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CENTRAL EUROPE HEADING WEST

The Strong Guilder


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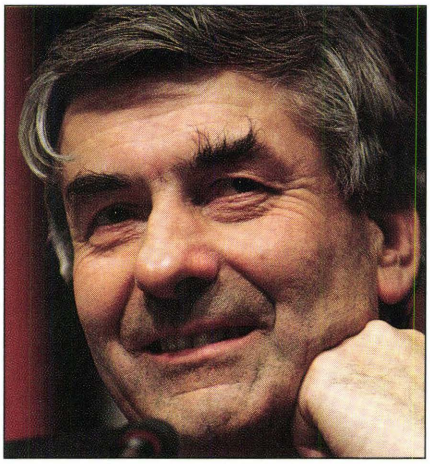

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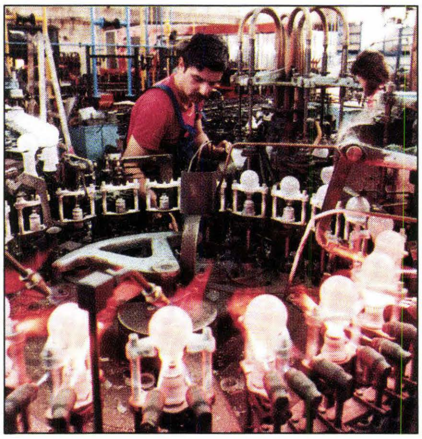

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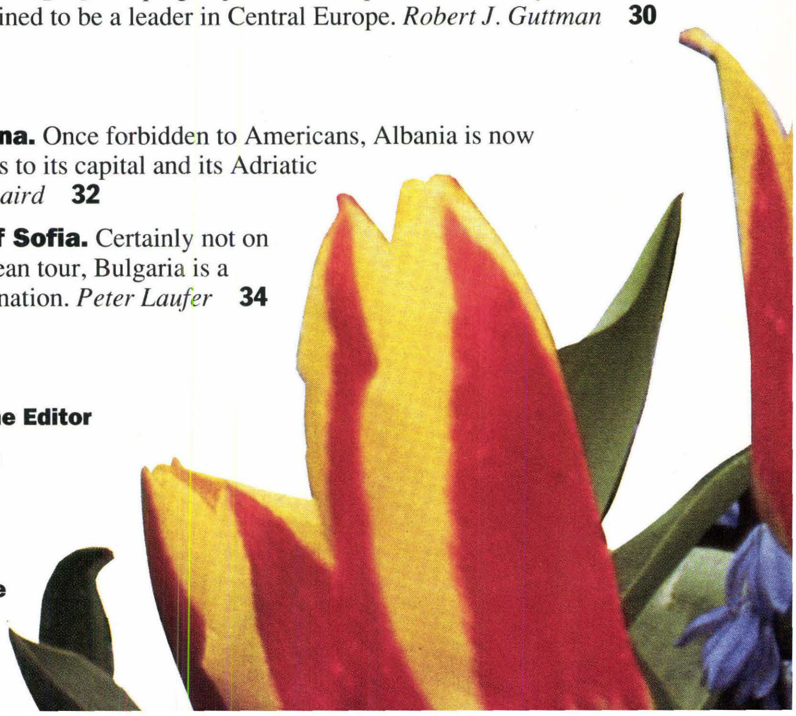

Letter From the Editor

CENTRAL EUROPE IS CENTRAL TO EUROPE. Talking with government and business leaders in Hungary, Poland, and the Czech Republic one quickly learns that they consider themselves to be in the heart of Europe.

As the Czech Republic Ambassador to the US, Michael Zantovsky says, "Central Europe is both a historical and geographical term that puts us right in the center of the continent, at its middle." And "if you are part of a center of something, you're part of the whole thing too."

EUROPE's cover features Budapest's famous Chain Bridge, the first permanent bridge to span the Danube and connect the two cities of Buda and Pest, which were officially merged in 1872 to form Hungary's new capital. Completed in 1849 according to a design by British engineer William Clark, it, along with Budapest's other bridges, was destroyed during World War II, but today's Chain Bridge is an almost exact replica of the original. It appears to run into the tunnel under Castle Hill, and children are told that it is pushed inside at night and when it rains—just one example of the lore that the citizens of Budapest have built up around their bridges.

Ambassador Zantovsky goes on to say that the term "Eastern Europe" refers only to the region's years under communism. His point is well taken; however, journalists still face a quandary when referring to the region. Most are still using the old East-West terminology, as is evidenced by *EUROPE*'s own writers in this issue. For future clarity's sake Central Europe should include Poland, Hungary, the Czech Republic, and Slovakia. These Central European countries have implemented serious reform measures and all have as their major foreign policy objectives to gain membership in the European Community by the end of the decade.

In addition to our interview with Ambassador Zantovsky, *EUROPE* spoke with the Hungarian Ministers of Foreign Affairs, Finance, and Privatization in Budapest to see what is happening in this key Central European country. The Hungarian Foreign Minister Géza Jeszenszky told us that they are "trying to create Central Europe as part of Western Europe."

Elizabeth Pond, author of the recently published *Beyond the Wall: Germany's Road to Unification* (Twentieth Century Fund), reports on Poland's surprising election results and their effect on the economy. She also profiles Poland's new leaders.

EUROPE also analyzes the situation in Slovakia after their breakup with the Czech Republic and finds that Slovakia is facing an economic uphill struggle and formidable obstacles.

Barry Wood writes about the ups and downs of investing in Central Europe, and Bruce Barnard looks at EC-Central European political and trade relations at the present time.

Are you looking for a place well off the beaten track to visit on your next trip to Europe? *EUROPE* turns its traveler's eye on both Albania and Bulgaria. Tirana and Sofia may not yet be synonymous with Paris or London as vacation destinations, but they offer the adventurous tourist a different type of holiday.

In our Member Country Report, Roel Janssen, reporting from The Hague, writes, "The guilder is now the only currency in the ERM that maintains the 'small margin' of 2.25 percent with the D-mark." *EUROPE* discusses the strength of the Dutch currency, the Amsterdam stock exchange, the economic situation in the Netherlands, and the 400th birthday of the tulip.

Next month *EUROPE* analyzes US-EC relations and discusses the political and economic situation in France at the present time.

Robert J Guttman

Robert J. Guttman
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EUROPE

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Barclays de Zoete Wedd acted as lead manager to European Investment Bank in the issue of Can.$500,000,000 6 5/8 per cent notes due 2000.

September 1993

Barclays de Zoete Wedd acted as lead manager to European Investment Bank in the issue of Can.$125,000,000 6 per cent notes due 1997.

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Barclays de Zoete Wedd was lead manager to the European Investment Bank in the issue of ECU650,000,000 7 3/4 per cent bonds due 2000.

March/April 1993

Barclays de Zoete Wedd was lead manager to the European Economic Community in the issue of ECU 80,000,000 8 5/8 per cent bonds due 1997.

January 1993

EYE ON THE E.C.

Officially, Dutch Minister Ruud Lubbers is not a candidate to succeed Jacques Delors as President of the EC Commission. He said so himself during his weekly press conference at The Hague on October 1.

Yet Lubbers is still a likely candidate. At the age of 54, after 11 years leading his country's government—a record in modern times—he is now actively preparing himself for broader pastures. When the Dutch Parliament returned after its summer recess, he indicated that the new parliamentary session would be his last. He would not be leading his party, the Christian Democratic Alliance, after the next general election, due in May 1994.

It is an interesting coincidence that one month later the heads of government of the 12 EC member states will be meeting in Corfu to propose a successor to Delors, whose third and final term ends in January 1995. Lubbers, whose chairmanship of the Maastricht Summit, in December 1991, enabled the Treaty of European Union to be signed, despite the opt-out clauses which John Major insisted on negotiating for the United Kingdom, is now seen as a front-runner.

There is much discussion as to who will succeed Jacques Delors as President of the EC Commission when his term ends in January 1995. (Pictured above: the EC Commission, 1993)

It is a measure of the impact that Delors has made that it is now widely thought that only somebody of prime ministerial caliber could adequately fill his place. Lubbers has long been seen as a possible candidate, along with Spanish Prime Minister Felipe González.

González, who has also led his country for 11 years, has many admirers. But the member states prefer to alternate the political affiliation of Commission Presidents, and if González were to follow Delors it would be two Socialists in a row. Conversely, it is many years since the Christian Democrats, who lead in coalition governments in almost half the member states, had one of their people in the job.

Other potential candidates, such as former Belgian Prime Minister Wilfried Martens and former Italian Foreign Minister Gianni de Michelis are no longer considered by many observers to be strong contenders for the post. Another dark horse left in the race is British Commissioner Sir Leon Brittan.

Brittan has emerged as one of the strongmen of the Delors Commission. Since the beginning of this year he has been in charge of the EC's foreign trade policy and a chief negotiator in the Uruguay Round of GATT trade talks. If these are successfully concluded by the December 15 deadline set by the US Congress, it would be seen as a signal of success, and Brittan's reputation would soar.

Yet he will still suffer from a major handicap—his nationality. The British government has been continuously at odds with its EC partners, both under Mrs. Thatcher and, less noisily, under her successor, John Major. The result is that other EC leaders might be disinclined to give the top job to a British nominee, however glittering his qualifications.

If, however, President Delors were to resign the post early—six to eight months before his term officially ends—to return to French politics, the leadership duties would most certainly pass in the interim to the most senior Vice President of the Commission, Henning Christophersen.

Whoever succeeds Delors will have the task of regrouping the EC after its disappointments over its performance in Bosnia, the troubles of the Exchange Rate Mechanism, and the difficulties associated with implementing the Maastricht Treaty.

Delors still has another year in office and remains a force to be reckoned with, though his Commission will inevitably begin to be seen as something of a lame-duck administration as 1994 rolls on. It will need a new Commission President, with strong backing from the governments of the member states, particularly France and Germany, to get the EC, most likely by then enlarged to 16 members, back on the road.

—Dick Leonard

By Roel Janssen

Lubbers Leads The Netherlands

NOTHING PARTICULARLY UNUSUAL HAPPENED ON JULY 16, 1993. Early in the morning, well before the daily traffic jams, Ruud Lubbers crossed the 20 miles from his home in Rotterdam to The Hague. There, in the small, octagonal tower adjacent to the Medieval buildings and new constructions of the Dutch Parliament, he started another day of work. That day, Ruud Lubbers became the longest governing Prime Minister of the Netherlands in this century. He came into office on November 4, 1982, and when his third term as Prime Minister ends, after parliamentary elections in May next year, he will have been in office for 11 and a half years.

That's all the more remarkable because in the Dutch pluri-party system the government always depends on the support of a coalition in Parliament. Lubbers' first term was based on a majority of his own Christian Democrats and the (conservative) Liberal Party. The same coalition continued after general elections in 1986, but it collapsed in 1989 when the conservatives pulled back their support. Elections were held ('Let Lubbers finish his job' was the slogan of his party) and indeed Lubbers continued, but he shifted alliances joining his Christian Democrats with the Social Democrats.

Lubbers, 54, an economist who started his career in his family's engineering firm, entered politics by surprise at the age of 34 as Economics Minister in 1973 in the most left-leaning government the Netherlands ever had. A wealthy businessman, he adhered to the progressive Catholic social doctrine. Before becoming Prime Minister in 1982, he was the leader of the Christian Democrats in Parliament in a time of economic stagnation and political deadlock in the Netherlands that gave rise to the infamous 'Dutch disease' of high public expenditure and low growth. When he took over, the Netherlands badly needed reforms. Unemployment was exploding and the government deficit was rising at an alarming rate.

Against large popular opposition, Lubbers' first government focused on tackling the fiscal deficit. From the mid-1980s, this became easier when the economy recovered, unemployment decreased, and taxes were cut. The discipline on outlays, however, slowly dissipated. When in 1989 Lubbers hoped to present a more gentle government with his Social Democratic partner, it became clear that further fiscal adjustments had to continue.

This center-left third Lubbers government also started reforms of the structural deficiencies of the Dutch economy. Due to the large redistribution of income, the per capita income in the Netherlands has consistently fallen from the top of the European Community to lower levels.

But progress was slow. Only after Lubbers had provoked a national outrage, saying "The Netherlands is sick," the social security system, considered one of the more generous in the industrialized world, became the target of reform. In fact, thanks to the easy access and generous outlays, the use of welfare, sickness, and disability programs in the Netherlands is proportionally twice as large as in surrounding European countries. After heated debates, against fierce protests, and with much political damage to the Social Democratic coalition party, a package of social security reforms was adopted in 1993.

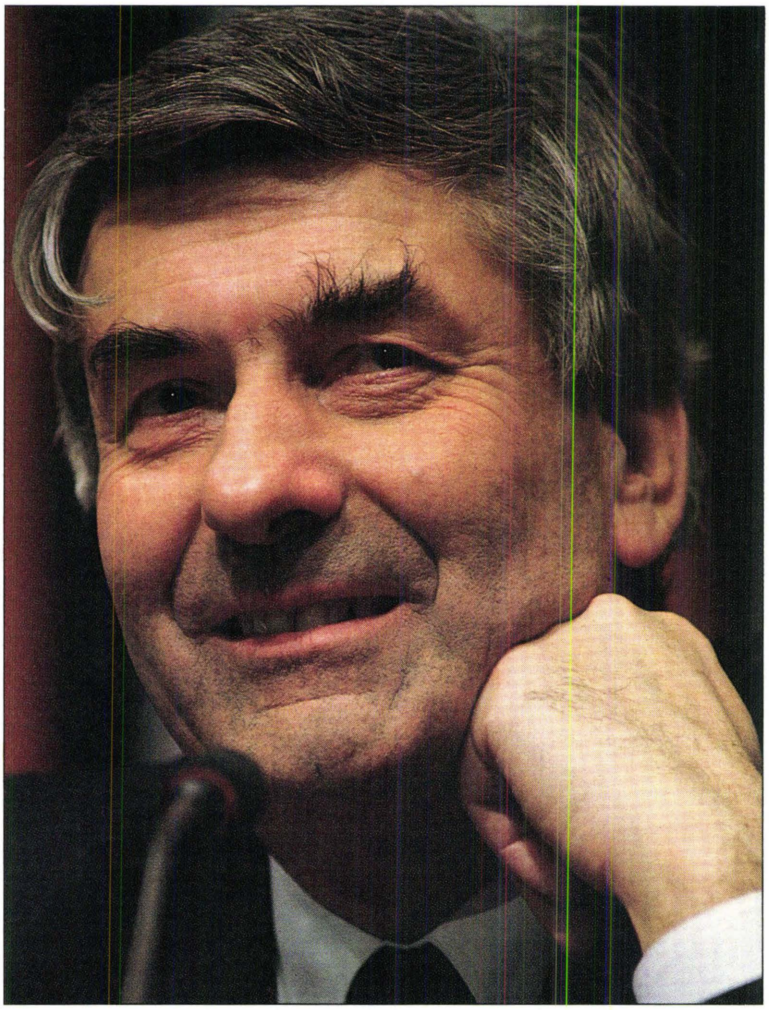
Meanwhile a remarkable turnaround in public opinion was taking place and more adjustments in the welfare state arrangements with badly needed lowering of the high Dutch tax and social security rates are inevitable in the coming years.

Lubbers is an excellent politician, molded in coalition governments. He is popular with voters, easily accessible, and weary of the glamorization of politics. He is seen often walking around the center of The Hague. He quickly masters complicated issues and is keen on finding solutions. But his style of government is not unanimously liked. Opponents criticize him for not having a clear long-term policy vision and for his perennial search for compromises. Recently he was characterized as a person with a zeal to compromise and a vigorous will to win. From this rare combination of compromise and domination of the political process comes the sometimes bizarre solutions for which Lubbers is known. For example, it has been said that the final text on political union in the Maastricht Treaty could only have been designed by the mind of Ruud Lubbers, who was Chairman of the EC-summit in Maastricht.

The fall of the Berlin Wall and the subsequent collapse of the Eastern European communist threat has caused the Netherlands to review its traditional stance in foreign relations. The Dutch based their postwar geopolitical outlook on a strong adherence to the Atlantic alliance and NATO, on a firm belief in a supranational European Community, and on trust in multilateralism. Now, with the disappearance of the military threat from the Soviet Union, the importance of membership in the Atlantic security system is less obvious. At the same time, the federalist approach of Europe is being eroded as it becomes clearer that an expanding Community will be shaped according to different forms of intergovernmental cooperation between sovereign states and not by a move toward European federation. With the loosening of these two anchors, Dutch foreign policy tends to fall back toward a certain aloofness, on an always present tendency toward moralism rather than recognition of power relations.

This has been demonstrated in the case of the war in Bosnia. Like many other countries, the Netherlands has been outraged by the cruelty of that war, and it has sent its share of troops and equipment: the Dutch navy, air force, and army are present in the area. According to opinion polls, a large majority of the population is in favor of military intervention—by others, that is.

The Dutch government is extremely critical of the peace proposals for carving up Bosnia as presented this summer by EC negotiator Lord Owen. It has also criticized the major EC countries for not doing enough to end the fighting. While visiting the Hague recently, Lord Owen was sternly lectured that his plans were not fair to the Bosnian Muslims. It was foreign policy on moral grounds, without taking into account the willingness of other countries to act, let alone the real situation on the ground in the Bosnian war.

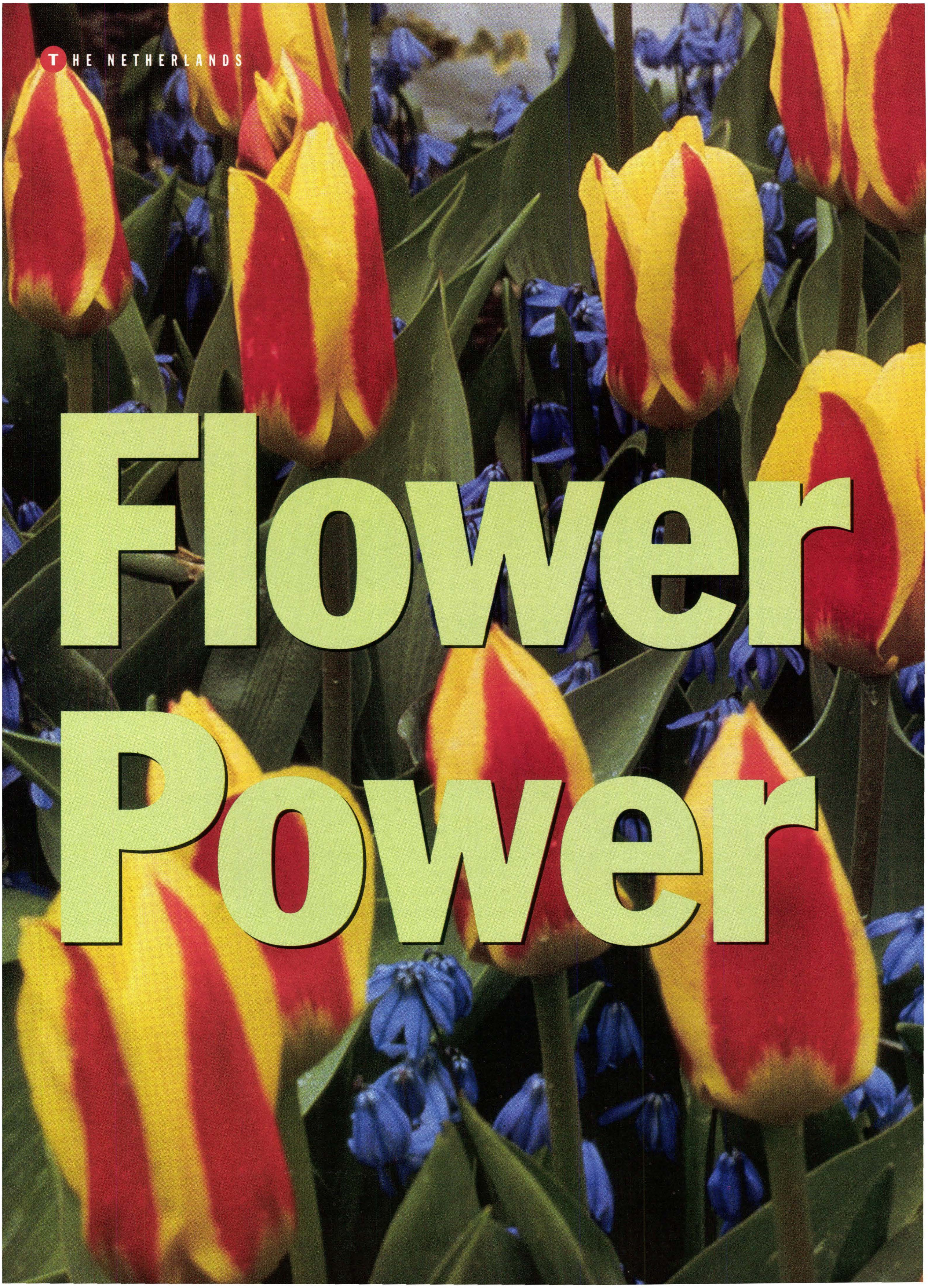


The Netherlands' Prime Minister Ruud Lubbers, 54, an economist who started his career in his family's engineering firm, entered politics by surprise at the age of 34.

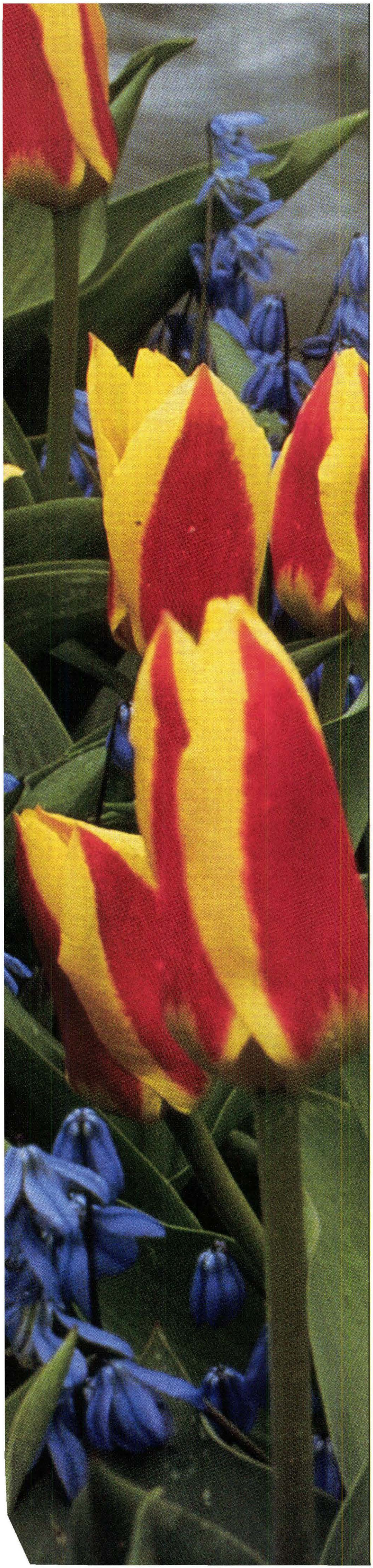
Without the self evident need for the Atlantic security umbrella and without the federal European perspective, the Netherlands will have to look for closer alliances with its main European neighbors—Germany, in particular, but also France and the United Kingdom. That would put the Netherlands back in its historic position, as for centuries it successfully maintained neutrality in the triangle of relations between the three European powers.

So the shape of the near future is uncertain. Internationally, the Netherlands, like other countries after the cold war, will have to redefine its place in the world order. Nationally, a shift in leadership is taking place, notably with the announced departure of Ruud Lubbers from the political scene after next year's elections. The economy looks set for modest growth, and with the concern about the erosion of competitiveness, further reforms seem inevitable. Particularly, a new consensus on the size of the welfare-arrangements has to be worked out. Luckily, the bitter conflicts that paralyzed politics in the 1970s and early 1980s have been left behind. There is a sense of urgency, shared by all major parties, that something has to be done. It brings back the proverbial down-to-earth attitude of the Dutch and that is not bad in a time of unprecedented change in the world. Ⓔ

Roel Janssen, based in The Hague, is EUROPE*'s Netherlands correspondent and covers economic and financial matters for the* NRC Handelsblad.



Flower Power



Business is blooming for the Netherlands' flower industry.

By Elisabeth Farrell

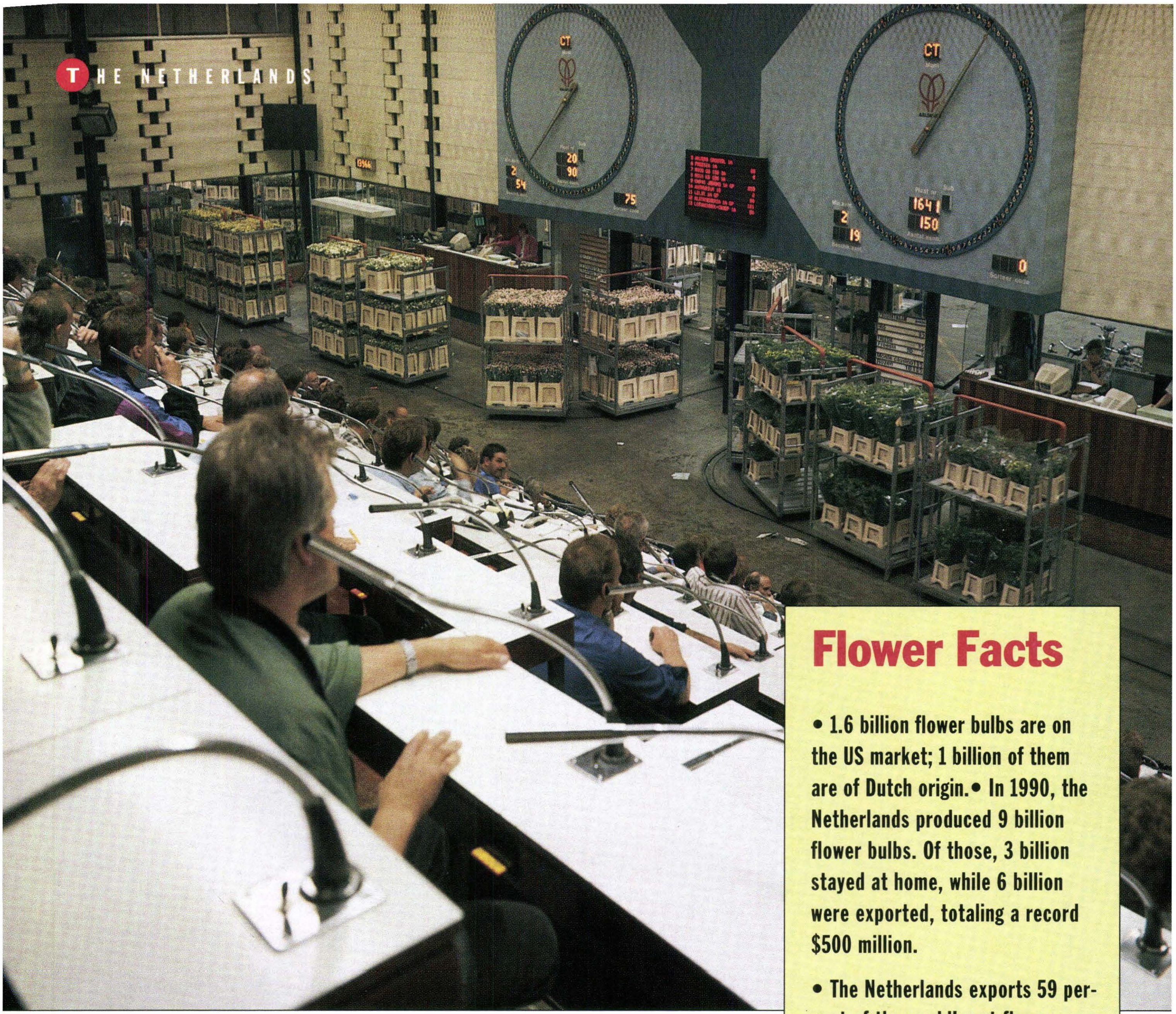
Get out the birthday candles because next spring marks the four hundredth birthday of the Dutch tulip. Actually, you can start celebrating now (and you'll have to if you want to light all 400 candles in time), because in order for the first Dutch tulip to have bloomed in the spring of 1594, someone had to plant it in the fall of 1593.

That "someone" was Carolus Clusius, who was in charge of the gardens at the University of Leiden. Clusius' friend, Austrian Ambassador Ogier Ghiselain de Busbecq, gave him a handful of tulip bulbs that he had picked up during his diplomatic tenure in the Ottoman Empire. Clusius popped the bulbs into the ground in the fall of 1593 and waited until spring to see what would come up.

To put it mildly, the multi-colored flowers that poked their heads through the thawed spring ground created an instant sensation. It wasn't long before every self-respecting Dutch aristocrat was flaunting bouquets of tulips, and they quickly became signs of power and prestige. Demand outpaced supply, and Dutch society was swept up in "tulipmania." Bulbs traded at exorbitant prices—a single "Semper Augustus" bulb fetched a whopping 4,500 guilders ($2,250) plus a horse and carriage—and a futures market even blossomed on crops not yet grown or harvested.

By 1637, the inevitable happened. The tulip market crashed and took many traders with it. Prices eventually stabilized and society returned to normal, but the Dutch love of tulips has never wilted.

"This fall nearly 3 billion Dutch tulip bulbs will be planted around the world—270 million in the United States alone," explained Sally Ferguson, US director of the Netherlands Flower Bulb Information Center. "Tulips—and the dozens of other flowers grown in the Netherlands and exported around the world—have be-



Buyers sit at desks in the auction room at Aalsmeer where they watch trolleys full of flowers wheel by, as giant clocks on the wall display bidding price, lot, producer, quality, units, and other information.

come a multi-billion dollar industry."

For years, US consumers looked at flowers as a special-occasion purchase. But a targeted marketing effort changed all that by stressing that flowers are an everyday commodity. "The Netherlands' floriculture industry now exceeds $3 billion, of which $100 million in product is sold to America," according to Bob Perilla, spokesman for the US office of the Flower Council of Holland, the trade association for the cut-flower industry.

The hub of the Dutch flower industry is a network of seven auction houses scattered around the country. The most gargantuan is Verenigde Bloemenveilingen Aalsmeer, a cooperative of 5,000 growers. Known simply as Aalsmeer, it is the largest flower auction in the world and, in terms of supply and turnover, the largest auction of any kind on the face of the planet. The place thrives on superlatives and mind-boggling statistics:

• Nearly 14 million flowers and 1.5 million plants are sold at Aalsmeer every weekday.

• Flowers come from 8,000 nurseries, not only in the Netherlands, but from growers as far away as Thailand, Colombia, Israel, and Zimbabwe.

• Aalsmeer's auction building is the size of 100 football fields and the entire complex covers a whopping 1.35 million square feet.

Flower Facts

• 1.6 billion flower bulbs are on the US market; 1 billion of them are of Dutch origin.• In 1990, the Netherlands produced 9 billion flower bulbs. Of those, 3 billion stayed at home, while 6 billion were exported, totaling a record $500 million.

• The Netherlands exports 59 percent of the world's cut flowers, primarily to Germany, France, and the United Kingdom. The US ranks seventh on the list.

• Sales of cut flowers and plants at the seven auction houses in the Netherlands totaled more than $2.5 trillion in 1992.

• The tulip is the Netherlands' number one bulb export, followed by gladioli and iris.

• The top five cut flowers auctioned in the Netherlands are the roses, chrysanthemums, carnations, tulips, and lilies.

Every centimeter of this immense enterprise is so efficiently streamlined that a tulip—or rose or iris—quietly growing in the Dutch countryside early on a Monday morning can be lavishly displayed on someone's dining room table on the other side of the world by Tuesday evening. Here's how it works...

3:30 a.m. Monday

Somewhere in a tranquil greenhouse, a single long-stemmed red tulip is snipped from its bulb, added to a water-filled container of stems of similar length, and placed on a waiting Aalsmeer trolley. From this moment on, the tulip will not be moved from the trolley until it is sold and ready to be exported.

5:30 a.m.

Our tulip is now one of 14 million other cut flowers in the Aalsmeer building, all of which have been delivered since late yesterday by truck drivers who have collected harvests from dozens of growers. Our tulip's trolley is linked to dozens of others and driven to a cooled storage room.

An Aalsmeer quality inspector examines our tulip and judges it for "ripeness" (how far it has opened), size, disease, and other attributes that potential buyers will want to know. He and his fellow inspectors judge 2,000 trolleys a day.

6:30 a.m.

Rush hour at Aalsmeer. Buyers have taken their places at desks in the auction room where they watch trolleys wheel by on tow chains. Giant clocks display the bidding price, lot, producer, quality, units, and other information. In the reverse of most other auctions, the price on the clock starts high and quickly decreases. When a buyer believes the price is right, he pushes a button on his desk. If he moves too quickly, he'll pay too much; if he waits too long, he'll lose the sale. Each clock handles some 1,000 transactions every hour.

Our red tulip is bought by a buyer representing an importer from New York. As the trolley is driven out of the room, a computer tallies the transaction and prints a distribution voucher (one of 50,000 transactions the computer will make today). At day's end, it prints out a bill for our buyer, who pays cash at the cashier's office. Aalsmeer does not extend credit, so that all flowers and plants sold on a given day are paid for that day. Buyers maintain their own accounts at four banks in the building.

9:00 a.m.

Our tulip now heads for the distribution area where a distributor checks the voucher for the buyer's name and number and adds our tulip to the other flowers our buyer has purchased. US buyers may purchase only cut flowers, not plants, because soil is not allowed to be imported into the United States. In fact, even cut flowers must be scrupulously washed so that no trace of soil remains.

All the trolleys that our buyer purchased are linked together into a long train and driven to the buyer's packaging area. Speed and accuracy are the most important requirements during this large-scale and complicated regrouping process because our buyer wants to ship his flowers to their destination as quickly as possible.

12 noon

The auction rooms are empty, the clocks have stopped running, and about 20 percent of the flowers and plants are already on their way to shops in the Netherlands. The rest are exported, and for large-scale wholesalers and exporters, such as our buyer, there is still work to be done in the handling and processing area. Here, some flowers are combined into mixed bouquets. Others, such as our tulip, are grouped into special export boxes. All export formalities are handled right in Aalsmeer, and our tulip is on its way to Amsterdam's Schiphol Airport, a mere 15 minutes away.

7:10 p.m.

With our tulip nestled in a specially chilled compartment, KLM flight 643 takes off for New York. Seven hours later, the plane touches down at Kennedy Airport, where our tulip is unloaded, checked by a Department of Agriculture officer, and cleared for import.

2:30 a.m. Tuesday

Our tulip gets its first view of New York as it is whisked by refrigerated truck to the flower district in lower Manhattan and delivered to a wholesaler.

6:30 a.m.

As the sun rises over New York, our long-stemmed beauty arrives at a florist shop. There is just one more transaction to go—that of the final buyer. By dinner time, our magnificent tulip joins a bouquet of fellow stemmed beauties in the center of a table full of admiring dinner guests—none the worse for its whirlwind voyage of the past 48 hours. ⓔ

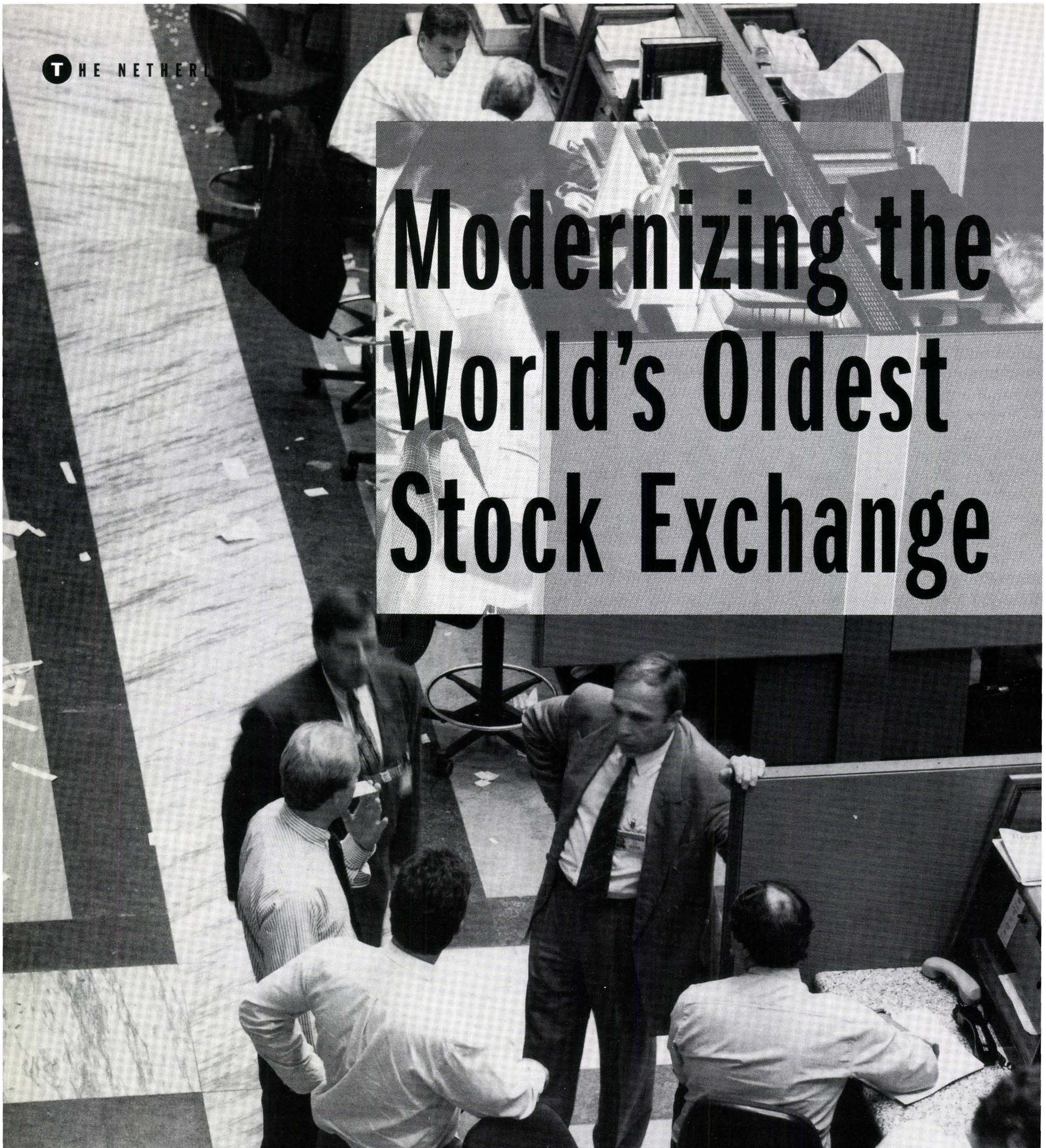
Elisabeth Farrell writes frequently for EUROPE.

Where to Stop and Smell the Roses (and Other Flowers, too)

Aalsmeer Auction (Verenigde Bloemenveilingen Aalsmeer), Legmeerdijk 313, Postbus 1000, 1430 BA Aalsmeer, Netherlands; telephone 011 31 29 773–4567, fax 011 31 29 773–2031. This is the largest flower auction in the world. Nearly 14 million flowers and 1.5 million plants are sold every weekday. Tours Monday through Friday, 7:30 a.m.–11:00 a.m. (Arrive before 9:00 a.m. to see most of the activity.)

Keukenhof Gardens, Postbus 66, 2160 AB Lisse, Netherlands; telephone 011 31 25 211–9034, fax 011 31 25 211–974. Millions of tulips and other flowers bloom in a 70-acre park in the midst of the bulb-growing district. Open March 24–May 23, 1994. Special events throughout 1994 to celebrate the Dutch tulip's 400th birthday.

Modernizing the World's Oldest Stock Exchange



B Y   J A M E S   D .   S P E L L M A N

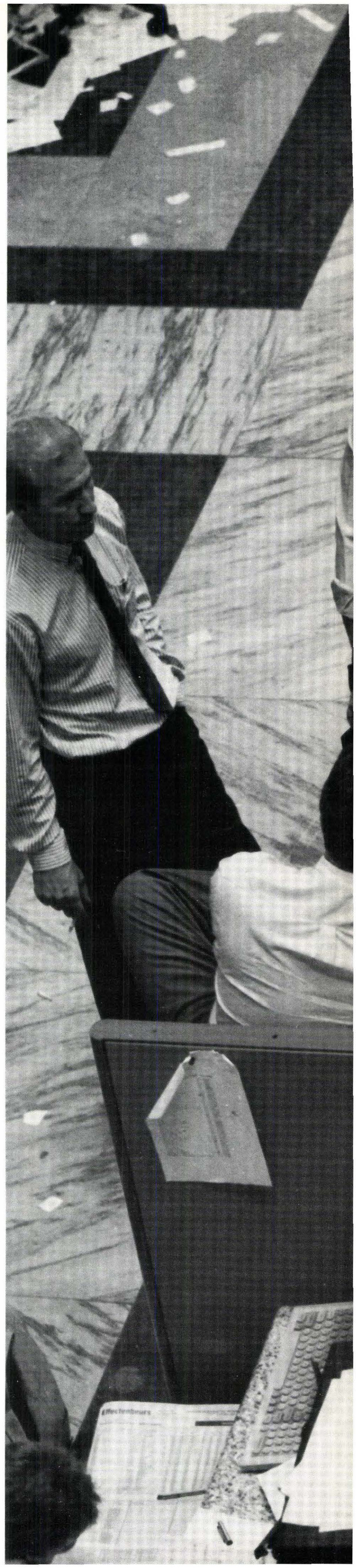
The Amsterdam Stock Exchange (ASE), which lays claim to being the oldest continuing stock market, has embarked upon a series of initiatives to win back trading lost to London. What began in the 17th century as dealings in shares of the United East India Company in coffee houses along Dam Square and grew into the world's third largest market by the 1940s, the ASE is now finding itself struggling to hold onto its fifteenth ranking worldwide.

At the heart of these efforts is a major change in the way stocks will soon be bought or sold on the exchange. Shares are now largely traded through a hoekman (specialist). He is the sole person on the exchange's floor matching buy and sell orders for the stocks in which he makes a market. There are at least two hoekman per stock.

In a parallel market, one that has developed for large block trades by institutional investors in Amsterdam and many other stock markets worldwide, banks, brokers, pension funds, mutual funds, and others compete directly with each other for "wholesale" orders.

During the last decade, an increasing number of trades "went upstairs" in Amsterdam, which means that more and more of the buying and selling of securities was not going through floor specialists. Institutional buyers trade among themselves and with banks and brokers, all of whom post their prices on computer screens. The transactions' prices are reported real-time. This "interprofessional" market was formalized in 1987 by the ASE for trades above $550,000.

The floor specialist in Amsterdam was even more affected by the loss of business to the Stock Exchange Automated Quotation System (SEAQ), a London-based trading system that allows brokers to buy and sell stocks without immediately reporting the prices or sales volume to the public. This cloak of secrecy allows firms to take or reduce positions in companies without letting competitors know. SEAQ also cuts out the



middleman, the specialist, by allowing buyers and sellers to deal directly with each other. That saves commissions. SEAQ accounts for an estimated one-third of the volume of EC stock markets. For Dutch share transactions, SEAQ takes about 40 percent of the total.

"The cost of trading is lower than in London, and you can see the 'bid' and 'ask' prices," says Hans Pontier, a partner with the brokerage house Bangert, Pontier, and Partners. In Amsterdam, the hoekman does not open his "limit order book" to the public, so potential buyers and sellers cannot see how much potential customers on his "book" are willing to "bid" (buy the stock from you) or "ask" (sell the stock to you) for stocks.

Under the ASE's changes, public customers' orders will continue to be processed by hoekmen. But large block sales could go off the floor with banks, brokers, institutions, and others advertising their quotes on a computer screen and dealing directly with each other by computer on the "ASSET" system. This will be allowed for block trades of the 30 most active stocks. The hoekman will also have access to this market and will display his "bid" and "ask" quotes on the screen alongside the others. By being involved in both markets, the hoekman would link the retail and wholesale markets. Prices of wholesale transactions could be delayed by as much as a day, although this issue and the exact date (sometime early next year) when the new changes will occur have not been resolved yet.

"We were in the middle of strong competition against London, seeing the total volume in bonds decrease to 30 percent of the total and stocks to 60 percent," said Hans Brouwer, General Manager of the ASE. Projections suggested that the situation would worsen to the point where the home-market would be doing less than half the total of the trading in Dutch companies' stock in a few years.

"There is no choice," said Chris Vlek, director of equities for Kempen and Company, a brokerage house. "As the old adage says, 'if you can't beat them (meaning London), join them.' But I think it is difficult to say how it will work. Increased activity in Amsterdam will depend on a stock-by-stock basis. We're hopeful that volume will increase for the longer term."

Private investors, who account for about 17 to 20 percent of the trades, worry that the changes will result in a market with two different prices for the same stock—one for the retail customer and a better one for institutional investors.

ASE Performance. **Grim forecasts for the economic outlook in Europe and the resistance of Germany's central bank to substantial interest rate cuts have failed to dampen the performance of the Amsterdam Stock Exchange.**

The Dutch CBS All Share Index did well this year, though, rising 23.5 percent by early October. That compares to a 3.9 percent increase last year, most of which was concentrated in December when the index rose 2 percent.

A fall in yields on government bonds from close to 8 percent to below 7 percent, a stable dollar, and the strength of the guilder in world currency markets have helped the market, according to Chris Vlek, Director of Equities for Kempen and Company. But a damper on the market's performance results from "uninspiring" news of corporate profits.

Total market capitalization stands at $195 billion, with more than 50 percent concentrated in four stocks. Royal Dutch Shell alone accounts for 17 percent and Unilever 35 percent.

Share volume to date has reached $85 billion, which is up 41 percent from the same period last year. Royal Dutch Shell, Unilever, electrical giant Philips, chemicals company Akzo, and the banking concern ABN AMRO account for more than half. *—James D. Spellman*

We favor one market in which there is one price," said Peter Paul De Vries, a spokesman for the Hague-based shareholders' group VEB. Individual investors account for 15 to 20 percent of the ASE's daily volume. "Ideally, the hoekman should be eliminated and investors should be allowed to compete openly for the best price using a computer. The proposal will create two prices—wholesale and retail. Exchange officials say that the arbitrage (the difference in price between the two markets) will be close to zero because the hoekman will compete in both markets. We do not think so."

De Vries is also concerned about the lack of disclosure of prices for wholesale trades. His group opposes delays in the public dissemination of wholesale prices. "Investors should have the best price information at the time they are making a transaction," said De Vries.

But, clearly, institutional investors carry substantial clout. Dutch pension funds, for example, control $350 billion. Their share of large trades has fallen to about 33 percent from nearly 70 percent in 1988.

Providing public quotes of the hoekman's "bid" and "ask" under the new system will appease institutional investors, says Pontier. Another plus: he estimates that the hoekman's commission will drop by about one-fifth.

Other changes are also underway at the ASE. In May it announced that it will merge with the European Options Exchange. The two had been working together for about two years. Savings in operations costs is one major reason. The ASE's infrastructure costs annually amount to $37.2 million, while the EOE's costs are $22.1 million. In 1992, more than 10 million options contracts were traded on the EOE; these were valued at $2.84 billion (down from 1991's record of $3.04 billion). The most active contracts were the EOE index, which accounted for 23 percent of the total, followed by Philips (16.2 percent) and Royal Dutch (7 percent).

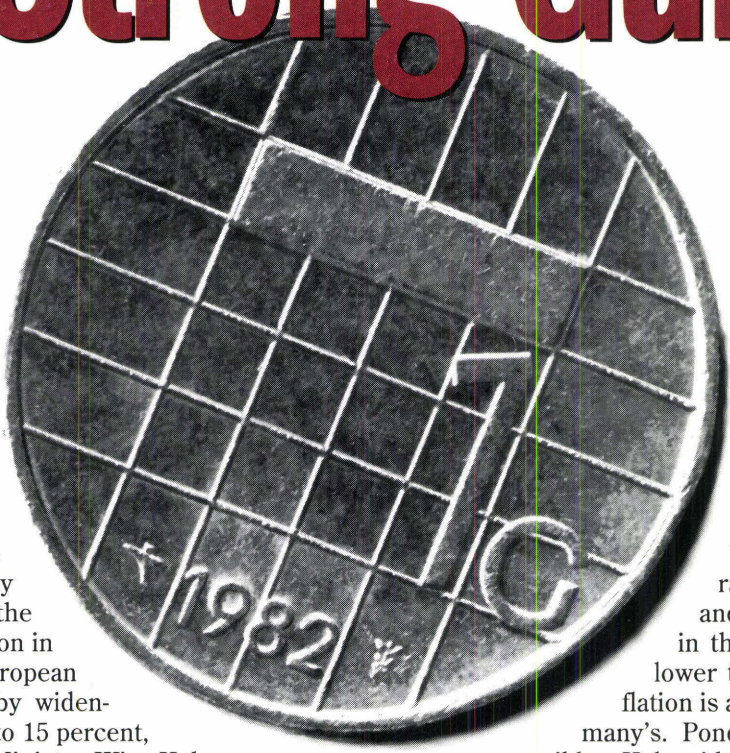
The ASE has also announced plans to merge the "parallel market" with the official market in 1994. The parallel market is an association of market makers who trade stocks in 57 companies valued at more than $2.63 billion. To be quoted on the ASE, the company's market capitalization has to exceed $26.3 million.

"The 'parallel market' has had a lot of crises during the last year, and what we are trying to do is give it a facelift," said Brouwer. "We don't know for the moment how this merger will work. The details have not been worked out."

Combined, the changes are designed to strengthen Amsterdam's competitiveness and return more business to the home market. Its initiatives are being closely watched by other stock markets who face similar challenges and are also searching for solutions.

James D. Spellman is EUROPE*'s Luxembourg correspondent.*

The Strong Guilder



Although the guilder is one of the world's strongest currencies, it often seems to be overlooked among the financial pages of the world press. The Dutch currency, however, made the news when, in the early hours of August 2, 1993, at the end of the emergency session in Brussels to salvage the European Monetary System (EMS) by widening its fluctuation margins to 15 percent, the Netherlands' Finance Minister Wim Kok announced that the Netherlands and Germany had made a separate deal to keep the guilder and the D-mark firmly attached. The guilder, in effect, was the only currency that weathered unscathed the onslaught on the Exchange Rate Mechanism of the EMS that started in mid-1992 and lasted until August 1993. In three waves, currency speculators attacked the British pound and the Italian lira; then the Spanish peseta, the Portuguese escudo, and the Irish punt; and finally the French and Belgian francs, and the Danish krone forcing the realignment of the fluctuation bands.

The guilder is now the only currency in the ERM that maintains the 'small margin' of 2.25 percent with the D-mark. "The guilder is not strong because it remains tied to the D-mark, but it remains tied to the D-mark because it is a strong currency," Finance Minister Kok said recently.

The ability to maintain the parity of the guilder with the D-mark and from time to time make the guilder stronger than the anchor currency of the old EMS was a small triumph for Dutch monetary policies. Ever since March 1983, when the guilder did not entirely follow the revaluation of the D-mark (it revalued two percentage points less), it has been an axiom of Dutch monetary policy, supported by government and Parliament alike, not to abandon the D-mark anymore. The "traumatic experience of 1983" as it is called, cost the Netherlands credibility in the financial markets and resulted in higher interest rates. It took years to rebuild confidence.

The reasoning behind this policy is that Germany is the largest single trading partner of the Netherlands, so it is beneficial to maintain exchange rate stability with Germany. Secondly, despite the financial difficulties caused by unification, the D-mark offers the best guarantee for low inflation and the lowest possible long-term interest rates. Right now, both long- and short-term interest rates in the Netherlands are slightly lower than in Germany, while inflation is at present about half of Germany's. Pondering the position of the guilder, Kok said that he is "not envying" his colleagues in EC countries with weaker currencies.

The Netherlands has always pursued a conservative monetary policy. In the 1930s, with Switzerland and France, the Netherlands was the last country to abandon the gold standard. Shortly after the war, it devalued the guilder once, but in 1961 it followed Germany in the first revaluation against the dollar within the Bretton Woods system. Early in 1971 the guilder joined the D-mark in floating, a few months before the United States closed the "gold window," putting an end to the post-war currency system of Bretton Woods. The guilder participated in the "snake," the first effort of the Community to manage its currencies in the 1970s, and entered its successor, the European Monetary System. From the start in 1979, the guilder was in the "small margin" of 2.25 percent.

A currency that is too strong can erode a nation's competitiveness. There is certainly awareness of this in the Netherlands. Exporting companies, affected by the devaluations of other European currencies, currently are feeling the pinch. The policy response has been to urge employers and unions to be even more moderate in their wage negotiations, and the government is proposing a nominal wage freeze for 1994. "A strong currency forces you to be more cost aware," concedes Kok, "but thanks to lower than expected inflation it contributes to keep labor costs down. The international economic circumstances underline the need for our policy of wage moderation. "While other EC countries tend to improve their competitiveness with devaluations, the Netherlands opts for a strong currency and relatively low real wages.

—Roel Janssen

Investing in the Heart of Europe

Changing the Uneven Pace of Investment in Central Europe.

By Barry D. Wood

In 1990, Mark Palmer, a former US Ambassador in Budapest, foresaw a wave of foreign investment and early prosperity in post-communist Central Europe. "If you stand in the lobby of the Forum Hotel," he gushed, "you're lucky not to get knocked down. The gold rush is on in Hungary!"

Three years later Westerners still crowd hotel lobbies, but they're as likely to be tourists or consultants as business people closing deals. And while a few of them have struck gold, most have not. The transformation has been deeper and longer than expected. Four years after the collapse of the Berlin Wall, the mother lode of rapid growth and Western-style living standards is as elusive as the fabled El Dorado.

Fortunately, few politicians were as starry-eyed as the envoy turned capitalist. Output was expected to decline for some time, and foreign corporations were seen as saviors. But adjustment fatigue has set in even though the future is anything but bleak. It was hoped 1992 would be the turnaround year. In everywhere but Poland it was not. Even in advantaged Hungary and the Czech Republic, thriving public sectors haven't yet offset the drag of ruptured Eastern trade links and enterprise restructuring.

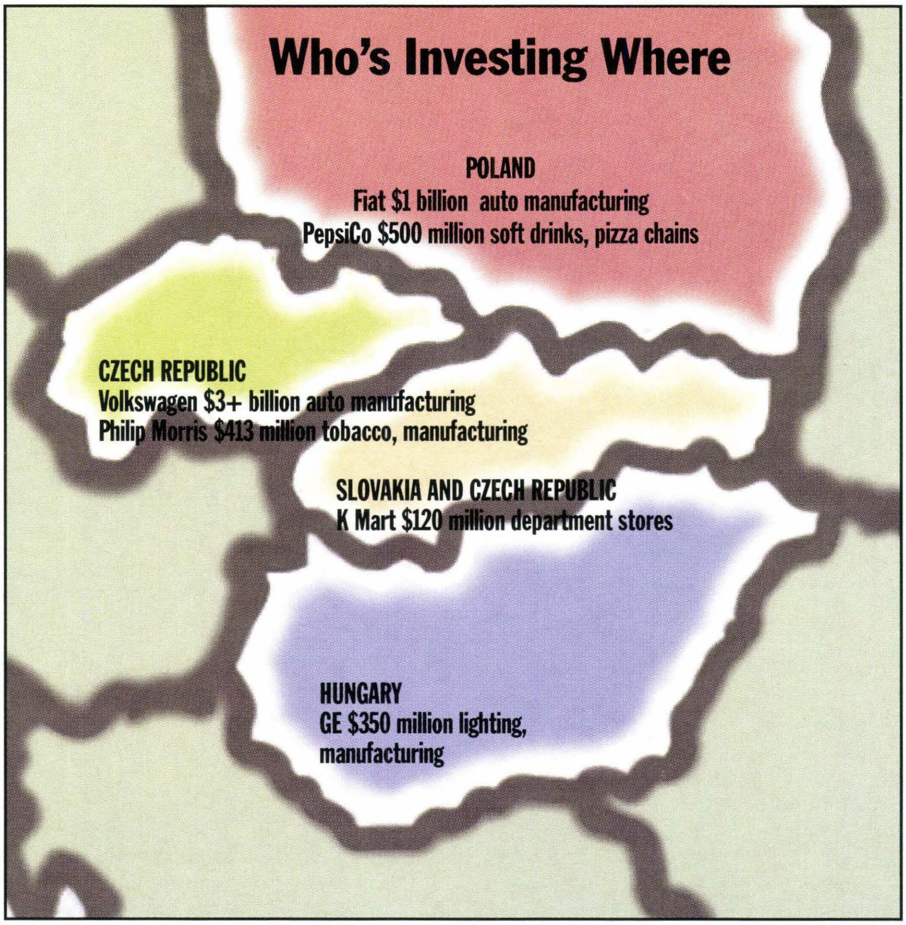
Consider that Mexico with an economy a third larger than Eastern Europe's combined, attracted $15 billion of foreign direct investment last year alone. Central Europe, in three years

In 1990, General Electric spent $150 million for a 50 percent share in Hungary's corporate crown jewel, the Tungsram lighting company. Since then, GE has invested $200 million more in Tungsram.

of post-communism, attracted just $11 billion, virtually all of which went to Hungary, the former Czechoslovakia, and Poland. China, by contrast, received foreign investments worth $9 billion in just the first six months of 1993.

Why has foreign investment lagged? Mainly because privatization has been slow and property rights are often still ambiguous. In September's parliamentary elections in Poland, whether foreigners should be permitted to obtain the country's crown jewels "on the cheap" was a major issue. With 40 million people, Poland is by far Central Europe's largest market.

Jan Vanous of Washington's Planecon consultancy foresees a steady pickup in investment in places where politics are stable and economic policies sound. Mr. Vanous says as Western Europe emerges from recession substantial investments will be flowing into the Czech Republic and Hungary, and increasingly, Poland, even with former communists dominating a new



A Gerber-Alima worker on the Bobo Frut production line at the Gerber-Alima plant near the Ukraine border.

government. As a barometer of Polish confidence, he points to the stunning eight-fold increase in share prices on Warsaw's infant stock exchange over the past year. "Poland," says the Czech-born Mr. Vanous, "is a natural because it is easily the region's biggest economy and a potential gateway to the former Soviet Union."

Poland this year will be Europe's fastest growing economy (5 percent). Thus far, foreign investors have been relatively few, but that is now changing. Fiat is investing over $1 billion in its Polish joint venture. And Sweden's Ikea, which already sources much of its wood from Poland, is putting $55 million into retail furniture stores over the next three years.

These investment decisions are unlikely to be affected by the return of communists to a leading position. Implausibly, but hardly surprising to close observers of the region, one of the first post-election pronouncements of the Democratic Left Alliance was that it will do more to encourage foreign investment, particularly from the United States. America's Gerber Products was one of the first foreign corporations to buy into the Polish market, acquiring the Alima fruit juice company for $11 million in 1991. Gerber's chairman, Al Piergallini, is delighted with the investment, calling it a good deal for all concerned. Alima looms big in Gerber's plans. With $15 million of new equipment in place at its facility near the Ukraine border, Alima, two months ago, began shipping Gerber brand baby food to France. Alima is Gerber's low-cost ticket into the Western European market, where it's had a minimal presence. Says one Gerber executive, "We're looking for more 'Alimas'."

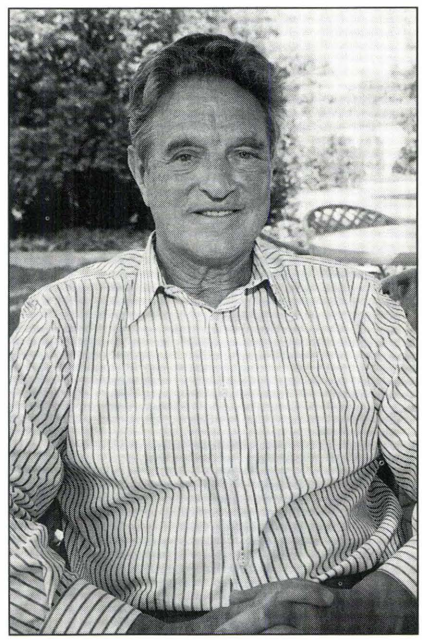
The low-cost export platform to the West concept is best illustrated by General Electric, who pioneered America's corporate prospecting in the former East Bloc just months after the wall came down. In what was then the largest Western investment, GE paid $150 million for an initial 50 percent share in Hungary's corporate crown jewel, the Tungsram lighting company. Its debt and production problems more intractable than first thought, GE has had to pump another $200 million into Tungsram. But the US multinational says Tungsram has turned the corner, posting a profit in the most recent quarter. Its work force reduced by nearly half while production has increased, Tungsram is the capstone in the company's drive to dislodge Philips and Osram from dominance in the European lighting market. Did GE make a mistake in buying Tungsram? "Absolutely not," says CEO Jack Welch, who boasts about production gains and outstanding quality at Tungsram.

But make no mistake, Western businesses aren't having it easy in Central Europe. Forty years of communism created a culture of apathy and corruption that is not easily or quickly undone. There are numerous tales of frustrated employees, who despite hours of training, continue to treat customers with indifference if not contempt. K Mart found that its inherited Czech and Slovak "associates" were unenthusiastic about wearing name tags and providing service with a smile. Likewise, customers were initially confused by having too many choices of similar products. Although Western investors picked off the best companies early on, that could change if conservative governments decide to put their phone companies, public utilities, and banks on the block. Should that happen there's certain to be a new wave of foreign investment, as multinationals compete to essentially buy market share on Europe's last frontier.

Who's ahead in the foreign investment sweepstakes? While the Germans are number one mainly because of the huge $3 billion Volkswagen takeover of Skoda in the Czech Republic, the Americans have been coming on strong and now account for 35 percent of the total. From K Mart to Coke and Pepsi, to Philip Morris and Sara Lee, most of the big ticket investments are American. And with several big deals (including Anheuser Busch's planned return to its roots in Ceske Budejovice) in the offing, that trend is likely to persist. ⓔ

Barry D. Wood writes about economic issues from Washington, DC. His "Looking Toward Tokyo" appeared in EUROPE*'s June issue.*

George Soros



If you're looking for a mover and shaker in post-communist Europe, consider George Soros. The founder of the very successful Quantum Fund, Mr. Soros is among the world's richest men.

Born to a successful Jewish merchant family in Budapest in 1930, Mr. Soros studied at the London School of Economics and became an American citizen in 1961. He has never lost interest in his native land and the struggle to open up closed societies. In 1984 he established his first charity in Europe–the Soros Foundation, Hungary–which today provides $6 million annually for cultural and education activities.

Now in late 1993, his fortune augmented by the over $1 billion gained by speculating against the British pound last September, Mr. Soros has invested $250 million in some 20 Soros foundations throughout Central and Eastern Europe and the former Soviet Union. Activities range from a $25 million allocation to create the Central European University in Prague and Budapest to a $50 million humanitarian foundation for Bosnia-Herzegovina to a $100 million pledge to support scientific research in Russia and the other former Soviet Republics.

Says Mr. Soros, "The more I have the more I can give away."

–Barry D. Wood

EC-Central Europe Ties

With EC membership as their goal, Eastern European economies are pushing ahead.

By Bruce Barnard

Eastern Europe has broken into the global trading system less than four years after it began its unprecedented journey from communism to capitalism.

The remarkable achievements of Central and Eastern Europe have gone largely unnoticed in a Western Europe worried about its own problems, not least the deepest recession in 50 years, the problems of the European Exchange Rate Mechanism, and the tortuous negotiations for a GATT world trade accord.

Eastern Europe has notched up remarkable successes in shifting its trade from the former Soviet Union to the West, launching massive privatization programs and carrying through economic reforms despite the threat of social unrest.

The headlines still concentrate on the setbacks: the ousting of Jacques Attali as head of the European Bank for Reconstruction and Development (EBRD), Volkswagen's dramatic eleventh hour decision to withdraw an $875 million financing package for its Czech subsidiary Skoda, the financial woes of Tungsram, the Hungarian lighting company 75 percent owned by General Electric.

Eastern Europe is still regarded as an economic basket case with most commentators forecasting a 25-year haul to reach West European standards of living in the most advanced economies of Poland, Czech Republic, and Hungary. Bulgaria, Romania, and Slovakia are viewed by some as less hopeful.

Some analysts still fear a social explosion as the shift to a market economy takes its toll on huge swathes of inefficient industry. Despite economic recovery, "political, and consequently economic, crises in the East remain a threat," Credit First Boston warned in a report earlier this year.

The East Europeans themselves are too busy to fret over the downside of their plunge into the market. "West Europe must understand that countries like the Czech Republic, Poland, Hungary, and Slovakia are serious about competition," warned Vladimir Dlouhy, the Czech Republic's Minister for Industry and Trade. "I have a feeling Western Europe isn't prepared for this."

The fate of Eastern and Central Europe hinges on its ability to forge tight economic and political links to the European Community, the giant market of 345 million consumers on its doorstep. The EC Commission has pulled out all the stops to help Eastern Europe to bury its communist legacy, but it still faces stiff resistance from some member states who fear a flood of cheap imports from the East will hurt their domestic producers.

The EC market provides an economic lifeline for Eastern Europe, providing the biggest source of hard currency earnings to finance reforms and revamp a totally inadequate infrastructure.

The EC has signed ambitious trade accords with Central and Eastern Europe and now accounts for 50 percent of the region's trade compared with 25 percent in 1989. But the trade balance is moving in favor of the EC which has transformed a persistent deficit with Eastern Europe until the 1990s into a $1.6 billion surplus in 1991, rising to $2.9 billion in 1992.

The recession has taken its toll on trade relations between the EC and Eastern Europe. The EC has angered its Eastern neighbors by setting limits on imports of sensitive products such as steel, chemicals, textiles, and farm products, the very goods in which Eastern Europe is most competitive, accounting for between 25 percent and 40 percent of their export earnings.

EC Trade Commissioner Sir Leon Brittan is waging a fierce campaign to pry open Community markets to the East, he says, because the hard currency generated will be spent on capital goods from the EC.

"We have to ask ourselves is the Community merely paying lip service to the need to help our Eastern European neighbors or is the commitment real."

Sir Leon's persistence finally paid off last June when EC leaders agreed at their Copenhagen summit to accelerate the trade liberalization timetables in its so-called Europe Agreements with Poland, Hungary, the Czech Republic, Slovakia, Romania, and Bulgaria. Customs duties on industrial goods such as chemicals and autos will be lifted by end-1994, two years ahead of the original schedule, while quotas for farm products were increased.

But the EC remains under intense pressure to curb imports from Eastern Europe. EC steel makers asked the Commission to limit imports from Eastern Europe, claiming they were responsible for a sharp fall in EC prices. The East Europeans were justifiably aggrieved as they ship only 5 million tons a year to the EC, a negligible 4 percent of its market.

Protectionism, if unchecked, could derail Eastern Europe's economic reforms. Trade with the EC is the most important ingredient for the region's prosperity, and despite the claims of the protectionist lobbies, a surge in East European exports would have a minimal impact on the Community. For example, a $1 billion increase in East Europe's shipments to the EC would boost their overall exports by 25 percent while accounting for a mere 0.2 percent of total EC imports.

Eastern Europe has attracted foreign investors seeking to tap the region's pool of cheap and relatively skilled labor. Wages and benefits in the East average less than $1.50 an hour compared with $20 or more in the wealthier EC countries.

Western companies tripled the number of ventures, start-ups, and purchases in the region to 979 in the six months to the end of March from 374 in the previous six months with the value of deals, excluding oil and gas investments, rising to $11.2 billion from $8.5 billion, according to the New York-based *East European Investment* magazine.

For some Western companies investment in Eastern Europe has become part of their growth strategy. ABB, the Swiss-Swedish engineering giant, for example, employs more than 20,000 people in Eastern Europe; Philips, the Dutch electronics group, is aiming to generate 5 percent of its sales in Eastern Europe by the end of the decade; Electrolux, the Swedish home appliance maker, rang up East European sales of $290 million; Deutsche Telekom of Germany, the UK's Cable & Wireless, and Ameritech International of the US have joined forces to bid for a stake in Matav, Hungary's soon-to-be privatized telecommunications monopoly.

Foreign investors, however, are bit players in Eastern Europe's drive to a market economy. The EBRD and the European Investment Bank, the EC's long-term financing arm, have lent just $1 billion for telecommunications projects in Eastern Europe in the past two years, a drop in the ocean compared to the $100 billion reportedly needed to bring their telephone networks up to West European standards.

Indeed, Eastern Europe remains way down the foreign investment table despite its enormous potential as a cheap export base into the EC. It received a mere 1–2 percent of Gross Domestic Product in foreign financing in the last three years, while Latin America has seen record inflows of foreign investment and Asia has been borrowing heavily in international capital markets, notes AMEX Bank.

The immediate outlook is brighter, but capital flows will still be limited at around 3–4 percent of GDP, the bank says. As a result, Eastern Europe, can only grow by exporting, mainly to the European Community.

The signs are hopeful. Poland has been transformed from an economic basket case four years ago into Europe's fastest growing economy in 1993. The Czech Republic is launching its second privatization program involving shares in 770 firms worth an estimated $5 billion.

The going will get tougher, but Eastern Europe is within sight of a functioning market economy. The Czech Republic is setting the pace with its low inflation and unemployment rates and rapid privatization. "There are good prospects that from 1995 or 1996 it will post growth rates running two to three percentage points above the West European average," according to Austria's Giro Credit Bank AG.

Indeed, the Czech Republic has the potential to turn into an economic tiger like the Southeast Asian countries of South Korea, Taiwan, Hong Kong, and Singapore by the turn of the century. That's when the East Europeans plan to submit their membership applications to the Community. ⓔ

Bruce Barnard, based in Brussels, is a contributing editor for EUROPE *and covers economic and financial issues for the* Journal of Commerce.

Poland's Competitive Edge

Emerging from an economic tailspin Poland appears set to become a guiding light on the Central European horizon.

By Elizabeth Pond

After two centuries of foreign domination and four years of upheaval, Poland is surging toward modernization, democracy, and the free market. The country is being transformed, economically, psychologically, and even politically.

The surprising election victory by ex-communists in September, only a few short years after they were routed from office, tests—but does not negate—the trend. Ironically, the victory by the Left Democratic Alliance (SLD) may even help strengthen Warsaw's drive, as it is often described here, to become real Europeans. Problems abound, but tentative success is already visible.

Economically, Poland is the first Central European country to come out of the tailspin that hit all the former Soviet client states as they burst out of the Communist system in 1989. Gross domestic production, helped by the dynamic private sector that by now constitutes more than half of the total, is expected to grow by over 5 percent this year, says Grzegorz W. Kolodko, Director of the Finance Ministry Research Institute. The value added tax, introduced without a hitch last summer, should help shore up the budget and keep it close to stringent IMF deficit limits.

Western brand names, like McDonalds, are becoming more and more familiar in Poland.

Huge problems remain, of course. On the micro level, ordinary citizens chafe at waiting eight years to get a telephone—and at seeing the lavish embezzlement that the fledgling financial police fail to stop. On the macro level, privatization and restructuring (or closure) of the old rustbelt industrial behemoths has hardly begun. Real commercial banks have not yet been established. Foreign investment has been sluggish, in part because of strictures on foreign ownership of land and real estate. Western investors will probably hesitate further until they receive assurances about fiscal responsibility and stability from the new government. All told, Kolodko sees enough fragility in the present growth to doubt if it is yet self-sustaining.

Nonetheless, it can be argued that Poles have already psychologically accepted the alien new world of individual bustle and competition. For the first time, the country's exhaustive opinion polls reveal, most people chalk up success to talent and hard work rather than to personal connections. It would be premature to read into this the full advent of the Protestant work ethic, but harbingers are there.

Politically and socially, the changes are more controversial. To be sure, the new entrepreneurs are rapidly constituting the middle class that is essential to sustain democracy. The new election, as it was designed to do under legislation setting a minimum 5 percent of the vote for entry of single parties into the Polish Parliament, the Sejm, reversed the fragmentation of 29 parliamentary parties in the last two years and gave seats to only six (plus ethnic minority representatives). And even in the old Sejm, politicians of very different persuasions overcame the old Polish preference for confrontation and martyrdom over compromise. Remarkably, they held their noses and cooperated with each other, and successive ad hoc coalition governments somehow held to the painful austerity and "shock therapy" that everyone now agrees—ex-communists included—is the only sensible course. Furthermore, while voters flirted a few elections back with demagogues like unknown émigré Stanislaw Tyminski, they have in the end elected responsible candidates. They have not yearned for a strongman of the ilk of Josef Pilsudski, the popular leader in Poland's two short decades of (non-democratic) self-rule between the two world wars.

Yet even the six parties that were elected this fall are hardly coherent parties in any Western mold. They still consist largely of would-be leaders and their cronies, and they tend to squabble with each other in ways that offend the populace. Nonintervention by the government in the market—the key platform of the liberal architects of shock therapy—is equated by many with a license to empty the till into private pockets; the graffito "thieves" appeared frequently on the liberals' billboards, and the liberals failed to get re-elected. Nor is there any fallback for mistrust in Parliament and parties in traditional institutions like the once sacrosanct Roman Catholic Church. Trust in almost all public institutions, including the church, is low; currently the highest popular rankings go to the police and military.

Most seriously, as protest votes for the ex-communists and their peasant allies in the September election suggested, the economic upswing has so far failed to convince the majority of Poles that the present economic pain really will lead to future well-being. The north and west of the country are profiting, as are major cities; but the unskilled rustbelt workers and the peasant smallholders in the south and east see themselves primarily as victims of unemployment and cheap European Community food imports. Analysts estimate that, overall, 20 percent of Poles are doing well, 20 percent are doing poorly, and 50 percent have not yet decided whether they are winners or losers in the new free-for-all.

As of this writing it is not yet clear whether the SLD and the Polish Peasant Party (PSL), which together captured 35 percent of the vote for almost a two-thirds majority in the Sejm, will form a leftist government. If they do, conventional wisdom holds, they will yearn for respectability, continue with only small modifications of the austerity policy that is beginning to pay off—and claim the new economic growth as their own success. This, in effect, is what SLD leader Aleksander Kwasniewski has been preaching to doubting reporters ever since the elections.

Certainly, it is what Solidarity trade union officials fear; men like Mazowsze Region Chairman Maciej Jankowski charge that the SLD represents not the workers, but the managers that so many of the old Communist Party apparatchiks have turned themselves into.

Some of Kwasniewski's opponents worry, especially the Solidarity veterans who overthrew the Communists in 1989 and founded the Democratic Union that ran a poor third in September with only 11 percent of the votes. A few even warn of a possible "constitutional coup" that would change the democratic rule since the new constitution remains to be written. More express concern that the young Kwasniewski and his counterpart in the PSL, Waldemar Pawlak, may not be able to control their less pragmatic followers in Parliament, or perhaps even the frustrated pensioners, unskilled workers, and parochial single-issue farmers who form their constituencies.

The optimistic scenario is that the new left will increase social welfare enough to assuage resentment over inequities among the poorest—but not enough to break the budget and reintroduce hyperinflation. It will not resort to printing money, but it will try to improve revenues—and the popular image of equity—by collecting taxes from the many new businessmen who make a sport of evading them. In the process, it will demonstrate that a change of government works and that the old Solidarity intellectuals are not the only ones who can run a government. With luck, it might even push the Solidarity intellectuals, the liberals, and other moderates together to form a coherent center-right alternative to the left coalition.

If so, the scenario continues, steady growth, the slow creation of new jobs, and a general rise in the standard of living should help give that uncertain 50 percent a crucial stake in the system. Ultimately, Poland could lead Central Europe into joining the relatively new system of cooperative peace and well-being on the continent that Western Europeans already take for granted.

Elizabeth Pond is the author of Beyond the Wall: Germany's Road to Unification *published recently by Twentieth Century Fund.*

Inside
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AN EASTERN EDUCATION

When Yehuda Lukacs wanted his students from American University in Washington, DC, to understand the concept of change in the former Yugoslavia, he took them on a field trip. The 1991 Dubrovnik visit turned out to be the last look any foreign student group would have of the area before mortar shells scarred the landscape and civil war divided the country.

Lukacs' students are among an increasing number of Americans who forego the traditional semester in Paris or London in search of a Central or Eastern European education, in the Czech Republic, Hungary, Poland, or other former Eastern Bloc countries. They are political science, journalism, history or even film majors who descend on nascent democracies often knowing little of the culture or the language.

"I think those who go to Eastern Europe and the former Soviet Union are definitely interested in experiencing the changes," Lukacs said. "They are willing to experience some difficulties and hardships."

Valerie Tate, who concentrated on international studies at American University, said her semester in Budapest two years ago proved a two-fold learning experience. Not only did she better her understanding of life in the former communist country, but the visit also gave her a new perspective on the United States. "It was amazing to see people starting to set up these institutions we take for granted. It certainly made you appreciate this country," she said.

Despite the growing interest in Eastern Europe, many schools have found that setting up their own programs is difficult without a sizable budget and contacts in the countries. The Council for International Educational Exchange (CIEE), a New York-based organization that has offered study abroad programs since 1947, created a consortium of several schools interested in Eastern European programs three years ago. The group met with a few stumbling blocks in its first few semesters, according to John Meyers, of CIEE. "A lot of the foreign student offices we were working with were undergoing a bureaucratic cleansing," Meyers said.

But the programs have taken off. Ten new schools joined the consortium last year, and CIEE has sent some 300 students to universities in Prague, Budapest, and Warsaw, according to Meyers. Students need not attend a consortium school to take advantage of the program but may register through a feeder school and then transfer credits to their own universities.

Of the three CIEE programs, by all accounts, it is Prague that entices the most Western students. Many liken the city to the Paris of 25 years ago with an impatient, yet optimistic exchange of revolutionary ideas. Jean Fallis, who directs Syracuse University's (NY) foreign study programs, said visible successes brought about by these ideas also attracts American students.

"Prague is at a situation economically where it is moving into the nineties as far as getting its economy on track. The rate of change in Poland is much slower," Fallis said.

Each of the programs, whether sponsored by CIEE or individual universities, offers language courses along with liberal studies or specialized programs in subjects such as regional affairs or business administration. Some, like American University and George Mason University, in Virginia, offer an additional component: an internship. Professor Lukacs, now at George Mason, believes this aspect of a study abroad program can give graduates an edge when they begin a job search. "Today that's essential when students who have a BA are a dime a dozen," he said.

Young adults who want first-hand experience in Central and Eastern Europe without an academic program might consider summer work programs, also coordinated through CIEE. The two-to-four-week tours bring together an international team of volunteers to focus on a project such as the environment, renovation of a historic site, or social work. CIEE charges between $135 and $170 for participants. Room and board are provided as a part of the program, but airfare is not. Although 18 is the minimum age for the work programs, each country differs on its upper age limits.

The United States government also sponsors programs and grants for Central and Eastern Europe that apply to most age groups and educational levels. Graduate and doctoral candidates can receive grants to carry out research projects through programs such as the Fulbright Program, which is organized through the US Information Agency.

Students and teachers have traveled to Eastern Europe for several decades on Fulbright grants, but the past few years have seen those programs expand, according to Larry Plotkin, of USIA. "We have a good deal of interest throughout the region partly depending on the political interest of the country. A person like [Czech Republic President Vaclav] Havel does a lot for the image of a country," Plotkin said.

The program, which was established in 1946 to improve relations between citizens of the US and other countries, offers approximately 1,000 awards to American students and professionals yearly. Applicants can propose self-styled programs of study, or they can apply for specific awards that usually are designed by the host country. Poland, for instance, is offering lecturing opportunities in economics, philosophy, business administration, law, and library sciences. The grant generally covers travel, living expenses, and tuition with additional benefits varying by country.

Some of USIA's other short-term or extended programs in Eastern Europe include: John Marshall fellowships for graduate students and young professors; the Samantha Smith Exchange, a youth- and undergraduate-level exchange with Eastern European schools; and the Eastern European Initiative Lectureships for professionals in business, the media, and curricula development in law, history, sociology, science, and public administration. The organization also helps individual universities establish exchange programs with Central and Eastern European counterparts.

Veterans of tours of the region admitted that the somewhat spare living situation requires an initial adjustment on the part of visiting Westerners. But Professor Lukacs said he hoped an extended stay might encourage students to further their interest in the area's languages and cultures beyond their college years. "I tell my students that the experience they have overseas you can compare to a snapshot," he said, "A couple of years later if you take another picture it will be totally different. It's up to them whether they want a photo album or just a snapshot."

—Christina Barron

PEACE CORPS NOTEBOOK

There's a new Peace Corps today. While still funded, organized, and sent around the world by the US government, its destinations now include Central and Eastern Europe and the former Soviet Union nations as well as the developing countries of Africa and Latin America.

Today, there are more than 900 Peace Corps volunteers on two-year assignments in Albania, Armenia, Bulgaria, the Czech Republic and Slovakia, Estonia, Hungary, Kazakhstan, Kyrghyzstan, Latvia, Lithuania, Moldova, Poland, Romania, and Uzbekistan, as well as Russia and Ukraine. And agreements are being developed with Belarus and Turkmenistan.

"In the past, the Peace Corps has been known for building irrigation systems; today's Peace Corps volunteers are known for building financial systems, distribution systems, and legal systems," said Elaine L. Chao, who was Peace Corps director until the end of 1992. "We are recruiting highly skilled business professionals to address the challenges of privatization."

A Chicago banker is in Warsaw helping a Polish ministry privatize state-owned companies.

Two environmental consultants are in Ostrava, Czech Republic, helping the local government deal with massive pollution from coal mining operations.

A management consultant helped a Polish regional government conclude a $10 million agreement with Levi Strauss to build a manufacturing plant.

College professors are training teachers at a teachers college in Poland.

Other Peace Corps volunteers in Poland organized and hosted conferences on banking and tourism in Warsaw and opened the Free Enterprise Consortium in Krakow, which provides training sessions on privatization and free enterprise.

In Plovdiv, Bulgaria, Peace Corps volunteers helped organize and spoke at an international trade fair designed to interest individuals and businesses in establishing enterprises in Bulgaria.

In Russia, volunteers, work from Small Business Centers located in Saratov, Vladivostok, and other regional capitals and economic centers. They provide classroom training and consulting services to new businesses, helping entrepreneurs with accounting, cash management, marketing, and other aspects of running successful businesses. They also review business proposals from foreign investors for local officials.

The Peace Corps began moving into the former communist nations of Central Europe in February 1990 in response to requests from the new governments. Then, with the May 6, 1992 signing of an agreement between President George Bush and Ukrainian President Leonid Kravchuk, the first Peace Corps program was established in a former Soviet Union republic. Exactly six weeks later an agreement establishing a Peace Corps program in the Russian Federation was signed.

This new Peace Corps, and the challenges of helping for-

GERMAN HIGH COURT APPROVES MAASTRICHT

Germany's Supreme Court approved the Maastricht Treaty on European Union on October 12, giving the EC the green light to go ahead with its planned political and economic union. Although the German Parliament approved the Treaty last year, the court had to rule on its constitutionality after 20 lawsuits were brought against it.

In their decision, the eight Federal Constitutional Court judges expressly approved the creation of a single currency, although they reserved the right to review the progress of integration at a later date in order to ascertain whether the union respects the democratic guidelines of the German constitution, stating that "Germany is not subordinating itself to an unclear and automatic mechanism toward currency union which it cannot steer." The judgment also responded to fears of loss of sovereignty by declaring such concerns "unfounded."

The decision was immediately welcomed by Belgian President Jean-Luc Dehaene, EC President Jacques Delors, and the British Foreign Office.

WHAT THEY SAID....

"We have a lot to lose if the job is not done by December 15. Failure means we lose everything."
—Peter Sutherland, Director General of GATT, in The Wall Street Journal *referring to the deadline for completing the Uruguay Round.*

"The European train is back on track."
—Klaus Kinkel, German Foreign Minister, after the German Supreme Court declared the Maastricht Treaty compatible with the German constitution.

"The only choice left to us is the choice between a just war and an unjust peace."
—Alija Izetbegovic, President of Bosnia and Herzegovina, on a plan to divide Bosnia into three ethnically based mini-states.

"Europe needs the United States, but the US also needs a united and integrated Europe with economic and political stability."
—Egon Klepsch, President of the European Parliament.

mer authoritarian, government-controlled economies develop into democratic, free-market economies, created a rebirth of interest in the Peace Corps. When the move into the former communist nations was announced, phone inquiries from potential volunteers increased from an average of 200 per day to more than 1,200.

The Peace Corps' goals in these newly democratic nations are to help finance privatization of state-owned industries and develop new small businesses; reduce environmental damage; aid agricultural modernization; train business leaders in accounting, management, marketing, and distribution; and assist with other economic reforms to help build the infrastructure of a modern free-market economy. These are all areas of expertise that the former communist countries requested.

With the new goals and destinations has come a new volunteer, markedly different than those still going to Africa and Latin America.

While the average age of today's Peace Corps volunteers is 31, for those going to the former communist nations the average age is 37, and for those in small business development the average age is 41. Many have MBAs and left successful careers in mid-stream. In fact, the Peace Corps is seeking volunteers with MBAs or at least five years of work experience as economists, accountants, bankers, and specialists in agribusiness, business planning, management, marketing, and privatization.

And rather than work in small villages as highly visible representatives of the United States, these volunteers are working behind the scenes, and not as representatives of America.

"I'm there to represent Poland's interest. I'm working on behalf of the Polish government and its national investment funds," says Lawrence Michel, a former Chicago banker who now works as an investment fund coordinator in Poland's Ministry of Privatization. "This is a frontier. It pushes me to the limit every day. They're testing everything."

He and other Peace Corps volunteers in Warsaw developed a 30-page questionnaire to be filled out by the 600 companies initially targeted for privatization. The questionnaire seeks such details as the amount of debt a company carries, who is responsible for repaying it, and the likelihood of getting the funds. All of this is information the companies never had to consider when they were government-owned.

"We're trying to provide information that is meaningful to investors," Michel explained, while on leave back in Chicago where he had worked with Fortune 500 firms, providing cash management services as a product manager at Harris Bank. Michel says that company managers and business entrepreneurs recognize and understand the problems they face in trying to privatize companies and develop new businesses in a new and changed economy. "They just have no clear thought of how to overcome those problems. They need assistance in facing a situation they never faced before."

—Jerry DeMuth

Business Briefs

Chrysler, the US car maker, plans to build nearly 50,000 Grand Cherokee jeeps in Austria in 1994.

This marks another push into Europe by Chrysler which unlike Ford and GM does not have manufacturing plants in the continent.

The Cherokee will be made at the Steyr-Daimler-Puch plant in Austria that has been making 20,000-30,000 Chrysler minivans since 1991.

Chrysler's sales in Europe surged 48 percent in the third quarter of 1993.

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Whirlpool, the US domestic appliances maker, hailed a particularly strong contribution from its European operations for producing record third quarter income of $70 million, a gain of 27 percent on the $55 million net earnings in the year earlier period.

In Europe, we continue to defy what, at best is a sluggish environment, said **David R. Witwan**, Whirlpool's Chairman and Chief Executive.

Whirlpool moved into Europe in the late 1980s with the $1 billion purchase of the domestic appliances division of **Philips**, the Dutch electronics giant.

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French state-owned insurer **Union des Assurances** (UAP) steamrolled into the German market by taking control of **Colonia Versicherung AG**, the country's third largest insurer, from **Compagnie de Suez**, the Paris-based banking group.

The deal, valued at 24 billion francs ($4.3 billion), ended three years of bitter negotiations and maneuverings between UAP which owns 34 percent of Colonia and Suez which owns nearly all the rest.

The acquisition will enable UAP to catch up its domestic rival **Assurances Générales de France** and the state-owned bank **Crédit Lyonnais** which have built up German operations.

The deal also clears the way for UAP to be privatized within the next two to three months.

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European car makers, facing a protracted slump in their domestic markets, are eyeing increased sales and even production, in far flung overseas markets.

Peugot Citroën of France is mulling an expansion of an assembly plant in Canton, China, that will boost output to 160,000 Peugot pickups a year from 45,000 at present.

The company also has a plant at Wuhan that currently builds 37,500 Citroën cars a year, a figure that could rise to 150,000 by the end of the decade.

Peugot Citroën Chairman **Jacques Calvet** says that by the year 2000, 25 percent of production should be outside Europe, compared with 12 percent at present.

German car makers, struggling to cut costs at home and fight off Japanese competition in the US, have intensified their sales efforts in Southeast Asia, the world's fastest growing car market.

Volkswagen hopes to double output at its Shanghai plant to 220,000 units by the end of 1994 and aims to be manufacturing nearly 700,000 by 2000 when it estimates the domestic car market will total 2.5–3 million.

Mercedes-Benz took a 5 percent stake in **Ssangyong Motor Co.**, South Korea's fourth largest car maker in a deal that will allow it to assemble 50,000 Mercedes vans and 100,000 engines. The South Korean company will start manufacturing and exporting 50,000 cars based on Mercedes components in 1996.

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The choice of a US partner was the final sticking point in negotiations to merge four European airlines to create a $13 billion-a-year carrier with a fleet of 290 planes.

KLM Royal Dutch Airlines had resolved other key issues, including the choice of headquarters and the distribution of senior management posts by early November.

But differences over a US airline were threatening to scuttle the merger. KLM was pushing for **Northwest Airlines** in which it has a 20 percent equity stake, **Swissair** was insisting on **Delta Air Lines Inc.** with which it has a 5 percent cross shareholding, and **SAS** was promoting **Continental Airlines** in which it has invested $100 million.

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Guinness is linking up with its French partner, the luxury goods firm **Moët Hennessy Louis Vuitton**, to sell liquor in China. The companies are setting up a joint venture **Riche Monde China** to sell their best-known brands such as Guinness's whiskies, including Johnnie Walker, and LVMH's Hennessy cognac.

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The United Kingdom's 18 privatized electricity utilities, facing a regulatory squeeze on profitability at home, are expected to invest at least $2 billion overseas in the next five years.

The companies have already earmarked $400 million of overseas spending and are eyeing more projects in Western Europe and the United States.

The investment drive is being led by **National Power** which plans to invest around $1.5 billion abroad by 2000 when it expects between 10 percent and 20 percent of its earnings to be generated from foreign operations. It recently spent $160 million on **Tevo**, a utility which owns power plants in the Southeast of the United States.

The privatized gas and telecommunications sectors have already branched out abroad. **British Telecom**, privatized in 1984, spent $4.3 billion last June on a 20 percent stake in **MCI**, the US long distance telephone company, while **British Gas** has spent more than $1.7 billion on foreign exploration and production assets since it was sold to private investors in 1986.

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The United Kingdom leapfrogged six places to top Europe's cross-border takeover rankings in the first nine months of the year with 160 deals against 158 for the whole of 1992.

But the number of deals in Europe declined sharply, reflecting the economic recession, with foreign acquisitions by German companies expected to fall by 50 percent in 1993.

—*Bruce Barnard*

Inside Europe

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Aleksander Kwasniewski and Waldemar Pawlak

"ALEXIS THE ELEGANT"—as leader of the Left Democratic Alliance Aleksander Kwasniewski is nicknamed—is no firebrand who is going to lead Poland back to the bad old days of Communist rule.

Nor is the nattily-dressed farmer's son, Waldemar Pawlak, the leader who carried his ex-communist satellite of the Polish Peasant Party (PSL) to second place behind the ex-communist Left Democratic Alliance (SLD) in the September election.

"Don't worry," was Kwasniewski's refrain in the week after the election, in Polish and in his serviceable English, to be followed instantly by the appropriate denial of the moment: "We're not Communists; we're Social Democrats." Or "We're not going to drain the well dry." Or "Whoever still supports a centrally planned economy must be an idiot."

"Calm," "sensible," "not abrasive," and "the new breed" are among the words Poles use to describe these two potential allies in any left government. Both are young, in their late 30s. Both yearn for legitimacy, according to conventional political wisdom in Warsaw. In government, both would basically want to continue the tough economic reforms of the past four years and claim political credit for what is now the fastest growing economy in Europe.

Kwasniewski "is intelligent, elegant; he very much wants to be accepted," says Mariusz Ziomecki, editor of the business weekly *Cash*. "Those guys are craving for (a good image) in Brussels, Paris, New York. I think they will bend over backwards to please." Kwasniewski in particular "has a good feel for what it takes to be accepted or perceived as a classy statesman."

Certainly both men have made a good impression so far. Kwasniewski first caught Polish Communist leader Wojciech Jaruzelski's eye when he successfully edited a youth newspaper in the late 1970s and was appointed Minister for Youth and Sport. Jaruzelski liked the young man because he was "decisive when Jaruzelski was not, witty when Jaruzelski was not, and outspoken when Jaruzelski was not," notes *Nowa Europa* columnist Karol Szyndielorz, a sometime colleague and neighbor of the potential Prime Minister. Kwasniewski went on to play a role in the 1989 Round Table discussions with Solidarity that led to the Communists' sensational surrender of the party's monopoly on power. At the time, one of his rueful asides about the interminable Round Table meetings was, "I knew we had to give up power, but I didn't know it would be so boring."

Kwasniewski is widely credited with having the most smarts among rising politicians. "He is not a doctrinaire. I don't know if he believes in anything, but he is a clever operator. He is intelligent, elegant," comments Ziomecki, who points out too that the ex-communists had some of the best records for responsible, hard work in committees and on legislation in the last Parliament. Szyndielorz agrees that Kwasniewski "has a degree of cynicism concerning the essence of the power game." He is a "power technocrat, but a fast learner," adds *Polityka* columnist Adam Krzeminski.

Aleksander Kwasniewski (pictured above right) and Waldemar Pawlak led their respective parties—the Left Democratic Alliance and the Polish Peasant Party—to first and second-place finishes in the recent Polish elections. Pawlak was recently named Prime Minister in the new coalition government.

Nobody uses the word "charisma." But Szyndielorz does state that Kwasniewski performed well on the televised campaign debates "because he was not as aggressive as most. He more or less had a position as an underdog... and he was smart enough to take a young banker along, who said just what they want to do. He could show that the SLD supported most of the reforms; it was not anti-reformist."

Pawlak, who has a much less mobile face, does not communicate to an audience as well as Kwasniewski. He is regarded as steady and sensible, however. He gained in stature during the month's interregnum in the summer of 1992 in which President Lech Walesa was proposing him as Prime Minister. And for his primary constituency, "for most farmers, it is important that his father is a farmer and a good farmer," comments Szyndielorz.

In sum, as one young SLD voter who regarded the Solidarity generation as old-fashioned phrased it, the SLD politicians "are Europeans."

—Elizabeth Pond

Czech Republic Ambassador to the United States

Michael Zantovsky

Czech Republic Ambassador to the United States Michael Zantovsky was interviewed by EUROPE *Editor-in-Chief Robert J. Guttman. The Ambassador discusses the new Central Europe, EC–Czech relations, NATO, and the war in Bosnia.*

Is one of the top policy goals of the Czech Republic to become a member of the EC?

Yes, it's one of the basic goals of our foreign policy. It's a stated goal, and it hasn't changed.

What would becoming a member of the EC do for the Czech Republic?

There would be a number of benefits, and also obviously costs associated with the benefits. On the economic side, the benefit is obvious. It would open up for us a market of 300 million people.

We have had some difficulties entering that market. We have been traditionally an export country. We lost most of our trade, which went on under the communist system, with the former Soviet Union and other countries of the East Bloc. More than 60 percent of all our exports went to the Soviet Union and other countries. We have managed to turn that around, so now more than 50 percent of our exports go into EC countries, and exports are steadily growing. But there's still a lot of room for expanding our exports, and doing away with existing barriers would help our economy. There are political benefits that we expect our accession to the EC would demonstrate, in a very practical sense, that we are now a part of Europe, not a part of Eastern Europe, but a part of Europe, period. And we are part of a European structure, which is a structure which shares certain ideas of political systems, of economic systems, of thinking in the field of security, although the EC in itself is not a security organization. It also deals with some of these issues, and by the Maastricht Treaty it intends to become a political union in not so distant a time, and we want to be a part of that union.

When do you see, realistically, becoming a member of the EC?

There are two aspects to that. One is—when are we going to be ready—because there has to be a certain level of economic development; there has to be adaptation of the legal system; and this consists of hundreds and thousands of practical tasks that have to be resolved. But we feel confident that we shall be ready in a few years, and by "a few years" I mean not more than five.

The other aspect of the question is whether the EC is going to be ready. That has to do with the internalization of the Maastricht documents and with the absorption of new members that will come ahead of us and that also will take some time and will require some modifications in EC procedures and structures. We hope that the two processes will coincide at roughly the same point, and we certainly think both sides should be ready before the end of the century.

Do you have any complaints against the EC at the moment on any trade barriers?

The EC and Europe in general are undergoing somewhat difficult economic times, and it's not all that surprising that in these times some members of the EC tend toward more protectionist practices. We believe that this is not in the best interests of the EC in the long run, in particular with regard to the countries of Central and Eastern Europe. We have experienced some problems with our steel exports; we have experienced some problems with our agricultural exports. We are talking to the EC and to its individual members about the problem and again the conclusions of the Copenhagen meeting were quite encouraging on that subject. The EC has pledged to remove most of its barriers to our exports. If problems arise, we have to deal with them one by one and not get emotional about them.

Would you like to become a member of NATO?

This is a stated goal of our foreign policy, and we believe that it is in our best interests to become a member of NATO. We believe it's in NATO's best interests because it would help incorporate a new part of Europe as part of a stable structure that has preserved peace in Europe for almost 50 years. And we think that the chances for that are better now than they were several months ago. We are satisfied with what Mr. Yeltsin said during his visits in Warsaw and in Prague that Russia is not going to object or interfere with the attempts of Poland and the Czech Republic to join the Atlantic Alliance. And we have also registered statements and opinions on the other side of the Atlantic about the need for NATO to act on this now.

Now that Czechoslovakia has split into the Czech Republic and Slovakia, how are relations between the two countries? Has it been an amicable break-up, or has it been like a divorce?

It certainly had the makings of a divorce. It was an amicable divorce as much as any divorce can be, but even the most amicable divorce is a painful process. There certainly was some pain involved in the process. In view of the difficulties associated with such a move and the risk associated, I think it has gone very, very well, and now nine months later we still speak to each other. We still discuss and find solutions to some minor problems that had not been negotiated right in the beginning. We are still good neighbors.

It seems like countries are breaking up and going different ways, but do you ever see any kind of union again with Slovakia?

I don't think the possibility can or should be excluded. In my view, the centrifugal forces at this point and place in history were just strong enough to dissolve the union, but at other times we could easily get closer together. I would not want to prejudice the format or the time of that happening, but it's perfectly possible, even more for the fact that we again—and that I consider very, very important—will have no old grievances, or no claims on territory to refer back to.

Do you ever worry that Germany will become too dominant in your country?

Not necessarily. If you look at countries comparable in size and location to our country, like the Netherlands or Switzerland, you can't say that they are economic outposts of Germany nor are they likely to become such outposts. It's a matter of first, cooperation, and second, future integration in which we can become partners with Germany in Europe. Of course in all likelihood the German economy will remain influential in our country as in other parts of Europe, but that doesn't mean it will take over the country. And if you look at some of the data in 1991, when the foreign investments started to flow into then Czechoslovakia, more than 80 percent of it came from Germany. That did make some people worried about the balance of things, in that you don't want to put all your eggs into one basket. But last year, the United States was the biggest single investor. The US overtook Germany last year, and for the first four months of this year, investment from the United States accounted for more than 70 percent of the total. In absolute terms, we don't think that Germany will become the only strong factor in our economy. We think our economy is attractive enough for more than one country to invest.

How would you describe the Czech economy today?

I would describe it as in good shape. The data seem to corroborate that. Even after the split, we still expect a zero plus economic growth this year. Before the split we already expected 2 to 3 percent growth, but there were some costs associated with the split. Inflation is under control. The unemployment rate is probably the lowest in Europe with 2.7 percent. The budget is at a small and healthy surplus, and our external indebtedness is negligible compared to other countries. Privatization is going very, very well. We are just starting with the second wave of privatization, and early next year we will have privatized more than 80 to 85 percent of all the state holdings. If you consider that Czechoslovakia was one of the countries with the highest proportion of nationalized property, exceeding 95 percent, it's some achievement in itself. Our currency has been bedrock stable for the last three years. It hasn't moved an inch with respect to the dollar or the D- mark. That is not to say that we have nothing to worry about or no economic problems. But it says that we can build on a very solid, very, very stable basis.

You mentioned that the US is your largest investor. What kind of companies are coming over there?

That would be imprecise. I said it was the largest investor last year, and certainly for the first part of this year. Long-term, it's still second to Germany with over 30 percent of the total, whereas Germany is close to 40 percent of the total. We're talking about Coca-Cola, Philip Morris, K-Mart, Ford, and other engineering and automotive companies. We have Procter and Gamble, and hotel chains, and aerospace, and communications.

What's Vaclav Havel's role these days as President?

He's the President of the country with clearly defined constitutional responsibilities and a role. His role may not be as important in the day-to-day running of the country as the role of the government is. That's how the constitution is written. But it is a role which is very important in the checks and balances of the constitution, and it's also a role that's essential for possible constitutional crises or situations when the role of the head of the state is required by the constitution. He is also a moral authority for the people of the country, and not just for them, I mean he's a well-respected moral authority everywhere around the world. He's constitutionally charged with negotiating international treaties and agreements, so part of his role is in the sphere of foreign policy. He is the Commander-in-Chief of the armed forces. He has veto power over the laws adopted by the Parliament—which has to vote on and pass them again, then by qualified majority. So it's not a symbolic role by any means.

What is the solution to ending the fighting in Bosnia?

This has been going on for so long that everybody is short on solutions. It's hard to think of a comprehensive solution at this point that would resolve all the problems in the area, but it's imperative that the fighting has to be stopped, both for the sake of the people living in the former Yugoslavia and for the sake of the rest of Europe, because it is a potentially destabilizing factor. And the international community should act more forcefully in stopping this conflict than it has done so far.

Do you fear that the war could spread?

There are several scenarios whereby the war could spread. It could spread to Kosovo; it could spread elsewhere. We are European so we are not likely to forget that one world war has started in the region. But it's not just about geopolitics; there's also a more dangerous way this conflict could spread which transcends borders and neighbors, and that would be the acceptance or adoption of some of the political principles used in fighting—like ethnic cleansing and mass deportations of populations—that would be extremely dangerous if they were used in other parts of the world.

Looking back, are we going to see that Communism was an aberration or how would you define the years that Communism ruled your country and the other countries of Eastern Europe?

Communism was an aberration away from the perfectly natural longing of people for justice and equality. But it was an aberration in that it was based on a flawed analysis of an early stage of capitalism, and it was politically based on matters which were counter-productive to the very aims that the system professed to follow. Thus, it had to collapse and collapse it did.

Do you see it ever having a foothold again in Eastern Europe?

There's always some audience for messianic teachings of any kind in Europe and elsewhere. But I don't think that this particular dogma of Marxism can ever regain a foothold in Eastern Europe.

Is the term "Eastern Europe" out of date now? How would you call your area of the world?

It's Europe. The name of your magazine.

There's no more Eastern Europe, or no more Central Europe?

The term "Eastern Europe" has never been used with respect to my country except during the 40 years of communism. That was a political, not a geographical, specification. If you realize that Prague is a good 200 miles west of Vienna, there's nothing Eastern about the country, and its history, or its position. "Central Europe" is a term both historical and geographical that puts us right in the center of the continent, at its middle. Many important events in European history started there, or evolved around the region, both good and bad. So in this sense we recognize that we are part of Central Europe, but if you are part of a center of something, you're part of the whole thing too.

How are US-Czech relations these days?

They are part of our stability, so to speak. They have been exceptionally good ever since early 1990. They are still very good. Sometimes we may feel like victims of our own success a bit because we are not able to command as much attention as we could in the beginning or some countries of the former Soviet Union or countries of the former Yugoslavia can. But that's because our problems are not of the same magnitude. We are working to expand what we've achieved so far. We have no reasons to complain, and if you add up the number of Americans living in Prague these days, whether it's 30,000 or 40,000, the estimates differ, but that's not important. They're the best illustration of how things have changed, and also the best guarantee of the cooperation continuing and expanding.

Is Prague still the hot city in Europe?

You'd find few cities as hot as Prague in Europe or elsewhere these days.

Slovakia's Struggles

The ties that bind nation-states, not unlike those that unite individuals, are delicately forged and painfully broken. For Slovakia, still shy of its first birthday, separation trauma following 74 years of union with the Czech Republic, in combination with the challenges of post-cold war economic transformation, has ushered in a difficult and protracted period of transition.

Despite its careful orchestration, Slovakia's split with the Czech Republic has fueled numerous lingering conflicts. Czechs have clamored for Slovaks to settle property disputes and pay debts to the former federation and, for a while, even withheld from Slovaks their shares in Czech companies due them from Czechoslovakia's first privatizations. Plans for both countries to retain a common currency were aborted due to large speculative capital flows from Slovakia into the Czech Republic and an eventual breakdown in the monetary agreement between the two countries. The imposition of controls requiring people to show identity cards when crossing national boundaries signaled the end of plans for a completely open border; the Czech government's decision not to honor dual citizenship with Slovakia further stoked the separation fires.

Perhaps the most dramatic of separation side-effects has been the precipitous drop in trade between the two countries. Trade relations have been characterized by disruptions in trade payment systems and the severing of traditional links between companies, despite the commitment of both parties to maintain a customs union and to create a central European free trade zone with Hungary and Poland. Nevertheless, most Slovaks insist that the Czech Republic will remain Slovakia's closest trading partner.

Slovaks readily acknowledge that their independence from the Czech Republic may make their path to a market economy a more grueling one. Transfer payments that once flowed into the Slovakian portion of Czechoslovakia have dried up. Property disputes have disrupted privatization plans and delayed the creation of stock markets in both countries. Foreign investment in Slovakia, always less aggressive than that in the Czech Republic, has suffered since independence. While Austria has continued to invest at its pre-independence rate, German and US investment has slowed.

Despite their difficulties, many Slovaks remain convinced that the split was a necessary cost for the eventual complete economic development of Slovakia. They attribute their most serious economic problems not to the divorce but rather to the unfavorable production structure they inherited following 40 years of communism. The ruins of communism included most of Slovakia's industrial base, dedicated primarily to the production of military hardware and the processing of raw materials for markets that have ceased to exist.

Slovakia's first Prime Minister, Vladimir Meciar, struggles regularly with public disillusionment over what seems to be the unavoidable costs of economic transformation in Slovakia: falling production and high unemployment. He has been accused of teetering between economic wisdom and political necessity by resorting to policies restricting freedoms of the press—measures some Slovak leaders describe as the price Slovakia must pay while learning the lessons of democracy. The fragility of Meciar's political support has manifested itself in anti-government demonstrations, Cabinet departures, and a loss of his majority in Parliament. Negotiations to form a coalition government in the wake of these changes have proven difficult. In an interview with *EUROPE*, Finance Minister Toth expressed his hopes that a coalition government would bring badly needed political stability. "In the economy that undergoes the transformation process, political stability is most essential...the transformation which is taking place in Slovakia has been accepted very positively by the IMF, the World Bank, and the [US] Department of Treasury. It would be no good if this process of transformation had to be interrupted because of political instability."

Economic transformation in Slovakia hinges greatly on its program of privatization. "We have to make sure that half of GDP is created by the private sector. That is the break-even point of the transition," maintains Toth. Separation from the Czech Republic has, however, coincided with a hiatus in the privatization program, which may explain some of the foreign investors' hesitation toward Slovakia. "The issue that the investment community had really been most focused on was the general attitude of the existing government in Bratislava toward privatization...questions about how committed the government would be toward privatization were far more important than a tax holiday," explains John Petty, Chairman of the Czech and Slovak American Enterprise Funds, privately managed equity pools that provide investment capital and credit to private enterprises.

Foreign investment and free trade remain essential components of a successful Slovakian transformation. Slovakia has eagerly pursued a trade association agreement with the European Community hoping to enjoy someday the privileges of full membership. Although they have also accepted limits on steel exports to the EC, Slovak leaders continue to be frustrated by them. "I'm not satisfied with any regulation. When we have to talk about free trade, which we are being told we should pursue, it is difficult to understand these restrictions on imports from Eastern countries," says Toth.

Saddled with an onerous communist inheritance and still reeling from separation, young Slovakia clearly faces formidable obstacles. Some observers insist, however, that Slovakia's manifold challenges obscure its many attributes: a low external debt, a relatively advanced economy, an educated work force, substantial possibilities for tourism, and a coveted location in the heart of Central Europe. "Slovakia is one of the best kept secrets," asserts Petty. For the moment, however, Slovakia's most valued assets will most likely continue to be the resolve and perseverance of its leaders and the sacrifices of its new citizens. Ⓔ

Gina Gianzero covers economic and international issues for EUROPE *from Washington, DC.*

The View from Hungary

Hungary is determined to play a key role in Central Europe.

By Robert J. Guttman

The economy, the continuing war in the Balkans and the economic impact of upholding the UN sanctions against Serbia, the upcoming elections in the spring and the current health of the Prime Minister are the dominant concerns of the senior government officials I spoke with in Budapest in October.

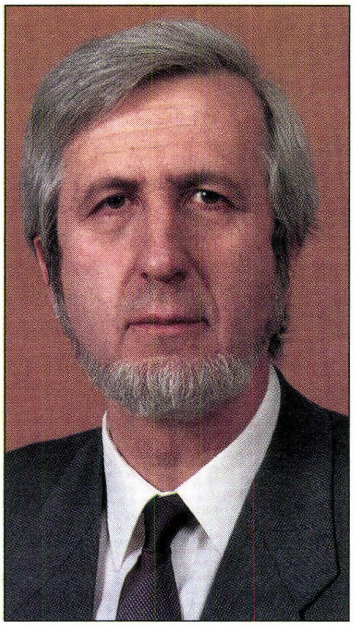
The concerns of the average Hungarians I encountered mirrored the views of the Hungarian officials with the one major exception being their overriding anxiety about not being able to make ends meet on their fixed salaries while prices continue to rise.

National elections will be held next spring, and all sides are already in the process of naming their candidates. The current Prime Minister József Antall has already declared that he will be a candidate for the same office next spring.

However, the Prime Minister is currently undergoing cancer treatment in a hospital in Germany, and in line with the constitution he has turned over power while he is out of the country to the Minister of the Interior Péter Boross. The Interior Minister is not as popular as the Prime Minister, and there appears to be great concern not only for Antall's health but for what could happen to the current policies of the government if he were not to return to office fairly soon.

Everyone agrees that the term "Eastern Europe" is no longer relevant in the post cold war era. Géza Jeszenszky, the Minister of Foreign Affairs, states that "Culturally, Hungary was always a part of Western Europe. Central Europe is a distinct area, culturally, historically, and perhaps politically, but we are within Western Europe. We never regarded ourselves to be Eastern European. The division of Europe was the result of recognizing or accepting Stalin's conquest of Central Europe. My aim and my hope is that there will be a Europe in one form united."

The Foreign Minister, in talking about Central Europe and its key role in a united Europe, spoke about a new, "rather loose organization" called the Central European Initiative.



Foreign Minister Géza Jeszenszky

The Central European Initiative contains nine countries. According to Mr. Jeszenszky, "It is a grouping of Italy, Austria, Hungary, Czech Republic, Slovakia, Poland, and now three of the successor states of Yugoslavia—Slovenia, Croatia, and Bosnia, although unfortunately Bosnia cannot join. The Central European Initiative is an organization trying to establish cooperation. We are developing project programs from economic to cultural ones to help bring down trade barriers to encourage investment and to finance or plan for transportation projects like highways and railways. It is trying to recreate Central Europe as a part of Western Europe."

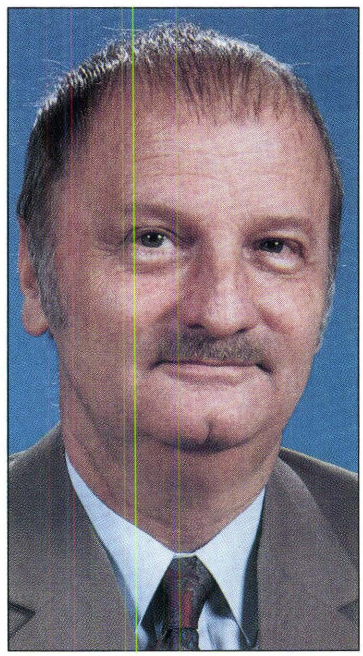
Eventual membership in the European Community is a key overall foreign policy objective of Hungary. Foreign Minister Jeszenszky says, "EC membership is more urgent than ever. To be left out would be a real tragedy for Hungary. It would be tantamount to our exclusion from Europe."

Speaking of the many advantages of EC membership for Hungary the Foreign Minister goes on to state, "The advantages would be an impetus for substantial growth, elimination of the existing limitations or obstacles in our exports, including our agriculture exports. And there certainly would be far larger amounts of investment. Membership in a unified European market would certainly be an advantage."

Ivan Szabo, the Finance Minister of Hungary, agrees about the importance of eventual EC membership, stating that "Hungary realistically sees itself as a member in this decade" and feels that "we will not be in any worse position than Spain or Greece were at the time of their admission."

The Finance Minister, who recently chaired the IMF meetings in Washington, DC, believes that "with regard to EBRD, Hungary has no reason to complain. Quite a substantial proportion of loans that have been made by the European Bank for Reconstruction and Development so far have targeted Hungary, and those loans have helped in restructuring the infrastructure and other projects in this country."

Foreign Minister Jeszenszky speaks out about NATO's future and his country's role in that organization. "The Central European countries desire to have a relationship with NATO progressing and eventually leading to full membership." He stated that it obviously is not realistically possible to become a member, say, by the "NATO summit in January" and that Hungary "will not be a party in any kind of grouping that is hostile to a democratic Russia."



Finance Minister Ivan Szabo

Both the Foreign and Finance Ministers agreed that US-Hungarian relations were "excellent" at the present time, and Mr. Jeszenszky pointed out that "Hungary is the foremost Atlantic oriented country in Central Europe. We were the first, even before forming the government to speak out very emphatically for this Atlantic solidarity, for the continued presence of American troops in Europe, and also eventually joining the EC and NATO."

The ongoing war in Bosnia is obviously a major foreign policy problem for Hungary. In addition to the great concern over the failure to stop the war by the major powers and international organizations and the deep regret over the loss of life, Hungarian officials are worried about the economic effects of upholding the sanctions against Serbia (which has cost Hungary approximately $1 billion); the large number of refugees arriving in Hungary; and the poor treatment of Hungarians in the former Yugoslavia.

Internally, privatization is proceeding at a rapid pace in Hungary. Tamas Szabo, the minister who is in charge of overseeing the privatization process, is very enthusiastic about American and European investment in his country. He proudly points out the many attributes that Hungary possesses that encourage foreign investment including low costs and a "deliberate policy which aims at the development of the economy based on the private sector."

Mr. Szabo agrees that there is a Wild West boom town atmosphere pervading in Hungary today. The Privatization Minister states that "Hungary is already the new business capital of Central and Eastern Europe. Hungary has the potential of also becoming the financial center in the Central and Eastern European region. And we'll even be the information and transport center."

What is Hungary's economic goal for the future? According to the Privatization Minister Tamas Szabo, "We would like to become a country like Germany, Italy, Austria, France, or any other European country, such as the Netherlands, which is one of my favorites."

With a growing free press, a number of new corporate investors, a wealthy philanthropist named George Soros, and a people interested in getting on with their lives after more than 40 years under communism, Hungary seems determined to become one of the leaders in Central Europe today and in all of Europe in the next century.

—Robert J. Guttman

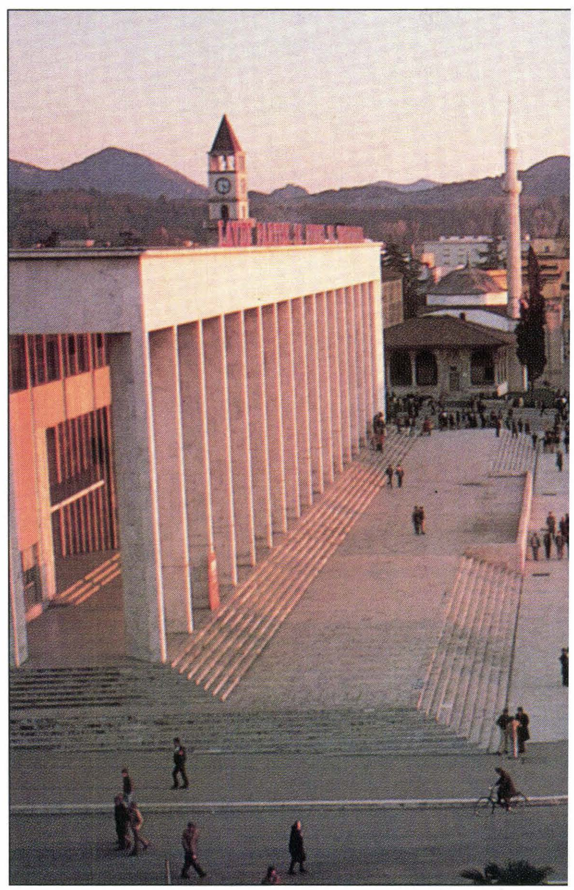
New Day in Tirana

A new destination emerges for the adventurous traveler as communism's fall opens up a charming country.

By Laurie Laird

Long isolated from much of the industrialized world, tiny Albania began admitting individual tourists only a few years ago. Prior to 1991, Americans were not admitted to the nation, which maintained one of the world's most strict and insular communist regimes. Under the leadership of Enver Hoxha, the founder of the nation's Communist Party, Albanians were permitted virtually no contact with the outside world: conversation with foreigners was punishable by jail sentences, as was the practice of religion. Both hair length and courtship rules were mandated by the government. "We weren't allowed to think," explained one young Albanian.

Tirana's central meeting place, Skandenberg Square.



But the nation's communist government went the way of other Eastern European regimes, giving way to Albania's first democratically-elected government in 1992. Monuments to Lenin and Stalin were demolished, while a fallen statue of Hoxha is slated to be replaced by a more popular Albanian, Mother Teresa.

The fall of the communist government brought a relaxation of travel rules; Albanians are now free to travel abroad, while citizens of the United States, the United Kingdom, and Canada can enter visa-free. Most other nationals can easily obtain visas upon arrival.

And tourism could easily provide an engine for growth in the next decade or so. Beautiful Albania, situated across the Adriatic Sea from southern Italy, just north of Greece and west of Bulgaria, boasts a stunning coastline with wide, sandy beaches and blue-green water. Much of the coastline's development centers on the unattractive port of Durres—Albania's second city and arrival point for boats from Italy. But most of the coastline remains nearly isolated, and the southern tip could offer respite in coming years from the crowds on the Greek island of Corfu, just several kilometers across the Adriatic.

Durres sits just 35 kilometers west of Albania's capital city of Tirana, where several European airlines have initiated service in the past year. Budget travelers can reach the capital more cheaply via bus service from northern Greece, Bulgaria, or Turkey. Bus travel is not for the tame or the impatient; 10-hour waits at the border are not uncommon.

But the relaxing atmosphere of Tirana well rewards the rigors of the trip. The capital's main boulevard, which stretches from the central Skandenberg Square to the city's university, is lined with attractive cafes and lovely carved-stone buildings. Sparsely used by motor traffic even at midday, the avenue is closed to cars after 5 p.m., leaving the tree-lined street open just to pedestrians and bikers. A good portion of Tirana's 300,000 inhabitants (about one-third of the nation's population) seems to take to the avenue each evening, strolling past red-and-yellow-stone government buildings and almost Parisian-looking apartments, complete with courtyards and wrought-iron balconies.

With its stunning coastline and charming capital city, Albania can be a fascinating destination for the more adventurous traveler, although conditions might still be a bit rough for those who crave a bit more comfort. Tirana and many of the other touristed villages maintain hotels, but most are of questionable quality. The Hotel Dajhti, Albania's finest, where single rooms go for about $60 per night, is fairly dirty and bug-infested, while many of the "lesser-quality" hotels have limited or no running water. Restaurants are sparse, although the existing establishments boast decent food at low prices; a standard chicken and vegetable entree should not run more than $4.

But local Albanian families are quite amenable to providing accommodation, which offers a fantastic alternative to the country's primitive lodgings. The American Express representative just off Skandenberg Square can arrange lodging in private homes, but a better deal might be gained through word of mouth. Albanians are quite keen to talk to tourists after decades of isolation, and it can be difficult to walk down the street without receiving offers of food, drink, or accommodation.

Private lodgings provide an inexpensive way to experience Albanian life. Tourists are regarded as family members and are included in all family activities, while still retaining an honored-guest status—be prepared for special meals and proud introductions to neighbors. Family lodging—which includes a private room but a shared bath—runs between $5 and $15 per night, which typically includes meals and laundry service. Like restaurants, accommodation is cheap by Western European standards but can represent a fair supplement in a country where wages average just $40 per month.

And rooming with an Albanian family provides an almost priceless opportunity to interact with survivors of one of the most oppressive regimes of the past decade. Albanians are proud, however, and can be a bit reluctant to talk about the communist days. That age is "not a lot of fun to think about," said one young Albanian. Even Tirana's impressive National History Museum ends with the advent of communist rule in 1943—as if the nation's history ended there.

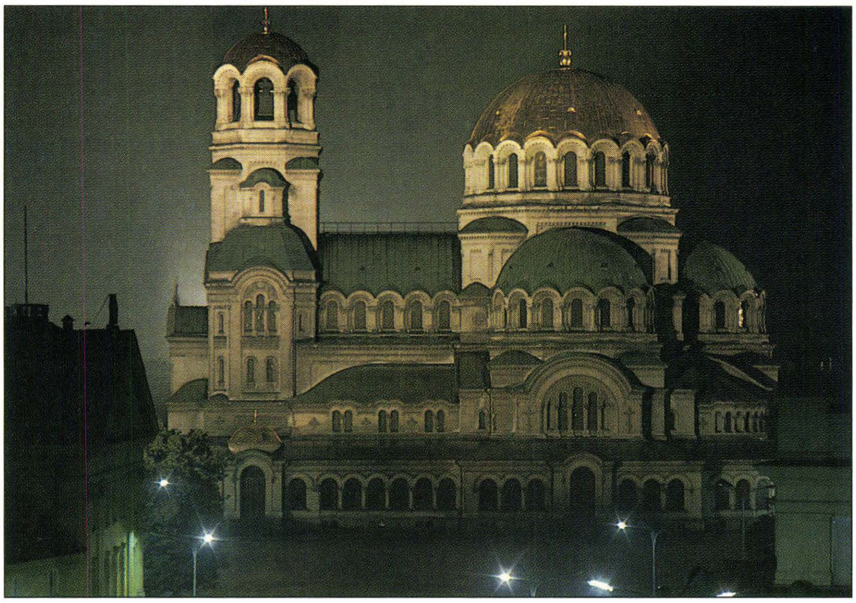
But with a bit of prompting, many Albanians will reveal their plans to "make business" under a more free economic system. Indeed, many are making a very good living selling cigarettes and beer imported from other Eastern European countries. Given the pent-up ambition of many Albanians and the nation's natural resources (which include mineral deposits along with a stunning coastline), solid economic growth hopefully cannot be too far away. ⓔ

Laurie Laird is a writer based in Moscow.

The Mystique of Sofia

Since the Iron Curtain rose, tourists have been flocking in droves to the showplaces of Eastern Europe: Budapest and Prague. With their scrubbed and refurbished architectural treasures, newly jammed boulevards, rising prices, and McDonald's—Budapest and Prague are fast becoming much like their Western European counterparts.

Sofia features several spectacular churches, which reflect in their architecture the long and varied history of the region.



Travelers in search of European cities still somewhat removed from the intrusions of Western commercial culture must journey farther east. The capital of Bulgaria still exudes the mystique of difference. Off the beaten tourist path, Sofia is a challenge as a vacation destination. Perhaps best of all for the tourist, Sofia is as yet not plagued with crowds of other tourists.

Sofia lies in the shadow of the soaring Rila Mountains, sporting crumbling architecture that reflects its straddling of Europe and Asia. On my most recent visit, I arrived on a noisy old Russian TU-154, a Boeing 727 copy. It was newly painted and reupholstered, but it still felt flimsy. The seats were rickety, and the cabin seemed like it was held together by the fresh paint. In a nostalgic nod toward an earlier consciousness, the flight attendant call button was still labeled "hostess."

By Peter Laufer

Sofia is slowly recovering from the trauma of over 40 years of communist dictatorship. The long lines in the streets that I saw two winters ago, full of hungry Bulgarians waiting for basic foodstuffs, are gone. Shop windows now display an abundance of clothing and meat. Fresh cucumbers and oranges, fruit juices, and espresso are all available. By local standards, prices for these staples are high. Life is still a struggle for most Bulgarians, but they are not starving.

The imposing Lenin statue is gone from Lenin Square, the old Communist Party headquarters building lies empty, its Stalinist hulk scarred from the mob that set the fires of the revolution. The clattering streetcars need body work and light bulbs, but many now sport new paint jobs. They are bright and flashy and act as rolling billboards for Marlboro and Pepsi. Newsstands are jammed with periodicals. The daily newspaper *Twenty-Four Hours* shares counter space with *Eroc* and a wide variety of other pornographic, color-filled tabloids. Bus stop storefronts offer coffee for two leva, about 10 cents. It's served Turkish style, thick and bitter with a strong attack of sugar in the thicker mixture at the bottom of the tiny cup. The tourist in Sofia can head directly to expensive accommodations like those offered by the sparkling Sheraton Hotel. There, for $187 per night, travelers can enjoy the luxury and comfort expected from a world class hotel. But by walking round the corner from the Sheraton and checking in with the Balkan tourist office at Knjaz Dondukov 37, the more adventurous can take advantage of the opportunity to live in a typical Sofia flat and save plenty of money. The rooms the government tourist agency arranged for me to rent were just down the street from the Sheraton, quite centrally located in a pleasant neighborhood only a half a block from a major tram line. For about $12 per night, I was given use of two rooms, one with a balcony and a view of the street. I shared the bathroom with the friendly couple who lived in the flat, but I only saw them when I knocked on their door seeking information about the city.

Instead of a hotel restaurant, I took my morning coffee at the local corner cafe. Along with the coffee, the cafe offered sandwiches, cigarettes, and lighters for sale—and, inexplicably, a pair of patent leather high heels that were up on the shelf along with the other goods and marked with an 800 leva price tag (about $40). Sitting each morning with the regulars as they read their newspapers—the radio blaring loud and bad rock'n'roll in English—made me feel connected with the local scene. Much of the standard sightseeing available in Sofia can be found within a few blocks of the Sheraton. Although the downtown synagogue and mosque are both closed, along with a handful of typical museums, there are spectacular Orthodox churches to see, free of long lines of competing tourists.

A good starting point is behind the Sheraton at the ruins of a 4th century Roman rotunda that became the Church of St. George in the Middle Ages. Directly in front of the hotel is the Holy Sunday Cathedral, with the bomb damage from the 1925 attempt on King Boris III long repaired. Several blocks east is the largest church in the city, the Alexander Nevski, built in 1912 as a memorial to the Russian soldiers killed fighting alongside the Bulgarians against the Turks. Orthodox icons can be seen in the church museum.

My favorite is just a few blocks back toward the Sheraton, the St. Nicholas Russian Church. The compact neo-Byzantine building mirrors my fantasies of how an Orthodox church should look. Layered like a wedding cake, the rooflines give way to five golden, shimmering onion domes, all capped with crosses. Inside the tiny sanctuary, expect to find a little old lady or two, dressed all in black, kissing icons and lighting candles. St. Nicholas sells icon reproductions. The captivating religious art is sold surrounded by plastic frames and makes perfect souvenirs.

In the park across the street from St. Nicholas is an animated ad hoc flea market. Contemporary Bulgarian artists offer drawings and paintings, more icons are available, and the usual post-communist array of Soviet paraphernalia is available: Lenin pins, military insignia, communist tracts, and even some Stalin artifacts.

Before heading back to what was Lenin Square on the intriguing yellow bricks used to pave the heart of the city, stop for a look at the Georgi Dimitrov Museum. He was the Bulgarian communist charged by the Nazis with setting the Reichstag fire. He was elected Premier of Bulgaria after World War II.

If it is a clear day, Mount Vitosa can be seen looming over the south side of the city; skiing is available there in the winter months; hiking is popular the rest of the year. A day trip to the Rila Monastery is possible. Founded in 929 A.D., restored most recently after an 1833 fire, it is filled with religious art and offers sweeping mountain views.

The main Sofia shopping district is on Vitosa Boulevard, south from the landmark Sheraton. Restaurants there offer an opportunity to sample the delicious Bulgarian cuisine: stuffed grape leaves and stuffed peppers, shopska salad (tomatoes, cucumbers, and grated sheep cheese), the plum brandy that is a national tradition, and a variety of rich meat dishes.

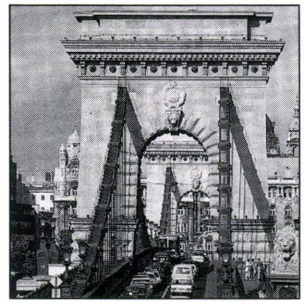
The paranoia of the communist years is disappearing. Wires hang unplugged from street surveillance cameras, and there is only minimal police and military presence visible in the city. More importantly, Bulgarians react with openness to questioning foreigners, anxious to share their capital city and culture.

Petty street crime seems to be less of a concern, too. Motorists now tend to leave the windshield wipers on their cars when they park on Sofia streets these days—unlike before. "I like what I see here," a Bulgarian businessman who defected to America in the mid-1980s and has returned to open Chrysler automobile dealerships told me with a smile. "Bulgaria is a center of stability in the Balkans. There is no violence. Bulgarian people are very pragmatic. I'm glad to see all that." We were drinking coffee in one of the Vitosa Boulevard cafes. Real coffee with real cream. "We have a period that is very interesting," he continued to praise his homeland. "The theater in Sofia is outrageous, very avant-garde, experimental theater. I was shocked by the nudes in the newspapers. It's a great time. It's an experiment in living and history."

Such a society in transition, combined with thousands of years of history and tradition, adds up to an exciting tourist destination.

Peter Laufer has reported from Eastern Europe for ABC News and is the author of Iron Curtain Rising *and* Nightmare Abroad.

CAPITALS



LETTER FROM BUDAPEST:

Beautiful. Bustling. Business-oriented. Budapest is a city alive with activity. "Let's make a deal" might be the phrase used to describe the business sector of one of the leading Central European capitals today.

Budapest, with a population of 2 million, has become a magnet not only for European, American, and Japanese businessmen and women but also for tourists from across the world.

Last year Hungary received 20 million tourists. According to Dr. Janos Kovacs, the Deputy President of the Hungarian Tourist Board, tourism makes up nearly 9 percent of the country's GDP. To accommodate the influx of tourists and businessmen and women, developers are quickly building new luxury hotels which only add to the already Western flavor and atmosphere of the city.

The Grand Hotel Corvinus Kempinski Budapest is a good example of one of the new luxury hotels built in the last year. Centrally located on the Pest side of the Danube River the sparkling and very modern hotel boasts a swimming pool, health spa, and a very convenient downtown location. At every breakfast and lunch, I overheard businessmen and women from around the globe discussing deals from joint ventures to looking into purchasing former state-owned factories.

Dr. Kovacs feels that more Americans will be visiting Hungary in the near future as the country's airline, Malev, has just introduced new direct flights from New York to Budapest six times a week. Malev Airlines is in the process of being privatized, and Alitalia has recently purchased nearly one-third of the Hungarian airline giving it much needed capital in order to expand its routes across Europe.

Although Hungary's tourist literature calls the country "Europe's Hidden Treasure" the literature should be changed to read "Europe's Newly Discovered Treasure" for Budapest and Hungary are no longer hidden from the tourists and businessmen and women of the world.

I make a point of visiting a country's Parliament or Capitol building when I visit a capital city, and the Hungarian Parliament is truly one of the most beautiful government buildings I have ever visited. Overlooking the Danube River, which unfortunately due to pollution is neither blue nor green but a rather ugly dark brown color, the gigantic Parliament building dominates the area. It is rather surprising to find out that this large building built between 1884 and 1902 houses only a unicameral Parliament.

For shopping one need go no further than Vaci Utca, which looks like a pedestrian street in any Western European city with stores like Nike

DIRECTORY

Hungarian Parliament in session

and Adidas and large crowds of windowshoppers everywhere. Nearby, I conducted several interviews in the well-known coffee and pastry shop called Gerbeaud, which has some of the finest—and richest—pastries I have tasted anywhere in the world.

Since I have a daughter named Margaret one of the first places I visited was Margaret Island in the center of the Danube River. Margaret Island is the biggest park in Budapest with a spa, hotels, and an ampitheater. This gorgeous island is a central open-air meeting place for residents and tourists alike.

Whether on Margaret Island or in Buda or in Pest, one notices the many stately bridges that span the Danube River. The legendary Chain Bridge, one of the symbols of Budapest, was officially opened in 1849 and is one of the eight bridges that link the two parts of the city, Buda and Pest.

Budapest is really two cities in one, divided by the Danube running north and south. Buda is the hilly western side with the famous Royal Palace, Matthias Church, and Fisherman's Bastion. Pest sprawls along the east side of the river and is the flatter of the two areas—the perfect place for the tourist who enjoys walking.

Although Budapest and the countryside of Hungary entice many travelers, the government of Hungary is already hard at work on another tourist attraction: Expo '96. The Expo, the last to be held in this century, will play host to nearly 15 million visitors and will run for six months from spring to fall in 1996. The Expo '96 theme will be "Communication for a Better World," which encompasses communication in all fields of expression including art and culture.

Many people are questioning whether or not Hungary has the proper infrastructure in place to host this large undertaking, but the promoters are very enthusiastic and work has begun in earnest on the project.

Budapest is a tremendous city to visit for a tourist, but for the average Budapest citizen life can be difficult with little money to spend at the upscale hotels, restaurants, and cafes. However, most of the people I spoke with were anxious to move ahead with their new democratic government and market economy. In fact, almost everyone I spoke with had an almost optimistically naive but very heartening belief that the new market economy would make them wealthy in the next year or two.

Budapest reminds one of the booming Wild West towns in the early days of the United States. And a visitor back then perhaps would have also commented that those people also had an optimistically naive belief in the local economy.

Budapest—it is a treasure but it is no longer hidden. The Hungarian tourist board will have to find a new slogan to match the many charms of this bustling Central European capital which is well on its way to becoming not only a major tourist attraction of the region but a financial and business center as well.

—Robert J. Guttman

ROME

THE DI PIETRO EFFECT

In Italy it is called the "Di Pietro effect," named after the judge who initiated the corruption investigations that are bringing about a revolutionary turnover in the country's political and managerial classes. Now, the Di Pietro effect is beginning to be felt even in everyday life. Until now, what were the examples that were most often mentioned when discussing the things that don't work in Italy? Easy—the delays and malfunctions in public services; tardy trains; stores and museums that are all too often closed; slow telephone service that is interference-ridden. Well, things are changing. Here are a few examples that will convince even the most skeptical of readers.

A few weeks ago a gentleman in Rome telephoned the SIP, the Italian telephone company, to have a line and a telephone installed in his new home. In the past, this operation would have involved months of waiting, sometimes even a year, and the frustrated man probably would have tried the old system of *raccomandazioni,* calling on friends and acquaintances in the hope of speeding things up. Instead, when the gentleman called—to his great surprise—the SIP operator immediately made an appointment for two days later, asking him at what time it would be most convenient for the technicians to arrive at his home. In the past even when the SIP finally made an appointment for a certain hour, an Italian often had to spend the entire day at home waiting for the technicians to show up.

Further to the man's surprise the SIP technicians arrived at his home at the appointed hour and installed the telephone. The amazed homeowner asked the technicians how this new efficiency was achieved. Their answer was that "they only had to want to."

This laconic answer is very important because it is emblematic of a general situation that is changing. The technological level of telephones as well as other services in Italy has been theoretically high for a while. But these services have been unable to operate at full capability because their management has been less than efficient. Now things are changing.

Another example is Italy's train system. Well known to leave and arrive late, Italy's trains have become increasingly punctual. Official statistics bear this out. In June, the medium- and long-range trains of the FFSS, the state rail service, were on time 80 percent of the time compared to 59 percent for June 1992. The improvement in high velocity train service (the so-called *Pendolini* which carry businessmen between Rome, Milan, Turin, Bologna, Florence, and soon Naples) is even greater. In June, they were punctual 92 percent of the time versus 47 percent a year ago.

Italian museums provide yet another example of improved efficiency. To the frustration of tourists, most Italian museums and many shops and small businesses are closed during the month of August. This year, Alberto Ronchey, the Minister of Cultural Goods, defeated the historic resistance of the museum guards, forcing them to work even on the most important Italian holiday—Ferragost, the 15th of August. The stores being closed creates a problem for residents who don't leave for a holiday as well as for tourists, and some progress is being made to change attitudes toward this traditional vacation month. Like the telephone technicians say, "All they really only have to do is want to."

—Niccolò d'Aquino

LISBON

PORTUGUESE POTATO CHIPS

PepsiCo has already whetted the Portuguese appetite for fast food, canned drinks, and now snacks. But Portugal's craving for American-style potato and corn chips has stretched the nearest production factory in northern Spain to the limits.

Now PepsiCo has joined General Mills in a joint venture to go in with the Portuguese government to build, with some help from the EC, an enormous $75 million factory outside Lisbon to produce and serve potato chips to Portugal and other European countries. It is the largest single foreign investment in the agro-industrial sector and will help boost confidence in Portugal's floundering agriculture sector.

Prime Minister Anibal Cavaco Silva sealed the government's approval of the venture when he inaugurated the new plant in May. Also at the opening ceremony were ministers and top government officials from industry, commerce and tourism, and agriculture to emphasize the interest in the project, which promises to generate hundreds of jobs, encourage interest in the agro-industrial sector, and boost training while at the same time helping to line the state coffers.

Michael Dolan, President of Snack Ventures Europe based in Amsterdam, says Portugal was the ideal location to open another factory for potato chips, and he admits the incentives offered by the government and the high growth rates in the market also helped with the decision.

Under the highly successful Spanish brand name "Matutano," the colorfully packaged snacks are already leading the field in Portugal. The company has agreed to put up an initial $78.1 million investment. "We began the year very well and, in spite of the economic slowdown, we doubled our quota (of snacks) in four years," Mr. Dolan said.

The company is bringing American ideals into Portugal—zero waste, shared responsibility, client satisfaction, and more expensive labor—novel concepts to the Portuguese work ethic, and the locals love it.

Portuguese Prime Minister Anibal Cavaco Silva was at the opening of the PepsiCo–General Mills $75 million-potato chip factory.

Since 1991, the Portuguese company Laprovar created 160 jobs for the new factory. "In all we have more than 600 people working," says Mr. Dolan. "With our know-how, we'll help develop Portugal's agro-industrial sector. Already our results are positive. In 1991 we used only 450 tons of potatoes from Portugal. This year we hope to use nearer 13,000 tons from Portuguese farmers."

Farmer Francisco Soeiro has been contracted with the group for the past four years, and this year has turned over 15 hectares of his 43 hectare farm to potato production. Mr. Soeiro will be one of some 1,000 local farmers to be involved in the program. Many of them, like Mr. Soeiro, work on the fertile land in the Ribatejo, north of Lisbon, but the company has gone all over Portugal offering to help farmers to produce potatoes.

The company wishes to boost local potato production to 70 percent—a far cry from the 15 percent produced three years ago of the estimated 100,000 tons of raw potatoes which the plant will need to work at its full capacity. The company hopes to total production to 22 million kilos of potato chips in the next four years.

"Portugal will be known as a major player in the European and global market in the production of snacks," he added.

There are five other factories throughout Europe—in Spain, Greece, France, Belgium, and the Netherlands.

—Sarah Provan

BRUSSELS

BELGIUM HAILS NEW KING

Belgium's King Albert II

The sudden death of King Baudouin, on the evening of the last day of July, provided another opportunity for Prime Minister Jean-Luc Dehaene to demonstrate his energy and decisiveness. It had long been understood that Baudouin, who had no children, would eventually be succeeded not by his younger brother Albert, the official heir, but by his nephew, Albert's elder son, Prince Philippe. Despite doubts about his maturity, the 32-year-old Philippe was being carefully groomed for the succession, which nobody had anticipated would come so soon.

Within 12 hours of Baudouin's death in Spain, Dehaene had summoned his cabinet and bluntly put to them the question of whether Philippe was ready to assume the responsibilities of being Belgium's King. It took barely half an hour for a consensus to emerge that he was not, and Dehaene flew straight to Spain, where he had the delicate task of telling Albert that, whatever his personal feelings, it was his duty to assume the throne at this stage. Not until the history books are written will we know how much, if any, resistance Albert mounted to Dehaene's proposition. He evidently did not hesitate for long, since the Prime Minister was in a position to announce on the same day that Albert would in fact become the sixth King of the Belgians.

So it was that Albert II took the oath of succession before the Belgian Parliament eight days later, following Baudouin's funeral, which was the occasion for a massive outpouring of sorrow and regret. The new King could hardly be less like his brother, who was an intensely serious man, wracked by an almost inhumanely demanding conscience and sense of duty. Albert, by contrast, has always been easygoing, never happier than when he was behind the wheel of a fast car or, by preference, astride a powerful motorcycle. This has not prevented him from being an effective ambassador for Belgium, leading more than 100 delegations of businessmen and traders to different countries around the world.

His marriage to the exceedingly glamorous Princess Paola in 1959 was very popular, even though Paola spent much time in Rome. In recent years they have appeared as a contented couple surrounded by their children and grandchildren.

Called to a throne to which he had never aspired, Albert (59) would appear to be even less prepared than his son to play the role of figurehead and occasional mediator in a linguistically divided country in the process of switching from a unitary to a federal system. Yet he has the great advantage of looking the part—stolid and affable, with a beautiful Queen at his side. This is something which Philippe would have painfully lacked; indeed, it was his failure to provide himself with a wife which probably disqualified him in the eyes of the Belgian cabinet.

How successful Albert will prove as King is anybody's guess. What is undeniable is that he has inherited an enormous fund of goodwill.

—Dick Leonard

BERLIN

NOUVEAU MODEST

The pomp and glitter of the 1980s are out in Germany. To hide luxury is a new phenomenon which has been observed in the last few months and is called *neue Bescheidenheit* (new modesty). "This is of course not a genuine modesty," says Professor Horst Opaschowski, an expert on leisure behavior, "and has nothing to do with the present economic recession." In his view, this is a new luxury wave for people who have everything and believe they must demonstrate modesty to the outside world. They want to cut themselves off from all the other prosperous people and look for a new consumer niche in which they pretend to practice modesty. But in reality, wealth and luxury are merely camouflaged and are presented in a modest robe. "They know only too well that this is not the time to impress anybody by displaying wealth," says Opaschowski.

The arrival of the recession has compelled many Germans to be careful with their money and to juggle their budgets. "They represent the second level of Bescheidenheit," explains Opaschowski. So the planned purchase of a new car may be postponed until later. A manager who is forced to lay off workers may decide not to buy a luxury car for appearance sake. Instead, he will book a very expensive holiday trip for himself and his family and keep it to himself. Big companies ask their staff to travel economy rather than business class because this fits better with the present mood in the country.

A few years ago car owners spent a lot of money on buying shiny letters and numbers designating the type of the car and mounting them at the back of their cars to demonstrate how powerful their car was. Now they remove the proud symbols. Car makers have understood the message. The flamboyance of the 1980s is being replaced by a low-key, sober approach to motoring which is affecting both design and engineering. In television ads car manufacturers talk more about safety features than performance or styling. Mercedes and other manufacturers have realized that the customer wants "more car for the money" with standard features that had to be bought as options before.

Mercedes Benz will manufacture a new small city car, Vision A 93, to compete in the growing economy car market.

In Germany, car sales have fallen by more than 20 percent in the first seven months forcing car makers to change their strategies. So Mercedes-Benz, one of the world's leading luxury manufacturers, responding to the needs of the market, has developed a small city car, "Vision A 93," whose concept will "influence the development of a future Mercedes-Benz A-class car," says Jürgen Hubbert, car division head at Mercedes-Benz.

Recession has also hit luxury apartments. A 1,725-square-foot penthouse in Munich's posh residential area in Nymphenburg, for instance, with two marble bathrooms and top class fittings, for a moderate price of $2,350 a month has still not found a tenant. According to the German real estate agents association (VDM), this is not an exception. For months there has been a depression for luxury apartments. Gone are the days when yuppies in high income brackets—doctors, dentists, lawyers—could easily afford exclusive homes. Some employers pay housing allowances, but the majority of potential tenants react with reserve owing to uncertain economic conditions. Job security has top priority. "Families do not want to commit themselves now," says the spokesman of VDM. The Allensbuch public opinion study confirms this trend and says that Germans have adopted a wait-and-see attitude and are watching economic trends before spending money.

—Wanda Menke-Glückert

LONDON

BNP WINS FIRST SEAT

The media worked itself into a state of high anxiety, and politicians of all persuasions rushed forward to denounce the election of a self-proclaimed white racist as a local councilor in a tiny ward on the banks of the Thames River in London.

The British National Party, which advocates the forcible deportation of blacks and Indians, won its seat in the deprived inner city Isle of Dogs ward of Tower Hamlets, where Pakistanis and Bangladeshis form almost 30 percent of the population.

Local white residents have long complained that the immigrants and their offspring get preferential treatment in the allocation of scarce public housing. The BNP hammered this theme home, and Derek Beackon won 1,480 votes to score the party's first ever electoral victory.

Compared to the advances of the extreme right in other EC countries, this is minor league stuff indeed. In France, Jean-Marie Le Pen's National Front has 10 Members in the European Parliament (MEPs) and over 1,000 local councilors. Italy's MSI has four MEPs and 35 MPs, the German Republikanes have six MEPs and one MP. Belgium's National Front sends one MEP to Strasbourg and has one MP.

Nonetheless, the BNP electoral victory is seen as a clear warning that traditional parties are not meeting the needs of the electorate at a time of prolonged recession and growing deprivation.

Some commentators were surprised that it has taken this long for the United Kingdom to follow the trend in the rest of Europe. Unemployment is widespread; crime is rising; social deprivation is deepening; and political alienation has rarely been more evident.

To some extent the failure of the right-wing extremists to make any serious gains is explained by the electoral system which, in contrast to the proportional representation system in use in most EC countries, makes it hard for small parties to achieve a breakthrough.

Another is the fact that the Conservative Party has been in power in the UK for the past 14 years. While it does not advocate racist policies, it does have among its voters many with extreme views on issues of race and color.

These views are likely to be heard a little more loudly in the run up to the June elections to the European Parliament. The main parties will be anxious to keep the BNP out, and this will tempt them to shift their policies slightly to the right.

This is the real significance of the National Party's victory on the Isle of Dogs, a victory which will have an impact far beyond the bend in the Thames River, which forms the ward's local boundaries.

—David Lennon

DUBLIN

CLAN REVIVAL

As more funds from the EC become available for tourist projects and heritage centers, this new growth industry is provoking some un-

NEWSMAKERS

Picture this scene: a restaurant in Munich, with soft lighting and music, where expensively dressed customers wait expectantly for the first course. Then in comes Madame Rosa, a cleaning lady with pancake make-up, who wields her feather duster among the guests. She is followed by a young waiter weaving his way among the tables with a swaying tower of 20 stacked ashtrays. A band strikes up, the hostess Madame Zazou, with a voice like Louis Armstrong's, belts out her opening number and the entire place—a lovingly restored 1930s circus tent—erupts into a frenzied mix of fine food and vaudeville, like a Monty Python sketch unleashed in a gourmet restaurant.

This is "Pomp, Duck, and Circumstance," a dining experience like no other. It was created three years ago by **Hans-Peter Wodarz**, a bona fide chef with a Michelin star to his name and a wild imagination. He believes that people are sick of conventional pastimes like watching television. "They want more communication, more entertainment," he says. "About 300,000 people have seen this show and loved it because there is nothing that comes close."

He is certainly right about that. Up on the trapeze, the kitchen maid, who has shed her starched uniform for a mermaid outfit with blue sequins, announces the arrival of the fish course. Waiters parade through the tent with lemons on their heads, while the sommelier dons a miner's lamp to read the wine list.

Behind the scenes 10 chefs are hard at work on the four-course menu, which miraculously makes its way through the jugglers, clowns, and acrobats and arrives unscathed at each table, hot and perfectly cooked. The grand finale is dessert: 20 waiters bursting out of the kitchen to race through clouds of pink smoke while Madame Zazou sings and the *chef de cuisine* has his hat set on fire.

The show changes locale twice a year. It has already played the major German cities, Barcelona, Paris, Milan, and Venice. From Munich it will move on in March to London, then Miami, New York, and Los Angeles.

•••

One monarch who has been taking matters into his own hands is **Prince Hans Adam II** of Liechtenstein. The Prince (48), who is the last European sovereign with the power to interfere in matters of state, dissolved his diminutive kingdom's 25-member Parliament for reasons that are clear only to him.

Since 1939 the 28,000 inhabitants of Liechtenstein, which is squeezed into a rocky cleft between Austria and Switzerland, have been ruled by a coalition of two parties, one conservative, the other slightly less right-wing. This spring a fiery new Prime Minister, **Markus Büchel** (34), arrived and decided they all needed shaking up. He shook them so thoroughly that by September the two parties had joined together in a unanimous call for his resignation.

Prince Hans Adam responded by sacking the lot of them, an act which greatly pleased Büchel and confounded everybody else. "This is a crazy situation," fumed one deputy. "Absolutely amazing."

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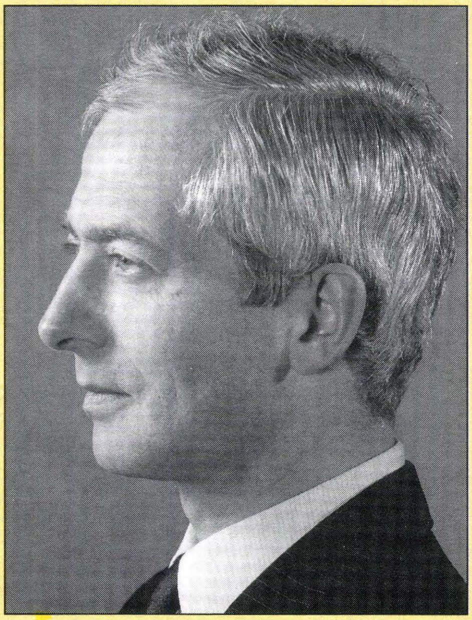


Prince Hans Adam II of Liechtenstein

usual controversy. At the same time, a certain good-humored rivalry can be detected between those who promote Ireland's Celtic ancestry versus its Viking ancestry.

In general, the Viking inheritance is concentrated in cities and towns around the coast, many of which were originally Norse settlements such as Dublin itself, Wexford, Waterford, and Limerick. The Celtic influence is much older and has left its mark in the countryside in burial sites, great stone monuments, monastic remains, and beautiful manuscripts. And of course there is the Gaelic language itself and its epics and love poetry.

Now a group of young Dubliners, some of them unemployed, have formed themselves into a Celtic clan, the *Tua na nGael*, who meet regularly to stage mock battles and enact ancient rituals. This development is partially a reaction to the emphasis on reviving the capital's Viking past for tourists, the latest example being a permanent display near the old walls of the city called Dublina.

The clan, which now has 40 members and is registered with the Clans of Ireland Office, meets every Sunday and has mock battles using traditional javelins, double-headed axes, and broadswords. The clan chief, Peter O'Connor, also known as "the Oak", is a welder by trade and has become the blacksmith who makes many of the weapons. The tribe will put on displays for a fee at fetes and other events, but its ambition is to buy some land for a tribal settlement near the village of Slane in a neighborhood most identified with Ireland's Celtic past through the impressive burial grounds at Newgrange and Knowth.

Mr. O'Connor says that unlike a heritage center, their tribal village would be a living display which tourists could visit. With tourist donations, the clan could buy livestock and make more weapons and clothes. They are proud of the way they have re-created the traditional Celtic costumes, including a lengthy saffron-colored linen garment called a liana, goat-skin jackets, kilts, and handmade jewelry.

The clan is also researching the ancient Brehon laws under which the Celts lived, and one of their members, a former barman, is studying to be a Druid. The clan has taken part in a Brehon wedding at a hill fort in Wales. Indeed, the members have been much influenced by the Celtic revival in the UK where newly-formed tribes frequently stage mock battles to raise funds for local communities feeling the impact of the economic recession.

The sham fights can be serious enough affairs, although every effort is made to avoid injuries. The mem-

The fabulous treasure of **King Priam** of Troy, said to number more than 20,000 items, has started a feud among Greece, Germany, Turkey, and Russia. Originally dug up in the ruins of Troy in 1873 by the eminent German archaeologist, **Heinrich Schliemann**, the find was donated to a museum in Berlin. When the Soviet troops occupied the city, the booty vanished without a trace.

The Russians have now revealed that they "liberated" the treasure and took it back to Moscow, where it has been hidden in a depot ever since. President **Boris Yeltsin**, in a mellow moment at a banquet in Athens, promised the treasure to the Greeks for an exhibition. Former Greek Culture Minister **Dora Bakoyianni** pounced on the offer, much to the fury of the Turks, who point out that the city of Troy was on their territory. Yeltsin's own Ministry of Culture was equally miffed and accused him of "playing the Tsar." As if that were not enough, Schliemann's descendants also have strong opinions on the subject. Some are willing to share the treasure; others insist it should come back to Berlin.

The outcome of this new Trojan war will be decided in the courts.

• • •

To celebrate its 25th anniversary, the United Kingdom's most prestigious literary award, the Booker Prize, announced an overall champion this year—the Booker of Bookers. The winner, chosen from the list of Booker alumni, which features such literary luminaries as **William Golding, Anita Brookner,** and **Kingsley Amis,** was **Salman Rushdie**'s 1981 novel, *Midnight's Children.*

Rushdie, who has been in hiding since 1989, when he was condemned to death by the Ayatollah Khomeini for *The Satanic Verses*, emerged long enough to express delight at having been singled out as the greatest author of his generation. He also said that no matter how long the death sentence stands, "the one thing I will never do is change my appearance and live in a blond wig."

Launched in 1968 by Booker, a previously unknown food and agricultural company, the prize has always generated plenty of publicity and controversy, both excellent for book sales. This year, as usual, several rival lists of authors ignored by Booker were published. They included works by **Martin Amis, Angela Carter, Margaret Atwood,** and **Julian Barnes**. Barnes takes a philosophical view of his exclusion: "The test of time is a very long test," he said. "I don't think you'll really know if you're any good until you're dead."

• • •

After a five-year absence from the catwalks, Italian fashion rebel **Franco Moschino** (43) has decided to start staging shows again. He is also celebrating his tenth anniversary as a designer with a retrospective of his work in Milan. Moschino originally studied to be a painter, but when **Gianni Versace** hired him to illustrate his advertising campaigns, he soon realized that he could make a lot of money out of something he could do with very little effort.

He did indeed become very rich and famous in the 1980s for his derivative designs that were a stylish send-up of the decade's obsession with designer labels. His "Born to Shop" buttons, "A Waist of Money" belts, and T-shirts with "Chanel Number 5" printed on them were all the rage.

Moschino eventually grew tired of mocking the excesses of high fashion, and after his 1988 show he proclaimed that "fashion is full of chic." His anti-establishment attitude has not put off customers like the **Princess of Wales** and **Madonna**. **Michael Jackson** wanted him to redesign his image too, but Moschino turned him down.

His new collection is based on natural fibers and colors, with no trademark narrow shapes or belts. For his return to the runway he plans to mix them with some typical Moschino designs. "It's going to be a mess," he promised.

—Ester Laushway

bers see them as a way to revive the Gaelic martial arts, which had long disappeared. For the unemployed members the clan's activities are a way of staving off the demoralizing effects of seeking jobs that the modern economy seems unable to provide.

—Joe Carroll

PARIS

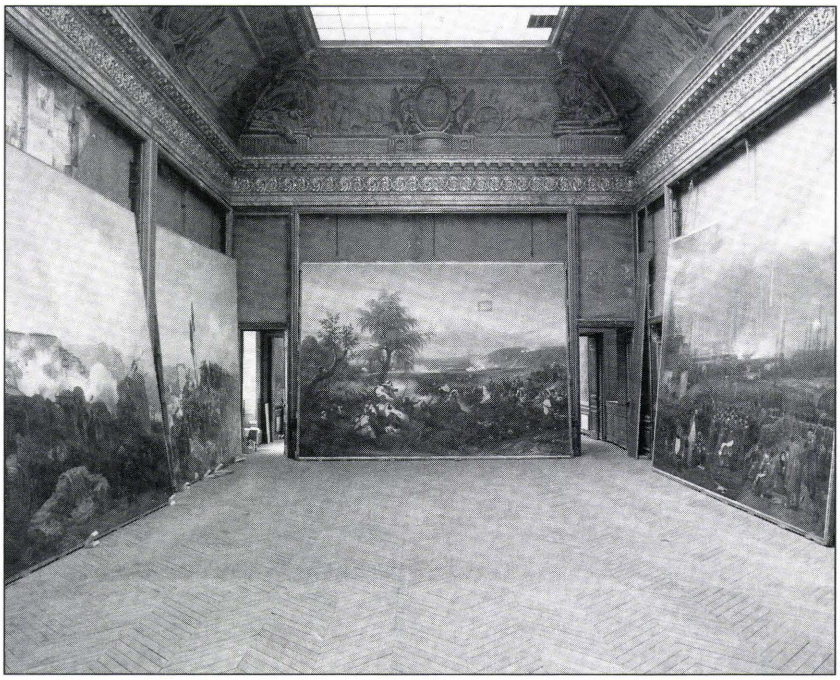
VERSAILLES' CHAMPAGNE ROOMS

During the annual summer assault of tourists on the Château of Versailles, the multilingual babble of the hordes lining up to buy their tickets has been underscored by a distant, but persistent, high-pitched whine. Drills and chainsaws are being wielded in the north wing of the palace, where a series of immense, sky-lit rooms that have not been open to the public for 30 years are being restored.

Louis-Phillippe, last King of France (1830–1848), had planned these seven rooms as a picture gallery dedicated to the great historical exploits of France: Napoleon III, last Emperor of France (1852– 1870), continued but never completed the project. They are known as the Africa and Crimea rooms because they are dominated by monumental paintings depicting French military triumphs in those regions.

Their restoration is being financed by the world's biggest champagne house Moët & Chandon. The bubble king's munificence is not entirely selfless—in November these rooms will serve as a striking backdrop to an exhibition entitled "Versailles and the Tables of European Royalty" which Moët & Chandon is organizing to celebrate its own 250th anniversary.

Why the focus on Versailles? Because as fate would have it, King Louis XIV, who created the château, and Dom Pérignon, the Benedictine monk who created champagne, both lived from 1638 to 1715. So the Sun King's palace seems practically preordained for toasting the drink that has become known both as "the king of wines" and "the wine of kings."



Moët Chandon is celebrating its 250th anniversary by financing the renovation of seven rooms in Versailles that have been closed to the public for 30 years.

There is also no denying that for an image-conscious corporation, Versailles is a name to conjure with. Moët & Chandon is not the first sponsor willing to pay handsomely for the prestige that comes from being linked with France's greatest château. John D. Rockefeller was Versailles' first benefactor at the end of World War II. His example has been followed by a long, prestigious list of private patrons like Barbara Hutton and the Schlumberger family, and corporate donors like Coca-Cola, Peugeot, and Ciba-Geigy.

The French government, of course, also reaches deep into its pockets to maintain and restore the palace and its gardens. In the rooms currently being refurbished by Moët & Chandon, experts paid out of state coffers have been working for the past three years on the restoration of the panoramic paintings. The six vast canvases of the central room, each approximately 65 feet by 15 feet, all signed by the French 19th century painter Horace Vernet, have now been rehung. Horses with wild rolling eyes rear up out of the smoke, blood, and confusion of battle. Coupled with the freshly regilded cornices, the light streaming through the glass roof, the wall paneling painted in *trompe l'oeil* marble, the effect is stunning.

For the moment, a haze of sawdust still hangs in the air from the workmen laying down the new parquet floors. But by November, when Moët & Chandon opens its anniversary exhibition in these rooms, all glasses should be raised high in praise of the splendid results that are possible when business is mixed with pleasure.

—Ester Laushway

ATHENS

A BALKAN LEADER

The eclipse of communism in the Balkans has coincided with Greece's emergence as a veritable wellspring of investment capital, gushing forth into the coffers of Bulgarian bankers, Romanian retailers, and Albanian advertisers. While the recent national elections in Greece may have exacerbated uncertainty about its own economic future and, concurrently, its plans for greater integration into the European Community, the Balkans have increasingly offered a critical outlet for enterprising Greeks and an important new focus of Greek foreign economic policy.

The northward flow of drachmas and technical assistance into the fragile market economies of Bulgaria, Romania, Albania, and other former Eastern Bloc countries on the heels of communism's collapse has been substantial: The Greeks have financed over 1,000 business ventures, at varying levels of activity, in fields as diverse as shipbuilding, cosmetics, and foodstuffs. They have administered millions of dollars worth of training programs in marketing, management, and banking through the EC Phare program, designed to foster East-West European business linkages. Finally, Greek banks have targeted investment opportunities in the region and raised funds in the international capital markets to finance infrastructure projects.

The Greek foray into the Balkans is concentrated primarily in Bulgaria, where regulations governing privatization and foreign investment have evolved the most rapidly and remain the most stable. Romania lies a close second, and Albania, with the smallest market and least-developed infrastructure, trails in third place. According to the reports of various European research groups, Greece ranks third among foreign investors in Bulgaria and tenth among those in Romania. The Greek telecommunications giant, Intralot, and the Hellenic Bottling Company are among the most high-profile Greek investors in the Balkans.

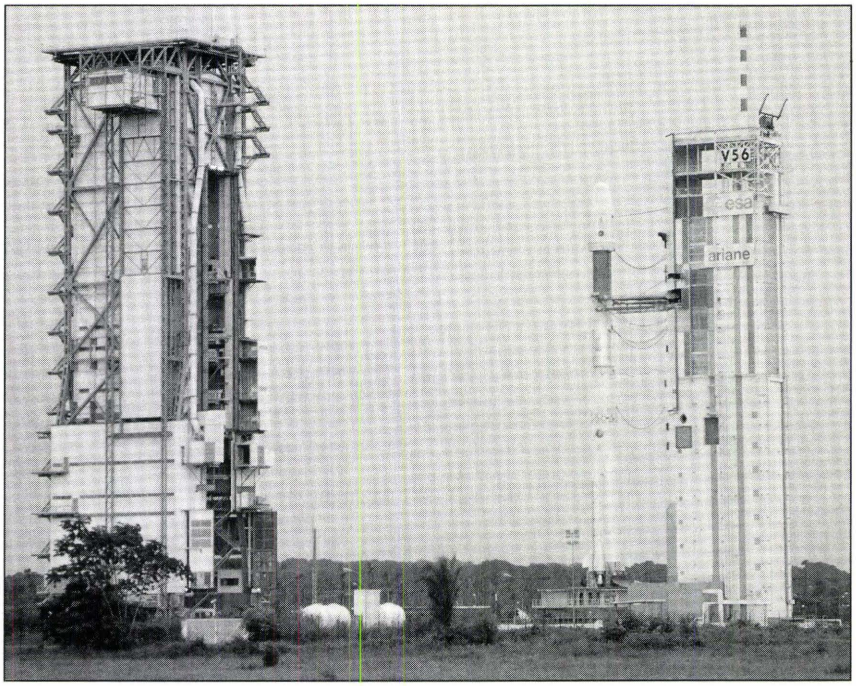
Although Greek entrepreneurs have cited weak infrastructure, poor worker attitudes, and language barriers as continuing obstacles to foreign investment in the Balkans, they point to the relatively low start-up costs, flexibility, proximity, and a large untapped demand for goods and services as important incentives for investment. Additionally, the many historical, cultural, and religious similarities shared by the Greeks and their Balkan neighbors facilitate the formation of joint ventures, compensating for some of the uncertainties that deter other Western investors. In a speech to the Panhellenic Federation of Exporters, former Prime Minister Mitsotakis attributed the impressive progress of Greek businesses in the Balkans and Eastern Europe to "the dynamism of the Greek entrepreneur."

Greek affinity for the Balkans has been widely reciprocated. According to several reports, their Balkan neighbors prefer Greece to its Western European counterparts as a partner in foreign trade and economic cooperation. Many requests for technical assistance emanating from the Balkans are directed specifically at Greece. Some observers have gone so far as to suggest that Eastern Europeans, like the Bulgarians, may actually trust the Greeks more than they do other Europeans.

In addition to providing an outlet for direct foreign investment, the Balkans loom large as a source of trade. By issuing millions of dollars worth of credits to their northern neighbors, Greek banks have spurred the demand for Greek exports. Special dispensations granted by the Bank of Greece, which lifted government-imposed stipulations that trade with Albania and Bulgaria be conducted only in hard currency, have gone a long way toward creating a virtual drachma zone in the Balkans. In a serendipitous twist, the hundreds of thousands of mostly Albanian illegal economic refugees and migrant workers swelling Greece's service sector regularly funnel export-facilitating drachmas back into their countries. In 1992, Greece ran a surplus with all the Balkan countries, with exports to Albania reported to have increased more than 200 percent.

As growing numbers of Western European and American capitalists seek to join the Greeks in contributing to, and participating in, the economic renaissance of the Balkans, Greece itself is increasingly being considered an attractive location from which to serve the goods-starved Albanians, Romanians, and Bulgarians. Some entrepreneurial spirits view Greece as a secure base from which to channel productive foreign investment into the Balkans. Indeed, the dismantling of communism in Eastern Europe offers Greece a unique opportunity to play a significant role in a wider Europe. In a recent Athens News Agency Bulletin, Mitsotakis was reported as saying that "Economically, [Greece] is the most developed country in the region and the one which can operate in the best way as Europe's bridge to the Balkans, the Eastern Mediterranean, and the Orthodox countries in the Commonwealth of Independent States." Needless to say, however, Greece's value as a launching pad from which to break into the Eastern European markets occasionally threatens to be more a function of economic uncertainty in Greece than economic prosperity in the Balkans. On both accounts, only time will tell.

—*Gina Gianzero*



A recent Arianespace flight prepares for launch in Kouro, French Guiana.

LUXEMBOURG

PRIVATE SATELLITES

Europe's first private satellite operator, the European Society of Satellites (SES), announced that it will launch its sixth satellite in its ASTRA system in 1996, underscoring the boom in demand in Europe for increased diversity in television programming.

The satellite will broaden the network's coverage of northern, southern, and eastern Europe and expand the system's ability to transmit digital broadcasts of television and radio programs. Digital transmission enables the satellite to compress several different channels into one receiver or transponder, which bounces the signals back to earth. The digital method produces cleaner, more accurate transmissions.

Satellite launches for ASTRA IV, V, and VI are slated for 1994 and 1996. The satellites are being built by US manufacturer Hughes and will be launched by the European Space Agency, Arianes-

pace. All three satellites will each have 18 transponders and six spare channels.

Once in orbit, ASTRA IV will serve as a backup system for the 48 channels carried on the three currently operating ASTRA satellites. Should a satellite fail in transmitting a channel, the backup satellite would take over the transmission without requiring viewers to make changes to continue receiving the signals.

Combined, the six-satellite network will strengthen the Luxembourg-based company's domination of the European market. In 1989, ASTRA served 13 million households, today 46.4 million. The company expects to have more than 72 million households, or nearly 50 percent of all television homes in Europe, by the year 2000. Germany is ASTRA's largest market, with 17.6 million homes, followed by the Netherlands (5.7 million).

Analysts see three factors contributing to the growth in demand for more programming within Europe. One is the development of Eastern and Central Europe. Another is the general aging of Europe's population, which means more leisure time available for programming. The third is the broadening in use of cable television, which will grow into providing programming on demand, shopping services, and interactive learning.

The new satellites will also enable ASTRA to provide more programming for high definition television (HDTV), the next generation of broadcasting.

ASTRA is working with television programmers and technical teams to develop a strategy to introduce a common standard for transmission and encryption of digitally transmitted HDTV programming.

ASTRA's origins date back to an agreement signed in 1988 by the SES with the Grand Duchy, which gave the SES exclusive use of the orbital path 19.2 degrees east. That accord is up for renewal in 2010.

—James D. Spellman

COPENHAGEN

THE REFINANCING CRAZE

Around two-thirds of all Danish homeowners are expected to refinance their mortgages, reaping a major windfall on the massive drop in interest rates this year.

For many Danish families the net benefit will be $200-300 a month, and the government and businesses hope that most of this will be spent, fueling the hope of recovery and creating new jobs. Almost two-thirds of all Danes own their homes, so a huge amount of extra spending power will be generated.

The Danes have always had a high consumption of housing. Measured in terms of square feet of living space per person, it is almost twice as high as the average of the industrialized countries, including the United States. This demand has been stimulated, some say irresponsibly so, by a unique system of easy access to long-term mortgage financing of up to 80 percent of the value of the home, and tax deductibility of the interest paid, cutting the burden by half. With a 30-year repayment period, a modest quarterly payment will buy you a lot of living space.

Creative mortgage institutions introduced, with political blessing, special loans which converted the difference between the nominal value of the bonds and their market value when sold—normally at a discount—into tax deductible interest. The real scoop now is that this tax break can be retained when present existing mortgages of this type are exchanged into cheaper mortgages, some now with a nominal rate of 6 percent. Just a few years ago, 12 percent bonds were launched. They are now set to become financial dinosaurs at a very young age.

On the face of it, this refinancing operation is one of the most far-reaching events in modern Danish economic history. If the Danes react like they used to just five or six years ago, they will mount a major spending spree.

But this time, the consumers may defy the government's aspirations. The Danes have become as great, or greater savers than the prudent Germans. Homeowners have, on average, seen the value of their property slide by 20 percent or more over the last year, in response to recession and the end of inflation. And unemployment is rampant, among the highest in the EC, and still growing. So only a moderate upturn in consumer demand is expected by many independent economists. Consumers are digging in to weather future storms rather than indulging themselves.

—Leif Beck Fallesen

MADRID

TELEFONIC BATTLES

As calls for further deregulating Europe's telecommunications industry reach a crescendo, a war over supplying data transmission services has broken out in Spain, pitting a joint venture headed by British Telecommunications PLC against the largely state-owned giant Telefonica.

The battle was joined in September when British Telecommunications announced that along with Banco Santander, the country's fourth-largest banking group, the company planned to launch a joint venture which was targeting at least 20 percent of the country's newly liberalized data transmission market.

According to press reports, the joint venture is prepared to invest around $620 million over the next decade in its bid to get a foothold in what is expected to be a major growth industry in Spain.

Iain Vallance, the Chairman of British Telecommunications, described Spain as "an exciting market, because the potential for growth is tremendous."

Telefonica, which has enjoyed a virtual monopoly on telecommunications throughout the country, fired back the next day with an announcement that it was setting up its first client, the Caja de Madrid savings bank, which has 1,200 branches and offices.

At the same time, Telefonica said it would pour almost $255 million into expanding its network around the country and add voice and image services. In a fit of pique, the company also ordered its provincial managers to cancel any and all accounts Telefonica may have with Santander, the joint venture partner of British Telecommunications.

Analysts say this squabbling will pale in comparison with the battle to come as companies fight it out for lucrative market share after the government issues licenses for operating mobile telephone service later this year.

The market is expected to explode from some 300,000 current mobile phone users to as many as 3 million within seven years.

Meanwhile, 500 senior European executives told Harris Research that liberalizing telecommunications was more important than deregulating airlines, railways, utilities, water, or health care.

In the poll, 70 percent said that they were unhappy with their current telecommunications suppliers and wanted to switch.

—Benjamin Jones

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ARTS & LEISURE

ART

Lovis Corinth
National Gallery of Art; Washington, D.C.; through Feb. 21, 1994

The tumult of turn-of-the-century Europe and the artist's own inner turmoil are powerfully expressed in the master prints and drawings of Lovis Corinth (1858–1925) currently on exhibit at the National Gallery of Art in Washington, D.C. The collection includes a remarkable variety of prints, encompassing nudes, mythological and religious scenes, portraits and self-portraits, landscapes, and interiors, all of which display the talent of one of Germany's best-known artists.

Born in a small East Prussian farming community in 1858, Franz Heinrich Louis Corinth was raised in an atmosphere of "envy and hatred" (the artist's own words); his cold, stern mother and her children from a previous marriage provided none of the affection and support traditionally associated with the family environment. This role was assumed by Corinth's father, who showered his only son with affection and encouraged his artistic aspirations. This family situation created a man of contradictions: inflexible, vindictive, and ambitious, yet affable and sensitive around those he knew well.

Lovis Corinth, *Death and the Artist*, 1921, a soft-ground etching and drypoint in black on Japan paper, National Gallery of Art, Washington.

Supported by a generous allowance from his father, Corinth studied art for an unusually long period (11 years, from 1876 to 1877), with such famous teachers as Fleury and Bouguereau. His success began in 1890, with a medal at a London exhibition and continued to grow. It was during this period that Corinth changed the spelling of 'Louis' to 'Lovis', ensuring greater public recognition and recollection of his name. He spent time in Paris, Munich, and finally Berlin, where he met his wife, Charlotte Berend. Her influence is most noticeable in her portraits, of course, but also in Corinth's domestic scenes, such as 1916's *Interior with Floor Lamp*, which appeared following their marriage.

The events of the turn of the century had a profound effect on Corinth's art. World War I and the ensuing social and political upheavals created feelings of frustration and depression which the artist sought to resolve through his work. He had always been receptive to innovation, experimenting with many different styles, and after the war he showed an interest in woodcuts. Returning to this oldest and most Germanic form of printmaking can be seen as the artist's reaction to what he perceived as the dishonoring of German artistic tradition by artists modeling themselves exclusively after the French. Corinth, however, dedicated himself to developing his own ideal while preserving his nationalist beliefs. *The Standard Bearer* (1920) is a good example of the artist's post-war emotion as expressed in his work. In this drypoint, the standard bearer (a warrior who enters battle carrying the nation's flag) is recognizable as Corinth himself, who was a proud nationalist and political conservative.

Corinth's prints and drawings are technically excellent and impeccably executed, but their true impact derives from the powerful symbolism and emotion behind each one.

—Lauren Ptito

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