

Greece's Goal • Personal Investing • Kosovo Crisis



EUROPE

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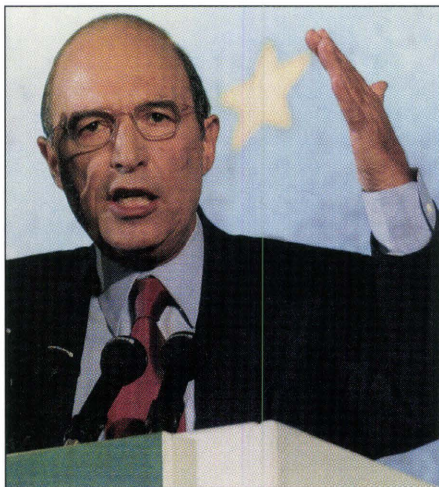
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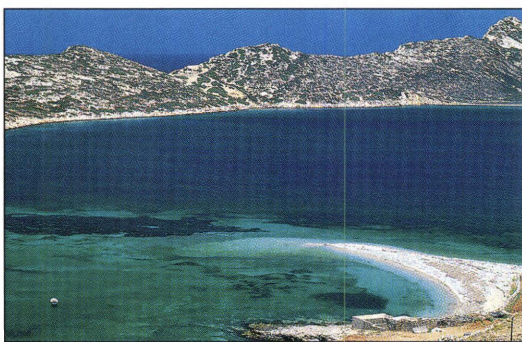
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ECIS : 2

Letter from the Editor

Is Europe a financial “island of stability” and an “oasis” of economic reliability during the current global financial slump? Will the financial problems facing Brazil, Malaysia, Russia, and Japan have a serious impact on the economies of European countries?

Bruce Barnard, writing from London, comments, “Bartering a global meltdown, Europe is set to ride out the storm. While the storm rages, Europe is doing something remarkable: creating a brand new economy.”

Alan Osborn reports on the proposed “strategic alliance” between the London and Frankfurt stock exchanges. Kerin Hope, writing from Athens, discusses the ups and downs of the Greek stock market, and Benjamin Jones, reporting from Madrid, writes about how privatization issues are sending the Spanish stock market to new heights.

In our Capitals department, our fifteen correspondents report on an aspect of personal investing in their respective nations. From “Granny’s Nest Egg” in Ireland to “Dutch Pensions” in the Netherlands to “Italians Flocking to Stocks” in Italy, our writers present a detailed account of how the average citizen invests his or her personal savings.

Yannos Papantoniou, the respected Greek finance minister, in an exclusive *EUROPE* interview, outlines his views on reforming the world economic system, the euro, currency controls, the European Central Bank, the economy of Greece, and the financial problems in Russia.

“What is the future of Kosovo?” asks Martin Walker, based in Brussels. Sadly, Walker writes, “The tragedy of Kosovo is not yet complete.” *EUROPE* details what role the European Union is playing in Kosovo to provide needed humanitarian assistance.

Our Vienna correspondent, Susan Ladika, has recently returned from Bosnia and outlines how that country is rebuilding with quite a bit of help and manpower from the European Union. She speaks with EU officials in Sarajevo to find out exactly what the EU is doing to maintain the peace and rebuild the former war-torn nation. Surprisingly, she finds that some adventurous tourists are already visiting Sarajevo on their holidays.

Greece is working overtime to join the European single currency by January 1, 2001. *EUROPE* profiles the Simitis government and its efforts to join “Euroland” as soon as possible.

EUROPE goes to Amorgos, the easternmost island in the Cyclades, to present an old-fashioned but beautiful travel destination. *EUROPE* also looks at another new tourist destination—Zagreb—and finds it as enticing as Prague or Budapest.



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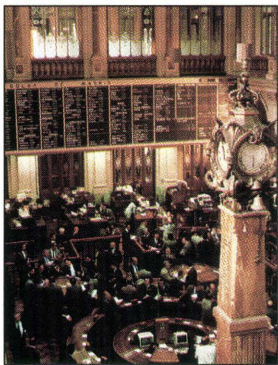
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Reuters has contributed to news reports in this issue of *EUROPE*.

Buy, Sell, Hold:
Spain's Bolsa de Madrid saw a profitable first half of 1998, increasing in value by 40 percent and reflecting the growing shareholder culture both in Spain and across Europe.



The Egnatia Motorway

Egnatia Odos, the Egnatia Motorway, is a project of major significance and international caliber. It is the first road corridor of high standards to cross Greece horizontally, with an overall length of 425 miles.

It stretches from the Ionian port of Igoumenitsa in the west, to Alexandroupoli, on the Turkish border, in the east. Retracing the historic "Via Egnatia", one of the largest Roman roads of ancient times, the present Egnatia Motorway across northern Greece belongs to the Trans-European Transport Network and is one of 14 priority projects of the European Union.

The motorway establishes Greece as the link between the West and the East, while its nine perpendicular road axes open communication channels towards the north and to the Aegean Sea, connecting northern Greece with Albania, the former Yugoslav Republic

of Macedonia (FYROM) and Bulgaria. Besides opening new horizons for cross-border co-operation with the regional markets of the Balkans, it also accesses the maritime routes of the Mediterranean through five main ports.

The project ensures:

- Reinforcement of the productive potential of Greece, through improved, safe access and reduced time and costs for the transport of people and goods.
- Strengthening of the local economy, with the further development of dynamic regions and improved communication with isolated regions.
- Enhancement of the transnational role of northern Greece, and particularly of the port of Thessaloniki, in the Balkans as well as in Central Europe.



The Egnatia Motorway is financed jointly by the European Union and by the Greek State. In 1995, the company Egnatia Odos A.E. was set up by the national government to design, build, manage, operate and maintain the Egnatia motorway. The company's sole shareholder is the Greek State, represented by the Ministry of Environment, Physical Planning and Public Works.

THE MISSING LINK

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GREECE



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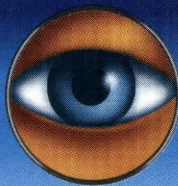
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EYE ON THE EU



Profiling
Personalities and
Developments
Within the
European Union

The six applicant states that have been put on the fast track for EU membership—Cyprus, the Czech Republic, Estonia, Hungary, Poland, and Slovenia—may soon be joined by two more—Malta and Slovakia. In both countries, the voters have decided to remove the main barrier to entry. Yet, it is by no means certain that Europe's leaders will hasten to roll out the red carpet.

Malta first applied for membership in 1990, and in 1994, the European Council, meeting in Corfu, promised that it would be included in the next enlargement. A year later it was agreed that entry talks would start within six months of the conclusion of the intergovernmental conference, which ended in Amsterdam in June of last year. Malta would consequently have been included in the membership negotiations that began last March, but in the meantime, there had been a change of government in Malta, and the Labor government led by Alfred Sant put the Maltese application on hold.

A snap election called in September led to the defeat of Sant and the return of a Nationalist government under Eddie Fenech-Adami, who had tabled the original Maltese application. No sooner had the votes been counted than Mr. Fenech-Adami announced that the application would be immediately reactivated. The news was received in Brussels with some reserve.

The Maltese will have to make serious adjustments before they are ready for membership. The heavy subsidies paid to the ship-repairing industry will need to be phased out, while import levies on some 400 products will have to be abandoned. Value-added tax (VAT), introduced by Fenech-Adami's earlier government, and then scrapped by Labor, will also need to be re-imposed. However, none of these issues are as serious as those confronting other fast-track applicants, notably Poland, which faces a major upheaval in its large agricultural sector.

What really worries Brussels, however, is the fickleness of the Maltese electorate. Can there be any assurance that if the negotiations are re-started, Labor will not break them off again if it returns to power in a few years' time? The one thing that Mr.

Fenech-Adami could do that would give his renewed application the greatest chance of success would be to agree on a bipartisan approach with the opposition. The prospects for this do not look all that promising, though Labor claims not to be opposed to EU membership as such, merely doubtful about the timing.

The position in Slovakia is rather different. All of the main political parties would like their country to join the European Union. It was kept off the fast track because of severe EU doubts about the human rights situation in the country. The culprit was seen as the authoritarian nationalist leader, Vladimir Meciar, who took Slovakia out of the Czechoslovak state in 1992 and has ruled the country for all but nine months since then.

In this September's elections, Mr. Meciar's party was roundly defeated by a group

of four opposition parties who together polled 58 percent of the vote. There are serious policy differences between these parties, but their leaders have vowed to act together to form a new coalition government dedicated to restore the civil rights that had been seriously curtailed during Meciar's rule.

If they succeed in doing so, they should stand an excellent chance of getting back on the EU train. The negotiating process is, in any event, continuously monitored by the European Commission, which is empowered to recommend to the European Council whether any of the applicant countries previously deemed unready for membership should be reconsidered. This could happen as soon as the Vienna summit of EU leaders in December, but the probability is that both Malta and Slovakia will be required to work their passage for rather longer.

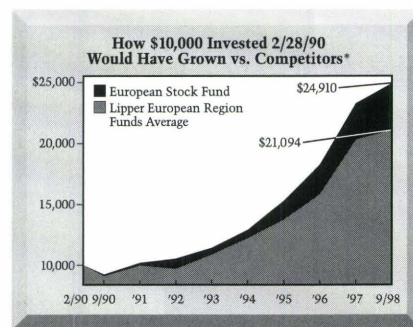
—Dick Leonard

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EU ONLINE



TUBBY TIME

A spirited foursome has taken the United States by storm, sending youthful admirers screaming for more. This second British invasion isn't about mop-topped musicians or teenagers. The fans are a bit younger, and the group sports brightly colored pear-shaped suits with antennas protruding from their heads and television screens in their middles.

That's right. It's time for Teletubbies. The odd-looking creatures have found legions of preschool-age fans who tune in daily to this BBC television export to follow the adventures of Tinky-Winky, Laa-Laa, Dipsy, and Po. The four talk in baby-like voices and offer lots of repetitive games and stories to appeal to the toddler set. The lessons may be simple, but these babies are a long way from *Sesame Street*. Their home is the futuristic underground Tubby Tronic Super Dome. Videos appear on their abdominal television screens. Kids who can't get their fill with a half-hour a day can tune in the show's Web site (www.bbc.co.uk/education/teletubbies) for more Teletubbies fun.

The site encourages participation rather than simply providing images from the program. Visitors who click on "Tubby Playground" can help Po navigate back home on her scooter, moving

the mouse to help her avoid obstacles and speed her along. Another game invites kids to find one of the characters hidden somewhere on the screen. A click on the correct hiding place and the Teletubby magically appears. A "Make and Do" section includes some of the Teletubbies' favorite recipes for children to make with the help of an adult.

The Gallery features a 360-degree view of the inside and outside of Tubby Tronic Super Dome. Parents have their own section, which guides them on the use of the site, explains how children can learn from it, and encourages adults to send in feedback.

For the uninitiated, the PBS Teletub-



bies site (www.pbs.org/teletubbies) is a good starting point. There are a few kids games—such as making up a dance routine for Tap Dancing Teddy—but PBS offers more of an introduction to the program with background on the characters, a video clip from an interview with creator Ann Wood, and links

to local PBS affiliates to check out when *Time for Teletubbies* airs. PBS is no match for the sound and animation of the BBC site, but it does provide some guidance to an American audience.

Kids looking for total Teletubbies immersion should tune into the BBC.

SITE OF THE MONTH: INTERNET TV

An Italian television network has blurred the line between television and the Internet with a Web site that lets viewers catch up on current events around the world as the locals do.

Brescia Television's Internet TV (internetv.virtualspace.net) features video and audio—some of it live—from several dozen television stations. A recent visit to the site found a day-old fifteen-minute BBC newscast, featuring top news and sports stories. France3 offered a shorter but more up-to-date clip. Visitors could find live programming on an Irish music channel and a French fashion channel, which were

transmitting music videos and runway footage, respectively. American stations such as the History Channel, CSPAN, Fox News, and NASA TV also are accessible.

Viewers need to download the RealPlayer plug-in, which is well worth a few minutes' wait considering the growing number of Web sites that use video. The images

are a bit choppy, but the sound quality is good. The amount of Internet traffic also can occasionally interrupt the video. Despite the technical drawbacks, the sounds and sights offer viewers a fascinating contrast to the content and packaging of television at home.

—Christina Barron

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ATHENS STOCK EXCHANGE

Interview

With The Chairman

The Athens Stock Exchange has made great strides within the last few years and is growing in size, sophistication, variety of products and regulatory coverage. Its Chairman, Spiridon Kouniakias, predicts that investors' interest will continue to be strong and will keep Greece on target for EMU entry on January 1, 2001.

Q: *Could you summarize the main developments and trends which have made the Greek capital market progress so significantly?*

SK: The major developments of the past few years were the following:

- The change of the legal structure of the Athens Stock Exchange (ASE) in 1995 from a legal entity to a joint stock company and the sale in 1997 of approximately 40 per cent of the share capital of the ASE to banks, institutional investors, pension funds, listed companies and ASE members.
- The start-up of the share dematerialization project.
- The establishment of the derivatives market.
- The establishment of the Parallel Market for emerging markets.
- The establishment of the market for Fixed Income Securities.
- The transfer of bonds to electronic trading.
- The creation of a new index, the FTSE/ASE 20, composed of blue chip stocks.
- The enhancement of investors' protection through the creation of a Supplementary Fund and the restructuring of the ASE Members' Guarantee Fund.



Spiridon Kouniakias, Chairman, Athens Stock Exchange

- The launching of a competition for the procurement of a new integrated electronic trading system. The selection process resulted in a consortium which will use the technology of the Chicago Stock Exchange for the cash market, and of the Swedish OM Group for the derivatives market.

Q: *The government is currently examining a new piece of legislation amending listing requirements. What are the main objectives of the pending legislation, how will it affect the ASE, and when will it be in place?*

SK: The pending legislation is expected to enhance the attractiveness of the market. The main points of the draft law that has been put before parliament are the following:

- The minimum net equity of a company for the listing on the main market will increase from \$3.6 million to \$7 million.
- The company will not be obliged to realize a share capital increase, as

long as 25 per cent of its share capital is distributed to at least 2000 investors prior to the offering.


- The minimum prior existence of a company will drop from 5 years down to 3, and it must show sufficient operating results for the last year (instead of the last 5 years) preceding the listing application.
- When the listing is preceded by an IPO, the company will be free to choose the book building method in order to estimate the issue price.

Q: *What have been the effects on the ASE of the turmoil in other markets since the summer, and what do you consider the most likely scenario over the coming months?*

SK: The recent crisis in Russia took its toll on the Greek capital market. At the end of August, the ASE General Price Index was about 22 per cent lower than at the end of July. In the same time period, the monthly trading value of equities fell to \$3.5 billion, compared to roughly \$5.3 billion in July.

Nevertheless, we believe that the sound basis of the Greek economy and continuing privatizations are enough to sustain investors' interest. In spite of the recent downturn, we feel that prospects are encouraging in the medium and long run and that the Greek capital market still ranks high in performance among other emerging and developed markets.

For further information, visit the Athens Stock Exchange on the Worldwide Web at <http://www.ase.gr>



G R E E C E

GREECE'S GOAL

On the Road to Euroland: Prime Minister Costas Simitis has made significant progress in preparing Greece to join the euro.

Entering Euroland

THE GLOBAL FINANCIAL CRISIS has not dented Greece's confidence that it will join the European single currency on January 1, 2001. Prime Minister Costas Simitis and his moderate Socialist government have pledged to tighten economic policies and speed up reforms to ensure that Greece can meet its deadline for entering Euroland. **BY KERIN HOPE**

Mr. Simitis has swung the governing Panhellenic Socialist Movement (PASOK) behind him over the painful changes needed to bring Greece in line with its EU partners. He has quelled party infighting over his credibility as Greece's leader, and his modernizing faction—known as the “synchronists”—is steadily gaining ground.

Young Greeks, who travel and study in other EU countries in increasing numbers, are among the most enthusiastic supporters of euro membership. Greece's businesspeople, who used to vote for right-of-center parties, have switched support to Mr. Simitis in large part because of his determination to

bring Greece into the euro zone.

Although Greece will not be a founder member of the euro, its banks and big companies are gearing up to trade in the single currency zone from its launch next January.

Greece is on track to hit all but one of the Maastricht convergence targets this year. The budget deficit, the public debt, and the long-term interest rates have been shrinking in line with the treaty requirements. Reaching the inflation target is more difficult, and the Socialists have adopted new weapons to reduce inflation from 5.2 percent in September to less than 2 percent by December.

Price freezes for utilities and trans-

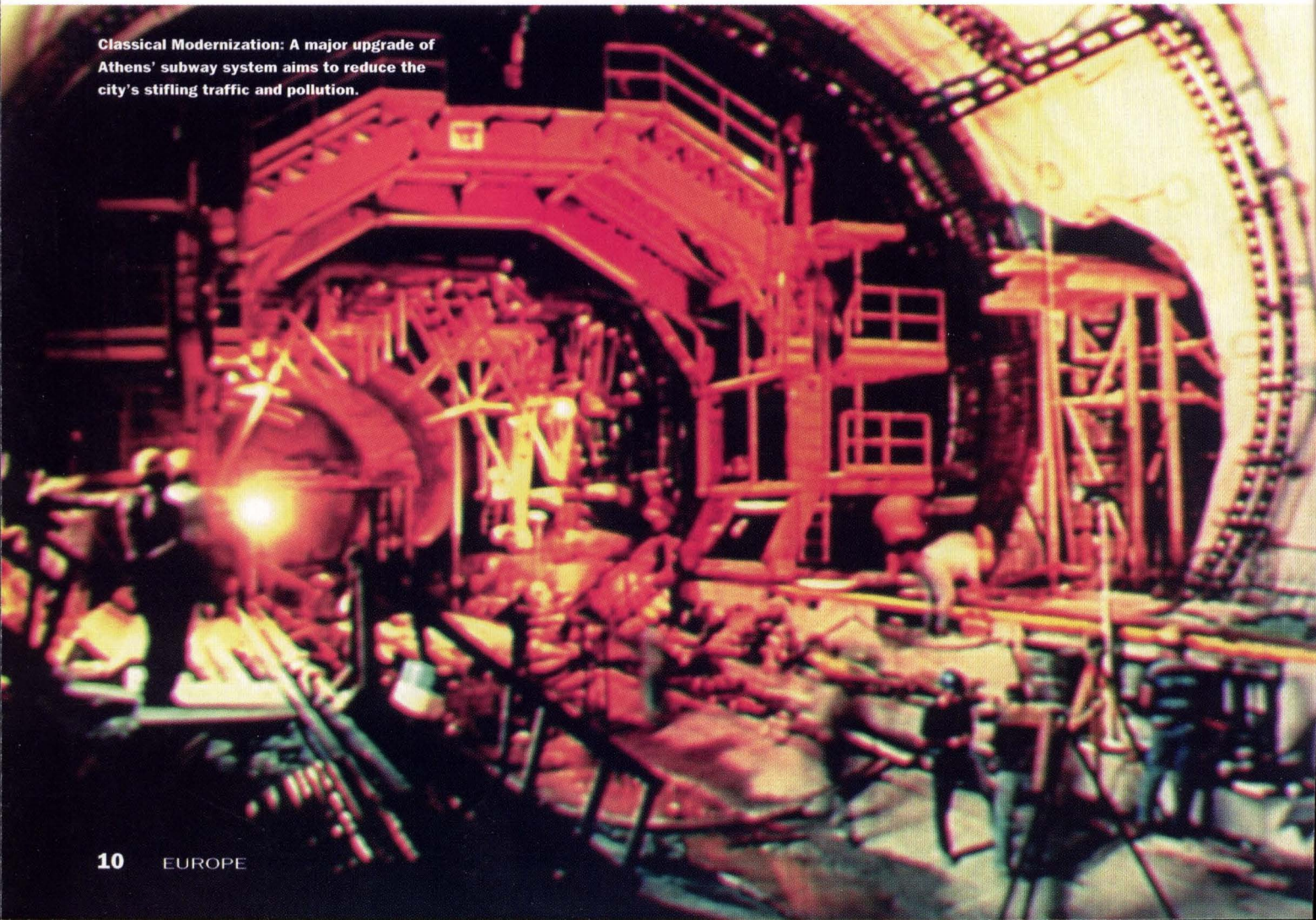
portation are planned; supermarkets are under pressure to cut prices on basic foods and consumer goods; and taxes on gasoline and heating fuel have been reduced.

“Because of the slowdown forecast next year in most EU economies, we have to clamp down even harder on the inflation rate so as to meet the EMU target,” says Yannis Stournaras, the government's chief economic advisor.

Yet Greece's economy is growing at faster rates than the EU average, thanks to cash infusions from the EU's structural funds amounting to about 3 percent of gross domestic product and a recovery in private investment. Growth in

Greece's economy is growing at faster rates than the EU average, thanks to cash infusions from the EU's structural funds amounting to about 3 percent of gross domestic product and a recovery in private investment.

Classical Modernization: A major upgrade of Athens' subway system aims to reduce the city's stifling traffic and pollution.



GDP this year is projected at 3.5 percent, rising to 3.8 percent in 1999.

The funds provide financing to rebuild Greece's out-of-date infrastructure and make the country a hub for regional trade and tourism. A new \$2.7 billion international airport for Athens is scheduled to open in 2001, and work is underway on a \$245-million bridge across the Corinth Gulf. The 422-mile Egnatia highway, linking the Adriatic with the Greek-Turkish border at a cost of \$2.5 billion, is designed to become an important transit link for Turkey and the Central Asian countries to send goods to European markets.

However, some rank and file PASOK members are still wary of the government's reform efforts because they fear that modernization of Greece's public sector will bring job losses. There is rising concern about an increase in unemployment, now exceeding 10 percent of the work force for the first time.

The Socialists have launched restructuring programs of loss-making transport companies and utilities. The privatization program is being extended to include state utilities and banks. Although there are no plans for mass layoffs, jobs will be gradually reduced through transfers and early retirement programs.

Modernization of Greece's manufacturing sector has created comparatively few new jobs, as much of the new investment has gone to improve automation and productivity. At the same time, a wave of immigration from Eastern Europe has added more than 500,000 workers to the labor force, mostly Albanians fleeing dire poverty at home.

Labor reforms enacted over the summer are designed to help new entrants to the work force find jobs. The government also wants to increase the number of part-time jobs, which account for only 5.5 percent of the total against an EU average of around 15 percent, according to labor ministry officials.

The private sector is investing faster than at any time in the past twenty years. Manufacturing output is set to rise by almost 3 percent this year. "There's a new business climate that is unprecedented for Greece. People have a real sense of opportunity, and the obstacles to growing your company are shrinking," says Costas Apostolides, managing director of Chipita, a fast-

growing snack food manufacturer, which has set up plants in Portugal, Egypt, and Bulgaria.

The drive to boost competitiveness ahead of the euro's launch also affects two of Greece's biggest industries, tourism and passenger shipping. Tourism is Greece's biggest foreign exchange earner and contributes at least 7 percent of the gross domestic product. The government wants to promote investment in big resort complexes that can operate year-round.

For the first time, Greece is actively seeking international investors to develop high-quality tourist resorts, offering tracts of state-owned land in prime locations on long leases. TUI, the German tour operator, has teamed up with Grechotel, Greece's biggest hotel chain, to launch a \$200 million project to transform a spa property in western Greece into a sports and health resort.

A UK investment group, Loyalward, is planning a \$895 million resort project in eastern Crete. It would include hotels, a conference center, a marina, and

several golf courses to be built on land belonging to a Greek Orthodox monastery by local contractors and managed by international resort chains.

Greece's passenger shipping operators, which run ferries to the Aegean islands and across the Adriatic to Italy, are gearing up to face tough competition in their home waters after 2003, when other EU ferry operators will be allowed to join the market. Greek operators have placed orders for new high-speed ferries worth almost \$1 billion with delivery to start in 2001. The new vessels will halve sailing times from Piraeus to Crete, the busiest island route, and other popular Aegean islands.

"There is no room for delay," says Yannis Criticos of Attica Enterprises, Greece's biggest fast ferry operator, which has ordered four fast ferries worth \$450 million. "Competitive pressure is getting stronger, and we have to be ready." ☺

Kerin Hope is EUROPE's Athens correspondent.

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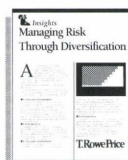
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Yannos Papantoniou

Greek Finance Minister

Yannos Papantoniou, Greece's minister of national economy and finance, while in Washington for last month's IMF meetings, spoke with *EUROPE* Editor-in-Chief Robert J. Guttman about the global financial crisis, the Greek economy, the EU, and the euro.



**EUROPE
INTERVIEW**

How is the economic situation in Greece?

The [economic] climate has improved substantially over the recent years and especially during 1998. The fiscal deficit has fallen very substantially. Inflation is also falling, despite the devaluation. And growth has resumed at a very high rate by present standards—3.5 percent. We want to fulfill the criteria for joining Europe's economic and monetary union [EMU] by the end of 1999 so that we apply for membership in the year 2000 and join the monetary union by January 1, 2001. We shall meet this objective.

What are the roadblocks to joining EMU?

Inflation is a major problem because there are lots of resistances. Greece has lived with a very high inflation for many, many years, which has created very high inflationary expectations. But we shall pursue very restrictive macroeconomic policies so as to obtain this objective.

Although the United Kingdom is not a member of the euro zone, UK businesspeople say they will start using the euro. How do you think Greek businesses will react?

Greek businesses are very international right now, and Greek exporters and also tourist operators will enjoy having a single currency. Don't forget that Greece is also a tourist country. About 10 million people come visit Greece every year, and having a single European currency will facilitate

this movement. Moreover, Greece now has high drachma interest rates. The euro rates are much lower, so businesses will take advantage of this lower cost of money to expand and invest.

How important to your economy is business investment in Greece from the other EU countries?

Quite substantial. I think that 60 percent or 65 percent of total foreign investment comes from the EU. And this, of course, will tend to rise once Greece joins the euro zone. However, I would like to also stress that the Greek-American economic relationship should be improved in this context. Greece is now a European economy, having the same institutions, the same procedures as any other European economy. [It is] also a substantial place in the Balkans and the Black Sea area and could become the focus point of the interests for multinational corporations. American business could also take advantage of the improvement.

You said that 40 percent to 60 percent comes from the EU. You're talking about EU businesses investing in Greece?

Yes.

What about assistance from the European Commission?

The assistance from the European Commission comes essentially in the form of positive recommendations for the community support framework—that is the money from...Brussels

which comes to Greece to finance large infrastructure projects. Of course, the financing is supplemented by national funds from our own taxpayers, but the European contribution is quite important. And this is what has enabled us during these years to build motorways, improve ports, airports, build energy networks, improve telecommunications, and generally construct the infrastructure that we shall need in the 21st century.

What about enlargement—are you worried that more EU money is going to go to Central Europe and the other new countries and not to Greece in the future?

We are worried, but we fight for it in the sense that we support enlargement politically because these countries are very friendly to us, and we believe in a wider Europe. On the other hand, we are very keen to ensure that enough money stays in the south of Europe. Countries like Greece, Portugal, Spain, even the south of Italy are poor countries relative to the European average and need some supplementary assistance...to raise their level of competitiveness.

When the euro comes into effect, do you see national stock markets fading away and maybe one single European stock market?

That's far away. No, national stock markets will remain. Perhaps better cooperation between the stock markets will take place, but the stock markets as institutions will stay in their place.

What do you think of the mood of the people in Greece toward the EU? Is it positive?

Very positive. Polls indicate support which is close to 85 percent for joining the EMU, and also the support of political parties is quite substantial. The two major parties support it, plus two of the smaller parties. Only the orthodox communists are against it, but they represent about 5 percent of the population.

You attended the IMF meetings [September 29–October 8]. Do you believe the world needs new financial and economic structures? Do we need some new kinds of institutions?

I believe that we need new structures. Of course, this is easier said than done because apparently a lot of study and work must be done; lots of discussions among the major players are needed. But obviously the globalization of the world economy imposes new restraints on the pursuit of national economic policies and creates the need for much better supervision and coordination on the part of the international economic organizations. Therefore, we need a new structure. But we have to think about it a lot before we actually institute it because it is a very difficult challenge.

Do you have any suggestions for the new structure?

Three points are essential. First of all, more resources for intervention. This is obviously needed even now. Secondly, better political direction on the part of the international institutions because they would have to intervene in a wider range of issues than has been the case under the Bretton Woods arrangements. And thirdly, the capability to make these interventions both as to the structure of national financial systems, the quality of the financial transactions, the controls of these transactions, and various other issues in which a clear political direction must be given.

Currency traders like George Soros have called for some controls on currency transactions. What do you think about that?

We need to think carefully about this because where one draws the line is very important. In theory, I'm in favor of such controls, but I see many practical problems in implementing such a scheme.

Do you think Europe is going to become more united now that the Social Democrats, the socialists, are in power almost everywhere except in Spain and Ireland?

Yes, I do think that we'll be more united because now we do have socialists in thirteen out of the fifteen governments of Europe...So, there seems to be a consensus of political views, which might give a new impetus to the European unification.

Henry Kissinger once said that there is nobody to call in Europe—there is no single voice. Now people say one can call Wim Duisenberg in Frankfurt at the European Central Bank. Do you agree with that? And do you also think there needs to be a single voice in common foreign and security policy?

I don't think that the European Central Bank can speak for Europe. It can speak for Europe on monetary matters, but on other matters, the governments of Europe do need to unite their voices and speak with more coherence and cohesion. This is the big challenge now in Europe to try to formulate common policies and express them in the single voice at the political level. The same holds true for foreign policy. But perhaps there, it is even more difficult than economics because interests sometimes diverge, while in economics the convergence of interests is more pronounced.

Do you think Americans should be concerned with the euro? Do you think it's going to be in competition with the dollar?

I don't think "competition" is the right word because the world is big enough to be able to accommodate both major currencies. But in a sense, the Americans should see it positively because it will facilitate national monetary cooperation to have these two major currency blocks. On the other hand, of course, some freedoms the Americans have as a result of the dollar being the single most important currency in the world might be curtailed.

Do you think people around the world will start using the euro as a reserve currency?

Yes.

Do you think that's good for the world?

I think that's good.

You've talked about Russia hitting bottom economically. But if Russia hits bottom, what are the political implications?

Russia is a huge country with nuclear weapons. That's the major problem facing Europe. Not in the financial sphere but in the overall political sphere.

Some people are saying that maybe Russia is lost already. Do you agree with that?

No, I don't agree with that because the Russian situation is still very, very uncertain, and no clear outcome is deduced from the currency question. We don't even know what the new government will do. We don't know who could be the candidate for the next presidential elections. There are very many important question marks. After the next presidential elections, we may have a better view of the [path] Russia is taking.

If you had to say there's one major problem facing Europe today, would you say it is Russia?

Yes. Russia is the biggest problem.

How are Greek-US relations?

Greek-US relations are good...on the political level. There is a lot of cooperation. There are some [concerns] in Greece about America not being very supportive in non-national issues, especially the challenge from Turkey. And we've got to impress the US to take a more active role in trying to resolve the Cyprus question. But on the economic side, I should say I'm not terribly happy because I see a certain stagnation in our economic relations. Trade, investment, tourism are in a steady state, while I believe that more can be done. One part of my job here in the US is to communicate the recent progress in Greece, the fact that we shall soon be the twelfth member of the economic monetary union, and to invite American businessmen to invest more in Greece.

Are you trying to get US business into Greece by emphasizing you're part of the EU?

Exactly. By [being] a major regional power within the Balkans and the Black Sea area. ☺

Space Imaging

Takes

Will
photos
from space
prove
profitable?

BY ANGELIKI PAPANTONIOU

Picture This: From 420 miles in space, SIE satellites will be able to capture images of objects that measure only three feet in diameter.

With an initial investment that will exceed the \$30 million mark, Space Imaging Europe SA (SIE) based in Athens, Greece, announced last May a strategic business relationship with privately held Space Imaging Inc. (SI) of Thornton, Colorado, to exclusively market high-resolution Earth images from the IKONOS satellites.

The Greek investors were clearly attracted by what experts believe can be worth as much as a \$10 billion-a-year Earth observation industry. In the words of SIE's chairman John Markopoulos, "Information is becoming the currency of commerce in the business today, and SIE wants to be at the forefront of the industry."

The newly formed company will exclusively market the imagery from the IKONOS satellites in the geographic territory that includes about fifty countries and covers an excess of 9.3 million square miles, from the UK to the Middle East and from Scandinavia to North Africa.

SI, a partnership of Lockheed Martin Corporation, Raytheon E-Systems, and Mitsubishi Corporation, was founded in 1994 with the purpose to commercialize technology previously used only for spy satellites. Other investors have since joined the list, including Singapore's Van Der Host Ltd. and Korea's Halla Business. The total investment, according to SI, now exceeds \$750 million.

IKONOS-1, the first satellite that SI will launch in late 1998, will produce images that for the first time will display objects on the Earth's surface as small as three feet in diameter. Such high-resolution will actually allow someone to see the field lines of a football stadium in a picture taken from 420 miles in space. By comparison, the Indian IRS satellites currently produce images of objects fifteen feet in diameter.

Set in a polar orbit, the compact designed IKONOS-1 will orbit the planet every ninety-eight minutes and download as many as 600 images per day. In addition to the ability to map vast areas with unprecedented speed on short notice, IKONOS will also be able to collect information from specific areas, which can be as simple as following a power line.

The IKONOS expects its products to be used extensively in agriculture, utilities, urban planning, environmental management, infrastructure development, transportation, telecommunications, and natural resources development. In the European market, SIE expects that the primary customers will come from agriculture, cadastral, local government, and utilities. For example, IKONOS high-resolution imagery will help growers recognize the extent of crop disease, urban planners determine land use, and utility companies select paths for their lines that incur the least cost.

Upon the successful launch of IKONOS-1, the Greek investors intend to spend \$30-40 million during 1999 to

install and operate a regional operations center and to purchase time on the IKONOS-1. The regional operations center will consist of two locations: a satellite ground station, which will be located on the outskirts of Athens, to task and receive images from the satellite, as well as a "state-of-the-art" computer facility, located in Athens, to receive customer orders, process the images, and build an imagery archive. SIE plans to be operational by March 1999.

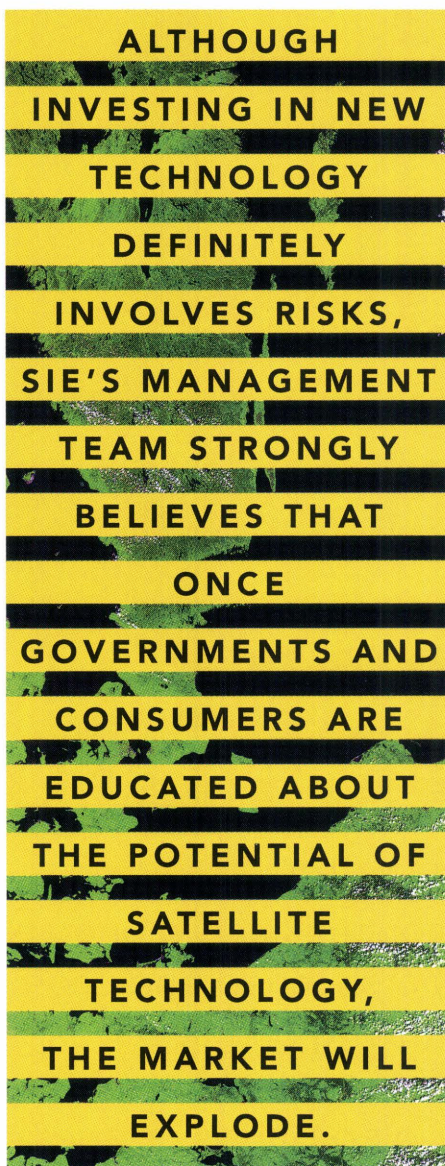
SIE expects more than 95 percent of its revenue to come from European and international markets, with only 5 percent coming from Greece. Now, SIE is actively seeking strategic alliances with important industries that will expand its market share and investment. SIE also envisions marketing value-added products. "Our goal is not only to provide high spatial resolution Earth observation data," says SIE general manager Michael Wasielewski, "but to provide the crucial turnkey solution needed for the specific customer."

The success of SIE's investment will depend on the successful launch of IKONOS by the end of the year. A launch that has been postponed in the past for further testing and which, according to SIE officials, negatively affected the company's investment process. As for SI, it cannot afford to lose valuable time. It expects to be the market leader for commercial high resolution satellite data, but it is well aware that it will soon face competition. Orbital Imaging Corp. (ORBIMAGE), based in Virginia, is preparing satellites of similar specifications to be launched in 1999.

Overall, although investing in new technology definitely involves risks, SIE's management team strongly believes that once governments and consumers are educated about the potential of satellite technology, the market will explode. The company plans to use the Internet, multimedia CD-ROMs, workshops, seminars, exhibitions, and training courses to make

the wider public satellite-literate. As far as the average European consumer is concerned, "within a two-year period from product launch," says Mr. Wasielewski, "a substantial data archive of images of European cities and of areas of high commercial and recreational value will have been created that will generate the right market pull at affordable consumer prices." ☺

Angeliki Papantoniou, based in Athens, writes about the Balkans for EUROPE.



Global Financial Crisis IS EUROPE



AN OASIS

IT TOOK A GLOBAL FINANCIAL CRISIS to provide the proof that the architects of European economic and monetary union had got it right. International investors who shunned and scorned Europe for the past twenty-five years, concentrating on the US, Japan, and the Asian tigers, now regard the old continent as a haven of stability and the place to make big bucks when the global crisis recedes.

The world's top money managers are betting billions on the success or failure of the biggest happening in the global financial markets in fifty years—the launch of Europe's single currency, the euro, next January. And the smart money is gambling on success.

Given that the euro doesn't actually exist yet, it's no mean feat the European Union has pulled off. Its finance

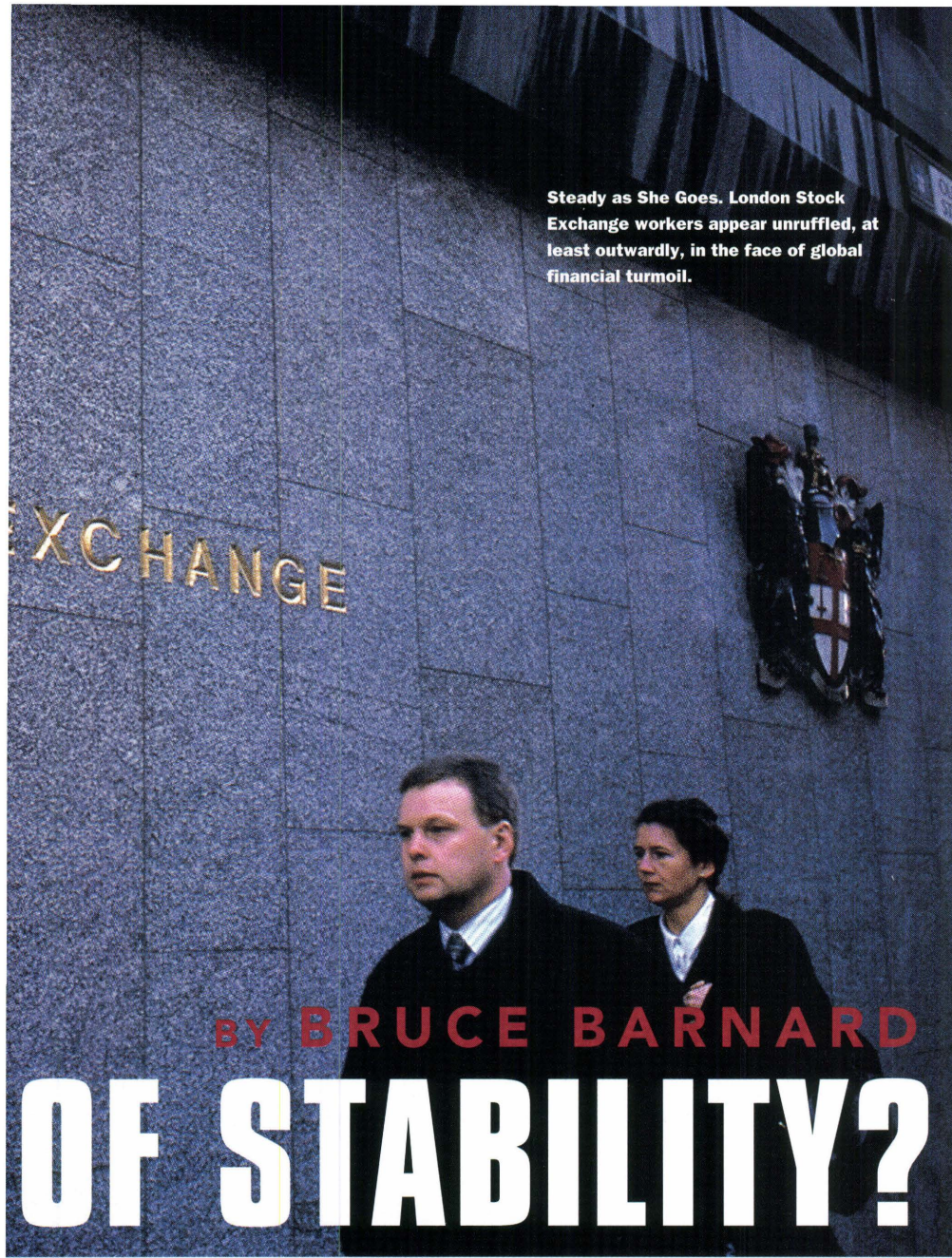
ministers, not normally given to extravagant language, recently hailed the "pole of stability" created by the euro.

The launch of monetary union will have an immediate impact on global investors. From January, all equities and most government debt in the eleven-nation Euroland will be traded in the new currency. Investors must reassess their stocks, bonds, and currencies, thinking

in terms of sectors, not countries.

To be sure, the global crisis has scored some direct hits in Europe, most spectacularly, the resignation of Mathis Cabiallavetta, chairman of UBS, Europe's biggest bank, after the revelation that it lost \$682 million in the near collapse of Long Term Capital Management (LTCM), the US hedge fund.

Another prominent casualty was the



Steady as She Goes. London Stock Exchange workers appear unruffled, at least outwardly, in the face of global financial turmoil.

BY **BRUCE BARNARD**

OF STABILITY?

planned sale of 12 percent of the stock of France Telecom, France's state-owned telecommunications group. Meanwhile, ING Barings, the Dutch-owned corporate and investment bank, announced 1,200 layoffs from its worldwide, 10,000-employee payroll, fueling fears of massive job losses in London's financial district.

The impact of the crisis however is largely restricted—so far—to the financial services sector, which is paying the price for overexposure to suspect regions, such as Russia, and also unwise involvement in high risk ventures typified by LTCM. Bank stocks are down more than a third on their 1998 peak.

Europe's markets are swayed by gyrations on Wall Street and Tokyo, but they still are among the best performers in the world with many blue chip stocks benefiting from good profits

growth. Corporate profits in Europe are likely to rise by between 10 percent and 15 percent this year, compared with only 8 percent in the United States. In the "real world" beyond the stock and bond markets, the coming of the euro is seen blunting the impact of the financial crisis.

International investors see the euro intensifying competition, making cross-border price differences more transparent. Inefficient firms must restructure, contract, or wither. Apart from a few global multinationals, European firms are only now embarking on the ruthless cost-cutting US companies undertook in the 1980s. And in some sectors, notably defense, Europe has yet to mount the cross-border mergers that are urgently needed to respond to the sweeping consolidation that is reshaping their US rivals.

In short, there's a lot more upside in the pipeline for investors as corporate Europe adjusts to a "lean and fit" diet.

European investors also will keep pouring money into stocks because there is nowhere else to put their funds. Interest rates in Euroland will be low—around 3 percent when the new currency is launched. European holdings in equity funds surged by \$215 billion since the end of 1997, according to investment bank JP Morgan. Europeans are still buying stocks despite the recent market turmoil, although the flow has slowed and some investors are shifting to bonds.

Some of the best buys have been privatization stocks, like Spanish banks Argantaria and Bancaria and France Telecom, which have outperformed European stocks as a whole. This result reflects the immediate one-off gains when these overstuffed, inefficient firms pass from bureaucratic control to private management. Moreover, governments have attractively priced state companies, such as Deutsche Telekom, to boost share ownership.

Even as financial turmoil was spreading across the world, the privatization of Swiss telecoms operator Swisscom, Europe's biggest initial public offering this year, raised nearly \$5 billion in October after being nearly three times oversubscribed.

There are more sales in the pipeline, including Air France, Banca Nazionale del Lavoro, and Credit Lyonnais.

European firms meanwhile have benefited from the plunge in the Tokyo stock market to move up the global corporate rankings. By mid-1998, thirty-eight of the world's one-hundred largest firms in a *Wall Street Journal* survey were European, up from twenty-seven in the previous year. And that was before Daimler-Benz snapped up Chrysler and British Petroleum bagged Amoco.

Barring a global financial meltdown, Europe is set to ride out the storm. While the storm rages, Europe is doing something remarkable—creating a brand new economy. Euroland will be greater than the sum of its eleven nations, a giant single currency bloc accounting for nearly 25 percent of global economic activity. And investors can't get enough of it. ☺

Bruce Barnard is a EUROPE contributing editor and a Brussels correspondent for the Journal of Commerce.

BUY SELL HOLD

VIEWS FROM EUROPE'S MARKETS

The European Union has forged a fifteen-nation single market and is about to launch an eleven-country single currency, but a single stock exchange has always been a pipe dream. However, that could change as Europe's major exchanges finally embrace cross-border alliances in a bid to keep up with the companies whose shares they list.

The London Stock Exchange still towers over Europe, ranking third in the world behind New York and Tokyo, with Frankfurt and Paris trailing well behind. Moreover, Europe differs greatly from the US in the lack of small private investors "playing the market." European investors remain risk averse, preferring safe, dull government fixed-income bonds to equities. While Americans have 20 percent of their household wealth tied up in shares, the figure for Europe is barely 4 percent.

Nevertheless, a wave of attractively priced privatizations and a long bull run have created a new breed of investor that exchanges from Helsinki to Lisbon are trying to cultivate. The need to fund Europe's massive pension obligations is creating a share culture while the coming of the single currency, the euro, is hastening the move to cross-border alliances.

While conventional exchanges take their time to cross borders, EASDAQ, the pan-European stock exchange in Brussels for high-growth companies, celebrates its second anniversary this month. EASDAQ, which is modeled on the NASDAQ market in the US, provides a platform for start-up stocks and plugs a gap between junior markets and the main exchanges.

Europe took its first step toward a continental exchange earlier in the year when London and Frankfurt announced plans to forge an alliance. Meanwhile, several small bourses are joining forces in a bid to survive. The Stockholm and Copenhagen exchanges are merging their trading systems and plan eventually to spread it across Scandinavia and the Baltic states to create a regional exchange.

The EU played a role in breaking down the barriers with a landmark directive in 1996 that allowed "remote" membership of exchanges. Such membership enables trading on, for example, the Paris bourse from a computer screen in Amsterdam.

These pan-European moves have been accompanied by transatlantic alliances and partnerships in futures and derivatives markets to facilitate twenty-four-hour, round-the-world trading. Among the most prominent was the strategic alliance earlier in the year between the Chicago Board of Trade, the world's biggest derivatives exchange, and Eurex, the all-electronic continental European exchange.



London, Frankfurt Markets to Merge

The announcement came out of the blue in July: the London and Frankfurt stock exchanges were to form a "strategic alliance" that they saw as the first step in the creation of a pan-European stock market.

It surely had to come. If you have a single European currency, then a single European stock market is a natural consequence. Moreover, Europe will be brimming with cash for equity investment in the next few years as mutual funds and others seek to plug the gap left by governments scaling down or withdrawing from the provision of state pensions.

All this is accepted in London. But there was a subtext to the July announcement that was less pleasing to the former British financial services sector, namely that the City of London is in serious danger of being overtaken by continental markets in the race to become the EU's financial center.

A couple of years ago, London could boast of a turnover in equities bigger than all the continental exchanges combined. If you wanted to trade in Italian equities or German bonds or Dutch

loans, you did it through London—not anymore.

Frankfurt's main stock exchange, the Deutsche Börse, now handles more trades every day than London. The Milan, Amsterdam, and Scandinavian exchanges have clawed back a substantial proportion of business that went automatically to London in the early 1990s. Why?

One reason is certainly the disdain shown by the City of London to other EU capitals in recent years. Another is the mismanagement of technology by the City—in sharp contrast to the success of electronic systems adopted by Frankfurt and others.

Perhaps more important than technology has been the aggressive approach taken by the continental exchanges. For example, at the beginning of 1997, London's LIFFE exchange, which deals in futures and derivatives, handled 70 percent of the trade in ten-year German government bonds—a year later virtually all this business had been captured by the new Deutsche Terminbörse in Frankfurt.

The final strike against London is, of course, the United Kingdom's decision to stay outside of the European single currency when it begins next year. Apart from anything else, this decision made it impossible for London even to be considered as the home for the new European Central Bank, which went to Frankfurt.

It's unclear who first proposed the linkup between London and Frankfurt, though suggestions that the London Stock Exchange was pressured into making an overture by big banks and other powerful institutions in the UK sound plausible. The feeling that the City was starting to lose its touch also helps explain why the deal with Frankfurt is on an equal share basis even though London is twice as big in terms of market value and lists three times as many stocks.

The initial aim of the link is

the modest one of allowing dealers in both exchanges to trade in a limited number of equities in the opposite market beginning next January. The introduction of a genuine pan-European stock market is a much more fraught enterprise, which will call for agreement on a common settlement system, on accountancy standards, corporate regulation, and takeover rules among other things.

Some observers think the grand plan could collapse under the weight of these details. Another uncertainty is the attitude of the French, who have been upset by the Anglo-German plan and may seek to build a competing euro exchange.

"If the US market is big enough to support two competing exchanges [NASDAQ and the New York Stock Exchange], then we can do it in Europe," said Jean-François Theodore, chairman of the Paris bourse. Many observers, however, believe it is only a matter of time before Paris joins the London-Frankfurt partnership.

Let there be no mistake: A pan-European exchange would be a massively important factor in world finance and investment. Euroland will have a bigger GDP than the US and stands poised to embrace the kind of equity culture long familiar in America but still a novelty on the other side of the Atlantic.

Confident Greek Stock Market Continues to Grow

Greece's Socialist government is betting that the country's status as a future member of the European single currency will shield its financial markets from the worst of the global financial crisis.

After soaring 80 percent in the spring and summer, the Athens Stock Exchange has followed the downward trend of other European markets worldwide. At the end of September, the market was still up almost 30 percent for the year.

"The market is still basically confident that Greece will join EMU on schedule on January 1, 2001," says Nick Georgiades, an analyst at Omega Securities in Athens. "Athens isn't yet a developed market, but it's no longer an emerging market, and that helps stability."

This year has seen a big surge in trading volume, which has remained high despite the market's volatility. The



A Single Stock Market for the Single Market? The London Stock Exchange (left) and the Frankfurt Stock Exchange (right) have announced a "strategic alliance."

volume of daily transactions on the Athens bourse has doubled to average \$160 million in the past year. One reason is that Greek investors switched funds to the stock market following a decline in interest rates on government bonds, and many seize the opportunity to buy whenever the market dips.

Ionian Bank, the biggest state-controlled bank offered for sale to date.

This summer's flagship privatization, the listing of 22 percent of Hellenic Petroleum (HP), the state oil refining group, was oversubscribed almost thirty times as local investors flocked to buy shares. The offering

that the companies are restructured and run by private sector managers thus enhancing prospective earnings.

The planned listings include strategic stakes in utilities and transport organizations like the Athens water company and the Athens and Thessaloniki port authorities, which handle an increasing amount of regional trade.

The government's first issue of privatization bonds, which was heavily advertised on television and by poster campaigns to attract small savers, has whetted investor appetite. The bonds are convertible into shares in companies being privatized through flotations and give holders preference in buying shares in state-controlled banks and companies due to be privatized in the run up to EMU entry.

The government achieved its target of raising \$608 million from local investors for the three-year bonds—funds that will help reduce the public debt in line with the Maastricht requirements for joining the euro. It also raised \$613 million in a separate, oversubscribed tranche aimed at institutional investors abroad.

A new law that eases the stock exchange requirements for public offerings should help bring dozens of small and medium-sized Greek companies to market. They will no longer be required to show three straight years in the black or be committed to a 25 percent share increase in order to float. And more incentives are planned so that Greece's shipping companies, traditionally the country's biggest earners, will consider raising fresh capital through a listing at home.

Spanish Stock Markets in Fiesta Frenzy

Each day as ten o'clock approaches, they can be seen lining up at the door of Madrid's elegant stock exchange building on the same leafy square in the city center as the Ritz Hotel. However, these are not pin-striped traders and brokers waiting for the Bolsa's day to begin. They are so-called *barandilleros*, or small-time investors who come to watch the activity on the trading floor and are named for the wooden railings, or *barandas*, they lean against to check out how their stocks are performing.

Mostly retired folks, with perhaps a few housewives or younger people sprinkled in, these investors are just a



Market Overviews: Privatization of state-owned companies and a bull market have attracted many small investors to Europe's equity markets, keeping the trading floors busy on both the Athens Stock Exchange (above) and the Madrid Bolsa (on opposite page).

“Popular capitalism is beginning to take off. Despite the global volatility, the Athens market has kept a reasonable number of small savers, and they will increase in numbers as more privatizations take place through the bourse,” says Mariella Porfyratos, head of equities at NBG International in London.

A shakeup in Greece's banking sector led the market's rise this year, with five banks changing hands and the privatization of a sixth, Ionian Bank, due to be completed in January. The banks are gearing up to stay competitive after the launch of the euro, and consolidation is seen as the best way to ensure survival.

Two aggressive private banks have set the pace. EFG Eurobank, controlled by the London-based Latsis shipping group, is paying more than \$357.8 million for control of two banks, Bank of Athens and Bank of Crete. It has also built up a significant minority stake in Ergobank, Greece's most efficient bank. The other fast-growing player, Piraeus Bank, snapped up Bank of Macedonia-Thrace and has launched a rights issue to finance a bid for a 51 percent stake in

raised \$166 million and included a sizeable overseas tranche. HP's chain of gasoline stations offers the high profile that appealed to retail investors, while smoothly executed restructuring and healthy profits made the offering popular with institutional investors.

The government says it will press ahead with the sale of another equity stake in OTE, the public telecom operator, despite the markets' volatility. The sale of 15 percent of the company—less if the turbulence continues—would reduce the state's holding in OTE to 60 percent. Telecoms offerings have proved less susceptible to the market turmoil, and OTE managers are confident that the company's faster pace of modernization, along with plans for regional expansion through acquiring strategic stakes in regional telecoms operators, will appeal to investors.

A new, fast-track privatization program calls for selling majority stakes in a dozen state enterprises through the Athens Stock Exchange. As well as raising up to \$3.58 billion to help reduce the public debt, the flotations will ensure

few of the many Spaniards who have pulled their savings out of low-yield bank accounts and bonds and are now venturing into the stock market.

And they've been enjoying a fabulous ride. In the first six months of this year, the Bolsa de Madrid, the city's stock exchange, has climbed nearly 40 percent, with the general index rising from 632.55 points in January to 883.42 at the end of June. Analysts say Madrid's performance compares more than favorably with London or New York, which saw gains over the same period of just 13.57 percent and 13.20 percent, respectively.

In late March of this year, the Ibex-35 index of Madrid's main stocks hit the 10,000-point mark, a rise of 100 percent in fifteen months. Now, cabdrivers, hairdressers, and bartenders all have their favorite Ibex-35 listing and will talk a client's ear off about its relative value

and what price they've been holding out for before they'll consider selling.

"What we are seeing in Spain are people fleeing lower interest rates and those who understand that current government pension plans are not going to provide for them in the future," says one stock market analyst. "They know that despite the risks, they can do better playing the market."

It's not only Spain. Across Europe stock values are soaring as more and more people become part of the shareholder culture, and traders and brokers predict that European bourses will be big gainers over the next five years.

Experts point to four main reasons why this will happen: European economies are booming; the single currency will foster a more competitive marketplace; companies are streamlining in order to be more competitive; and the convergence requirements for

Aznar's center-right government has shed more companies in its two years in office than the previous Socialist administration managed to unload during its fourteen-year mandate. Moreover, Aznar's men have not been shy in selling off the so-called "crown jewels" of state enterprise, namely the Telefonica telecoms group, the Repsol energy giant, the Tabacalera tobacco firm, the Endesa electrical utility, and the Argenteria banking group.

These are precisely the companies that generate the most interest among the small savers as well as institutional investors, and Telefonica alone has seen its value leap by more than 61 percent, while Repsol and Endesa have gained 28 and 21 percent, respectively.

When the government earmarks one of the big firms for privatization, it always sets aside a certain percentage of stocks for private investors as part of its

In the first six months of this year, the Bolsa de Madrid, the city's stock exchange, has climbed nearly 40 percent, with the general index rising from 632.55 points in January to 883.42 at the end of June. Analysts say Madrid's performance compares more than favorably with London or New York, which saw gains over the same period of just 13.57 percent and 13.20 percent, respectively.

joining the euro are forcing governments to cut their budget deficits.

Another government policy, in Spain at least, is also fueling the investment fever. This is the pledge by the administration of Prime Minister Jose Maria Aznar to divest the government of almost all its corporate assets or put the remaining ones in the black within the next two years in an ambitious privatization program.

"It is desirable that in the year 2000, there is no more public sector," says Pedro Ferreras, the chairman of SEPI, the government holding company in charge of selling off state-owned firms in a broad range of sectors.

"We're unloading almost a company and a half a month these days and are hitting cruising speed, and if there are no problems, we'll meet our objective in the year 2000," he predicts.

policy to create what Aznar calls "people's capitalism" and give as many citizens as possible a stake in the economy.

Each time a tranche of a state-held company is put on the block, it is wildly oversubscribed as hopeful investors line up to buy shares. In January, for example, when the state put up for sale its remaining stake in the Argenteria banking group, small investors applied to buy more than \$4 billion in shares, double what was actually on offer.

Currently, the investment fever shows no sign of abating. In June, SEPI had to reduce the tranche offered to international investors in the \$8 billion sale of Endesa to meet retail demand.

The next large government-held company to be privatized will most likely be Iberia Airlines in 1999, sparking another frenzy of share buying by those cabdrivers, retirees, housewives, hairdressers, and students who are betting their life savings on the future of Spanish business. ☺

Reported by Bruce Barnard and Alan Osborn in London, Kerin Hope in Athens, and Benjamin Jones in Madrid.



Protesting in Pristina: Ethnic Albanian students rallying against the Serbian police crackdown in Kosovo.



KOSOVO

Will the violence continue?

Despite the latest massacres of civilians and children and the new hopes of a settlement reached with NATO warplanes poised to strike at Serbian targets, the tragedy of Kosovo is not yet complete. Having known the horrors of war and of ethnic cleansing, Kosovars have yet to experience the bitterness of the peace that is close to being imposed upon them. It will be peace on the same terms that have been on offer since the spring—a return to the autonomy that Kosovo enjoyed within the Yugoslav federation before 1989. BY MARTIN WALKER

This will mean Kosovars electing their own government, running their own education system and media, their own local police and health and housing administrations. However, according to the agreement negotiated by US envoy Richard Holbrooke under the threat of NATO air strikes, it will also mean that foreign policy and defense, including border security, will be in the hands of the Serbian government in Belgrade. As many as 12,500 Serb troops will be entitled to remain in Kosovo, subject to the monitoring of the 2,000 civilian observers from the Organization for Security and Cooperation in Europe. And that Serbian government has given full and chilling evidence in recent years how widely it is prepared to use and abuse such powers.

This is the "peaceful resolution" which the international community, in the form of the Contact Group (the US,

Russia, the United Kingdom, France, Germany, and Italy), has been promoting throughout this year. It represents the lowest common denominator of diplomacy, the compromise terms that could be agreed. On the one hand, Russia consistently refused to endorse the military action against Serbia that NATO formally threatened and prepared. On the other, the Contact Group members of the European Union were painfully slow to unite around a policy, whether for punitive military force or for appeasement of Serbia. Indeed, British Prime Minister Tony Blair cited Europe's "dithering and disunity" in his own call for a new EU defense identity at the EU summit in Austria in October.

A crucial factor in that disunity was the controversy surrounding the role, composition, and aims of the Kosovar Liberation Army. The Serbs say they are terrorists or criminal gangs defend-

ing their turf and lucrative smuggling routes. Many Kosovars believe them to be freedom fighters. Nevertheless, Western governments have become wary, fearing that some KLA extremists seek a pan-Albanian nation, which could draw the Albanian minorities in Greece and the Former Yugoslav Republic of Macedonia into a wider war. The KLA's bitter criticism of the Holbrooke deal suggests that the war may not be entirely over.

All negotiations aimed at getting Kosovo to accept autonomy under Serb sovereignty were hampered by the bitter disputes between the elected Kosovo 'government' of Ibrahim Rudova and the militants of the KLA. The KLA's decision in June to move to a full offensive against Serb security forces, seeking to liberate and hold territory in the hope that NATO support was imminent, merely

provoked the Serbian army riposte that crushed the guerillas, burned villages, and unleashed new humanitarian disasters.

There is no doubt that NATO is able to intervene, with air strikes or to secure humanitarian safe zones on the ground, at very short notice. The military plans have been ready since summer, and the armed forces of the alliance were given an 'activation order' on October 11. This order authorized NATO supreme commander General Wesley Clarke to assemble the assets, including aircraft and ships, for immediate strikes that could begin with a warning salvo of cruise missiles and then escalate to bombing waves using hundreds of planes. NATO target planners have identified 180 anti-aircraft sites around Belgrade alone, the neutralization of which would be a top priority in order to permit NATO to make further attacks with impunity.

"There are a number of military options we can take that might not necessarily in the early stages mean the use of ground troops," said British Defense Secretary George Robertson. "Before this, frankly the use of force on its own without a political process might well have led to a Vietnam-type swamp. But now that both sides know they cannot win this particular conflict, the threat of force is much more meaningful to [Serbian] president Slobodan Milosevic, and either he negotiates or he faces pretty dire consequences."

As so often in the Balkan wars, international action was contingent on the provocation of massacres and outrages, particularly when the evidence of television cameras means they cannot be ignored. Serbian forces have responded accordingly. NATO Secretary General Javier Solana expressed the alliance's anger at the treatment of civilians in Kosovo. Clearly intent on herding the NATO allies toward a decision at the Portugal meeting, Solana told them of one senior Serb official boasting of the cat-and-mouse game with NATO, delib-

erately fine-tuning their aggression with the joke "just one village a day keeps NATO away."

The military defeat of the KLA in the field (although they retain an important guerilla capacity) paved the way for a political settlement based on Kosovar autonomy before the winter comes to inflict a new humanitarian disaster on homeless refugees. Such a settlement would then be monitored, if not policed, by NATO forces, much as NATO sent troops to Bosnia to enforce the Dayton

peace agreement. But just as the latest Bosnian elections cast doubt on the long-term future of the Dayton agreement by returning ethnic nationalists to power, so any autonomy deal for Kosovo may prove only temporary, at least so long as the nationalist Serb leader Slobodan Milosevic remains in power. ☹

Martin Walker is a EUROPE contributing editor and the Brussels bureau chief for the British newspaper the Guardian.

What the West Has Done

While the NATO planners mobilized their forces and the diplomats wrangled, the European Union and the US have been leading the international humanitarian effort to feed and succor the estimated 300,000 refugees of Kosovo, 15 percent of the population. However, because the laws of the Yugoslav federation do not recognize "non-governmental organizations," only the International Committee of the Red Cross and the United Nations High Commissioner for Refugees are legally entitled to operate inside Kosovo. Most aid has therefore been channeled through them, although Medecins sans Frontieres, Oxfam, the Catholic organization Caritas, and Children's Aid have also been active.

The US has authorized a total of \$20 million in humanitarian aid, mostly for food, distributed through the United Nations. The EU's humanitarian arm, ECHO, responded to the first floods of refugees into northern Albania in June with \$1.65 million for food and sanitation equipment. In July and August, when new waves of refugees headed for

Montenegro, ECHO diverted more than \$6.1 million of food stocks held in Sarajevo and the Bosnian port of Ploce, but much of this was looted in transit in northern Albania. Another \$6.1 million was allocated on August 17 for emergency health and sanitation efforts in Albania and Montenegro, until the swamped Montenegrans closed their border on September 11. Another \$12.2 million grant is now in the EU pipeline, for emergency housing to protect homeless refugees against the coming winter.



US envoys Christopher Hill (left) and Richard Holbrooke (center) met with Yugoslav President Slobodan Milosevic (right) in Belgrade on October 5 to warn of possible NATO air strikes if he didn't end the military crackdown in Kosovo.

Noting that the international community had become better at feeding refugees than at preventing their eviction, European Commissioner Emma Bonino stressed on her visit to the region last month, "There is only so much that can be done on the ground without a cease-fire." If a cease-fire allows the refugees to return to their burned-out homes, the money can be used for doors and windows, plastic sheeting, and emergency water supplies. If there is no cease-fire, then it will be spent on tents and heaters and temporary collective shelters.

—Martin Walker

Inside EUROPE

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EU NEWS

EU SUMMIT SIGNALS SHIFT TO KEYNESIAN ECONOMICS

The election of German Chancellor Gerhard Schröder, which means that thirteen of Europe's fifteen member states are now led by left-of-center governments, has exhilarated the new generation of European leaders.

After years of political and intellectual dominance by monetarists, the lakeside summit in Pörschach, Austria on October 24–25 saw an important shift toward a renewed Keynesian faith in public investment and the role of the state to create jobs and economic growth. By agreeing to coordinate their economic and social policies toward growth rather than Helmut Kohl's cherished stability, they signaled that the era of financial discipline to launch a credible single currency was moving into a period when Euroland's financial stability might be safely exploited.

"Europe has to move toward more growth and jobs," said French premier Lionel Jospin, expressing the mood of a resurgent Keynesian thinking now that Germany is led once again by Social Democrats. At his first summit, Germany's new Chancellor-elect Gerhard Schröder echoed the theme, stressing that "scoring some common successes in the field of jobs is of particular importance to all our people."

However, this was not Europe's 'Red October'. There was no lurch back to the corporatist and state intervention policies of the traditional Left. The summit remained disciplined by their fear of upsetting the markets, making a discreet call for lower interest rates, while shrinking from putting any public pressure on the independence of the central banks who set them.

Even the Italian ex-communist Massimo D'Alema, the newest of the left-of-center political leaders to join the summit, noted that this was not the time for a political battle with the stern financial orthodoxy of the European Central Bank.

"What we have all done to give credibility to the euro should not be disturbed. That credibility is an indispensable base for growth," D'Alema said.

Moreover, Europe's most prominent remaining conservative, Spanish Prime Minister Jose Maria Aznar, declared that he had no qualms of Europe moving to the

Left. "The Social Democrats are thinking like us and moving to the center," he said.

"Our unemployment in Europe is a catastrophe and a scandal. There must be a switch from policies of pure stability to a concerted drive for growth and for jobs," said summit host, Austrian Chancellor Viktor Klima. "The excuse is no longer valid that things are foundering on some conservative block or other."

The first fruit of this is expected to be a new wave of public investment in the proposed Trans-European Network of high-speed rail and road links drawn up by the European transport commissioner, Neil Kinnock. Plans to extend the French high-speed rail network to Frankfurt and Berlin, to Rome and Madrid, would not only help to create jobs and spur investment, but would also directly benefit the four biggest economies of the new euro zone.

The second important result of Austria's lakeside summit was that Europe for the first time saw the evidence of Tony Blair's repeated claims to transform the United Kingdom's relations with its partners. His public commitment of the UK to a much deeper integration with Europe, urging a common defense and foreign policy, and backing the close coordination of economic and employment policies was not delivered solely to fend off growing fears of the UK being marginalized by its failure to join the single currency.

"A common foreign and security policy is necessary and overdue," Blair said, in one of the best-received interventions of the weekend. "As Kosovo has shown, it is important that Europe plays a key and leading role, that we enhance our defense capability and show the political will to act."

—Martin Walker

IRISHMEN WIN NOBEL PEACE PRIZE

On October 16, when the Norwegian Academy awarded the 1998 Nobel Peace Prize to John Hume and David Trimble, the Nobel Laureate Seamus Heaney likened their joint award to the parable of the fox, which knows many things, and the hedgehog, which knows one big thing.

EU NEWS (CONTINUED)

Hume, he wrote, was the hedgehog who knew the big truth "that justice had to prevail." Trimble was the fox who had known many things but had the intellectual clarity and political courage to know that 1998 was the time "to move Unionism toward an accommodation with reasonable and honorable Nationalist aspirations."

The Irish poet, winner of the Nobel Prize for Literature in 1995, has known Hume since they were students in the 1950s at St. Columb's College in the Northern Ireland city of Derry.

His views on the award to Northern Ireland's peacemakers were echoed by world leaders and the vast majority of Irish people. (The award was condemned by Ian Paisley's Democratic Unionist Party and some other Unionists.)

Hume, the sixty-one-year-old leader of the predominantly Roman Catholic Social Democratic and Labor Party and a long-serving member of the Westminster and European parliaments, has worked ceaselessly for peace before and since civil rights marches of the early 1960s.

The Nobel award is Hume's crowning achievement in a life devoted to a consistent and tireless search for a non-violent solution to Northern Ireland's centuries of conflict. His talks with Gerry Adams, leader of Sinn Fein, the IRA's political wing, were treated with suspicion and condemnation, but Hume stuck doggedly to the task of bringing Sinn Fein to the conference table.

Trimble, fifty-four years-old, a complex, committed Orangeman and leader of the overwhelmingly Protestant Ulster Unionist Party, cut his political teeth in helping to bring down the 1974 power-sharing government of Northern Ireland. Just three years ago, he sided with Drumcree Orangemen in a triumphal march that shortly afterward, led to his becoming party leader.

He has traversed a long road since. Against huge internal opposition, he held his nerve and persevered in the talks that led to this year's Good Friday peace agreement brokered by former senator George Mitchell.

Trimble, now first minister in a new Northern Ireland government, heard news of the Nobel award when he was in Denver on a trip (with his deputy Seamus Mallon) to the United States aimed at winning American investment for Northern Ireland.

Back home he still faces massive problems in selling the peace agreement within his own party. However, the Nobel award—and the international goodwill it has engendered—should go a long way to shoring up support for his efforts to achieve a long-term political settlement and the fledgling administration he now leads.

—Mike Burns

SLOWER EUROPEAN GROWTH FORECAST

The European Commission on October 21 released a scaled back forecast of economic growth in the fifteen EU countries. Instead of the 3 percent growth that had been anticipated for 1999, the Commission now says 2.4 percent is more likely. EU forecasters say because of regional problems European exports to Asia, Russia, and Latin America are likely to be considerably below what had been expected. The Commission says its previous 2.8 percent 1998 growth prediction is being revised slightly upward to 2.9 percent. Furthermore, like private forecasters, the EU says Western Europe is the region least affected by the global turmoil and will be the world's best-performing economic zone in 1999. Earlier in October, the International Monetary Fund predicted 1999 EU growth of 2.5 percent.

Also in late October, Germany's six big economic research institutes scaled back their 1999 forecasts for the German economy by nearly half a percent to 2.3 percent. The German Federation of Industry (BDI) agrees and complains that the tax reform proposals of the new government are misguided and will slow growth and job creation. Gasoline taxes are to go up in Germany.

Despite global turmoil, European Commissioner Yves-Thibault de Silguy remains upbeat. He waves off the recessionary threat posed by the Asian crisis saying "strong domestic demand" will keep the EU economy healthy. Unfazed by the euro's recent strong appreciation against the dollar, De Silguy says the euro will be a "solid pillar in a turbulent world economy."

—Barry D. Wood

NOTEBOOK

ANATOMY OF A FINANCIAL AND ECONOMIC CRISIS

It's been sixteen months since Asian economies began lurching into financial and economic crisis. It began in Thailand where speculators detected an overvalued currency. After spending billions in a futile defense of its currency peg to the dollar, the Thais gave up in July 1997, letting the baht float. It sank like a rock. Quickly, Indonesia got into the same trouble and floated the rupiah, which also went into free fall. The billions of dollars of investment capital that had flooded into East Asia now flowed out even faster than they had gone in. Stock markets from Malaysia to the Philippines to Taiwan went into a tailspin. By October of last year Asia's still mounting crisis shook global markets as even Wall Street experienced a mini-crash. By December, after President Clinton had said Asia's problems were merely a few glitches in the road,

South Korea went into the tank. By year's end, the phrase "Asian contagion" had entered the financial world's lexicon.

It has become fashionable to ascribe the Asian crisis to crony capitalism and weak banking systems. However, a more persuasive explanation comes from Paul Volcker, the former Federal Reserve Board chairman who spearheaded the global response to Latin America's financial crisis in the early 1980s. Volcker believes it was a combination of volatile capital flows and huge shifts in the dollar-yen exchange rate during 1996 and early 1997 that swamped the Asian economies. He views these small economies as canoes that were overturned by the tidal wave of global capital. Neither governments nor banking systems could cope with the unanticipated 60 percent shift in the dollar-yen rate. This sinking of the yen, from 88 to the dollar to more than 130, profoundly squeezed the little Asian economies. Because their currencies were pegged to the dollar, they rose with the dol-

NOTEBOOK (CONTINUED)

lar, meaning their exports were priced out of the vital Japanese market. Worse, as their exports slowed, Southeast Asian companies that had borrowed in dollars (because interest rates were lower) couldn't service their debt. As currencies spiraled downward, the situation became impossible. The Asian shipwreck was the result.

The regional disaster might have been contained if Japan's economy had been functioning normally. Tragically, it wasn't. The Asian meltdown occurred just as Japan was entering the most critical phase of its long simmering domestic banking crisis. Remember, Korea's GDP is nearly twice that of Southeast Asia. Japan's GDP is more than double Korea's. As the world's second-biggest economy, Japan accounts for 60 percent of all of Asia's output. This year, after a decade of stagnation, Japan officially went into recession. With interest rates barely more than zero, Japan is stuck in Keynes' liquidity trap where businesses and consumers are so worried about the future they won't borrow no matter how low interest rates are. Japanese policymakers now admit to the seriousness of the problem as they consider such novel and drastic remedies as sending out government gift certificates to all citizens.

David Hale, the global observer at Zurich Kemper in Chicago, believes the Asian crisis became global this spring when falling demand in Asia led to a collapse in world commodity prices. As oil and raw materials prices sunk to decade lows, Russia, Venezuela, Mexico, and even Canada were impacted. The third and current phase of the crisis, says Hale, began in August when Russia shocked global financial institutions by defaulting on its short-term debt. This and the subsequent collapse of a large US hedge fund sent European and US stock markets plunging.

What this all means is that glitches in the road have evolved into the world's most serious financial crisis since the Second World War. Global wealth (as measured by stock market capitalization) has been reduced by \$3 trillion. Parts of Asia are in depression with consumer purchasing power in several countries reduced by half. In Indonesia, millions who only recently escaped from poverty are now facing hard times and even hunger. World economic growth projections have been greatly scaled back with the International Monetary Fund now expecting only 2 percent growth next year, half of what had been forecast only six months earlier. While Western Europe and the United States had until August been largely immune to the crisis, that is no longer the case. Some blue-chip stocks in both Europe and America are off 40 percent from their highs. JP Morgan, the most respected of the New York banks, foresees a US recession in 1999 with negative growth of 1 percent. Europe, which had been expected to grow by 3 percent, say an increasing number of experts, will now be lucky to get 2.5 percent.

No one can say with certainty where the crisis is headed. The recent Washington annual meeting of the IMF and World Bank was a somber affair. Fred Bergsten of the Institute for International Economics calls the meeting the gloomiest such event he's attended in thirty years. Pessimists, and there are many, point to the absence of tangible results. Despite lots of talk, there was no agreement on changing the IMF or putting into place a workable method of predicting future crises. Yet, there may be a silver lining. The US and European stock markets seem to have bottomed out in early September. US and some European interest rates have begun to fall, and more rate cuts are expected.

—Barry D. Wood

WHAT THEY SAID

"The government's first imperative will be maintaining the improvement of public finances and reinforcing the economic and budgetary strategy...that allowed us to overcome the obstacles and difficulties and join European monetary union."

—Massimo D'Alema, Italy's new prime minister. The former communist was sworn in as head of a new center-left administration, which is Italy's fifty-sixth postwar government. The previous government, led by Romano Prodi, fell on October 9 when hard-line communists withdrew their support in a budget dispute. Italian President Oscar Scalfaro then asked D'Alema to form a new government.

"Europe, as you know, and in particular the European Union, can be counted among the countries that assist the Palestinian people the most. It is not by chance that immediately after the signing ceremony I came here directly."

—Yasir Arafat, president of the Palestinian Authority, speaking to European Union leaders at the October EU summit in Austria, immediately after signing the Mideast peace agreements in Maryland with Israeli Prime Minister Benjamin Netanyahu

"Reducing unemployment is the most important single question for the people of Europe."

—Gerhard Schröder, German chancellor, speaking at the EU summit in Austria in late October

"From January 1, 1999 we will have a domestic market of 290 million inhabitants, we will have a single market which is the equivalent of the US market...and maybe only 4 or 5 percent lower in terms of GDP for the 'euro eleven'. We will make it a success. The rest of Europe and the rest of the world is counting now on the contribution of Europe."

—Jean-Claude Trichet, governor of the Bank of France

"Europe of the 21st century should be economically and financially more stable, thanks to the euro and the coordination of our economic policies. The resistance of the euro zone to repercussions from the Asian and Russian crises is the first proof of the importance of an economic and monetary union for the future of the European Union and its affirmation as a world economic power."

—Lionel Jospin, prime minister of France

BUSINESS BRIEFS

Porsche, the German luxury car-maker, "has just had the best business year in its history and has become one of the best-earning car manufacturers in the world," according to chairman Wendelin Wiedeking. He also forecasts a "substantial increase" in profits to exceed last year's \$84.6 million.

Porsche, which launched its latest model, the four-wheel drive 911 Carrera 4, at the Paris Auto Show in mid-October is smashing all sales records. Revenues surged 20 percent in the year ended July 31. The strong performance was largely due to the success of the new Boxster model.

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Bayer, the German pharmaceuticals giant, has the US bug. Chief executive Manfred Schröder said the company will press ahead with plans to list its shares on the New York Stock Exchange in 2000, joining the growing group of big German firms—among them **Deutsche Telekom** and **Daimler-Benz**—that have listed across the Atlantic to boost their global profile.

Bayer is also building up its US assets, most recently with the \$1.1 billion acquisition of the diagnostic business of **Chiron**, and a \$465 million five-year partnership with Massachusetts-based **Millennium Pharmaceuticals**, a gene search company.

•••

Greece plans to sell a strategic stake of at least 20 percent of **Olympic Airways**, the troubled state airline, to another European carrier.

The deal, to be completed by next July, will also involve the sale of at least 6 percent of the equity to Olympic's 6,000 employees. The airline that buys into Olympic would take over its management but must freeze layoffs for at least three years.

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A giant pan-European aerospace and defense company to challenge the might of the US industry will take a big leap forward in early 1999 with the merger of **British Aerospace** (BAe) and **Daimler-Benz Aerospace** (Dasa).

The firms' decision to join forces intensified pressure on the French government to privatize **Aerospatiale**, the state-owned defense contractor, to allow it to join the new company. BAe and Dasa are opposed to having the French government as a shareholder in the new company and will only let in **Aerospatiale** when it is a private company.

A three-way merger is seen as the best way to compete against the Big Three US defense firms—**Lockheed Martin**, **Boeing**, and **Raytheon**—but France's Socialist government shows no sign yet of going beyond a partial privatization unveiled last July. In time, companies from Spain, Italy and Sweden are expected to join the merger. BAe and Dasa are also big players in civil aerospace, with a combined 58 percent stake in **Airbus**.

•••

Lafarge of France, the world's biggest maker of building materials, has been shopping for bargains in Asia, spending nearly \$600 million on companies in South Korea and the Philippines.

The group and its Philippines partners paid \$460 million for stakes in two cement manufacturers that have made it the country's second-largest cement manufacturer. It also paid \$130 million for two South Korean plasterboard makers, giving it two-thirds of the market for wall making materials.

Lafarge plans to increase the Asia-Pacific region's current 2 percent share of its global sales to 10 percent by 2005.

•••

Ericsson, the Swedish telecommunications group, brushed aside fears of a global economic downturn and pledged to boost sales by more than 20 percent annually and play a leading role in the fast-growing market for Internet products.

Chief executive Sven-Christer Nilsson said Ericsson will follow "an entirely new strategy" by aggressively exploiting the convergence of telecommunications and data networks.

Focusing on these new areas will help Ericsson to mitigate losses on its traditional fixed-line telecoms operations. The group, which has been criticized for failing to keep up with arch rival **Nokia** in the mobile telephone business, said it plans to become one of the world's leading suppliers of data-related and Internet access products.

Nilsson rejected claims by analysts that Ericsson needs a multibillion US acquisition to compete with US-based data networking companies like **Cisco**. Instead, the company will focus on small firms that are technological leaders in their field. "We think this is a much smarter strategy than a mega-merger, which would be prohibitively expensive and dilute our earnings," Nilsson said.

•••

Ford and **Volkswagen** abandoned their pioneering \$2.6 billion partnership in Portugal, ending one of Europe's most radical automobile joint ventures.

Volkswagen of Germany is buying out Ford to take full control of the three-year old Palmala plant, twenty-five miles from Lisbon.

The plant, which makes a "people carrier" sold by Ford as a Galaxy and by VW as the Sharan, has never reached its full 186,000 units-a-year capacity. Output this year is expected to reach 138,000, up from 131,000 in 1997.

Volkswagen will continue to build cars for Ford, but once the current models are replaced early in the next century it will build the successor at one of its own factories.

•••

Heineken, the Dutch brewing giant, captured 40 percent of the Polish beer market after the country's anti-trust agency cleared a merger between **Zywiec**, its local subsidiary, and **Elbrewery**, a local Australian-owned brewer. Among the conditions set by the agency is a requirement that Heineken must continue to buy hops from local farmers and allow other brewers access to its distribution network.

•••

Raisio, the Finnish chemicals and food group, will launch its cholesterol-cutting margarine, Benecol, in North America in early 1999. Benecol, which is already on sale in Finland where it retails at six times the price of ordinary margarine, will be introduced into selected European markets in mid-1999.

Raisio has spent more than \$40 million during the past year buying supplies of the margarine's essential ingredient stanol ester to meet expected demand. It ran out of the plant-based product when it launched Benecol two years ago.

—Bruce Barnard

INSIDE EUROPE Correspondents

Bruce Barnard, Mike Burns,
Martin Walker, Barry D. Wood

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Last month, the leaders of seven Balkan countries met in Turkey for their second get-together. This regional summit, launched last year in Greece, is officially described as a meeting of southeast European leaders. The nomenclature is designed to help participants set aside past divisions and focus on developing closer political and economic ties.

It is a daunting task. Most of the countries represented—Albania, Bulgaria, Greece, the Former Yugoslav Republic of Macedonia (FYROM), Romania, Turkey, and Yugoslavia—have yet to resolve long-running bilateral disputes. The conflict in Yugoslavia's Albanian-population province of Kosovo still threatens to destabilize the region. Moreover, the Russian financial crisis will inevitably take a toll on economic growth and prospects for foreign investment.

CAN THE BALKANS



However, fears that the fighting in Kosovo would trigger a broader Balkan conflict have receded. The instability in Albania and tensions between Slavs and ethnic Albanians in FYROM have not yet resulted in a wave of migration across Greece's northern borders. "So far, the crisis in Kosovo has been contained, while it's possible to feel more optimistic about the rest of the region," says Thanos Veremis, director of Eliamep, an Athens-based think tank.

There are also encouraging signs of improvement in the region's political climate. With backing from the US and participation by Italy, six Balkan countries are preparing to launch a joint peacekeeping force as a practical exercise in regional cooperation. The 3,000 to 4,000-strong multinational peacekeeping force unites several aspiring NATO members—Albania, FYROM, Bulgaria, and Romania—with Greece and Turkey, both old-established alliance members that have set aside their bilateral quarrel over the Aegean to work together in the Balkans.

The agreement signed in September in Skopje, the capital of FYROM, provides for rotating the force's headquarters between member countries. However, there are plans for a more permanent headquarters at Plovdiv, a strategic crossroads in southern Bulgaria.

The northern Greek city of Thessaloniki is already the home of the Black Sea Bank, which is set to become a channel for investment in the Balkans and the Black Sea

businessmen from Greece and Turkey set the pace in cross-border trading. Clothes manufacturing, catering, and retailing are starting to flourish, though the pace of small business growth is restricted by owners' difficulties in raising loans from banks.

Bulgaria has bounced back from hyperinflation and a collapse in output last year to become the region's star performer. The center-right government of Prime Minister Ivan Kostov has moved slowly but steadily to carry out reforms backed by the International Monetary Fund. Growth in gross domestic product is forecast at 5 percent—the highest in the region—while inflation is around 9 percent.

Aleksander Bozhkov, deputy premier, says Bulgaria's ambition is to be able to start talks on EU membership in 2001, although Brussels has set no firm date for launching a second round of enlargement for Eastern European countries.

CATCH UP?

Seven leaders
meet to discuss
region's future

BY KERIN HOPE

rim, while Turkey is expected to set up a trade center for the region in Istanbul. Greece and Turkey are already among the biggest investors in the Balkans. Both are important trading partners for their Balkan neighbors, which have been redirecting exports to European markets since the collapse of communism.

However, the transition to a market economy has made much slower progress in the ex-communist Balkan states than among the fast-track countries of Central Europe. A banking crisis in Bulgaria and the collapse of a fraudulent pyramid savings scheme, which plunged Albania into chaos last year and also affected FYROM savings houses, have underlined the need for strategic investors from abroad to help build a sound banking system. Privatization has been delayed, notably in Romania, by a lack of transparency. Governments across the region remain reluctant to face the political cost of shutting down loss-making state enterprises with bloated work forces.

Two former Yugoslav republics with expanding economies, Slovenia and Croatia, have cut themselves adrift from their southern neighbors in favor of closer ties with Central Europe. Slovenia has pulled farthest ahead to become the region's only candidate for EU membership in the first round of enlargement.

Nonetheless, a vibrant private economy is emerging in the southern Balkans, based on the services sector. Small

Balkan Summit: Leaders from Greece, Bulgaria, Romania, FYROM, Albania, Turkey, Yugoslavia, and observers from Croatia and Bosnia gathered in Antalya, Turkey last month to discuss regional issues, including the Kosovo crisis and Greek-Turkish relations.

“We have to start preparations from now,” Mr. Bozhkov says. “We want to be a frontrunner for membership immediately when the second wave is launched.”

Another bright spot, the Former Yugoslav Republic of Macedonia, the smallest and poorest of the ex-Yugoslav republics, has seen its economy pick up this year, despite the conflict in Kosovo. FYROM has experienced a recovery in industrial output and a rush of investment by Greek companies that are not deterred by the unresolved dispute over its controversial use of the Macedonian name, which Greece claims reflects a potential threat to its own province of Macedonia.

Until the latest round of unrest in Albania, the economy seemed headed for double-digit growth, led by a boom in construction of private homes by Albanians with family members working in Greece. However, foreign investors are reluctant to buy into Albania's potentially profitable mining concerns because of continued political uncertainty.

Romania, which has the biggest economy in the Balkans, has lagged behind this year because of political infighting over reforms and delays in the privatization program. With inflation exceeding 40 percent and growth unlikely to resume until next year, the coalition government must make a determined effort to pull reforms back on track.

“With the exception of Serbia, there's a perceptible decline in political risk in the region,” Mr. Veremis says. “But without a solution in Kosovo and big changes in Serbia itself, it's difficult for the other Balkan countries to accelerate the process of catching up.” ☐



Construction Replaces Demolition: Rebuilding houses in a Bosnian town.


Rebuilding Bosnia

BY SUSAN LADIKA

Despite the September election defeat of moderate politicians in the Serb-held half of Bosnia, European Union officials have pledged to continue granting aid to help rebuild the region—as long as the new leaders uphold the tenets of the peace accord that ended the bloody three-and-a-half-year civil war.

Already the biggest donor in Bosnia, with about \$1.2 billion in aid pledged from 1996 to 1999, the EU does not intend to alter its role in the country. However, which ethnic groups receive support depends largely on their commitment to the Dayton peace accord.

Bosnia's Biggest Benefactor: The EU has pledged some \$1.2 billion from 1996-1999.



The EU is a billion \$ donor

"All candidates confirmed their unconditional commitment to the Dayton peace agreement before the elections, and the full respect of this commitment will be the prerequisite for the continuation of EU assistance and financial support," European Commissioner Hans van den Broek said after election results were announced.

For the first two years after the war ended in December 1995, billions of dollars were funneled to the half of Bosnia controlled by Muslims and Croats, who were more willing to work with the international community, while the Serbs were virtually ignored. However, when extremists lost power earlier this year, Western funding started flowing to the Serb half of the country.

EU and US officials hoped that sending aid to the new moderate Serb government would cement its hold on power. But their efforts brought mixed results.

In Bosnia's complicated political system, both the Serb Republic and the Muslim-Croat Federation have their own parliaments. At the same time, a federal parliament and three-person presidency govern the entire country. While the Bosnian Serbs chose a moderate as their representative to the federal presidency, they elected an ultra-nationalist as president of the Serb Republic in Bosnia.

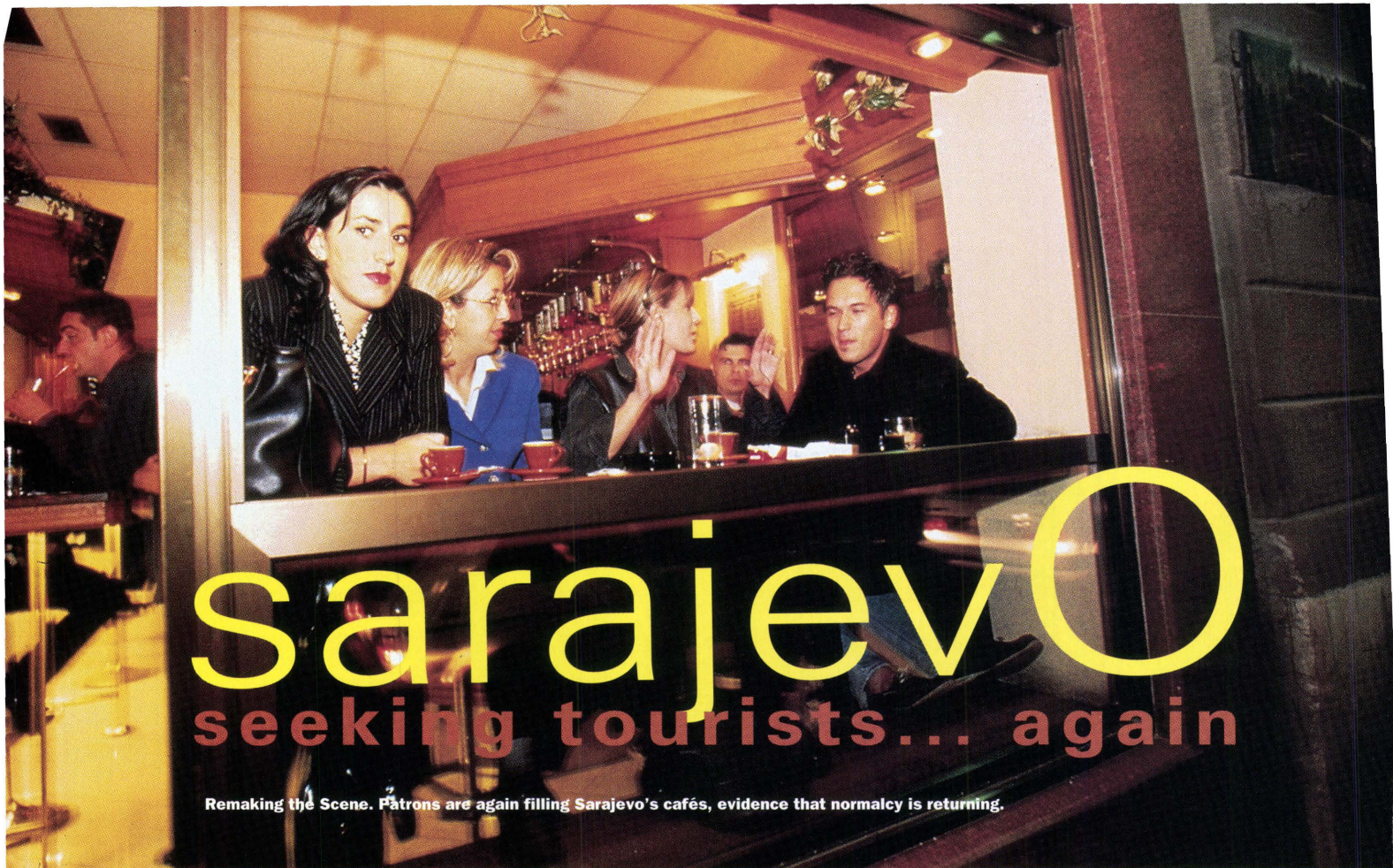
Nikola Poplasen, a university professor who served as paramilitary commander during the Bosnian war, has ties to war crimes suspect Radovan Karadzic, and heads the Bosnian branch of an ultra-nationalist party controlled by Serbia's Deputy Prime Minister, Vojislav Seselj.

Following Poplasen's election, British Ambassador to Bosnia Graham Hand said at a press conference, "We would judge Poplasen by his results. ... I think that he will understand that he and the Serb Republic will need the international community's assistance."

For his part, Poplasen has promised to preserve "all the good that the international community and the previous moderate Serb government accomplished."

During the first nine months of the year, the international community pledged about \$150 million to the Serb-held half of the country. That doesn't mean much cash has actually shown up in individuals' pockets, but just the promise of outside support has gone a long way to improve the mood in Banja Luka, the administrative center of the Serb Republic.

"There's quite a different spirit. There's more optimism. That may be the most important thing in the past six months," said Mladen Ivanic, a Banja Luka University economics professor.



sarajevo

seeking tourists... again

Remaking the Scene. Patrons are again filling Sarajevo's cafés, evidence that normalcy is returning.

The outdoor cafes are jammed with customers lingering over cups of coffee and colas and discussing the latest in politics, fashion, and sports. Nearby, the pedestrian areas are packed with people peering into shop windows or hailing friends strolling past.

Only an occasional shattered building provides a stark reminder that this is downtown Sarajevo less than three years after the end of the Bosnian war.

Along with the thousands of Sarajevans, there are SFOR soldiers in neat military uniforms, representatives from international organizations, and even a smattering of tourists filling the streets.

The bulk of the tourists have come to visit friends and family working in Bosnia as the country is slowly reconstructed. Others, however, have come to see what three and a half years of war did to Sarajevo, one of the best-known and most colorful cities in former Yugoslavia.

Although tourists number only one-tenth of what they did in the prewar years, anyone expecting to see grim-faced locals and grimy buildings will be in for a big surprise. Sarajevo is again a bustling, multicultural city, with mosque minarets and church steeples dotting the skyline.

Perhaps the most famous section of Sarajevo is Bascarsija, the lively marketplace resembling an Arab souk. Here dozens of craftsmen keep ancient trades alive, producing such works of art as delicate silver jewelry and traditional Turkish coffee sets. Visitors may hear Sarajevo's philharmonic orchestra performing Mozart in a marketplace

square, or a muezzin calling Muslims to prayer.

Within blocks of Bascarsija are the Bey's Mosque, the Old Serbian Orthodox Church, the Roman Catholic Cathedral, and the Old Jewish Synagogue, all representing the diversity of Sarajevo.

The city has always been a crossroads of East and West, and many of its grand buildings are reminders of its years as part of the Austro-Hungarian Empire. The National Library, which long has been a symbol of Sarajevo, was viciously shelled during the war, its insides reduced to rubble. Today it is being reconstructed with Austrian support.

Another reminder of Austro-Hungarian rule is the Latin Bridge, where the Hapsburg heir, Archduke Franz Ferdinand, was assassinated in 1914, unleashing World War I.

Along with reminders of war, there are also reminders of peace, such as Skenderija, where indoor sports were played when Sarajevo hosted the 1984 Winter Olympics.

The city's tourism office even offers two sightseeing tours—one of historic sites, the other of the surrounding area and the famous tunnel under the airport that was Sarajevo's lifeline to the rest of the world during the Bosnian war.

—Susan Ladika

While Banja Luka remains far more subdued than the country's capital, Sarajevo, officials from international organizations and aid agencies have become a common sight and pump millions of dollars into the economy. Nearly every street corner is lined with ice cream vendors and cigarette sellers, while cafes and gasoline stations spring up like mushrooms on the roads leading to Banja Luka.

In Sarajevo, the city bustles with life. Shops are filled with Western goods, though often at prices few locals can afford. Cafes are crowded for hours on end. Traffic roars down streets that once were silent except for the sound of sniper fire.

Throughout the country, the international community is working to help rebuild fractured infrastructure, with the EU pledging about \$245 million this year alone to reconstruct about a half-dozen bridges and upgrade water, wastewater, and electrical services.

The EU is also doing "turnkey" development projects. Instead of just removing landmines from neighborhoods or reconstructing houses, all aspects of neighborhood redevelopment are tackled together, said Ivo Ilic Gabara, spokesman for the European Commission's office in Bosnia.

This redevelopment could include providing training, equipment, and financing for de-mining; then reconstructing homes; rebuilding roads, water systems, and power lines; rehabilitating schools and health care centers; and helping to develop employment opportunities.

Projects such as these are vital for encouraging the return of refugees, perhaps the most frequently ignored tenet of the Dayton peace accord.

While many refugees have returned to areas where their ethnic group forms the majority of the population, few Muslims have returned to Croat or Serb-held areas, or vice versa.

"You don't attract refugees if you only give them a roof over their heads," said Hansjorg Kretschmer, head of the European Commission's delegation to Bosnia. This spring, the European Commission set aside \$164 million to support refugees in what was to be the year of refugee

The EU is also doing "turnkey" development projects. Instead of just removing landmines from neighborhoods or reconstructing houses, all aspects of neighborhood redevelopment are tackled together.

returns. But so far, "the progress has been a bit disappointing," Kretschmer conceded.

The European Commission also has been involved in such diverse projects as providing cattle to farmers in the Brcko area in support of the country's agriculture sector and helping draft new customs laws similar to those in place in the European Union.

One of the essential tasks is to "promote the European cause in this country," Kretschmer said, with the

eventual goal of incorporating Bosnia into the European Union.

Although no timetable has been set for when Bosnia might eventually become an EU member, Kretschmer said the European Commission's office in Bosnia is striving to "create the political will and solidarity among all ethnic communities to work together to achieve this goal." ☺

Susan Ladika is EUROPE's Vienna correspondent.

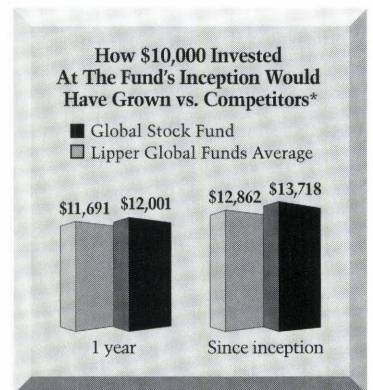
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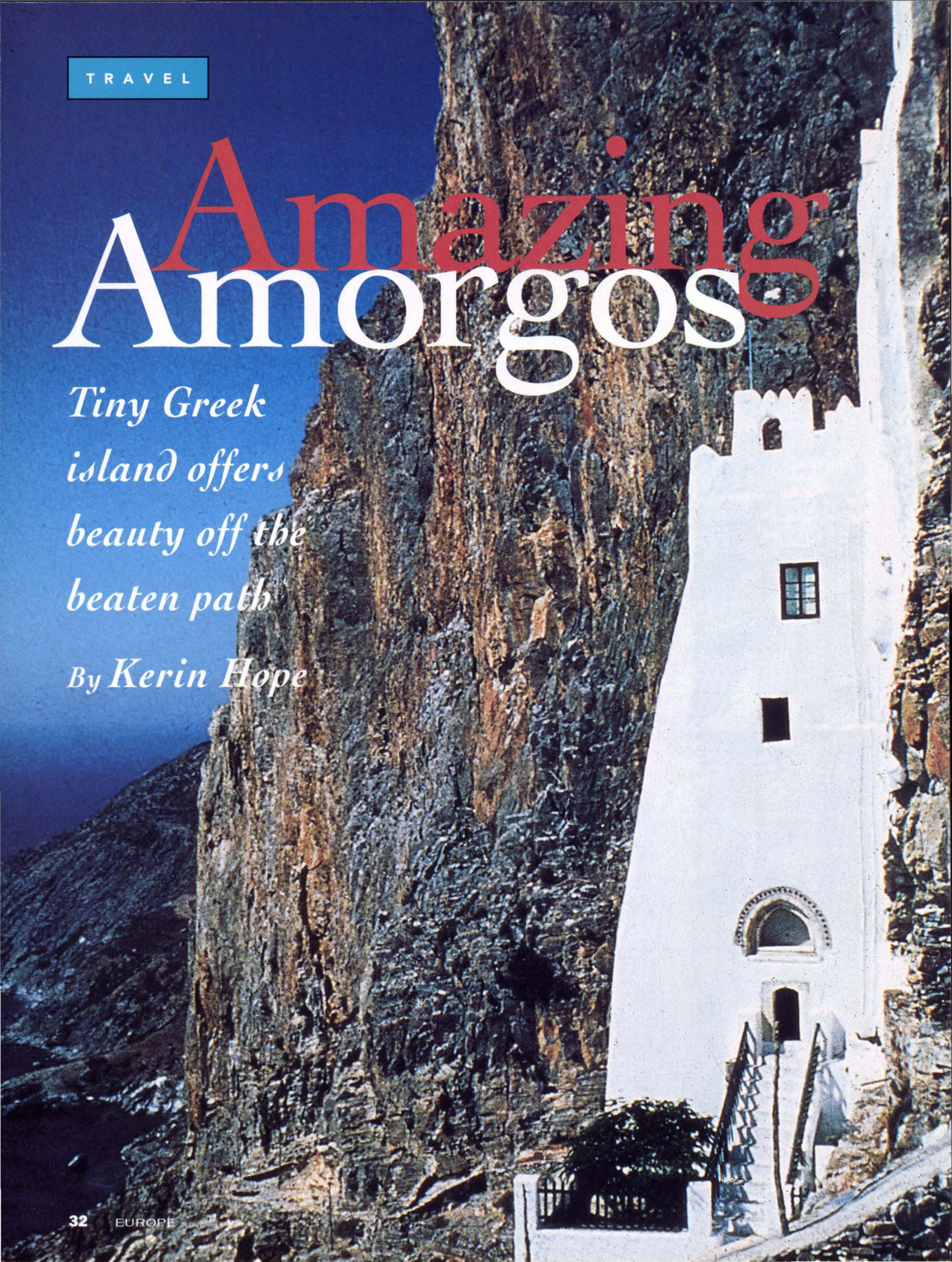
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Amazing Amorgos

*Tiny Greek
island offers
beauty off the
beaten path*

By Kerin Hope



Mention the Cyclades Islands and most people think of Mykonos and Santorini, famous for spectacular sunsets, crowded cosmopolitan beaches, and boisterous nightlife. Elsewhere in the archipelago, life is quieter. On Amorgos, for example, the easternmost island in the Cyclades, there are few hotels and even fewer bars. Centuries-old *kalderimia*—donkey trails—crisscross the island, offering dramatic views of cliffs falling sheer into the Aegean and access to sheltered rocky coves.

Amorgos is an island for hikers (though a new road runs the length of the island and there are buses to carry you home at the end of a day's walking). Good times to visit are May, when the rocky hillsides are covered with wildflowers, or October, when the midday heat is waning but the sea is still warm enough for swimming. But it takes a bit more effort to get there than hopping on a plane or hydrofoil to Mykonos.

Amorgos doesn't have an airport, so you travel in old-fashioned style by passenger ferry from Athens' port of Piraeus. The ship calls at several smaller islands before dropping you off in the early morning hours at the port of Aigiali. Stay at the Hotel Aegialis, perched on a hillside overlooking the port. Comfortable and friendly, this is the place to find out about the island's sights, trails, and tavernas.

As on many Cycladic islands, the biggest village is known as Khora and lies inland. Its narrow whitewashed alleys are bright with bougainvillea and buzz with activity in spring as residents prepare for the summer wave of visitors. In early October, the season is winding down and the mood is relaxed in cafes and tavernas.

Not to be missed is the walk from Khora down to the Khozoviotissa monastery, clinging precariously to a cliffside as a protection from marauding pirates. Founded by a Byzantine emperor, it's a place of pilgrimage for modern Greeks. They come to pay their respects to a revered icon of the Virgin Mary, guarded by a handful of bearded,

black-robed monks who live in the monastery's medieval cells.

From the monastery, you can return to Aigiali via the *kalderimia*, a four-hour hike along the island's central ridge with stunning views over the Aegean in every direction. Bring a big bottle of water—you won't find any cafes along the way.

The hike starts with a zigzag climb up a narrow path hugging a precipitous rock face. Carry on and you cross stony farmland used for grazing goats and growing barley until tourism became the islander's main occupation. Deserted homesteads are a reminder of a wave of migration by the Cyclades islanders to the mainland a generation ago. The last part of the trail brings you down into Aigiali village, a lively cluster of square white houses and waterside

Centuries-old

kalderimia—donkey

trails—crisscross the

island, offering

dramatic views of cliffs

falling sheer into the

Aegean and access to

sheltered rocky coves.



Aegean Jewel: Although not famous like Santorini, its sister Cycladic Island, Amorgos offers similarly stunning vistas of plunging cliffs and sheltered inlets.

cafes, overlooking a welcoming sandy beach.

Another trail takes you south from Katapola, the southern port of Amorgos, through rocky valleys to an impressive ancient tower at Agia Triada, built of huge stone blocks and surrounded by newly excavated buildings. Alternatively, you can head north from Aigiali on a path winding between vineyards and orchards to the cliffs at the tip of Amorgos. This is a leisurely afternoon's hike, bringing you back in time to watch the sunset from the hotel terrace, with a well-deserved glass of wine beside you. ☺

ZAGREB

Croatia's capital entices travelers

By *Kenneth C. Danforth*

Zagreb, capital of Croatia, has come back from the brink of disaster to take its place among enticing Central European cities such as Prague and Budapest.

The path to peace and prosperity has not been easy.

In 1991, Croatia was forced into a war it never wanted, as were Slovenia and Bosnia. The worst violence was limited to the outer fringes of the country. However, even from the capital, people could see flashes from artillery at night. Yugoslav army forces under the control of Belgrade sent two air-to-ground missiles into the Presidential Palace in Zagreb. President Franjo Tudjman was in the building at the time, though not in his office, which took a direct hit.

The unprovoked attack hardened Croatia's determination to wrest itself from the disintegrating Yugoslav federation. Croatians no longer saw any sense in remaining in the same country with Serbia, instigator of the rapidly spreading campaign of terror that would engulf Bosnia and that continues in Kosovo.

In May 1995, as Croatian forces were liberating some of their territories, fleeing Serbs launched long-range rockets loaded with anti-personnel cluster bombs against Zagreb, killing at least seven civilians. The International Criminal Tribunal for the Former Yugoslavia, meeting in the Hague, has indicted Milan Martić, the president of the self-proclaimed Republic of Serbian Krajina (part of Croatia), for unlawful attacks against civilians.

Its sovereignty and borders secure at last, Croatia has made great strides toward restoring its economy and regaining its stature as a business and tourist destination for seekers of luxury and bargain hunters alike.

Zagreb is that rare entity—a delightful nine-century-old city that relatively few foreign tourists consider a vacation goal. That's too bad, for Zagreb rewards the visitor with Old World charm and warm hospitality that are hard to find.

With its grand boulevards and baroque 17th and 18th-century buildings, Zagreb has a *Mitteleuropa* flavor strikingly different from Croatia's coastal cities, with their twisted stony lanes and the salty tang of the Adriatic.

One troubling note is the autocratic rule of President Tudjman, a micromanager who has proved to be uncomfortable with freedom of the press. He apparently has no use for proposals and ideas that do not originate with him. The opposition is divided and ineffective. Tudjman is seventy-six, and people worry because almost no preparations have been made for an orderly transfer of power. He exults in such archaic trappings as a pretty-costumed changing of the guard, which most people seem to regard with a yawn.

In the meantime, Zagreb manages to put aside past problems and any future anxieties and devote itself to the good life.



One particularly likable aspect of Zagreb is that it's a city made for walking. Everything one might want to see is pleasantly reachable by foot.

The summer sun can be scorching, but big shade trees and splashing fountains offer cooling relief. Enormous sycamore trees tower over the central promenade of Zrinjevac, one of three grassy parks that compose the "Horseshoe"—a leafy sanctuary that stretches from the main railroad station to the edge of Jelacic Plac.

Jelacic Plac, formally called Trg Ban

Jelacic after a popular Croatian dictator resurrected from the grandeur of history, is the focal point of all Zagreb. It was called Trg Republike (Republic Square) during communist times, but like much of Zagreb, it was renamed after Croatia gained independence. A large equestrian statue of Jelacic, cut up, crated, and removed by Tito's government in 1947, was found in a cellar

through Jelacic Plac. Every major hotel in the city is within easy walking distance.

Old Zagreb is divided into the Upper City (Gornji Grad) and the Lower City (Donji Grad). A fairly undemanding climb from Jelacic Plac takes one up the hill to a tangle of old lanes and a high vantage from which to look out over the lower city. Less vigorous visi-

dles, and gaze in rapturous meditation. A stooped crone with a face like an apple doll, covered in flowing black cloths, scrapes away at the white wax that flows from dozens of limp candles. It is gloomy inside the old passageway, and the candles flicker eerily on the scorched blackness of the stones above them. The old woman works ceaselessly with a broad metal spatula, her arms impervious to the flames.

A ten-minute walk away is the Sokol Club, a roaring discotheque featuring smoky air, free-flowing booze, and wild, abandoned dancing. A prominent sign commands: "Don't Talk, Just Dance." Patrons who get tired can go down the block to Model's Cafe, where they can sit quietly and see in better light the people that only minutes ago were flickering in the polychromatic strobe lights.

Visitors too often fail to explore the countryside around the city. However, the Hrvatsko Zagorje (the Croatian hinterland) is a wonderland of pastoral pleasures. The hills around Zagreb are dotted with old villages, castles, and meadows all tied together with winding roads and clean mountain streams. True to the Croatians' love of good food, restaurants with rich Zagorje cuisine appear around every fifth curve.

The village of Kumrovec, where Tito spent his childhood, and the Gothic castle of Trakoscan are particularly interesting sites. The rigors of touring can be quieted with an outdoor lunch at the rustic Podboj farmstead, where one can sit under the trees at rough-hewn wooden tables and look across a green valley at the lofty site of the castle of Tabor.

For the traveler who doesn't have time to venture beyond the city limits, the vast Maksimir Park and the Botanical Gardens offer peaceful havens. And for those who might, for the nonce, prefer art to nature, both the Strossmayer and Mimara museums merit a half-day of worshipful gazing.

The halls of the Mimara, for example, offer paintings by Cuyp, Ruisdael, Ostade, Steen, Canaletto, Renoir, Monet, Corot, Constable, Turner, Degas, and Pissarro. For a lover of fine art, these masterpieces alone are enough inspiration for a ticket to Zagreb.

Then, too, the city itself is a work of art. ☺

Kenneth C. Danforth profiled Croatia in EUROPE's June issue.



in 1990, reassembled, and returned to its place of honor.

Everyone in Zagreb seems to go to or through Jelacic Plac at sometime during the day or night. Thousands of pedestrians find their way through a constant flow of streetcars—bound for offices, homes, and restaurants. Even late at night the trams run frequently, and they are always crowded.

People sit for hours at outdoor cafes, talking, drinking, and surveying the fluid scene. The longest and perhaps oldest street in Zagreb, Ilica, runs

tors can ride up the hill in a funicular.

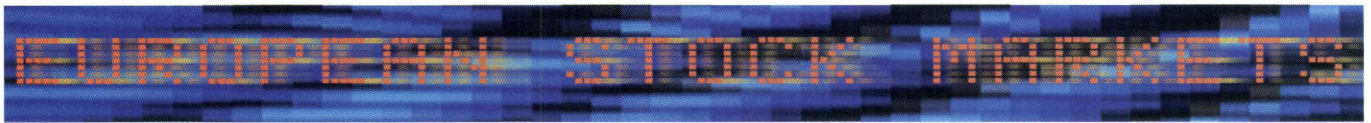
At an intermediate level between the lower and upper cities is a plaza called Kaptol, dominated by Zagreb's magnificent cathedral. Two of the city's most popular restaurants are on Kaptol.

Not far from the cathedral, at the ages-old stone gate higher up the hill, one can observe a thoroughly medieval ritual. When the first gateway on the site burned down long ago, a painting of the Virgin Mary was spared. The painting, now a shrine, is embedded in a wall. People come there, light can-

CAPITALS

AN OVERVIEW OF
CURRENT AFFAIRS
IN EUROPE'S
CAPITALS

At the same time the world's stock markets are riding out the shock waves set off by the Asian and Russian financial crises and Europe prepares to inaugurate the euro, average Europeans are rethinking the ways in which they invest their money. Our Capitals correspondents report on how personal investing is changing in the European Union.



PARIS

SAFETY FIRST FOR FRENCH INVESTORS

When it comes to investing, the French prefer to play it safe. They are more likely to hoard their francs than to gamble them on the stock market. Those who have savings put the bulk of them into risk-free deposit accounts that have the rate of return set by the French government.

The state is omnipresent in France on the guaranteed investment scene. Every single no-risk savings scheme has its interest rates set by the government. Those that are administered by government-controlled agencies, such as the Caisse d'Épargne (the savings and loan association), have the scales tipped in their favor by benefiting from tax-free interest rates.

The granny of French financial institutions under the government's wing is La Poste, the national post office. Its banking arm was created in 1881, became part of its more traditional services, and makes its competitors fume with envy because it is so unbeatably convenient. Where else can you buy stamps, send a telegram, cash a check and play the stock market, all in one

place, at hours that are far too sensible for any bank? The French post office has 17,000 offices throughout the country, which welcome everyone with even just a few francs to spare. Since 1991, special financial counselors even exist, to attract and advise post office banking clients.

Besides the venerable and versatile post office, France has banks aplenty: public, private, cooperative—you name it, France has it. More than 1,500 credit

available on demand and guarantee a certain rate of return. A basic savings account currently earns 3 percent interest (tax-free if placed with a savings bank or the post office). Building society savings plans, which tie the money down for several years, do slightly better and bring in 4 percent interest.

Given the general lowering of inflation and the corresponding drop in interest rates, French investors are turning

more and more toward SICAVs, the French term for mutual funds. France has a larger variety of mutual funds on offer than any other country in Europe—around 1,200 of them, divided between money market, bond market, and stock market funds. SICAV *monétaires*, short-term money market investments, earn about 3 percent. SICAV *obligataires*, bond market placements maturing in three to five years, yield between 4.5 and 5 percent. SICAV *actions*, because of the volatile nature of the stock market, take at least five years or longer to ride out capital fluctuations and

yield a worthwhile profit. You do not need much spare cash to buy into a SICAV. Most banks require a minimum investment of anywhere from \$350 to \$900, but the French post office, with its tradition of serving the people, lets anyone have a flutter for as little as \$40.

Three SICAV supermarkets offer a choice of about 1,000 different mutual funds each, instead of only promoting a



French post offices provide financial and banking services.

institutions compete for clients, so many that a radical restructuring is vital and imminent. When the dust settles, some estimates put the number of banks left in France at just two or three giant institutions, such as the Crédit Agricole, the Caisse d'Épargne, and La Poste.

No matter where they choose to place their money, the majority of the French still opts for savings plans that keep cash

limited range of in-house products, like most banks do. Cortal, Vega, and American Express are the three mass marketers, with not much to choose between them except for slight differences in handling charges and in passing information on to their clients.

The French government cannot be said to encourage personal investments as much as it could. Within the last three years, it has dropped interest rates and has made most investments taxable as income from the first franc on. An added complication in France is that each new government changes the rules, which makes personal investing an exciting but intricate business that requires time and determination as well as cash.

A recent investment incentive, created in 1992, is the PEA, or *plan d'épargne en actions*, a personal equity plan that allows an individual to invest up to \$100,000 in French shares, a married couple twice that amount. As long as no withdrawals are made for five years, all dividends and capital gains are tax-free.

With the advent of a single currency in Europe, competition for investment euros will reach beyond national boundaries. Foreign banks will be able to establish themselves on French soil, and French investors will be able to shop around, make direct comparisons, and buy securities either at home or elsewhere in the European Union. For French banks, that freedom of choice may be a challenging prospect, but for the investor, it can only be welcome news.

—Ester Laushway

LISBON

EDP ELECTRIFIES PORTUGUESE MARKET

Like other southern Europeans, the Portuguese traditionally were conservative investors, favoring government bonds over riskier forms of saving. But that staid image took a battering in June 1997 when a staggering 7 percent of the population applied for shares in state electricity utility Electricidade de Portugal (EDP). The offer was preceded by a lavish advertising campaign that sought to persuade a public long wedded to state control of the economy that privatization was good for them as investors, for EDP, and for the nation.

Although the operation was Portugal's largest public offering by far, it has

since been all but outdone by others. In the autumn of 1997, small investors applied for 133 times as many shares in toll road operator Brisa as the government had earmarked for them—another record. And the second stage of the privatization of Portugal Telecom a month earlier raised almost as much as the EDP offering.

Meantime, some Portuguese financial institutions have seen sales of equity-related investment products, such as mutual funds and personal pension plans, soaring by as much as 50 percent this year.

So why are the formerly cautious Portuguese turning to equities all of a sudden? Personal pensions have benefited from generous tax breaks for some time but several new factors have come to the fore.

First, the economy has been among the fastest growing in the EU in recent years, leaving more people with more disposable income that they may not want to spend right away. Secondly, falling interest rates in the run up to the European monetary union, which Portugal is to join in January, have made the returns on bonds and other fixed-interest investments look terrible.

Thirdly, the long bull market in world stock markets of recent years was magnified in Portugal as the Lisbon exchange graduated to the big league. The announcement by Morgan Stanley Capital International (MSCI) in the spring of 1997 that it would include some Portuguese stocks in its developed market indices from last December sparked an unprecedented craze for equities. Partly as a result, the benchmark BVL30 index soared 65 percent last year. But the effects of the decision continued to be felt into 1998, as institutional investors whose funds are guaranteed to match the performance of MSCI indexes sought out must-have Portuguese stocks.

Even after the market turmoil caused by the economic crises in Asia and Russia, the BVL30 index in early September was up 30 percent from the end of 1997. The government, mindful of small investors' tendency to panic under pressure, is set to postpone some of the privatizations planned for this year. But there's little sign of the Portuguese being any less ready to hand their money over to fund managers to invest for the long term.

—Alison Roberts

GRANNY'S NEST EGG

Grandmother was a remarkable woman who, long before it became prudent or popular, believed that a good pension was worth its weight in gold—if only to meet the costs of a decent funeral. "You can't beat having a nice nest egg for old age," she was wont to remark.

Most of her married life she had invested in a life pension on my grandfather. When he died, we waited with mounting enthusiasm for the pension salesman to turn up and deliver the fruits of her foresight. However, when the great event eventually happened, she was crestfallen—a condition not helped by the remark of an aging uncle, "It wouldn't bury a duck!" The amount was, to say the least, not particularly grand or impressive.

That was back in the 1950s, when pension plans were not so wide ranging or rewarding as in the Ireland of today. Then, she was one of the few who believed in a planned pension. Today, it is assumed that most people invest in one or more of the dozens of pension plans available through a variety of sources—commercial banks and investment houses being the biggest players.

At first glance, the figures are not so impressive. Only between 5 and 10 percent of the population, mainly the self-employed, have directly purchased pensions in one shape or another. But that figure disguises the much wider purchasing by state and semi-state employees and people working in industry, farming, and other areas who pay into government, company, trade union, or other organization pension funds.

Conall O'Morain, a former stockbroker and financial adviser, says mutual funds are particularly popular. "The government offers a 15 percent tax incentive through pension funds, which makes it all a very attractive proposition," he says. There are no special laws that either help or hinder investing, he adds, rather similar to the position in the United Kingdom.

Paul Kenny, a director in the technical and compliance division of the Irish Pensions Trust, says that, although many people still don't realize it, pension provision is the only form of saving that gets direct and immediate subsidies from Ireland's Revenue Commissioners.

Kenny says that, under present tax legislation, pensions for the self-em-

ployed are not treated in the same way as those of employees. Instead of controlling the maximum pension that may be provided, the Revenue Commission controls the maximum contribution that qualifies for tax relief: 15 percent of what is called "net relevant earnings" (earnings minus expenses allowed for tax purposes) up to the age of fifty-five, and 20 percent beyond that.

Gail Seekamp, personal finance editor of the *Sunday Business Post*, says erratic returns, advice from commission-driven financial consultants, and the hidden charges and restrictions in pensions contracts have meant that the task of investing hard-earned profits in a pension is never easy. The recent seesawing stock markets and imminent charges in pension law further compound the equation.

However, she says it's not all bad news.

Businesspeople and professionals are far more aware of the pitfalls and are ready to seek good advice. Scores of companies now offer that advice—with varying results. The sharp drop in interest rates has also increased the price of funding a pension.

Nevertheless, even business owners who once regarded their business as their pension and a capital asset that could be sold to provide for the owner's retirement are shying away from this strategy.

Paul Kenny says this caution is wise. Regarding one's business as a pension is very shortsighted, he advises, as it ignores the risk of the fluctuating business cycle and the prospect of a forced sale at a time when market conditions are poor.

Now if grandmother had only known all that.

—Mike Burns

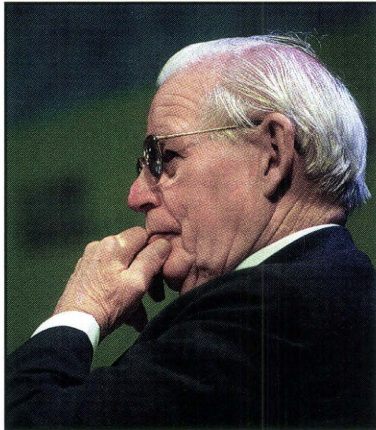
STOCKHOLM

SWEDES SERIOUS ABOUT SHARES

When it comes to investment, Swedes are at the top of the list. They own more shares in mutual funds, per capita, than people in almost any other country. Individuals also invest

heavily in the stock market, undeterred by the influence of institutional investors. Even the market turbulence of recent months and falling share prices have barely dampened their investment enthusiasm.

Originally, Swedes may have gotten into the stock market because, in their relatively small country with its relatively small stock market, they were more likely to know something about the



Peter Wallenberg and his family hold controlling shares in many Swedish companies.

listed companies and the people running them.

There is also a tradition of small shareholder organizations with substantial influence. One is credited with being largely responsible for stopping the planned Volvo-Renault merger several years ago. Members who owned Volvo shares were dissatisfied with the terms of the deal

and voted as a bloc against it.

Today, while the market is much bigger, the booming business in Internet trading means it's quick, cheap, and simple to buy and sell stock. Internet trading is also putting pressure on brokers, whose commissions have traditionally been hefty, to lower their fees. In going directly to the Internet, Sweden has skipped the discount broker stage; not surprisingly, since discounted goods and services are often viewed with suspicion as inferior in some way.

Electronic trading also works well in Sweden because there's no need to transfer stock certificates when a trade is made. Shares are centrally stored, rather than being held individually. When a trade is made, the change in ownership is also centrally recorded.

Over the next few years, investment in the stock market is likely to increase substantially. Recent changes in the Swedish national pension system give workers more responsibility for deciding how their stakes should be invested.

Banks and other financial services companies, especially insurance companies, have been quick to take advantage of the changes by offering a wide range of pension plan investment programs. Even before the changes, they played on

people's concerns that the state pension would not be sufficient by offering private pension programs. These have proved extremely popular and helped fuel investment in mutual funds.

Swedes pay 30 percent tax on their stock dividends, and capital gains taxes on stock sales can be much higher. The dividend tax is on top of the 28 percent corporations pay on total dividend payment before it is distributed. Swedish companies have long protested the double taxation, and when merging with Finnish companies, they have begun registering the businesses in Finland where dividends are only taxed once.

There are no restrictions on foreigners buying into Swedish companies. But there are several classes of shares, carrying different voting rights. In some of the oldest listed companies, a single share can carry as many as 1,000 votes. While that is no longer permitted for new share issues, it isn't uncommon for one share to carry ten votes.

Under the system, major shareholders, such as the powerful Wallenberg family's Investor holding company, are able to retain control of companies without holding many shares. When writing about companies, Swedish journalists always differentiate between how many votes a shareholder has compared to the percentage of capital that is owned in a company.

—Ariane Sains

MADRID

SPANISH LIKE STOCKS BUT GAMBLE ON EL GORDO

In Spain, as in many other countries around the world, ordinary people are venturing into the stock market for the first time in their lives and at the same time purchasing property, buying bonds, and getting into mutual funds as the fad for investing takes hold.

But then Spaniards have always enjoyed risking their money, although they've usually confined their betting to lotteries, soccer pools, bingo halls, and slot machines instead of blue-chip stocks.

Moreover, according to studies, Spaniards are the biggest gamblers in the world in the amount they spend on bets, beating out even those games-of-chance-loving Chinese in their passion to play.

"It's a different kind of investing, and there is usually no return, but it is one

we like for the excitement and the chance to become instant millionaires," says a businessman on his lunch hour pumping 100-peseta pieces into a flashing one-armed bandit in a Madrid bar.

Opportunities to lose one's money abound. Almost every bar in the country boasts at least one *tragaperras* (slot machine), and every city block or village square seems to feature a blind person calling out "Para hoy! Para hoy!" ("For today! For today!"), referring to the 200-peseta tickets for the daily lottery run by an organization that helps the disabled with the billions of pesetas it rakes in each year.

The Spanish government itself sponsors several lotto-type lotteries with big payoffs, including the daily Bonoloto and the Loteria Primitiva, which is held on Thursdays and Saturdays. There is also a separate lottery draw on the weekend, along with the weekly soccer pool, or Quiniela.

However, all this pales in comparison with the giant Christmas lottery. For weeks before the big December 22 drawing, families and groups of friends and colleagues pool their money to buy fractions or entire tickets for El Gordo (the Fat One), believed to be the lottery with the world's biggest payoff.

A total of \$1.2 billion is handed out in prizes, and last year, Spaniards spent a record-breaking \$1.7 billion on tickets for the El Gordo lottery alone, an average of \$45 per person. Furthermore, the winnings are all tax-free as the government keeps its 30 percent of the total sales before the drawing takes place.

On the day of the drawing, Spaniards gather round their radios and television sets to listen carefully for the winning numbers sung out by children from a Madrid orphanage. When the top prize of \$2 million is announced, the whole country comes to a halt as everyone crosses their fingers and hopes a lucky investment in a ticket will mean an especially merry Christmas.

—Benjamin Jones

LUXEMBOURG

LESSON LEARNED ON HOT STOCK

Back in July, the idea of seeking public subscriptions and a stock exchange listing for the Société Européenne des Satellites (SES), one of Luxembourg's most successful corporations, looked like an inspired one. The

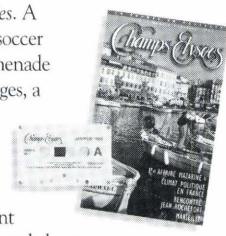
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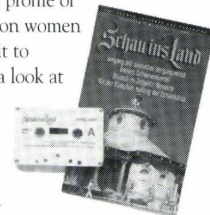
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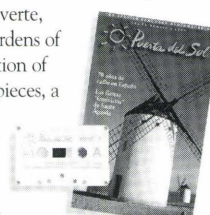


Schau ins Land in German: Professional journalists in Germany, Austria, and Switzerland provide a

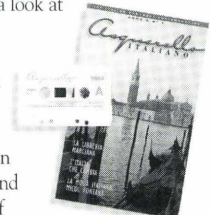
fascinating overview of German-speaking Europe every month in *Schau ins Land*. Recent programs have included a two-part profile of Bertolt Brecht, a feature on women in the Bundeswehr, a visit to Dresden's Frauenkirche, a look at Sion, Switzerland's campaign to host the 2006 Olympics, and a report on the 50th anniversary of the world-renowned Max Planck Institute.



Puerta del Sol in Spanish: A talented group of broadcast journalists in Madrid examines the colorful textures of Hispanic culture every two months in *Puerta del Sol*. An interview with best-selling novelist Arturo Perez-Reverte, features on the walled gardens of Córdoba and the restoration of one of El Greco's masterpieces, a profile of Federico García Lorca, and a visit to the new Guggenheim Museum in Bilbao are just a sample of segments included in recent editions of this compelling Spanish-language audiomagazine.



Acquerello italiano in Italian: Produced six times a year in Rome, *Acquerello italiano* showcases the vitality and style of contemporary Italy. Recent programs have included a look at efforts to preserve the archaeological site at Pompeii, interviews with Oscar-winning director Giuseppe Tornatore and World Trade Organization head Renato Ruggiero, and features on the Shroud of Turin, the controversial cancer treatment of Luigi Di Bella, Rome's Borghese Gallery, and the ever-popular Harry's Bar in Venice.



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company needed cash, the government was trying to promote an equity culture among individuals, and the main market index was at an all-time high. For a few days SES traded at around \$200 against the issue price of \$179, and everybody concerned congratulated themselves.

Not for long. Luxembourg is highly sophisticated in money matters, but its stock market has proved no more resistant to the shock waves hitting equities across the world than any other. Within a few weeks SES stock was down to \$153, recovering to around \$164 in late September. This more or less corresponded to the Luxembourg market generally. Around mid-year the main index, composed of the shares of the thirteen largest stocks, including banks, television, steel, and investment holding companies, hit a record 9,063 but then lost 15 percent of its value over the next three months.

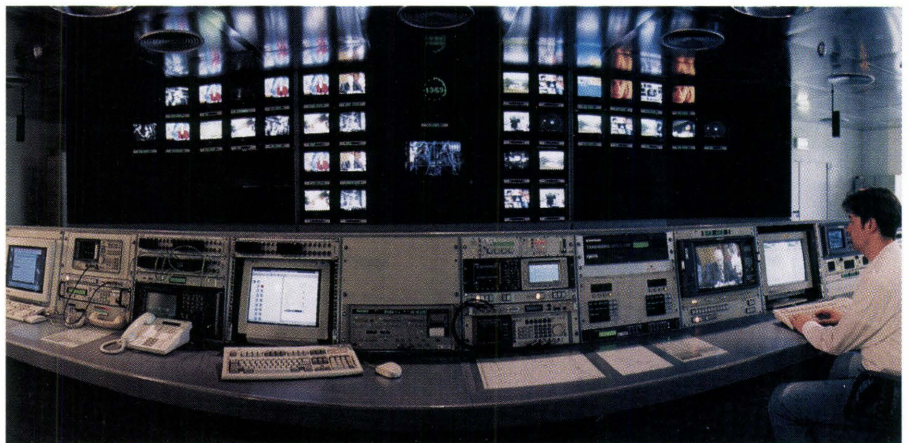
The crash came as a brutal shock for Luxembourg investors for whom soaring gains in value had come to seem commonplace in recent years. Astonishingly, the main index had risen from a base of 1,000 in 1985 and was showing a year-on-year rise of around 30 percent at one point this year. Nevertheless, virtually all equity investment in Luxembourg over the past thirteen years has come from banks and other financial institutions. Only quite recently have individuals come on board.

The worry now is that private investors will take fright and steer clear of the equity markets at the very time the government is trying to promote a stockholding culture in Luxembourg in an effort to wean people away from reliance on the state pension. This campaign began about five years ago when the government introduced a tax incentive scheme designed to promote the buying of shares in companies that sustain the Luxembourg economy.

This concession has been successful in that all the big Luxembourg banks have set up mutual fund-type instruments to exploit it in recent years. Nevertheless, it has failed to bring about much in the way of direct equity investment by the small investor, which was something that the SES issue was, at least partly, meant to correct. As the Luxembourg Stock Exchange (LSE) officials stated in July, "The listing of SES is likely to be a turning point for the Luxembourg financial center and to contribute to the development of a shareholder culture in Luxembourg."

This development will now inevitably be delayed. "The market downturn has come at a bad time," says Simon Gray, editor of *Luxembourg Business*. "It will damage confidence which may take a while to recover. In the meantime the government needs to start inculcating an investment culture reasonably quickly. It will be hard for them to say they're going to hack away at the state pension if people have no confidence in the alternative—which they might have done until recently."

Peter Backes, head of private banking at the German-owned BFG Bank, believes that most of the small investors who bought SES shares this summer will hang on to them "because they think that the story is still good." But he accepts that however well the satellite company performs and however well Luxembourg itself does economically, "our share prices will just go up and down with Wall Street and the other European bourses."



Luxembourg investors were initially enamored with the satellite company SES but learned some difficult lessons when the stock market took a hit.

André Birget, head of capital markets at Banque Generale de Luxembourg, agrees. "SES has a lot of credibility. We've had very little flowback from the 13,000 individuals who bought the shares in the public offering, they consider it as a long-term hold," he says. But all Luxembourg's quoted companies operate internationally and will inevitably respond to world investment events, he says.

Few financial or government experts doubt that a much greater spread of direct equity share ownership by individuals is on the way in Luxembourg, even if nerves have been shaken in recent months. The LSE itself is undeterred in its self-proclaimed plans to "reinforce its international profile at a time when the euro is on the way and world markets

are becoming increasingly global." Shortly before the price upheavals this year the LSE admitted its first full foreign member—the Deutsche Bank of London—and served as host to the second European Equity Traders Convention in June.

—Alan Osborn

LONDON

INSTANT SHAREHOLDERS

There are 12 million shareholders in the United Kingdom, which represents 27 percent of the population. However, this bare statistic hides the fact that most of these shareholders hold only one or two stocks, many of which they received as a result of actions taken by others, rather than the individual making a purchasing decision.

Private share ownership in the UK took a massive leap last year when many of the building societies (rather like the

US savings and loans bank) de-mutualized to become regular banks. All those with savings in the building societies were issued with shares in the new banks.

In total, 3 million people were introduced to share ownership in the space of a year. The privatization of public services of the Thatcher years, with its goal of creating a share-owning nation, took more than a decade to achieve the same growth.

Nonetheless, the profile of UK shareholders shows that they still tend to be among the higher social classes, paying higher rates of tax. "The penetration of equity investment in the UK is far narrower and shallower than in the US," according to officials at the London Stock Exchange.

A second development where people involuntarily acquire stocks is through employee share schemes. Employee share ownership began here in the 1980s and took firm root in the 1990s. Gill Nott, the chief executive of Proshare, an organization dedicated to promoting private share ownership, says she expects "the number of employee shareowners to rise by as much as 25 percent by the millennium."

The growth in investment clubs, copied from the US model, has also contributed to spreading share ownership. At the beginning of April 1997, just a few hundred clubs existed in the United Kingdom. That number increased six-fold in the year and is continuing to grow rapidly.

Nonetheless, a survey by the London Stock Exchange revealed that almost 50 percent of those polled believe that investing in shares is "too complicated." Many people would prefer to invest elsewhere in case the stock market crashes. The study clearly revealed the need to "demystify share investment."

To this end, the LSE launched a major marketing initiative this year designed to widen and deepen private share ownership and raise awareness of the importance and attractiveness of buying shares in UK companies.

The LSE campaign is modeled on the New York Stock Exchange's campaign in the 1950s, which saw the number of shareholders soar from 6.5 million in 1952 to 12 million by 1960 and reach 65 million this year. Proshare research revealed that simplicity and accessibility will be the key to spreading share ownership, and that for many, maximum performance is not the most important issue, rather they want some security in falling markets.

"With individuals increasingly having to take personal responsibility for planning for old age, health, and education," explains Geoffrey Maddrell, chairman of Proshare, "it is critical that the wider public become more conversant with the implication of investing long-term savings in equity-based investments."

He advocates a major change in the culture whereby financial management becomes an essential life skill. He wants financial planning and money management included in school curriculums. Interestingly, the popularity of mutual funds in the US has not been mirrored in the United Kingdom. Units trust, which is the local equivalent, are held by only 4 percent of investors, despite the protection that is offered by their spread.

On the other hand, tax-free personal equity plans, popularly known as PEPs, are held by 9 percent of investors. PEPs are investments in either a fund of companies or a single company. Government regulations limits the amount that may be invested each year to about \$10,000, to keep out the institutional players and restrict it to the private investor.

The current tax system favors some forms of long-term investment over others, and a committee set up to study the issue recommended that "the government should seek to remove any distortions in the tax system which discourage private share ownership and simplify the tax regime applying to investment." According to Proshare, the government is looking into this favorably.

—David Lennon

VIENNA

STICKING TO SAVINGS ACCOUNTS

While many investors in the United States and the European Union are riding out the highs and lows of the stock market, most Austrians are simply watching from afar because few hold shares in companies traded on the local stock exchange.

"Austrian investors have been in the past and still are conservative in their investment habits," said Wolfgang Layr, managing director of Volksbank Investmentfonds.

Less than 5 percent of the population has invested in the stock market. Instead, a vast majority of Austrians continue to sock their money away in savings accounts, despite low interest rates and high tax rates. Life insurance policies also remain popular.

Many of the savings accounts are anonymous, which has put the country in direct conflict with the EU, which says anonymous accounts are illegal. About three-quarters of Austrians keep their money in savings accounts, even though the interest rate is slightly less than the inflation rate. On top of that, the government levies a 25 percent tax on interest.

"People are not very satisfied with what they get," Layr said, "but they have no experience with other investments." A big crash in the 1870s soured many on the stock market, and cautions were handed down from generation to generation. Hyperinflation between the wars scared many, and after World War II, Austria was divided into four zones of Al-

lied occupation, similar to Berlin. Vienna was under Russian control, and many firms were nationalized to keep them out of Russian hands.

Vienna's stock market went through a boom in the 1980s, when American financial gurus recommended it as a place to invest, and the collapse of the Berlin Wall triggered four-and five-fold growth. "It overheated," Layr said. "There were options and options on options. It was really like a casino."

However, the 1990 Gulf War brought the growth to a screeching halt, and the market never fully recovered. Wall Street's vicissitudes, coupled with Russia's economic collapse, has hurt the market even further. In March, the ATX was up to 1,700. Six months later, it was down about 40 percent.

Bank Austria, steel manufacturer VA Tech, and oil company OMV—all of which have strong ties to the Russian market—have seen their stock prices crash. But instead of driving investors away, the downturn is actually drawing them in as they look to snap up bargains.

Interest in equity investments also is on the rise. "In Austria, more than in other countries, there will be more equity investment because the rate is so low," Layr said. Much of the growth will be spurred by problems with the state-run pension system, which is "in deep trouble," he said. "People will have to do more private retirement planning."

And more changes are in the works. In 2000, the government plans to allow IRAs, and has promised a tax reform, but so far, the details remain unclear.

—Susan Ladika

COPENHAGEN

A BUYING OPPORTUNITY

The value of Danish shares has been severely mauled since the middle of July in the wake of the global correction. However, there is no sign of panic among big or small Danish shareholders, who seem to regard this as a major opportunity to buy blue-chip stocks, some at a discount of 30 percent on this year's highs.

Almost a third of Danes own shares. This figure has grown moderately over the past ten years, but the major change is that those who own shares have increased their holdings sharply at the expense of bonds. Ten years ago, shares were considered too risky and composed

less than 10 percent of the value of most private investment portfolios. Today shares compose more than 20 percent of most portfolios, and many are aiming at a third or more.

Many privately held shares are deposited in pension accounts, which are fostered by tax incentives. Though they have been reduced this year, it is still possible to deduct pension savings from taxable income, which is important in a country with a marginal tax rate of 60 percent. Tax is applicable when money is eventually withdrawn from the pension savings accounts, but typically at a lower rate.

Mutual funds, mostly operated by banks, are the preferred vehicle of private investment in shares in Denmark. Originally concentrating on Danish shares and bonds, they now offer the full range of international opportunities to make and lose money. One of the newest funds, specializing in Russia, has lost more than four-fifths of its value this year, but others focusing on emerging markets have also been badly hit.

Danish tax laws have hitherto prevented hedge funds from offering their services.

Personal investment in shares is still very much a high-income phenomenon. It is estimated that, by value, 5 percent of the Danes own more than half of all privately held shares. Many of those holding only a small number of shares have acquired them at below-market prices as part of company loyalty programs. These are given preferential tax treatment. But almost a million Danes have private pension plans, which include growing numbers of shares.

Culturally, shareholders have not always had an easy time in the welfare state, but that has changed. Through collective agreements on the Danish labor markets, virtually all unionized Danes now indirectly own shares. Moreover, their pension funds have been allowed to increase the amount of shares in their portfolios this year. This fall, they are avidly exploiting this change to acquire more shares at low prices, just like the private investors with a long-term view.

Danish research shows that over long periods of time, investment in shares is not only more profitable, but also no more risky than investment in bonds. Though not calibrated for the latest drop

in the market, this view remains the consensus among Danish investors. Like their international counterparts, they are demanding that creating shareholder value must be the prime concern of corporate management.

This attitude represents an ideological break with the past for many trade unionists, who would put job preservation highest on the list. But now the large pension funds operated jointly by unions and employers make no bones about their demands for value creation. There is no doubt that this focus will also inspire many small investors to buy more shares in the future.

—*Leif Beck Fallesen*

THE HAGUE

DUTCH PENSIONS FUEL STOCK GROWTH

This summer, Dutch stock market watchers called it the “camping crash,” the reverse of last summer’s “camping boom,” when many small investors called in from their vacations to pour money into the stock markets, feeding the country’s investment euphoria.



Most Dutch investors' portfolios include shares in Dutch brewer Heineken.

This summer, however, it was different, with the Amsterdam Stock Exchange shedding, at one point, about a fifth of its peak value. Nevertheless, there was no panic, no wave of selling this summer when stock markets suddenly turned nasty. Neither private nor professional investors lost their cool.

Previously, investing in stocks and bonds in the Netherlands, like in other European countries, had been a matter primarily for those in the financial industry and the wealthy. Ordinary people not only lacked the money, but also the social environment where financial assets

were discussed. Until the late 1980s, it simply did not occur to middle class Dutchmen or women to think about putting savings into the stock market.

Now that has changed. Everybody talks about owning stocks, and it is turning into something of a fad. About 2 million people in the Netherlands are shareholders in one way or another. Investor clubs have become immensely popular. Numerous investing courses, seminars, and fairs welcome the public at large.

Historically, the Netherlands has always been a nation of shareowners. The VOC, the Dutch East Indies Company, founded in 1602, was the first stock-owned company in the world, and the Amsterdam Stock Exchange (AEX) is among the oldest exchanges in Europe. Today, the AEX ranks fourth in Europe, after London, Frankfurt, and Paris.

In an indirect way, virtually everybody in the Netherlands is involved in stock ownership. Pension funds play an important role in the Dutch economy, as all workers are obliged to save for their old age through their employer’s pension fund. Some of these funds are huge players on the capital markets. The pension fund for Dutch public servants, for example, is one of the largest in the world.

Besides these obligatory savings, the government actively promotes individual savings for retirement. Private pension schemes are tax deductible and an extremely popular form of investment. Insurance companies and banks offer scores of specialized financial products for these purposes. Many of them consist of mutual funds that are listed on the stock exchange. Banks, insurance companies, and the postal service also run their own investment funds. By far, most small investors put their savings in these funds. Usually, the costs are low, and risks are better spread than an individual would be able to do.

Not surprisingly, most of the stocks held by wealthy private investors are Dutch companies quoted in Amsterdam. An average Dutch portfolio almost certainly contains shares in Royal Dutch (energy), Ahold (retail), ABN Amro, ING (banks), Aegon (insurance), Wolters Kluwer, Elsevier (publishing), KPN (telecom), Unilever (food), Philips (electronics), Randstad (employment services), and Heineken (beer). The Dutch stock market is heavily tilted to-

ward the energy, services, and financial sector. It lacks pharmaceuticals and automobiles, and it contains little heavy industry. However, the high-flying newcomers include ASML (high-tech equipment) and Baan (software).

With the advent of the euro, banks and other financial institutions are promoting a widening scope for Dutch investors. Their message is clear: In Eurland, not only Dutch stocks matter, but also those of German, French, and Spanish firms.

—Roel Janssen

BRUSSELS

BUILDING A MAJOR FINANCIAL HUB

The world's first stock exchange was built on Belgian territory 467 years ago in Antwerp. Called the *Bourse*, a corruption of the name of a local family—Van der Beurze—it closed earlier this year when it merged with the much younger Brussels Stock Exchange. This dates only from 1801, which still makes it twenty-nine years older than the Belgian state.

The Brussels exchange is one of the livelier exchanges among the smaller European countries. It trades in shares of around 150 listed Belgian companies, and about the same number of foreign firms. The market capitalization of the Belgian companies quoted represents 57 percent of the country's GNP, which compares favorably with the much larger exchanges in Paris and Frankfurt.

The Bel 20 index of the twenty major quoted companies is the local equivalent of the Dow Jones index. Early this year, it broke all records, surging through the 3,000 mark for the first time. Like other exchanges, however, it fluctuated widely. In late September, it was riding high, at 3,047, before plunging to around 2,700 in early October.

Another merger will join the exchange with Belfox, the city's futures and options exchange, and with the CIK securities depository to create Brussels Exchanges. Links with other Benelux exchanges in Luxembourg and Amsterdam give members easy access to other markets.

Also located in Brussels is EASDAQ, a European exchange for younger fast-growing companies, somewhat comparable to NASDAQ, and Euroclear, a Europe-wide settlements system for

internationally traded securities. All these make Brussels an exceptionally favorable center for investors to operate. Moreover, some sixty-five foreign banks have offices in Brussels, contributing to the city's reputation as an important international center for financial services. Small investors as well as larger operators are probably as well served in Brussels as in any other European city.

—Dick Leonard

HELSINKI

EXCHANGE SEEKS GROWTH AND STABILITY

Regardless of the turbulence on the Helsinki Stock Exchange caused by the Asian economic crisis, the Finns own shares like never before.

In the early 1990s, Finland's banking crisis cleared the scene for serious private banking to meet the growing demand of alternative forms of saving. Since one could hardly expect to gain any interest on a bank account and the stock exchange collapses had scared off small investors, the man in the street needed something else. This 'something else' seems to be various mutual funds that offer shares affordable to the public at large.

A typical Finnish holder of such shares is a family or a couple with no outstanding mortgage and whose children have left home. Moreover, many younger families are investing in these funds, especially those in which both the husband and wife are gainfully employed.

The number of mutual funds is constantly growing, the result of cooperation, mergers, and acquisitions among the banks and investment companies in the Nordic countries and Europe in general. However, these new forms of saving have not yet grown to their full potential in Finland—far from it. Judging from the situation in neighboring Sweden, for example, Finnish shareowning could easily double its current level.

This might also be the case in the near future. Inflation remains very low. The Finnish economy continues to grow steadily, although some pessimists are already warning that the economy is in danger of overheating. Nevertheless, Finland's membership in the European Union is opening new opportunities, and the euro makes it less risky and easier for Finns to invest in European stocks.

More changes may come in the near

future. Some analysts expect the Helsinki Stock Exchange (HEX) to establish a link with either one or more of the other Nordic exchanges, such as Copenhagen and Stockholm, or perhaps with a major European exchange, such as Frankfurt and London.

Such an effort would especially benefit small investors since it would reduce volatility on the comparatively small Helsinki exchange, which quotes fewer than ninety companies with a total value of some \$110 billion (compared to the New York Stock Exchange's more than 3,000 companies worth more than \$12 trillion). Foreign investors—mainly American pension funds—own more than 50 percent of these assets, and one company, mobile phone giant Nokia, accounts for close to 40 percent of the total. The paper and pulp industry, which creates one-third of Finnish exports, represents another 10 percent of the exchange's value.

Such a small domestic exchange significantly limits the average investor. Furthermore, the HEX remains very much subject to the fortunes of the New York Stock Exchange. Finnish financial analysts argue that joining an alliance of other exchanges—in addition to offering investors a wider choice of listings and easier access to them—might dampen some of the shock waves that buffet Helsinki when a storm is brewing on Wall Street.

—Thomas Romantschuk

BERLIN

NEUER MARKT ATTRACTS YOUNG INVESTORS

Overall, Germans remain highly security conscious and risk averse. Perhaps, one of the best illustrations of this German characteristic lies in the country's distinction as having the world's largest number of traffic lights per kilometer. Certainly, the Germans have a reputation for being pernicious when it comes to finances. Compared with the US, the UK, and other European countries, Germany's stock market capitalization remains low in relation to the size of its economy. The number of new issues on the stock market is also small. However, an important stimulus has come from Frankfurt's successful Neuer Markt founded in March 1997 to attract young, innovative, and mainly high-tech companies.

“This is a new phenomenon,” says Hermann Simon, a consultant whose book *Hidden Champions* focused on little-known companies with big global market shares in specialized sectors. “I never thought a year ago that the Neuer Markt would take off so explosively,” Simon admits.

So far, more than forty companies have been listed on the Neuer Markt, which has been helped by the steep rise in German share prices and the increasing awareness among investors of the attractions of equity investment. Not surprisingly, many investors switched from low-yielding cash and bonds into equities. However, the present Asian and Russian crises and the drop of the dollar have had an adverse effect on the German stock exchange and have scared off many potential investors.

The increasing popularity for shareholding and Deutsche Telekom’s flotation have attracted first-time retail investors. The new companies are dedicated to profits rather than social consensus, are willing to take risks, and are thriving in rapidly changing, competitive new fields such as biotechnology and computers. They are also fast growing and aggressive.

According to a recent study by the Al lensbach Institute, the first traces of a shareholder culture became evident in the late 1980s. In 1978, only 4 percent of German households owned shares, compared with more than 20 percent in the US and the UK. This year, the number has risen to 11.6 percent. In the former East Germany, the number of households with shares has tripled in the last five years. The number of households with investment certificates is 7.5 percent, higher than in the western part of the country (6.6 percent).

With around 4 million Germans unemployed, the need to channel funds into areas that create growth, jobs, and profits has become increasingly apparent. Germans are becoming aware that job creation mainly occurs in smaller companies, which, however, tend to be starved for capital.

Before the recent elections, the Social Democratic Party (which was then in opposition) squelched the center-right government’s attempt to lower taxes in the last legislative period. Proponents of the tax break argue that it would have stimulated entrepreneurial activity and helped create jobs. Furthermore, they

contend that it would have helped promote a more risk-taking mentality among German businesses and offset the impact of job cutting at big companies. The capital markets would also have benefited since pension funds are big investors in equities.

As the number of retirees rises in proportion to the number of workers, Germans worry that the statutory pension insurance (which is linked to the earnings of all workers) will not suffice to ensure an adequate standard of living in retirement. Increasingly, Germans are concluding that they must make their own provisions to supplement their pensions, along the same lines as US and UK workers.

—Wanda Menke-Glückert

R O M E

ITALIANS ABANDON BONDS, FLOCK TO STOCKS

Italians no longer hold the world record in savings. Only a few years ago they topped the list among the more industrialized countries, saving more than 21 percent of their earnings, a tremendous amount even for the richest economies.

That trend, however, has changed. The savings rate is now less than 13 percent of earnings, less than Japan and on an average with France, Germany, and the United Kingdom.

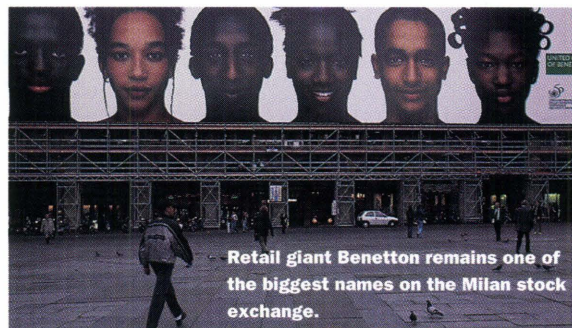
Many factors have contributed to this new situation, most notably the world economic crisis and the increasing Italian tax burden. The latter was an especially heavy load. Honest Italians who paid all their taxes could be required to

Italian economy was still solidly anchored to the traditional, patriarchal models. Others see the situation as a sign that Italian capitalism has finally matured.

The end of the savings race has also marked the collapse of treasury bonds and other forms of low-risk investment that are guaranteed by the state. The better than 10 percent yield of these and other public bonds was another typical Italian phenomenon. No other Western capitalist country offered as much. Such yields marginalized Italy’s stock market and other types of private investment except for real estate. Today treasury bonds yield about 4 percent, and the interest rate continues to drop. On the other hand, the Milan stock exchange, although it has barely 200 listings, has registered two booms in the past decade. The first, in the mid-1980s, attracted family investors to the stock market. The second, which is still underway despite the fact that even Milan has felt the repercussions of the Asian crisis, has set a new record. No other stock exchange, neither Wall Street nor Tokyo, has registered a percentage in yearly earnings like Milan’s.

So, where are Italians investing their money right now? In the stock market, mainly, although the offerings are few. Of the roughly 200 listings, the most appetizing ones are associated with the big names in the Italian economy: Fiat, Olivetti, Assicurazioni Generali, Benetton, and a handful of others. This situation alarms the exchange’s officials, who are pushing for a gradual increase in the stock exchange listings. Banca Commerciale, Banca Nazionale del Lavoro, and other large financial institutions previously under state control are privatizing, and investors are rapidly buying up their shares, further opening Italy’s modernization and adaptation to the rules of an international market and healthy capitalism.

However, the average Italian investor remains relatively inexperienced. For many years, he was used to sleeping well at night thanks to the secure yields paid by government securities. Now that he is beginning to navigate the treacherous waters of the stock market, he prefers to do so cautiously. This caution explains the success of mutual funds. All of them—those specializing in Italian stocks, those concentrating on European or American listings, as well as those that



pay up to an additional 50 percent in real estate taxes (a popular investment) in addition to a tax to help Italy meet the requirements for joining the euro.

The falling savings rate remains worrisome for some Italians, often the ones who are nostalgic for the era when the

are “balanced”—have boomed over recent years. Rather than a do-it-yourself investment, it seems less risky to have experts manage the money, dividing it rationally among the many stock offerings.

In the past twelve months, Italian families have increased the amount of stocks in their portfolios from 5 percent to more than 7 percent, and the present international crisis doesn't seem to have had an effect on this new trend. One reason may be that there aren't too many alternatives. The state continues to issue bonds, but at increasingly lower yields. If anything, Italians are investing in foreign stocks when they decide to diversify and spread out their risks. During the past year, Italian investors have increased the percentage value of foreign shares in their portfolios from 4.5 percent to 6.7 percent.

—Niccolò d'Aquino

ATHENS

GREEKS INVEST WITH EYE ON JOINING EURO

Turbulence on global markets has scared some investors away from the Athens Stock Exchange, but Greece has escaped the worst of the turmoil. Analysts say that because the Greeks are cautious savers—most prefer to put their money in government bonds or mutual funds that invest in money markets—there has been no serious loss of confidence in the local financial markets.

The drachma's strength since joining the EU's exchange rate mechanism in March and Greece's prospects for becoming a member of the euro zone in 2001 have encouraged more Greeks to invest their savings locally. Until the early 1990s, when Greece's financial markets started to take off, people put their drachmas into real estate as a hedge against inflation or swapped them for dollars, which were transferred—often illegally—to overseas bank accounts.

Small savers favor Greek government bonds. For one thing, interest rates at around 10 percent are at much higher levels than for US dollar-denominated securities. However, the finance ministry is trying to divert attention from the popular twelve-month treasury bill to longer-term bonds. Five, seven, and ten-year bonds are starting to make up a bigger percentage of private investors' portfolios.

The government is also keen to promote the growth of popular capitalism by

encouraging retail investors to buy shares in state corporations that are being floated on the Athens Stock Exchange. A strong bull market earlier this year, which saw prices surge by 80 percent and put Athens among the world's best-performing markets, attracted many new players.

Small investors rushed to subscribe for shares in Hellenic Petroleum, the state-controlled oil-refining group that was floated on the bourse in June. The planned sale of 51 percent of state-controlled Ionian Bank sent its share price soaring. (Banks are the most sought-after stocks among Greece's retail investors.)

A television advertising campaign is helping to deliver the government's message. Retail investors are being targeted to buy shares in this month's sale of a third equity tranche in OTE, the public telecom operator. It is billed as “Greece's biggest and most profitable company.”

Last month's launch of privatization bonds, which can be converted into shares in companies being floated on the bourse at preferential prices, was backed

by a billboard campaign urging investors to register for the issue. The response was strong: the finance ministry reached its target of \$620 million well before the subscription period ended.

But there is still a long way to go. According to local stockbrokers, only 8 percent of Greek residents are shareowners. The mutual fund business is booming, but funds that invest in equities account for less than 5 percent of total holdings, by far the lowest proportion of any EU member state.

“The bourse is still seen as a bit of a casino,” says one Athens broker. “It needs a couple more years and some more blue-chip listings to convince people.”

The bourse will become more popular with investors as Greek interest rates decline to euro-zone levels and savers start looking for bigger returns. In addition, many more Greek companies are expected to come to market as listing requirements are eased. From next month, companies preparing a flotation will no longer have to increase their equity capital by at least 25 percent.

—Kerin Hope

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G. Total distribution (15C and 15F)	21,970	20,739
H. Copies not distributed		
1. Office use, leftovers, spoiled	1,265	1,295
2. Return from news agents	2,281	2,075
I. Total (Sum of 15G, 15H (1) and 15H (2))	25,516	24,109
Percent paid and/or requested circulation	84.43%	83.61%

ARTS & LEISURE

MUSIC

Bulgarian Singer Sends NASA Sounds of the Earth

The wake-up music played to astronauts aboard the space shuttle *Columbia* included a song by Dyana Dafova, Bulgaria's most unusual singer. *Ahadiyah* (which translates as "cosmos" in Sanskrit) is one of the exotic tracks on *Sounds of the Earth*, Dyana's first compact disc, produced in the Netherlands.

Dyana says she sent a copy of her CD to NASA because its themes "reflect what space travel is about, crossing every kind of border and leading into the future." Earlier this year, she traveled to Florida at NASA's invitation to watch a *Columbia* launch from the John F. Kennedy Space Center.

Not that Dyana is a newcomer to the music business. In communist days, she was a rebellious young star whose jazz-inspired versions of traditional folk songs were banned by Bulgaria's state radio as "too modern." Despite official disapproval, she won an audience by singing live at concerts around the country.

"I did make some albums for the state record company, but they disappeared after the collapse of communism, and I don't know what's become of them," she says. "I'm working in a new and very different style now. I woke up one morning about six years ago and decided to try music with a Western sound."

Bulgaria is steeped in music, with a rich heritage of

folk music and a strong classical tradition. Both Dyana's parents are professional musicians. Her mother is a folk singer, and her father, a former opera singer, conducts a choir. She studied classical



NASA chose to serenade astronauts on a recent shuttle mission with music from Bulgarian singer Dyana Dafova.

and jazz piano and singing at music academies in Sofia. She also conducted a choir for two years before launching her solo career.

"I love Gershwin among jazz composers and the songs from the Rodopi Mountains (in southern Bulgaria) with their irregular rhythms and wonderful lyrics. They're not just love songs, they're about a philosophy of life."

Rodopi music has a distinctive sound because of a tradition of villagers calling across the mountains, Dyana says. "It has an echo that comes through the music and gives it an international appeal."

Other influences on Dyana's music are Eastern Orthodox Church music. One track on *Sounds of Earth* was recorded in Sofia's Alexander Nevsky Cathedral, which has unusually fine acoustics—and the Sanskrit language, "with

its wonderful open sounds and way of making you aware of universal feelings."

For *Sounds of the Earth*, she worked with Dutch composer Robert de Groot and a children's choir. "I worked out the tracks on the piano, then we spent a lot of time working on the arrangement to get the sound just right. It doesn't fit into any genre: there's new age, jazz, Bulgarian folk tradition. I think it's something new."

Her next CD will be released first in India on a label for Warner and the Times of India. She's working on a group of new songs, influenced again by Sanskrit. "There's been a very enthusiastic response to the project in India, and I'm developing some new material. I think of it as music for the millennium," she says.

—Kerin Hope

BOOKS

A World Transformed

By George H. W. Bush and Brent Scowcroft; Knopf; 568 pages; \$30

To read this collaborative memoir by the former US president and his national security advisor is to be reminded why in early 1990 such a sober-sided strategic commentator as Michael Howard retreated to the poet Wordsworth ("bliss was it in that dawn to be alive") to describe the drama then unfolding.

Though the forces that brought the changes had been gathering for a decade or more, the events of 1989–

91 that occurred on President Bush's watch are still awesome to recall: the end of communism in Central Europe, a near-global coalition assembled to fight a short but decisive war in the Middle East, and the collapse of the Soviet Union and communism in Russia.

Now from this decidedly modest man comes his account of what happened. Hardly surprisingly, what we get is not some great strategic document à la Churchill or De Gaulle but rather an accurate reflection of the man and his presidency: focused on content but stylistically a bit of a jumble; strong on the details but not given to grandly stated aspirations; and ultimately fading off at the end.

The critical impression left from the memoir, again not surprising, is of the value of strong personal ties in the conduct of diplomacy at the highest levels. The authors straight away set out their disagreement with Henry Kissinger's maxim that diplomacy is governed solely by national interests.

They offer as convincing an argument as has ever been made for the utility of constant personal conversation—whether face to face or by telephone—among world leaders and their immediate aides. On a more prosaic level, the point is registered, without being belabored, that keeping alliances together, especially as the common threat diminishes, requires a lot of hard work and attention, not just demands for everyone to line up when a crisis strikes.

Perhaps, in any event, there would have been strategic convergence among the allies over German unification and for a Gulf War coalition. This memoir makes the persuasive case that both were facilitated by personal ties and confidences, particularly between President Bush and French President François Mitterrand. Bush attributes the development of that relationship to the weekend the two leaders spent together at the Bush summer compound in Maine.

Interestingly, Scowcroft created similar bonds with Mitterrand's key advisors, Jacques Attali (who had been a suspect figure for many American officials) and his successor Admiral Jacques Lanxade. There are other surprises as well, especially how often Bush consulted with Dutch premier Ruud Lubbers and Canadian premier Brian Mulroney.

Nearly a decade later, it is becoming increasingly clear that the most enduring diplomatic legacy of the Bush presidency will be the peaceful unification of Germany. The memoir offers no dramatic revelations from an often told tale but does amplify the efforts of the United States to bring along reluctant France and UK to deal with what was increasingly becoming inevitable. The authors acknowledge that luck played a role ultimately in the satisfactory conclusion, especially the perverse luck that Mikhail Gorbachev was ready to trade his country's historic opposition to a united Germany firmly secured in Western alliances for substantial amounts of German marks. But this book spells out in detail how much effective diplomacy helped spawn those fortuitous developments.

Like most literary collaborations, this one has its flaws. A narrative that skips back and forth between two sepa-

rate writers can be bumpy, even as it reveals two separate perspectives on achieving internal consensus within the immense American foreign policy bureaucracy and its strong minded personalities. There are occasional mix-ups on dates. But most curious of all is the decision to stop the book in 1991 after the collapse of the Soviet Union rather than continue through the end of the Bush presidency in January 1993.

The authors argue they were running out of space. Maybe most readers could live without a recounting of the Somalia expedition, but to skip Yugoslavia is to evade the ugly reality that the end of communism in Eastern Europe revived animosities that pre-dated communism and that few in government anywhere were prepared to deal with them.

The ex-president's memoir ends with admonitions to his successors to forge a new domestic consensus on America's role in the world and that without American leadership, there will be no global leadership. Every day that passes in these unsettling and sad weeks of autumn 1998 is but a grim reminder of both points.

—Michael D. Mosettig

Silk

By Alessandro Baricco
(translated by Guido Waldman); The Harvill Press; 96 pages; \$15

In just less than a hundred pages, prize-winning Italian author and musicologist, Alessandro Baricco has managed to weave a captivating tale that explores the complex relationships between love and desire.

This, Baricco's third novel, became an instant bestseller in Italy. The slim volume raced through twenty-six editions in its first twelve months of publication

and has been translated into twenty-seven languages, including Japanese.

With a deceptively simple plot and a writing style that is at times more poetic than narrative, *Silk* can be read in an afternoon but is compelling enough that it will stay with the reader far longer.

Baricco tells the story of Hervé Joncour, a silk buyer who travels from his home in Lavilledieu in southern France to Japan in 1861 and there falls in love with an unattainable Japanese concubine.

Lavilledieu, the reader learns, is one of the nineteenth century capitals of European silk production, employing nearly all its citizens in the business of making the precious cloth. When all of Europe is afflicted by an epidemic that renders its silkworms useless, Lavilledieu's silk producers must look beyond their own horizons and they turn to Hervé Joncour, the son of the mayor.

Joncour begins his adventures at age twenty-six traveling as far as Syria and Egypt in search of untainted worms. The epidemic, however, continues to spread until the people of Lavilledieu send Joncour on a desperate journey to the other end of the world—Japan—in search of silkworms.

In 1854, Admiral Matthew C. Perry of the United States Navy had forced Japan or "the island made of islands" to accept international trade, after 200 years of isolation, though the trade in silkworms remained illegal. The silk manufacturers of Lavilledieu would not dream of breaking a law in their own country. Yet, Baricco writes, "The notion of doing so on the other side of the world, however, struck them as entirely reasonable." Together they pooled the funds to subsidize his expedition.

Joncour leaves Lavilledieu and his beloved wife and be-

gins the arduous journey that takes him through Central and Eastern Europe to Russia and over Ural Mountains, crossing 1,200 miles of Russian Steppe on horseback. He then travels across Siberia and floats down the Amur River to the Chinese coast, where he boards a Dutch smuggling ship that takes him to his destination.

In Japan, he meets Hara Kei, a powerful Japanese warlord who controls the silk-worm market, and his beautiful concubine, "whose eyes do not have an oriental slant and are fixed on him with disconcerting intensity."

This young girl becomes an obsession for Joncour, and while they never speak, he feels such a powerful attraction to her that he returns to Japan three more times.

Silk exerts a similar powerful attraction on the reader. It ends with a dramatic turn of events that leaves the reader reeling and ready to flip back the pages to the beginning of the book and follow Joncour's journeys all over again.

—Saskia Reilly

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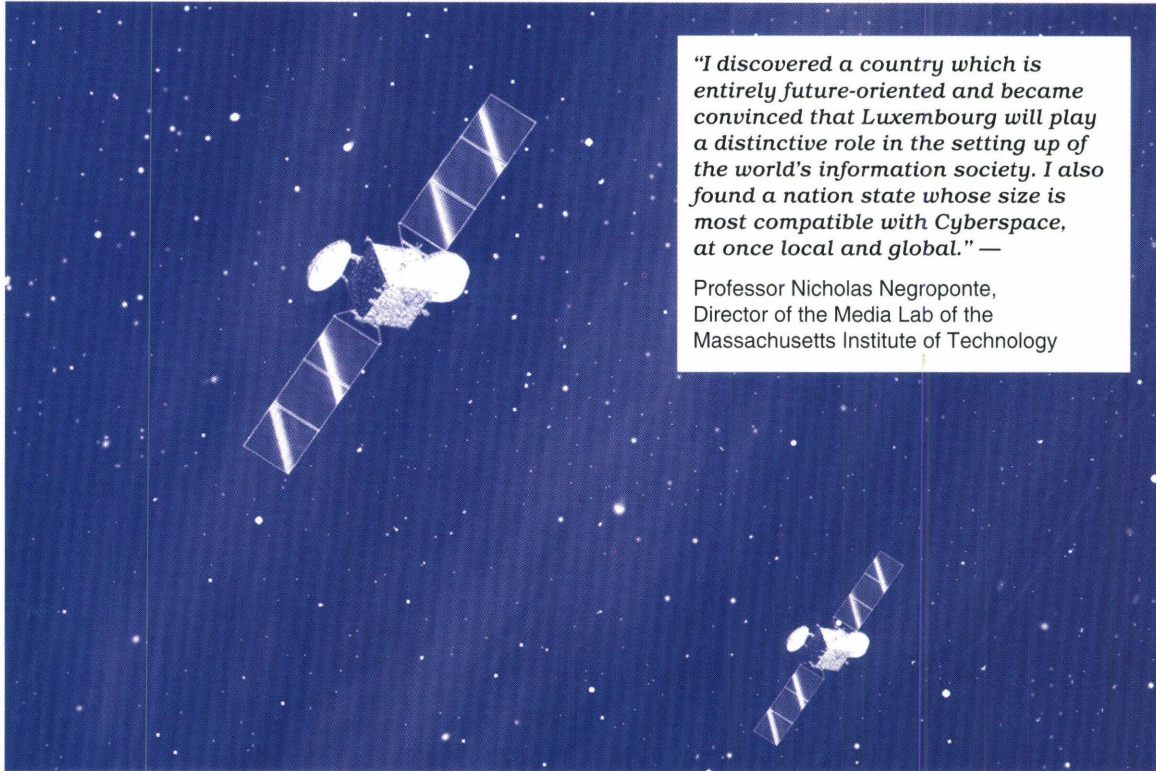
Bretton Woods: In 1944, international financial leaders from forty-three nations gathered in Bretton Woods, New Hampshire and created a system aimed at controlling exchange rates that was used until 1973. The conference also led to the establishment of the International Monetary Fund and the World Bank.



YESTERDAY & TODAY



Blair House: On October 3, 1998 G7 Finance ministers met at Blair House in Washington, DC to discuss the world's financial situation. (left to right) UK Chancellor of the Exchequer Gordon Brown, Director-General of Germany's Finance Ministry Klaus Regling, France's Minister of Economy and Finance Dominique Strauss-Kahn, Secretary of the US Treasury Robert Rubin, Italy's Minister of the Treasury Carlo Ciampi, Japan's Minister of Finance Kiichi Miyazawa, and Canada's Minister of Finance Paul Martin.



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Professor Nicholas Negroponte,
Director of the Media Lab of the
Massachusetts Institute of Technology

If you don't know where Luxembourg is, this is one place you'll find us.

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CLT-UFA, Europe's largest commercial broadcaster, and SES/ASTRA, Europe's leading private satellite operator for delivery of direct-to-home television, have made space our own successful frontier.

We have pushed the boundaries of business, and we can be a fertile ground for your own growth, especially if you are engaged in the emerging

technologies of satellite communications, multimedia and on-line services. Whatever your business needs, we will help you succeed.

When you consider our central location, our multilingual workforce that is among the best educated in Europe, and our uniquely responsive, pro-business environment, it's no wonder that so many international companies come to Luxembourg.

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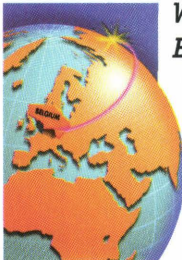
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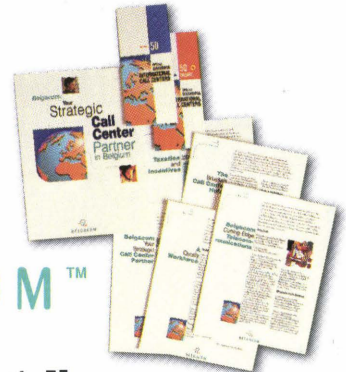
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¹OECD, European Union Commission Report, Institute der Deutschen Wirtschaft ²Manning, Selvage & Lee Survey