of Technology, Hayman Road, Bentley, Western Australia, tel. 9266-3081, Email: simpsonj@cbs.curtin.edu.au.

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Newsletters/Special Publications

CARD Report, a periodical of policy research from the Center for Agricultural and Rural Development. The winter 1997-98 issue, vol. 10, no. 2, contains the following articles: CARD Project in Ukraine; Highlights of CARD Initiatives in the Former Soviet Union; State Grain Order Is Subject of Ukrainian Policy Paper.
To order: CARD Report, Iowa State University of Science and Technology, 578 Heady Hall, Ames, Iowa 50011-1070, United States, tel. 515-294-7519, fax 515-294-6336, Internet: http://www.ag.iastate.edu/card

East/West Letter, a bimonthly analysis of economic and political issues in Eastern Europe and the former Soviet Union.
To order: East/West Letter, Okno Consulting, 1217 Olivia Avenue, Ann Arbor, Michigan 48104-3934, United States, tel. 734-995-5934, fax 734-995-6349, Email: pubs@okno.com.

Eastern European Constitutional Review, a quarterly publication of the New York University School of Law and Central European University. Volume 6, number 4 contains a roundup titled Crime and Corruption after Communism. Articles include: State and Mafia in Yugoslavia; The Criminalization of Russia's Political Elite; Interview with a Hungarian Police Investigator; Organized Crime in Bulgaria; Tales of Corruption from the Postcommunist Balkans; and Public Theft in Early America and Contemporary Russia. Stephen Holmes writes in his introduction to the Review: When pickpockets earn ten times more than policemen, there can be no rule of law. Among the many obstacles to the creation and maintenance of legality and constitutionalism in postcommunist countries, none looms so large as the interweaving of private-sector crime with public-sector corruption.

The principal task today of liberal reformers throughout the region is to decriminalize the economy. So long as conflicts arising from private ownership are resolved by violence and intimidation, outside of official judicial and administrative channels, "free markets" will not produce economic prosperity. So long as many businessmen believe that the best way to deal with their competitors is to use plastic explosives, the competitive system will yield few benefits to consumers. And so long as state salaries stay pitifully low while illegal payoffs dazzle the eye, laws will never be fairly and reliably enforced.

To help re-elect Yeltsin, Chubais had to rely on a clutch of robber tycoons, who had waxed rich on asset-stripping, export licenses, rigged privatization, and control of the pet banks where public tax revenues, federal and local, are deposited even today. This did not prove to be a reliable basis for creating the rule of law. A criminalized economy and a corrupt public sector are two sides of the same coin. It is useless to attack one without attacking the other.

Horizonti, the magazine for the third sector in Georgia. The winter 1997 (no. 2) issue contains: Georgia's NGOs Enter a New State; Civil Development Trends in Czech Republic; World Vision: A Bridge to Economic Freedom.
To order: Horizonti, The Third Sector Foundation, 13 Zandukeli st., Tbilisi, Georgia, tel. 995-32-933-007, fax 995-32-987-504, Email: presscenter@horizonti.org, Internet: http://www.horizonti.org

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Pomfret, R. **Growth and Transition: Why Has China's Performance Been So Different?** *Journal of Comparative Economics* (United States) 25:422-40, December 1997.

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