Folder Title:	President Wolfensohn - Media Coverage and Interviews - Interview - New York Times and Lunch Wall Street Journal Editorial Board - December 4, 1996
Folder ID:	30485862
Series:	Media coverage and engagement
Dates:	07/07/1996 - 12/04/1996
Subfonds:	Records of President James D. Wolfensohn
Fonds:	Records of the Office of the President
ISAD Reference Code:	WB IBRD/IDA EXC-13-12
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Meeting: New York Times

Wednesday, December 4, 1996
10:00 - 11:00 a.m.
NY Times Editorial Board Conference Room
(10th Floor)

Lunch Mtg: WSJ Editorial Board

Wednesday, December 4, 1996
12:30 - 2:30 p.m.
Wall Street Journal (12th Floor)

Archive Management for the President's Office

Document Log

Reference # : Archive-01049 IPD

Edit Print

A. CLASSIFICATION

- [x] Meeting Material
- [ ] Trips
- [ ] Speeches
- [ ] Annual Meetings
- [ ] Corporate Management
- [ ] Communications with Staff
- [ ] Phone Logs
- [ ] Calendar
- [ ] Press Clippings/Photos
- [ ] JDW Transcripts
- [ ] Social Events
- [ ] Other

B. SUBJECT: MEETING: NEW YORK TIMES (B) (N) - HOSTED BY MR. MICHAEL WEINSTEIN (Confirmed 10/22)
VENUE: NEW YORK TIMES, EDITORIAL BOARD CONFERENCE ROOM (10TH FLOOR)
NOTE: MR. WEINSTEIN IS EDITORIAL BOARD MEMBER AND CHIEF ECONOMICS WRITER
CONTACT: KLAS BERGMAN @ 33798 (MERRELL TUCK @ 39516)
INVITEES (NYT):
A.M. ROSENTHAL, COLUMNIST
PAUL LEWIS, REPORTER
CHRISTOPER WREN, REPORTER AND VETERAN FOREIGN CORRESPONDENT
BARBARA CROSSETTE, UN BUREAU CHIEF
SOMA GOLDEN BEHR, ASSISTANT MANAGING EDITOR IN CHARGE OF THE ECONOMIC COVERAGE
(B) EXTVP // DUE: FRIDAY, NOV. 29
EXC: G. BERGEN // ALI (10/17)
& LUNCHEON MEETING: WALL STREET JOURNAL EDITORIAL BOARD - HOSTED BY: MR. ROBERT L. BARTLEY (EDITOR) (N) (B) (Confirmed 10/22)
VENUE: WALL STREET JOURNAL (17TH FLOOR)
CONTACT: KLAS BERGMAN @ 33798 (MERRELL TUCK @ 39516)
TO ACCOMPANY: MMB & KLAS BERGMAN
INVITEES (WSJ):
DAN HENNINGER, DEPUTY EDITOR AND CHIEF EDITORIALIST
GEORGE MELLOAN, DEPUTY EDITOR, INTERNATIONAL
AMITY SHLAES, EDITORIAL BOARD MEMBER
PAUL STEIGER, MANAGING EDITOR
DAN HERTZBERG, DEPUTY MANAGING EDITOR
JOHN BUSSEY, FOREIGN EDITOR
MARY O'GRADY, "THE AMERICAS" COLUMN EDITOR
(B) EXTVP // DUE: FRIDAY, NOVEMBER 29
EXC: G. BERGEN // ALI (10/17)

DATE: 12/17/96

C. VPU

THE WORLD BANK/IFC/M.I.G.A.

OFFICE MEMORANDUM

DATE: December 2, 1996

TO: Mr. James D. Wolfensohn, EXC

FROM: Klas Bergman, EXTME KB

EXTENSION: 33798

SUBJECT: **Your visits to New York Times and Wall Street Journal**

Your editorial board meetings with the New York Times and the Wall Street Journal take place on Wednesday, December 4 in New York City.

The NY Times meeting is at **10 AM** at 229 West 43rd Street. Host is Mr. Michael Weinstein, editorial board member and chief economics writer. The meeting is expected to take one hour. Mr. Weinstein's tel. number is (212) 556-1876.

The WSJ meeting is at **12:30 PM** in the form of a luncheon at 200 Liberty Street. Host is Mr. Robert L. Bartley, editor of the editorial page. The lunch is expected to finish by 2:30 PM at the latest. Mr. Bartley's tel. number is: (212) 416-2550.

Mark Malloch Brown and myself will accompany you to both meetings.

Your visit to these two leading US newspapers is part of the strategy of more systematic relationship-building among US media, which, in turn, is key to building support in the US as a whole.

There is no doubt that you (and the Bank) have achieved much success in Part I countries outside of the US (Europe and Japan). In large part, this is the result of a systematic approach during your trips to relationship-building among the various constituents, parliamentarians, NGOs, academics, and, not the least, the media.

A similar, systematic approach has not taken place in the US, and particularly not with US media, which, with some exceptions, is either ignorant, negative or outright indifferent to the Bank and its work.

This is especially true of the Wall Street Journal, which is, as you know, the leading voice of the US business community. The WSJ rarely reports on the Bank, and it seemingly does not see us as either a regular news source or even as a serious "player" when it comes to international economics, trade, and business. While we enjoy some respect among the paper's reporters, the editorial board with whom we are meeting, has traditionally dispersed "McNamara's Big Government" World Bank. There is much work still to be done here.

The situation with the NYT is a bit better. The NYT has given its support on IDA and on the debt initiative, and it does report on the Bank and cover our Annual Meetings although on an uneven basis. Still, it lags far behind, for example, the Financial Times in its coverage and editorial comments.

Nevertheless, recently both papers have published rather more. The stimulus for this has been the corruption issue and Mercosur. We have also worked hard with them.

Both editorial board sessions in NYC are likely to be free-wheeling discussions on a range of issues, either on or off or the record, or both, -- it's up to you to decide. They present excellent opportunities for you to present the Bank's case, and, of course, your case for change and renewal in the Bank and of its mission.

Likely topics will be: Africa, the West Bank and Gaza, Bosnia, Haiti, Mercosur, the HIPC initiative with likely candidate countries such as Uganda. The WSJ editorial board is especially interested in corruption, I have been told. You will likely also be asked general questions about your impressions after a year and a half at the Bank, about the Bank's future and its relevance, its cooperation with the private sector and Bank guarantees, and the general post-conflict scenario.

At this point, we do not know exactly who will attend the NYT meeting, besides members of the editorial board, but the following are among those also invited:
A.M. Rosenthal, columnist;
Paul Lewis, reporter, who covers the Bank and the Fund, and with whom, as you know, we have had a frequently troubled relationship. He is the author of the recent article "A World Fed Up With Bribes" (attached);
Christopher Wren, reporter and veteran foreign correspondent;
Barbara Crossette, UN bureau chief;
Soma Golden Behr, assistant managing editor in charge of the economic coverage.

The participants in the WSJ luncheon are more certain. They will be:
Dan Henninger, deputy editor and chief editorialist;
George Melloan, deputy editor, international, and author of the recent column "A World Seeking Justice Is Running Low on Examples" (attached).
Amity Shlaes, editorial board member and author of the recent editorial "Cutting Out the Kleptocrats" (attached);
Paul Steiger, managing editor;
Dan Hertzberg, deputy managing editor;
John Bussey, foreign editor;
Mary O'Grady, "The Americas" column editor and author of the recent "Brazil Wants a World Bank Critic Silenced" (attached).

Other recent articles (attached) are:
"The World Business of Bribes: Quiet Battle is Joined" (NYT).
"Hong Kong's Freedoms Imperiled" (NYT).
"The Sinking Palestinian Economy" (NYT).
"South American Trade Pact Is Under Fire" (WSJ).
"The Third-World Debt Crisis" (NYT).
"Cutting the Money for Poor Countries" (NYT).
"Development Banks Face Brave New World" (WSJ)

Also attached:
1. Briefing note on Haiti.
2. Briefing note on Mercosur plus Q and A.
3. Press backgrounder on corruption.

cc: Mark Malloch Brown (EXT), Jane Holden, Atsuko Horiguchi, Hany Assad, Allison Tsatsakis, Lai-Foong Goh, (EXC).

MERCOSUR

THE WORLD BANK/IFC/M.I.G.A.

OFFICE MEMORANDUM

DATE: November 26, 1996

TO: Sven Sandstrom, EXC
Mark Malloch Brown, EXT

FROM: Caroline Anstey, DECVP

EXTENSION: 31800

Final Version of Q&A on Mercosur

I am attaching the final version of the Q&A's on Mercosur which have been agreed by DEC and LAC.

Mercosur

- Questions and Answers -

The following responses should be used by Bank staff in reply to questions on the leaked research study on Mercosur by Alexander J. Yeats. Bank staff should make sure that even in a discussion of Yeats' methodology, they use the following points to make the Bank's official position on MERCOSUR quite clear.

Q. Is this a Bank Report?
A. No. This report represents the views of a researcher working within the World Bank. The report carries a disclaimer to this effect.

Q. Is the report final?
A. No. It is a draft report. As with any draft report, the next steps would be for it to be discussed by researchers and regional staff within the Bank. A version would then be circulated externally for comment. In the light of these comments a final research report might be produced.

Q. Does the report represent Bank policy?
A. No. It represents an input into Bank thinking about policy. We pride ourselves on first-class independent research. It is a core part of our policy-development process. However, robust alternative views expressed in research papers should not be mistaken for policy.

Q. Where does the Bank stand on Mercosur?
A. The World Bank fully supports Mercosur and the efforts to strengthen it further. There are, however, legitimate issues of trade efficiency between members and non-members of regional trade agreements that should be addressed. Our research should be seen in that light.

Methodology of the Report (for more technical responses see attached sheet)

Q. Isn't the research flawed?
A. The research was carefully conducted and uses the best methodology available for the questions posed. While we expect the process of comment and review to strengthen the research, we stand by the current preliminary findings, although we wish to express them within a fuller context and in more measured tones.

Q. Does the research use old data?
A. No. The research uses the latest data submitted by the members of Mercosur to the United Nations.

Q. How can you assess Mercosur when it has only recently started?

A. The Treaty which established Mercosur was signed in 1991 and made provision for tariff cuts on internal trade over the period 1991-95. The WTO reports that by January 1st 1995, most of Brazil's intra-Mercosur trade was already tarrif-free. Thus the period to 1994 offers ample opportunity to assess the effects of preferential trading agreements.

Q. Isn't the research flawed because it uses 25 year old elasticities?

A. No. The research does not use elasticities at all.

The World Bank and Mercosur

Responses to Technical Criticisms.

POINT: The use of the trade intensity index has been questioned.

COUNTERPOINT: The index has been used in the professional literature for more than 30 years and has none of the properties being attributed to it.

POINT: The study ignores the bloc's program of trade liberalization. Mercosur is in line with the rules of the World Trade Organization on free trade areas and customs unions.

COUNTERPOINT: The study does not ignore the bloc's trade liberalization program over the period it studies. While meeting the WTO's requirements is necessary for a customs union, it is widely recognized that it is not sufficient to achieve desirable policies.

POINT: Uruguay's Perez del Castillo said Mercosur member nations will hold informal consultations and he will personally send Yeats "correct trade data on which to base his future analyses."

COUNTERPOINT: The data upon which the report is based are the official statistics that the Mercosur countries have reported to the United Nations Statistical Office. The Bank stands ready to make full use of official data as they become available.

POINT: The Yeats study is biased because it fails to mention the agricultural subsidies, health barriers and other protectionist mechanisms used by other economic blocks such as the North American Free Trade Agreement and the European Union.

COUNTERPOINT: These policies do not address the effects of Mercosur's own import policies. Yeats will make numerous studies of barriers in North America and Europe available on request.

POINT: The World Bank should not waste funds on reports that merely criticize members' policies.

COUNTERPOINT: The Bank seeks to provide objective advice on member countries' policy choices. Even when this questions existing policy stances, such advice is aimed at assisting countries to address basic development objectives. Commenting on the report,

Michael Bruno, the Bank's Senior Vice President and Chief Economist said "It (the report) is a substantive and professional paper with only a few pieces of inflammatory language. It raises questions about Mercosur which the relevant governments and the Region will have to confront. Indeed, this paper illustrates the value of careful research -- without it an important issue may have been overlooked."

The World Bank/IFC/MIGA
O F F I C E M E M O R A N D U M

DATE: November 26, 1996 02:08pm

TO: Mario Del Carril LACEX (MARIO DEL CARRIL@A1@WBHQB)

FROM: Mark Malloch Brown, EXTVP (MARK MALLOCH BROWN@A1@WBWASH)

EXT.: 85914

SUBJECT: RE: MERCOSUR REFLECTIONS

Mario:

I think your analysis is very useful. I am going to include it in Mr. Wolfensohn's brief for meeting with Wall St. Journal next week. You do, however, raise a new issue that I had not previously understood: the allegations that the Bank leaked the Ambassador's letter. If this is the case, it puts a completely different light on matters, and to my mind embarresses us in a very serious way. Is there any way we can explore this - e.g., could you enquire, using Brazilian journalists. I am afraid I had just assumed the Brazilians had done this. Thanks.

Mark

CC: Gobind T. Nankani (GOBIND T. NANKANI@A1@WBHQB)
CC: Guillermo Perry (GUILLERMO PERRY@A1@WBHQB)
CC: Homi Kharas (HOMI KHARAS@A1@WBHQB)
CC: Paul Mitchell SASEX (PAUL MITCHELL@A1@WBHQB)
CC: JOCELYN HERRINGTON (JOCELYN HERRINGTON@A1@WBWASH)
CC: KLAS BERGMAN (KLAS BERGMAN@A1@WBHQB)

The World Bank/IFC/MIGA
O F F I C E M E M O R A N D U M

DATE: November 25, 1996 07:33am EST

TO: See Distribution Below

FROM: Mario Del Carril LACEX, EXTRO (MARIO DEL CARRIL@A1@WBHQB)

EXT.: 36189

SUBJECT: MERCOSUR REFLECTIONS

Please consider the following consequences of the WB being perceived as being involved through leaks in a brewing US-Brazil controversy over Mercosur and over the correct road to a hemispheric free trade association. The involvement in itself is neither good nor bad, that concerns a policy decision. What can be harmful is the perception that the involvement occurs in an underhand manner through leaks. The purpose of my remarks is to avoid getting positioned in this manner --- unknowingly --- and without weighing the possible consequences for the Bank on the regional side of the equation. As to the consequences of this perception for the Bank on the US or European side of the equation, I do not have a useful insight.

Informed Brazilian public opinion, and to some extent Argentine public opinion, believe that after Clinton s reelection the US has returned to the free trade arena in Latin America and the Caribbean, an arena it began abandoning in 1994, when the WH was unable to get its request for Fast Track negotiating authority from Congress before the December Summit of the Americas, a request finally withdrawn in 1995.

2. It is also believed that the absence of serious US trade policy initiatives in Latin America and the Caribbean contributed directly to the growth and prestige of Mercosur, which became a customs union in late august 1994, gained associate members (Chile, Bolivia) in 1996 and gave Chile the same political rights as the original members (Iberian American Summit) November 1996.

3. For Brazil US absence from the free trade arena was a boon to its geo-economic design that expressed in simple terms wishes to use Mercosur as a step towards SAFTA (South American Free Trade Association), SAFTA as a step towards a hemispheric free trade association resulting from a negotiation between a US dominated NAFTA and a Brazilian dominated SAFTA. That would be the Brazilian "dream plan."

4. The US wish for the development of a hemispheric free trade association had been based on individual country entrance to NAFTA, and the initial heart of the December 1994 Miami Summit was to set conditions for NAFTA expansion that the countries of the hemisphere would have had to meet to enter NAFTA seriatim.

5. As the US appears to return, in late 96, to the free trade arena, Brazil is naturally apprehensive about US positioning on Mercosur and the general effect the US presence will have on their SAFTA oriented policy. The Brazilian concern is that the US will not take seriously into account the new developing

structure of intraregional trade which Brazil could dominate in negotiating a hemispheric free trade association.

6. For a moment consider the following sequence of recent trade related events from a Brazilian point of view:

A. The US has invited President Frei of Chile to visit Washington in February 1997, though NAFTA entry has been down played, it is on the minds of the Chileans and Brazil.

B. Presidential advisor Mike McClartey just visited three Mercosur countries and announced renewed US trade policy efforts in Latin America and the Caribbean and a Clinton visit in 97.

C. The technical trade follow-up to the 1995 Colorado meeting on the Miami Summit Action Plan for free trade will be held in Belo Horizonte in May 1997, and high ranking US officials are pressuring Brazil to make fundamental decisions in Belo Horizonte as to the road that should be taken to arrive at a hemispheric free trade association (FTA) to be ready for the 98 Santiago Summit. Brazil wants to go slow to let Mercosur and SAFTA develop and replies: what is the hurry the Miami Summit goal for FTA is the year 2005.

D. The World Street Journal published two stories based on leaks that have been negative to Mercosur and Brazil (Oct. 19 and Nov. 22.)

7. The more suspicious Brazilians tend to interpret events A,B,C and D as linked in the US effort to push its own NAFTA based model of FTA and undermine the Brazilian model. This conspiratorial mind set (CMS) is found in the Brazilian embassy in Washington and is probably shared by some Brazilian journalists who say it is also shared by some people in Itamaraty.

8. In this CMS, given that the Bank is directly connected to the content of the leaks to the WSJ through a research paper and a letter from the Brazilian Ambassador to the President of the Bank, it is assumed that the Bank is the leaker in both cases and that the leaks had the aim discrediting Mercosur and Brazil contributing in this way to US trade policy objectives. Therefore the people who share this CMS are very angry at the Bank.

9. I believe that it is unfortunate that the WSJ got the Yeat s paper and knowledge of the ambassador s letter because if it had not, the WB would be free and clear of this controversy: Yeat s paper would have been published as normal research paper and nobody could have accused the Bank, and specifically EXT, of making an effort to discredit Mercosur and Brazil in the part I press. But that water under the bridge.

10. I believe that Mark s and Gobind s suggestion that the most pro-active thing we can do right now is to do nothing with respect to the media is correct. Any public PR move on our part will add oil to the fire and be misinterpreted.

But for that very reason we cannot forget the situation, we must monitor it carefully and we should be seriously asking two important questions just to know the consequences of what we do when we decide it is necessary to act, or what might happen if we do not act:

1. Is what I have called the CMS limited to the Brazilian Embassy in Washington, or does it extend deeply into the policy making establishment in Brazil?

2. If the CMS does extend to the policy making establishment in Brazil: what retaliatory action could that establishment take against the Bank?

11. I do not have a well-founded answers to these two questions.

12. If the Brazilian foreign service establishment believes that the Bank leaked a private letter to the press from the Ambassador of Brazil to the President of the World Bank on such a delicate matter, and the publication of that letter hurts Brazil s image, you can expect at least an impulse to retaliate. Perhaps on an issue totally unrelated to the subject matter of the controversy. The Foreign Ministry --- not Malan --- would lobby for the retaliation.

13. If we want to offset this situation we should try to figure out if the nk is responsible for the leak of the ambassador s letter to the WSJ. The leak of the letter is a more important transgression for diplomats than the leak of the Yeat s report that after all falls within the scope of the Bank s metier and can be explained by the less formal customs of academic-media relations.

14. If the WB is not responsible for the WSJ knowing of the ambassador s letter to the President of the World Bank, someone should try to persuade the Ambassador of this fact directly, personally and privately. From a regional perspective the quicker the Brazilian policy establishment, specially its foreign policy establishment, is convinced the Bank is not playing hardball on this issue on behalf of the US, the better.

15. If the WB is responsible for the WSJ knowing of the letter, the situation is different, and in that case I would hope things are being done with a full understanding of the possible consequences.

16. In this embroglio we have been given the advantage that the Brazilian Ambassador has acted unprofessionally by leaking his letter to JW to his own press. And not just to one journalist but to several. His objectives were to retaliate against the Bank, if the Bank published the Yeat s paper, and to grandstand in his own country, not necessarily in that order. The WSJ does have Brazilian press contacts and it would not be impossible that one of the Brazilian journalists told the editor of the WSJ Americas column of the existence of the letter. So the Brazilian Ambassador s leak could have ultimately played against his own interests.

17. These are the facts as I see them from my vantage point. I hope this is useful.

Non-Paper

NON-PAPER

- This non-paper is delivered to the World Bank on behalf of the Brazilian Government, in its capacity as Secretary Pro Tempore of MERCOSUL, and of the Governments of Argentina, Paraguay, Uruguay and Chile.

- Last week, the Wall Street Journal and the Financial Times published articles quoting a paper critical of MERCOSUL, authored by senior World Bank economist Mr. Alexander Yeats.

- In a laudable attempt to dissociate the Bank from Mr. Yeats' views, the Vice President for Latin America and the Caribbean Region, Mr. Shahid Javed Burki, released a statement in which he apparently endorsed parts of the criticism made by the above mentioned economist, in particular, alleged inefficiencies of MERCOSUL (paragraph 3).

- Those regrettable events do indicate an urgent need for the Bank to develop a new perspective, not only on its policy on circulating senior official personal opinion pieces, but also on its role in the current debate on important trends affecting today's international economy.

- At the very least, this new approach should be based on two main considerations:

a) Bank officials cannot and must not ignore the impact of publishing their personal views on highly newsworthy issues. Using one's position at the Bank to draw public attention to his or her views is not acceptable and must not be tolerated;

b) The World Bank is a multilateral financial institution and not a think tank. Although it is desirable that the Bank encourages internal discussions on relevant contemporary issues for input to its internal policy making process, it is not supposed to pass public official judgments on any issue whatsoever, especially those related to foreign trade. The assessment of regional trade agreements' consistency with multilateral trade rules and the impact on foreign trade is not a task that has been assigned to the Bank.

- In light of these two considerations, the Brazilian Government:

a) regrets that the above mentioned study stating idiosyncratic and disputable opinions has reached the press in a way which is still not clear;

b) while appreciating efforts made by the Bank to clarify its position regarding irresponsible and misleading criticism on MERCOSUL made by one of its senior officials, regrets that the Bank officially and publicly states its opinions on the Southern Common Market;

c) requests that the above mentioned study authored by Mr. Yeats not be published under the auspices of the Bank; and

d) requests that future papers authored by officials and published by the Bank as working papers for internal discussions do not bear any identification which might give the impression of

being an official statement. In addition, the document should bear no graphic association with the Bank.

- The Brazilian Government is confident that the adoption of the above guidelines will increase the transparency of legitimate policy discussions promoted by the Bank without involving such a respectable and respected institution as the World Bank in events with which it should not be involved.

- In order to correct and clarify some of the astounding mistakes contained in Mr. Yeats' paper, the following comments should be made:

a) MERCOSUL's imports from third countries increased by the impressive rate of 120% between 1990 (US$ 25 billion) and 1995 (US$ 55.1 billion). These figures do prove that allegations of trade diversion in MERCOSUL are groundless, to say the least. No ideological attempts to prove the opposite are likely to succeed;

b) With regard to Brazil, the largest national economy within MERCOSUL, the figures are even more persuasive. Brazil's imports from non-MERCOSUL countries increased by 133% between 1990 (US$ 18.3 billion) and 1995 (US$ 42.8 billion);

c) Taking Brazil as an example once more, the MERCOSUL Common External Tariff led to an additional and important reduction of national tariffs. Today's Brazilian average tariff is less than 13%, which is lower than it was two years ago;

d) MERCOSUL is expanding to bring in other associate partners. A free trade agreement was signed with Chile last June and Bolivia is expected to become an associate member next January. The other Andean Pact countries will follow; and

e) Allegations that intra-MERCOSUL trade concentrates on "inefficient" goods which would not be competitive in the international market have no factual support. Again Brazil is a good example: 18% of our exports to MERCOSUL are machines and equipment, while our sales of those products to NAFTA are 20% of the total trade. Likewise, 7.3% of Brazilian exports to MERCOSUL are steel products, while they are 13.2% of our exports to NAFTA.

- In light of the above comments, one can only conclude that the study by Mr. Yeats is totally flawed. In effect, one does not need all of this information to assess the quality of his paper. Two main characteristics of his study are enough to discard it: the use of 20-year old figures (regarding import demand elasticity) and the invention of an "intensity of trade index" that, if taken seriously, would lead the reader to the astonishing conclusion, for example, that trade between Zimbabwe and South Africa is more dynamic than the one between the US and Japan.

HAITI

THE WORLD BANK/IFC/M.I.G.A.

OFFICE MEMORANDUM

DATE: November 1, 1996

TO: Mr. James D. Wolfensohn

FROM: Shahid Javed Burki, Vice President, LAC

EXTENSION: 8-2332

SUBJECT: **HAITI**

This is to brief you on some of the issues raised concerning Haiti during Wednesday's Executive Committee Meeting.

1. While the WSJ article is overall a very solid and well-researched piece, its criticism of the Bank's Road Maintenance and Rehabilitation Project unfortunately contains some inaccuracies. It implies that the Bank, in addition to financing a "first phase" of a road, is considering financing a "second phase" once the Government addresses some potentially delicate resettlement issues in an adjoining area. As my staff tried to convey to the WSJ journalist, this may be influenced by the Haitian Government's great interest in an overall project of a "La Saline Road". The fact is that the Bank agreed with the Government from the outset to design and help finance a self-standing sub-project out of the resources available to Haiti from the Bank's Road Maintenance and Rehabilitation Project. This sub-project will support the construction of a traffic loop which by-passes the low-income area of Cité Soleil and would bring relief to the appalling traffic problems. We also made clear to the WSJ correspondent that this "loop" was not by any standards a "Road To Nowhere". We also told her that we were not "hedging our bets", since there has never been any intention by the Bank to finance a possible second phase through densely populated slums of Cité Soleil.

2. Given the high visibility of Haiti and the general media interest, the Haiti Team has made a point of pursuing a very active information policy with stakeholders, including journalists, briefing them on different occasions on the Bank's strategy and the Government's economic reform program. In the spring, we held a seminar for Haitian parliamentarians and journalists in Haiti. In early October, we organized a meeting with US-based NGOs on the Haiti CAS. Our resident mission is in close contact with local journalists and the Haitian NGO community. Over the past days we also had interviews with the "Voice of America" and the "Miami Herald". All this not withstanding, we agree with Mark that we should sit together and discuss possibilities of a more pro-active approach which would let the Bank determine the agenda.

3. Attached please find, per your request, an update on IDA's program in Haiti.

cc: Malloch Brown (EXTVP); Koch-Weser, (EXC); Ody (LACVP); Ecevit (LATSO); Perry (LACCE); Del Carril (LACEA); Isenman, Crown, Hicks (LA3DR); McCarthy, Sooh (LA3EU); Nouvel, De Zan, Fluckiger, Peuker, Sarna (LA3C2); Carr (Haiti Mission); LAC Files

HAITI

UPDATE ON IDA'S PROGRAM

OCTOBER 31, 1996

Overall Picture

1. Since Haiti's new President took office in February, IDA's program in Haiti is starting to pick up. Disbursements levels in the first quarter of FY97 reached US$25 million (FY96 total: US$48 million). Over US$800 million of overall donor aid has now been disbursed since the resumption of donor activities in December 1994. Despite criticism to the contrary, there *are* results on the ground (see para. 3 below). However, rehabilitation needs in Haiti are tremendous, and expectations exceedingly high. Therefore, the great challenge remains: expeditious implementation of the IDA (and overall donor) program. We had to postpone a donor meeting programmed for this fall due to scheduling conflicts of the President, but we are planning with the Government and the donor community a bank-sponsored meeting in early spring to formulate and put to work an aid implementation strategy across sectors and donor agencies (i.e., an "Implementation CG"). The relationship between IDA and the Government is excellent, and there is a broad consensus on our Country Assistance Strategy which was presented to the Board on September 17, with a triple focus on social safety nets, public sector reform and economic growth.

Macro Situation and Reforms

2. The medium-term economic reform program agreed on in May between the Government, the IMF, IDB and IDA is taking shape. The Parliament passed two critical laws on civil service reform and public enterprise modernization in September, allowing limited forms of private sector participation (concessions, management contracts, joint ventures). The IMF approved a 3-year ESAF of approximately US$133.5 million on October 18, triggering an initial disbursement of budget support by some bilateral donors. A Policy Framework Paper (PFP), agreed between Government, IMF, IDA and IDB was circulated to our Board on October 7. We are now waiting for the Government to establish a commission overseeing the privatization process, as a necessary counterpart for the negotiations of IDA's US$25 million adjustment operation (ERC II). Negotiations are expected for mid-November, and we hope to present it to the Board in December. Overall, as agreed at a Bank-sponsored donor meeting in June, the Government's financial needs are expected to be covered for FY97.

Investment and Social Sectors

3. IDA's portfolio is now moving relatively well, despite the difficult institutional and political environment. The two emergency projects are performing well: the Employment Generation Project has created short-term employment and income for some 400,000 of the poorest and will be completed by March 1997. The Economic and Social Fund has financed up to now some 170 small projects submitted by NGOs and community groups,

mostly for rehabilitation of social infrastructure (small schools and dispensaries). A follow-up operation is under consideration. Through our health project, there is now a mechanism in place to provide essential drugs nationwide, and we are constructing health facilities and latrines in the country's most populated region. IDA's infrastructure projects have started, after a slow beginning, to show results on the ground: additional 21MW of electricity is installed, water reservoirs and public water fountains in low-income areas are being built in Port-au-Prince, a labor-intensive road maintenance program is now under implementation across the country. In the area of environment/agriculture and rural development, the Board approved a credit on September 17 to help protect the country's three remaining ecosystems holding important watersheds. Furthermore, we are now in discussion with the Government to help design an overall agricultural strategy, to be supported by a Bank-financed project aiming at sustainable intensification of small-holder-based agriculture.

Attachment: Table: "IDA Portfolio Implementation Status"

drafted by: Stefan Flückiger (x30093)/Axel Peuker (x38676)

Haiti : IDA Portfolio Implementation Status (in US$ Million)

By IDA fiscal year;(as of October 29, 1996)

Credit Information							Actual Disbursements				Projected		
Credit Number	Credit Name	Agreement Date	Effective Date	Closing Date	Original Principal*	Undisbursed Balance	As of 12/94**	Total FY 1995	Total FY 1996	FY97 Q1	FY97 Q2	FY97 Q3	FY97 Q4
17560	Transport VII***	12-Feb-87	25-Mar-87	30-Jun-96	*20.00*	0.00	18.66	-0.14	3.29	0.55	0.00	0.00	0.00
26700	Emergency Economic Recovery***	20-Dec-94	23-Dec-94	31-Dec-95	*40.00*	0.00	0.00	40.34	0.00	0.00	0.00	0.00	0.00
20520	Port-au-Prince Water Supply	9-Aug-89	14-Feb-90	30-Jun-99	20.00	16.24	0.84	0.00	1.73	3.09	2.50	3.00	2.50
20530	Power V	9-Aug-89	16-Jan-90	31-Dec-98	24.00	13.45	0.13	0.00	9.79	2.80	3.49	0.41	1.50
20710	Industrial Restructuring and Dev.	2-Feb-90	2-Aug-90	30-Jun-98	11.40	9.32	1.75	0.02	1.63	0.50	1.00	1.20	1.20
20850	Health and Population	2-Feb-90	20-Jun-90	30-Jun-98	28.20	25.76	2.03	2.48	1.23	0.90	0.60	0.70	0.70
22050	Economic and Social Fund	14-Feb-91	21-May-91	30-Jun-98	11.30	4.92	0.67	0.00	3.74	2.09	2.00	2.00	1.00
26910	Road Maintenance and Rehab.	14-Apr-95	13-Jul-95	31-Dec-01	50.00	47.70	0.00	0.00	0.60	1.61	2.00	3.00	2.00
27650	Employment Generation	13-Jul-95	13-Jul-95	31-Mar-97	50.00	5.75	0.00	0.00	25.91	13.54	7.00	1.00	0.00
	Forestry & Park Protection****				21.25								
	Technical Assistance Project****				12.00								
	Gross Disbursement				**228.15**	**123.14**	**24.07**	**42.70**	**47.90**	**25.07**	**18.59**	**11.31**	**8.90**

* Total of original principals includes active portfolio only, excludes Transport VII and Emergency Economic Recovery Credits.

** Resumption of IDA activities in Haiti.

*** Closed

**** Approved Sept. 17, 1996.

WSJ Article

This item appeared on page A1 of the October 30, 1996 issue of

THE WALL STREET JOURNAL

Social Insecurity

Haiti Tastes Freedom, But Efforts to Rebuild Run Into Roadblocks

The Thugs Are Mostly Gone, Yet Question Remains: Can Nation Stand Alone?

Another Year for U.N. Troops

By CARLA ANNE ROBBINS
Staff Reporter of THE WALL STREET JOURNAL

PORT-AU-PRINCE, Haiti – A remarkable thing happened a couple of weeks ago in Arcahaie, 20 miles northwest of here. A former Ton-ton Macoute, one of the Duvalier-era goons who terrorized the country for years, was arrested and locked up in the local police station for allegedly murdering his nephew.

Joseph Pierre Andre, an aide to the mayor of Arcahaie, is delighted, even a bit amazed – but he offers one small caveat: "He'll probably be out in a week, since we don't have a working justice system."

Two years after President Clinton dispatched 20,000 troops here, a fragile democracy has been re-established. In February, restored President Jean-Bertrand Aristide, nudged sharply by Washington, handed over power to his elected successor, Rene Preval. The number of boat people trying to escape to the U.S. has sharply dropped. The United Nations, meanwhile, has managed to reduce its Canadian-led peacekeeping force to 1,600 troops and police monitors. An additional 400 U.S. troops remain to do humanitarian work.

And while the thugs haven't all gone away – including some inside the presidential guard – most Haitians say they are enjoying the first real freedom of their lives.

Garbage and Human Waste

But efforts to rebuild Haiti's economy and social infrastructure lag glaringly behind, despite some $800 million in international aid and loans – about 40% of that from the U.S.

Driving around the capital here, it is clear that even more needs to be done. Garbage and human waste clog drainage ditches. Main roads are cratered. The lights in the city are back on, but not all the time. Telephones barely work.

With so little real progress, most Haitians say their country won't be ready to stand on its own for years. "How soon you want the troops to leave depends on how soon you want them to come back," Haitian political analyst Lionel Delatour warns.

Haitians are both bemused and frustrated by Mr. Clinton's claims of success – and Robert Dole's equally broad charges of failure – for their country. More than anything, they fear the U.S. will lose interest in finishing the job here after next week's presidential elections. "You are a country always looking for a quick fix," says Haitian factory owner and business leader Georges Sassine.

There is no quick fix for Haiti, and a good part of the problem is home-grown. The country's economic troubles and political vagaries have proved far tougher than anyone in Washington ever imagined.

No 'Nation Building'

Haiti's benefactors, particularly the U.S., must share the blame. Though President Clinton showed unexpected political courage by defying both Congress and public opinion to send troops here, his follow-through has been far more timid. In the wake of Somalia, U.S. troops were told to ensure Haiti's security, but steer clear of anything that might be branded "nation building."

The much tougher task of rebuilding was left to underfunded and slow-moving U.S. aid agencies, even slower-moving international donors, and the Haitian government.

Paradoxically, the U.S. troops remaining here – officially on a "training mission" – *are* involved in a small-scale version of nation building: repairing schools, drilling wells, and building a 7.5-mile road linking the capital's port with Highway 1, one of several built by U.S. Marines during the 1915-1934 U.S. occupation.

The irony isn't lost on Marine Col. Jon Stull, who is overseeing the Haiti mission. "The last time the Marines were here we built 1,200 miles of roads," he says.

Maintaining Stability

The most obvious improvement here has been in security. Haiti no longer looks like a nation under military occupation. While M-16-toting American soldiers once manned Port-Au-Prince roadblocks, today the only people stopping cars are highway-department pollsters working on a master traffic plan.

Yet most Haitians remain convinced that a visible international presence is the only sure way of maintaining stability. It is an opinion apparently shared by Washington – despite the obvious political cost. While the last U.S. combat troops pulled out in March, the Clinton administration was nervous enough in late July after a series of rumored assassination and coup plots to send back 150 members of the 82nd Airborne. Fifty Marines followed a few weeks later.

In a country where rumor and paranoia are national sports, it is hard to assess the real threats. That the government still has well-armed enemies – many of them former members of Haiti's dismantled army – is undeniable. Nine Haitian policemen have been gunned down this year. During the summer, some two dozen ex-soldiers were arrested on charges of plotting against the government. Soon after, uniformed commandos fired at the police headquarters and parliament building.

The U.S. had hoped to neutralize the bad blood among cashiered soldiers with an ambitious, $7 million vocational training program. But after two years, fewer than 10% of the nearly 5,000 retrained soldiers have managed to find jobs.

"They talk about reconciliation, but it's just words," says Lucien Joseph, a 30-year-old former corporal now trained as an auto mechanic. "When [employers] find out I used to be in the army, no one wants to hire me."

U.S. officials say it isn't surprising that more of the retrained soldiers don't have jobs, given that only about 20% of the Haitian population is employed. But after this summer's unrest, the U.S. is pressing Haiti's government to use foreign aid to pay the ex-soldiers' pensions and help them find work.

Crooked Guard?

Haiti's new democratic government still has its share of thuggery. The U.N. reports two dozen "apparently politically motivated killings" during the past two years – several of them well-known government opponents. And U.S. officials say they have "convincing but not definitive" evidence that key members of President Preval's own U.S.-trained presidential guard were behind the Aug. 20 murder of two right-wing opposition party members, as well as several other lesser crimes.

After a late August visit from U.S. National Security Adviser Anthony Lake and Deputy Secretary of State Strobe Talbott, Mr. Preval agreed to purge his guard. Two weeks later, about 40 U.S. diplomatic security agents were dispatched to oversee the process and, not incidentally, protect Mr. Preval from his protectors.

U.S. officials don't believe the Haitian leader had any knowledge of the killings. "But there is a certain laxity when it comes to investigating these crimes," one U.S. law enforcement official who has worked in Haiti says dryly.

Republicans on Capitol Hill see more malevolent forces at work. A new report prepared by Republican congressional staffers describes how the Aristide government successfully blocked an FBI investigation into a high-profile political killing here. The report goes on to allege that senior Clinton-administration officials covered up that obstructionism to avoid tarnishing the president's record on Haiti. The administration has denied the charges.

Green Police

No one knows whether the Haitian thugs – in or out of the government – are organized enough to stage a coup. But most everyone believes they can create enough insecurity to further cripple the country's economic and political recovery.

Whatever the threat, the newly created Haitian National Police is still too young, inexperienced and ill-equipped to keep the peace on its own.

As a reporter accompanies U.N. police monitors on a recent night patrol, the Haitian police force's inadequacies are obvious. In Cite Soleil, the capital's toughest slum, only 12 of the night watch's 20 policemen show up for work – and none will leave the station after nightfall. In Carrefour, at the western entrance to Port-au-Prince, four police officers monitor the street from the security of their newly donated Nissan, parked in front of an all-night bar and convenience store. When a U.N. patrol comes by with news of a major traffic accident, the officers at first resist getting involved, claiming they don't have the gas or permission to leave their post.

The situation outside Port-au-Prince is slightly better. On a recent Saturday afternoon in Arcahaie, two Haitian policemen peacefully mediate a market dispute, while a French gendarme stands quietly to the side. Afterward, however, the gendarme has to drive the Haitian policemen back to their station, since none of the town's three donated police cars are working.

Enrique ter Horst, head of the U.N. mission here, estimates it will be another year before the U.N. troops can go home. "That's an objective; it's not a deadline," he says. The civilian police monitors likely will have to stay on longer, he says.

If law and order has been slow to come by, economic progress has been even slower. At the time of the intervention two years ago, Haiti was an economic disaster, says U.S. Ambassador William Swing. "Not only was the treasury empty, the ministries were . . . gutted. When I went to the palace four days before Aristide came back, everything [was gone], even the light fixtures." A crushing international embargo, meanwhile, shrank the economy by 30%.

Former President Aristide made a difficult situation worse by reneging on painful economic reforms, driving frustrated international backers to suspend about $100 million in budgetary support.

His hand-picked successor originally was feared to be even more of a leftist. But Mr. Preval and tough-minded Central Banker Leslie Delatour have surprised everyone: collecting taxes, reducing government spending and holding down inflation. Last month, President Preval browbeat parliament into approving plans to sell or subcontract control of the disastrously inefficient state-owned electricity and telephone companies and the port. He also won their approval of major layoffs in the state bureaucracy.

No Significant Investments

But there are serious questions about whether his government has the popular support or the managerial competence to follow through. Mr. Aristide hasn't made the job any easier, publicly criticizing the privatization program.

Despite several high-profile American trade missions, Haiti hasn't been able to attract any new foreign investment. Before the 1991 coup, some 40,000 Haitians

assembled clothes, baseballs and electronics; only about half those jobs have returned.

Mr. Sassine, who has reopened three children's wear factories, says few people will invest in a country where the phones, roads, electrical system and port "are all a disaster." Like most Haitians, he had hoped the U.S. military would fix those problems. "We needed the Army Corps of Engineers; we needed nation-building," he says.

But the Clinton administration decided it had neither the cash nor the political support to take on that task. Instead, big-ticket infrastructure projects were left to international lenders and the Haitian government. It has taken two years for even the first of those to get under way: In recent weeks, the Haitian government has approved three contracts, financed by the Inter-American Development Bank, to repair some 200 miles of key highways – an effort that will take two more years to complete. Contracts to repair an additional 220 miles of highways won't likely be approved for another six months to a year.

Layoffs Ahead

Meantime, work on Haiti's main seaport (the most expensive in the Caribbean), as well as the airport and electrical and telephone systems, will be left to private investors and managers. Before that can begin, however, Haitian officials estimate they must lay off as many as 3,000 workers at the overstaffed port, telephone and electric companies. Another 7,500 will be cut from the state bureaucracy.

"It won't be difficult if the economy is booming," says Leslie Voltaire, a top adviser to President Preval. "If the economy isn't, it will feel like 100,000."

As to what exactly happened to the $800 million of aid already provided to Haiti, rumors swirl. A look at the capital's hotel bars and restaurants–filled with well-dressed foreigners–leaves little doubt that some money has been squandered on well-fed consultants. Politics has taken its cut as well: One of the few new roads in Port-au-Prince, a $6 million gift from Taiwan, isn't the most direct route to anywhere – but it does conveniently run past former President Aristide's elegantly appointed compound.

Little Good Will

Still, most of the aid has gone to help Haitians survive and start the long process of rebuilding a working society. A breakdown of the $329 million spent by the U.S. is instructive. It includes $25 million to clear Haiti's arrears to international lenders, $45 million to finance the government, $90 million to feed between 400,000 and one million people a day, $50 million for basic health services, $17 million for temporary low-wage jobs, $43 million to set up and train the new Haitian police, $19 million for Haiti's ecological crises, and $13 million for elections.

That aid has bought time, though not much good will. On the second floor of Arcahaie's town hall lie 40 unused 12-foot-long plastic pipes, sent by an international donor planning to bring the town potable water. But local politicians blocked the project when they discovered the new wells wouldn't have electrical pumps. "If they did a project like this in your country, would they use hand pumps?," asks the affronted mayor, Pierre Roger Vertilus. The fact that his town only has electricity six hours a day hasn't changed his mind.

Road To Nowhere?

The next test for the Haitian government and its U.S. backers could well be Marine Col. Stull's modest 7.5 mile road connecting the port to the northern highway.

So far, the World Bank, which is financing the estimated $7 million project, has only approved the first 5.2 miles – which end about 900 feet into the northern reaches of Cite Soleil, the most densely populated slum in the Western Hemisphere. Before the bank will approve the rest, the Haitian government must raze the homes of some 3,000 families.

Mr. Voltaire, the Preval aide who oversees the project, has already developed designs for a new community for these families, complete with courtyard homes, markets and recreation areas. He estimates the price tag at $5,000 a unit, or a total of $15 million.

"They're already bribing my inspectors to mark their homes for demolition," he says. His World Bank partners are enthusiastic, too. But they are hedging their bets – by designing a side-route from Cite Soleil back out to the highway should the Haitians not pull it off.

CORRUPTION

PRESS BACKGROUNDER

The World Bank

1818 H Street NW, Washington, DC 20433, USA

THE CORRUPTION ISSUE

At his speech during the World Bank/IMF annual meetings, World Bank President James D. Wolfensohn vowed to help fight the "cancer of corruption." *"In country after country, it is the people who are demanding action on this issue,"* he said. *"They know that corruption diverts resources from the poor to the rich, increases the cost of running businesses, distorts public expenditures, and deters foreign investors. They also know that it erodes the constituency for aid programs and humanitarian relief. And we all know that it is a major barrier to sound and equitable development."* Mr. Wolfensohn said that those governments which fight corruption would attract the larger volume of investment.

Corruption is not a new concern for the World Bank. For decades the Bank has sought to ensure that the funds it lends to countries are used for their intended purposes, and that contracts for goods and services are awarded in a transparent and cost-effective way.

The Bank is undertaking a renewed approach to helping countries prevent corruption and its negative impact on development effectiveness and economic efficiency. We know that corruption and fraud hurt economic efficiency and slow the provision of services and resources to the people—often the poorest—for whom they are intended. Corruption's impact on development is an increasingly important issue in donor countries; with official assistance for development under mounting pressure, greater attention is being paid to how these funds are being used. Moreover, corruption is also an obstacle to foreign investment and is a growing concern for the Bank's partners in the private sector.

The Bank's Approach to Controlling Corruption

The Bank recognizes that corruption needs to be addressed to achieve good governance, and is working to help governments establish safeguards. The Bank's efforts are focused on four broad areas:

- Economic policy reform
- Institutional reform
- Fiduciary control
- Multilateral partnerships

Economic Policy Reform

This relates to the Bank's work in helping governments undertake economic, policy, and regulatory reform.

- **Economic reform:** Through the reform of trade regimes and investment laws and the financial sector, countries can mitigate the effects of "rent-seeking" by replacing

administrative mechanisms (for example, export licenses, foreign exchange, and bank credit allocations) with market mechanisms.

- **Tax reform:** By helping countries simplify and strengthen tax systems and strengthen collection capacity, the Bank contributes to the reduction of corruption in customs and tax administration.
- **Regulatory reform:** The Bank helps eliminate price controls, simplify government regulations, and strengthen the regulation of private and state-owned enterprises operating in non-competitive markets.
- **Privatization**: The Bank is helping many developing and transition economies manage the transfer of state-owned assets to private ownership. Because this transition presents corruption risks of its own, the Bank works especially closely with its client governments to help make the process open and transparent.
- **Sector Policies**: How policies are designed in areas like the environment and social services may determine the opportunities for corruption in their implementation, and the Bank can provide a country with best practice experience from others which have improved sector performance.

Institutional Reform

This second area of the Bank's anti-corruption strategy is concerned with building institutional strength inside and outside the public sector.

- **Government financial management reform**: The Bank is assisting an increasing number of countries in the modernization of government budgeting, financial management, accounting, and auditing systems. At the regional level, the Bank is playing a key role in a multi-donor effort to help Latin American countries develop sound, transparent accounting systems. Based on the successful **Public Financial Management II Project in Bolivia** (supported by the Bank), an **Integrated Financial Information System project in Argentina** has successfully integrated the entire central government sector through telecom links and the standardization of data reporting systems. **Argentina's Ministry of Economy now has a website**, complete with the latest national economic data, including government spending, tax revenue, capital markets and banking information.
- **Civil service reform**: In the past decade the Bank has supported civil service reform in more than 40 countries; emphasis has been on reforming pay and employment conditions, training, and personnel management.
- **Public procurement:** The Bank works with governments toward greater transparency and competition by providing assistance in drafting new procurement laws and regulations, and training officials to implement them.
- **Governance:** On a broader front, the Bank helps countries control corruption through legal, judicial, and regulatory reforms. In **Ukraine** for example, the Bank is supporting a series of reforms to reduce the government's role in the economy, rationalize taxes, restructure public spending, streamline bureaucracy, and make government more responsive to the private sector. **Legal and public sector reform loans for Ukraine** have been proposed. In addition, programs such as **EDI's training workshops** for journalists help strengthen the ability of the press to scrutinize all fields of public administration.

Fiduciary Control

The third area of the Bank's strategy is the effort made to maintain the highest level of transparency in Bank loans and credits, and ethical standards among Bank staff.

- **Guarding against corruption in Bank projects**: The Bank has long-established procedures for procurement, disbursement, reporting, and auditing, based on principles of economy, efficiency, and transparency. Financial reporting under Bank loans has recently been strengthened to tighten the time frame for borrower completion of audits.

- **Maintaining the highest ethical standards among bank staff**—Long-standing staff rules on outside interests and disciplinary measures have been and are continually updated and reinforced.

- **Changes in internal Bank procedures:** Greater attention is being given to portfolio management and supervision, and performance measurement. This includes public access to Bank project documents, the creation of the Independent Inspection Panel, and a more participatory approach in the design, preparation, implementation, and appraisal in Bank projects.

Multilateral Partnerships

The fourth area of the Bank's approach to reducing corruption involves coordinating its action with governments, other multilateral institutions, and its partners in the private sector and civil society.

The negative effects of corruption reach across borders and therefore require the concerted attention of the international community. Important international organizations such as the OECD, the Council of Europe, and the OAS are also taking steps toward fighting corruption, including the use of international instruments such as international conventions and formal recommendations to their members. Anti-corruption initiatives are also being undertaken by global business organizations and NGOs. The Bank intends to coordinate its efforts with other bilateral and multilateral initiatives to ensure that the broadest support is given to countries fighting corruption.

Procurement Guidelines Tightened in 1996

New guidelines approved by the World Bank's Board in the fall of 1996 provide that the Bank:

- may cancel a corresponding amount of a loan if it determines, with respect to any contract to be financed out of the proceeds of the loan, that corrupt or fraudulent practices were engaged in by representatives of the borrower or of a beneficiary of the loan during procurement or during the execution of the contract without the borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation;
- will have the right to inspect accounts and records of suppliers and contractors relating to the performance of the contract, and to perform a complete audit by Bank-appointed auditors; and
- may bar firms from Bank-financed contracts, either indefinitely or for a specified period of time if the Bank determines the firm engaged in corrupt or fraudulent practices in competing for, or in executing, a Bank-financed contract.

NY Times Articles

This item appeared on page A3 of the July 7, 1996 issue of

The New York Times

The Worldly Business of Bribes: Quiet Battle Is Joined

By RAYMOND BONNER

BERLIN, July 2 — Two years in Kenya as director of World Bank operations there convinced Peter Eigen of what he had begun to realize when he focused on Latin America: corruption was endemic, and, to put it mildly, seriously undermining development.

Since the World Bank was pouring billions of dollars into development, it seemed only natural that it should do something about it.

Mr. Eigen's colleagues in Africa had also seen enough. The response was "enthusiastic," he recalled, when at a World Bank meeting in the African nation of Swaziland in 1990, he proposed that the bank work with governments and multinational companies to develop a code of conduct.

But senior bank officials ordered Mr. Eigen to stop his anti-corruption efforts, saying they went beyond the bank's mandate, he said. He was not even to do it on his own time.

With that, Mr. Eigen decided to take early retirement — after 25 years at the bank — and in 1993, he started a nongovernmental organization to combat corruption.

Called Transparency International and headquartered in his native Berlin, the organization's goal, Mr. Eigen says, is to "rid society of corruption."

Moral opprobrium toward bribery is nothing new. It goes back some 4,000 years, with prohibitions found on Babylonian tablets, John T. Noonan writes in "Bribes," an 839-page moral, historical and legal tome on the subject (Macmillan, 1984). A Federal judge on the Court of Appeals for the Ninth Circuit, in San Francisco, Mr. Noonan is a member of Transparency International's advisory council.

Europe offers reformers a riddle: if a bribe is legal, is it evil?

Unlike Amnesty International and Human Rights Watch, which have discovered that their effectiveness in combating abuses comes through issuing reports criticizing governments, Transparency International practices "quiet diplomacy."

In an effort to win favor with governments and companies, whose policies and practices it hopes to change, the organization stresses that it does not investigate or even expose reports of bribery.

The organization acquired international recognition in a way that did not please all members of the board. In the spring of 1995, the German magazine Der Spiegel reported that Transparency International had ranked countries by their corruption, based on surveys by risk analysts and businessmen.

This was just the type of information that the cautious Transparency board did not want to be made public. But some of the staff, convinced that a bit of sunshine is the best disinfectant, were delighted with the Spiegel article, for there was no longer a reason for Transparency International not to publish the list.

Intended to be an annual report, the latest Corruption Index, issued last month, places New Zealand and Denmark as the least corrupt countries, with Nigeria, Pakistan and Kenya dragging on the bottom.

Last year, Transparency's budget was just over $500,000, about a third of it coming from businesses, Mr. Eigen said, among them General Electric, Bechtel, IBM, Pfizer, Nestle and Westinghouse.

Taking business donations leaves the organization open to criticism that its independence is compromised, that its watchdog's teeth may not be so sharp, its officials acknowledged.

But that is not Mr. Eigen's major concern. "We worry more about taking government money," he said.

The United States Agency for International Development supports the group, as do several European governments.

A $10,000 donation from Ecuador, in 1993, fueled the organization's critics when it turned out that the money had come from a secret account, managed by Ecuador's Vice President at the time, Alberto Dahik, who preached against corruption at home and was chairman of Transparency International's advisory council. Under investigation in Ecuador, Mr. Dahik has resigned from Transparency and is now in exile in Costa Rica.

After only three years, Transparency has chapters in 52 countries.

One of the most important is the American chapter, based in Washington. It is heavily influenced by corporate boards and the United States Government, which desires to level the playing field for American businesses. The Foreign Corrupt Practices Act, enacted in 1977, prohibits the payment of bribes to foreign officials; it is the only law of its kind in the industrialized world.

It is not always easy working with so many diverse chapters, Mr. Eigen said, diplomatically. "It is a miracle that they have been brought under one umbrella, in particular a chapter as supportive and powerful as the American."

But the group's hardest tasks are with European governments and businesses.

In Germany, it is against the law for a company to bribe a German civil servant, but it is not against the law for a German company to bribe a government official in a foreign country. This is the law in most European countries.

What is more, in Germany, Greece, Luxembourg and Belgium, foreign-paid bribes are fully tax deductible. In other countries — France, for instance, a bribe is a legal business expense, but only part of it can be deducted, a limitation that Mr. Eigen hardly finds laudable.

This item appeared on page A24 of the **November 12, 1996** issue of

The New York Times

The Sinking Palestinian Economy

The prospects for peace in the Middle East rest to a considerable degree on the economic condition of the Palestinians. These days it is bad and getting worse, a sure prescription for unrest and anger. Regional economic ministers and business executives meeting in Cairo this week can do something about that. There are concrete, feasible proposals on the agenda of the annual Middle East-North Africa economic conference that can give the Palestinian economy a lift.

The core economies in the Middle East are doing well, though poverty remains extensive and disparities in income are great. Jordan and Lebanon are growing faster than Western Europe and with tolerable inflation. Egypt is growing slowly, but has recently adopted pro-growth reforms. Israel's growth rate is 6 percent. Israel starts out at income levels — above $15,000 per person — four times higher than those of its neighbors.

The conspicuous exception is the Palestinian economy. Unemployment rates among Palestinian workers have soared over 50 percent, following Israel's decision to close it borders to most of them after terrorist bombings earlier this year. Palestinian employment in Israel has fallen from about 150,000 to about 35,000. Palestinian incomes have diminished by a third since 1993, to below $4,000 per person.

Prosperity for both Arabs and Jews ultimately depends on resolving intractable problems such as allocating water rights, building regional transportation and power-generation systems and permitting Palestinians more autonomy to conduct business with other Arabs. But large-scale infrastructure projects require a level of political trust and cooperation that does not yet exist. Wisely, Arab-Israeli working groups have turned to the politically possible, identifying realistic measures that require few political concessions but that could improve economic fortunes.

These proposals, developed with the help of the Council on Foreign Relations, include creating economic free-trade zones in Gaza that would combine Israeli capital and Palestinian labor free of tariffs or export restrictions. Other plans call for building roads along the beaches in Gaza that could attract tourists and private capital and extending electric and water lines into underdeveloped areas. Working groups have drawn up legal codes to protect foreign investors that could be put in place as soon as Israeli and Palestinian authorities give their approval.

The political stalemate between Israel and the Palestinians has made it difficult to get even these modest plans off the ground. The Cairo economic conference offers a chance to take economic actions that might help break the political deadlock. Increased economic activity in the Middle East can stimulate political accommodation by producing examples of Arab-Israeli cooperation and trust.

This item appeared on page A28 of the November 21, 1996 issue of

The New York Times

Hong Kong's Freedoms Imperiled

The signs are mounting that when China regains control of Hong Kong next July 1, Hong Kong's citizens will lose many of their freedoms. Beijing has steadily backtracked on the promises made in its agreement with Britain to grant Hong Kong a high degree of autonomy and maintain its way of life for 50 years. The latest indication came last week, when a committee of 400 Hong Kong citizens carefully chosen by Beijing took a preliminary vote to choose the new chief executive.

The winner, who will probably be confirmed by the same body on Dec. 11, was Tung Chee-hwa, a shipping tycoon whose failing business was saved by $120 million in secret financing from China in the 1980's. He has been seen as Beijing's favorite since China's President, Jiang Zemin, singled him out for a public handshake in January.

While Mr. Tung talks of the importance of preserving Hong Kong's freedoms, he has also said that citizens of Hong Kong should emphasize their obligations, not their rights. He expresses admiration for Lee Kuan Yew's wealthy and repressive Singapore.

If Mr. Tung is no champion of Hong Kong's rights, neither are his competitors for the post. Former Chief Justice Ti Liang Yang even disparaged Hong Kong's bill of rights. The candidates seem well aware that Beijing, which will actually choose the chief executive, considers docility an important qualification for the job.

Hong Kong's rights may fall victim to bad timing. After the Tiananmen Square massacre in 1989, Deng Xiaoping purged the Government of leading reformers. As a result, Beijing is much less tolerant of dissent than when the transfer was negotiated and sealed in a Joint Declaration in 1984. The leaders now jostling for power in anticipation of Mr. Deng's death do not want to be accused of softness.

When Christopher Patten, the Governor of Hong Kong, reformed the electoral process for Hong Kong's Legislative Council, Beijing seized on the democratization as a pretext to break its agreements. Instead of preserving Hong Kong's elected legislature, as it indicated it would do, Beijing is now planning to have the same committee of 400 appoint a legislature at the end of December. Chinese officials have warned that they will not allow "rumors or lies" in the press about China, suggesting that Beijing will have little tolerance for the press freedoms Hong Kong has enjoyed.

Many in Hong Kong and the West are hoping that Beijing will respect Hong Kong's freedoms and rule of law because it will not want to damage business confidence in an economy that is now equal to a fifth of China's. But Beijing shows no sign of understanding the connection.

The boom in foreign investment in China itself may lead the Chinese to believe that investment in Hong Kong would survive even harsh interference in the territory's politics, media and courts. Few in Hong Kong's business elite have defended the territory's rights. Many businessmen apparently feel they can prosper without political freedoms. Others have not wanted to undercut their individual efforts to befriend Beijing.

The Clinton Administration's determination not to let Chinese misconduct interfere with good relations has damaged Hong Kong's cause further. The United States should call on the Chinese to respect the Joint Declaration, especially the requirement of an elected legislature. It should also encourage Beijing to talk to Hong Kong's current democratically elected leaders. Washington must make it clear that China's goals of good relations, a smooth transition and continued foreign investment in Hong Kong can only be achieved if Beijing keeps its promises.

This item appeared on page A18 of the July 22, 1996 issue of

The New York Times

Gutting the Money for Poor Countries

Congress is threatening to renege on a worthy commitment made by President Clinton to wipe out America's debt to the World Bank program that lends money to desperately poor countries. The House voted to appropriate only $525 million of the $934 million the United States owes. A Senate committee voted for $626 million. Unfortunately, the Administration is not fighting very hard to restore the original target.

The danger is that once the United States falls short, other donor countries will withdraw their pledges, leaving sub-Saharan and other poor countries without any source of money to pay for investments in health, education and roads.

The United States and 34 other wealthy countries provide money to the International Development Association, an affiliate of the World Bank, to lend money to very poor countries on steeply subsidized terms. The I.D.A. is often the only source of external money for these countries because private investors are repelled by the risk of lending to countries that are hugely in debt.

The international agency requires that the recipients undertake prudent market reforms and use the loans to pay for important public needs like health clinics, schools and roads — built and equipped, in general, by companies from the donor countries. It is the prospect of winning these contracts that helps create a political constituency for the program in the donor countries.

The United States helped create and sustain the I.D.A. but has now fallen more than $934 million behind its pledges. The other donors demanded, and President Clinton agreed, that the arrears be paid next year. But the huge payoff leaves Mr. Clinton no room to provide money for new I.D.A. loans next year. Rather than rejoicing that the United States agreed to wipe out its arrears, the other donors chose to add a politically incendiary form of punishment. Next year, when the United States would be contributing no money for new loans, its companies would be prohibited from bidding on contracts from recipient countries.

The prohibition angered Capitol Hill and companies in the construction and farm implements industries that would have expected to win contracts on I.D.A. projects. Congress, not about to ignore the squawking of powerful industries during an election year, is gutting Mr. Clinton's request, a foolish gesture that achieves little. Congress should have instead provided the full $934 million owed, but only if the other donor countries dropped the gratuitous shackles on American business.

Full funding would not be difficult to provide. There is fat in the pending foreign operations budget, including excessive spending on military assistance for foreign countries so that they can buy American arms they do not need and cannot afford.

Foreign aid programs are unpopular when Congress is cutting domestic programs. But I.D.A. is special. Most of the money goes to people squeaking by on $1 a day. A $7 trillion economy can easily afford to honor America's proud tradition of helping the world's poor. That way I.D.A. could survive at least for one more year.

This item appeared on page A32 of the June 28, 1996 issue of

The New York Times

The Third-World Debt Crisis

President Clinton and the leaders of six other industrialized countries will devote much of their meeting this week in Lyons, France, to the terrorist attack in Saudi Arabia. But Jacques Chirac, the President of France, is rightly insisting that the summit meeting also grapple with the troubling problem of third-world debt. As many as 20 countries have reached debt levels so high that they are shut out of international capital markets and cannot climb out from under repayment burdens. The seven leaders agree debt relief is needed soon, but they disagree over how to provide it.

The World Bank and International Monetary Fund have proposed a plan, backed by the United States, that would knock down the debt burdens of the poorest countries to sustainable levels. That would allow the countries to repay lenders without imposing punishing taxes on their citizens. Under the proposal, the bank would reduce debt repayments on its loans. The I.M.F. would sell a small portion of its gold stock, invest the proceeds and use the income from the investments to reduce the debt payments of some third-world borrowers.

The bank and the fund would also pressure donor countries to write off between 67 and 90 percent of their loans to these heavily indebted countries. For their part, the borrowing countries would be required to adopt a strict program of market reforms that would be monitored by the bank and the fund. The stringent reform package is designed to lock the borrowers into sensible economic habits and dissuade existing or future borrowers from accumulating excessive debt under the cynical presumption that lenders will someday write down the loans.

The proposal makes sense. But divisions exist over its details. Some lenders, like Japan and Italy, are cool to the idea of selling the gold deposits of the fund for debt relief. Germany, which wants the fund's gold used only for true financial emergencies, is adamantly opposed to gold sales. To its credit, Germany is willing to provide direct debt relief, an offer the United States will not match.

The problem with the proposal is not that it risks too much debt relief, but offers too little. Oxfam International, a private organization that lobbies on behalf of third-world debtors, estimates that Uganda spends more than five times more each year on debt repayment to industrialized countries than it does on health care for its citizens. Many countries in sub-Saharan Africa have been crushed by the excessive loans. The proposal would have them wait six years for substantial relief.

The emergency is here. There is no better use for the gold stocks held by the I.M.F. Debt relief tied to stringent economic reform is an idea the industrialized powers should enthusiastically embrace before they depart Lyons.

This item appeared on page D1 of the November 28, 1996 issue of

The New York Times

A World Fed Up With Bribes

Nations Begin Following U.S. Curbs on Corruption

By PAUL LEWIS

Almost 20 years after the United States became the only country to prohibit its corporations from bribing foreign officials to win contracts, the rest of the world may finally be ready to act against bribes and corruption in business deals.

In recent months, international development funds, economic alliances and the International Chamber of Commerce have all taken steps to curb corruption.

The World Bank has begun spot audits of its development loan programs, which last year disbursed $19 billion, and instituted procurement rules that empower it to investigate corruption complaints and to blacklist companies and governments guilty of large-scale graft.

The 28 democracies in the Organization for Economic Cooperation and Development have committed themselves to ending the practice of letting businesses deduct foreign bribes, often reported as commissions or fees, from income taxes.

And the International Monetary Fund has made "tackling corruption" an economic priority, authorizing its managing director, Michel Camdessus, to press for anti-corruption reforms in borrowing countries.

"The ministry of finance will no longer be able tell the I.M.F. this is none of your business," Mr. Camdessus said.

These actions, after decades of indifference to the issue by Japan, Europe and the international loan funds, are in part the result of pressure from the United States, whose corporations complain that restrictions in the Foreign Corrupt Practices Act of 1977 cost them billions of dollars in business every year.

American companies refuse to name contracts they have lost because they would not pay bribes, or the countries and governments involved, certain that doing so would bar them from any work there.

But many are sure they are losing business because of the ban. "We are highly vulnerable to bribery because of

Continued on Page D6

Above-Board and Under the Table

A country's level of political corruption has a significant impact on foreign companies' ability to conduct business. Here are the most, and least, corrupt countries in 1996 based on surveys of businessmen by Transparency International. Scores are on a scale of 0 to 10. The U.S. was ranked 15th in 1996 and 1995, with scores of 7.66 and 7.79, respectively.

MOST CORRUPT	1996 SCORE	1995 SCORE (RANK)
1. Nigeria	0.69	*
2. Pakistan	1.00	2.25 (39)
3. Kenya	2.21	*
4. Bangladesh	2.29	*
5. China	2.43	2.16 (40)

LEAST CORRUPT	1996 SCORE	1995 SCORE (RANK)
1. New Zealand	9.43	9.55 (1)
2. Denmark	9.33	9.32 (2)
3. Sweden	9.08	8.87 (5)
4. Finland	9.05	9.12 (4)
5. Canada	8.96	8.87 (5)

*Not ranked in 1995.

Continued From First Business Page

the size of the orders our members get" said Joel L. Johnson, vice president of the Aerospace Industries Association, a Washington-based organization representing manufacturers of civilian and military aircraft, radar and other airport equipment. "We've taken some considerable hits around the world."

International concern about corrupt practices is following a rising tide of scandal, and growing evidence in many countries of public disgust with corrupt officials and institutions. From South Korea to India, from Italy and France to Venezuela and Brazil, scandals have forced politicians from office and sent executives to jail.

"The tide is definitely turning," said Peter Eigen, the head of Transparency International, a group devoted to fighting business corruption, financed in part by American corporations. "We don't know whether corruption is getting worse, but we do know it is not being tolerated as it was."

Mr. Eigen, who left the World Bank to found his organization because of the corruption he saw in developing countries, called the bank's stand "revolutionary," saying, "In the past the bank shied away from the corruption issue because it looked like interference in a country's domestic affairs."

No one knows how much corruption there is in the business world, or to what extent it is increasing. Many experts say it is probably growing with the world economy and with the leap in foreign direct investment in emerging economies, to $167 billion last year from $44 billion in 1990.

Bribery and kickbacks have become common in former Communist countries as they embrace free enterprise. The spread of democracy can create new incentives for corruption as competing political parties seek campaign contributions. In the third world, some development projects may be more valuable for their graft opportunities than their direct benefits.

"My own commercial experience, spanning 30 years and 5 continents, convinces me it is a far more serious and damaging problem than it was even 10 years ago," the British businessman George Moody-Stuart wrote last year in his book "Grand Corruption in Third World Development."

At the same time, corporations have great incentive to go along with bribe solicitations: contracts worth tens or hundreds of millions of dollars for military supplies, aircraft, civil works and communications. In a 1995 report, Mickey Kanton, then the United States trade representative, said American companies lost $45 billion of overseas contracts the previous year because of the bribery ban.

That report did not disclose the names of corporations or countries, either. It is based on a study that used the resources of the Central Intelligence Agency and is classified.

The American law, however, resulted in part from a Senate investigation from 1975 to 1977 of the Lockheed Corporation, now Lockheed Martin, which was found to have paid $22 million in bribes to win aircraft orders. In 1995, the company pleaded guilty under the act to new charges, admitting that an executive paid an Egyptian official to assure the purchase of three C-130 cargo planes.

Other experts point to forces that are making the public less tolerant of corruption, ranging from its increased visibility to a better understanding of its cost.

The end of the cold war, for example, has freed democracies from having to tolerate graft-ridden regimes to keep them in the Western camp, argued Moses Naim, a former Venezuelan trade and industry minister who is now director of Latin American studies at the Carnegie Endowment for International Peace.

The spread of free-market economics, he said, is making "government decisions more transparent, increasing the accountability of public officials and reducing the impunity that has often accompanied the corruption of those in high places."

The World Bank and International Monetary Fund have their own motivation for acting: the perception that much development money ends up in Swiss bank accounts can make governments reluctant to vote aid. But as both agencies this year, for the first time, declared corruption the enemy of development, they also had new evidence. A 1995 study by an I.M.F. economist, Paul Mauro, forcefully concluded that corruption reduces growth.

"In country after country, it is the

people who are demanding action on this issue," the World Bank president, James D. Wolfensonn, said. "They know corruption diverts resources from the poor to the rich, increases the cost of running businesses, distorts public expenditures and deters foreign investors."

Corruption has become a government-toppling issue in many countries. In South Korea, where two former presidents, Chun Doo Hwan and Rho Tae Woo, were convicted this year for the coup with which they took power in 1979; they were also convicted of taking hundreds of millions in bribes from companies, including **Samsung, Daewoo** and **Hyundai**.

In Japan, payment scandals in the 1980's brought down both Prime Minister Noburu Takeshita and the chairman of **Nippon Telegraph and Telephone**. Then, in 1994, Prime Minister Morihiro Hosokawa resigned amid allegations of payments from a trucking company and N.T.T.

In Europe, corruption charges brought down Ireland's Prime Minister, Charles Haughey, in 1992 and Italy's Prime Minister, Silvio Berlusconi, in 1995. Italians now call Milan, their business capital, Tangentopoli: "kickback city."

Transparency International has created a Corruption Perception Index for 54 countries, based on a "poll of polls" of 10 surveys by organizations like DRI/McGraw Hill Global Risk Service and the Institute for Management Development, based in Lausanne, Switzerland, that ask executives how corrupt they perceived countries to be.

The 1996 index shows that New Zealand is perceived by the business community as being the least corrupt, scoring 9.43 on a scale of 10.00. Most corrupt is Nigeria, scoring only 0.60, followed by Pakistan, Kenya, Bangladesh and China.

The United States, where an Indonesian business family's influence in

The World Bank now spot-checks its loan programs for graft.

the White House became an issue during President Clinton's re-election campaign, is 15th on the index, with a score of 7.66, higher than Japan, France and Belgium, but lower than Israel, Britain, Germany and Singapore.

Many of the gains in attacking corruption, meanwhile, are due to the Clinton Administration finally making headway in its campaign to create a level playing field for American companies, which complain that the 1977 ban on bribery puts them at a disadvantage to foreign rivals who are free to buy contracts from corrupt ministers.

This year the United States became the 23d of the Organization of American States' 34 members to sign a convention that has been under negotiation since the Miami Summit of the Americas in May 1994, outlawing cross-border bribery and the "illicit enrichment" of officials in the hemisphere. It also helps in the investigation of bribery charges and speeds extradition procedures.

So far only Paraguay has ratified the convention as well as signed it. But only two countries need to ratify the agreement for it to become binding on all who have signed it.

Unlike the Bush Administration, which had shown little interest in the subject, the Clinton Administration set a high priority on securing international action against bribery and corruption as soon as it took office.

In May 1994, the United States prodded a reluctant Organization for Economic Cooperation and Development into setting up a working group to draft an anti-corruption proposal that would include criminalizing bribery and ending the tax deductibility of bribes.

After successfully tackling the deductibility issue, Mark Pieth, the working group's Swiss chairman, is now seeking an agreement to make the bribery of foreign officials a crime in time for next May's annual ministerial meeting. That meeting will also receive a report on compliance with this year's agreement to end the tax deductibility of bribes.

Some powerful private business groups are also throwing their weight behind the American campaign. Last March, the International Chamber of Commerce approved revised rules of conduct for its thousands of member companies and business associations that prohibit bribes and encourage them to press their governments to adopt the proposed O.E.C.D. anti-bribery convention.

But a new study of those negotiations by Mr. Naim of the Carnegie Endowment for International Peace, in collaboration with Patrick Glynn of the American Enterprise Institute and Stephen J. Kobrin of the Wharton School of the University of Pennsylvania, says many European countries remain only reluctant supporters of the American initiative. It concludes that "achieving the needed legal reforms in Europe — and perhaps even more in Asia — will mean a prolonged and hard fight."

This item appeared on page A15 of the the **November 22, 1996** issue of the
Wall Street Journal

Brazil Wants a World Bank Critic of Mercosur Silenced

"Using one's position at the [World] Bank to draw public attention to his or her views is not acceptable and must not be tolerated."

This is the sound of someone at the World Bank being silenced. It is how the Brazilian government has responded to a World Bank study rather elaborately entitled "Does Mercosur's Trade Performance Justify Concerns About the Global Welfare Reducing Effects of Regional Trading Arrangements? YES!" The author is an iconoclastic World Bank economist named Alexander Yeats.

Mr. Yeats's yet unpublished study—mysteriously leaked to the press—seems

The Americas

By Mary Anastasia O'Grady

to have concluded that the Mercosur customs union linking Brazil, Argentina, Uruguay and Paraguay is helping protect inefficient industries, somewhat the opposite of what free trade pacts are supposed to do. The leaked version argues that "the evidence suggests that Mercosur is becoming less, rather than more, internationally competitive," at least in those products that now are most actively traded within the trade bloc.

But Mr. Yeats seems to have been caught thinking independently, heaven forbid. Brazil and Washington multilateralists are scrambling to discredit his heresy. The World Bank has so far refused to release the study and has forbidden him to speak to the press.

Mr. Yeats may be right or wrong, but it is hard to see what purpose is served by not allowing his study to be discussed openly. Indeed, the effect has been to cast doubt, particularly among economists who have heard of this case, on the probity of the folks who run the World Bank and the economic policies of Brazil and other Mercosur nations. One now wonders how often serious intellectual thought is suppressed at the World Bank, the IMF, the Organization of American States and the Inter-American Development Bank.

Although Alexander Yeats is an economist for the bank, Brazil—in a communication to World Bank President James Wolfenson—has labeled his work a personal opinion. An official statement delivered by the Brazilian ambassador—decidedly bold in the way it addresses an institution that most countries approach on bended knee—says that "bank officials cannot and must not ignore the impact of publishing their personal views on highly newsworthy issues." Brazil has requested that the study "not be published under the auspices of the bank."

Mr. Yeats's ability as an economist even is called into question. According to Brazil, "one can only conclude that the study by Mr. Yeats is totally flawed." Brazil asserts that Mr. Yeats uses 20-year-old figures and makes various other egregious errors in his methodology. That's a rather heavy load of rocks to dump on an economist, particularly one of some stature. Mr. Yeats is the principal economist in the international trade division of the bank. He would seem to be entitled to defend himself against such charges.

Brazil further claims that the World Bank is "not a think tank" and "is not supposed to pass public official judgments on any issue whatsoever, especially those related to foreign trade." So we have an economist in the international trade division at the World Bank who is not supposed to have professional opinions about world trade. What is he supposed to do?

The argument here is over whether a trade bloc like Mercosur creates "trade

diversion," sheltering weak companies by allowing them a broader protected market within the bloc. While each of the Mercosur countries have lowered outside tariffs on balance, some industries receive special treatment through punishingly high import tariffs. It is these industries that the study reportedly concerns itself with, auto production in particular.

Mercosur's external tariffs on motor vehicles range as high as 70%, for example.

> *Mr. Yeats seems to have been caught thinking independently, heaven forbid. Brazil and Washington multilateralists are scrambling to discredit his heresy.*

It can be assumed that this explains why intra-Mercosur trade in motor vehicles more than doubled between 1990 and 1994. Reportedly the study finds that the vehicles being produced and traded within the bloc are more costly and of a lesser quality than vehicles available outside of Mercosur. This is a classic import-substitution problem.

Mr. Yeats is being flogged because Mercosur has been heralded as a bold step for traditionally closed markets. Rather than chastise Mercosur architects for protecting some industries, many prefer to see the union as a first step, hoping that by trading with its southern-cone neighbors, the region will recognize the benefits of freer trade and expand its trade treaties. On balance, say the Mercosur advocates, overall tariffs, both inside Mercosur and for nonmember countries, are historically quite low and show a positive trend. These countries, it is argued, are gradually opening up to the world.

A free flow of ideas, however, should also be a part of that opening. The struggle for free trade is not a conceptual problem and not a uniquely Brazilian problem. While all empirical evidence weighs heavily in favor of free markets, free trade remains a political proposition for all democracies. Writes Edward L. Hudgins of the Cato Institute: "Popular leaders, commanding significant followings, defend protectionist policies out of populist zeal or a deep confusion about economic reality. Pat Buchanan and Ross Perot are the most prominent examples on the American right."

Little is served, however, by stifling honest intellectual debate. Brazil—where the struggle to maintain the Real Plan necessitates increased economic efficiency—needs free, open, challenging discussion of trade policy, which can be an important factor in forcing greater efficiency by introducing more vigorous competition. It would indeed be helpful for all Mercosur countries to analyze the effects of their trade policy honestly.

In an October speech in New York, Brazilian Finance Minister Pedro Malan began his remarks by noting that worldwide discussion surrounding his ministry's Real Plan is extremely healthy and productive. He indicated that he would like to see it continue. Mr. Malan's invitation to an open debate of Brazilian economic policy reflects a modern liberal intellect—ideas cannot hurt us. In contrast, the responses of the World Bank and Brazil to the Yeats study reflect archaic info-control. Free trade can hold its own in any argument. There is nothing to fear from openness and a free flow of ideas.

Ms. O'Grady edits the Americas column.

This item appeared on page A2 of the **October 23, 1996** issue of

THE WALL STREET JOURNAL

South American Trade Pact Is Under Fire

World Bank Economist Criticizes Protective Barriers

By MICHAEL M. PHILLIPS
Staff Reporter of THE WALL STREET JOURNAL

South America's five-year-old Mercosur free-trade pact has built an artificial world of economic growth, where inefficient industries prosper behind a wall of trade barriers.

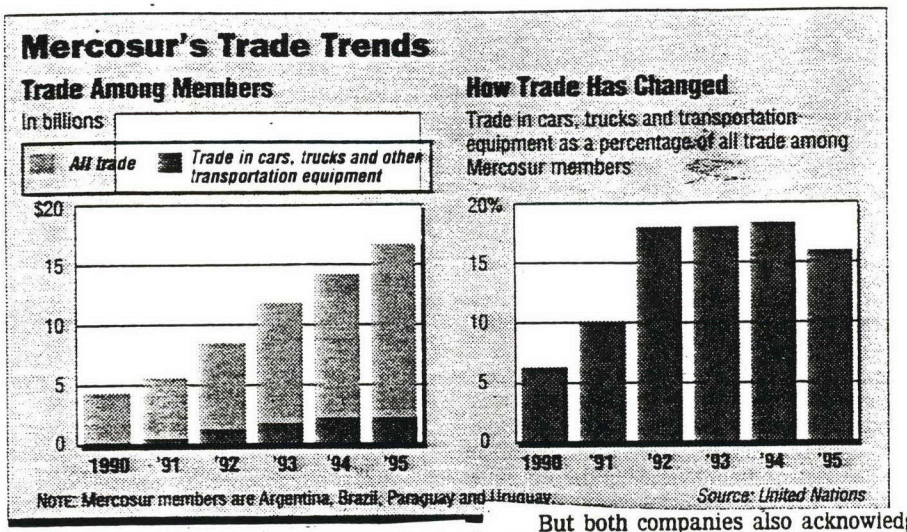
That's the conclusion of a new study by a senior World Bank economist whose work offers a startling contrast to the widespread view that Mercosur has created billions of dollars in international trade while preparing its members — Brazil, Argentina, Uruguay and Paraguay — to compete in a global free-trade regime.

The study also provides fresh ammunition for those who argue that such regional trade pacts — including the North American Free Trade Agreement — simply make it harder to reach the goal of world-wide free trade.

"These findings appear to constitute the most convincing, and disturbing, evidence produced thus far concerning the potential adverse effects of regional trade arrangements," writes the study's author, World Bank principal economist Alexander J. Yeats. No publication date has been set for the report.

The study concludes that Mercosur is indeed generating large quantities of trade and investment, but in all the wrong places. Trade among Mercosur members surged to $12.3 billion in 1994 from $4.2 billion in 1990. The fastest-growing items in intra-Mercosur trade, however, are cars, buses, agricultural machinery and other capital-intensive goods that are produced relatively inefficiently in the four member countries. In other words, Mercosur countries, insulated from outside competition, are investing in factories that build products that are too expensive to sell to anyone but themselves, the study concludes. The result is that Mercosur countries might not be able to compete globally once the group's external trade barriers come down, and capital is being drawn away from more efficient enterprises. "The most dynamic . . . products in Mercosur's intratrade generally are highly capital-intensive goods which members have not been able to export competitively to outside markets," the study says.

And in the near term, countries with more efficient manufacturers lose because Mercosur trade barriers keep them out, Mr. Yeats argues. The results "appear to constitute a 'smoking gun' concerning evidence of their adverse impact on third countries," the study says.



The study cites the auto industry as a prime example. Intra-Mercosur trade in motor vehicles grew to $2.1 billion in 1994 from $207 million in 1988. Although Mercosur is working to create a free trade zone among its members and establish common external tariffs, the member countries still maintain separate barriers for many items, including cars and trucks. Brazil, for example, imposes tariffs as high as 70% on imported vehicles, but foreign companies that also manufacture locally pay as little as 35%. Argentina imposes car import quotas, as does Uruguay, which gives larger shares to companies that also produce locally.

Foreign car companies have been making heavy investments in the Mercosur countries, particularly in the large Brazilian market. General Motors Corp.'s 1995-99 business plan calls for as much as $3 billion in investments in Brazil and Argentina. Ford Motor Co. plans $2.5 billion in investments during the same period. Both companies insist they would manufacture in Brazil even if the market were entirely open to imported finished vehicles. "There's definitely significant growth ahead of us in Mercosur," says Mark T. Hogan, president and managing director of General Motors do Brasil Ltda. in Sao Paulo.

But both companies also acknowledge that Mercosur's trade barriers do influence investment decisions. General Motors is considering building a components plant in Uruguay because doing so would also allow GM to import more finished vehicles into the tiny country.

The U.S. plans to file a complaint with the World Trade Organization regarding Brazil's car import tariffs and is threatening to do the same with Argentina, according to a U.S. trade official.

The study's unscheduled release caused a minor uproar at the World Bank, which is loath to criticize member nations publicly. Mark Malloch Brown, a vice president at the bank, issued a statement saying the bank fully supports Mercosur. The views expressed in the study "are iconoclastic within the bank and are meant to strengthen our policy-making process, but they do not represent official policy," he says.

The study, however, does agree with the bank's general opinion that global free trade usually produces greater wealth than do regional trading pacts. "Our view is it's easy to get overly enthusiastic about" regional free-trade agreements, says L. Alan Winters, chief of the bank's international trade division. "They might confer significant benefits, but there are also very significant dangers."

Norberto Moretti, second secretary in the Brazilian Embassy's trade policy section, said: "Mercosur has been a complete

success in terms of promoting intrabloc trade and in preparing Brazilian firms and all Mercosur firms for international competition."

Mr. Moretti said that U.S. exports to Brazil increased 41% from 1994 to 1995. That increase "does prove that increasing intrabloc trade doesn't create any difficulties for third parties trading with Mercosur countries."

One senior Mercosur diplomat, who asked not to be identified, said external trade barriers will gradually be reduced, forcing member countries to compete globally. Already, many external Mercosur tariffs, which average 14%, are lower than they were before the group's creation. And the entire hemisphere, except Cuba, agreed in 1994 to negotiate a Free Trade Area of the Americas by 2005.

This item appeared on page A19 of the October 28, 1996 issue of

THE WALL STREET JOURNAL.

A World Seeking Justice Is Running Low on Exemplars

Global View

By George Melloan

Michel Camdessus told a group of Journal editors last week that when he meets with business leaders in financially distressed countries he often asks a pointed question: "Do you trust the judicial system here?"

The answer is invariably "no," says the International Monetary Fund's managing director.

Mr. Camdessus says this link between economic disarray and the absence of a reliable legal system is why the IMF is broadening its diagnoses of the sick countries that come asking for a dose of bailout medicine. Both the IMF and the World Bank are lifting their eyes from sterile printouts of budget and trade balances and foreign currency reserve numbers, hoping to catch a glimpse of the real world. They have decided that if you want to cure countries you often have to take a hard look at the people who run them and ask that ungentlemanly question: "Just how corrupt are they?"

World Bank President James Wolfensohn, the doctor for true basket cases, has been even more emphatic than Mr. Camdessus about this. In his speech to the IMF-World Bank annual meeting a month ago he referred to the "cancer of corruption" that afflicts poor countries. His indelicate wording was in some sense artful in that it accompanied a plea for the developed world to forgive the debts of some of these dens of iniquity. But even if Mr. Wolfensohn felt he had to lay all the cards on the table only because he wanted support for the World Bank's institutional aims, his speech at least had the merit of airing an issue that aid agencies usually only talk about in whispers, or not at all.

Indeed, past practice has usually been to paint "client" states as unfortunate victims of past colonialism, or the caprices of nature or anything other than the venality and maladministration of the rulers with whom the aid administrators by operational necessity must do their business.

Which raises an interesting question: Is there anything that Mr. Camdessus and Mr. Wolfensohn can really do to raise the standards of governance in their global constituency of 181 nation states? They have, of course, a powerful lever at hand, money. The IMF in particular has always attached conditions to its lending, conditions that Mr. Camdessus now implies will increasingly address such issues as the safety of banking systems. That can seldom be disassociated from the level of official corruption. Politicians, like bank robbers, are fully aware that banks are where the money is and are often capable of using their powers to get their hands on some of it.

The Journal's assistant foreign editor, Michael Williams, journeyed with me to midtown New York after the Camdessus visit to interview Sheikh Hasina Wajed, who upset the incumbent government to become prime minister of Bangladesh in elections last June. She told us she fully approves of the IMF's initiative and as part of her efforts to attract foreign investment she intends to root out the corruption left over from the old regime.

But first Sheikh Hasina is rounding up suspects in the murder of her father, Sheikh Mujibur Rahman, and seven members of his family—including Sheikh Hasina's mother and three brothers—in 1975. She insists that they will be tried in accordance with law, but she also makes it clear that letting bygones be bygones is not in her plans. "I'm surprised you asked that question," she said.

Her bitterness is understandable, but Bangladesh is only one example of poor countries where blood feuds of powerful clans have distracted political leaders from the important work of nation building and have created an incentive by those in

power to reward loyalty, sometimes in untoward ways.

Another part of the global corruption equation is, of course, the legacy of communism. Russia, once top dog in the Communist kennel, now is one of the world's countries most notorious for the absence of reliable law enforcement. China has a better record for the observance of contracts but is hardly corruption-free. This problem derives from the days when Communist party officials were essentially a law unto themselves. Because the demise of communism was almost wholly bloodless, many still have official roles and are trying to do business the old fashioned way, by stealing.

All too much evidence suggests that U.S. legal traditions are suffering serious erosion.

But lest anyone think that the problem of justice and corruption is limited to poor countries or those emerging from communism, let's turn to the advanced industrial countries. An estimated 200,000 to 300,000 angry Belgians turned out eight days ago in front of that massive Brussels edifice known as the Palais de Justice to demand the names of those responsible for what Belgians feel has been a breakdown in justice. They blame official misconduct for failing to crack the pedophile ring believed responsible for the recent gruesome discovery of murdered children and also for the unsolved mystery of who killed a former deputy prime minister, Andre' Cools, in 1991.

In Italy, a crusade by independent magistrates brought about a political revolution by exposing the corrupt patronage systems of the Socialist and Christian Democratic parties. Now Italians are wondering to what extent the magistrates themselves were politically motivated.

Then, of course, there is the United States, usually seen as the world's paragon when it comes to rule of law. There are reasons to wonder how much longer that will be true. Certainly, the U.S. has a highly developed system of law enforcement and jurisprudence, solidly based on a national Constitution that in retrospect seems almost to have been divinely inspired. On top of that it has firmly entrenched traditions that have in the past engendered public respect for the law.

But all too much evidence suggests that U.S. legal traditions are suffering serious erosion. There are legitimate concerns that a vast and powerful body of liability claim lawyers are turning the law into their private plaything as a means of making themselves very, very rich. Their money has made them important contributors to political candidates—usually Democrats—friendly to their Robin Hood ethics. After the O.J. Simpson trial, many Americans wonder if expensive lawyers can guarantee impunity. Elsewhere, laws are flouted daily by drug pushers and users.

Then there are the Clintons. The President of the country that a justice-hungry world looks to for leadership is a man who formerly piloted an Arkansas political machine that in all too many particulars resembles those around the world that Mr. Camdessus deplores. His former business partners have been convicted of looting a bank. His White House is wracked with scandals, including questions about drug use. And now his political party is stonewalling a judge who wants to question a fund raiser and former government official who had previously served a big financial consortium based in Indonesia, a country classified by some businessmen as one of the most corrupt in Asia.

Most worrisome of all, the electorate doesn't seem to care, if opinion polls are any guide. I wonder what answer Mr. Camdessus would get if he asked American businessmen the same question he asks in Third World countries?

This item appeared on page 10 of the **October 11, 1996** issue of

THE WALL STREET JOURNAL EUROPE

REVIEW & OUTLOOK

Cutting Out the Kleptocrats

Nowadays multilateral get-togethers such as this month's meeting of the International Monetary Fund and World Bank have a flavor different from that of the Big Government, development-crazed '60s and '70s. A private banker, James Wolfensohn, has replaced the Big Government autocrats—remember Robert McNamara's expansionism?—at the helm of the World Bank. Glittering "emerging markets" have replaced the much condescended-to "LDCs" in the lingo. Last year, note the market multilateralists, private investment flowed to growing nations to the tune of $170 billion—three times the amount of official moneys. The Bretton Woods development-lending giants have become modest handmaidens to investment houses and mutual funds, serving now as mere guarantors of private investment.

And therein lies the problem. Those guarantees, various forms of investment guidance and offers of insurance or seed money are still subsidies to what are ostensibly near- or semi-private-sounding projects. The past 15 years have brought two major examples of how even seemingly moderate fiddles can distort markets to the tune of billions.

First came the international debt crisis, where IMF funds and superficial "conditionality" for those loans strengthened bad regimes and helped retard the advance of the private sector from Poland to Mexico. Not long after, within U.S. borders, there was the Savings & Loan debacle, where the U.S. Congress's midnight move to grant these politically favored banks almost unlimited deposit insurance created a huge moral hazard and powered thrifts into financial disaster.

Seen in this context, the new proposals emanating from Washington take on a resemblance to their forerunners. Mr. Wolfensohn, for example, put forward a $250 million program to guarantee loans from private firms or banks to firms or privatization projects in countries particularly in need of credit. This is advertised as modern "business consciousness" that contrasts with old-fashioned loans-to-government dam-building. Many private sector firms, not surprisingly, have been enthusiastic cheerleaders for guarantees. Enron Chief Executive Kenneth Lay even exhorted the World Bank to "reverse its current priorities and give guarantees a more favored standing than direct loans."

Well of course business will take a freebie, but that doesn't mean the freebie makes sense. Bankers' notions of how the public and private sectors ought to interact aren't sacrosanct. If in the 1990s many hundreds of billions in private capital has bypassed the some 50 nations that have miserable credit ratings, it's probably not an economically sound idea for the world's taxpayers to underwrite investments in those nations right now unless their leaders show more enthusiasm than now for political and economic reform.

Less easy to challenge, at least at first blush, is the joint World Bank/IMF effort to move toward forgiving $57 billion in debt held by some of the world's poorest countries. These are countries—from Guyana to Nicaragua to Burundi to Cameroon—that reel under the weight of draconian plans to rectify their balance-of-payments problems. Uganda, calculates relief advocate Oxfam, spends $17 a head on debt repayment each year and only $3 a person on health. Since a lot of these countries' troubles were brought about by World Bank and IMF conditionality policy in the first place, it seems sane to let them off.

Won't this just prop up the Mobutus of this world? Officials swear up and down Zaire is not on the short list to get this money. As for other dubious regimes, the World Bank would bravely stick to go alone with its forgiveness carrot: new pressure to build up the rule of law in nations like Burma, these days known as Myanmar. Mr. Wolfensohn bluntly stated that "we will not tolerate corruption in the programs we support" and the IMF's Michael Camdessus made numerous loud noises about law, order and justice being prerequisites for funding at a closing press

conference. It is an encouraging sign that the Third World plutocrats who drink at the development trough felt so threatened by all this that they issued a separate G-24 communique warning World Bank and IMF to butt out of their internal affairs and "proceed with extreme caution."

Corruption is a very important issue, and we're thrilled, in this post-Cold War world, to see the World Bank and IMF turn to it. But one has to ask, will their plan work? We ourselves fear that the general push for the rule of law will fall by the wayside. After 80% of Myanmar's debt has been forgiven, will SLORC still be marching around Rangoon, working over the followers of Aung San Suu Kyi?

As for the money for such projects, one has also to wonder. The IMF employs euphemisms such as "optimizing resources" when it talks about bringing poor nations debt relief, but the concrete plan is to keep open the option of selling up to five million ounces in its gold reserves. Germany's Helmut Kohl has led the fight to stop the gold sale, his (legitimate) argument being that it is a bad habit for a public or central bank to get into. It is not, after all, as if a gold sale would achieve the salubrious goal of making an institution like the IMF smaller. In fact the IMF will shortly turn to the U.S. Congress and other parliaments for a replenishment of its coffers; Mr. Camdessus has mused on about a "doubling" of IMF resources, which would amount to an additional $38 billion contribution from the U.S. alone.

The IMF's friends, including U.S. Treasury Secretary Robert Rubin, put in appearances at the conference to argue that the Mexico rescue provided nice evidence of the kind of good work development banks could do in future. In Mexico though it was too often bankers, not regular citizens, who benefited from the Rubin rescue. Without more fundamental changes at the IMF and World Bank, they will continue to provide the punch bowl for a kleptocrats' ball.

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THE WALL STREET JOURNAL

The Outlook

Development Banks Face Brave New World

SAN FRANCISCO

What a difference a decade makes.

Ten years ago, developing countries around the globe greased their economies with subsidized loans from "official" sources: the International Monetary Fund, World Bank and its kindred development banks. Lending almost solely to foreign governments, multilateral development banks mainly reinforced the top-down, centrally planned mentality that mired many nations in poverty.

Today, private capital flows into developing countries at five times the rate of "official" flows. Even Russia, with its sick economy, raised $1 billion from foreign investors this month in its first international bond issue since the 1917 Bolshevik revolution. With the sea change in global investing, the World Bank and its kin face growing questions about whether they are really needed any more.

Unless these multilateral lending organizations "adapt themselves quickly and dramatically" to global markets, "they should whither away," says Charles Dallara of the Institute for International Finance, Washington.

The threat of extinction is real. Foreign aid is under attack everywhere as governments struggle with tight budgets. The U.S. pays $1 billion a year for upkeep of the World Bank alone; some in Congress wish to cut this amount. While espousing free-enterprise rhetoric, the multilaterals still funnel billions of dollars a year to governments, retarding the private sector.

Development banks concede that the explosion in private investment, especially in such critical developing countries as China, Indonesia and India, means their share of global finance will continue to shrink. "But that doesn't mean these institutions are irrelevant or unimportant or that their resources should shrink in absolute terms," insists Michael Mussa, the IMF's chief economist.

The multilaterals, bent on proving their relevance, are already making changes, such as focusing more of their lending to poorer countries that private investors still ignore. But the changes are unfolding slowly. "There will be no quick fix," says Mark Molloch Brown, the World Bank's chief of external affairs.

Still, in time, development banks should show their relevance for a new era.

The IMF, for instance, has silenced some doubters by deftly propping up the battered Mexican economy with emergency loans and aiding the former Soviet bloc. With a trillion dollars a day traded world-wide, the danger exists that a currency will collapse. "There is certainly room for a lender of last resort," says David Hale, chief economist at Zurich Kemper, Chicago.

There is also the issue of uneven investment. Just a dozen countries grab nine out of every 10 private dollars earmarked for the entire developing world. The poorest 48 countries received just 0.4% of last year's total.

"The implication is straightforward: There is an important role for multilateral lenders in the least-developed countries," says Karl Sauvant of the U.N. Conference on Trade and Development.

But the big question is how to spark private investment in countries shunned by the market – and piggyback on private-sector activity in faster-growing nations. The World Bank – the mother ship of the multilaterals – is quietly showing how this can be done.

To be sure, the bank still pursues traditional investments in publicly-owned bricks and mortar. But through its private-lending arm, the International Finance Corp., a growing share of its loans fuel private ventures. This activity has made a mark. In September, the General Accounting Office reported that 90% of private financiers it surveyed said the bank "enhanced the environment for private investment in developing countries."

This favorable image is chiefly the result of new bank initiatives. The IFC, for instance, recently revised its lending guidelines to lessen competition with private investors. The agency has also broadened its infrastructure lending to include privately owned schools and hospitals. In May, the IFC made its first investment in a private school, which will help the largest system in Pakistan to expand enrollment by 16,000.

A classic example of the IFC's ability to stimulate the private sector involves the boom "emerging markets" stock funds. In the mid-1980s, the IFC helped form some of the first country-specific funds. It worked with local officials in Korea, Mexico and Thailand to create the means and the mindset to enable foreign investors to purchase shares in local issues more easily and quickly.

As multilaterals play more by private rules, they face new complaints. Some free-marketeers fret that World Bank loans will simply displace private investment, while populist critics see the opposite pitfall.

"They've gone from being too removed from the private sector to being too subservient to it," says Nancy Alexander, a bank-watcher at Bread For The Earth, an advocacy group in Silver Spring, Md.

Yet the World Bank still puts just one-fifth of its $25 billion in yearly investments and guarantees into private hands. Some bank reformers would like to see the percentage rise as high as four-fifths.

This would amount to a revolution in its practices, but one that is long overdue. After all, says John Sewell of the Overseas Development Council, the bank and its kin "were created for a world that no longer exists."

–G. PASCAL ZACHARY

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E. COMMENTS: This brief contains the following:
- Mercosur Reflections
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