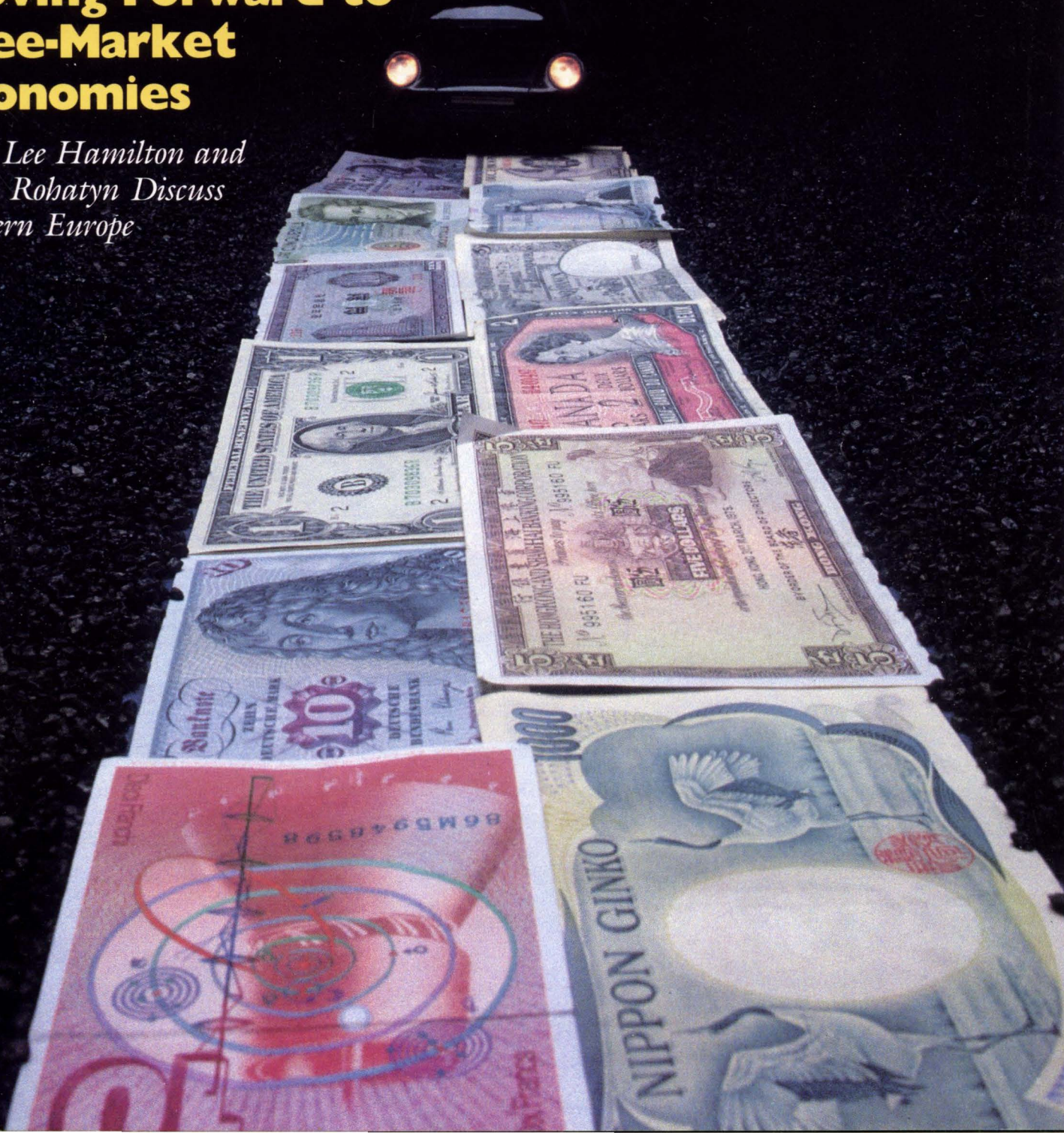


EUROPE

JANUARY/FEBRUARY 1990 \$2.50

Moving Forward to Free-Market Economies

Rep. Lee Hamilton and Felix Rohatyn Discuss Eastern Europe



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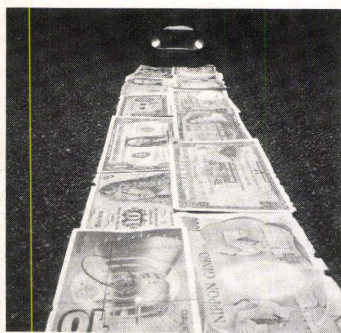


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EUROPE

MAGAZINE OF THE EUROPEAN COMMUNITY



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COVER: As Eastern Europe moves toward free market economies, it will rely heavily on Western financing and investment. Photo: © Jos. Palmieri/AFI Photo Illustrations

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LETTER FROM THE EDITOR

As Eastern European nations move forward on their road to free-market economies, their drive toward democracy will be “banking on the West” for public and private assistance.

At their recent summit meeting in Strasbourg, the European Council approved the creation of a European Bank for Reconstruction and Development to assist the countries of Eastern Europe in making this difficult transition away from their present controlled economies to free market economies.

The original outline for a new development bank was first presented by French President François Mitterrand before the European Parliament in Strasbourg in October.

Many leading economists, politicians, bankers, and scholars are now discussing the merits of establishing such a bank to assist the Eastern European nations moving toward capitalism.

Europe presents a lengthy outline of what a new development bank might look like by well-known financial analyst, FELIX ROHATYN. Rohatyn, a keen observer of the European scene, gives a detailed analysis of how the new bank could be established and shares his views on how a revitalized Europe, both East and West, will affect the United States and the rest of the world.

CONGRESSMAN LEE HAMILTON, chairman of the House Foreign Affairs Subcommittee on Europe and the Mideast and of the Joint Economic Committee, gives his views from Capitol Hill on providing financial assistance to the Eastern European countries, and on the rapid changes in East Germany, Hungary, Poland, and Czechoslovakia and what they mean to American foreign policy, U.S.-E.C. relations, and 1992.

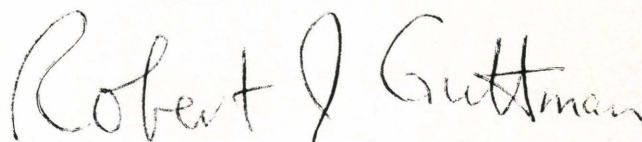
Reginald Dale gives our readers an overview of the Strasbourg E.C. Summit, and Secretary of State James Baker's recent trip to Europe. Steve Dryden writes about the role American and Western European corporations are playing in investing in Eastern Europe. So far, General Electric Corporation has made the largest acquisition in Eastern Europe by purchasing a Hungarian light bulb factory for \$150 million. Capitalism is already alive and well along the Berlin Wall, reports Peter Greenberg in an amusing travel piece.

Europe profiles Greece and gives our readers interesting facts and figures about that beautiful country. We also have a story about the governors of the Midwestern states actively promoting tourism in their region and going to Europe looking for tourists to come to the Great Lakes region of America.

PLUS, we have a chronology of the major events that took place in Europe in 1989 for your files, Notes on 1992, E.C. Updates, and a letter from Czechoslovakia by a journalist who has spent the last month in Prague.

As the new Editor-in-Chief, I welcome your letters to the editor. Please feel free to write us with your compliments—or criticisms—of our magazine. We will be adding new interviews with leading American and European business and government decision makers in our upcoming issues; plus state profiles analyzing and detailing American and E.C. trade and investment opportunities. We will be publishing special issues of *Europe* next year dealing with all aspects of “1992” and what they mean to you in your business or organization.

HAPPY NEW YEAR!



Robert J. Guttman

IBJ

**A FORCE FOR THE 1990's
WHEN RELATIONSHIPS WILL MATTER**

November 1989
CN
Caisse Nationale de Crédit Agricole
U.S.\$250,000,000
8¾ per cent. Bonds due 1994

July 1989
WORLD BANK
International Bank for Reconstruction and Development
Can. \$150,000,000
10½ per cent. Bonds due July 20, 1999

April 1989
EIF
European Investment Bank
U.S.\$250,000,000
10 per cent. Notes due 1997

November 1989
BI
BANQUE INTERNATIONALE A LUXEMBOURG
Can.\$100,000,000
11 per cent. Notes due 1992

November 1989
CARIPLO
Cassa di Risparmio delle Provincie Lombarde London Branch
ECU 100,000,000
9¼ per cent. Depository Receipts due 1994

May 1989
CHRISTIANIA BANK OG KREDITKASSE
Yen 9,000,000,000
9¼ per cent. Dual Currency Notes due 1994

February 1989
OKOBANK
Osuuspankkien Keskuspankki Oy
U.S.\$100,000,000
9½ per cent. Notes due 1992

September 1989
Queensland Treasury Corporation
Yen 15,000,000,000
5.3 per cent. Notes due 1994

December 1989
sds
SDS Bank a/s
A\$29,000,000
7.6 per cent. Dual Currency Notes due 1994

March 1989
ICO
Instituto de Crédito Oficial
Yen 9,550,000,000
5½ per cent. Statutorily Guaranteed Notes due 1993

June 1989
B
Bergen Bank A/S
Up to Yen 8,000,000,000 4 Series Floating Rate Notes due 1991/92
of which Yen 4,000,000,000 is issued as the initial tranche

March 1989
NATIONAL & PROVINCIAL BUILDING SOCIETY
Yen 15,000,000,000
5½ per cent. Notes 1994

October 1989
COMPAGNIE BANCAIRE
Yen 15,000,000,000
5.45 per cent. Notes due 1994

November 1989
HALIFAX BUILDING SOCIETY
Yen 20,000,000,000
6 per cent. Notes 1994

April 1989
NATIONAL & PROVINCIAL BUILDING SOCIETY
Yen 15,000,000,000
5½ per cent. Notes 1994

August 1989
A/S Eksportfinans
Can.\$150,000,000
10½ per cent. Notes due 1994

May 1989
EIF
EUROPEAN INVESTMENT BANK
ECU 75,000,000
9 per cent. Notes due 1999

November 1989
SKOPBANK
Yen 10,000,000,000
5¾ per cent. Bonds due 1992

March 1989
Unilever Capital Corporation
U.S.\$200,000,000
10 per cent. Guaranteed Notes due 1991

AROUND THE CAPITALS

LUXEMBOURG

Flying High

There was a time when Icelandair—which flies between Luxembourg and the United States via Iceland's capital city of Reykjavik—was the only cheap way to cross the Atlantic. With airline deregulation, however, cut-rate flights and special offers are now available on practically every airline and to virtually any destination in Europe.

While this may be good news for passengers, it has not been particularly good for business at Luxembourg's Findel airport. Consequently, in the hope of attracting increased freight and passenger traffic, the Luxembourg Government has decided to make Findel one of Europe's most modern and sophisticated airports.

So far, the Government has committed \$15 million to this ambitious plan. Over the next three years, two new radar

systems will be installed, telecommunications will be upgraded, and a new control tower will be built. During the next decade, the terminal and all the administrative buildings will be expanded and modernized. According to Luxembourg authorities, about three million passengers will be passing through Findel every year by 2010, a tripling of the current number.

The upgrading of the airport complements the efforts of Luxembourg entrepreneurs to make the Grand Duchy a major European conference center by increasing the capacity of existing facilities and by creating a European Business Center equipped with hotels, restaurants, shops, and conference rooms.

European airline deregulation will allow Luxembourg's national airline to offer more connecting flights, and help its Findel airport to become one of Europe's hubs.

Luxembourg will not, however, become the final destination for all of the passengers arriving there every year. Instead, Findel is expected to become a key European hub airport, with connecting flights to other European destinations. In addition, its central location and its proximity to the planned high-speed train lines will make it possible to travel to further destinations quickly and cheaply by land.

The E.C.'s program for deregulating European airlines is a key factor in Luxembourg's planning. Under the new rules, airlines will no longer be constrained to simply ferrying passengers from point A to point B, but will be allowed to set them down and pick them up at various points in-between. Luxair, Luxembourg's national airline, thus will be able to offer connecting flights to many destinations in Europe, using Findel as a base for its operations.

For U.S. travelers, the only fly in the ointment is that the Grand Duchy does not actually have a bilateral agreement with the United States permitting Luxembourg carriers to land at U.S. airports, but only a tacit agreement extended on a yearly basis. According to Luxembourg officials, however, the two countries are now seeking to enter into a more formal accord with each other, which should give the Luxembourg Government the security it needs to press ahead with its plans.—DENISE CLAVELOUX

DUBLIN

Constructive Criticism

The warmth of Irish-American relations is usually taken for granted in both countries. Consequently, remarks made by a former Irish ambassador to the United States, that certain interest groups had been encouraged to set an agenda "essentially dominated by a spirit of anti-Americanism" for the conduct of this relationship aroused immediate interest in the media and in political and economic circles.

The remarks were made by former diplomat Sean Donlon, now a managing director of marketing for the aircraft leasing firm Guinness Peat Aviation, one of Ireland's most successful companies. He told the U.S. Chamber of Commerce in Dublin that an article in the *Los Angeles Times* by the foreign affairs commentator, William Pfaff, which referred to anti-Americanism in Ireland, would have been worthwhile if it had made people pay careful attention to what could happen when some voices, including Catholic clerical ones, were allowed to dominate the articulation of the Irish-American relationship.

Pfaff wrote the article after a brief visit to Ireland. In it, he claimed that "the Irish political class doesn't much like the United States of recent years," and that "one of the Reagan Administration's unintended legacies is this Irish anti-Americanism." Pfaff argued that this anti-American feeling was led by the Catholic clergy, because the experience of Irish missionaries in Nicaragua and El Salvador had turned them against the United States. These missionaries' influence, Pfaff concluded, had thus been decisive in forming the opinion of church leaders at home and of Ireland's Catholic population.

Donlon pointed out that recent advantages accruing to Ireland from the United States



include over \$100 million for the International Fund for Ireland and aviation rights conceded to the Irish national airline, Aer Lingus, to fly to Los Angeles. In addition, about 20,000 Irish people have been or will be allowed to settle permanently in the United States through the "Donnelly Visa Scheme."

Reaction to Donlon's address was mixed. A spokesman at the U.S. Embassy in Dublin said that his remarks were appreciated and contained "kind words about the United States

[that] we do not often hear in this country." Austin Deasy, a former Minister for Agriculture, also supported Donlon, saying that, "We are constantly being urged to condemn America and everything it stands for. Then, in a typically Irish two-faced attitude, we expect them to single us out for preferential treatment, particularly where our emigrants are concerned."

On the Irish political left, Labor Party parliamentarian Michael D. Higgins criticized Donlon's speech as a "crude

failure to distinguish between view on America's role in some parts of the world on the one hand, and the fostering of good economic and commercial relations on the other." When informed about the controversy his article had stirred up, Pfaff told the Irish *Sunday Tribune* that the Irish anti-Americanism he had found



Sean Donlon.

COURTESY: GFA GROUP LIMITED

LISBON

Changing of the Guard

A refined, discreet, and intense struggle is underway for control of one of Europe's biggest cultural fortunes—the Lisbon-based Gulbenkian Foundation for charity, the arts, education, and science.

In Portugal, the Foundation acts virtually as a parallel arts and culture ministry, and owes its existence to the Armenian oil tycoon Calouse Sarkis Gulbenkian, who settled in neutral Portugal in 1942 at age 73, joining dozens of wealthy and royal European refugees who were escaping the ravages of World War II in their home countries. He had long contemplated leaving his vast fortune, made by organizing the Middle East oil rush after World War I, to a charitable and cultural foundation. Swayed by his attraction to Portugal and upon the urging of his advisers, chiefly Azeredo Perdigão, his executor, lawyer, and friend, he drew up a will basing the Foundation in Lisbon in exchange for highly favorable exemptions from tax and death duties. Today, the Foundation has interests around the world.

Gulbenkian's original endowment of almost \$7 million is worth more than \$1 billion

today. As Europe's largest private foundation, it has disbursed over \$55 million in grants alone since it was set up in 1965, and it finances about \$60 million worth of projects in more than 40 countries each year.

The Gulbenkian Museum, considered a near-perfect example of its kind, houses more than 5,000 of Gulbenkian's treasures, including Egyptian sculptures, Oriental ceramics, French furniture, Lalique jewelry, Greek coins, and masterpieces by Rembrandt and Rubens. Installations include a specialist public library, a 1,000-seat concert hall, conference facilities, and a modern art museum.

At the time of Gulbenkian's death in 1954, Perdigão was the clear choice to head this "state within a state," a job he was given for life. Now, however, 93-year-old Perdigão's imminent departure has prompted discord in the hushed halls of the Foundation's Lisbon headquarters.

The question of his successor was thought to have been settled in 1977, when the eight-man board opted for a ballot system that would virtually ensure the succession for one of Gulbenkian's direct family members, Robert Gulbenkian, the founder's grandnephew, or second-in-line Mikhael Essayan, another family member. The successor's

mandate was to run for five years, to be renewed by vote of the board.

The idea behind this arrangement was to return to the hands of the Gulbenkian family some semblance of power over the fortune of an illustrious predecessor, and to eradicate the bitter aftertaste of a 1957 legal battle that had clouded both the siting of the Foundation and the true intentions of the legacy, which some claimed had been manipulated in favor of Portugal.

However, in what has become known locally as a *Golpebenkian* (playing on the Portuguese word *golpe* for a coup), the omnipotent Perdigão has decided to change the rules to allow his own man to take the chair. According to some sources, he feared that after his death the board would degenerate into a hotbed of political rivalry and interest groups. Perdigão, who favors a kind of alternating seniority, explained that: "This way it is simpler, the process of succession is automatic, [and] age determines the change."

Late this autumn, Perdigão convened a regular weekly meeting of the board, which Gulbenkian and Essayan did not attend. On the agenda was his plan for choosing his successor. Ignoring the 1977 decision, he announced his choice of a rotating chairmanship based on seniority, but limited

to a five-year term. If accepted, this would effectively rob Gulbenkian of the job and ensure that it goes to one of Perdigão's closest colleagues and friends, Ferrer Correia, the 77-year-old former rector of Portugal's famous Coimbra University.

Dissident voices, likening the Foundation to the pre-Gorbachev Soviet gerontocracy, immediately suggested it was time for some *perestroika*—and with good reason. The Foundation's bureaucratic meanderings are Byzantine, and the workings of its administration well-hidden secrets. Journalistic attempts to probe or obtain information are stonewalled or tied up in excruciating and time-wasting procedures.

Traditional Gulbenkian discretion has been ruffled as the rumpus has spilled into the open. Gulbenkian and Essayan have limited themselves to voting against the board decision to change the rules, and have declined to comment publicly. But such an abrupt *volte-face* on an issue apparently long resolved is not likely to be taken lightly by the Gulbenkian family.—KEN POTTINGER

was centered mostly on U.S. policy in El Salvador and Nicaragua. "These criticisms are not unjustified and are a perfectly rational reaction to U.S. policies, which would reflect some of my own thinking on the subject," he said. "People wanted it to be clear that there was an America they still loved and respected, but that they objected to what one might call the 'Ramboesque' side of American policy."

Donlon himself was abroad when the reactions to his speech poured in. He expressed surprise at their extent, noting that whenever "the Church element is introduced, it seems to provoke this kind of reaction." His concern, he noted, had been over how people in the United States, especially in government circles, might perceive Irish attitudes to that country as a result of the high-profile criticisms of U.S. policy in Cen-

tral America. He had pointed out in his original remarks that there could also be "sharp differences" between the United States and Ireland on specific issues, for which Ireland could pay an economic price for a principled political position.—

JOE CARROLL

BONN

Neighborly Gestures

November 9, 1989, is a date that not only Germans will remember. For on that day, after 28 years, the East German regime opened its borders and breached the Berlin Wall, allowing its citizens to travel freely to the West. Thousands of jubilant East Berliners poured into West Berlin to celebrate the unbelievable, unthinkable event with joyful West Berliners, and many climbed the Wall

at the Brandenburg Gate to sing, dance, and place candies on the top.

Paradoxically, the East German regime built this hideous wall for the same reason it has now opened its gates. Construction began on August 13, 1961, to cut off the heavy flow of East Germans escaping to the West (some 3.5 million since the division of Germany after World War II), which had severely weakened the East German economy. In 1989, the Communist regime was obliged to allow its citizens to travel to the West through the border checkpoints to stem a similar outflow of skilled workers and technicians who were pouring into West Germany via Hungary and Czechoslovakia. The East German authorities gambled that, by permitting the longed-for freedom of movement and other freedoms, their citizens might be induced to stay at home—or, if they had left for good, even come back.

Tears flowed when the Wall

lost its effectiveness as a barrier between East and West, and people realized that they were witnessing the making of history. Many simple but magnificent words were spoken and gestures made during moments that will go down in history—whatever turn subsequent events may take.

Willy Brandt, Mayor of West Berlin when the Wall was built, said: "I thank the Lord that I have lived to see this happen. Nothing will be the same again." The present Mayor, Walter Momper, stated that: "The German people are the happiest in the world today." Chancellor Helmut Kohl said that November 9 will be "a great day for the history of the city and for Germany," and poet Martin Walser noted that "this soft East German revolution is the first successful German revolution. Now is the time to be happy . . ."

Carried away by the emotion of the moment, after hearing that East Germany had opened its borders, West German Members of Parliament rose



The Berlin Wall was initially built—and now opened—to keep East German citizens from fleeing to the West. This most tangible symbol of the Cold War was breached on November 9, 1989.

COURTESY GERMAN INFORMATION CENTER

spontaneously and sang the national anthem during a plenary session in Bonn.

Instead of handing out free beer, a West Berlin brewery sold its beer to thirsty East Germans at an exchange rate of one East German mark for one West German mark. This friendly and wise gesture gave the East Germans a feeling of being able to afford a drink for a currency almost worthless outside their own country.

In another gesture of outreach, the director of the Berlin Philharmonic Orchestra, Daniel Barenboim, said that the orchestra belonged to the people in both parts of the city, and invited East Berliners to enjoy the concerts at specially reduced rates. As an expression of gratitude for the warm welcome that West Berliners extended to East Germans during their first rush to West Berlin, a theater in East Berlin invited West Berlin citizens to its show "Simply Marvelous" free of charge. The visitors were also treated to a sightseeing tour, and the obligatory daily exchange for West Germans of 25 West German marks for 25 East German marks was waived.

The gestures of friendship and solidarity were by no means restricted to Berlin, however, as many moving scenes at border crossings between the two Germanies showed. West Germans offered food and accommodation to exhausted East Germans who had waited many hours to cross the border and to get their welcome money of 100 West German marks. The cities of Lübeck, Hamburg, and Hof were jam-packed, and the two-stroke East German Trabant cars (affectionately known as "Trabbis") crowded towns everywhere. Although they were often illegally parked, car owners found that Hamburg's traffic police were leaving chocolate bars instead of tickets on their windshields.

Visits to West German sister cities will no longer be the privilege of East German functionaries. For the first time, the

city fathers of Hamburg were able to welcome not only Dresden's mayor and his dignitaries, but also 941 ordinary Dresdners. They arrived in a special train for a two-day visit.

In Hanover, some rowdies set fire to two Trabbis, destroying them totally. But thanks to the generosity of two car dealers, tears of despair soon turned into tears of joy. When presented with a "replacement" Volkswagen Golf, Rolf Völkel of Magdeburg commented that "this solidarity is unbelievable." Hartmut Weinand of Frankfurt/Oder found his new Golf "like a dream difficult to grasp."

Eleven East German visitors to Hanover unexpectedly found themselves in Paris—a city they had only known from television. A Hanover travel agency had offered them a weekend trip for only 99 East German marks. "It was like a fairytale," they enthused.

The tabloid daily *Bild*, which filled pages with accounts and pictures of the dramatic events and emotional scenes of German-German encounters, remembered at this time of exuberance to send a telegram of thanks to Soviet leader Mikhail Gorbachev. The telegram emphasized the important influence Gorbachev's *glasnost* and *perestroika* had had on the opening of the borders. "You have made Germany very happy, Mr. Gorbachev, and you have lit a torch of hope for mankind—everywhere in the world. We must ensure that this light is never extinguished," the paper wrote.

On this occasion, many West German commentators recalled Gorbachev's prophetic public statement during the celebrations commemorating the 40th anniversary of the founding of East Germany: "He who comes too late will be punished by life." Only a few weeks later, the new leaders of the East German Communist Party have not only ordered the opening of borders, but have also promised radical reforms and free and secret elections. For stunned citizens in

East and West, this new situation is too good to believe.—
WANDA MENKE-GLÜCKERT

COPENHAGEN

Big Banking

Bank branches are a dominant feature of main streets, side streets, and villages throughout Denmark. However, with the merger of the top five Danish banks into two, Denmark is about to relinquish its claim to being one of

the price of loans are more interesting than the E.C. perspective, however. Virtually all Danes have personal checking accounts—although getting a credit card is relatively difficult—and almost all salaries are paid directly into these accounts. Banks often offer credit lines to attract this business, and ask for no collateral if the person is not a registered bad debtor. Mortgages, union dues, insurance premiums—even alimony—are typically paid automatically from these accounts at no extra charge.

Other Europeans often compare Danish banking services

COURTESY HANDELSBANKEN



Handelsbanken merged with Den Danske Bank to become one of Denmark's new mega-banks.

the most overbanked countries in the world. These mergers, which anticipate the E.C.'s upcoming free market in financial services, constitute the most far-reaching structural change in any E.C. country so far.

The two new banks, Den Danske Bank—a merger of Handelsbanken and the larger bank that carries the new bank's name—and UNI BankDanmark, a merger of three other major banks, currently have more than 1,300 branches and 27,000 employees. As many as a quarter of these branches may be closed down, probably more quickly than officially predicted, and employment levels are scheduled to drop by at least 3 percent a year by natural attrition.

The large number of bank branches in Denmark is an indication of the high consumption of financial services in the country. For the ordinary Dane, the level of service and

to the total welfare concept of the Scandinavian countries: Clients are guided through all situations, be they pleasant or difficult. By comparison, services in West Germany, the United States, and France are far more sparse, and if they are provided on a level approaching the Danish scale, it is only at an appreciable cost.

Although a recent E.C. Commission study listed Denmark as one of the four cheapest E.C. countries in terms of the prices of most financial services, this is certainly not the popular impression, and there is a general expectation that, as competition increases, the difference between deposit and loan rates, now as high as 7 percent, will narrow sharply. This view has been encouraged by comments from the newly merged banks.

Denmark's banking system is changing in a number of ways. As in the United States,

Danish banks will now start to grade their customers in a more cost-effective manner. High-income customers will be offered special rates and perks that, in Denmark's basically egalitarian environment, would have been unthinkable just a few years back. Automatic cash dispensers and other machines will handle a growing number of routine transactions, and computerized information about customers will allow banks to offer a wide range of personalized services, including insurance and investment consulting.

One of the victims of this increased productivity may be the concept of a personal financial adviser for each individual client. This practice, however, was not only costly in terms of personnel, but in the harsh economic climate of Denmark, the banker's advice—to save more and consume less, often combined with the refusal of additional loans—was often unpopular. Most Danes will not miss that kind of advice.—LEIF BECK FALLESEN

LONDON

Lights, Camera, Action!

“Order, Order. This backchat does not enhance the proceedings,” protested the Speaker of the House of Commons as the murmur of dissension against a speech rose to a crescendo. The Members of Parliament (MPs), however, were playing not to the gallery, but to the

television cameras transmitting live coverage of a debate for the first time.

It was a small step for parliamentary democracy—but a giant step for the Mother of Parliaments, which, after 800 years, has finally allowed the prying eye of the camera to reveal the pomp, ceremony, pomposity, and curious ways of the nationally elected representatives.

Fearful that the cold and dispassionate camera would force unacceptable changes on the House, and especially on the behavior of its members, who might begin to place more emphasis on the presentation of their speeches than on their content, the MPs have fought a rearguard action against televising House of Commons debates for the past 23 years.

The electorates of the United States and Canada have been able to view their respective assemblies on television for 12 years. Until recently, however, the majority of the members of Britain's ruling Conservative Party opposed allowing television cameras into the House because they felt that the Commons was still the “best club in London—and who in his right mind would allow cameras into his club?” explained MP and author Julian Critchley.

But after televising began, members loved every moment of it, especially the Tories, who seemed to enjoy acting up for the cameras. The Speaker, Bernard Weatherill, clearly relished the opportunity to ham up his role of presiding over the greatest debating society in the land, and he was determined not to be outdone by MPs determined to prove their oratorical skills in presenting their arguments, or in biting or witty interjections.

The cut and thrust of the debate is revealed by the eight remote-controlled fixed cameras as a kind of warfare carried out within the rigid rules of behavior that have evolved over the centuries. “It is a confrontation—carried out in the civilized tradition of this place

MADRID

Nuclear Reckoning

A fire that burned unchecked for four hours inside the Vandellós I nuclear power plant in October may not have leaked any radiation, but did leave plenty of political fallout.

The plant's owner, the Hispanic-French consortium Hifrensa, downplayed early news reports of the seriousness of the blaze, which began when a turbine generator shook loose from one of its mounts and leaked hydrogen and lubricating oil. Company officials emphasized instead that technicians and firefighters were able to bring the fire under control before it spread to the plant's reactor, and that backup equipment still had twice the capacity needed to cool down the uranium core safely. Nevertheless, the company now faces stiff opposition to its plans to repair the 17-year-old plant (which has been closed since the accident), and to keep it operating until its projected lifespan ends in 2003.

More than 35,000 people attended a November rally in Barcelona to call for the permanent shutdown of Vandellós I, and to urge the Spanish Government to pull the plug on

Spain's six other operating nuclear plants. Criticism came from other quarters as well. The municipal governments of several towns around the plant, located near the Mediterranean about 90 miles south of Barcelona, said company officials waited too long to notify them of the emergency. The towns also criticized civil defense authorities for failing to provide promised vehicles and other equipment to be used in the region's nuclear emergency evacuation plan.

The Spanish press has also given prominent play to the accident and its aftermath. The influential daily *El País*, in particular, has devoted more than a dozen front-page articles to the accident, and has editorialized in favor of a permanent shutdown and a re-evaluation of the government's nuclear policy.

The zeal of the paper's editor to play up the accident led to at least one instance of false reporting, in which the newspaper quoted an internal document of the Vienna-based International Atomic Energy Agency as saying the accident was the worst anywhere since the 1986 Chernobyl disaster. In fact, the quote came from a Spanish newspaper article that the agency's press office had photocopied as part of a roundup on the accident.

The Government of Socialist Prime Minister Felipe Gonzá-

lez, which declared a moratorium on further nuclear plant construction several years ago but defends nuclear power as a way to avoid reliance on expensive imported energy, remained silent after the accident. The job of sorting out the facts has consequently been left to the state's nuclear watchdog agency, the Nuclear Safety Commission.

As of December, the commission had released two interim reports outlining the causes and impact of the fire. And while it acknowledged that there had been no radiation leak or immediate danger to the public, the Commission did state that the accident was the worst in Spain's 20 years of operating nuclear power plants. It also criticized Hifrensa for failing to put emergency plans into action and for not making changes in procedures and equipment mandated earlier by the Commission itself.

The key to the plant's future is the list of mandatory repairs and technical improvements that will be included in the Commission's final report. These findings will, in effect, determine whether it is economically feasible for Hifrensa to reopen Vandellós I, and will give both the nuclear energy industry and its opponents an idea of the price tag on safety lapses.—RICHARD LORANT



The procedures of the House of Commons, Britain's lower parliamentary body, are now being televised after much resistance from its members.

by people who know the rules and who, in the end, stick to them," Weatherill said, describing his view of Parliament. "How much better to have our kind of warfare of words in here than to have warfare in the streets out there."

Because of strict guidelines laid down for television coverage, however, the cameras cannot focus on scenes of backbenchers eating oranges, reading newspapers, or sleeping through their "learned colleague's" presentation. Despite these restrictions, which led to many protests from the media about limits on freedom of information, it quickly emerged that live coverage of Parliament is one of the best shows in town. Some speeches are uplifting, others long-winded and tedious; some address vital national issues of the day, others the minutiae of local domestic issues of interest to only a minority of the electorate.

It was generally agreed that, after the novelty of the first few days, the televising of Parliament was unlikely to replace American or Australian soap operas as the preferred fare of afternoon television. For the most part, the average citizen will still be restricted to seeing the 30-second spot selected for the evening news.

The question asked before the Parliament began to be televised was: "Will television be a 'turn-on' or a 'switch-off'?" Apparently, it will be both. For those who love poli-

tics and political debate, it is a feast. For those who care little for either, it is a definite switch-off. But television in Parliament is likely to prove that the British love their eccentrics, and that this new exposure is likely to cast a bright light on some of these entertaining characters who, until now, have lurked in the shadowy anonymity of the Commons backbenches. Perhaps this will be one of the finest contributions of nationally televising Parliament.—
DAVID LENNON

ROME

Shedding an Old Skin

So many things have happened during these historic days—the Berlin Wall has fallen, Bush and Gorbachev have met off the coast of Malta, and news from the East bloc countries has flooded the West—that the international press has not given much space to a major development currently unfolding in Italy. This concerns the crisis within the Italian Communist Party (PCI), which will affect the rapidly changing political and economic balance on the Old Continent.

The PCI has always been the strongest communist party in the West. No rubber stamp of Moscow, it has been openly

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critical of that regime when necessary, and has followed the path of "Eurocommunism," a form of socialism that takes into account the failures beyond the Iron Curtain and the realities of life in the West.

Nevertheless, most Italian and foreign observers could not believe in the Italian Communist Party as led by Achille Occhetto, its Secretary, although changes similar to Gorbachev's *perestroika* were happening—on a smaller scale—to the PCI.

The results of the PCI's most recent national convention clearly show this development: Italy's Communist Party, which receives the largest number of votes after the Christian Democratic Party

(DC), is prepared to dissolve and to re-form itself to become a member of left-leaning political formations. It is even ready to change its own name, for the "communist" label, although making it so unconditionally popular with an entire generation of workers, always clipped the party's wings in its desire to go further and to create indispensable international relations.

As expected, the operation was painful. Before the spotlights of Italian television, Occhetto had to listen to the tough criticism of several of the PCI's historical leaders, those founding fathers who are still so well-loved by the rank and file, who have not forgotten the long years their leaders

had to spend in prison under the fascist regime. It was the first time in its history that the PCI, which has always made a point of showing unanimity in its political direction and smoothing any internal "currents," was divided. Official declarations expressed disagreements, and the specter of the party splintering into differing factions became a serious possibility.

In the end, however, Occhetto won out, albeit with much suffering. The workers' rank and file, which constitutes the PCI's primary voting pool, accepted the change with perplexity and public bad humor. In some of Italy's particularly "red" regions, such as Emilia Romagna and Tuscany, where

the Communist vote is strongest, Occhetto's measures were passed by only a narrow margin.

In observing the reactions of the PCI's national and international partners and adversaries to the changes, it was striking that the most positive judgment of Occhetto's historical change of course came from the Christian Democrats—the party with the relative majority that should worry most about the birth of a new democratic-progressive formation. It is well known that many of the votes cast in the past for the DC have simply been an expression of anti-communism, and it is not clear whether these voters will remain true to the Christian Democrats if the fear of the Communist bugaboo diminishes.

Yet the Christian Democrats, from Prime Minister Giulio Andreotti on down, welcomed Occhetto's move. Italy's political picture has been mired in the inevitably sterile juxtaposition between the DC and the PCI since the end of World War II, and since the PCI has not participated in any government during this period, a large and active percentage of the country's voters has been virtually excluded. Consequently, the possibility of breaking the stalemate was received favorably.

One person clearly worried by the PCI's transformation is Bettino Craxi, the former Socialist Prime Minister. He is afraid that his party, which receives the third-largest number of votes in Italy (but is still far behind the Christian Democrat and Communist giants) will lose out. He has tried for years to transform his party into the vital element in the scales of Italy's complex political equilibrium, yet this achievement could possibly be undone in one fell swoop.

In addition, Occhetto's request to let the "new PCI" join the Socialist International has placed Craxi in possible embarrassment. The other parties in the Socialist International, from the powerful West Ger-

PARIS

Bête Noire

France's extreme right is a *bête noire* that has made a sudden new appearance from the political wilderness where it had been skulking. Over the past six years, the National Front has made what many French consider to be worrying gains in political credibility with its platform of xenophobia and openly racist, anti-immigrant policies.

The first jolt came in 1983 when, in the heavily immigrant town of Dreux, outside Paris, the first National Front candidate was elected to a municipal council. The party scored well in the 1984 European elections, and party leader Jean-Marie Le Pen was elected to the European Parliament. Other electoral successes included sending members to the French Parliament in 1986, but Le Pen did poorly when he ran for president of France last year, and the National Front failed to elect a candidate in the subsequent legislative election. This resulted in a sense of complacency, and perhaps a certain smugness that the ex-

treme right phenomenon had finally disappeared from France.

Recently, however, in the same bleak town of Dreux, the National Front made a new, unexpected comeback. Marie-France Stirbois won the town's seat in a partial election to become the only National Front member in parliament. In a second partial election in Marseilles, the National Front candidate lost, but nevertheless managed to cull an enormous 47 percent of the vote in a city where the growing North African population has caused a backlash against them. Both candidates campaigned on one major issue—resentment against immigrants.

One of the National Front's greatest assets, many analysts suggest, has been a Socialist government that has failed to sense the French mood toward the exploding immigrant population. Last fall, for example, the government sidestepped ruling on whether a handful of North African girls should be allowed to attend school wearing scarves over their heads in the Islamic tradition (see *Europe*, December 1989).

French President François Mitterrand has unwaveringly fought for immigrant rights, in-

cluding a policy of reasonably easy access to France and a limited right to vote, but the latest election results have prompted the Socialist Government to change its tone. Prime Minister Michel Rocard declared that France would be more restrictive on immigration. The government would focus on keeping illegal immigrants out and speeding foreign residents' integration into French society. He created a special committee of 13 ministers whose departments touch on immigration to study problems ranging from political asylum to schooling. The government has also shelved plans for allowing immigrants to vote.

The National Front has once again managed to change the political landscape by prompting moderate political reaction designed to head off demands for the extremist solutions Le Pen and his followers demand. But Le Pen seems destined to ensure his own isolation. For although his rhetoric may appeal in towns like Dreux and Marseille, it is often too rabid for voters in less heavily immigrant areas, and his behavior is too undiplomatic for mainstream politics.—BRIGID JANSSEN

man Social Democratic Party to the other Italian member of the International, the Social Democrats, immediately welcomed Occhetto's request. Craxi thus risks becoming somewhat shadowed.

The leader of Italy's Socialists still is in good company, however, in his skeptical attitude toward the presumed transformation of Occhetto's Communists: The signals coming from Washington are very cautious.—NICCOLÒ D'AQUINO

AMSTERDAM

A Good Beginning

On November 7, 1989, Ruud Lubbers, Prime Minister of the Netherlands, presented the members of his new Christian Democratic-Labor coalition government to Queen Beatrix. The new coalition, formed after weeks of negotiations, was the result of elections brought on by the fall last May of the Christian Democratic-Liberal coalition.

Lubbers has left a firm imprint on Dutch politics in the 1980s, and has proved himself in the foreign policy sphere as well, where he has grown to be a kind of moderator between the larger E.C. members. In addition, he successfully mediated between West Germany and the United Kingdom in a dispute over the modernization of NATO's short-range nuclear missiles last spring.

Lubbers is now in his third successive term as prime minister and, as the 1990s begin, has firm control over the government. He is pragmatic, a characteristic that will be needed in the coming years. For, while the Dutch economy is strong, major challenges for the Government include cleaning up the environment, reducing unemployment, and safeguarding Dutch competitiveness.

A boon for the present government is that Wim Kok, the former leader of the parliamen-

tary Labor Party who has much experience with trade unions, both at the Dutch and the European level, is the new Deputy Prime Minister and Finance Minister. Lubbers and Kok have many things in common, and both feel that the Dutch welfare state, one of the most generous in the world, needs to be cut down to size. Consequently, the new coalition's program provides for only a modest increase in social services.

The Netherlands is lagging behind its neighbors in reducing the size of the public sector. Although the budget deficit has fallen from 10.1 percent of national income in 1983 to 5.7 percent in 1988, it is still too high, and interest payments continue to be a burden. The new government aims, therefore, to reduce it to 3.25 percent by 1994.

Despite the deficit, the Netherlands' economy is one of the fastest growing in the Community, and continued wage restraint has enabled the Dutch to enjoy one of the E.C.'s lowest inflation rates, expected to be at 1.5 percent in 1990. In addition, job creation is twice that of the E.C. average, although unemployment is still expected to be at 7 percent in 1990. Productivity growth, currently at a satisfactory 4 percent, is on the increase, and investment is booming at home and abroad. In fact, the Netherlands is the second-largest investor in the United States after Britain, and the Netherlands' surplus on its trade balance is 2 percent to 3 percent of its national income.

Another positive factor on the balance sheet is that the Netherlands is the world's fourth-largest producer of natural gas after the Soviet Union, the United States, and Canada. Recent figures show that proven gas reserves in the Netherlands will reach well into the 21st century.

The 1990s will still bring the Netherlands some difficult challenges, however. For example, the government fears

that Dutch exports to southern Europe will suffer because exports in general currently are concentrated mostly on the German Ruhr area and the Benelux countries. As a result, it is now encouraging diversification toward the Spanish and Italian markets.

Rotterdam, too, faces a challenge as it tries to become Europe's gateway for transit trade. The Netherlands is the world's most densely popu-



The Rhine River is a source of many of the Netherlands' pollution problems.

lated country, and this new role as a major European transit area would aggravate the already growing transport problems. The Dutch Ministry for Public Works and Waterways has, therefore, already started to improve roads, and has commissioned the building of tunnels to ease the traffic from Rotterdam and Amsterdam to the European hinterland.

Not to be left behind in the European scramble to attract foreign investment as 1992 approaches, Amsterdam has offered to serve as the site of a future E.C. supranational banking authority, and has drawn up a 23-point plan intended to lure foreign financial institutions there. Dutch financiers believe that, at the least, Amsterdam could compete with other second-tier markets such as Brussels, Zurich, Luxembourg, and Madrid.

The major challenge for the Netherlands, however, is to clean up the environment. In 1986, Pieter Winsemius, then Minister of the Environment, began a program to dispose of the country's chemical and ag-

ricultural wastes. The second national environment plan, which called for a \$179 billion plan over 20 years to reduce pollution, was published in May.

While the government is planning to give environmental problems top priority, however, it must also safeguard the Netherlands' international competitiveness. Labor minister Johan Alders will submit the environment blueprint to

parliament in 1990, but businesses are already worried that the so-called "green taxes" will hurt Dutch competitiveness. The issue is very sensitive: A debate over environmental taxation led to the fall of the Christian Democratic-Liberal government last May after the latter opposed helping to pay for the plan by abolishing a tax reduction for car commuters.

The Netherlands' environmental problems are further complicated by the fact that one-third of the country is covered by water, and that about 60 percent of the country's pollution comes from abroad—via the Rhine River, the country's long Dutch North Sea coastline, and from toxic chemicals brought by the wind from Britain and West Germany.

Under the Netherlands' new plan, air, water, and soil pollution must be reduced by 70 percent to 90 percent by the year 2010. The success of these goals, however, will depend on whether surrounding countries take similar steps.—NEL SLIS

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BRUSSELS

Welcoming Foreigners

Belgians once proudly identified their industrial might with fine chocolate, trolleys that were sold all over the world, tennis racquets used by such famous players as Bjorn Borg, and beer that no other Europeans could match. Today, however, their largest chocolate makers have been gobbled up by Swiss and Americans, one of their last companies to produce railway cars has been sold to the Canadians, the sports group that sponsored Borg belongs to French tycoon Bernard Tapie, and most of the country's famous family-made beers are also slipping into foreign hands.

In fact, entire blocks of the Belgian industry have been sold away in recent years, and some citizens are beginning to wonder whether anything will remain Belgian.

Belgians are used to the presence of foreigners in their country. Sitting at the crossroads of Europe, Belgium has always "hosted" foreign armies, emperors, and generals, who waged their wars on its soil and always left a few thou-

sand Belgians dead. Even when the Kingdom of Belgium was established in 1830, after a fierce battle against the Dutch, the new country was not averse to inviting a foreign monarch to rule it: The first king, Leopold I, was Prussian.

When Carlo de Benedetti came to Belgium in January 1988, however, the feeling was that this "invasion" was different. The Italian businessman had no army and, initially, no battery of television crews. Instead, he brought with him a bid to take over Belgium's largest holding company, Société Générale de Belgique (SGB). Since the battle was seen as the first move to establish a real pan-European company, de Benedetti's raid on the sprawling company made headlines for months. Finally, however, France's Compagnie Financière de Suez came to SGB's rescue, becoming the company's majority owner.

For most observers, the consequences were the same: Belgian shareholders had sold a holding company that controlled one-third of the Belgian economy to foreigners. Suez had paid more than \$3 billion to buy SGB, and few were surprised to see the French company subsequently sell parts of the SGB empire to foot the bill:

CIG intersys, a computer subsidiary, went to Computer Science Corporation of the United States; CFE, a building company, was sold to Dumez of France; and Omnichem, a chemical plant, was acquired by the Japanese group Ajinomoto. A Belgian daily noted recently that it took Suez only a few months to end Belgian independence in such sensitive sectors as energy, defense, telecommunications, high-technology, space research, and shipping.

After the SGB affair, many foreigners began to take a greater interest in the Brussels stockmarket, which had been undervalued for years. Money poured in and, as a result, the value of all stocks shot up. In the space of one year alone, French, Dutch, American, German, and Swedish investors took control of more than 20 leading Belgian companies, most of which had been in family hands and were not big enough to position themselves for the E.C.'s single market.

This was, for example, the case of the Raffinerie Tirlemontoise (RT), which refines sugar for about two-thirds of the Belgian market. Until last November, when its family shareholders announced they were selling all shares to the West German company Südzucker, RT had been proud to be the most lucrative sugar company in Europe, with profits of \$65 million a year on revenues of \$625 million. Due to the E.C.'s agricultural rules, however, the company could not grow any bigger in order to prepare for 1992. Since it needed cash to buy another company, the shareholders sold RT to Südzucker, which is now the leading sugar refinery in Europe, ahead of Italy's Ferruzzi and Britain's Tate & Lyle.

Belgium has taken no action so far to protect its strategic industries against hostile takeovers. And although the E.C. is putting the finishing touches on rules to control abuses of dominant position in European megacompanies, that protec-

tion may be too late for Belgian industry. For, analysts note, most transactions will have already been made by the time the E.C. ruling takes effect.

Some say that Belgium is the soft underbelly of Europe, and that it has lost considerable ground to the big countries that keep a protective hand on their economies. Others counter this assertion, saying that Belgium is paving the way for Europe by selling industries that were once national symbols and using the money to invest abroad.—CHRISTOPHE LAMFALUSSY

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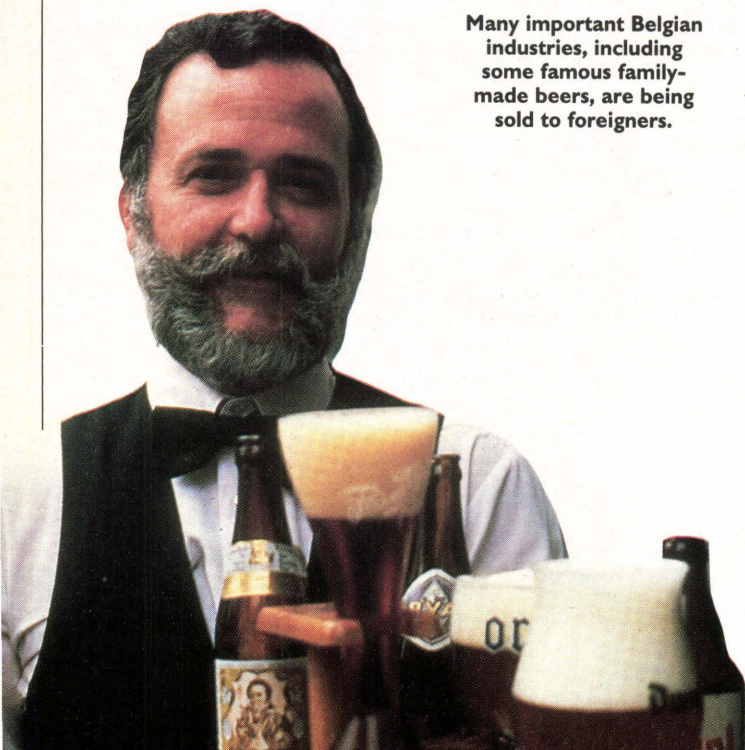
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Many important Belgian industries, including some famous family-made beers, are being sold to foreigners.



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THE FINANCING OF EASTERN EUROPE

FELIX ROHATYN, Senior Partner, Lazard Freres & Company, spoke with Europe Magazine's Editor-in-Chief, Robert Guttman, about his ideas for creating a new development bank for Eastern Europe.

In this exclusive interview, Rohatyn, a native of Vienna, Austria, and a well-respected expert on financial issues, presents his thoughts on the new Europe, the need for vast changes in the market climate of Eastern Europe, and the structure, capitalization, and purpose of a new development bank.

You said that Monnet believed that political change grows out of the actions of economic institutions and that, at this stage in history, Monnet's view is correct. In other words, his formula can be applied to Eastern Europe as it was applied to Western Europe 40 years ago. What did you mean by this? Could you explain?

I said that Monnet's view was correct as opposed to Mao Tse Tung's view of power growing out of the barrel of a gun since it is obvious, at least at this point, that it's the economy and not guns that are forcing political change in both the Soviet Union and Eastern Europe. The Chinese clearly still believe in Mao Tse Tung, but nobody else does, and the Chinese will ultimately change.

What I said was very simple: Economic institutions, especially ones that are considered politically benign and not political in nature, by being multinational, by being "neutral," and whose efforts are perceived to achieve improved well-being among the recipients, like the European Coal and Steel authority in Europe, and on a small scale like the Municipal Assistance Corporation in New York, can ask for changes as part of economic development programs that are rather difficult for private companies to ask for but are

necessary in the evolution of economic development.

There are illusions about how rapidly a country like Poland or even Hungary, which is probably more advanced institutionally than Poland or Czechoslovakia, could make the transition from a command economy to a free-market economy.

The multinational structures that operate between the private and the public sectors can be a very useful buffer and negotiator for a lot of the things that are going to have to be done. These will be done both in terms of the evolution of legal concepts and the creation of economic structures that operate in the areas of public infrastructure, as well as the creation of things that we take for granted like a banking system, a credit system, and ultimately components of private enterprise that are not so simple. They sound simple: an accounting system, a system for copyrights, patents, property rights, mortgages all sound simple. It's in those areas, as well as essentially the extension of credit, or even the making of direct investment, that would

be a useful thing for an investment bank like the East European Development Bank to function in. Such a bank can also clearly be a catalyst. They don't necessarily have to put up all the money for projects that they get involved in.

Could you explain your concept for the Development Bank? How would it be capitalized, and who would be on the board of directors?

Your initial capital would be \$5 billion. I view this as an institution that would be capitalized by the Organization for Economic Cooperation and Development (OECD) and Japan, the United States, and the Western European countries, as opposed to having it solely a European institution.

The Soviets ought to have a place at the table for two reasons: One is economical in that the Soviets are the biggest trade partner of many of these countries, and trade credits and relationships are going to be important. Secondly, they are the security umbrella for these countries, and reductions in defense spending for many of these countries are going to be an important factor in their economic development and the Soviets are clearly going to be a party to that.

I view the board of this Development Bank as consisting of representatives of the Western shareholders, a representative of the Soviet Union, and one representative from each of the recipient countries. The countries eligible for financing would be those countries that have adopted a free political system and free elections. At this point, that would essentially be Poland and Hungary. I would parenthetically put a question mark with respect to Yugoslavia. Yugoslavia has made significant political change, although it is still essentially a one-party system, but I wouldn't exclude Yugoslavia as a potential recipient at this point.

East Germany is a special case because

*A Development
Bank to assist the
Eastern European
countries is one
idea.*



it will inevitably come into the orbit of West Germany and my guess is, that most of the economic assistance that will come to East Germany will be on a bilateral basis.

When you say orbit, do you mean the same thing as Kohl's concept of a collective federation?

Yes, I think that the reunification of East Germany with West Germany will take place economically. It will be created by the Deutsche Bank, by Daimler Benz, by Siemens, and by other companies on the ground in East Germany. The political reunification or confederation, or whatever the structure is, will be a result of economics.

How long do you think it will take?

Less than five years.

Do you mean that in less than five years their economies will be integrated?

Yes, to the extent that their economies will be so integrated that the political result is going to be inevitable and automatic. Going back to the capitalization of the bank, I would see it as an initial \$5 billion with \$1 billion each from Japan, the United States, and West Germany, and the balance from the rest of the European countries. In addition, another \$5 billion on call with the same terms.

How would that work by going "on call?"

Each of the shareholders would commit themselves to increase their capital contribution by an equal amount, as and when the board of the bank requested it, and that commitment would be used by the bank to finance itself in the public markets. My guess is actually that the \$5 billion on call could be used for maybe \$10 billion dollars worth of bonds.

So when you say "finance itself in public markets," they could float bonds?

Yes absolutely, where the World Bank does it.

What would be the main functions of the bank? How would it work?

The bank would have a specialized staff and should be headquartered in Vienna, which is a fairly central and relatively neutral location. It should have branches in each of the recipient countries, initially in Budapest and Warsaw. It should work with the host governments with respect to the priorities of their economic recovery programs. Whether that means helping them finance currency stabilization, infrastructure investment, telecommunications, agricultural irrigation, roads, bridges, essentially the foreign exchange component of those programs, maybe a co-investor in some private-sector project with foreign companies. Also it

should assist the host government in those technical areas that need to be done, for example, accounting systems, a legal concept of patent protection, copyright protection, of property rights and, if needed, in the creation of mixed public and private structures that you might have to put up as you sort of go through the transition of a command economy to a totally private economy. This is going to take time.

Is this going to be a lengthy process?

I think it should be. We have a very deregulated, highly developed, sophisticated capital market and a private economy in the United States. It took us 200 years to obtain and the last 10 years of dramatic deregulation has created a lot of problems on its own. The reason we can function this way is because we have access to world capital markets to finance us, which these countries don't. It seems to me that there is going to have to be an interregnum that takes you from now until the end of the century.

You said your overall goal is to have a separate Eastern European Common Market?

It's worth thinking about. Here you have countries, all of which have currencies that may not be convertible for some time that are going to require changes in their labor management relations, that are going to require gradual changes in the economic and political structures. It's worth thinking about creating a big enough market in order to really interest Western capital investment to come in. A Western company might be more interested in going into Poland or Hungary if they know that, through those investments, they have access to the whole Eastern European market, as opposed to just the local market.

So the idea of the bank would be an overall common market rather than just going into Poland or Hungary?

The bank would deal with each country as it makes its political change. Hopefully, the bank could encourage those governments to begin talking to each other within the context of trying to create an Eastern European Common Market that would defuse some of the local rivalries that are going to start again as they did before World War II between these countries. The European Community helped reduce historic tensions between Germany and France. You can reduce the old historical animosities between Poland and Hungary, between Czechoslovakia. There are lots of those around. That can be a kind of a broad political and economic bridge between the Soviet Union and Western Europe.

Do you think that this bank would be the key bank above the European Investment Bank (EIB) and the World Bank and all the other banks?

Well, it would not be over. It would be on the side of and it would be more specialized. Just as you have a bank for Inter-American development, which is a regional development bank, and an Asian Development Bank. You need specialized knowhow and I think we ought to have around the same table the United States, the Japanese, the Western Europeans, and the Soviets as well as the recipient countries.

One of the things we have to talk about pretty soon is a moratorium on the foreign debt of these countries because you're talking about very significant funds there and clearly a near-term need both for Poland and Hungary. You're talking about \$50 billion of foreign debt. Poland clearly can't service it, Hungary has been servicing its debt until now, and clearly is reaching the end of the road.

What would be your proposal?

A moratorium for three years on both principal and interest. I don't know the exact numbers of current maturities but, on interest alone on \$50 billion for three years, that would be at least \$15 billion, which would be kind of an East European version of the Brady Plan.

How would this development bank be established?

It would not be all that complicated. I'm afraid that it will turn into an entirely European kind of institution and I believe we should play a role in it. There are all kinds of structures within which this could be negotiated with, the G-7, and, if they wanted to, you could have the E.C., the United States, and the Japanese appoint a group of experts to study it and make recommendations. It's not very dif-

"Yes, I think that the reunification of East Germany with West Germany will take place economically."

difficult to find a process of doing it.

When would you like to see this start?

I would like to see this start right away. **Do you think the events happening in Eastern Europe are reason for the E.C. to move up 1992 integration or slow it down?**

I think it would be reason to move it up. As a practical matter they will be lucky to hit 1992.

You mention you would like to see an Eastern European common market. Already Hungary and others have said they would like to apply for membership to the European Community.

I don't think that they are ready. They are probably ready for either European Free Trade Association (EFTA) or associate memberships, but it's not necessarily contradictory to create an Eastern European common market and have individual countries have relationships with the European Community. They would be better advised to create a large Eastern common market. At the same time, that's another economic structure that would

In December, the European Council approved the creation of a European Bank for Reconstruction and Development. Its aim will be to promote, in consultation with the International Monetary Fund and the World Bank, productive and competitive investment in the states of Central and Eastern Europe, to reduce, where appropriate, any risks related to the financing of their economies, to assist the transition toward a more market-oriented economy and, to speed up the necessary structural adjustments. The states of Central and Eastern Europe concerned will be able to participate in the capital and management of this bank, in which the member states, the Community, and the European Investment Bank will have a majority holding. Other countries, and in particular the other member countries of the Organization for Economic Cooperation and Development, will be invited to participate. The European Council hopes that the European Bank for Reconstruction and Development will be set up as soon as possible. The European Council requests that the necessary steps be taken to ensure that negotiations are opened in January 1990. The European Investment Bank will play a key role in preparing the way for this new institution.

dampen down political rivalries, ethnic rivalries, and some of the old historic animosities between these countries.

Basically your feeling is that economic institutions, a large institution like the E.C., can dampen political rivalries?

I think it has. Look at the European Community. You know we have had 45 years of peace since World War II.

What are several of the conditions, besides holding free elections, to receive money from the bank?

You may want the countries to pass legislation to protect individual, physical property rights. You may want legislation to protect intellectual property rights and a particular kind of banking legislation. You may want to set up some kind of giant government private organization to finance mortgages or agricultural development or rural electrification. Any of these things.

You mentioned this is based on the concept of Reconstruction Finance Corporation. Will that work outside of the United States?

Sure, why not? People have the same interests inside or outside of the United States. They want political freedom and economic improvement.

Do you see Eastern Europe as a new market?

What is happening in Eastern Europe has, first of all, an enormously powerful political message for the rest of the world which is that, at a time when ideas cannot be intercepted because of electronics and technology, freedom is an irresistible force. Secondly, economic improvement is an irresistible force and the spread of those two ideas around the world will be extraordinarily beneficial to us, whether they result in the sale of one additional tractor or not. There will be additional markets created, not only in Eastern Europe, but in the Soviet Union because this process will help Gorbachev ultimately succeed in what, for him, is an extraordinarily hazardous enterprise, probably more hazardous than what the Hungarians or Czechs are trying to do. It is not a negligible plus to us to have the peaceful political and economic development of Eastern Europe take place as a way of shoring up Gorbachev.

Do you envision the Soviets asking for aid from this bank?

No I don't. The Soviet Union is a separate problem and is of such a magnitude that it will have to be handled separately. For different reasons that I see East Germany not being involved in this exercise, except maybe peripherally.

So you envision that, in 10 to 20 years, Eastern Europe nations will

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THE VIEW FROM THE E.C.

FRANS ANDRIESEN, Vice-President of the Commission for External Relations and Trade Policy and Cooperation with other European Countries, held a press conference in Brussels on December 13 after the Ministerial Meeting of the Group of 24 (G-24) to discuss the PHARE operation (Poland, Hungary: Assistance for Economic Restructuring) and the eventual extension of comparable assistance to other East European countries.

Andriessen reaffirmed the solidarity of the 24 with Poland and Hungary in their efforts to successfully bring political and economic reforms to these countries. All delegations welcomed the decision to create a \$1-billion stabilization fund for Poland, and several participants underlined the need for a \$1-billion adjustment loan for Hungary by the G-24, as proposed by the Commission.

Andriessen stated that the European Council's decision to establish a European Bank for Reconstruction and Development was welcomed by several non-E.C. delegations, a number of which expressed their interest to participate in the proposed bank.

Andriessen underlined specific actions that would benefit both Hungary and Poland with regard to market access, the environment, investment, and management training.

He also noted that comparable arrangements might be extended to other Central and Eastern European countries when "the appropriate situation exists" and "when they put into place the required political and economic reforms." The Vice-President cited specifically Czechoslovakia, East Germany, Bulgaria, and Yugoslavia.

The G-24 agreed that other countries, including the Soviet Union, could qualify for special actions, including benefits from the prospective bank, provided that the political and economic pre-conditions for democracy were met, and that the countries concerned showed such interest.

The arrangements for the establishment of the proposed European Bank for Reconstruction will be discussed among those members of the 24 interested in participating, and in close collaboration with the E.C. and the European Investment Bank.

Andriessen also discussed a further grant in food aid to Poland next year in addition to what the E.C. has already pledged.

The E.C. Commission was made coordinator of the aid program.

The G-24 "Brussels Conference" was attended by the 12 E.C. member countries as well as by the United States, Canada, Japan, Australia, New Zealand, Turkey, Austria, Switzerland, Sweden, Finland, Norway, and Iceland.

guarantees to banking credit. The private banks will have an important role, but they will not go there without some government support. Now whether that support takes the form of direct guarantees or guarantees by export credit organizations, I don't know. The reason that the Europeans are going to be a lot more aggressive than we are is that there is a much closer level of cooperation.

What drawbacks do you see in the next few months?

Well, the big risk is first of all the euphoria of political emancipation, maybe followed by a very sobering realization that political emancipation is not going to result in significant economic improvement quickly. It may even result in some hardship, some significant hardship, for people who had a certain level of economic security.

A hard winter could accelerate some of this. The big risk here is to protect the political change, despite what are going to be disappointments in the economic area in the near term. That is why, in addition to short-run assistance, a moratorium on the external debt and the creation of this development bank for the longer term are actions that would provide both actual relief and a great deal of symbolic support to the political efforts that are taking place in this country.

Do you think Jacques Delors and the European Community have the same vision as Monnet had?

I am a very great admirer of Delors. I think Delors is a very, very unusual man with a great deal of vision and a great deal of energy and I think he's very much in the Monnet tradition.

The United States was always a leader in the past with large economic gestures such as the Marshall Plan. What's happened?

The fact is that we're no longer in the big leagues in terms of being able to provide a large amount of economic action. We're not capable of committing large sums even if we wanted to do it. It's as if in the military area we decided we had to have a new kind of missile but we couldn't afford to build it.

One final question. Do you think the integrated Western European market is going to be what everyone expects, a great bonanza for business?

Yes, absolutely. A great bonanza to Europe and hopefully to the world but certainly Europe, at whichever time it comes about, whether it's 1992 or 1993 or whatever or in stages, is going to be an absolutely formidable economic, political, and intellectual power and I wouldn't underestimate the intellectual aspect. €

have a vitality that they haven't had for the last 40 years?

Oh, absolutely. Look at Czechoslovakia, Hungary. These were very vital countries. Poland is a different problem. I don't believe that Poland had as developed an industrial free-market economy as Czechoslovakia and Hungary did. It was much more of an agricultural and land-based society with a very strong military. The world is changing and they will change with it. East Germany and West Germany as I believe I said, that's a foregone conclusion.

How do you think the massive economic might of combined Germany is going to affect the integration of Europe?

Well, one of the reasons I'd like to see an Eastern European common market in addition to the European Community kind of surrounding a federated or unified Germany as a way of diluting its economic power and political power. I think both Germany and Japan are going to have to think through and see what their proper place in the world economy is and how it relates to us and the rest of the world.

What would be the role of private banks in providing economic aid?

I see that as important. The French and German proposals for aid to Poland include a significant amount of government

"People want political freedom and economic improvement."



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THE VIEW FROM

AMERICA

Congressman LEE HAMILTON, Chairman of the House Foreign Affairs Subcommittee on Europe and the Mideast and the Joint Economic Committee, talked with Europe's Editor-in-Chief, Robert Guttman, about a development bank for Eastern Europe, the changes taking place in Europe, U.S.-E.C. relations, and other foreign policy issues in an exclusive Europe Magazine interview.

What's your overall assessment of the rapidly changing events in Eastern Europe? Are you shocked? Amazed? Pleased? Concerned?

I'm thrilled, surprised, shocked. It's just amazing. We've seen more changes in the last 40 days in Eastern Europe than we've seen in the preceding 40 years. You have the sense of living in a very historic moment. It's really an extraordinary opportunity and challenge. It's an exciting moment in the history of Europe. **What do you think happened? It's almost as if everyone woke up one day and said: "We don't want to be Communists anymore!"**

I don't think it was as sudden as that. We had hearings last year on Europe, and most of the scholars who testified said that Eastern Europe was ripe for an explosion. Discontent was clearly present. It was a rising frustration that careful observers in the region had clearly discerned. They couldn't predict what would release the frustration and bring it to the surface.

Gorbachev is the key actor here. He is the key motivator and his speeches, like the one at the United Nations a year ago, clearly indicated the different attitude of the Soviet Union toward change in Eastern Europe. People in areas pressing for change began to see how far they could push the limits and found that they could be pushed quite far. It's important to note

that this varies from country to country: In Poland, changes have been going on for over 10 years, in Czechoslovakia it has been 10 days. The pace is very different in the different countries.

What do you see as the new Europe? How do you think it will look in five years? Will Germany be reunified? Will West Germany be the key actor?

Germany will certainly be the key actor. They are today, and will be in the future. Reunification means many different things. In a human sense, it is already taking place. In an economic sense it will certainly accelerate. Chancellor [Helmut] Kohl speaks about confederated structures and all kinds of consultative mechanisms, including, for example, mechanisms on parliamentary consultations. You're certainly going to see the moves toward German unification, which, I suspect, will move forward rather quickly now. Politically, it is a more difficult question and Gorbachev has indicated real reservations about that.

In his speech in Brussels, President

Bush spoke about the four power agreements and the 1975 Helsinki Accord, which was a signal to Gorbachev that we are going to go gradually and will not insist on changes in borders. So the political side needs more permutation but the direction is clearly toward unification.

Should the United States be worried because of Germany's history?

The Germany of today is not the Germany of yesterday. Yet the sensitivities of Europeans, non-German Europeans, and certainly the Russians, have to be taken into account. The key is to assure that the Federal Republic is anchored in the West. That means institutions like the European Community, by which the Federal Republic will be anchored and kept in the West, will become even more important than they are today.

What do you think were the major accomplishments of the Malta Summit?

I think there were two. First, the Malta Summit fundamentally changed the tone and the psychology of U.S.-Soviet relations. For months we have been avoiding statements that we're going to help Gorbachev. We had a lot of debates about Soviet motives and about the reversibility of events there. Now the President has made clear that we're committed to helping Gorbachev and that we accept his sincerity and his new thinking. The change is really very significant. The second principal achievement of Malta was to add momentum toward new agreements in arms control and economic policy, and to energize the bureaucracy, to set deadlines, and to push forward toward these agreements.

Do you think a new development bank for Eastern Europe is a good idea?

I've not explored that idea in great detail. The economic problems of Eastern Europe are manifold, and their solutions will

A leading Congressman talks about the dizzying changes taking place in the "Old World."



take us a long time and will need additional mechanisms. I'm receptive to those proposals, which certainly deserve serious consideration. It's clear that both Poland and Hungary—and the other East European countries—need vast sums of investment. You're not going to succeed unless a large portion of that is private investment. Therefore, mechanisms have to be put in place that can encourage that and leverage the money most effectively.

How do we get private investors to invest in Eastern Europe?

It will happen. The aid bill that we passed for Poland and Hungary has a lot of guarantees, credits, and assurances to businesses. The market has much potential. We always have to keep in mind that the transition from a Communist society to a market economy is uncharted. For example, I'm told that only one factory in Poland produces all the Polish tractors. It will take considerable investment to establish an industry that will build tractors in Poland and be competitive, and do a better job, perhaps, than the state-owned industry that now produces the Polish tractors. Those things just don't happen quickly. But the market is certainly there and, if we play it right with these incentives, credits, joint ventures, and all the rest, it will happen over time. The time perspective is important: We're not going to turn this around in two, three, or even five years. We're in here for the long haul.

Will people over there wait?

That is the great question. The steps you have to take to get the economy in shape will make life more difficult. Subsidies will be reduced, unemployment will go up, inflation probably will continue to rage, and the supply of consumer goods will not become quickly apparent. The question is how long they can go before the population gets restive and wants to throw them all out again. This puts enormous pressure on the political leadership of these countries to produce results in the marketplace fairly quickly. Polish economists think they can begin to show some results in one or two years' time. I suspect they can maintain public support for *that* period.

Do you feel the Western nations are providing the proper amount of aid to Eastern Europe?

I've been impressed with the extent of aid flowing to Poland and Hungary. The total amount is substantial, and includes all kinds of assistance, which comes not just from the United States, but also from the European Community and Japan. This showing is quite impressive and encouraging.

What role do you see NATO playing in Europe? Will American troops re-

main there?

In the shorter term, by which I mean the next several years, you will have an American military presence in Europe. But I also expect troop reductions to be a normal accompaniment of the new mood in Central Europe. That depends, of course, on what the Europeans want.

What about the Warsaw Pact?

You'll clearly see a reduction of the Soviet troop levels in Eastern Europe. I don't think the Warsaw Pact will cease to exist. It is important to remember in this context that NATO began as a political alliance, although people now think of it more in terms of a military alliance, which is appropriate. I think we will see both NATO and the Warsaw Pact change their functions and become important institutions for transforming Europe and changing themselves from military to political functions over a period of time.

What's your overall assessment of Gorbachev? Why do you think all this change is occurring? Is it because Russia's economic problems are so severe?

I subscribe to the usual view that economic problems are the driving force. Gorbachev is a hard-driving, intelligent man who has seen the weaknesses of the Soviet system, and it's interesting to see the evolution. When he came into office he was going to solve the Soviet economy's problems by hard work and by stopping people from drinking vodka. The more he got into the system, however, the more he began to realize that it was a mess and that the incentives were not there. His rhetoric during this period was increasingly harsh and revolutionary. In very recent days you've seen Gorbachev swing back. He's backed off from reform with respect to freedom of the press. You have seen him zig and zag like every political leader. At the moment he's zag-

ging, I guess, in a more conservative direction.

What do think about "1992?" Will it be a boon for Europe and world trade?

Yes. I'm optimistic about 1992. If you look back, [the United States] had doubts about 1992. Now it seems we've swung toward a more optimistic view. We still have concerns about standards, local procurement, local content, and so on, but overall I feel that it's in the American national interest to see a unified market in Europe.

Do you think American firms will be able to compete effectively?

Yes, but not all American firms are going to do it. We have to get ourselves in shape now for 1992, and the companies that already have a presence in Europe will undoubtedly adjust to it and be very competitive. I am concerned about the middle-sized American companies that we would like to see more vigorously involved in international trade and exports. Whether they will be able to be competitive worries me a little more.

Do you think the idea of "Fortress Europe" has been overstated?

Yes, I think so. I don't think it's going to be a Fortress Europe. I don't want to suggest there will not be problems, but I think Fortress Europe is exaggerated.

Jean Monnet, whom everyone considers to be the father of the E.C., had the idea that an economic institution, being benign, can bring about changes because it doesn't have a political point of view. Do you agree with that?

The European Community will clearly bring about major political change in Europe. You're already beginning to see the political consequences of the move toward a single market, such as the E.C.'s lead on the Poland-Hungary question, and increasing consultation with respect to a common foreign policy: Politics follows economics.

The E.C.'s major tensions at the moment, if you will, do not seem to be external but rather internal. That is, the United States is not so much worried about whether it will have markets or not. The fight, rather, is over the common currency, the monetary system, and so forth.

What will your Subcommittee on Europe be focusing on in the next session of Congress? Is there an agenda yet?

We handled the Poland-Hungary bill this year and we certainly will want to monitor that carefully beginning early in 1990. Amendments will almost certainly be offered to cut troop levels in Europe. €

"Overall I feel that it's in the American national interest to see a unified market in Europe."

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Western investors in Eastern Europe are linking up with established local concerns to minimize th

As political and economic liberalization sweeps through Eastern Europe, Western business cannot be far behind. And yet, there is no pell-mell rush to break into the Eastern market; instead, caution and strategic choices are the watchwords.

Take General Electric's (GE) \$150-million purchase in November of a majority stake in Tungsram, Hungary's largest lighting manufacturer. It was the biggest Western investment in Hungary since World War II, but GE did not exactly take a leap into the unknown: The joint venture teams GE with one of Hungary's most

successful enterprises, an effectively privatized firm that already exports more than 80 percent of its products to the West. The deal also removes a GE competitor and improves the company's position in Europe and other regions.

"The combination of Tungsram's extensive product line and manufacturing base with GE's advanced technology and manufacturing expertise will give us a better competitive position in the worldwide lighting market," says John Opis, senior vice president of GE Lighting, a company division based in Cleveland. GE Lighting will work with Tungsram in ex-

EUROPE



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bove: The Royal Castle in Budapest, Hungary.

tion costs in Hungary, would help GM in the fiercely competitive European car market.

Denver-based U.S. West, one of the seven regional "Baby Bell" companies, is cooperating with Magyar Posta, the state-run Hungarian postal and telephone organization, to build a mobile cellular telephone system for Budapest. It is a relatively uncomplicated operation: Instead of tearing up streets and installing cable lines, U.S. West and Magyar Posta only have to set up an antenna system and computerized switching office to handle the calls.

"Hungary has a good cadre of engineers," notes Andres Bande, a U.S. West vice president, "and the local telecommunications manufacturer, Budabox, is already a successful exporter." Demand for telephone service is strong in Hungary, which has only about seven telephones for every 100 people (compared to 48 for every 100 people in the United States).

The GM, GE, and U.S. West deals will no doubt boost the meager \$362 million investment position of American companies in Eastern Europe (U.S. investment in the E.C., by contrast, stands at \$126 billion). But the paths chosen by the three companies demonstrate the pragmatic approach Western firms are taking in Eastern Europe, even in a country such as Hungary, which has gone the furthest toward a free enterprise system. Much as East European countries may want to move away from the rigid economic model of central planning, the attitudes and problems created by the Communist system often remain in place. The governments have little money to spend, local currencies remain unconvertible, and the profit repatriation issue is unresolved. It is not surprising that American companies are linking up with well established local concerns and focusing on guaranteed markets.

"You have to be selective because most of the impediments [to private business] have not been reduced," says Edward Sanders, president of the International Planning and Analysis Center (IPAC), a Washington, D.C.-based consulting firm. IPAC often recommends that companies develop relatively simple deals with Eastern European countries involving the processing of local raw materials for export to the West. But even these kinds of plans can go awry in today's uncertain political

climate. One of the companies advised by IPAC, for example, had to halt preparations for a joint venture in Poland to provide an industrial gas from local feedstock, because the Polish ministry involved was told by the government that the proposed project relied too much on state support.

Citicorp has also run into trouble with one of its East European ventures. Last August, the bank announced it was financing a management buyout of Apisz, the Hungarian state-run paper goods manufacturer. With the government having recently approved a law authorizing privatization, and with Apisz enjoying a monopolistic position in the Hungarian market, the buyout looked promising. In November, however, Hungarian authorities suspended the deal after local administrative officials, reportedly upset with the financial terms, refused to register the transaction.

That same month, U.S. Commerce Secretary Robert Mosbacher took a group of chief executives from several big U.S. firms—including Manufacturers Hanover, First Chicago, Motorola, and ConAgra—on a mission to Poland to demonstrate the Bush Administration's interest in rebuilding the country's economy. The executives admired the Poles' new economic reform plans, but said the situation was too volatile to consider investing anytime soon.

The \$7.3-billion Marriott hotel chain entered the Polish market recently, but with a head start and inside help. Marriott took over an uncompleted building in downtown Warsaw that had stood unused for 10 years, and, in a joint venture with the Polish state airline LOT and an Austrian construction firm, transformed the structure into a 520-room, 41-story luxury hotel. Opened in October 1989, the hotel is premised on Poland's eventual economic recovery. "We're confident that the demand for top-quality accommodations in Warsaw will grow," says president J. Willard Marriott, Jr. "We think the new hotel will pave the way for more East-West partnerships."

Marriott had to develop an unusual plan to ensure that the hotel maintained adequate food supplies, since shortages in Poland are frequent. "We decided to grow most of the vegetables ourselves," says François Porte, the Warsaw Marriott's food and beverage director. The hotel has built its own canning and freezing plant and imports meat from the

panding the Hungarian company's commercial, industrial, and speciality lamp products. New technology will be transferred to Tungfram by GE, and Tungfram workers and management will travel to the United States for training.

General Motors (GM), another American company with an interest in Hungary, is discussing the possibility of expanding a successful two-year-old trade agreement that sources auto parts from Hungary for GM's Opel line in Europe. The new deal would involve a \$400-million investment in a manufacturing plant for auto parts that, because of the relatively low produc-

“[One] has to be selective, because most of the impediments [to private business] have not been reduced.”

—Edward Sanders, President International Planning and Analysis Center

United States to supply its Chicago-style steak house.

Poland and Hungary remain the countries of choice for cautious investment, and American companies are taking an even more arms-length stance toward other East European countries whose hard-line Communist governments only recently fell. George Kachajian, the chairman of Silicon Technology Corporation, a small New Jersey manufacturer of equipment that cuts silicon for computer chips, had to pull back on plans to sell his machines to government buyers in East Germany and Czechoslovakia this fall when the political situation dissolved into

are new opportunities.” Even if Siemens’ currently planned East European ventures succeed, it will only boost the company’s activity there from 2 percent to 4 percent of its total business. Much of the excitement about the East European market is “hype,” Rehak says.

For some companies, of course, the more excitement and hoopla, the better. The Ogilvy and Mather advertising agency opened a Budapest office a year ago in conjunction with Mahir, Hungary’s largest advertising company. The firm’s client base has risen from three to about 15, says Alexander Brody, international president of Ogilvy and Mather World-



General Electric’s majority stake in Hungary’s Tungsram lighting factory is the largest Western investment in the country since World War II.

chaos. “Central planning is still in place, but individual factories can also order equipment,” Kachajian says. “No one knows who really makes the decisions.”

Most West European firms are also taking a cautious approach to what is often referred to as their “natural market” to the East. Siemens, the West German telecommunications giant, said in December it would enter a \$30-million joint venture with a Polish electronics company to install a limited digital switching system in the Wroclaw area. But the company downplays the significance of the deal. “Historically, Siemens has had a relationship with Eastern Europe,” says John Rehak, a Siemens vice president in the company’s Washington, D.C., office. “There’s no new policy [on developing Eastern European business], but there

wide. “The creativity involved in advertising is not foreign to the Hungarians,” Brody said. “They may be about 20 years behind the times, but even to get there has taken a lot.”

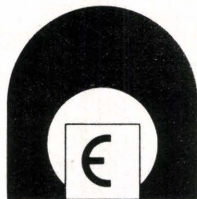
And then there is *Playboy*, which has just begun publishing its magazine in Hungarian. Very little high technology or infrastructure is needed for that venture and, best of all, there is a ready-made market of about five million Hungarian males. €

Steve Dryden is a Washington, D.C., based journalist who has written for *Business Week*, the *International Herald Tribune*, and the *Washington Post*. He is currently at work on a book about the Office of the U.S. Trade Representative.

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AS THE BERLIN WALL COMES DOWN, MANY WESTERNERS CANNOT WAIT TO GET THEIR CHUNK OF CONCRETE.

PETER GREENBERG

On a recent Saturday, roughly 300 excited passengers dutifully assembled at London's Gatwick airport for Caledonian Airways' early morning charter flight to Berlin. Among the passengers were two businessmen from Dallas, three young American students from London, a retired couple from Canterbury, an assistant director from the television show *L.A. Law*, tourists from Australia, and a few dozen families.

These day trippers had each paid approximately \$160 for the round-trip tour to Berlin, and all waited anxiously for the plane to leave the gate, arrive in Berlin, and afford them their opportunity to get a piece of the rock. And they had come prepared.

One by one, as they put their carry-on bags through the X-ray machines, a security guard started to laugh and shake his head. "Hammer . . . chisel . . . hammer . . . hammer . . . chisel," he said as he monitored the screen and stopped each bag. "We've had plenty of these here today," he continued, tucking the implements into a red envelope pouch and making passengers fill out the "Declaration of Surrender of Prohibited Articles" form. "We're planning to give a prize to the 200th person who arrives with a hammer and chisel."

Once checked in, the passengers eagerly awaited their turn to board the aircraft and to leave for Berlin. But, alas, there would be a delay. After 40 minutes, a humorless woman announced that, "due to the inordinate number of hammers and chisels brought on as carry-on bags, we will be delayed while they are all stowed in the cargo department." The airplane cabin erupted in embarrassed laughter. An hour later, we left for Berlin.

At Berlin-Tegel Airport, the confis-

cated hammers and chisels failed to materialize. Despite this setback, some passengers boarded pre-arranged tour buses that would take them into East Berlin, while I grabbed a taxi with some friends and headed for the Brandenburg Gate. The streets were jammed with cars pointed in the same direction. The cab driver told us: "Everyone goes to the wall. It is now one big party!" He made a sharp turn to pass by the *Reichstag* (Hitler's wartime headquarters), and deposited us right in front of the daunting, graffiti-covered walls. One big party, indeed.

Since the incredible events of November 9, 1989, when the 27-mile wall that runs through Berlin was thrown open, the city has become the hottest tourist destination in Europe. It seems that everyone wants to visit and claim their chunk of the Berlin Wall. At the Brandenburg Gate, throngs of people were singing, playing musical instruments, or buying souvenirs from hastily constructed stands. Among the items for sale were *Freiheit* (Freedom) T-shirts, buttons, hats, pins, bumper stickers, and coffee mugs.

Merchandising the events of November 9 has become big business. Nearly every store near the wall is selling something related to the peace that seems to be at hand. "The one thing they're not selling . . . yet," joked one American visitor, "is East German real estate. But," he insisted, "that will be next. Don't ever underestimate tourism. And this has nothing to do with 1992. It will happen faster. Look," he said, pointing over the wall to the East, "I can see a Sheraton over there, a theme park there, and perhaps some time-share condominiums. The development is inevitable."

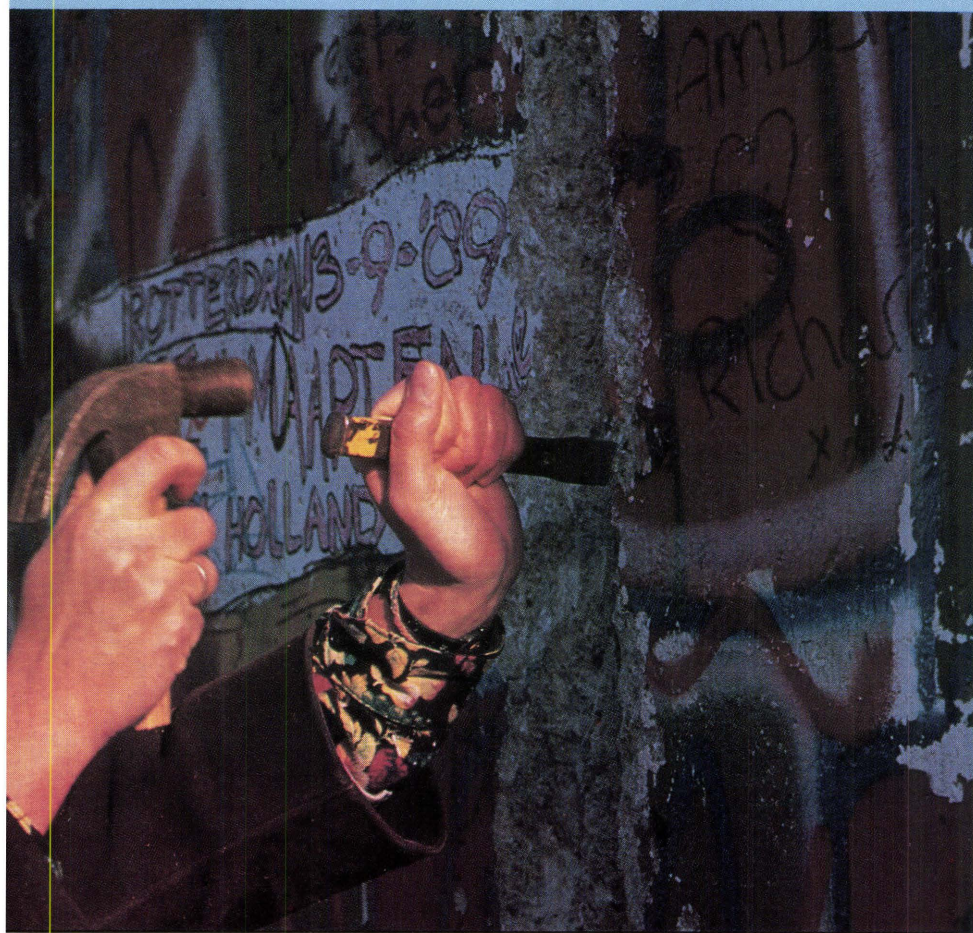
On top of the wall surrounding the Gate, which remains in East German hands, East German guards still stood

their watch, although that seemed rather meaningless: They were surrounded by a crescendo of singing and music below them matched only by the sounds of hundreds of snapping camera shutters.

Nearby, on a specially devised press stand overlooking the wall, two television cameramen maintained their own sentinel in case anything interesting happened on the other side. But the only objects of interest were East German guards—once the abominable "no" men—standing on the wall, tapping their feet to the sounds of the Western music.

We headed along the wall to the Potsdamer Platz, where the first section of the wall had been erected in 1961. Almost everyone was chipping away, and those who were not tried to catch little bits of shattered concrete that flew off the wall. Within moments, as people





Once attacked verbally as the main symbol of Europe's division, the Berlin Wall is now being attacked physically—by souvenir hunters armed with hammers and chisels.

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Travel agents offer a number of ways to go to Berlin for short trips. The London-based **GTF Tours** (Tel.: 011-441-792-1760) is continuing the "Berlin Airlift," and there are rumors they may also institute similar trips to Prague. **American Express** in London (011-441-924-2889) also promotes weekend trips. These start at £229 for two nights (most include Saturday night) to £461 for five nights. **Pan Am** also offers a tour to Berlin.

Hotel discounts are available through "Dial Berlin," an association of local hotel operators. Their U.S. toll-free number is: 1-800-237-5469.

One final note: There are a number of hardware stores in West Berlin. Best to buy your "tools" there.

came, saw, and pounded away, it became clear that the hammer and sickle had been replaced by the hammer and chisel, creating a cacophony of percussion.

Some of the more enterprising visitors brought makeshift ladders, larger chisels, gloves, goggles, and small wheelbarrows to haul away their chunks of concrete. Others rented out chisels and hammers—\$3 each for 20 minutes—and some even sold chunks of the wall for \$1 to \$8 each, depending upon size. Ian Leong, a New Yorker who now lives in Bangkok, chipped away at the wall and placed the concrete nuggets in a plastic bag. "We've managed to get a bag full," he said. "We've only come here for a week. It was an opportunity you couldn't miss." Left untouched, for the time being at least, was one small piece of the wall covered with graffiti, upon which was

painted the most appropriate, if not prophetic, message: "One Day, All This Will Be Art."

At last we made it to Checkpoint Charlie, the largest and best known of the border crossing points, where hundreds of people stood in line waiting to go the East. On the other side, a line of small, ugly East German cars, each belching its own obnoxious clouds of fumes, waited to drive into the West.

As the plane took off, circled, then headed West toward London, Caledonian co-pilot Peter Brent joked about the weighty return. "We hope we don't have too much of the Berlin Wall tucked in your bags and pockets," he announced to the passengers. "We tried chipping ourselves and it's a lot more solid than it looked."

On the return flight to London, some passengers pulled out and compared their chunks of the wall, while others told of their adventures of the last seven hours. "It was incredible," said Teresa Soriano, a Georgetown University student on holiday. "We went into East Berlin and the guards were friendly. We gave some a dollar and they gave us a piece of the wall from *their* side. Another sold us a chunk in exchange for a chocolate bar." A group of British teenagers had rented a car and driven across the border and 20 miles into East Germany just to have a look.

Maggie Parker, the assistant director of *L.A. Law*, brought back a huge chunk of the wall she had bought for \$20, as well as a handful of souvenir badges and about half a dozen commemorative T-shirts. "It was an opportunity I couldn't miss," she said. "The chance to chip away a piece of history was just too much. These will undoubtedly be some of the most unusual Christmas presents I have ever given." Laughing, she added: "I can now say that Eastern Europe has a two-party system. There's the party that's happening here in Berlin, and then there's the party going on in Prague. I'm happy I got to go to one of them."

Laurie Naismith, the London-based Director of the International Internship Program for James Madison University, was also an enthusiastic visitor. "It was a fascinating [and festive] experience," she said. "The East Germans were anxious to meet people. A young East German woman came up to us to talk. She said that last week in her classes, the teachers simply canceled the economics and planning courses, saying they were no longer valid." **€**

Peter Greenberg is a syndicated columnist for the *Los Angeles Times* who appears frequently on ABC's *Good Morning America* discussing his travels around the world.

Of all the East European countries, Czechoslovakia has, perhaps, the sanest economy. While East Germany may be richer, thanks to West German handouts, Czechoslovakia has a long industrial tradition, good workers, relatively full stores, and very full stomachs. Politics, not economics, fueled the Czech revolution this November.

This has led some Czechs and Westerners to think that Czechoslovakia can make Eastern Europe's most painless transition to a Western-style economy. But 41 years of Communism have left their mark. The Czech economy is a morass of central planning, waste, pollution, and shortages. Private business and foreign investment are virtually non-existent. The task of putting it right—of introducing a market economy and integrating it into Western Europe—may be easier than in Poland, but it will be hard, long, and agonizing.

The doctors in charge of inflicting this painful cure come from the Economic Forecasting Institute, a think tank located at the top of a broad stairway, once grand, now dingy and unlighted, off Opletalova Street and two blocks from Wenceslas Square, where the revolution happened. During the revolution, the Institute's offices were a madhouse: Its economists, themselves on the spear point of revolution, offered space to strike committees, and its desks and sofas overflowed with young workers engineering the end of Communism.

From this maelstrom has emerged a *troika* of economists in charge of the new coalition government's economic policy. Valtr Komarek, the Institute's director, is the first deputy prime minister, and his colleague, Vladimír Dlouhý, is now a deputy prime minister and head of the Planning Commission. The third member is Vaclav Klaus, the new finance minister, a non-Communist who turned down a job at the University of Chicago to join the cabinet.

While all three have been dissidents and critics of the Communists' destruction of the economy, Komarek and Klaus differ both in personality and in policies, and their debates at the Institute are likely to move intact across the Vltava River to their new government offices.

Komarek is a fleshy, bearded, flamboyant organizer with a vivid ego. His two-page biography, issued in four languages in an earlier "Komarek-for-Premier"

LETTER FROM

Prague



Some analysts believe that Czechoslovakia's industrial tradition, good workers, and relatively full stores will make its transition to a free-market economy less painful than in other East European countries. Above: The general strike in Prague.

FORMER DISSIDENTS HOPE TO MOVE CZECHOSLOVAKIA TO A MARKET ECONOMY.

booklet, says that he was born illegitimate, was hidden by his peasant foster parents during the war because of his "dubious racial background," studied in Moscow, became a central planning official, suffered periodic political purges, and worked in Cuba where his "amazing complex friendship with Che Guevara became the stuff of legends."

During the early 1980s, Komarek was allowed to start the Forecasting Institute within the Academy of Sciences. He risked hiring Klaus, Dlouhy, and other dissident economists, thus rescuing them from the manual labor that is the lot of so many intellectuals in this country and giving them a place to think and write. When the revolution came, the government was about to shut down the Institute.

Klaus is slim, neatly mustached, and elegantly polite, a monetarist more at home with conservative American politics than with the Marxist theory of Komarek's past.

Czechoslovakia avoided the heavy foreign debt that has crippled Poland and Hungary, but did this by building an autarkic economy and investing heavily in metals, mining, and power. Sealed off from foreign competition, this policy wasted money on heavy industry, cocooned Czechoslovakia from outside competition and ideas, starved the consumer and services sector, permitted the huge waste of energy, and produced some of Europe's worst pollution: Its steel mills use three times as much those in the West. The farm cooperatives turn out plenty of food, but at subsidized prices that eat up 10 percent of Czechoslovakia's gross national product.

"It's a wealthy but badly managed economy," Komarek says. "We have enormous mines, but blow the power out of the chimneys of powerhouses where efficiency is only 30 percent and the rest is an ecological catastrophe. We have tremendous industrial potential, but our shops are empty of modern electronic goods."

Komarek wants to redirect investment from heavy industry to services and consumer goods, and demands the breakup of the vast state-owned industrial monopolies. He favors emphasizing the tourist industry, and using Prague, possibly Europe's most ravishing city, to bring in foreign currency. He wants joint ventures with foreign companies, liberalized trade,

a Western-oriented export policy and, using a one-shot Western loan, the partial convertibility of the Czech crown within two years.

Klaus basically agrees with these goals. But while Komarek, a central planner by training and nature, wants to use the power of the state to break up the monopolies and divert investment, Klaus thinks the industrial complexes form a "reactionary lobby" so strong it would defeat state efforts to break it up. A free market advocate by nature, he wants to use market and monetarist methods. Specifically, Klaus wants a tight money policy, with the state bank rationing investment money so sparingly that enterprises must compete for funds. A competition based on efficiency, he believes, would trim the industrial complexes and funnel money to new, more efficient businesses. "This is the crucial debate within this country, the market versus the planners," he says.

Both men think that Czechoslovakia can delay price reforms. First, they say, must come "demonopolization," trade liberalization, and foreign investment. This will inject enough competition into the economy so that a gradual freeing of fixed prices can come more or less naturally.

Whether any of this can be done without inflation and unemployment remains to be seen. Despite periodic shortages and frequent lines, Czechoslovakia is not a society based on scarcity as are Poland and the Soviet Union. There is no overhang of billions of Czech crowns hidden in mattresses, waiting to explode into hyperinflation at the first sight of consumer goods, say Komarek, Klaus, and other Czechs. They are confident that they can open their nation to the West, and work toward eventual association with the E.C. (maybe in a decade) without the economic agony that could undo this political revolution.

Maybe so. First, however, they must reconcile their personal and philosophical differences, if their alliance, born under repression on Opletalova Street, is not to shatter under freedom in their grand new offices across the river. **☾**

Richard C. Longworth, the chief European correspondent for *The Chicago Tribune*, has spent the last several weeks in Prague.



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During his recent trip to Europe, U.S. Secretary of State James Baker urged a strengthened E.C. to act in partnership with the United States. Left: Baker and E.C. Commission President Jacques Delors.

REGINALD DALE

By rising up against their Communist leaders, East Europeans have achieved virtually overnight what West Europeans had failed to secure for more than 30 years: They have put an end to U.S. ambivalence over European economic and political integration.

While warmly supporting the principle of a closely knit European Community as a twin pillar of the Atlantic alliance in the past, the United States has often shown much less enthusiasm in practice, especially when it appeared that the Europeans might act together in a way that could conflict with perceived American interests. Recently, for example, the United States adopted an ambivalent position as

the E.C. prepared to acquire much greater weight on the world scene with the formation of its single market.

With the Bush Administration forced back to the drawing board to help design a post-Yalta Europe, however, Washington has suddenly become one of the strongest advocates of a tightly integrated Community. With the economic and political map of Europe in flux, the E.C. is seen by the United States as the Continent's main stabilizing factor.

If there is any irony in these developments, it is that Washington now apparently wants E.C. integration to proceed more rapidly, and perhaps further, than some Community member states. "Who would have believed," asked the leading French newspaper *Le Monde*, "that a

DECEMBER: A MONTH OF DIPLOMATIC ACTIVITY

MALTA, STRASBOURG, AND U.S.
SECRETARY OF STATE BAKER
OUTLINE A
"NEW EUROPE AND
A NEW ATLANTICISM."

high American official would one day almost reproach the Twelve [E.C. governments] for not going far enough fast enough?"

Le Monde's incredulity was provoked by U.S. Secretary of State James Baker's December 12 enunciation of the so-called "Baker Doctrine," which urged a strengthened E.C. to act in partnership with the United States. "We have come far," the newspaper continued, "from the trans-Atlantic misunderstandings of past years, from the second thoughts of a Kissinger and the ignorance of reality of a Reagan."

While there are differences over the pace at which the E.C. should move to closer union on the European side of the Atlantic, there is now an increasingly broad consensus over the direction in which it should be heading. With the notable exception of British Prime Minister Margaret Thatcher, the E.C.'s leaders agreed at their Strasbourg summit in December that more power should be transferred from the member states to the E.C.'s central institutions, with the Community increasingly organized on federal lines. Moreover, after an initial shaky period in which it seemed the Community might allow itself to be overtaken by events, the upheaval in Eastern Europe is beginning to galvanize the councils of Western Europe as well as Washington.

One of the remarkable features of the past few weeks is that, with some exceptions, policy-makers on both sides of the

Atlantic are coming to some strikingly similar conclusions. This new pattern of Western thinking about Europe's future began to emerge in December in the flurry of diplomatic activity that included President George Bush's Malta summit with Soviet leader Mikhail Gorbachev; Bush's subsequent visit to Brussels for North Atlantic Treaty Organization (NATO) and E.C. consultations; the E.C.'s Strasbourg summit; Baker's trip to London, Brussels, and West and East Germany; and Bush's meeting with French President François Mitterrand, the current president of the E.C.'s European Council.

U.S. thinking was distilled most clearly in the Baker Doctrine, which outlined a concept of "a new Europe and a new Atlanticism," and showed, according to some Europeans, the first signs of the "vision" of the future that had been missing from previous Bush Administration policy.

Different European governments tended to find what they most wanted in Baker's exposé. Thus, Bonn played down its insistence that German reunification should only take place slowly and conditionally—a point that was highlighted in Paris. France also welcomed Baker's espousal of Mitterrand's view that the Community's moves to closer union should be accelerated in response to events in Eastern Europe.

In an historic reversal of French President Charles de Gaulle's attachment to a Europe of independent nation states,

France now believes that the best, if not the only, way to maintain France's international influence is through a federally organized Community powered by West German economic might and steered by French political leadership. With West Germany now increasingly tempted to "drift" eastward, however, the French believe that the formation of such a tightly knit Community that will tether West Germany to the West is more urgent than ever. The French also calculate that by integrating West Germany and, if necessary, a united Germany, into the E.C., they will be able to exercise continuing political control over the Germans—one of the main objectives of their post-war European policy.

In contrast, British commentators have been particularly keen to emphasize the Baker Doctrine's commitment to a continued, if reduced, U.S. military presence in Europe, and agree with Washington's view that a revamped NATO—not the E.C.—should continue to be responsible for protecting Western security interests. In addition, Thatcher's Government has preferred to pay less attention to Baker's view that the E.C. should rapidly advance to closer union—and that the Community should be Washington's main political partner in shaping post-Yalta Europe.

Nor is it to British liking that the Community's new enhanced status should, in Baker's view, be consecrated in a more formalized alliance between Washington and Brussels. In a widely noted passage of his speech, Baker said the United States and the E.C. should "work together to achieve, whether in treaty or some other form, a significantly strengthened set of constitutional and consultative links. Without spelling out that tantalizing idea, Baker's initiative made it clear that Washington is prepared to concede to the E.C. a large part of the responsibility for steering Europe through the dangerous shoals that undoubtedly lie ahead.

This view dovetails neatly with the E.C.'s own thinking. At the Strasbourg summit, the E.C.'s leaders made it clear that they saw the Community as the economic and political core around which Europe should now begin to coalesce: The final communique stated that "at this time of profound and rapid change, the Community...remains the cornerstone of a new European architecture and, in its will to openness, a mooring for a future European equilibrium."

The E.C. and the United States agree that the Community's very success is one of the factors that has helped to promote



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U.S. President George Bush and Soviet President Mikhail Gorbachev met off the coast of Malta last December.

demands for change in Eastern Europe, and that it has acted as a magnet drawing the East of the Continent toward the West. The conclusion drawn on both sides of the Atlantic is that the Community must continue to develop if it is to retain its magnetic power.

In Strasbourg, the E.C. leaders recognized that the turmoil in the East made it all the more important for individual E.C. member states to bury differences that might otherwise stall the Community's progress. Despite earlier reservations, West Germany, the Netherlands, and Denmark fell into line with the majority of their partners and agreed to convene a constitutional conference before the end of 1990 to lay the legal basis of an economic and monetary union. Thatcher was

left in a minority of one against 11, an isolation that was compounded when her partners brushed aside British objections and adopted a Social Charter of workers' rights on the same 11-to-one basis.

Thatcher did, however, tone down the truculence she has sometimes shown at meetings in the past and, despite her misgivings, she made it clear that Britain will attend the inter-governmental conference.

Nevertheless, the Strasbourg summit left a number of major questions unanswered. Despite Italian, Dutch—and some French—misgivings, the E.C. leaders said they sought “the strengthening of the state of peace in Europe in which the German people will regain its unity through free self-determination,” but

With the European map in a state of economic and political flux, Washington sees the E.C. as the Continent's main stabilizing factor.

or both, will assume the Community's political leadership. At the summit, West German Chancellor Helmut Kohl appeared to have concluded that his best course was to go along with French demands for early progress on economic and monetary union if that was the price of securing French and general Western support for German unity.

Consequently, the summit reconfirmed that, as long as France and West Germany agree, the two countries can set the direction and pace of the Community's integration. It also suggested that the pressure of events in Eastern Europe is increasingly leading the other 11 countries to ignore British foot-dragging. But the talks gave no indication of whether Bonn would continue to play along with French demands if West Germany were presented with a clear choice between German reunification and closer E.C. integration. Indeed, some of the fudging of issues in Strasbourg was designed precisely to prevent that choice from emerging too starkly, for fear of Bonn's likely response.

The fate of France's continuing bid for European political leadership is thus still uncertain, and this situation is likely to keep Paris particularly sensitive to potential threats to its status. At the end of the Strasbourg summit, Mitterrand pointedly proclaimed that "there are no longer two parts of Europe acting under the shadow and according to the wishes of two great powers." Some French officials, however, saw Baker's suggestion of an E.C.-U.S. treaty as a bid to maintain U.S. hegemony over its European allies. It might, they suspected, be a "backdoor attempt to gain a seat at the table" in the E.C.'s deliberations, as Washington had said it would like earlier in the year.

While U.S. officials firmly denied any such intention, the vagueness of the Baker proposal—"It makes sense for us to seek to fashion our responses together as a matter of common course"—left it open to differing interpretations. In fact, Baker's suggestion appeared to have been offered in the specific context of the need to keep the U.S. and European markets open to trade and investment as the E.C. moves toward 1992. His comment that "Americans will profit from access to a single European market just as Europeans have long profited from their access to a single American market" was taken as a reminder that American charges that the E.C. is constructing a "Fortress Europe," which have been temporarily overtaken by events in East-

ern Europe, could be resuscitated any time Washington thinks about it.

Baker's new policy caused the most concern in Britain, where it was seen as underlining the sharp conflict between the views of Washington and London over the future of Europe. Thatcher has made it clear that she wants to keep Britain out of a more centrally controlled Community, partly because she prefers to maintain the "special relationship" between Britain and the United States. Now, however, Washington seems to be saying that it would prefer Britain to play a full part in a more integrated E.C. and that the "special relationship" is less important than it was under President Ronald Reagan. Bonn, at the expense of London, has risen to prominence rapidly in Washington's European strategy.

Baker assuaged Britain's hurt feelings by going out of his way to visit London, where he said: "We feel a special relation to the United Kingdom and to the Prime Minister." British officials also emphasized that Thatcher was the first leader Bush called when U.S. forces went into operation in Panama later in the month.

Such cosmetic touches, important though they may have been, did little to alter the underlying policy differences, however. Nor do they answer the fundamental question of whether an increasingly isolated Thatcher will decide the moment has come for Britain to become a more active, and thus perhaps more influential, participant in the E.C.'s moves toward integration. Equally uncertain is how the E.C. and NATO will divide their responsibilities if, as Baker is proposing, the Alliance transforms itself increasingly into an economic and political organization as the military threat from the East recedes.

It is clear, however, that the E.C. now has the chance to play a leadership role in drawing the new map of Europe. And, during a period of retrenchment in the United States, Washington is more ready than ever before to encourage such a role—in a major step toward the kind of global "burden-sharing" it has long urged upon its European allies.

With Washington and the West European capitals equally sensitive to the need to maintain stability in Europe, and to handle the issue of German reunification with the utmost delicacy, there is a strong convergence of E.C. and American interests. €

made no attempt to address the question of whether their proclaimed objectives—German reunification and closer E.C. union—are actually compatible. Indeed, some advocates of closer union, not least in France, hope that it will actually make German reunification more difficult by drawing West Germany more tightly into the Western circle.

Logically, the two objectives would be fulfilled if a united Germany was one member of a more federated European Community. It is not clear, however, whether the other E.C. countries—let alone the Soviet Union—would find such an outcome desirable.

The Strasbourg summit also left open the question of whether, with Britain on the sidelines, France or West Germany,

Reginald Dale is Economic and Financial Editor of the *International Herald Tribune*.

1989 THE QUICKENING PA

JANUARY

17-19: The 35 countries involved in the Conference on Security and Cooperation in Europe (CSCE) undertake a new set of commitments concerning respect of their peoples' human rights.

European Community:

- Jacques Delors is reappointed President of the E.C. Commission. For the first time ever, the new 17-member Commission includes two women, Greece's Vasso Papandreou and France's Christiane Scrivener.
- Spain takes over the 6-month E.C. Presidency.
- The European Parliament votes to do more of its work in Brussels.
- A trade dispute with the United States begins when an E.C. ban on hormone-treated beef goes into effect on January 1.

Western Europe:

29: The far-right Republican Party wins 7.5 percent of the vote in Berlin elections. The city's governing Christian Democratic-Liberal coalition is replaced by one of Social Democrats and Alternatives (Greens) in March.

Eastern Europe:

- 18:** The Polish Communist Party agrees to talk with Solidarity.
- 23:** Earthquake hits the Soviet Central Asian Republic of Tajikistan only a month after a quake in Armenia killed some 25,000 people.

FEBRUARY

European Community:

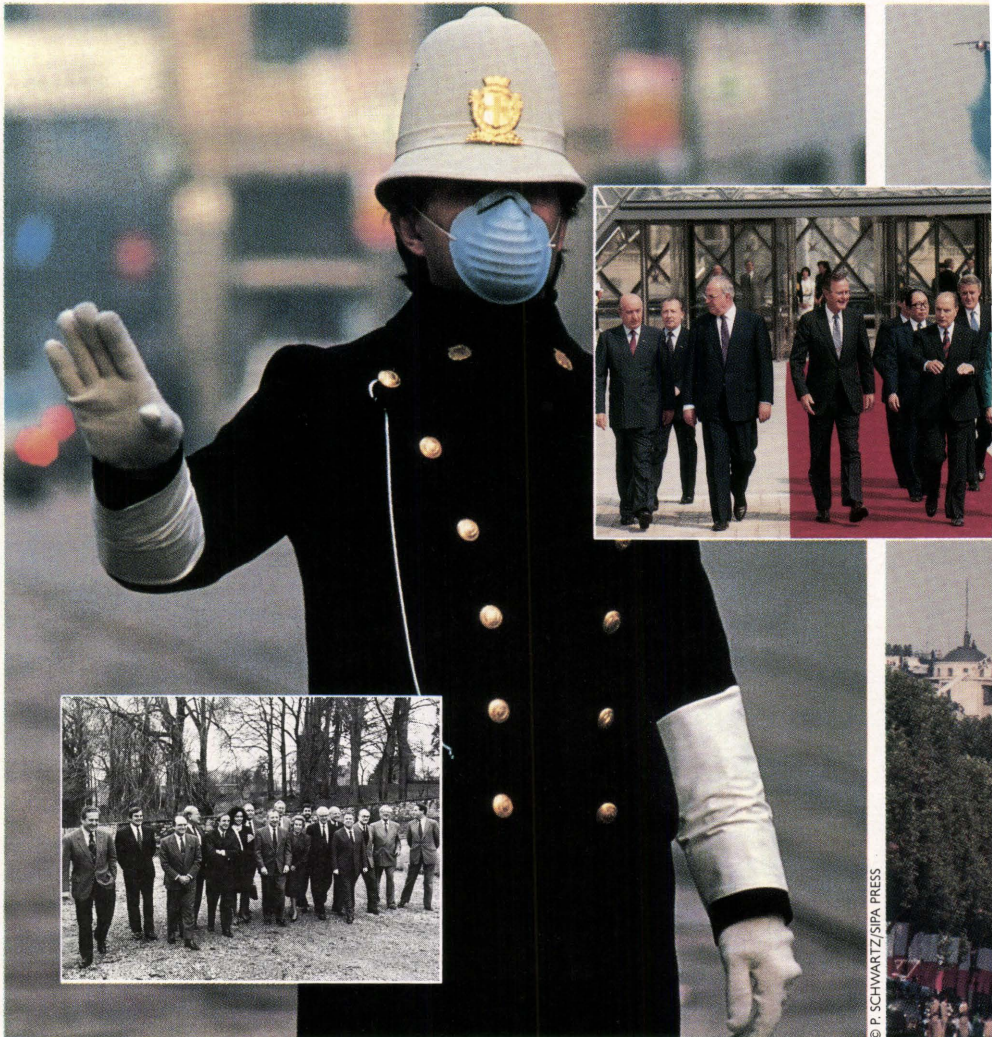
- The E.C. member states recall their ambassadors in Teheran after the Ayatollah Khomeini issues death threats against Salman Rushdie, author of *The Satanic Verses*.
- 18-20:** E.C. and U.S. Trade and Agriculture ministers de-escalate the dispute over the E.C. ban on hormone-treated beef.

Eastern Europe:

- Round Table talks begin between Polish authorities and Solidarity.
- 21:** Vaclav Havel, a popular Czechoslovakian playwright and member of the human rights movement "Charter 77," is sentenced to nine months in prison.

MARCH

9: NATO and Warsaw Pact nations begin negotiations in Vienna on reducing non-nuclear forces in Europe.



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European Community:

- The E.C. celebrates the 10th anniversary of the European Monetary System (EMS).
- E.C. Ministers agree on a set of rules for cross-border television broadcasting, and commit themselves to increasing the share of European-produced programs.
- 2:** E.C. environmental ministers negotiate tight schedule for phasing out chlorofluorocarbons by the end of the century. The United States takes similar action the next day.
- 3-4:** At the invitation of British Prime Minister Margaret Thatcher, an environmental conference is held in London on protecting the ozone layer.

Western Europe:

1: Beer is allowed to be sold in Iceland after being prohibited since 1915.

Eastern Europe:

26: The Soviet Union holds its first competitive elections for seats in the new Parliament. Some 20 prominent party chiefs are defeated, and others embarrassed, as they fail to obtain the required 50-percent-plus-one votes despite running unopposed.

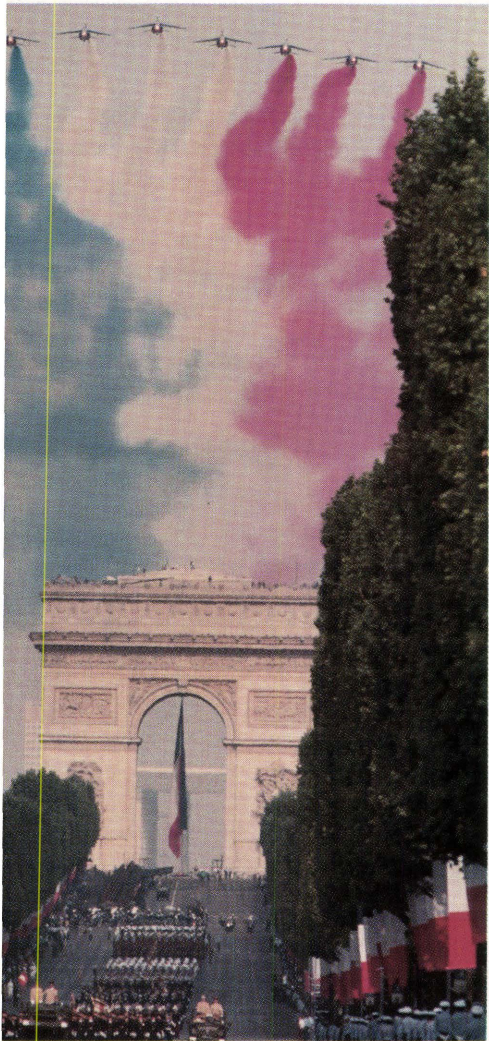
APRIL

- NATO celebrates its 40th anniversary.

European Community:

- E.C. Agriculture Ministers agree on support prices (many are frozen, and some, such as cereals, sugar, and butter, are reduced) for the Community's 10 million farmers.
- The E.C. negotiates the creation of a customs union with Andorra.
- The European Parliament proposes strict car emission control standards.
- 17:** Delors Committee of central bankers

OF EVENTS



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1989 saw some major changes and developments. Apart from political upheavals in Eastern Europe, concern over the environment grew (large photo above), leading to international conferences and the establishment of the European Environmental Agency; a new Commission started work in January (inset left); and François Mitterrand hosted the summit of industrialized nations in Paris (inset right) to coincide with the bicentennial of the French Revolution (above).

and outside experts reaches unanimous agreement on text of their report on monetary union.

Western Europe:

13: West German Chancellor Helmut Kohl reshuffles his Cabinet, moving Gerhard Stoltenberg to the Defense Ministry and replacing him with Theo Waigel at the Finance Ministry.
18: Luxembourg celebrates its 150th anniversary.

Eastern Europe:

5: Poland's Communist Government decides to legalize Solidarity (which happens on the 17th), and to hold elections in June.

25: 110 members of the Soviet Central Committee are kicked out.

MAY

• The United States does not name the E.C. under Section 301 of its new trade act, which deals with unfair trading practices.

29-30: Bush proposes reaching an agreement on slashing conventional troops in Europe by the end of 1990 at the NATO summit in Brussels. Controversial decisions over modernizing the Lance nuclear weapons are postponed at least until after West Germany's December 1990 elections.

• U.S. Secretary of Commerce Robert Mosbacher visits Brussels and signals the end of the American fear of "Fortress Europe."

Western Europe:

• After a decade in power, Thatcher becomes the West's longest surviving political leader.

• West Germany abandons its proposed withholding tax, effectively scuttling E.C. plans for a Community-wide one.

3: The government of the Netherlands falls after a debate on financing the country's environmental plan.

19: Christian Democrat Ciriaco De Mita resigns as Italy's Prime Minister.

23: Richard von Weizsäcker is elected to a second term as West Germany's President.

Eastern Europe:

2: Hungary destroys part of the barbed-wire barrier on the Austro-Hungarian border.

25: The colorful new Soviet Parliament, the Congress of People's Deputies, convenes for the first time.

26: The wholesale forced migration of ethnic Turks from Bulgaria to Turkey begins.

JUNE

European Community:

15: Delors' visit to Washington lays the foundation for a new political partnership between the U.S. and E.C.

15-18: E.C. citizens directly elect the European Parliament for the third time in its history. The Socialists are returned as the largest political group, and the Greens double their number of seats.

• Spain takes the peseta into the ex-

change rate mechanism of the European Monetary System, leaving sterling as the only major E.C. currency outside the EMS.
26-27: Summit of E.C. leaders in Madrid is dominated by a debate on the Delors Committee Report on economic and monetary union. They agree to begin the first stage (of three) toward economic and monetary union in 1990.

Western Europe:

12: Gorbachev travels to Germany, which is struck with "Gorbymania."

15: The Irish elect a coalition government of Fianna Fail and Progressive Democrats that is formed in July.

• Jacques Santer is returned as Luxembourg's Prime Minister in national elections.

18: Greek elections result in a hung Parliament, and negotiations lead to a coalition of the Communist-dominated left and the conservative New Democracy Party.

Eastern Europe:

4: Solidarity candidates do well in Poland's first free elections since Communist rule began, winning 99 out of 100 seats in the new upper House, and all of those they were allowed to contest in the lower house, which remained Communist-dominated. Solidarity declines General Wojciech Jaruzelski's invitation to participate in a coalition government.

JULY

European Community:

1: France takes over the E.C.'s revolving presidency.

15: Paris Summit of the seven most industrialized nations (G-7) entrusts the E.C. Commission with coordinating aid to Poland and Hungary, the two East European nations that are reforming the most rapidly.

Western Europe:

14: France celebrates the bicentennial of the French Revolution.

17: Austria applies for E.C. membership.

23: Christian Democrat Giulio Andreotti becomes Italian Prime Minister for the sixth time.

Eastern Europe:

10: Widespread coal miners' strikes in the Soviet Union begin in Siberian Kuzbess.

11: Bush visits Poland, where he offers \$100 million to set up a Polish-American Enterprise Fund.

19: Jaruzelski becomes President of Poland.

23: Soviet Union admits existence of

1939 Hitler-Stalin Pact.

AUGUST

European Community:

• The E.C. hosts a meeting of the 24 OECD (Organization for Economic Cooperation and Development) nations to discuss aid to Poland and Hungary.

Eastern Europe:

• Solidarity activist Tadeusz Mazowiecki becomes Poland's Prime Minister, and a coalition cabinet of Communists and non-Communists is formed.

19: A "Pan-European Picnic" organized in Hungary gives some 700 East Germans a chance to flee through the coun-

try's porous border into Austria, and from there into West Germany.

SEPTEMBER

European Community:

• Court of First Instance is set up to relieve the European Court of Justice of some of its workload.

26: At a "Group of 24" industrialized nations meeting in Brussels, the E.C. announces it will send \$325 million in economic aid (food aid and help aimed at restructuring and modernizing industry and agriculture) to Poland and Hungary in 1990, and urges the other members to do likewise. An action plan proposed by the E.C. for the two countries calls for better

access to Western markets, increased investment, professional training, and agricultural and environmental aid.

Western Europe:

6: Dutch elections are held, and a Christian Democratic-Labor Government is formed in November.

Eastern Europe:

10: East Germans who have camped at the West German Embassy in Prague are allowed to travel to the West.

12: Mazowiecki's cabinet is accepted by the Polish Parliament.

OCTOBER

13: The New York Stock Exchange plunges more than 100 points in the last hour of trading.

Western Europe:

• Nigel Lawson, the British Chancellor of the Exchequer, resigns.

29: Spanish elections take place.

Eastern Europe:

1: Erich Honecker, the East German leader, bans visas for travel to Czechoslovakia after allowing East Germans in the compounds of the West German Embassies in Prague and Warsaw to leave for that country.

7: Hungary's ruling Communists dissolve the Hungarian Socialist Workers' Party and become the Socialist Party, which declares itself in favor of a market economy and multiparty democracy.

• Popular protests break out as Gorbachev visits East Germany for the 40th anniversary celebration of its founding.

17: The Hungarian Parliament revises the Constitution to allow a multi-party system.

18: Honecker is replaced by Egon Krenz, his protégé.

• Hungary changes the name of the country from the Hungarian People's Republic to the Republic of Hungary.

28: Prague police break up a protest of 10,000 people demonstrating against the arrest of Vaclav Havel.

29: A protest rally in Bulgaria forces hard-line Communist Party leader Todor Zhivkov to promise reform.

NOVEMBER

European Community:

• Creation of E.C. Environmental Agency. This organization is open to other European countries.

Continued on page 55.

A MAJOR
REPORT —
STRATEGIC BUSINESS
INTERPRETATION OF
EC92 FOR U.S. BUSINESSES

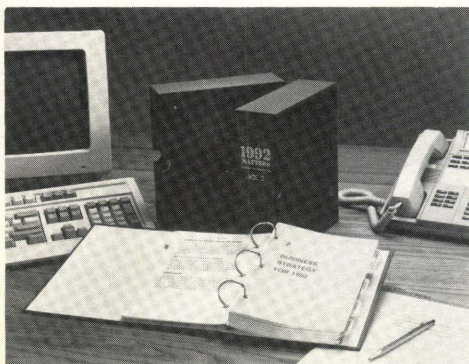
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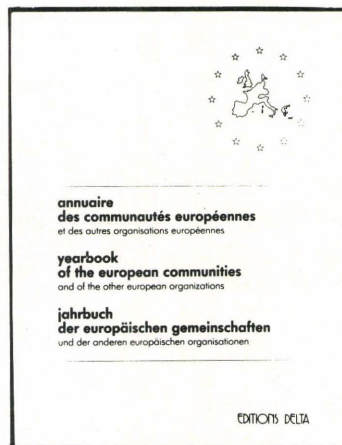
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ZOLOTAS HAS
DECLARED THAT
GREECE NEEDS A
THREE-YEAR
"STABILIZATION
AND RECOVERY
PLAN" TO
TACKLE THE
WEAKNESSES OF
ITS ECONOMY.

Nineteen eighty-nine was a troubled and introspective year for Greece. For most purposes, the country remained without effective government, while economic problems—notably soaring public-sector deficits—accumulated dangerously. Eight years of rule by the Panhellenic Socialist Movement (PASOK) ended ingloriously amid a welter of financial scandals, and during the summer, former Socialist Prime Minister Andreas Papandreou was indicted by parliament on corruption charges, although he continues to be a major political force. Two general elections have failed to deliver a viable alternative administration, and another election next spring is almost inevitable.

Papandreou was convalescing from heart surgery when the \$210-million Bank of Crete swindle exploded in October 1988, with revelations of forgery and embezzlement on a grand scale. His government never regained control of events. The bank's chairman, George Koskotas, was arrested and charged, but eluded police surveillance and fled to the United States, where he was jailed to await extradition proceedings. A stream of allegations against government ministers and officials ensued, culminating in Koskotas' *Time* magazine interview in March 1989, in which he accused Papandreou of masterminding the swindle.

Papandreou promptly sued and denounced the affair as a foreign-inspired plot to destabilize his government. The damage was done, nonetheless. A close friend of his was charged with receiving embezzled money, and it emerged that several state corporations had switched huge deposits of public funds to the Bank of Crete, which Koskotas was milking to finance a pro-PASOK newspaper publishing empire. But Papandreou clung to power until June 1989.

Had the election been held in June 1988, PASOK probably would have won a third term. The countryside, where the Socialists were strongest, was prosperous as never before, largely due to the inflow of E.C. funds, and politically liberated after decades of stifling right-wing dominance. Two years of stringent wage restraint were over, and real income had begun to rise again. In addition, Papandreou had the political prestige of the six-month E.C. presidency before him.

But by June 1989, things were very different. An orgy of public hiring—96,800 people were put on the state payroll in the first half of 1989—and a litany of extravagant promises could not disguise the government's paralysis. The

election was fought and won on the opposition's slogan of *katharsis*—a clean-up of the scandals. Yet through spirited campaigning, Papandreou managed to retain 39 percent of the vote and ensure a hung parliament.

The conservative New Democracy party led by Constantine Mitsotakis (which won with 44 percent), and the Communist-dominated Coalition of the Left (with 13 percent) under Harilaos Florakis, eventually agreed on a temporary government alliance with the strictly limited mission of *katharsis*. Papandreou and a handful of former colleagues were indicted on charges of accepting bribes, damaging state interests, and ordering widespread telephone-tapping. Another former PASOK minister will stand trial for involvement in a fraud against the European Community.

Condemned as an "unholy alliance of non-government" by Papandreou, the unlikely *katharsis* administration nevertheless broke important ground by reforming the judicial system to safeguard its independence and introducing some much-needed objectivity into state broadcasting. At the insistence of the Left, it also instituted parliamentary scrutiny of major public-sector contracts and appointments as a shield against future corruption.

Sensitive foreign issues, including the future of U.S. bases in Greece theoretically due for closure by May 1990, remained frozen, however. Nor, predictably, was the interim government able to tackle pressing problems like atmospheric pollution in Athens or local terrorism, as the assassination of the New Democracy press spokesman last September dramatically attested. Earlier in the year, two senior law officers were shot dead by terrorists, while a massive car-bomb nearly killed a former PASOK minister linked to the Koskotas scandal.

The three-month inquest on PASOK rule over, a second election was held on November 5. Papandreou's supporters, indignant that he had had no opportunity to clear his name in court beforehand, and receptive to his message that *katharsis* was a pretext for settling party scores, rallied round him. Campaigning to preserve traditional dividing lines, he also won over communist voters disillusioned by the summer's left-right pact. The result was another hung parliament. New Democracy, though increasing its share of the vote to 46 percent, was again denied an overall majority, while PASOK rose to 40.7 percent, and the Left Coalition fell to 11 percent.

Obviously, there could be no revival of left-right cooperation, and even had par-



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Athens fully supports the Delors plan on monetary union, and the two main political parties would like the drachma to join the Community's exchange-rate mechanism. Above: The changing of the guard.

THE 1990s POSE
A CHALLENGE AS
GREECE STRIVES
FOR STABLE
GOVERNMENT
AND ADDRESSES
ITS ECONOMIC
WEAKNESSES.

PETER THOMPSON

Greece

liamentary arithmetic permitted it, Florakis was not ready for the more logical coalition with the Socialists. He had called Papandreou "an untrustworthy partner," and accused PASOK of harboring "neo-fascist tendencies." Yet a third election in December was unthinkable—the people were exhausted, all the parties were low in funds, and another indecisive result was likely. Above all, there was mounting concern over the state of the economy.

Indeed, the Governor of the Bank of Greece, Dimitris Halikias, dropped a bombshell a few days after the election, by slapping a ceiling on the growth of credit supply to the private sector by commercial banks. Confidence had ebbed during the summer, with speculation over a possible devaluation, worsening balance-of-payments figures, and the need to finance the ever rising public-sector deficits all too visibly crowding out funds for private investment.

After a fortnight's haggling, Mitsotakis, Papandreou, and Florakis put aside their differences and agreed to support a national unity government until April. The framework of a first-aid package to regain control of public finances was drafted, and the 85-year-old Xenophon

Zolotas, himself a former central bank governor and an internationally respected economist, was sworn in as prime minister.

High public deficits are not a new phenomenon in Greece. The Socialist Government's 1986-1987 stabilization program reduced the net public-sector borrowing requirement (PSBR) from 17.9 percent of gross domestic product (GDP) to 13.2 percent, as against a target of 10 percent. But, with elections ahead, the program was relaxed two years ago, and the PSBR again moved up to 16.3 percent of GDP in 1988. Last year it showed what Halikias called "explosive growth," and was expected to reach \$12 billion, nearly 22 percent of GDP. This was mainly due to generous salary and pension increases, higher public subsidies, a slowdown in the increase of revenues, and a freeze in public utility prices.

The Zolotas Government's initial emergency measures aimed at reducing the PSBR by 3 percent of GDP through cuts in non-productive public spending and a ban on new public-sector hiring, and through increases of 20 percent to 25 percent in indirect taxes (on tobacco, alcoholic spirits, petrol, and road tax) and hikes of 12 percent to 18 percent in the

FACTS AND FIGURES

Government

- Greece, also known as Hellas, is the birthplace of democracy.
- Form of Government: Multiparty, unicameral, parliamentary democracy.
- Premier: Xenophon Zolotas;
- President: Christos Sartzetakis
- Leaders of major political parties: New Democracy: Constantine Mitsotakis; Panhellenic Socialist Movement: Andreas Papandreu; Communist Party of Greece: Harilaos Florakis.
- Greek Ambassador to U.S.: Christos Zacharakis
- U.S. Ambassador to Greece: Michael Sotirhos
- Prominent Greek-American politicians: Senator Paul Sarbanes (D-MD); Governor Michael Dukakis (D-MA); Rep. Olympia Snowe (R-ME); Mayor Art Agnos (D-San Francisco).

Demographics

- Population: 10 million.
- GNP: \$52 billion.
- GNP per capita: \$5,200
- Currency: Drachma. \$1 = 165 drachmas.
- Greek-American population: 2 million, concentrated mainly in New York and Chicago.
- Greece and Portugal are the least expensive E.C. countries to live in; Denmark is the most expensive.

Business

- The Greek-owned merchant fleet is the largest in the world. Many Greek ship-owners are among the richest in the world.
- Leading Greek industries: Motor Oil Hellas Corinth Refineries; Aluminum of Greece ABEE; Halvourgiki SA; Herakles General Cement Company; Hellenic Sugar Company; Hellenic Steel Company; Hellenic Bottling Company; Piraiki-Patraiki Textile Company; Titan Cements; Hellenic Refineries at Aspropyrgos; Athens Brewery.
- Largest commercial bank: National Bank of Greece. Has branches in the U.S., and is among largest 100 in the world.

Geography

- Four-fifths of the country is mountainous; the coastline is one of the longest of any European country.
- Main port: Piraeus.
- Climate: Temperate and comparable to southern California.
- Largest cities: Athens is the capital

and largest city. Thessaloniki in northern Greece is the second-largest city. It was the site of the ancient kingdom of Alexander the Great and is named after his sister.

Sports

- Athens is promoting itself as the host for the 1996 Olympics.
- Most popular sport: Soccer
- Most popular athlete: Nikos Galis, Aris basketball team. Born in New Jersey and played college basketball at Seton Hall.
- Most popular sports team: National basketball team.

Miscellaneous

- Religion: 98 percent belong to the Greek Orthodox faith.
- Most popular boy's name in Greece today: Alexander.
- Greek National Day: March 25. Open house reception at the Greek Embassy in Washington, D.C.
- Most popular tourist destinations: Athens, Crete, Rhodes, Corfu.
- One of most popular T.V. shows: The American soap opera "The Bold and the Beautiful."
- The most popular Greek tourist dish: Moussaka.

Useful Business Information:

- Commercial Consular's Office
Embassy of Greece
2211 Massachusetts Avenue, N.W.
Washington, D.C. 20008
Tel.: (202) 332-2844
- Office of Commercial Counsellor
Greek Consulate General
150 East 58th Street
New York, N.Y. 10021
Tel.: (212) 751-2404
- Office of Commercial Attache
Greek Consulate General
168 North Michigan Avenue
Chicago, IL 60601
Tel.: (312) 332-1716

Investment: The Hellenic Development Corporation, established in May 1984 by the Agricultural Bank of Greece and the Hellenic Industrial Development Bank, promotes investment in Greece. For more information contact:
Hellenic Development Corporation
610 Fifth Avenue
New York, N.Y. 10020
Tel.: (312) 315-2300

prices of all public services.

A one-time 5 percent surcharge was imposed on income tax paid on higher income and profits in 1988, and the usual commitment to combat tax evasion, which occurs on a massive scale in Greece, was reiterated. There is also talk of a radical reform of the whole direct tax system. Social spending, as well as spending on education, research, and the environment, will be maintained, while automatic index-linked wage increases will continue through 1990.

Zolotas declared that the real need—beyond the scope of a temporary government—was for a three-year "stabilization and recovery plan." The 1986-87 PASOK program succeeded in bringing inflation down from a high of 25 percent in 1985 to 15.7 percent in 1987, but it has since remained rather constant, running at around four times average E.C. levels.

PASOK's real success lay in reducing the current account balance of payments deficit from \$3.2 billion (9 percent of GDP) in 1985 to \$1.2 billion (2.6 percent) in 1987. The deficit dropped further to \$957 million in 1988, while GDP grew by 3.5 percent after growth averaging only 1.3 percent through the decade. Total productive investment in real terms also picked up by 9 percent in 1988, though from a low base.

However, the current-account deficit deteriorated sharply in 1989, exceeding \$2.5 billion (4.9 percent of GDP). Despite net transfers from the E.C., which now amount to about \$2 billion annually, and hitherto reliable invisibles such as tourism, Greece's chronic trade deficit has reasserted itself.

The 1988 current-account deficit was easily covered by non-debt-creating capital inflows, making it unnecessary to add to a total public foreign debt now estimated at \$18 billion. But capital inflows are highly sensitive to the general climate of business confidence, and Zolotas' interim measures, though undoubtedly a step in the right direction, may not be enough on their own to restore this.

After accession to the E.C. in 1981, Greece's trade balance with the Community suffered at first but has since stabilized, with exports to the E.C. covering 41.9 percent of imports from the E.C. in 1988 (35 percent in 1981). This compares with total exports at 43.7 percent of total imports.

Greece has gained heavily in farm subsidies. Indeed, three quarters of all transfers from Brussels so far have come from the agricultural fund, with cotton, tobacco, fruit, and olive oil the chief beneficiaries. While the Community trend is toward reducing subsidies, assistance to

small farmers will be maintained, and Greece will continue to do well.

However, the political deadlocks last year impeded full evolution of relations with the Community. A comprehensive regional development plan was submitted to Brussels in March to take advantage of the increased resources available for regional spending. The European Commission responded in June but, until the Zolotas Government was formed, no steps were taken to start negotiating the implementation of the plan, worth more than \$8 billion to Greece over five years.

As the internal market nears completion, the list of areas in which Greece seeks special treatment is lengthening. Most important, given the state of public finances, the PASOK Government negotiated an extension until 1994 of the deadline for unrestricted movement of capital. Taxation of interest on private bank de-

posits may also be delayed, while Olympic Airways—the inefficient and overmanned national carrier—will want extended protection of its share of the market.

Otherwise, Greece's most acute vulnerability will be in the less competitive service industries, such as banking and insurance. Athens fully supports the Delors plan on monetary union, and both main parties would like the drachma to join the Community's exchange-rate mechanism. Before this can happen, however, the inflation rate will have to be more than halved.

The question now is whether political developments during 1990 will permit the serious and sustained action needed, as Zolotas pointed out, to tackle the underlying weaknesses of the economy. The temporary consensus behind an all-party government will be strained as the first

belt-tightening measures begin to bite and a spring election approaches.

Under the present electoral law—a variation of proportional representation—even a marginal overall majority for New Democracy and its free-market policies remains a difficult target. On the other hand, the November election restored Papandreou's standing and, if the corruption trials fade away, Florakis may finally overcome his reservations, opening the door for communist participation in a fully-fledged coalition with PASOK. But the current transitional period will not be completed until today's septuagenarian party leaders give way to younger men with a more modern outlook. €

Peter Thompson is the Athens correspondent for *The Independent*.



As the single market nears completion, Greece needs to modernize its service industries, particularly the banking and insurance sectors. Above: Mykonos' harbor.

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The efforts by the Great Lakes states to attract greater numbers of European visitors is helped by a growing network of direct air passenger routes and the creation of the single market, which will facilitate market penetration efforts. This page: Detroit's skyline.



COURTESY MICHIGAN TRAVEL BUREAU

THE "FRESH COAST": NEW ANGLE ON THE EUROPEAN MARKET

RONALD ABRAHAM

Eight state governors and the premier of one Canadian province have found a new angle on the European market: tourism. They are re-writing the rules of large-scale economic development with a new cooperative initiative to "create a common identity" and market the Great Lakes region as a destination for tourists from Europe.

Almost everything about the "Great Lakes: North America's Fresh Coast" campaign breaks with tradition in some way. The governors of the eight states with Great Lakes shoreline—Evan Bayh of Indiana, James Blanchard of Michigan, Robert Casey of Pennsylvania, Richard Celeste of Ohio, Mario Cuomo of New York, Rudolph Perpich of Minnesota, James Thompson of Illinois, and Tommy Thompson of Wisconsin—and David Peterson, the Premier of Ontario, have joined forces and invested substantial state economic development funds into a long-range campaign to attract European visitors to the Great Lakes.

The campaign will work in three directions: development of a common identity within the region; promotional activities overseas; and promotional activities in domestic markets outside the region.

GREAT LAKES GOVERNORS SEEK EUROPEAN TOURISTS . . . AND INVESTORS.

Most of us are accustomed to thinking of tourism in connection with Disneyland, rather than as the number one export of the United States, ranking ahead of agriculture, heavy industry, and high technology. "A quick look at the numbers will make a convert out of you very fast," says Blanchard, chairman of the campaign. "Foreign tourists will spend \$44 billion in the United States this year. That is more than either U.S. agricultural, automobile, or high-technology exports. The governors are convinced that tourism is no Mickey Mouse industry."

Two new factors have put international tourism much closer in reach of the Great Lakes states. First, the creation of direct air passenger routes from Europe to Great Lakes destinations gives them a much more saleable package. Second, the rapidly approaching unification of Europe will greatly assist market penetration efforts.

The governors are serious about the project, and they have already raised an initial \$750,000 for it from state and provincial treasury funds. Thompson, who is the Chairman of the the Council of Great Lakes Governors, the organization behind the campaign, calls it "seed money." "On the private side, we will be going to the airlines, hotels, restaurants, and tour operators to get them involved. On the public side, we will approach the

U.S. Department of Commerce and the U.S. Information Agency, to name just a few."

In fact, a substantial portion of the campaign's initial effort is devoted to identifying and pursuing funding sources. The group plans to raise a total of \$6 million over the next three years, one-third of it out of their own treasuries, and two-thirds from private and other public sources.

Although governors do not often promote another state, you would have heard a lot of it if you had attended the campaign's official kickoff ceremony in Chicago on December 13. "Of course, the Upper Peninsula is the most scenic place on earth. But that is only one of many wonderful places to visit the region as a whole," Blanchard said. "[It] is absolutely loaded with assets. We have some of the world's most exciting cities—New York, Chicago, and Toronto, for example—and more shoreline than the entire East Coast of the United States."

Tourism promotion is not new: In addition to individual attractions and local efforts, each of the states involved has had significant statewide programs in the field for years. The regional approach and the outreach program that aim to attract a significant number of European tourists in the 1990s are new, however.

The Fresh Coast campaign will establish an overarching management structure that will encompass every aspect of tourism promotion in the area. In addition to pumping substantial new funding into promoting tourism, the governors hope to institute a high level of coordination among the substantial tourism resources that already exist. They believe that this coordination of efforts, the elimination of duplication, and the sheer strength in numbers it affords will dramatically increase the effectiveness of existing efforts.

Industry professionals agree that a well executed marketing effort will usually generate between \$15 and \$20 in sales for every dollar invested. "On a conservative estimate, we are looking at a 15:1 return on investment. This effort is clearly a sound business investment," Thompson notes.

Not satisfied with this already healthy rate of return, the governors have planned this venture in such a way that their investment is "double leveraged": first, by combining efforts with the other eight participants, each governor or the premier effectively multiplies his resources by nine. Second, the money invested by the governors will be used to attract more money from private and other public sources, multiplying the total

yet again.

As if the picture were not rosy enough, today's international tourist often becomes tomorrow's investor. "Many of the people who will be making business investments in the 1990s are in Europe. We want them to consider investing here," Blanchard says. "And international corporations are basing business decisions more and more on quality of life factors. On that basis, we can compete with any location in the world." The governors see their Fresh Coast tourism campaign as an excellent way to persuade European firms to consider their states for future investments.

Faced with declines in agriculture, steel, and other traditional Midwestern bread-and-butter industries, and seeing the European economies rapidly heating up, several of the governors began to search for new channels for their states to export to these markets.

The idea for a regional project began after many of the governors traveled abroad. They were dismayed to find that many of the people they encountered in Europe had only a vague idea about where the Great Lakes were. "It was pretty disappointing," Celeste said. "Many Europeans knew all about the East Coast and the West Coast, but not much about what lies in between." If the governors' efforts are successful, the Fresh Coast will soon be prominent in the vacation plans of European visitors.

Rather than running in every direction at once, the Fresh Coast campaign will focus on one market at a time, getting systems well established in each one before beginning the next. The governors have chosen Great Britain as their first target for several reasons: the British speak English, economic conditions are currently favorable for tourism, and the market is about the size the group needs for its trial effort.

Efforts are already underway to develop new tourism packages, to create and distribute printed materials, and to conduct advertising in the market. The region also plans to host British tourism industry professionals on familiarization tours, and to participate in the World Travel Market Show in London next fall.

The campaign has further plans for promotions in West Germany and throughout Europe. "It is exciting to be part of a new and significant economic initiative. As the E.C. moves toward unification in 1992, it is important that we begin thinking beyond our individual state and provincial borders and move toward regional efforts that will allow us to compete throughout the global economy," Thompson said. **€**

1992: AN ECONOMIC TONIC

Private investment in the E.C. would have increased by 7 percent instead of 8.5 percent in 1988 without the single market program, a Commission study reported. It noted that 17 percent of the rise in private investment that year can be attributed to the single market program.

The study was published at the same time as the Commission's economic report for 1989-90, which pointed to the satisfactory trend in investment in general in the Community: It rose by 8.4 percent in 1988 and is expected to increase by 5 percent in 1990. These figures compare favorably with the 3.5-percent increase in 1985-87 and the stagnation of 1982-84.

A Commission survey carried out in mid-1989 confirms that the prospect of a single market is leading many European companies to invest more, especially in the run-up to 1992, and probably somewhat less afterwards. In general, companies within the less well-off member states plan to invest

within their national frontiers, while their German, French, and British counterparts are investing both at home and in other E.C. countries. The Commission believes that the tendency to invest more in the E.C.'s less-favored regions should help reduce existing disparities within the Community.

EMERGENCY NUMBER FOR EUROPE

The Commission has proposed that, by the end of 1995, a single emergency telephone number—112—be used in most of the E.C. This would exist alongside national emergency numbers if necessary. Envisioning the language problem that could arise, the Commission is considering a system that would identify callers and be operated by "international" telephone operators.

MULTILINGUAL LEXICONS AND BUSINESS GUIDES

Since subcontractors seldom make standard products covered by traditional nomenclature, the Commission is preparing multilingual sectoral lexicons to make contact easier between principals and subcontractors in different countries. These lexicons will also serve as a basis for the organization of databanks and subcontracting

NOTES ON 1992

markets, which can be linked across national frontiers electronically through compatible telecommunications systems.

By January 1990, the Commission will publish terminologies covering electronics, electrical engineering, textiles, wood, industrial services, ceramics, and general company services. Metals, plastics, and rubber have already been covered.

The Commission is also preparing a practical guide on the legal aspects of contracts for industrial subcontracting. The first volume, which is already published, covers the subcontracting contract, and a second volume on the legal position of subcontracting in the member states is being prepared.

LIBERALIZING ROAD HAULAGE

In a first step to liberalize the Community's protected road haulage market, E.C. Transport Ministers agreed on the distribution of a limited number of two-month permits for trucks to transport goods between points in member states other than their own.

A current ban on this practice, called "cabotage," means that many trucks on E.C. roads travel empty—a Belgian road haulage firm is forbidden to carry goods from Hamburg to Hanover, or from Lille to Lyons, for example.

The reform is seen as an experiment, and will come into force on July 1, 1990. At its



expiration at the end of 1992, the Transport Ministers will be asked to endorse the total liberalization of cabotage.

The E.C.'s founding treaties set 1969 as the target date for road haulage liberalization, but progress has been slowed by countries with highly organized trucking lobbies. West Germany and Greece voted against the December decision.—*Reuters*

INSURED TO TRAVEL

The Council of Ministers has adopted Commission proposals on motor vehicle insurance that, after coming into effect in 1993, will cover the insured person in all E.C. member states, and will thus prevent insurance companies from charging extra for "foreign travel" insurance.

The insurance payable in the event of an accident will be based on the higher of the following two rates: those laid down under the national rules of the country where the vehicle is insured, and those laid down in the country being visited.



BUSINESS FAVORS EUROPEAN CURRENCY

According to an opinion poll carried out for the Association for the Monetary Union of Europe, a majority of European business leaders favor a common European currency. The poll of more than 1,400 business executives engaged in foreign trade showed that 83 percent favor a single currency over present national currencies.

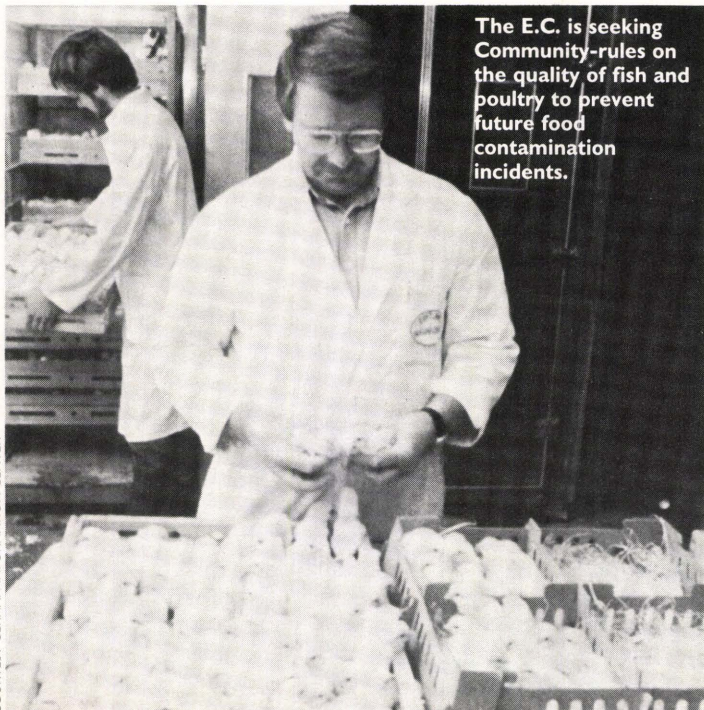
The poll did, however, reveal differences among executives in the seven countries in which the poll was conducted. A common currency is favored by 90 percent or more of the executives in Italy, Spain, France, and Belgium, by 82 percent in the Netherlands, 69 percent in Germany, and 65 percent in Britain. The idea of a European central bank was approved by 73 percent of those polled: Only Britain lacked a clear majority in favor of the concept. A similar poll conducted in 1988 revealed greater enthusiasm among British businesspeople for a single currency, and more skepticism among their German counterparts.



HEALTHY FOOD

In an effort to ensure a high level of consumer protection in the single market, the Commission is seeking E.C.-wide rules on the quality of fish and dairy products, the extension to domestic markets of regulations applying to trade in red meat, meat products, and poultry, and a system to ensure a common approach to controlling dangerous micro-organisms in food. "I am very much aware . . . of the growing consumer interest in [food] safety," said Agriculture Commissioner Ray MacSharry.

With this move, the Commission wants to prevent future food contamination incidents. Britain, for example, recently experienced alarms over lead poisoning of cows, and food poisoning from salmonella in eggs and from listeria, a potentially dangerous organism that can survive even in refrigerated food.—*Reuters*



The E.C. is seeking Community-rules on the quality of fish and poultry to prevent future food contamination incidents.

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NEWS OF THE E.C.



Some of the E.C.'s \$60-billion package for its peripheral border regions will go to Mediterranean towns to help clean up household and industrial waste. Above: A port in Greece.

REGIONAL POLICY

NARROWING THE GAP

The Commission approved spending of more than \$2.3 billion over the next four years to help the E.C.'s poorer regions develop their economies and clean up the environment. The money will go to projects considered to be of E.C.-wide importance, and is part of a \$60-billion package intended to narrow the gap between the richer countries at the E.C.'s center and the poorer ones on its periphery.

One-third of the money will be spent on developing closer cooperation between peripheral border regions, and about \$550 million is earmarked to help towns on the Mediterranean coast reduce household and industrial pollution. Other projects aim to create new jobs in regions blighted by the declining coal industry, to boost research and development efforts at the regional level, and to develop local industries in France's overseas *départements*,

the Portuguese Azores, and the Spanish Canary Islands.—*Reuters*

SOCIAL ISSUES

A EUROPEAN SERVICE FOR CONSCIENTIOUS OBJECTORS

The European Parliament has suggested that conscientious objectors be allowed to replace national military service with community service in an E.C. country other than their own. Members of the European Parliament (MEPs) also called on the Commission to set up a development aid program for Third World countries, in which conscientious objectors could also participate as a substitute for military service.

A Parliament report notes that all E.C. countries except Britain, Ireland, and Luxembourg have national service requirements that range from eight months in Belgium to over two years in Greece. While the right to refuse to undertake national service is

recognized in all E.C. member states, the MEPs want to ensure that the duration of community service be limited to one and a half times the period of national service at most, and that conscientious objectors not be penalized for refusing to bear arms.

EASTERN EUROPE

SPECIAL E.C.-HUNGARY LINKS?

On a November trip to Hungary by French Foreign Minister Roland Dumas and E.C. Commission President Jacques Delors, the former noted that "the E.C. is disposed to seek... a new kind of relationship between it and Hungary in the economic, financial, and political sphere." Although full Community membership was currently impossible for Hungary, which has the highest per capita debt (\$17 billion for a population of 10.5 million) in Eastern Europe, he suggested that if it could not be a brother or a sister of Commu-

nity members, it could still become a "cousin." Delors has floated the idea of a bridging loan in the run-up to free elections, which are to take place by next June.—*Reuters*

EAST GERMANY IN THE E.C.?

Ibrahim Boehme, the leader of East Germany's new Social Democratic Party (SDP), said that his country may apply for E.C. membership for economic reasons, but that this would be possible only after democratic elections. The SDP is lobbying for a constitutional assembly to prepare the ground for free elections.—*Reuters*

EAST-WEST AVIATION LINKS

The Soviet Union, Hungary, and Poland have asked to link up with Western European civil aviation agencies, and Daniel Tenenbaum, president of the European Civil Aviation Conference (ECAC) is enthusiastic about the potential ties. "Whether they join ECAC or just cooperate with us, the time is

right," he stated.

The 23-member ECAC, which coordinates government policies on civil aviation in various sectors, including security, traffic control, and congestion, was founded by the 23-member Council of Europe, an organization devoted to the principles of parliamentary democracy. Hungary applied to join the body in November, and Poland and Yugoslavia plan to do so soon.

The East European countries' move toward closer cooperation in aviation follows the Soviet Union's recent decision to buy up to 10 Western European Airbus Industrie airliners, the first time Aeroflot has been allowed to buy the planes it chose.—*Reuters*

E.C. BOYCOTTS ROMANIAN PARTY CONGRESS

The E.C. boycotted the Romanian Communist Party congress in November because of the country's dismal record of human rights abuses. During the Congress, President Nicolae Ceausescu maintained his firm stance against reform, despite calls for change from the Soviet Union and Hungary.—*Reuters*

ENVIRONMENT

EUROPEAN ENVIRONMENT AGENCY CREATED

The E.C. agreed on the creation of a European Environment Agency (EEA) in November, which will be open to non-Community European countries by virtue of agreements concluded with them. Although the EEA's scope is relatively limited and it will not have powers of enforcement, it is an important part of the E.C.'s attempt to develop a comprehensive environmental policy. Carlo Ripa di Meana, Commissioner in charge of the Environment,

welcomed the decision to create the EEA, underlining that its creation "gives the Commission and the E.C. a scientific and technical arm that will enable them to evaluate, control, and predict the different elements composing the ecosystem."

SAVING ENERGY

A report published in November said that the E.C. must start to save energy to lessen its contribution to the greenhouse effect. It warns that E.C. emissions of carbon dioxide (CO₂) will increase by 25 per-

cent between 1980 and 2010 unless the E.C. takes preventive action, and especially criticizes the transport industries, which account for one-fifth of the E.C.'s carbon dioxide emissions. Carbon dioxide is produced by burning fossil fuels, and is considered the main contributor to the global warming phenomenon, in which gases in the upper atmosphere trap the sun's heat like a greenhouse.

The report states that, although saving energy is the best short-term solution, radical long-term changes, such as increased use of nuclear energy, natural gas, and solar, wind, and wave power, would

be needed for the E.C. to cut its CO₂ output dramatically. The report also suggests longer-term measures such as higher taxes on energy, which the Commission is already considering.—*Reuters*

EUROPEAN AFFAIRS

EFTA LINK EXAMINED

Frans Andriessen, Commission Vice-President for External Affairs, told a news conference in

Environment Commissioner Carlo Ripa di Meana welcomed the decision to create the European Environment Agency.



November that the E.C. will examine creating a formal link with the European Free Trade Association (EFTA). The six EFTA countries (Austria, Finland, Iceland, Norway, Sweden, and Switzerland) are anxious not to be squeezed out of the E.C.'s markets as the single market is completed. They are also concerned that reform in Eastern Europe could affect their trade with the E.C., since such reforms could result in E.C. membership for some Eastern bloc countries.

EFTA is the E.C.'s biggest trading partner. Consequently, Andriessen said that "We must have global coordination to replace the case-by-case, country-by-country approach." A mandate for formal talks in 1990 on creating a "European Economic Space" was decided by the Trade Ministers from the 18 E.C. and EFTA nations in December.—*Reuters*

The E.C. and ACP countries signed the Lomé IV trade agreement, which provides for commercial, financial, and technical cooperation (such as the sinking of wells in Africa) in December.

AID AND DEVELOPMENT

FIGHTING THIRD WORLD AIDS

The E.C.'s Development Ministers agreed in November that much more needed to be done to combat the alarming spread of AIDS (Acquired Immune Deficiency Syndrome) in the Third World. French Development Minister Jacques Pelletier said that, despite the efforts of the E.C. and bodies like the World Health Organization (WHO), the spread of AIDS is still a serious problem in Africa. According to the WHO, 5 percent of sub-Saharan Africans, or some 20 million people, carry the virus that causes AIDS, a number that is likely to treble in the next decade.

The E.C. gave some \$39 million to fight AIDS in the Third World between 1987-89, most of which went to virus detection and public awareness programs. Only 20 percent of the money given has so far been

used, however, because of the time spent coordinating efforts with local authorities and other health organizations.—*Reuters*

E.C. SIGNS NEW 10-YEAR ACCORD WITH ACP COUNTRIES

The E.C. and a group of African, Caribbean, and Pacific (ACP) states have agreed to renew the Lomé Convention that links the two through special trade agreements, and represents the most important contractual arrangement between blocs of northern and southern states. The first of these Lomé agreements was signed in 1975 and has been renewed and expanded every five years since then.

Some of the many innovations in Lomé IV, which was signed December 15, include a 10-year (instead of a five-year) term, and the inclusion of Haiti, the Dominican Republic, and Namibia (after its independence) in the Convention (bringing the number of ACP

states to 69). It also stresses E.C. support for structural adjustments that take into account the social dimension and the political stability of individual ACP countries, and reinforces the STABEX (which helps stabilize ACP export earnings for a number of agricultural products) and SYSMIN (which helps ACP states dependent on the mining industry re-establish the viability of this sector) programs.

Other innovations include Lomé IV's recognition of the grave debt situation in many ACP countries, and an increased emphasis on improving commercial access to the E.C. for ACP products. In addition, several new products will gain privileged access, and rules of origin have been made more flexible. The new Convention also aims to increase industrial cooperation and local processing of raw materials, and environmental measures will be reinforced. Finally, although the Convention is politically neutral, it does explicitly mention the fight against apartheid.



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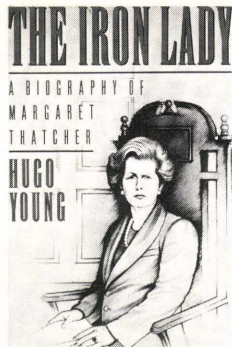
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BOOKS IN REVIEW



The Iron Lady: A Biography of Margaret Thatcher. By Hugo Young. Farrar, Straus & Giroux. 570 pages. \$25.00.

The Thatcher Government. By Peter Riddell. Basil Blackwell. 296 pages. \$17.95.

MICHAEL D. MOSETTIG

The 1980s, in contrast to the decade before, produced a certain political stability in much of Western Europe. One leader has come to dominate—or at least symbolize—the decade in several nations—Francois Mitterrand in France, Helmut Kohl in West Germany, Wilfried Martens in Belgium, Felipe González in Spain, and Ruud Lubbers in the Netherlands.

The sharpest contrast between the decades has come in Great Britain, however. While four changes in administration characterized the unsettled 1970s, the 1980s have been dominated by Margaret Thatcher in a way unseen in British politics for a century or more. Britain's first female prime minister took office in May 1979 and has held sway ever since.

Thatcher has experienced several periods of political turmoil and yet emerged triumphant. Her current prospects look very cloudy, however. An economic record of growth and low inflation (albeit accompanied by record unemployment) appears jeopardized by renewed inflation, rising interest rates, and a potential recession. She made a hash of a summer cabinet reshuffle, and was doubly wounded and embarrassed by the resignations of her Chancellor of the Exchequer, Nigel Lawson, and her private economic guru, Alan Walters.

The question now is whether fatigue, brought on by 10 years' rule, combined with her personality and style of governing have drained her government of talent. She is more isolated than ever in Europe, and her once vaunted American

connection is fraying as a new U.S. Administration looks increasingly to Bonn as the lynchpin of its European diplomacy. She can no longer count on a split opposition, and, if current political trends prevail in the East, she will not be able to obliterate a future Labor Party opponent with the issue of nuclear unilateral disarmament as she did in 1983 and 1987.

This confluence of political events provides an interesting context for the American publication of the latest Thatcher biography by one of Britain's major political writers. Journalist Hugo Young has described the qualities that marked Thatcher's accumulation of power and, in reading the book now, one may wonder if many of these same qualities signal an end to her long reign.

Young, once a columnist on the pre-Murdoch *Sunday Times* and now with *The Guardian*, probably knows British politics and its players as well as any journalist. Even though he is clearly out of sympathy with her ideology, he seems to have had good access to Thatcher and her circle of advisers. He has also been well plugged into the anti-Thatcher opposition within the Tory Party—the so-called “wets” who favor more government intervention in the economy and who often have been appalled by the results of her free market economics.

Unlike Peter Jenkins' *The Thatcher Revolution*, Young's book does not pretend to set the events of her term into any larger context of British political or social history. This work by a political junkie is for those who revel in the intrigues of Whitehall and the plots of Westminster, and some chapters, particularly on the 1982 Falklands war, have the tension of a good thriller.

While the mythical Thatcher is a woman of principle who does not bend before passing political phenomena, Young devotes a great deal of attention to showing that the prime minister is indeed a pragmatic politician, susceptible to op-

portunism, and ready to trim the truth when necessary. The contradiction for Thatcher is more stark than for most politicians because much of her reputation thrives on exactly the opposite impression.

The classic example of the contradiction remains the shift in economic policy after 1981—first a hard budget in the midst of a recession, followed by a loosening of the money supply, even as the doctrine of monetarism was being proclaimed sacred. This saga, for all its mind-numbing detail about monetary targets and aggregates, is described well both by Young and by Peter Riddell, the former political editor of the *Financial Times* and now that newspaper's Washington bureau chief.

Riddell's book is an interesting curiosity. Written in 1983, updated in 1985, and just released in the United States, it is superficially out of date. Issues of government, however, unlike those of campaigning, remain basically the same, as do the benchmarks of Thatcher's success and failures. This solid work is marred only by an unworthy quote, attributed anonymously to a former member of her administration, that her enthusiasm for defense issues and spending would eventually wane because “after all, she is a housewife at heart.” Her defense program remains largely intact.

Young has managed to produce a fully detailed and human book full of personal insights without being gossipy. But one morsel needs to be passed on to an American audience because it peels back so many layers of British aristocratic snobbery. Commenting on Thatcher's first Washington meeting with the Reagan Administration, then Foreign Secretary Lord Carrington is quoted by a colleague as saying: “She liked the Reagan people very much. They're so vulgar.”

Indeed, Young's book gives us a glimpse into the future of Thatcher historiography, once the historians have picked apart the cabinet papers. The field then will be open to the Freudians and psychologists to explain how Britain, far less amenable than most Western nations to giving women access to real power in any area, came to see a woman dominate a government and society that have been, and probably will remain even after her departure, largely the preserve of public school boys. **€**

Michael D. Mosettig is senior producer for foreign affairs and defense at the MacNeil/Lehrer NewsHour.

YEAR IN REVIEW

Continued from page 40.

Eastern Europe:

4-7: Huge protest rallies take place in East Germany, leading to the resignation of the East German Government.

8: Half of the East German Politburo is fired, and Hans Modrow is chosen as the country's new Prime Minister.

9: The Berlin Wall is opened and democratic elections are promised in East Germany. Kohl interrupts a trip to Poland to go to Berlin.

10: Bulgaria's Zhivkov is replaced by the more reformist Petar Mladenov.

14: Czech Prime Minister Ladislav Adamec announces that he will permit free travel to the West from 1990 onward.

17-19: The police crush mass protests in Prague in the largest anti-government demonstration since the 1968 "Prague Spring." The opposition group Civic Forum demands the resignation of leaders responsible for the 1968 invasion of Czechoslovakia.

20: At the Romanian Communist Party Congress, hardline Party leader and President Nicolae Ceausescu is reappointed unanimously, and states that there will be no reform in his country.

24: Czechoslovakia's Communist leadership resigns and Karel Urbanek becomes General Secretary of the Communist Party.

27: The Soviet legislature votes to give Lithuania, Estonia, and Latvia economic autonomy from January 1990.

• A two-hour strike throughout Czechoslovakia leads to talks between the Communist Government and Civic Forum that result in a decision to form a coalition government of Communists and non-Communists. The former agrees to drop the constitutional clauses guaranteeing Communist dominance, to allow a freer press, and to eliminate the mandatory teaching of Marxism.

Western Europe:

5: Elections to the Greek Parliament are inconclusive, with the largest party, New Democracy, three seats short of a majority. A national unity government of Communists, Socialists (PASOK), and New Democracy is formed after tough negotiations, and headed by Xenophon Zolotas.

18: E.C. Heads of State and Government meet for a "working dinner" to talk about events in Eastern Europe. The idea of creating a development bank for Eastern Europe is floated.

28: Chancellor Kohl presents a 10-point plan on East-West German cooperation

considers the eventual reunification of the two states within a peaceful Europe.

30: Italy and the Soviet Union sign far-reaching economic and business agreements during Gorbachev's visit to Rome, where the Soviet leader also calls for a 1990 summit meeting of the CSCE.

DECEMBER

1: Gorbachev and Pope John Paul II meet and agree to establish relations. This is the first meeting between a Soviet leader and the Pope.

2-3: Bush and Gorbachev meet for a storm-tossed "summit" in Malta. They reach broad agreement on change in Eastern Europe and economic cooperation, and lay the foundation for arms control agreements next year.

4: NATO leaders adopt common position on German unification when they meet to hear Bush report on the Malta summit.

7: The World Bank agrees to lend Poland \$1.67 billion if commercial banks, the International Monetary Fund, and the Paris Club of government creditors will support the plan.

11: The four World War II allies meet in Berlin to discuss closer ties between the two Germanies.

12: U.S. Secretary of State James Baker gives speech in Berlin outlining U.S. role in Europe's future. Talk focuses on "the new Europe and the new Atlanticism."

15: Delors and Baker head their respective delegations at the 9th annual U.S.-E.C. Ministerial Meeting in Brussels.

16: Bush and French President François Mitterrand meet for three hours of talks on the island of St. Martin.

18: Nobel Peace Prize recipient and well-known Russian dissident Andrei Sakharov is buried in Moscow. Gorbachev attends funeral.

• In Brussels, Soviet Foreign Minister Eduard Shevardnadze signs a 10-year cooperation agreement with the European Community.

Eastern Europe:

1: Czech Communist Party calls the 1968 Warsaw Pact invasion "unjustified" for the first time, and East Germany, Poland, and Hungary apologize to the country for their part in the event.

• The East German Parliament changes the country's Constitution, eliminating the Communists' guaranteed monopoly.

3: A new coalition government in Czechoslovakia, composed of 16 Communists and four non-Party ministers, is announced. Angry opposition leaders call again for a pluralistic cabinet.

• Krenz resigns as Communist Party leader, followed by the entire East German

Politburo, after reports of corruption anger grassroots party members. Honecker and 11 other party chiefs are expelled from the Communist Party.

4: East Germans break into the security police headquarters in Leipzig to ensure that documents proving Communist Party corruption are not destroyed.

7: The East German Communist Party recommends that free elections take place in May 1990, and agrees to work toward a confederation with West Germany.

• Czech Prime Minister Adamec resigns.
• Lithuania abolishes the Communist Party's monopoly on power.

8: The East German Communist Party conference begins, shaken by the arrests of Honecker and other former leaders.

10: Czech President Gustav Husak resigns after swearing in a government in which Communists are a minority.

12: Czechoslovakia applies to join the International Monetary Fund.

• Bulgarian leader Mladenov proposes free elections by June 1990, and that a new constitution abandon mention of the Party's monopoly on power.

19: Romania's hardline Communist government continues its crackdown on demonstrators, with a possible death toll of well over 1,000.

22: Romania's Ceausescu is deposed.

European Community:

4-5: E.C. Transport Ministers reach important decisions on opening up the road haulage and airline market sectors to outside competition.

6: Henning Christophersen, E.C. Commissioner responsible for economic and financial affairs, announces that Hungary will receive a one-billion ECU loan over five years from the Community.

7: E.C. member states agree to allow free competition in advanced telecommunications services from the middle of next year.

8-9: E.C. Heads of State and Government hold their bi-annual summit in Strasbourg. They agree to convene an inter-governmental conference at the end of 1990 to discuss economic and monetary union, and on the Social Charter of basic workers' rights.

18: Talks begin between the E.C. and the European Free Trade Association on the formation of a "European Economic Space."

Western Europe:

6: Mitterrand meets with Gorbachev in Kiev.

19: Kohl and Modrow meet for the first time in Dresden, East Germany. €

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