CHAIRMAN'S SUMMARY

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High-Level Statements

The opening speech was delivered by **Dr. Marjan Senjur,** Slovenian Minister of Economic Relations and Development, who warmly welcomed speakers, panellists and delegates to the Colloquium and indeed to Slovenia. Dr. Senjur highlighted development and reform in Slovenia, pointing to five main areas in which Slovenia is "building its future". These were the establishment of political freedom, economic freedom, economic development, economic stability, and both internal and national security. Slovenia is working towards all simultaneously, a difficult task given the inevitable trade-off decisions that the government must make. Dr. Senjur hoped that both he and his country would be enlightened by discussions at the Colloquium.

The welcoming remarks by the Deputy Secretary General of NATO, **Ambassador Sergio Balanzino**, were read out by the Colloquium Chairman. Ambassador Balanzino described the annual NATO Economics Colloquium as "an integral part of our cooperation activities" and went on to define NATO's new strategic concept which features a broader definition of security encompassing political, economic, social and environmental elements, as well of course as defence. Economic policy and security are two sides of the same coin. Without effective economic policy, security will suffer. Without a sound security environment, investment and growth will suffer.

Keynote Speech: "The Role of the State in Providing a Framework for Economic Stability, Growth and Security"

The Keynote Speech was delivered by **Dr. Daniel Daianu**, the Romanian Minister of Finance, who stressed the necessity of maintaining an open mind with regard to paths of transformation and of not becoming the prisoner of various taboos, stereotypes and clichés. For example, at the outset of transition, those who emphasised the overarching importance of macro-economics, especially financial stability, were in the ascendancy. The structural nature of economic problems in transition economies were by comparison ignored and it is only now, at long last, that the vital role of *institutions* in fostering economic development is fully recognised. This is not to say that good macro-economic policy is not important, most clearly it is, but that an over-concentration on

financial matters in a globalising world in which capital and resource movements are too large for states to manage is putting huge unwarranted pressure on the IMF. Unfortunately, the IMF has little option but to treat all comers by the same yardstick and to ask all to adhere to the same rules.

Two key issues are underplayed here. Firstly, the *relative backwardness* of some parts of transition Europe vis-à-vis others. This bears significantly upon the potential states have for overcoming their performance deficit. The lack of specific institutional knowledge places constraints on change. Existing institutions are too fragile and allow the dynamics of change to get out of control. Secondly, the sheer magnitude of necessary resource reallocation is placing a *huge strain on politico-economic* systems in transition states. This strain is manifested by economic instability and a low capacity to absorb shocks. In such conditions, it comes as little surprise that deep restructuring has not occurred.

Dr. Daianu introduced the concept of *institutional capital,* the build-up of which allows for the resumption of growth in transition economies, and vice-versa. High savings ratios and the build-up of human capital are also essential, as conventional growth theory suggests, but the primary determinants of growth and modernisation are now to be sought elsewhere. Institutional capital has four essential components, these being *social capital* (the norms which govern interaction amongst individuals, groups and organisations), *civic capital* (a system of institutionalised checks and balances - the control of power), leadership capital (to give a sense of direction and which to some extent becomes an issue only when in short supply), and *cohesion capital* (to reflect the importance of social stability for the long-term evolution of society). Much thus depends upon the choice of institutional constructs, which "lend regularities to and give birth to norms" in the overall functioning of state and society.

Panel I: The Role of the State in Industrial Restructuring

Panel I explored the *state/market interface* in micro-economic performance at the enterprise level. A key observation was that neither state nor market either have or should have a monopoly. Markets are social constructs that do not materialise by magic. Governments have a regulatory and stabilising function for which they need fuel in the form of tax revenues to perform. But the temptation to over-regulate, to over-tax, to try and do too much, remains pervasive, especially in states where massive state intervention in the economy was until recently the norm. Markets only perform miracles when governments allow them to work.

The lead presentation was given by **Professor Wally Struys** of the Belgian Royal Military Academy who said that pure market economics without state intervention does not and will never exist. While not wishing to belittle the power of Adam Smith's "invisible hand", he identified three types of essential government intervention, *supplementary intervention* (whenever the private sector

is non-existent or insufficient to provide for collective needs, such as defence), *regulation and prevention* (setting-up and administering a legal framework within which the market can operate so as to prevent or at least delimit the abuse of economic power), and finally *directing intervention* (aimed at achieving economic goals of the state that may not necessarily be the same as those of private firms). The first two of these three types of state intervention are widely accepted and understood. The third remains highly contentious and has direct relevance to the issue of modernising a defence industry to reflect the post Cold War reality of shrinking military procurement budgets and a declining World market for arms. Professor Struys argued that privatisation and the marketisation of the defence sector cannot work because the arms market is essentially different from the consumer market. In the former, the state plays the role of client, banker and supervisor which restricts choice and the latitude for innovation that competition in the consumer market provides. In this respect, arms firms are no match for experienced competitors in the civilian market and therefore require the "visible hand" of state support to, inter alia, initiate cooperation and encourage rationalisation both within and between nation states. In C&EE, the state has an historic role in the operation of arms firms and should not allow this to wither away.

In response, **Mrs. Elena Leontjeva**, President of the Free Market Institute, Vilnius, Lithuania, argued that only if a firm is producing a specific military product should it remain under state control. Otherwise, privatisation as a complete entity is the only option because if the decision is made to save an enterprise, it must be done so at any price regardless of the opportunity cost involved. Mrs. Leontjeva asked Colloquium participants to "remember those from whom resources have been taken", adding that if the state gets involved in industrial restructuring, it prompts a continuous need for further (expensive) interventions. Enterprises under state control wait for state support and have a strong disincentive to reform themselves. She concluded with a warning that *captured from the market, the invisible hand becomes powerless* - a lesson that those turning away from socialist planning ignore at their peril.

Dr. Marko Simoneti from the Ljubljana University Faculty of Law pointed out that in Slovenia, privatised and foreign-owned enterprises significantly out-perform the rest. To have large enterprises losing money over a period of time is a luxury that transition economies cannot afford, but whilst the government record regarding the elimination of the worst performers is relatively good, it has proved to be inept at improving the performance of survivors. In Slovenia, the state sector of the economy is still too big and has been making losses for too long. It was time to "get out". **Dr. Yuri Khromov** of Russia's Institute for Strategic Studies in Moscow tended to agree with Professor Struys that the liberal approach alone does not work. The Russian experience has been that an over-emphasis on financial stabilisation has used up all the state's natural and foreign resources, leaving nothing for investment. Whilst accepting that

some industries must fail, the "spontaneous" restructuring enforced by the invisible hand, whilst perhaps being positive in the extreme long-term, would bring with it an enormous social cost and related instability that the state cannot afford and might not survive. Coal strikes this spring are a taste of what might be to come. Dr. Khromov concluded that institutional reforms are vital to enable the state to intervene more effectively, but that this visible hand should be as invisible as possible.

The final Panel I speaker, **Dr. Thomas Nowotny**, Political Advisor to the Chief Economist at the EBRD in London, explained that the main goal of transition economies is to *catch-up* with the West, but that massive and sustained GDP growth rates would be required so to do. However, although there is potential for rapid growth, this would in turn need a degree of institutional sophistication that at present is largely absent. Dr. Nowotny empirically demonstrated that although government stability and pro-business liberal government can be useful in fostering growth, neither are essential. What does distinguish the better transition performers is *democracy* (the more the better), *distance from Brussels* (the shorter the better), a relative *absence of corruption*, and, linked perhaps to the above, a broad base of *civic economic and political culture* (of which effective state institutions are an integral part) that is sustained by what Dr. Nowotny called *"social capital"*. Transition states are unevenly endowed with this social capital - hence their widely differing performances and potential. The key question now is whether the positive aspects of social capital accumulation reach a critical mass and become self-reinforcing, which might allow "catch-up" to occur, or whether a vicious circle prevails in which negative developments (such as cronyism, corruption, crime, financial crises and so on) re-enforce one another leading to a further depletion of scarce social capital and consequent slow or negative growth. The jury is out, although the point was made that there is no "law" that says that all economies must be rich. Europe is a multi-coloured, multi-cultural region and will likely (preferably?) stay that way. Some states will never catch-up and may not want to.

Panel II: The State Budget in a Changing Economic and Security Environment

Do states construct budgets to maximise social welfare by correcting market failures and providing public goods or are they merely state tools to promulgate state procurement policy? Alternatively, could budgets also be seen as a reflection of *public choice analysis* in that numerous lobbies and interest groups all influence spending in proportion to their relative clout? Would the end result of such an auction be rational? While Panel II discussion suggested that there may not be specific answers to these questions, it was recognised that effective states cooperate with the private sector in finding solutions to specific budget problems.

The lead speaker, **Professor Keith Hartley**, Director of the Centre for Defence Economics at the University of York, reviewed NATO military spending from a public choice angle. Defence budgets in NATO states have been cut from as little as 4% up to 30%, but no critical evaluation of whether NATO tasks are necessary, nor of whether they are discharged efficiently has been carried out. Armed Forces remain national forces buying equipment from national champions. There is significant duplication of effort and very little specialisation on the basis of *comparative advantage*. Disarmament and military downsizing should be viewed as an *investment process* involving short-term costs to achieve long-term benefits in terms of a greater output of civilian goods and services - in short, the "Peace Dividend". This re-allocation of resources task presents opportunities for state policy (as presented in the federal budget) to assist and to minimise the adjustment period. A range of policy options are available aimed at *manpower* (retraining, easing mobilty), *capital* (re-tooling plant), *technology* (investing in civil R&D such as aerospace and health), and the *regions* (infrastructure investment).

Professor Silvana Malle, Head of Division at the OECD in Paris, agreed that public choice decisions are made in a policy market, but argued that this can only occur in a functioning democracy with functioning political parties. Democracy is working in successful transition economies (indeed, this causal link emerged in Panel I debate) but only fitfully in Russia and not at all in some other transition economies of the CIS. Decision-making here is not transparent with the result that military expenditure has become displaced with at least half of it taking place outside of the official budget and, more or less, outside of government control. In the civilian sector, utilities now act as quasi-fiscal organisations through their tolerance of payments arrears. When the federal tax-take barely reaches 10% of GDP and with much of the economy operating underground (as in much of the CIS), *rational risk assessment* and gauging the appropriate response becomes impossible.

Professor Katarzyna Żukrowska of the Institute of Development and Strategic Studies in Warsaw described Poland's smooth transition from the budget policy of the communist era (promulgation of state procurement and everything else) to the public choice model of today in which military spending has declined by around 50%. The main features of this transition were the *massive and immediate reduction in state economic subsidies* and *a continuity of budget policy* regardless of political change. Also important was a shift in the structure of taxation away from producers and, in the form of VAT, on to consumers. **Professor Ivo Paparela**, of APIS s.a.r.l. Consultants in Paris explained that *capitalism* was being introduced into transition economies *without capital*. This puts the onus upon the state to provide capital to modernise the corporate sector and infrastructure up to a level sufficient to attract private sector investment - a massive task requiring large state shares of GDP channelled through the budget. Naturally, a corrupt and inefficient state would not be up to the task, hence the importance of institution building and the creation of a modern civil

service. An alternative view might be that such optimism in the efficacy of the state is misplaced. Even Japan with minimal levels of corruption has failed with state allocation policies.

Special Session on: "The Role of the State in Coping with the Risks of the Shadow Economy and Economic Criminality"

Mr. Joel Turkewitz[1] of the International Centre for Policy Studies in Kiev took care to distinguish between *"shadow"* economic activity which is linked to the every day survival of individuals and small firms (which is not only harmless at a low level but may be necessary as a social safety-valve in times of high un- and under-employment), and *"illegal"* (drugs, prostitution) or *"criminal"* (fraud, embezzlement, corruption) activities. The latter two are matters for the police, but states that also look at the former as a police problem have not and will not succeed in curbing the growth of unregistered and untaxed economic activity. Such activity *per se* is vital for it is from the small firm sector that growth will eventually emerge and from which institution building at the local level must begin. A shadow economy does accumulate capital - the important task is to utilise that capital domestically and to stop it fleeing abroad.

Mr. Turkewitz's intervention included various references to the case of Ukraine, which on the one hand is mired in officialdom, corruption and over-regulation but on the other lacks the structures and institutions to regulate the market. Over 90% of all firms indulge in informal economic activity because they need to in order to survive - largely because official tax burdens are impossibly high. The damage done is manyfold - tax revenues decrease, inefficient barter transactions proliferate which stunts growth, expensive state (and non-state!) enforcement agencies flourish, money is shunted offshore whilst any capital remaining in the country is not channelled through the banking system which in turn plays no investment role in the real economy, and finally, it is a fertile ground for criminal gangs which can extend their influence over other sectors of the economy and, in places like Columbia, over the state itself. Under such a scenario, legitimate investment virtually ceases to exist.

Can states do anything about it? Mr. Turkewitz concluded on a more *positive note* in that the high-water mark for criminal economic activity in the FSU had passed and that governments were beginning to do the right things, such as improve tax systems to help small firms, encourage firms to enter the legitimate economy through selective state procurement policies, reducing unnecessary legislation and red-tape on trade and banking, improving the civil service, and by police targeting of organised crime rather than small business.

Panel III: The State and Social Security

The lead speaker for Panel III was **Dr. Lajos Héthy**, the Political Secretary of State at the Hungarian Ministry of Labour, Budapest, who described the *double pressure* that transition economies now face with regard to social policy, in that the unwelcome side-effects of market transition (rising unemployment and poverty) increase the demands placed upon existing systems at precisely the same time as resources for social provision collapse due to declining GDP and government revenues. In other words, the state's capacity to provide universal - even if modest - social protection as in the past no longer exists. But public perceptions of the role of the state as a traditional provider of all services has been slower to change than have the economic realities outside. This may be why labour relations in Hungary are getting worse and not better as real incomes rise. *Demographic changes* are also placing increasing burdens on tax-based health and pensions systems. Looking ahead, the "social chapter" of the EU will be difficult for Hungary and other potential new members to afford. The idea that the state must discharge all responsibilities regarding an individual's security is therefore changing in Hungary and elsewhere because financial and demographic reality dictates that it must.

Professor Genc Ruli, Director of the Institute of Contemporary Studies in Tirana explained that although a social security system exists in Albania, the state has no money so employers must shoulder the entire burden. This puts pressure on the nascent private sector which has not and cannot yet compensate for the massive shrinking of the state sector. The main providers of social assistance in Albania are now *expatriate workers* who remit part of their wages from abroad. **Mr. Rostislav Kapeliouchnikov**, Senior Research Fellow at the Institute of World Economy and International Relations in Moscow, explained that the Russian economy is providing a shrinking base for the funding of what, on paper at least, remains a comprehensive social security system. This situation was termed *"the premature welfare state"* and is characterised by an increasing number of benefits and claimants, widescale delays in payment, chaotic indexing, minimal targeting or control of payments, no means testing or use of private systems to fill gaps, a multiplication of special benefits (there are now more claimants of Leningrad war benefit than there were citizens living in the city during the war!), massive corruption, and no transparency between federal, regional and local budgets. The Russian premature welfare state is therefore *inefficient, ineffective* and *costly,* a situation that in the current political climate is not likely to change soon.

Dr. Tine Stanovnik of the Institute for Economic Research in Ljubljana stressed that radical reform (such as privatisation) of social security provision, especially of pensions, was not the only game in town. Slovenia has decided to adopt an *incremental approach* to social security reform which although not financially sustainable in the long-run, is a fairer system in that an element of

redistribution remains which guarantees public acceptance and approval. Incremental reform also allows the system to be purged of privileges and perks whilst establishing a closer link between contributions and benefits. Because it can take perhaps 30 years to establish the capital reserves to fund private health and pension provision, one delegate suggested that radical reform of social security provision (as introduced in Hungary and Poland) could be "sacrificing a generation".

Panel III presentations were completed by **Professor Hans-Hermann Höhmann** of the Federal Institute for Russian, East European and International Studies in Cologne who commented on the *re-definition of national security* in states such as Russia away from external, military threats towards the economic and social problems that pose a risk to internal stability. In this respect, he agreed with Dr. Stanovnik that social security policy can only develop gradually (indeed, was "doomed to gradualism") within a society where new forms of social contracts emerge and develop organically. Professor Höhmann termed this *"the capital of cohesion"*. If social provision is to be effective, this type of social capital must be present, and this can only be so in a strong state with a growing economy that can physically implement policy. Russia, with its political confusion and geographical spread is a prime example of a state lacking cohesion capital with the result that social policy can, as Mr. Kapeliouchnikov confirmed, spin out of control.

Panel IV: The Role of the State in Promoting Technical Progress

The lead presentation for Panel IV was given by **Professor Julian Cooper**, Director of the Centre for Russian and East European Studies at the University of Birmingham, who described R&D as a policy issue that tends to emerge deeper into transition than others as the revival of growth renews interest. In the Soviet Union, technical progress was seen as the motor of growth within a *linear programme* leading directly from scientific research through product development to manufacture. In Russia, similar thinking persists with industrial and technical development policy remaining largely state directed. The result is that engineers tend to be over-specialised and unable to adapt, and that enterprises and associated technical centres expect state support and are passive to restructuring, a state-of-affairs known as *"moral hazard"*. But it is now recognised in the West that innovation is more important than technical ability. New endogenous growth theories emphasise adaptability, flexibility, assimilation and human development rather than investment and capital accumulation. Marketing and design is now at least as important as production. A product still needs to work well, but has to look good if it is to sell. From this perspective, transition economies should focus on innovation rather than science; on services and consumption rather than on industrial production.

Professor Cooper concluded by describing some *positive developments* in Russia - amongst the younger generation at least. Russia is opening up - information is widely available, foreign travel is commonplace, the import of quality manufactured goods is slowly raising domestic standards, whilst Internet and mobile phone use has expanded rapidly. In the defence sector, massive and spontaneous downsizing has released able people for productive use in the civilian economy and some restructuring (and new business formation) has occurred around slimmed-down state scientific institutes. Russia cannot really claim a *Siliconski Valley* just yet, but human capital is developing and the potential is there. This extremely valuable form of conversion has been organic rather than state directed and does not appear in official statistics. The principle task of the state now is to allow this potential to develop by creating the general conditions that allow the economy to be open, flexible and innovative.

Mr. Jean-Paul Panié, Deputy Head of the International Relations Directorate, Délégation Générale pour l'Armement (DGA) in Paris, described the organisation of defence sector research and technology in France. Although medium- and longer-term plans exist both for investment and weapons development, the main principles now driving military R&D stress a growing importance of *dual-use* and an increasing focus on *partnership with industry*, including out-sourcing. The state maintains a coordinating role which includes the assessment of results and planning future orientation. **Mr. Todor Dimitrov**, Senior Advisor to the "Human Dynamics - Consulting and Research" Institute in Vienna concluded Panel IV presentations with the key observation that it is the *private sector* that dominates R&D in highly industrialised countries. In Russia and most of C&EE, scientists work overwhelmingly in the state sector on very generalised projects. They have few applicable skills and often end up working as traders or taxi drivers - hardly an improvement in human capital. On the other hand, private sector R&D tends to be business oriented and thus targeted towards a specific sector or product. FDI is beginning to be the conduit through which transition economies are making this key change. It is not so much the size of the investment that is important, but the fact that a new *management and enterprise culture involving innovation and risk* is introduced.

Panel V: The Role of the State in External Economic Relations

In an age of advancing *globalisation* and rapidly increasing international capital flows, national sovereignty is to some extent compromised as economic policies come under increased scrutiny. In particular, the abrupt reversals in economies that were until recently regarded as miraculous have challenged the conventional wisdom that free movement of capital is a good thing. By opening up their economies, East Asian states gained access to global savings that allowed investment and economic growth to take off. But investors can be erratic, responding instantly to successive waves of optimism or pessimism. In the words of Alan Greenspan, the Chairman of America's Federal Reserve, "it is clear that more investment money flowed into these economies than could be profitably employed at reasonable risk". Malaysia's Prime Minister, Mahathir Mohamad, likened global capital markets to "a jungle of ferocious beasts."[2] These quotes, especially the latter, sum up the essence of this Panel discussion. Do the beasts need taming, perhaps through a tax on international exchange transactions (the "Tobin Tax") or even a return to some kind of "Bretton Woods" fixed exchange system, or are politicians and economists attempting to deflect attention and blame from their own policy failures? Most Colloquium participants tended towards the latter view, noting that liberal domestic financial systems backed up by strict bank supervision and exchange rate flexibility (the first two notable in East Asia by their absence) allows states to enjoy the benefits of free capital flows without necessarily falling victim to the costs.

The lead presentation was made by **Dr. Franz-Lothar Altmann**, Deputy Director of the Südost-Institut in Munich, who described the new kind of legal framework in the field of foreign economic relations that states in transition need to create. The key component is basically *freedom*. Private business must be able to transact with foreign business without undue hindrance from tariffs, quotas, currency restrictions and government preference (such as with lists of "approved" enterprises or goods). Within this basic liberal framework, states also have *duties* such as the fulfilment of international treaty obligations (to gain, for example, admission into the WTO), to secure the transparent functioning of capital markets, to manage or at least mitigate the effects of excessive or speculative capital flows (if at all possible[3]) and, on occasion, to protect "infant industries". In this respect, what Dr. Altmann termed the "first-rank" transition states had by and large provided these "basics" whilst most others had not. The dangers of partial or *unfinished privatisation* were particularly acute in that corruption can flourish and because states can use the "sensitive sector" excuse to influence the activity of quasi-commercial firms to further non-commercial, political and/or foreign policy objectives. Dr. Altmann called this "Gazprompolitik". In conclusion, he called for *flexibility* in state management of international economic relations. The state still has much to do, but in transition economies must start to do much less. A new push for privatisation would be a good start.

Dr. Gerhard Burian, Head of International Economic Policy Relations at the Austrian Federal Ministry for Economic Affairs, was unable to attend Panel V, and his paper on FDI stimulation and regional economic cooperation was presented by Dr. Thomas Nowotny. Although World trade and FDI is expanding faster than global growth, the vast majority is between the developed economies. The flow of FDI to the transition economies of C&EE was just 4% of the total in 1996, but this was and remains vitally important for although small in total, it can represent a significant proportion of fixed capital formation, employment creation and GDP. Overall, empirical evidence suggests that foreign investors are better seduced by *political and economic stability* and *legal transparency* than by bribes and incentives to invest, although the latter can prove useful in attracting large-scale greenfield investments that might otherwise locate elsewhere. **Ms. Vojka Ravbar**, State Secretary for International Economic Relations at the Slovenian Ministry of Economic Relations and Development, reviewed the international economic relations of Slovenia which she characterised as extremely open to the extent that Slovenia achieved WTO membership before any other transition economy in C&EE. Over 60% of GDP is now linked to international trade; a similar proportion is service based. For social reasons, the agriculture sector remains protected, as indeed it is the EU, but this only accounts for about 5% of GDP.

Dr. Leon Podkaminer, Senior Economist at the Vienna Institute for Comparative Economic Studies, was highly critical of some aspects of market globalisation, in particular the free movement of capital that can destabilise or even "wreck" a sound economy and constrain policy choice. He suggested that there may now be a need to design *new international arrangements* to reduce the negative effects of free capital movements, in part basing his argument on the historical success of OECD economies under the "Bretton Woods" system of fixed exchange rates, although increasing global aggregate demand at that time might also have been due to other factors such as continuing post-war reconstruction, the Vietnam war and the effects of far-sighted US policy with regard to capital transfers such as Marshall Aid. **Mr. Roman Czerwiński**, Manager of the Industrial Optics Center S.A. in Warsaw, submitted a paper on the (successful) role of the government in industrial *offsets* in Poland which describes the length to which the government is prepared to go to ensure a significant degree of Polish participation in both civil and defence industrial projects where the lead contractor or supplier is foreign. Mr. Czerwiński also commented upon the massive collapse in demand for military equipment from C&EE defence enterprises following the end of the Cold War. The hope of surviving enterprises is that NATO membership and further offset deals will aid their recovery.

Mr. Michel Crochet, Director of Systems Programmes in the Space and Defence Division of AEROSPATIALE, reviewed international cooperation in the defence industry. In Europe, this has been a reality since the 1960s and will continue as the mounting complexity and cost of new weapons systems

makes shared development essential. Cooperation between East and West is not at the same level for historical reasons but also because of the relative technological backwardness of most C&EE states. Nevertheless, examples of cooperation and technology transfer do exist and should expand with the imminent modernisation of C&EE Armed Forces to achieve interoperability with NATO. By contrast, transatlantic cooperation has been minimal as industries compete in all areas of high technology, military and civil. Arms purchases by Europe from the US have been considerable, but not the other way around raising questions as to whether European firms can compete across a wide range of military/civil technology or, with the odd exception, become more of a subcontractor to US firms. All the major technologies that underpin defence concepts also have civil and commercial applications which increasingly predominate. In this respect, defence has become a consumer of technology that it no longer directs. Ergo, perhaps one should now refer to the *"dual-use"* industry rather than the *"defence"* industry. Following on from this, the time may be coming when arms programmes will be indistinguishable from civil contracts.

Notes

1 Mr. Turkewitz's presentation has not been made available in written form.
2 Both quotes from "Keeping the hot money out". *The Economist*, 24.01.98. p.75.
3 One cited example was the Chilean model whereby foreign investors deposit 30% of the total investment as a "bond" with the Central Bank for one year. This helped to improve the quality of inward FDI and kept hot money out. This model was highly praised when emerging market investment was all the rage - Chile has recently been forced to reduce the 30% hurdle to 10%.