

International Political Economy

Analyzing the effects of politics on business and markets.

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Political Watch

by Marvin Zonis

A New Decade For Business: Twenty-Four Principles Of Globalization

Globalization will be the driving force of economics, politics, and business in this decade. Companies need to understand what globalization entails and, especially, how the Internet will facilitate the process. These “Twenty-Four Principles of Globalization” will help businesses define this new era.

Short Takes

Iran: US lifts luxury goods embargo; **Asia:** Internet boom; **North Korea:** News agency goes online; **Japan:** Obuchi’s appointees give no cause for optimism; **Russia:** Busting its budget; **Iran:** Difficult path to reform; **Estonia:** The future Singapore of the Baltics; **Russia:** Sexism in the air; **Israel:** Hig-tech winner; **Middle East:** Let the markets solve the water problem; **US:** Cyberporn addicts are “public health hazard.”

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.

International Political Economy

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A New Decade For Business: Twenty-Four Principles Of Globalization

by Marvin Zonis

Globalization may be the most significant development of our time. Driven by the spread of technology, the collapse of communism, and the ever-wider adoption of market economies, companies are spreading their operations across countries while peoples are interacting as never before. The consequences will continue to unfold over the decades. But here is an attempt to suggest the major consequences for companies as they globalize—as they adopt new methods of doing business—and as they increasingly adopt the Internet as the principal medium for globalization.

Definition

The International Monetary Fund defines globalization as the “growing economic interdependence of countries worldwide through the increasing volume and variety of crossborder transactions in goods and services and of international capital flows, and also through the more rapid and widespread diffusion of technology.” The IMF leaves out some important elements and focuses on the wrong central element. Globalization also entails the greater movement of people across national borders and the relentless rise of similar standards across the globe. The increasing similarity of standards is driven by the diffusion of technology and the diffusion of American popular culture and by the dictates of industrial and commercial economic organizations. But the central element of globalization is that it is driven by companies in their relentless search for market share and profits. Companies are at the heart of globalization.

Twelve Elements of Globalization

(1) **Increased Exposure to Political Risk.** Companies that expand across national boundaries increase the uncertainties they face. The uncertainties of the greatest potential consequence are those brought about by the actions of governments. Government actions may be aimed specifically at the particular company and its operations within the country. Numerous US firms in Indonesia have been targeted by the post-Suharto government because they have been widely perceived to have won their sweetheart contracts by bribing members of the former president's family. But more frequently, companies face immense political risks because of the general policies of the governments in the countries in which they operate. Changes in labor laws, tax structures, profit-repatriation regulations, currency-conversion rules, and import and export regulations can be devastating, but so too can poor public policies. Governments that mismanage their public finances can debase their currencies, drive inflation, and stimulate political unrest and instability. Companies need to institute processes that allow them more effectively to identify, assess, monitor, and manage political risk.

(2) **Increased Exposure to Natural Disasters.** As *IPE* has pointed out (see “Political Volatility is Certain as the Costs of Natural Disasters Increase,” in *IPE* Vol.

Companies now appoint senior management regardless of the countries from which they come.

6, No. 19, October 11, 1999), the major, global tectonic plates lie, to a substantial extent, under the emerging markets. It is largely in the emerging markets that the great earthquakes and volcanic eruptions occur. But worse, it is also in the emerging markets that governments have built the least dependable infrastructures. When floods and storms or typhoons and hurricanes strike, the power supplies and telecommunications systems in the emerging markets fail most readily and are restored the most slowly. To be a successful global company means building redundancies into plants and facilities and countries at risk, as well as building in “cutouts”—to allow a global firm to continue to operate successfully even absent the components from any particular country.

(3) **Increased M&A Activity.** Given the greater commonality in standards and in business across national borders, enhanced profits and market share can be achieved through mergers and acquisitions more quickly than through building operations in different countries. Massive, new horizontal mergers that combine firms with similar core competencies are especially likely to occur.

(4) **New Forms of Competition and Cooperation.** Firms that enter foreign markets will be subject to new forms of competition. Other companies operating in those markets may be unknown and may pose serious challenges. The major packaged-goods companies, for example, have found that counterfeiting is rife in China. As much as half of the goods sold in China under the brand names of major global firms are actually counterfeit goods produced in China and competing with the genuine articles. Companies also need to enhance their market knowledge if they are to engineer successful mergers or acquisitions. But companies will also cooperate with other companies in new ways, becoming mutually interdependent even though they may simultaneously compete.

(5) **New Cultural Sensibilities.** Going global means enhancing efficiency and profitability by taking advantage of the best available talent drawn from everywhere in the world. Companies now appoint senior management regardless of the countries from which they come. To do that most effectively, however, means that companies have to drop the biases and cultural sensibilities that arise naturally from their countries of origin. A new global culture arises within the firm itself, a culture that executives from the original host countries often find difficult to adopt.

(6) **“Virtual” Hierarchies.** As companies spread their operations geographically, managers increasingly have responsibility for staff in different countries. The managers are challenged to establish meaningful interpersonal relationship with their staffs, who often come from an entirely different culture. Worse, the managers need to establish such relationships with people with whom they are not in day-to-day, face-to-face contact. The telephone, email, teleconferencing, and, of course, increased air travel, are the new bases for establishing meaningful interpersonal relationships. This is a massive challenge to most all the parties in the relationship—staff as well as management.

(7) **Best Practices.** By acting as a single firm with a global, supranational culture, the excuses that justified preserving national practices disappear. Globalization means operating everywhere as a single firm and instituting similar best practices everywhere. That puts pressure on firms to learn of global best practices either through consulting firms oriented toward generating competitive intelligence

or to firms, themselves, striving to learn what best practices are by studying their competitors.

(8) **Alliances.** Globalization allows for many new types of alliances. Shell, for example, has established alliances by working out exchange programs with chemical companies in Asia. In exchange for their supplying Shell's Asian customers with output from their Asian plants, Shell supplies their North American customers from its plants in the US.

(9) **Finance.** Globalization reduces the primacy of any particular company location or its country of origin. As a result, capital in a global firm is allocated on the basis of expected risk-adjusted returns. Competition for the firm's global budget is intensified, and better risk-return calculations must be performed in order to warrant a capital allocation. Established operations and headquarters location in a truly global firm offer no advantages in the intensified competition for capital.

(10) **Speeding the Globalization of Suppliers.** A firm's decision to globalize will reverberate throughout its supply chain and affect all the firms that supply it with services. Global firms often look to suppliers and to service firms that can provide it with goods or services on a global basis. When Shell made the commitment to more fully globalize, for example, it consolidated all its advertising with J. Walter Thompson. As a result, Ogilvy & Mather lost Shell's account in Houston. The rest of its Houston business was not sufficient to justify its Houston office, which Ogilvy closed. Relentlessly, globalization feeds on itself and drives more globalization in a mutually reinforcing process.

(11) **Winners and Loser from Globalization.** While globalization will provide immense aggregate benefits to producers and consumers alike, it will not provide those benefits equally. Globalization will produce very big winners; but it will also produce big losers. Ross Perot had it right. There has been a "great sucking sound" since Canada, the US, and Mexico implemented NAFTA, on January 1, 1994, as a vast number of low-paying jobs have moved south. The workers in those plants in the US and Canada have lost their jobs. Unless they succeed in moving up the skill ladder, they will remain unemployed. The challenge to every country in the age of globalization is not to resist this process but to educate its workforce, stimulate its institutions of education,

facilitate the founding of new ventures, and create labor-market flexibility. That way, new jobs will be created in new industries and service businesses that will provide higher pay and more satisfactory work in better working conditions.

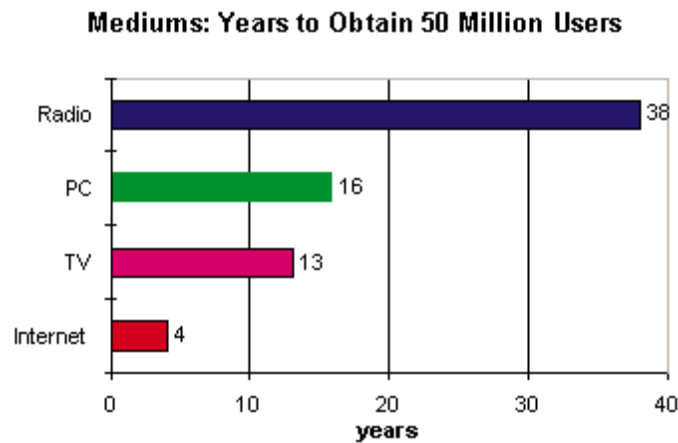


The protests against the WTO in Seattle: backlashes against globalization will become more common.

(12) **Backlash to Globalization.** The transition to globalization for countries will not be easy or smooth. Inevitably, a backlash against globalization will be generated that will organize and pressure the state to resist, if not reject, globalization. States that succumb will be the long-term losers. They may succeed in preserving the structure of their economies. They may become ever more quaint in the process and ever more desirable, as a result, as a place to visit. But you wouldn't want to live there. Those countries will be poorer as a result.

Twelve Elements of the Internet and Globalization

The Internet has become the fastest growing technological innovation in the history of the world.



Source: *Datacomm Research Company*

Herewith, 12 consequences for globalization that will be driven by the Internet.

(1) **Instantaneous Communications.** The Internet is the greatest distance killer of them all. It offers virtually-free, virtually-instantaneous global communications, allowing coordination and management to occur anywhere, everywhere, all the time.

(2) **Multishift Operations.** For goods that can be digitally transformed, the Internet allows two- or three-shift operations per day. I am involved, for example, with a software firm, Distributed Software Development, which employs programmers in both Moscow and Chicago. The Russian programmers can spend a full day in Moscow writing code. At the end of their working day, the code is sent via the Internet to Chicago, where it arrives at the beginning of the same working day—given the nine-hour time difference between the two cities. After a full day of work in Chicago, the elaborated code is sent back to Moscow and arrives before the beginning of the next work day in Moscow. Two days of work are effectively compressed into each calendar day.

(3) **Supply Chain Management.** The recent spate of online buying portals, organized vertically by industry, suggests the possible efficiencies to be gained from global supply-chain management. New suppliers can enter the competition to supply raw material, parts, equipment, and services—whatever global firms buy—through the Internet. The consequence will be to drive prices down, eroding supplier margins. Less-efficient suppliers will be driven out of business and suppliers across national boundaries will be stimulated to consolidate.

(4) **The Flattened Hierarchy.** The Internet and the global distribution of the corporation will combine to flatten organizational hierarchies. Power in firms will be diffused to local operations. Firms will be held together by common culture and brands and by people who have moved through various global operations and, in the process, established bonds of association.

In the future, the global economy will be dominated by relatively few giant firms and a vast number of niche players and small, new entrants.

(5) **The Unbounded Corporation.** Just as corporations become borderless, so will they become unbounded. The distinct boundaries of the past—where it was simple distinguishing who was in the corporation and who was not—will become blurred. More and more professional workers will relate to firms as consultants rather than employees. More workers will be part-time.

(6) **The Disappearance of the Middle.** Globalization generates firms of ever-larger geographic scale and ever-larger financial strength, a process facilitated by the Internet. Simultaneously, the Internet facilitates the entry of new players, especially new niche players. In the future, the global economy will be dominated by relatively few giant firms and a vast number of niche players and small, new entrants.

(7) **Information Rules.** Increasingly, the value of a firm will be seen as the value of its historical and contemporary human capital. Its accumulated knowledge from its history as embodied in its products and processes as well as the knowledge of its current workforce and their capacity to generate and accumulate new human capital as well as its knowledge of its suppliers and especially its customers are the bases for competitive advantage. The Internet is an ideal mechanism for retrieving information, generating information, processing information, analyzing information, and storing information. Companies that understand that the value of their products and services is the value of the information they embody will be relatively successful and relatively major users of the Internet.

For a comprehensive history of the Internet, see “Hobbes Internet Timeline v5.0” at www.isoc.org/guest/zakon/Internet/History/HIT.html

(8) **NGOs as Countervailing Powers.** As businesses globalize, a major countervailing power has arisen—global NGOs. Powerful, global NGOs have arisen through the sophisticated use of the Internet. Their power has already been seen in Seattle, at the WTO debacle. These countervailing powers will be significant influences on the ability of business to supervise its own affairs. NGOs will bring massive pressure to bear on companies to “protect” the environment, adopt “fair” practices with their local labor forces, and to the people in the areas in which they operate. If reputation and brand are everything in global business, NGOs have become powerful challengers to the global reputations of business.

(9) **The “Digital Divide.”** A great deal of energy has been spent on the challenge of the “digital divide.” Conventionally the term refers to the consequences of the unequal distribution of access to the Internet. The poorest sectors of any population are likely to be least able to gain such access. If being connected and being Internet savvy is the hallmark of the involved citizen in the twenty-first century, and if being connected is a path to economic well-being, then the digital divide will reinforce existing inequalities. The term has less often been applied to countries. But the same phenomenon applies. Countries whose citizens by and large are not wired—or as is increasingly the case, not wireless—and whose companies do not use the Internet will invariably suffer lower rates of growth and be less a part of the accelerating globalization than connected countries and companies.

(10) **New Entrants.** But as surely as the “digital divide” threatens the well-being of whole countries, the Internet also offers solutions to the backwardness of many

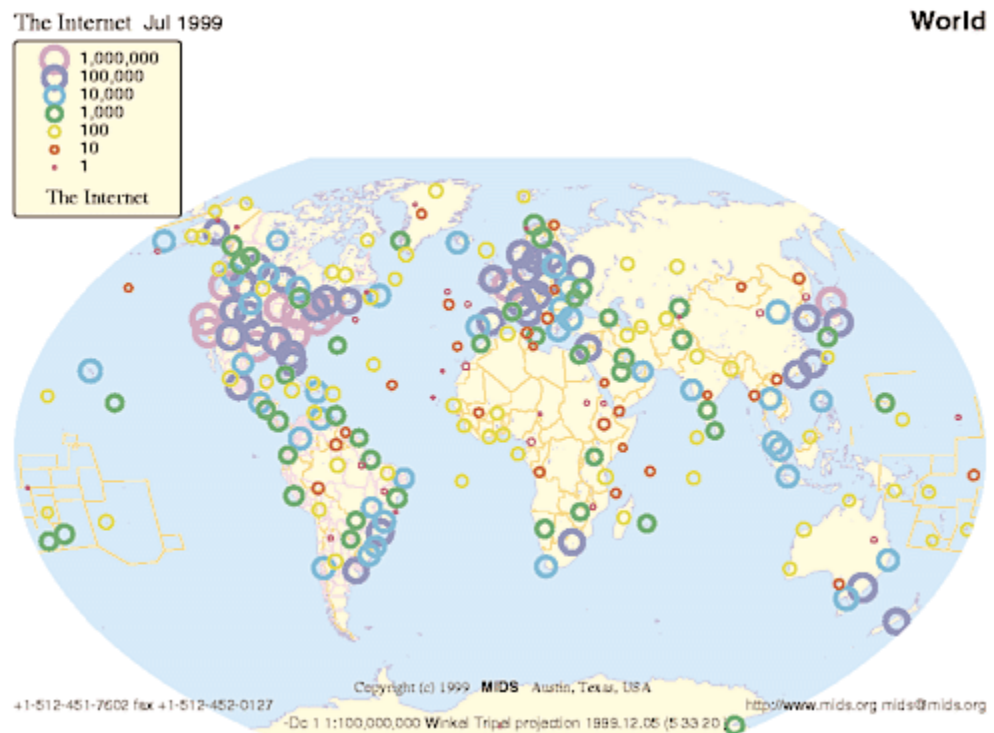
The Internet allows firms in developing countries to participate in commerce in a way simply impossible in the past.

states. Countries not yet wired can skip the technological stages through which the more-developed countries passed. They now can skip copper entirely and move directly to wireless communication, at far less expense than laying copper cables would cost. But it is also the case that the Internet allows firms in developing countries to participate in commerce in a way simply impossible in the past. The Internet (and globalization) means that in a network there is no center and there is no periphery. No one is outside the market. New businesses can be created in the developing countries to supply even the most sophisticated services to global firms, as India has shown. If it can be put on a screen, it can be produced in a developing country.

(11) **Service: Not Just Production.** As margins continue to be relentlessly driven down, manufacturers will bundle their products with services. That will provide extra values to consumers, higher margins for producers, and especially provide manufacturers of what will essentially become commodities with enhanced competitiveness.

(12) **Forget the “Clash of Civilizations.”** It’s the New “Clash of Connectivity.” As the Internet and businesses continue to tie ever-larger portions of the world’s peoples into networks of communications and economic interdependence and a new, global culture spreads, the chances for conflict between those peoples and between their states will diminish. Simultaneously, those parts of the world outside the network will not be connected, will not become more prosperous, and will not share in the development of the world culture. The conflicts in the future will occur among the not connected and between the connected and the not connected.

These twenty-four principles of globalization attempt to spell out the major attributes of this phenomenon—the great driver of business in the first decade of this century. Businesses will be changed, so will economies and peoples. Prosperity will be enhanced for those who participate. Conflicts will occur on the basis of connectivity, on the basis of globalization.



Short Takes

QUOTEWORTHY: “Neither Iran, nor we, can forget the past. It has scarred us both.

“But the question both countries now face is whether to allow the past to freeze the future or to find a way to plant the seeds of a new relationship that will enable us to harvest shared advantages in years to come, not more tragedies. Certainly, in our view, there are no obstacles that wise and competent leadership cannot remove.

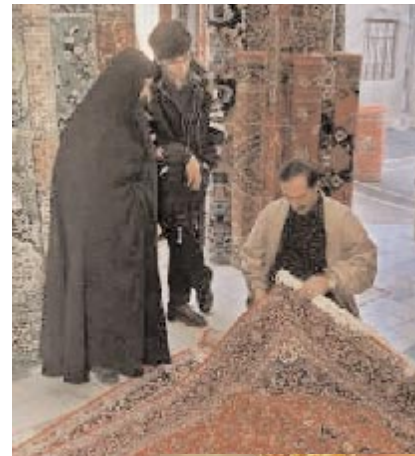
“To date, the political developments in Iran have not caused its military to cease its determined effort to acquire technology, materials, and assistance needed to develop nuclear weapons, nor have those developments caused Iran’s Revolutionary Guard Corps or its Ministry of Intelligence and Security to get out of the terrorism business.

“This morning on behalf of the government and the people of the United States, I call upon Iran to join us in writing a new chapter in our shared history. Let us be open about our differences and strive to overcome them. Let us acknowledge our common interests and strive to advance them. Let us think boldly about future possibilities and strive to achieve them, and thereby, turn this new year and season of hope into the reality of a safer and better life for our two peoples.

“To that mission I pledge my own best efforts this morning. And I respectfully solicit the counsel and understanding and support of all.”

Secretary of State Madeleine Albright, at a conference sponsored by the American-Iranian Council, Washington, DC,

March 17. The secretary of state took several major steps toward breaking the logjam in US-Iranian relations. As indicated above, she blamed Iran’s support for terrorism not on the Iranian government but on the Revolutionary Guards Corps and the Ministry of Intelligence, under the control of the hard-line supreme religious leader and not reformist president Khatami. She offered virtual apologies for US policies toward Iran in the past, including the US role in the overthrow of Iranian prime minister Mossadegh, in 1953, US support for the Shah, who instituted policies of “brutal repression” in Iran, and support for Iraq in the Iran-Iraq War. She offered



Coming soon to a mall near you: the US lifts its embargo of Iranian rugs, caviar, and pistachios.

to accelerate the settlement of all US and Iranian claims in the tribunal at The Hague. She also announced the lifting of the US embargo on imports of Iranian carpets, caviar, pistachio nuts, and dried fruits, the four largest Iranian exports, after oil.

Iran is “one of the most wonderful places in all of human history, one of the most important places culturally in all of human history...” President Bill Clinton, speaking at a \$2,500-per-person fund-raiser in Los Angeles, March 5. The fund-raiser was sponsored by three wealthy Iranians in one of their homes and allegedly raised \$200,000 for the Democratic Party.

“The fate of the world economy is now totally dependent on the growth of the US economy, which is dependent on the stock market, whose growth is dependent on about fifty stocks, half of which have never reported any earnings.” Paul Volcker, former chairman of the Federal Reserve Board.

“Our decline lasted more than seventy years under communism and continued during the ten years that followed.” Aleksandr Solzhenitsyn commenting on the Yeltsin presidency.

Monthly Salaries by Profession in Various Countries (in US\$)

Country	Head of Government	Doctor	CEO	Chauffeur
US	16,667	10,402	31,200	2,442
China	266	242	2,865	279
Hong Kong	34,807	10,184	15,975	1,625
Japan	33,886	11,011	18,300	1,217
India	585	1,147	1,764	147
South Korea	7,658	4,777	9,800	1,411
Taiwan	26,951	7,197	13,638	1,520

(Source: *Asiaweek*, March 17, 2000)

FACTWORTHY

Boston Consulting Group recently studied the booming Internet in Asia. It listed the number of Business to Consumer (B2C) web sites in Asia (not counting Japan with a vast number of sites) as follows: South Korea had the highest number of B2C eCommerce sites at 396. China was second with 339 B2C sites, but this included most of the sites based in Hong Kong. Taiwan's 168 B2C sites were considered separately. Malaysia and Indonesia came last on the list, with 34 and 31 B2C sites, respectively.

In 1996, the US Congress abolished federal-welfare cash entitlements and directed the states to create workfare programs. Idaho and Wisconsin ranked the highest in welfare reductions as of last year. Since reforms were implemented, caseloads declined by 78 percent and 74 percent, respectively. Hawaii ranked last in reductions, where caseloads increased by 10 percent.

According to UN estimates, more than 50 million people worldwide are internally displaced or are refugees.

The average American now has 50 percent more purchasing power—after taxes—than in 1980.

The NATO secretary-general estimates that total European military spending is some 60 percent of the US total but that it yields only 10 percent of the military capability of the US.

North Korea's news agency has a daily news page on the Web <<http://www.kcna.co.jp/>>.



Take note of Alan Greenspan and those Republicans expecting to win votes by promising tax cuts. The wealth effect is not all in the stock market, and Americans are feeling well off after taxes because they are. According to James Glassman, writing in *The American Enterprise* (Jan.-Feb. 2000), the average American now has 50 percent more purchasing power—after taxes—than in 1980.

More than one-third of the women who married in Syria, in 1999, were actually below the minimum legal age for marriage of 17.

ANTI-JEWISH SENTIMENT IN THE MIDDLE EAST. In the 1930s, the Arabian American Oil Company (ARAMCO) could not bring goods or papers into Arabia bearing an asterisk. The Saudis had decided that asterisks too closely resembled the Star of David.

HOW THE US PRESIDENT MAKES A TRIP. US president Bill Clinton is off to South Asia. Where he should go in India was an important challenge for the president's staff. Bangalore and Hyderabad—India's two high-tech state capitals—competed for a visit from the president to draw attention to their development. The staff decided on Hyderabad because its more impressive Indian architecture would provide more striking backgrounds for photos of the president.

JAPANESE PRIME MINISTER OBUCHI'S APPOINTMENTS. Over the past year, Prime Minister Obuchi has demonstrated little interest in economic reform. His appointments have reflected as much. In the fall, he appointed Shizuka Kamei as chairman of the Policy Research Council of the LDP. As a former construction minister, Kamei has long been a champion of pork-laden public-works spending and is a critic of economic restructuring. In his new post, Kamei has argued for the re-regulation of the retail industry, in order to protect weaker players. Also in the fall, Obuchi appointed Michio Ochi, a former finance-ministry bureaucrat with close ties to the LDP, as head of the Financial Reconstruction Commission. (Ochi replaced Hakuo Yanagisawa, an aggressive reformer who had allowed foreign investors to purchase the failed Long-term Credit Bank of Japan.) Now Ochi has been forced to resign, after he was caught on tape promising an audience of local credit-union and credit-association officials that if inspections of their finances were unduly "severe," they should come to him for help. Obuchi's appointees give no cause for optimism about the pace of reform in Japan.

INTERNET CHALLENGE TO MALAYSIA. Malaysia's first commercial online newspaper, *Malaysiakini* (*Malaysia Now*), <<http://www.malaysiakini.com/>>, was launched in late November 1999 and claims 50,000 to 75,000 hits daily. Malaysia's strict press laws do not apply to the online paper, which operates without a permit. According to Steven Gan, editor of *Malaysiakini*, "there are no laws governing our existence." Gan is operating under the assumption that Prime Minister Mahathir Mohamad will keep his word "not to censor the Internet."

Acting President Vladimir Putin has approved a 50 percent increase over 1999 for new military purchases.

MALAYSIAN MEN SEARCHING FOR FOREIGN BRIDES. The Malaysian government has urged the country's Indian-Muslim men to stop going abroad in search of wives. The deputy home minister said that the practice of going to India to find brides meant there were too many single women in the community and created visa and citizenship problems for foreign spouses. (One reason Indian-Muslim men go abroad to find wives is because the families of local Indian-Muslim women want highly educated husbands for their daughters, who tend to be better educated than their male counterparts.)

RUSSIA BUSTING ITS BUDGET. For the first 11 months of 1999, the Russian government spent roughly 50 billion rubles per month. In December, spending rocketed to 127 billion rubles, resulting in the largest monthly shortfall since 1995. Spending on the army and security forces account for the better part of the increased spending. In addition, Acting President Vladimir Putin has approved a 50 percent increase over 1999 for new military purchases. In contrast to past spending priorities, conventional weapons will be favored over nuclear weapons. (The West need not worry. After the increase, the total procurement budget for conventional arms totals \$2.2 billion.)

ESTONIA: THE FUTURE SINGAPORE OF THE BALTICS? ECommerce is still in its infancy in East Central Europe. Carnation, an Internet consulting firm in Budapest, estimates that eCommerce generated revenue in Hungary of no more than \$320 million in 1999 and that virtually all of it was from multinationals. In the Czech Republic, eCommerce revenue was less than \$10 million. Estonia is the stunning exception among the postcommunist states. A full 10 percent of the population bank online, 20 percent have home computers, and more than half of the population under the age of 30 are online.

ALUMINUM WARS IN RUSSIA. FALLOUT IN ISRAEL. The aluminum wars in Russia have been intense. The London-based Trans World Group, led by David Ruben, has been forced to part with its equity in Russian aluminum plants, which it acquired in the immediate post-Soviet period. The shares were acquired by a group of Russian oligarchs—Kremlin insider Boris Berezovsky and Roman Abramovich, along with Ruben's former partner, Lev Chernoy. Because aluminum is a major component of the economy of the Krasnoyarsk region, its governor, retired general Aleksandr Lebed, canceled, at the last moment, his first visit to Israel. He had been a bitter opponent of the transfer of control over the aluminum complex in his region on the grounds that the revenues would be diverted to Moscow and abroad. The struggle that Ruben lost has been ongoing for a decade and has resulted in dozens of murders. Ironically, the three Russian oligarchs are all citizens of Israel.

SEXISM IN RUSSIA. Russia's airline, Aeroflot—on the occasion of International Women's Day—has announced a special bonus. Every woman will receive a free ticket to any European city between March 6 and April 16, if she travels there with a man. When a man buys a full business-class ticket on any Aeroflot flight, a woman accompanying him will be awarded a free business-class trip.

MORE TIES BETWEEN RUSSIA AND IRAN? *The London Times* reports that Russia has recently sold 27 "killer" dolphins, Beluga whales, walruses, and sea lions to Iran. The animals were trained by the Soviet Navy to "kill enemy divers and blow up

"If we solve every other problem in the Middle East but do not satisfactorily resolve the water problem, our region will explode."

ships" and were sold because the Russians found them too expensive to keep. The sea warriors were delivered to an Iranian base on the Persian Gulf, according to a recently interviewed former submariner who headed up dolphin training for the Soviets.



Iran's newest naval recruit

THE DIFFICULT PATH AHEAD FOR IRANIAN ECONOMIC REFORMS. The Guardians Council has blocked parts of the new Five Year Development Plan that focus on ending state domination of several industries. The full privatization of banks and insurance companies has been forbidden, although the state can sell off up to 49 percent of its controlling stakes and can issue new banking licenses. No privatization will be allowed in air, rail, and other forms of transport nor in telecommunications, power, or water. Meanwhile, the state sold 85 percent of Pars Khodro, Iran's third-largest automobile manufacturer on the Tehran Stock Exchange. The stock was purchased by the state Social Security Investment Company and the second-largest automobile company, Saipa, in which the government or certain government funds own 100 percent of the shares.

INDIA'S THREE "10 PERCENT" PROBLEMS. India's 24-party coalition presented a budget that, while not backward-looking, demonstrated the continued power of special-interest groups to influence economic policymaking. Tax collection is no more than 10 percent of GDP—a testimony to both the inefficiency of the country's bureaucracy and the power of the rich to exert political influence and avoid being taxed. Despite modest cuts, the combined deficits of the central and local governments are likely to continue to exceed 10 percent of GDP. Thus government spending will continue to crowd out private-sector borrowing. India's annual subsidy payments (much of it to the agricultural sector) will continue to hover at about 10 percent of GDP. Special-interest power ensures that excessive deficits will persist for the foreseeable future.

WATER PROBLEMS IN THE MIDDLE EAST—LET THE MARKET SOLVE THE PROBLEM. Middle Eastern leaders continue to see water as the scarce resource in the Middle East and the likely cause of future conflicts. The late Prime Minister Rabin claimed that "if we solve every other problem in the Middle East but do not satisfactorily resolve the water problem, our region will explode." Jordan's new king, Abdullah, recently echoed that sentiment. "Future potential conflict in our area is not over land, it's over water." Natural conditions seem to bear them out. In 1999, for example, Lake Kinneret, Israel's main reservoir, dipped to 214 meters below sea level, its lowest point since the 1930s and a mere 70 centimeters above the danger line. In addition, matters are made worse by poor infrastructure. Leaky pipes cost Damascus a full 30 percent of its water, while losses in Amman and Gaza are a staggering 60 percent. Israel's losses are in the 12 percent range (*The Jerusalem Report*,

March 13, 2000). Moreover, agriculture consumes half of Israel's water consumption—900 million to 1 billion cubic meters—yet the sector produces only 10 percent of the population's caloric intake, according to Hillel Shuval of Hebrew University. But Middle Easterners do not understand the power of the market. If governments charged rates for water comparable to its real cost, the inefficient use of water would disappear, and supplies would be sufficient for the indefinite future.

ISRAEL: A HIGH-TECH WINNER. Private Israeli high-tech firms raised a record \$1 billion in venture capital in 1999, a 67 percent increase over 1998. Israel ranks second only to Silicon Valley as the most fertile breeding ground for high-tech start-ups. Most Israeli high-tech firms are listed not on the Tel Aviv Stock Exchange, but on the NASDAQ.

INTERNET ROLLOUTS IN EUROPE. Peter Bradshaw, an analyst with Merrill Lynch, claims that creating an Internet rollout in Europe is two and a half times harder than in the US. Several of the reasons include the following: a European-wide venture must be translated into at least five languages; currencies, local tariffs, and trade quotas have yet to be harmonized by the EU; many Europeans still prefer to do business with their own countrymen; only one in seven Italians and Germans possesses a credit card; and net access is still predominately a toll charge.

CZECH REPUBLIC'S CONSTITUTION. On January 28, the Czech Republic's Chamber of Deputies (the lower house of parliament) adopted amendments to the constitution, stripping the president of his authority to appoint the prime minister, the directors of the central bank, judges to the Supreme Court, and the director of the Supreme Control Office. The two parties behind the proposed revisions to the constitution—the Social Democrats of Prime Minister Milos Zeman and the Civic Democrats of party leader Vaclav Klaus—command the necessary three-fifths majority in the lower house to make the changes. But they lack one vote in the Senate, which must also adopt any proposed change of the constitution. Most troubling of the various amendments would be the loss of the president's prerogative to appoint the director of the Supreme Control Office, charged with monitoring the government and the civil service, especially as regards corruption. Were its director to be appointed by the prime minister, the Supreme Control Office could be vulnerable to political influence and its impartiality compromised. The Communist Party of Bohemia and Moravia looks to be the swing vote in the Senate as its members detest President Vaclav Havel. But the Communists may vote against the amendments because the Social Democrats and Civic Democrats are also seeking to revise the constitution in order to eliminate the smaller parties from parliament, which could leave the Communists out.

CYBERPORN ADDICTS ARE "PUBLIC HEALTH HAZARD." As many as 200,000 US Internet users are addicted to online pornography or sexually explicit chat rooms, according to researchers from Stanford and Duquesne universities. Cybersex compulsives were defined as those who spent 11 or more hours a week visiting sex sites or chat rooms and who attained high scores on a questionnaire about relationships and sexuality. The survey was conducted in early 1998, and the researchers claim that the number of cybersex compulsives could now be much higher than 200,000. They described the phenomenon as a "hidden public-health hazard."