International Political Economy

Analyzing the effects of politics on business and markets.

In this Issue:

IPE, Volume 7, Number 3,
February 8, 1999

Political Watch

by Marvin Zonis

Globalization and Its Discontents: The Digital Transformation Ahead

The fiasco of the WTO meeting, in Seattle, demonstrates that the enemies of globalization are powerful and well organized. Governments will backtrack on their commitments to globalization, especially the United States. Its election year will produce poor public policy. President Clinton will seek to cement labor-union support for Vice President Gore. The Republicans will seek to deny Clinton any policy victories to shore up his historical legacy. Nonetheless, globalization will continue to accelerate, especially because of the spread of the Internet, with all its attendant new inequalities and disruptions between and within states.

Short Takes

Egypt: Another embarrassment for EgyptAir; **India**: Politics go online; **Brazil**: Capital migrates from Argentina; **China**: Hunting for jobs online; **Philippines**: Counterfeiting scandal; **Latin America**: FDI surpasses Asia; **Mexico**: Mitsubishi battles animal rights activists; **South Korea**: Companies scale down FDI; **Japan**: Approaches its first hostile takeover; **United Kingdom**: Health care system overwhelmed by the flu; **South Africa**: Man in the British Foreign Office.

Marvin Zonis + Associates, Inc., (MZ+A) helps firms assess, monitor and manage political risk. “Political risk” refers to the uncertainties that arise from instances of political instability (such as riots and coups), poor public policy (such as inflation and currency crises), and weak institutional frameworks (such as discriminatory regulations and ineffective legal systems). “Political risk management” refers to the development of processes, structures, and knowledge that allow firms to deal effectively with political risk.

For Subscription information contact
Marvin Zonis + Associates, Inc.
312-397-0400
E-mail: welsh@mza-inc.com

For General information contact
Marvin Zonis + Associates, Inc.
John Hancock Center
875 North Michigan Avenue
Suite 2344
Chicago, Illinois 60611
Phone: 312-397-0400
Fax: 312-397-0440
www.mza-inc.com

Globalization and Its Discontents: The Digital Transformation Ahead

by Marvin Zonis

The fiasco of the WTO meeting, in Seattle, demonstrates that the enemies of globalization are powerful and well organized. Governments will backtrack on their commitments to globalization, especially the United States. Its election year will produce poor public policy. President Clinton will seek to cement labor-union support for Vice President Gore. The Republicans will seek to deny Clinton any policy victories to shore up his historical legacy. Nonetheless, globalization will continue to accelerate, especially because of the spread of the Internet, with all its attendant new inequalities and disruptions between and within states.

BUSINESS IMPLICATIONS

- **Businesses must be aware of the massive backlash against globalization that their successes and sometimes their malpractices have fostered. Global companies must become the leading spokespersons for, and defenders of, globalization. They need to take an active role in advancing globalization and not wait for governments to do so.**

- **Businesses need to understand the genuine dismay and legitimate grievances that globalization is causing in order to be more effective in dealing with the enemies of globalization.**

- **Global firms should themselves adopt policies and procedures that meet some common, acceptable standards of responsible corporate behavior.**

- **The Internet will drive globalization more rapidly in the future. Firms should embrace the Internet and prepare their personnel for the digital age. Firms that fail to do so, inevitably, will fall behind their competitors who do plunge into the Internet.**

- **Immense investment opportunities exist in countries rapidly taking up the Internet.**

Definition: According to the IMF, globalization is defined as "The growing economic interdependence of countries worldwide through the increasing volume and variety of cross-border transactions in goods and services and of international capital flows, and also through the more rapid and widespread diffusion of technology."

Quote: Allan Greenspan, chairman of the US Federal Reserve Board, on the need to manage globalization: "When confronted with the choice between rapid growth with its inevitable insecurities and a stable, but stagnant economy, given time, Americans have chosen growth. But as we seek to manage what is now this increasingly palpable historic change in the way businesses and workers create value, our nation needs to address the associated dislocations that emerge, especially among workers who see the security of their jobs and their lives threatened. Societies cannot thrive when significant segments perceive its functioning as unjust.

"It is the degree of unbridled fierce competition within and among our economies today—not free trade or globalization as such—that is the source of the unease that has manifested itself, and was on display in Seattle a month ago. Trade and globalization are merely the vehicles that foster competition, whose application and benefits currently are nowhere more evident than here, today, in the United States.

"Confronted face-on, no one likes competition; certainly, I did not when I was a private consultant vying with other consulting firms. But the competitive challenge galvanized me and my colleagues to improve our performance so that at the end of the day we and, indeed, our competitors, and especially our clients, were more productive.

"There are many ways to address the all too real human problems that are the inevitable consequences of accelerating change. Restraining competition, domestic or

Nonetheless, globalization will continue to accelerate, especially because of the spread of the Internet, with all its attendant new inequalities and disruptions between and within states.

international, to suppress competitive turmoil is not one of them. That would be profoundly counterproductive to raising standards of living." (January 13, 2000)

Quote: French premier Lionel Jospin on globalization and the need for its regulation: "Capitalism is a force that moves, but it does not know where it is going. The simultaneous domination of the economy by global finance and the coming of the information revolution make this feature of capitalism now even more pronounced. Indeed there is now a disjunction between the movements of finance and the development of production and society. The former seem to move at the speed of light. The latter moves at the speed of sound, as it were, if not slower. In finance there is absolute fluidity and everything is instantaneous. In material society there is viscosity, an inevitable slowness, because people are the main movers. This difference in speed gives rise to an increased risk of ruptures and breakdown. Financial movements are too rapid for the pace of the real economy. That is why financial movements must be regulated, so that meaning is restored to these transactions. The production of wealth must be geared to human aims.

"The financial crises of 1997 and 1998 in Asia and Russia had at least one positive effect. They shattered the claims of neo-liberalism . . . We fully recognize globalization. But we do not see its form as inevitable. We seek to create a regulatory system for the world capitalist economy. We believe that through common European action in a Europe fired by social democratic ideals—we can succeed in the regulation of key areas, whether finance, trade or information . . . We need to set up new regulatory systems for new networks such as the Internet, so that we can influence the process of globalization and control its pace for the benefit of society."

(*The Guardian* [London], November 16, 1999)

Quote: Joseph Stiglitz, former World Bank chief economist, on the disruptions of globalization: "Globalization is like a giant wave that can either capsize nations or carry them forward."

Fact: According to the World Bank, an estimated 1.5 billion people now subsist on the equivalent of one dollar a day, up from 1.2 billion people in 1987. By 2015 the number of people subsisting below this international poverty line could reach 1.9 billion.

Fact: Motorola is the largest private-sector employer in Malaysia. General Electric is the largest private employer in Singapore.

Fact: On January 20, 2000, India's finance ministry scrapped all procedural requirements for companies to make private and public international-equity offerings. "Companies no longer need to line up to have their applications scrutinized . . . The move is likely to spur more companies to reach out to global markets and get global valuation for their stock prices," according to *The Economic Times* of India.

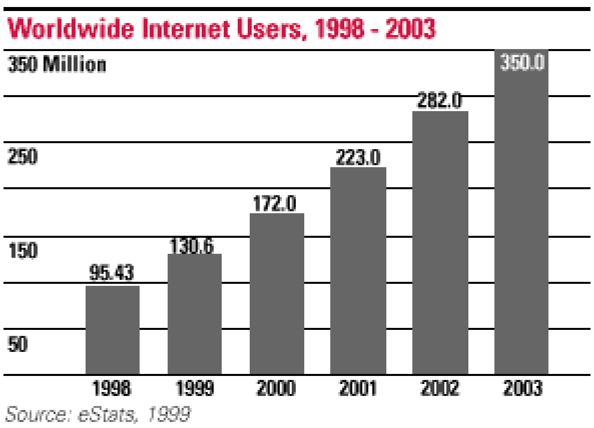
Fact: On January 21, 2000, Europe's largest chemicals company, Germany's BASF, moved the headquarters of its $2 billion global drug business to Britain. BASF's Board of Management, based in Ludwigshafen, near Frankfurt, will be sacked and a new one appointed to start work in London, in June.

Let's face it. Karl Marx and Friedrich Engels got a lot of things right.

Globalization

Let's face it. Karl Marx and Friedrich Engels got a lot of things right. One was their unbridled enthusiasm for the achievements of the bourgeoisie. Check out *The Communist Manifesto*. They were in awe of the material achievements of the bourgeoisie and the ways in which the bourgeoisie revolutionized production to generate greater material abundance and greater physical achievements than the world had ever known. They credited the bourgeoisie with creating a world market and with drawing peoples and countries all over the world into the nexus of civilization through the world market, which the bourgeoisie needed in order to sell the fruits of their extraordinarily productive enterprises. The result was that national differences and antagonisms between peoples were perceived to be vanishing as commerce became ever more free and the world market ever more global.

It seemed that the world of global capitalism was unfolding precisely as Marx and Engels had described it, at least until the fiasco at Seattle. The third ministerial meeting of the World Trade Organization (November 30-December 3, 1999) disintegrated into rioting outside the hall and national chauvinism within. This was all the more puzzling since it appears that the WTO and its predecessor, the GATT, had been extraordinarily successful in accomplishing what their defenders had envisioned. Since 1960, world trade has increased fifteen fold, world production has quadrupled, and world per-capita income has doubled. While the benefits have not been equally shared, they have at least been widely distributed.



In their stunning new book, *Globalization And History: The Evolution Of A Nineteenth-Century Atlantic Economy* (M.I.T. Press), Kevin O'Rourke and Jeffrey Williamson show how the last great boom in globalization—from 1840 to 1914—came to end. Simply put, the movement of goods, capital, and people across national boundaries provoked a backlash that led nations increasingly to pursue mutually reinforcing autarchic policies. In the end, the boom in globalization was brought to and end by xenophobic and protectionist pressures.

Make no mistake. That round of globalization was an economic boom. In many ways, it was far more dramatic than the recent boom in globalization. O'Rourke and Williamson show that transport costs and trade barriers fell faster; international capital flows as a share of national output were far larger; and cross-border migration was far greater than the recent boom. They also show that largely as a result, wages and living standards in Europe caught up more quickly with those in the US than at any other time.

Their statistics are startling. For example, the UK's exports rose from 10.3 percent of GDP in 1870 to 14.7 percent in 1913. Germany's, from 7.4 percent to 12.2 percent. (Then, of course, Great Britain was the champion of free trade and opened its markets first and more effectively than any other country.) Transportation costs plummeted. The cost of shipping wheat from Chicago to the UK, for example, fell by 75 percent in the 40 years after the 1860s. Vast numbers of people moved as well. More than 60 million Europeans moved to North America during the big boom in globalization. Capital moved in even greater amounts. By the beginning of World

The post-World War II boom in globalization may not be as impressive as the earlier boom, but it is managing to generate a powerful backlash.

War I, more than a third of the wealth of the UK was invested abroad, much of it in the US, where it financed railroads, canals, and the westward expansion of the US.

What brought about the end of this boom in globalization, O'Rourke and Williamson demonstrate, was a move to government protectionism. Europe closed its agricultural market to US and Ukrainian grain to protect its farmers. The US raised tariffs to help fight the Civil War and then to protect its infant industries from established European manufacturers. Pressures to protect local workers in the US, Canada, and Argentina led to restrictions on immigration. World War I finished off the boom.

The post-World War II boom in globalization may not be as impressive as the earlier boom, but it is managing to generate a powerful backlash.

The Backlash to Globalization

In the January-February 2000 issue of *Foreign Affairs*, Jay Mazur, the president of the Union of Needle Trades, Industrial, and Textile Employees (UNITE) and chair of the AFL-CIO International Affairs Committee, minced no words about the position of organized labor.

"Joining with environmentalists, consumer advocates, and human-rights activists, the labor movement's message from Seattle could not have been clearer: the era of trade negotiations conducted by sheltered elites balancing competing commercial interests behind closed doors is over. Globalization has reached a turning point. The future is a contested terrain of very public choices that will shape the world economy of the twenty-first century. The forces behind global economic change—which exalt deregulation, cater to corporations, undermine social structures, and ignore popular concerns—cannot be sustained. Globalization is leaving perilous instability and rising inequality in its wake. It is hurting too many and helping too few. As President Clinton himself has said, if the global market is to survive, it must work for working families. A first step toward that goal is building labor rights, environmental protection, and social standards into trade accords and the protocols of international financial institutions—and enforcing them with the same vigor now reserved for property rights.

"For years, governments ignored demands to include labor and environmental rights in trade agreements, confident that there was no political cost in doing so. This is now changing. Unions are forging new alliances with environmentalists, human-rights groups, and religious and consumer activists. Perhaps the most stunning demonstration of this alliance's political force was Congress's rejection last year of 'fast-track' trade authority for President Clinton—not once but three times over the last two years. This new alliance insists that any trade-negotiating authority include labor rights an environmental protections as conditions for opening trade. Most of the House of Representatives now supports that position. Certainly a majority of the public does, including most voters in both parties. The blocking of 'fast track' made it clear that representatives of this new popular movement must have a seat at the table.

"The debate over 'fast track' and trade in general can no longer be portrayed as an argument between free trade and protectionism. The demand for enforceable labor rights in global trading accords, built into conditions of the international financial institutions and enacted into US trade agreements and laws, is not an effort to build

Whatever the merits of his arguments, it seems clear that organized labor will have a greater voice in US policy for the foreseeable future.

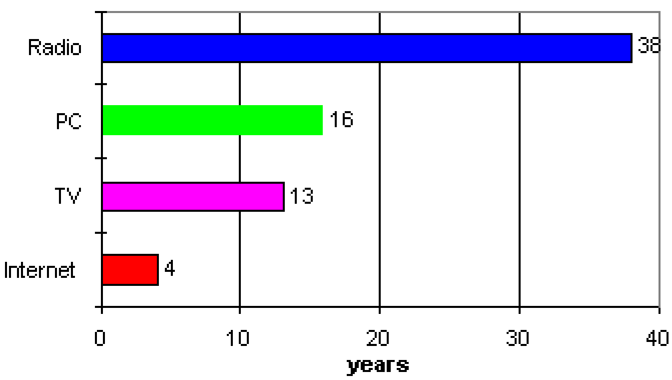
walls against the global economy. It is an effort to build rules into it, and a floor under it, to lift wages and conditions up rather than drive them down."

What exactly does Jay Mazur have in mind for organized labor when it gets its seat at the table? He makes that clear.

"Fortunately, there is much agreement already over the substance of core labor rights. Last year, business, labor, and government representatives from 173 nations reaffirmed core labor standards as fundamental human rights, including freedom of association and the right to organize and bargain collectively. They also called for the elimination of forced labor, child labor, and employment-related discrimination. Virtually every independent labor federation has endorsed the ICFTU's call for building labor rights into the global trading system. The divide is not between North and South; it is between workers everywhere and the great concentrations of capital and the governments they dominate."

Jay Mazur—and the organizations for which he speaks—seek to force changes in the policies of governments in the developing world by forcing changes in government policies in the developed world—and the US in particular—by linking environmental and labor regulations to trade. The indirect consequence would be, not surprisingly, in the interests of the workers whom Mazur directly represents. American workers would see their competitive positions enhanced by raising the costs to employers of hiring workers in developing countries. There is nothing wrong with being self-serving. But organized labor's message would be more palatable if it were not wrapped in such high global mindedness. Mazur and his associates also ignore the wishes of many of the governments in developing societies as well as the wishes of workers in those countries. For example, the alternative to boring, dirty, and even dangerous work for children in many developing countries is not even more boring but ultimately more rewarding days in school. Yet schools usually do not exist. The alternative, instead, is often hunger and diminished well-being for the entire family whose income shrinks with the loss of the wages—however paltry—of their children. The alternative to the low-paying jobs in Nike sweatshops in Indonesia is not better-paying jobs in proper working conditions in Indonesia but fewer available jobs.

Mediums: Years to Obtain 50 Million Users



Source: Datacomm Research Company

Whatever the merits of his arguments, it seems clear that organized labor will have a greater voice in US policy for the foreseeable future. One reason is that President Clinton has told us this would be the case. At the World Economic Forum, in Davos, he said as much. At first, the president expressed some dismay. "[O]ne of the most ironic, and to me, disappointing consequences of our unprecedented prosperity, which has given us over twenty million new jobs in my country in the last seven years, is that it seems to me that protectionist sentiment or antitrade sentiment, at least, is greater now than it was seven years ago when I took office, in the United States Congress." But he added menacingly, "I think those who heard a wake-up call on the streets of Seattle got the right message." In an immediate "Clintonism," he went on to suggest, "but those who say that we should freeze or disband the WTO are dead wrong."

The Internet offers the prospect of ruthlessly driving down transaction costs and making business ever more efficient and profitable.

President Clinton is happiest when he is campaigning. For the rest of 2000, he will be campaigning for two causes—to bolster his legacy and to bolster the chances of Al Gore. The Republicans in Congress are unlikely to help in either regard. So US policymaking, never likely to be sound in an election year, is especially likely to be unsound in 2000.

Globalization and the Internet

President Clinton supports the WTO even as he seeks to mollify its critics in this politically charged US-election year. The consequence could well be greater protectionist legislation and an end to this global economic boom as surely as the increasingly autarchic policies of the major trading states brought the last great global boom to an end. But the critics of globalization—and its supporters—are missing the essential component of this boom. The pervasiveness and rapidity of technological change have altered, forever, the landscape of the global economy.

Number of People Online, By Region
January 2000

Africa	2.36 million
Asia/Pacific	42.6 million
Europe	64.23 million
Middle East	1.29 million
Canada & USA	131.1 million
South America	7.10 million
Total (World)	248.6 million

The Internet is changing everything. According to a new study by the Inktomi Corporation and the NEC Research Institute, the Web has now grown to more than one billion unique pages.

The number of people who are online throughout the world is unknown. Only an approximation is possible. Nua Internet Surveys has examined all published surveys of connectivity over the last two years and estimates that as of January 2000, nearly 250 million people are online.

The technological revolution that is producing this global connectivity will change globalization in dramatic and still unanticipated ways. But certain consequences of the digital transformation are clear.

The Internet offers the prospect of ruthlessly driving down transaction costs and making business ever more efficient and profitable. Ronald Coase won the Nobel Prize for his work in identifying and understanding the role of transaction costs. He referred to the cost of searching for another firm with which to enter into a transaction, negotiating with that firm, co-coordinating the processes of the two firms, monitoring the on-going activities, and other such difficulties, as transaction costs. Coase argued that when transaction costs are high, firms would perform those functions internally rather than have them performed externally. Conversely, when transaction costs are reduced, firms shed the functions they have been performing internally to focus on their core competencies, those functions at which they are adept at making money. The result in an era of lowered transaction costs will be a rapid reshaping of firms and massive new horizontal mergers calculated to take advantage of the benefits of global scale in common-core competencies.

The Internet is the greatest distance killer the world has yet known. The immediacy of connectivity and the ability to connect to any Web site anywhere in the world instantaneously, connects the peoples of the world and their firms in an entirely new ways. The Internet allows certain businesses to be located anywhere. The new Disney Europe Web site is actually housed in Hawaii, to take advantage of facilities made available with the close of a US military installation. More than 70 percent of

The Internet is the perfect instrument for expanding free markets.

Singapore's Internet traffic routes through the US before moving on to the rest of the world. (Less than 10 percent of that traffic is directed to URLs in the US itself.)

The Internet facilitates the entry of new businesses in a way not previously possible. Small firms on the Internet can compete effectively with huge, established players. A cartoon in *The New Yorker* captures the thought. A dog is sitting at a computer. Another dog asks him what he is doing. The first dog replies, "surfing the Web." The second dog asks why the first dog is surfing the Web. The reply: "because no one knows I am a dog." On the Web, all firms can at least appear equal.

The Internet is the perfect instrument for expanding free markets. Markets, to be free markets, require perfect information. The Internet is the most effective devise for providing near-perfect information to buyers and sellers. Free markets, in turn, are efficient markets and result in the relentless driving down of costs and a shift in power from sellers to buyers. (Since every firm is a buyer and a seller, the effects on any given firm need to be determined by examining the balance.)

The Internet is not only about money. The Internet is also about massive value shifts. The Internet, for starters, is predominantly, even in the US, the province of the young. The young are the masters of the digital economy. (In the Middle East, for example, 70 percent of those people who are connected are between the ages of 21 and 35.) As a result, social hierarchies are being disrupted as the conventional bases of respect and social status are being displaced. The Internet has proved to be a major disrupter of the established order in many societies.

The Internet and Country Success—or Failure

The Internet will help firms become more efficient, facilitate the entry of new firms into the marketplace, and give consumers a better deal. But the only firms able to benefit will be in those countries that facilitate Internet usage. In the first instance, that means appropriate public policy and appropriate technological infrastructure—bandwidth. Identifying those countries is imprecise. But one guide is to identify the countries whose people are already online. Of course, Internet use has been increasing so rapidly that old data is a poor guide to future Internet infrastructure.

The Internet and Inequality

Vast differences in Internet usage exist between countries. While those differences do not correlate with differences in the ability of firms to use the Internet for commerce, they are one indication of the countries likely to prosper, in the short term at least, in the digital age.

The differences between countries suggest that firms within particular countries will be able to make use of the Internet to become more efficient, more global, and more profitable. In turn, those countries will benefit differentially from the Internet. But that is not the only source of the growing inequality that will come to characterize the globe in the digital age.

Another source of inequality exists within countries—what has come to be called the "digital divide." Those who do not "go" digital—because they lack the technical skills

GLOBAL INTERNET USE

SOUTH AMERICA

COUNTRY	DATE	NUMBER	PERCENT TOTAL POP	SOURCE
Argentina	Aug-99	348,000	0.95	Prince & Cooke
Brazil	Dec-99	5.1 million	2.97	TechWeb
Chile	Apr-99	150,000	1	IABIN
Colombia	Apr-99	350,000	0.95	IDC
Costa Rica	Apr-99	30,000	3.4	IABIN
Mexico	Sep-99	900,000	0.9	Visa Mexico
Peru	Apr-99	20,000	0.08	IABIN
Uruguay	Apr-99	90,000	2.7	IABIN
Venezuela	Apr-99	80,000	3.3	IABIN
Latin America	Apr-99	2.5 million	0.6	IABIN

EUROPE

COUNTRY	DATE	NUMBER	PERCENT TOTAL POP	SOURCE
Belgium	Feb-99	1.4 million	16	Initiative Media Brussels
Croatia	May-99	100,000	2.14	Nua est.
Denmark	May-99	1.7 million	34	Business Arena Stockholm
Finland	May-99	1.6 million	32	Business Arena Stockholm
France	Jul-99	6.2 million	12.9	Mediangles
Germany	Sep-99	9.9 million	12.06	GfK
Hungary	Jun-99	506,000	5	Carnation Consulting
Iceland	Dec-98	121,074	45	PWC
Ireland	Oct-99	444,000	17	Amarach Consulting
Italy	Nov-99	9 million	15.86	Between ICT Brokers
The Netherlands	Mar-99	2.3 million	13.7	ProActive
Norway	Sep-99	1.83 million	41.33	Norsk Gallup
Russia	Dec-99	5.4 million	3.69	Monitoring.ru
Slovenia	Jul-99	460,000	23	RIS
Spain	Jun-99	3,107,000	8.7	AIMC
Sweden	May-99	3.6 million	40.9	Business Arena Stockholm
Switzerland	Sep-98	1.2 million	16.2	WEFN
United Kingdom	Sep-99	12.5 million	21.15	CommerceNet/Nielsen Media

ASIA

COUNTRY	DATE	NUMBER	PERCENT TOTAL POP	SOURCE
Australia	May-99	5.5 million	30.5	Australian Bureau of Statistics
China	Jun-99	4 million	0.26	Xinhua News Agency
Hong Kong	Apr-98	850,000	13.4	ACNielsen
India	May-99	800,000	0.08	NASSCOM
Japan	Apr-99	18 million	14.4	AsiaBizTech
Malaysia	Jan-98	600,000	3	Jaring Network
Philippines	Sep-98	320,000	0.03	Yu Ming Chin Asia Online, Philippines.
Singapore	Sep-97	500,000	14.7	Nielsen
South Korea	May-99	4 million	8.53	Samsung Economic Research Institute
Taiwan	Dec-99	4.2 million	18.99	Institute for Information Industry, Taiwan

(All data from Nua Surveys and other sources.)

The differences between countries suggest that firms within particular countries will be able to make us of the Internet to become more efficient, more global, and more profitable.

to do so or because they lack the resources to afford to do so—risk being left behind, increasing internal inequality and eventually increasing instability.

The appropriate responses to the coming spurt in global inequality within and between countries are not to impede the digitalization of the world. The appropriate response is to bridge the digital divide by increasing educational, technical, and material opportunities for those who have not mastered the digital economy so they can participate. British prime minister Tony Blair put it this way at Davos: “The bane of all modern developed nations is social exclusion, a group of people set aside from society's mainstream, alienated, unmotivated, often existing in a murky subculture of crime and drugs.” The digital divide will come to be a far more powerful source of exclusion in the digital economies of the future.

The Role of the State in the Internet Age

The state is trapped. It is trapped by powerful and growing forces that reduce the ability of politicians and bureaucrats to control developments within their countries. Those forces include the following:

- Multilateral and supranational institutions, such as the WTO, NATO, the UN, NAFTA, the EU, and NGOs;
- Extranational institutions, such as global crime syndicates and international corporations;
- Subnational groupings, such as regional, religious, or ethnic groups, and regional and urban governments; and
- The spread of the market, which places decisions in the hands of large numbers of economic actors without any direct role for the state.

The Internet in the digital age will only speed the acceleration of these forces that diminish the role of the state. The state will not see its role diminish without a struggle. Politicians as well as state bureaucrats, in the least cynical of worlds, do what they do because they believe in the positive role of the state.

There is no doubt that the state will have a positive role to play in the digital age. But that role will differ from the role of the state in the past. Creating the frameworks whereby the market economy can flourish and the Internet can permeate the society will be the new task of the state. Seeing to it that opportunities are widely available is another. Providing some acceptable minimal standard of well-being for all its people will be another. Providing for national defense and domestic tranquillity is another.

States will exist indefinitely. But states that continue to perform the same functions in the digital age as they performed before the transformations, will see themselves marginalized and their people disadvantaged.

Short Takes

QUOTEWORTHY: "It was not a bribe: the money was for an election campaign. The payment was in the interests of the state—for Europe." A high-ranking confidante of French president Mitterand, commenting on the revelation that the late president used French taxpayer money to contribute $16 million to the 1993 reelection campaign of then-chancellor Kohl.

"The initial hopes and plans of the early '90s are dead. Relations have been severely damaged during recent years. And while Russia is not completely innocent in this—it did some things wrong—the major fault lies with the West, and the United States in particular. The West has destroyed those hopes for greater cooperation and they're unlikely to be restored in the foreseeable future . . . There is a serious new rift between the United States and Russia . . . and it is due to Western and NATO policies," Alexei Arbatov, a leading Russian liberal and member of the State Duma.

"He's away in Dharamsala to buy musical instruments." Chinese government statement, after Ugyen Trinley Dorje, the seventeenth Karmapa, fled from Tibet to the Dalai Lama's government-in-exile in Dharamsala, northern India.

FACTWORTHY: In the entire industrial world, fully 75 percent of all homicide deaths of children fifteen years and younger occur in the US.

The Intelligence and Security Committee of the UK parliament estimates that Britain loses $2.5 billion per year in cigarette taxes because of smuggling.

ANOTHER EMBARRASSMENT FOR EGYPTAIR. The reputation of Egypt's state-owned carrier, EgyptAir, was damaged even further this month when a German television station aired a videotape shot in the cockpit of a 1995 EgyptAir flight. Pilots are shown partying with German women and gesturing lewdly to the camera. The airing comes in the wake of two EgyptAir fiascoes this fall: the skyjacking of an EgyptAir flight in Turkey and the November crash of EgyptAir flight 990, which killed 217 people off the coast of Massachusetts. The Egyptian government is seeking to prove that mechanical malfunction or belligerent action caused the crash, not pilot sabotage, as stated by the US National Transportation Safety Board. Reports of the German videotape were censored in Egypt.

INDIAN POLITICS GOES ONLINE. The chief ministers of India's 25 states have embraced a new symbol of sophistication and technological savvy: the laptop computer. They are embracing the high-tech management style pioneered by Chandrababu Naidu, the well-known chief minister of Andhra Pradesh state. Naidu carries his laptop with him at all times, teleconferences with local officials, and invites his constituents to email him directly with questions and complaints. He has also spread the Internet to hinterland areas, allowing people to conduct bureaucratic procedures online. Naidu's high-tech image has paid political dividends. His

The chief ministers of India's 25 states have embraced a new symbol of sophistication and technological savvy: the laptop computer.

Teluga Desam Party marched to a landslide victory in recent state assembly elections and is the second-largest party in the national coalition government.

CAPITAL MIGRATES FROM ARGENTINA TO BRAZIL. The crash of the Brazilian Real, in January 1999, dramatically reduced the costs of operating in Brazil, wooing foreign-direct investment away from neighboring Argentina. Electronics-maker Phillips has moved its light-bulb factory from Argentina to Brazil, followed by tire-maker Goodyear and scores of automobile-related operations. Since the Real crash, more than 20 auto-parts factories have left Argentina for Brazil. Argentina's auto industry—a major catalyst for growth during the 1990s—lost a third of its production over the past year, and auto exports fell by almost 60 percent. Argentine president Fernando De la Rua proposed labor reforms to reduce labor costs and ease employers' ability to hire and fire, hoping that the reforms will woo investment back.

CHINESE HUNT FOR JOBS ONLINE. The combination of growing web sophistication and rising unemployment has led to a boom in China's online job-recruitment industry. As state-owned enterprises wither, the Chinese are depending more than ever on the private sector for employment and Internet sites such as www.zhaopin.com are helping match workers with prospective employers. The site reported 6.75 million hits, and 8,000 companies posted job openings online. Not surprisingly, foreign companies based in China, including Coca-Cola, Nestle, GE, IBM, and Kodak, have all utilized online job-recruitment sites to attract employees.

FRAUD IN THE PHILIPPINES. Philippine authorities busted a massive counterfeiting ring, unique in its volume and scope. The bulk of the counterfeited assets were US Treasury bonds. But the ring, which included seven international criminal organizations, also reproduced postwar Japanese liberty bonds, prewar German government bonds, and certificates for gold and silver bullion. All told the counterfeited assets were worth more than 2.4 trillion pesos ($60 billion), four times the size of the Philippines' foreign-exchange reserves and enough for 18 months of imports. Government officials speculate that the counterfeited cash would have caused major economic distortions had it entered the Philippine money supply.

FDI IN LATIN AMERICA SURPASSES ASIA. Foreign-direct investment in Latin America rose by 32 percent in 1999, pushing the continent ahead of Asia as a recipient of FDI. According to the UN Trade and Development Agency, Latin America and the Caribbean received FDI worth $97 billion in 1999, compared with Asia's near stagnant $91 billion. Argentina and Brazil were the main beneficiaries of increased FDI, followed by Chile, Ecuador, and Peru. Investment flows to Colombia and Venezuela declined. Much of the investment activity came through cross-border mergers and acquisitions. And Brazil's ongoing privatization process continues to attract international attention.

MITSUBISHI BATTLES ANIMAL RIGHTS ACTIVISTS. The International Fund for Animal Welfare (IFAW) is mobilizing a transnational campaign to prevent Mitsubishi from building a salt mine in the Laguna San Ignacio Reserve, in Baja, Mexico. The Laguna is the last birthing lagoon of the Pacific gray whale and supports endangered flora and fauna. Groups in Germany, Japan, the US, and Mexico, have supported IFAW's campaign against Mitsubishi's plans. The IFAW enlisted the support of labor unions, scientists, mutual funds, and worldwide environmental

The combination of growing web sophistication and rising unemployment has led to a boom in China's online job-recruitment industry.

organizations. Californians have been particularly critical of Mitsubishi. The California AFL-CIO, which boasts 3.5 million members, passed a motion urging Mitsubishi to cancel its plans and the state's city councils and commissions adopted 40 "Mitsubishi: Don't Buy It" resolutions.

SOUTH KOREAN COMPANIES SCALE DOWN FDI. Foreign-direct investment by South Korean firms fell to $4.39 billion in 1999, down from $5.13 billion in 1998. FDI to Asia fell to $1.49 billion in 1999, down from $2.25 billion in 1998. Firms are focused on internal restructuring and debt servicing after the Asian financial crisis and lack the capital to expand overseas.

JAPAN APPROACHES ITS FIRST HOSTILE TAKEOVER. The barbarians are at the gates. Until recently, the idea of a hostile takeover in Japan would have seemed far-fetched. The existence of cross-shareholdings in Japanese keiretsu corporate groups made it virtually impossible for a hostile bid to succeed. As a result, poor managers had little to fear from their shareholders, and Japanese investors had traditionally seen abysmal returns on their capital. (The average rate of return on equity in Japan declined steadily over the 1980s and 1990s, from 10 percent in 1981 to 5 percent in 1992 to barely 2.5 percent in 1998, against a US average of 20 percent.) However, as deregulation continues, Japan is coming closer to its first-ever hostile takeover and a revolution in corporate governance. Two deals are vying for the title of "Japan's first." One is an unsolicited bid for SSP, a Japanese drug maker, by Boehringer Ingelheim of Germany, which has denied that it intends a hostile takeover. In any case, its bid ran into trouble from financial institutions who hold SSP's shares. A more explicit hostile takeover attempt comes from M&A Consulting, which launched a bid for Shoei, a trading company with electronics and property interests. But 40 percent of Shoei's shares are held by the Fuyo keiretsu, which includes such firms as Fuji Bank and Yasuda Marine and Fire. The keiretsu members are currently unwavering in their opposition to the bid.

BRITISH HEALTH CARE SYSTEM OVERWHELMED BY THE FLU. Newspapers in the UK are reporting horrendous tales of hospitals abandoning elderly patients on gurneys for days at a time, while forcing others to wait on the floor. The National Health Service was overwhelmed by a nationwide influenza epidemic and the system's failings reflect poorly on Prime Minister Blair. Surveys show that 52 percent of Britons disapprove of the prime minister's health-care policy. Public anger was fueled by data showing that 300,000 Britons died last year as a result of improper or delayed health care. Conservatives are capitalizing on the recent revelations to embarrass Blair. But they have yet to win the public over to their plan to switch to private health-care providers.

SOUTH AFRICA'S MAN IN THE BRITISH FOREIGN OFFICE. Britain's newly appointed foreign office minister for Africa, Peter Hain, is making an auspicious return to South Africa this month. Hain is a native of South Africa who moved to Britain at an early age and rose to prominence in 1969, when he led protests in the UK against the South African rugby and cricket teams. As an antiapartheid activist in the 1970s, he was dubbed "Hain the Pain" by the white South African regime. Now Hain is postapartheid South Africa's number-one European cheerleader. He has urged British businesses to invest in South Africa and is a vocal advocate of a free-trade agreement between South Africa and the EU.