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That state-of-the-art communications technology underpins a rapidly evolving call center industry for which East Brandenburg is uniquely suited. The region has a readily available pool of skilled workers and lower labor costs than elsewhere in Germany, providing the opportunity for flexible operations in telecommunications and customer support services.

A good proportion of its workforce, particularly part-time personnel, comes from the new European University Viadrina, created in 1992. Of its 3,000 students, 1,200 are foreign, with the accent on eastern European countries, particularly Poland. Its excellent Foreign Language Center offers courses in eight languages, including Russian, Polish, Swedish and Finnish, with the aim of preparing students for work or further study in an international context.

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Prof. Dr. Hans N. Weiler,
(formerly of Stanford University)
Rector of Viadrina European University, Frankfurt (Oder)

Since East Brandenburg is a border region, it also benefits from the highest level of financial aid offered by the European Union. As an official "Euroregion", it receives special funds designed to strengthen its economy, reduce unemployment and promote closer cross-border business relations.

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Letter from the Editor

The euro era begins! Europe's new single currency was successfully launched last month. As Europe and the world get used to the world's newest currency, *EUROPE* looks at the euro and the new European Central Bank (ECB). We present an interview with Sirkka Hamalainen, one of the new European Central Bank executive board members, to find out how the ECB will maintain price stability and what the role of the euro will be in the international financial system.

A giant replica of the new euro coin in front of the European Central Bank in Frankfurt

Lionel Barber, writing from London, profiles Europe's new "money man," Wim Duisenberg, the first president of the European Central Bank. Calling him the European equivalent of Alan Greenspan, Barber writes, "Partly to establish his credentials, Mr. Duisenberg's first public statements included a robust defense of the ECB's independence."

In his article "European Central Bank Makes Its Debut," Bruce Barnard discusses how the new central bank will function. He asserts that the "ECB knows it has to earn its credibility not just with the politicians and the markets but also with the European public."

This month, we report on how Russia and the Newly Independent States are faring. Martin Walker writes that European Union-Russian relations today are a combination of "hope, goodwill, and bafflement" and remarks that "until last summer's collapse, the EU-Russian trade relationship was not unhealthy." Walker goes on to comment that today "it is not Russian power that Europe now fears, but Russia's weakness."

EUROPE profiles Yevgeny Primakov, the Russian prime minister who has been a stabilizing figure during the recent chaotic period, and Yuri Luzhkov, Moscow's colorful and controversial mayor, who is often mentioned as a future leader of Russia.

Correspondents Benjamin Jones and Leif Beck Fallesen offer a snapshot analysis of each of the Newly Independent States—from Estonia to Uzbekistan. They tell who is up, who is down, who has oil, and who is emerging into a democratic state with a market economy, and unfortunately which states are still mired in the troubles of the past.

This month, *EUROPE* also looks at Denmark, which is going its own way by staying outside of Euroland for now. Politically, Denmark is bucking another European trend. Contrary to the other EU countries, Denmark's Social Democrats are facing declining support. Leif Beck Fallesen, writing from Copenhagen, looks at the economic and political situation in this Nordic nation.

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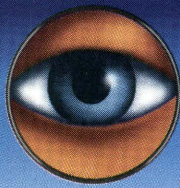
EYE  N THE EU

Profiling Personalities and Developments Within the European Union

GERMAN PRESIDENCY GUIDED BY BRUSSELS VETERAN

On January 1, Germany took over the rotating six-month presidency of the EU Council of Ministers. For the second time, Dietrich Von Kyaw, the German permanent representative in Brussels, found himself put in charge of the day-to-day running of the presidency. He had acquitted himself so well the last time around—in 1994—that he has been specifically kept on past the normal retirement age for German diplomats in order to steer the inexperienced ministers in the new German government through the unfamiliar waters of European diplomacy.

Born in 1935 on a Junker estate in what is now part of Poland, Von Kyaw's father was killed during the opening days of World War II. His family escaped on a hay cart from the advancing Soviet troops in 1945 and made their way to West Germany, where they settled near Hannover. His boyhood experiences convinced the young Dietrich of the necessity of European union, and his internationalist outlook was rounded off by a lasting affection for the United States, where he won a scholarship to the University of Chicago at the age of nineteen.

Ten years later, after completing a doctorate in international law at the University of Liège in Belgium, he had the good fortune to be appointed vice-consul in Los Angeles as his first posting in the German diplomatic service. He met his German wife, Elisabeth, at a film party in Hollywood and was promptly posted to the heart of Africa, where he had the unnerving experience of being accredited to the mad and murderous 'Emperor' Jean Bedel Bokassa, in Central Africa.

On his return to Bonn, he was put in charge of outer space policies in the economic department of the foreign ministry, where, despite his pro-Americanism, he was influential in switching German support away from entirely US-dominated projects and toward the nascent European Space Agency. He then moved on to progressively more senior economic posts in Bonn, interspersed with postings at the UN and in Washington.

Eventually, he headed the directorate for EU affairs in Bonn for four years before coming to Brussels as ambassador in 1993. Except for his Dutch colleague, Bernard Bot, who arrived a couple of months earlier, he is now the longest-serving member of the Council of Permanent Representatives (Coreper), at whose weekly meetings he now again presides, pre-cooking the menus for each of the fifty or so meetings of the Council of Ministers due to be held during the six months.

Von Kyaw recently gave a lecture setting out the objectives of the German presidency. This term, he noted, would coincide with a number of historic events, including the launch of the euro, the coming into force of the Treaty of Amsterdam, elections to the European Parliament, the nomination of a new Commission President, the appointment of the Union's first high representative for the Common Foreign and Security Policy, and the adoption of Agenda 2000 (the financial perspectives for the period 2000–2006).

The German presidency, he said, had set itself three priorities: promotion of employment, internal strengthening of the Union, and promotion of the external role and profile of the Union.

The German presidency, he said, had set itself three priorities: promotion of employment, internal strengthening of the Union, and promotion of the external role and profile of the Union.

On employment, the presidency's goal is to achieve an employment pact, which would be adopted at the Cologne summit in June. This would incorporate national strategies for employment and efforts to secure increased coordination at the level of fiscal, social, and economic policies.

On Agenda 2000, Von Kyaw referred diplomatically to the existing disparity in financial contributions to the EU, under which Germany, the Netherlands, Sweden, and Austria contribute a disproportionate amount, while other more prosperous states are actually net beneficiaries. No government, including his own, could hope to achieve all it wanted out of negotiations, he insisted, and all would need to make sacrifices, but it was essential to reach an agreement by the time of the special Brussels summit in March if the future development of the Union was not to be put in jeopardy.

On enlargement, the Union must strengthen its institutions and prepare for the next intergovernmental conference on institutional reform before the first new members are ready to enter. Under the German presidency, the negotiations with the first group of candidate countries would be pressed ahead vigorously, while preparations would also be made to begin talks with the second group, probably under the Finnish presidency, which would follow in the second half of the year.

Von Kyaw went on to list a large number of other issues that will require attention during his period in office. It seemed an awesome responsibility that he was taking on, but he appeared cheerful and optimistic about the outcome. What few can doubt is that he himself brings a safe pair of hands to the tasks awaiting him.

—Dick Leonard

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As a historic port and trading post, the free Hanseatic city of Bremen in northern Germany has maintained close ties with the United States for over two centuries and is busy forging even stronger economic links with its American partner for the future.

The Past: Imports and Emigrants

Within a quarter of a century after the American Declaration of Independence, Bremen had become the young nation's main trading partner in the Old World. By the mid-19th century, 176 companies from Bremen had set up American branches. Trade between the two countries flourished, so that in the 1911-1912 season alone, 2.7 million bales of American cotton were shipped through Bremen.

Not just goods, but close to 7 million emigrants also passed through Bremen and Bremerhaven on their way to the New World.

The Present: Containers, Cars and Trade

The import and export of cotton, coffee and beer have remained typical trade activities for Bremen, which has become one of the most important container ports for transatlantic shipping. Approximately one out of every four containers from northern Europe destined for the American market is loaded here. In addition, Bremerhaven is Europe's number one transit port for automobiles.

In October, Germany's third foreign trade conference will take place in Bremen, with the accent placed on the three countries belonging to the North Free Trade Association (NAFTA): Canada, Mexico and, above all, the USA.

The Future: Research and Development

An important network of research and development institutes has evolved in Bremen, with space and polar exploration two of the fields for which the region is widely known.

With the goal of further expanding Bremen's reputation as an international R&D center, the regional government has joined forces with William Marsh Rice University in Houston, Texas, to establish an international research university for the year 2000.

Through projects such as these, Bremen and the USA are not simply continuing their traditional trading partnership; they are preparing the future together.

For more information, please contact:
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EU ONLINE

SWEET SIGHTINGS

Valentine's Day is the closest thing to a grown-up holiday about indulgence, primarily indulgence in chocolate. Children may have their bags, baskets, and stockings on other holidays, but on February 14, even adults can dive into a box of truffles or buttercreams. Proprietors of some of the world's favorite chocolates hope to tempt consumers year-round by putting up Web pages offering a look at their products, related recipes, and on-line ordering.

British-based Cadbury (**www.cadbury.co.uk**) has one of the largest Web sites among chocolate makers. It takes a historical approach with a look at the origins of chocolate, dating back to the Mayan civilization, and of Cadbury, which began in a Birmingham shop in 1824. If that's not enough background, visitors can read about the history of the company's Bournville factory, the chocolate Easter egg, and the packaging of Cadbury's products.

Chocolate lovers with less of an academic interest can go directly to Cadbury's recipe files. They are divided into themes: easy recipes, seasonal favorites, and children's parties. There are dozens of cakes, puddings, and sauces, all of which feature chocolate. The recipes include a picture and appear relatively easy to follow. The site's creators have even included a conversion chart for American visitors who might be confused by ingredients such as digestive biscuits or golden syrup.

Devotees of Lindt chocolates can find a straightforward site that offers a smattering of recipes, company background, and on-line ordering (**www.lindt.com**). The Swiss chocolatier's bright blue home page emphasizes company business with press releases and investor information. But one selection—titled "Chocomania"—includes most of the data chocolate lovers would want. In addition to a history of chocolate, the curious can delve into how chocolates are produced. There's a memory game featuring different Lindt candy bars and postcards to send with a picture of old-fashioned Lindt boxes. The recipes are somewhat disappointing as they number only a half-dozen. On-line shopping is available from a selection of four boxed Lindt assortments. There are no bargains here, however, because the chocolates are shipped from Switzerland and include a $20 surcharge for orders outside of Europe.

Godiva, perhaps the best-known European chocolate maker in the United States, embraces the idea of on-line sales on its Web page (**www.godiva.com**). Information on the Brussels-based company and its history are discreetly mentioned at the bottom of the gold-wallpapered home page. Instead, the focus is on the products, a large selection of which are pictured with prices and descriptions. A few pages explain the filling in each truffle or praline. The company has an encrypted page for secure ordering and has reasonable shipping charges. Godiva even has a VIP program that e-mails customers about specials, sends reminders about birthdays and holidays, and saves shipping addresses of relatives and friends for express service.

Those who prefer seeing the actual product can enter a ZIP code to find the nearest "boutique" and get a list of in-store services and promotions, such as free samples.

Like Cadbury and Lindt, the company offers non-customers a reason to visit the site: recipes. Godiva puts the competition to shame with hundreds of recipes from company files as well as *Chocolatier* and *Pastry Art & Design* magazines. The large database is searchable by keyword and recipe difficulty. Typing in the word "biscotti," for example, brings up six recipes, including one for ginger biscotti that doesn't even call for chocolate. Most include a color photo of the finished product.

SITE OF THE MONTH: VIENNA OPERA BALL

Vienna's society balls enliven what can be bleak midwinter days in the Austrian capital. The pinnacle of the season is the Opera Ball, world renowned for its tradition and pageantry. The Austrian National Tourist Office has included a glimpse of Opera Balls past on its Web site (**austria-tourism.at/**) to inspire a few more intrepid travelers to don white ties and formal evening dresses for the annual gala.

The site offers a history of the ball, which began in 1877 after such events became the rage in Paris. The Staatsoper, which was built in 1869, was home to the balls, known as "court opera soirees" or "Opern-Redouten" for masked affairs. Concerns about fire hazards in the opera house and economic hardship surrounding World War I meant the events were suspended until 1935. After three seasons, the balls again stopped during wartime. However, the end of World War II did not bring a revival of the balls because the opera house had been a casualty of a March 1945 bombing. Little more than a decade later, the Staatsoper was rededicated and the event resumed. It is held annually on the Thursday before Lent begins.

Today the image of the February evening seen around the world is that of 180 young couples processing into the ballroom—young women in long white dresses and young men in white ties—and dancing the traditional waltz. Visitors to the Web site can venture into the ballroom to hear some of the music and see some dancing at a recent Opera Ball. Be forewarned that the video can be painfully slow to download. The tourist office includes phone and fax information to request tickets if a closer look at the event makes a trip to Vienna tempting. The images themselves are worth a peek even if your dance card is full.

—Christina Barron

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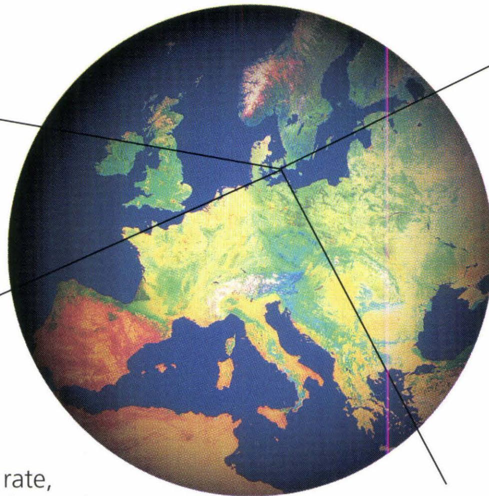
How to keep on top of business in Europe

In today's marketplace, staying in business means staying on top. It's a lot easier to get to the top - and stay there - if you're in the right location in the first place. That's why so many successful businesses, from IT to biotech to toy companies, have chosen to locate in Denmark.



Bridging Business
Denmark is investing in the future: 3 bill USD in The Öresund fixed link connecting Copenhagen, the capital of Denmark, to Sweden; 1 bill USD in a 50% expansion of Copenhagen Airport; 4 bill USD in The Great Belt fixed link, a direct link between Denmark's major markets; and 1 bill USD in a new metro in Copenhagen.

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Eur. Mag.

The project to launch a single European currency has always been driven as much by politics as economics.

Helmut Kohl saw the euro as the catalyst for a united Europe in which Germany's security, stability, and prosperity would be assured. Jacques Delors, the architect of economic and monetary union (EMU), saw it as the indispensable step toward a European federation capable of acting alongside the US, Japan, and China on the world stage.

Now that EMU has moved from a distant vision to a reality, a new question arises: what, if any, new political arrangements are required to ensure that the single currency is a success, bearing in mind that previous monetary unions—notably the US—have been based on political unions rather than vice versa?

In the run-up to the January 1, 1999 launch of the euro, a fierce debate erupted over the balance of power between elected politicians and the independent professionals running the European Central Bank (ECB) in Frankfurt.

To a degree, these tensions reflect ambiguities in the Maastricht Treaty, which guarantees the independence of the ECB while offering leeway to finance ministers to exert influence, notably over exchange rate policy for the euro vis-à-vis third currencies such as the dollar and the yen.

But the differences also stem from the leftward shift in European governments underlined by the victory of the SPD-led coalition in Germany's general election on September 27.

The sides likely will agree to a compromise in which the ECB would ease monetary policy in return for a firm commitment by finance ministers to enforce fiscal discipline, making the necessary savings to achieve budgetary balance over the cycle.

The SPD victory elevated Oskar Lafontaine—known as the "champagne socialist from the Saarland" to the post of German finance minister. Lafontaine subsequently expanded his power base in Bonn by seizing control of fiefdoms previously under the control of the economics ministry. At the same time, he launched an outspoken campaign for lower interest rates in Germany and Europe-wide to promote jobs and growth as well as a call for target zones to limit exchange rate fluctuation between the euro and the dollar.

Lafontaine's goal—broadly shared by Dominique Strauss-Kahn, France's finance minister—is to establish a genuine political counterweight to the ECB. They want to ensure that the central bankers—whose treaty mandate is price stability—do not take their inflation fighting duties so seriously that they operate—in the words of one British commentator—like "vestal virgins" far removed from the elected representatives of the people.

The difficulty is that the ECB lacks the established credibility of, say, the Federal Reserve. It is a new, untested institution with a new president—Wim Duisenberg, former governor of the Netherlands central bank. The ECB is also struggling to establish its presence alongside the still-powerful national central banks, which have superior resources and manpower. (The ECB has approximately 600 staff, while the Banque de France alone has more than 17,000.)

Inside the ECB, they worry that the politicians are calling for easier credit to avoid taking the hard decisions to tackle the real obstacles to growth, notably Europe's inflexible labor markets and burdensome welfare state.

The sides likely will agree to a compromise in which the ECB would ease monetary policy in return for a firm commitment by finance ministers to enforce fiscal discipline, making the necessary savings to achieve budgetary balance over the cycle. The difficulty is that some politicians—notably in Italy—are hinting that the rules on fiscal discipline set down in the German-inspired Stability and Growth Pact could be modified to allow spending on investment.

Beyond the issue of interest rates, the medium-term issue is how the ECB in Frankfurt will interact with the finance ministers from the eleven countries that comprise the euro zone: France, Germany, Belgium, the Netherlands, Luxembourg, Austria, Finland, Ireland, Italy, Portugal, and Spain.

The euro eleven have already set up an informal grouping that meets ahead of the monthly meeting of the fifteen European Union finance ministers (Ecofin). Though E11 will not officially take decisions, it is expected to evolve as an increasingly important forum for coordinating budgetary and taxation matters and for liaising with the ECB.

Mr. Duisenberg is expected to attend most—if not all—meetings of the E11. The European Commission will be present too. In return, the president (sitting chairman) of the Ecofin council will attend the regular meetings of the ECB council in Frankfurt, along with the European Commission.

These formal and informal contacts between the ECB and the politicians are vital in order to demonstrate that the new central bank is accountable and that it is capable of containing the inevitable tensions over the direction of macroeconomic policy. A good deal of give-and-take will be necessary to make the new relationship—and the new currency—work.

—Lionel Barber

Who's Who in the European Central Bank

The ECB's Executive Board: (back, l-r) Tommaso Padoa-Schioppa, Otmar Issing, Eugenio Domingo Solans; (front, left to right) Christian Noyer, Wim Duisenberg, Sirkka Hamalainen.

Wim Frederik Duisenberg, President
The sixty-three-year-old Dutchman, Mr. Duisenberg has enjoyed thus far an extremely successful career, including a four-year stint as the minister of finance in the Netherlands. A Social Democrat, he was president of the Dutch central bank for fifteen years, from 1982 to 1997, before becoming president of the European Monetary Institute. Elected as president of the ECB mid 1998, the press-shy yet popular head of the executive board is also well decorated, holding the title of Knight of the Order in his home country as well as several other honors around the globe.

Christian Noyer, Vice-President
Mr. Noyer, a forty-eight-year-old Frenchman, is in charge of administration and law in the ECB. A conservative, he has enjoyed a swift rise since joining the French Treasury in 1976, including a two-year period as director, 1993 to 1995. He is the author of *Banks: The Rules of the Game,* published in 1990. In his role as vice-president, Christian Noyer sits with Wim Duisenberg in all three decision-making bodies of the ECB.

Eugenio Domingo Solans, Executive Board Member
After an award-filled education in his native city of Barcelona and in Madrid, Mr. Domingo Solans has also had a distinguished career as an academic and economist, particularly in the field of public economics. Aged fifty-three, Solans was a member of the governing council of the Executive Commission of the Banco de España until his new appointment last year with the ECB.

Sirkka Hamalainen, Executive Board Member
Ms. Hamalainen, aged fifty-nine, is a Doctor of Science in Economics, and has been one of the most respected central bankers in Europe during the 1990s. Since 1961, she has worked at the Bank of Finland and after a nine-year period as director was elected governor and chairman of the board in 1991, a post she held for seven years. During her time as director she was responsible for macroeconomic analysis and monetary and exchange rate policy.

Otmar Issing, Executive Board Member
Otmar Issing, a sixty-two-year-old German, is chief economist of the ECB executive board. He has been in academia for most of his life, as a lecturer, a professor, and twice as a dean at the universities of Nuremberg and Würzburg. In 1990, he became a member of the directorate of the Deutsche Bundesbank, a position he held for eight years before starting his current post in June 1998.

Tommaso Padoa-Schioppa, Executive Board Member
Tommaso Padoa-Schioppa, a fifty-eight-year-old Italian and an alumnus of the Massachusetts Institute of Technology, has been published many times throughout his career. In the 1990s, he has written in depth about EMU and can lay claim to a view "from the inside." He was joint secretary to the Delors Committee for the study of European Monetary Union in the late 1980s. In the late 1970s, he was director-general for economic and financial affairs at the European Commission in Brussels, and he has worked extensively at the Banca d'Italia.

What's a Euro Worth?

Fixed Exchange Rates for the Euro Members

1 Euro=	
Belgium	40.3399 bef
Germany	1.95583 dem
Spain	166.386 esp
France	6.55957 frf
Ireland	.787564 iep
Italy	1936.27 itl
Luxembourg	40.3399 luf
Netherlands	2.20371 nlg
Austria	13.7603 ats
Portugal	200.482 pte
Finland	5.94573 fim

Source: European Central Bank

Initial Values Against Other Currencies

Australia	1.90 dollars
Canada	1.81 dollars
Denmark	7.45 krone
Hong Kong	9.16 dollars
Japan	132.8 yen
Sweden	9.48 krona
Switzerland	1.61 francs
United Kingdom	0.71 pounds
United States	1.17 dollars

Source: Europa.

Euro Era Begins

European Central Makes Its Debut

New Year's Eve fireworks lit up the Frankfurt skyline, which now includes the European Central Bank (far left).

Bank

By Bruce Barnard

It was set up less than eight months ago and only began its job at the beginning of the year but already the European Central Bank is soaring up the learning curve.

The world's second most powerful bank after the US Federal Reserve has no track record, made its debut in a volatile economic environment, and is almost certain to face major battles within months as it attempts to stamp its identity on the global financial markets.

The ECB was buoyed by the trouble free launch of the euro into the world's financial system on January 1, but the going will get tougher as the market tests the new bank's resolve.

If the bank keeps its nerve it will play a pivotal role in gluing Europe's fragmented national markets into an economic superpower. If it loses its way, Europe's bid to create a single market to challenge the United States will be doomed.

The bank faces two major problems, one economic, the other political.

First, it must set a single interest rate that will suit all eleven members that have adopted the single currency, the euro, from the EU's economic giants France and Germany to its poorer members Spain and Portugal. Two years ago, most commentators thought the ECB would be dealing with a euro zone consisting of a small manageable core of countries with currencies that had successfully tracked the mighty deutschemark. Now they are talking about up to four more members, including Greece, joining within three years.

Second, the ECB faces the uncomfortable fact that the center-right politicians who engineered monetary union in the early 1990s have been largely replaced by center-left leaders with a markedly different agenda.

The ECB won the first bout with the politicians—but only on points. It fiercely resisted calls to cut interest rates to stimulate economic growth in late 1998. Then after winning its spurs in the markets, it ordered eleven central banks to cut rates together. It wrong-footed the pundits, but there was more than a whiff of suspicion that its action was, in fact, a belated face-saving response to the political pressure.

The ECB knows it has to earn its credibility not just with the politicians and the markets but also with the European public. Wim Duisenberg, the chain-smoking Dutch president of the ECB, has said the world regards him as "ambassador for the euro" and that he must be a "consistent and credible defender" of the new money.

The ECB will be judged against the track record of the bank on which it is based and whose powers it has usurped—the Bundesbank, Germany's former central bank. It's a hard act to follow. As Jacques Delors, the former European Commission president and one of the architects of the euro, put it, "Not all Germans believe in God. But they all believe in the Bundesbank."

Germans revered the Bundesbank because its obsession with inflation, its pride in its independence, and its instinctive distrust of politicians made it the perfect guardian of their hard-earned money.

On paper, the ECB is probably the most independent central bank in the world. A treaty established it; its leaders are free of political influence and can only serve one term; and it cannot bail out insolvent governments. The seventeen members of the ECB's decision-making council—six executive board members in Frankfurt and the eleven central bank governors from euro countries—cannot be fired unless they are grossly incompetent

EUROPEAN INVESTMENT BANK

Europe's "other" bank, the European Investment Bank, the world's biggest non-government borrower and multilateral lender, is as old as the European Union itself, created by the Treaty of Rome in 1958 to finance capital investment in the member states.

The EIB's low profile, compared to the European Central Bank, belies its pivotal role in pump priming major infrastructure projects in the EU and more recently in Central and Eastern Europe and developing countries linked to the EU through the Lomé convention.

The EIB is a major financier, lending some 29 billion ecus, or $34 billion in 1998, a figure that's likely to be overtaken this year and denominated in euros.

Owned by the fifteen EU member states, the Luxembourg-based EIB raises the bulk of its funds on the capital markets where its bond issues are consistently graded AAA, the best credit rating. This means the bank can raise funds at the lowest rates and then lend at advantageous rates to governments, or projects, in developing nations or Central and East European countries that would pay higher market rates.

The EIB's lending priorities have changed over the past forty years, reflecting the evolution of the six-nation European Coal and Steel Community into the fifteen-member EU that is negotiating to accept five Central and Eastern European states and Cyprus.

Initially, the bank concentrated on strengthening the weaker regions of the EU, but its brief has since expanded to financing projects outside the EU under the bloc's cooperation policy toward other countries.

During 1998–99 loans totaling 5.5 billion euros ($6.5 billion) will be funneled to projects in ten Central and East European countries seeking EU membership.

The EU however remains the major recipient of EIB funds, getting some $26 billion of total loans of nearly $30 billion in 1997.

The EIB doesn't just lend to poor regions. Its investments stretch across the EU to develop trans-European transportation, telecommunications, and energy networks. Often it will step in where private financing is reluctant to invest because of long pay-back periods. Most recently, the bank's president, Sir Brian Unwin, said the EIB is prepared to lend substantial amounts to finance the construction of a sixty-eight-mile rail link between the Channel Tunnel—which links the United Kingdom and France—and London and the modernization of the London subway network.

In 1997, the EIB was asked by its shareholder governments to provide risk capital to innovative small and medium-sized firms and, for the first time, to invest in the labor-intensive education and health care sectors as part of an EU-wide campaign to create jobs. That program "roared ahead" in the past twelve months, according to Mr. Unwin as the EIB approved more than $3 billion in loans.

The ECB will grab the headlines in the coming months, but the EIB will play an equally important role in creating the new Europe.

—Bruce Barnard

or display symptoms of mental breakdown. Moreover, only by revising its founding Maastricht Treaty, which requires unanimity of all fifteen EU countries, can the members change the statutes of the ECB.

Like the Bundesbank, the ECB has a single goal—price stability—that it must pursue to the exclusion of other objectives. It alone defines price stability and the means of attaining it.

Moreover, the ECB's pursuit of this "mission statement," laid down in the Maastricht Treaty, will put it into conflict with EU governments—and ordinary Europeans—if economic growth falters and the jobless rolls rise during 1999. Central bank independence enjoyed wide political and popular support in Germany but not in most other euro zone countries. "Thus, the willingness to defend the ECB's independence will be weaker in these countries," warned Paul de Grauwe, a professor of economics at the University of Leuven and a member of the Belgian parliament.

Mr. Duisenberg, bloodied in earlier clashes with the politicians, has warned the ECB won't buckle. Monetary policy shouldn't be used as "a scapegoat for not delivering what people want most, which is a job and goods."

Mr. Duisenberg, bloodied in earlier clashes with the politicians, has warned the ECB won't buckle. Monetary policy shouldn't be used as "a scapegoat for not delivering what people want most, which is a job and goods." It isn't the ECB's responsibility to cut Europe's 11 percent unemployment level but that of the politicians who must reform the continent's inflexible labor markets.

The next few months will show whether the ECB will be all-powerful or whether it will play a secondary role to its eleven participating central banks. The ECB has a staff of approximately 600, while the central banks' payrolls top 60,000. Moreover, the central bank governors have a built-

in majority over the ECB's executive board that will grow as more countries adopt the euro.

There are fears the ECB could become a toothless secretariat taking orders from the central banks, which might themselves be swayed by national politicians. There are genuine fears the central banks will wield too much power in the ECB. Hans Tietmeyer, president of the Bundesbank, reckons the ECB system of national banks will be much more decentralized than the German system.

There are parallels with the US Fed, which was set up as a very decentralized central bank in 1913 and spent the first twenty years of its existence dogged by power struggles between the Federal Reserve Board in Washington and the Federal Reserve Banks and between the banks themselves. This infighting was partly to blame for the bank collapses that led to the depression of the 1930s when the Federal Reserve Board couldn't act as a lender of last resort.

The parallel should not be stretched too far, but the International Monetary Fund has expressed concern that neither the ECB nor the participating central banks have a role as lenders of last resort.

The ECB is bracing for a barrage of criticism in the coming months for its lack of accountability and transparency as it sets its "one size fits all" monetary policy for Euroland. Critics allege it is immune from political oversight and will conduct all its proceedings in secret—minutes of meetings will not be published for sixteen years. Politicians are calling for more openness. Viktor Klima, the Austrian chancellor, says the US Fed publishes its minutes, and there is no reason why the ECB should not do the same.

Mr. Duisenberg insists the minutes must remain confidential to protect the eleven central bank governors from political pressure, and he is not going to give way to his critics.

Nobody doubts the ECB will face a tough year establishing its credentials with the international money markets as its every move is dissected and analyzed. However, the smart money is riding on success. Ⓔ

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

EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

The European Bank for Reconstruction and Development (EBRD) has experienced more drama and controversy in its eight years of existence than most other banks have in an entire century.

The EBRD, created in response to a proposal by then President of France François Mitterrand for an institution to promote economic restructuring and liberalization in the former communist nations, opened the doors of its London headquarters in 1991.

The EBRD has sixty shareholders: fifty-eight countries, the European Investment Bank, and the European Union. EU members have a controlling 51 percent stake but the largest single shareholder is the United States (10 percent) followed by Japan (8.5 percent).

The bank hit the headlines in its early years when it was discovered it had spent more on its headquarters than in loans to Central and Eastern Europe. This scandal led to the resignation of its first president, Jacques Attali in 1993, delivering a body blow to the bank's credibility.

The EBRD has since largely reestablished its credentials as a significant contributor to the economic development of the former communist nations.

The EBRD is a "political" bank in that it can only lend to countries "committed to applying the principles of multiparty democracy, pluralism, and market economics." Moreover, at least 60 percent of its lending in each country must be for private sector projects.

The bank's task became much more complicated when the disintegration of the Soviet Union and Yugoslavia greatly expanded its client base, which now spans countries that are well down the road to a market economy, such as Poland and Hungary, impoverished Albania, and distant Moldova and Turkmenistan.

The EBRD's loans are relatively modest—totaling some $1.9 billion for sixty-five projects in the first nine months of 1998 compared with $1.4 billion for forty-five projects in the year earlier period. But they have a disproportionate impact in jump-starting ventures that otherwise would stall for lack of financing.

The EBRD also plays an invaluable role in tracking the progress of some twenty-six countries toward a market economy. Its annual *Transition Report* is the bankers' bible for the region.

Russia's financial crisis hit the EBRD hard, being largely responsible for a surge in provisions for the first nine months of 1998 to $842 million, or 13 percent of its outstanding loans and share investments. Nevertheless, the bank says it is strongly capitalized and its financial viability isn't at risk.

However, the EBRD faces a tough 1999 as its customers grapple with recession. A recent EBRD statement summed up the bank's challenges: "Progress in transition has been slower and more erratic than in any year since the fall of the Berlin Wall."

—Bruce Barnard

Wim Duisenberg Europe's New

By Lionel Barber

The first president of the European central bank is a tall, chain-smoking Dutchman with craggy features, tousled white hair, and a reputation for monetary orthodoxy.

Wim Duisenberg, the sixty-three-year-old former Dutch finance minister who spent fifteen years as head of the Netherlands' central bank, has been in the ECB job for six months; but during the feverish preparations for the launch of the euro on January 1, 1999, it no doubt felt at times like six years.

Apart from the daunting technical challenge of ensuring a smooth transition to the single currency, Mr. Duisenberg has faced political pressures from center-left governments in Europe—notably in Germany—to cut interest rates in order to bolster employment and growth.

At times, the sparring between the unelected central bankers at the ECB and the elected politicians led by Oskar Lafontaine, the mercurial German finance minister, threatened to get out of hand; but in November, Mr. Duisenberg produced a powerful counterblow—a coordinated interest rate cut among the eleven future members of the euro zone.

Ten of the eleven central banks cut their interest rates to 3 percent, which they said would be the benchmark rate in the euro zone "for the foreseeable future." Only Italy—where Antonio Fazio, central bank governor, is still waging a personal campaign to stamp out inflationary tendencies—failed to go the whole way. But by January 1, all eleven founder EMU members had moved to the benchmark 3 percent rate.

During an interview with the *Financial Times* on the day of the coordinated cut, Mr. Duisenberg described the move as "rather sensational." He left no doubt about his pleasure in taking the markets by surprise and answering political critics who have dubbed the ECB as "more Catholic than the Pope" in pursuing price stability and monetary orthodoxy.

In economic terms, the joint reduction in interest rates was driven by fears of a collapse in business confidence in the face of faltering growth in Europe. The slowdown reflects the continuing impact of the Asian financial crisis, which helped to trigger a de facto default in Russia as well as send shock waves through emerging markets in Latin America.

Three successive interest rates cuts by the Federal Reserve showed how alert Alan Greenspan, Fed chairman, has been to the risks of a global meltdown. But Mr. Duisenberg faced many more constraints than his US counterpart in delivering an effective response to the crisis.

First, the European Central Bank is a new and untested institution that desperately needs to establish credibility. A rush to reduce rates could have been in-

Wim Duisenberg, the sixty-three-year-old president of the European Central Bank, will become a familiar face in the news this year as he sets the course of the euro.

terpreted by financial markets as surrendering to political pressure. In this sense, for Mr. Duisenberg, the autumn campaign for lower rates was "unhelpful" and may even have delayed the eventual cut.

Second, although the ECB will set the future monetary policy framework for the euro zone, it will leave the execution to the national central banks. The precise balance of power between the Frankfurt center and the national central bank has still to be worked out. One outstanding question is who will take the lead role in crisis management when, say, a financial institution in the euro zone gets into trouble.

Third, Mr. Duisenberg is still feeling his way as president and public face of the euro zone. His appointment last spring was a close call. President of France Jacques Chirac pressed the nomination of Jean-Claude Trichet, governor of the Bank of France.

The eventual compromise involved Duisenberg agreeing to step down once the transition to the euro was complete, around mid-2002 after the introduction of euro notes and coins. The exact timing of his departure remains in the Dutchman's hands in order to preserve the notion that his early retirement is a voluntary act; but the uneasy bargain prompted some to dub the first ECB president: "Wim Claude Trichenberg."

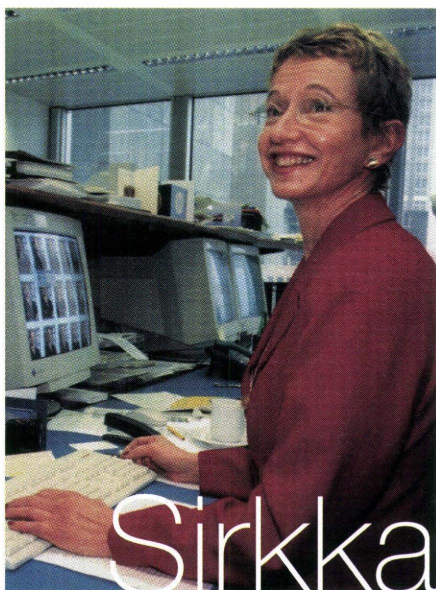
Partly to establish his credentials, Mr. Duisenberg left no doubt in an interview with *Le Monde*, the French daily, that the timing of his departure remained his decision. He left open staying beyond mid-2002 when many, including President Chirac, had assumed he would make way for Mr. Trichet.

Elsewhere, the straight-talking Dutchman robustly defended the ECB's independence, castigating politicians for failing to bring down public deficits and triggering controversy by refusing to open up the ECB's monetary policy decision-making to public scrutiny along the lines of the Federal Reserve or Bank of England. He argued that too much "transparency" could trigger second-guessing in the financial markets and unnecessary currency instability.

In future months, as the ECB becomes a more visible institution, Mr. Duisenberg may decide it is safe to open up a bit. He is aware that there are serious questions about the accountability of unelected professional central bankers running monetary policy. He knows he will have to develop a dialogue with the powerful European finance ministers, including Mr. Lafontaine, on all aspects of macroeconomic policy.

But, above all, he knows that the world is watching every word for clues on the course of the euro, the emerging rival to the dollar. As Europe's equivalent of Alan Greenspan, Wim Duisenberg may well have to become a little more Delphic. That would be a pity for those who admire his plain-speaking; but it is the price of the top job. Ⓔ

Lionel Barber is a contributing editor to EUROPE *and the news editor for the* Financial Times.



Sirkka Hamalainen

Executive Board Member of the European Central Bank

EUROPE INTERVIEW

Sirkka Hamalainen, one of the six executive board members of the Frankfurt-based European Central Bank (ECB), spoke with *EUROPE* Editor-in-Chief Robert J. Guttman during a recent visit to Washington, DC. The former governor of the Bank of Finland speaks out on her role at Europe's new central bank, the role of the ECB, and the international role of the euro.

What is your area of responsibility at the ECB?

There are six (executive) board members of the European Central Bank. My own responsibility is market operations. That is the area concerning practical decisions on procedures and guidelines because the ECB is giving very strict guidelines to the national central banks in all areas. The work of the members of the executive board of the ECB will involve the preparation, decision-making, and operative implementation of the single monetary policy for the euro area.

Under the European System of Central Banks (ESCB), supreme power is vested in the governing council of the European Central Bank, which is composed of the members of the ECB's executive board and the governors of the national central banks of the euro area countries. Each board member, like other members of the governing council, will have one vote in the actual decision-making. The executive board is also responsible for implementing the decisions.

What is the ECB's primary objective?

The primary objective of the ESCB is to maintain price stability in the euro area.

On entering the European monetary union, the eleven participating countries will permanently give up their own national monetary policy. Monetary policy decisions will be taken by the governing council of the ECB and will be based on euro-wide considerations.

How will monetary policy of the ECB affect employment in Europe?

I would like to stress that monetary policy is neither the cause of nor the solution to the unemployment problem in Europe. The problems with European labor markets are structural. Unemployment in Europe can thus only be effectively combated through reforms addressing these underlying structural problems.

What will be the role of the euro in the international financial system?

The introduction of the euro will be the biggest change in the international financial system since the collapse of the Bretton Woods system in 1973.

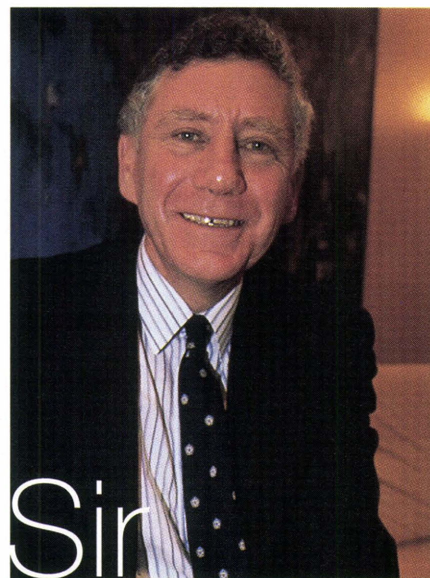
Several arguments seem to indicate that the euro may become a more attractive investment currency than all the currencies which it will replace taken together. First, the integration of European markets will lead to lower transaction costs and higher market liquidity, thus possibly inducing a virtuous circle of increasing issuance and investment in euro-denominated assets by international investors.

Second, the integrated euro area financial markets will offer a more diversified set of financial instruments than that which is currently available in any national market of the euro area today.

Third, euro area bonds will provide an attractive opportunity for investors who would like to achieve increased risk diversification in relation to US financial instruments.

Fourth, the euro may also become an attractive currency for the investment of official reserves.

On the whole, there is little doubt that the euro will have a more important role in the international financial system than any of its constituent currencies. ⓔ



Sir Brian Unwin

EIB President

EUROPE INTERVIEW

Sir Brian Unwin, president of the European Investment Bank, spoke to *EUROPE* Editor-in-Chief Robert J. Guttman in Washington, DC about the EIB, the euro, and the world economy.

What is the role of the EIB and the euro?
The top strategic objective of the EIB is to support the successful introduction of the euro. Firstly, by continuing our lending to promote the economic integration that must underpin a single currency, and secondly, and perhaps more directly over the last year, by promoting the euro on the capital markets. We are, by far, the most prominent promoter of the euro. We issued the world's first euro bond issue last year, a $1.3 billion euro issue.

When was that?
In January 1997. It was actually an ecu issue, but we called it a euro issue, frankly, for political reasons. But it has a provision in the terms of the bond issue, which provide for it to be re-denominated in euros on the first of January 1999. In addition to that, we have made on the markets about twenty what we call "euro tributary issues" to the value now of about 16 billion ecu ($18.8 billion). And these are large benchmark issues in national currencies, deutschemarks, Italian lire, escudos, pesetas, and so on, Dutch guilders, which, again, are issued in the national currency but have a clause providing for their conversion into euros (in 1999). By choosing the terms of these issues right out to thirty years, by varying the maturities, we're trying to establish a yield curve and benchmarks for the euro in advance of the actual introduction of the euro.

Do you get underwriters like Merrill Lynch and they break it up?
Absolutely. US banks have been very prominent in jointly managing or lead managing these issues. We made, earlier this year, the first global issue in euros, and we made a particular pitch at selling it in the United States and Japan. I think it was a 2 billion issue, and our managing banks sold about 25 percent of it in the United States. And again, what we're trying to do is to interest the US market and the Asian market in the euro and diversify our own sources of funding.

Is Europe an oasis of prosperity during the financial crisis taking place around the world?
Europe is going to take a knock, quite clearly. The effects of the crisis are going to have their adverse effects on economic growth and performance in Europe. Nevertheless, I think there is a very good chance that the European Union is going to be, in a sense, the engine of continuing growth during these critical next months—not as much as we'd hoped, but most of the economies have been coming out of recession. The French economy is looking very good; the German economy has begun to rise again. So, you won't get the growth that had been predicted a few months ago, but nevertheless, in this very difficult situation, Europe is going to be one of the key motors in the world situation. The advent of the euro is going to bring a greater cohesiveness in Europe than we've ever seen before. We're talking about a block where the GDP is as big as the United States; 20 percent of world output, roughly the same as the United States; and a much larger share of world exports than in the United States.

Should people in the US see Europe as a competitor?
Not a competitor, but if you look at the world situation now, in a sense you've got a tripod with three legs. One is the United States, one is Europe, and the other is Japan. The Japanese leg is in enormous trouble, and they're going to see substantial negative growth this year and fearsome problems. The United States economy is holding very well, and with a bit of luck, we're going to see at least some positive growth and certainly stability in Europe over the coming year. So, if we have two firm legs to the tripod, the situation is manageable.

President Clinton has called for a restructuring of the world economic system. Do you think it needs to be restructured?
I frankly think that a lot of the preoccupation with what's called "architecture"...is all very worthy and lots of things need to be done. But the real need is for some decisions by the G7 countries, not architecture and restructuring and looking at the way the IMF and the World Bank work. All of this is necessary, and no doubt, lots of things have got to be done, but the key thing is actually to get on and take some decisions. The key thing is for the Japanese actually to get on with the package of sorting out the banking system and making their fiscal package work. Those are the things that need to be done.

Everyone says "crisis." I saw that the *Financial Times* today had "crisis" three times in the headlines. Is there a world financial crisis?
There's an extraordinarily difficult situation which is probably the most difficult that most operators in the markets have now faced in their experience. But my own view is that there has been too much sort of talking the crisis up. And although it's tremendously difficult and, as I said, Japan is in a very, very serious situation, it's manageable, and we've got to stick to that. Coming back to Europe, Europe is going to be a key player in this as being one of the motors of world economic activity. Coming back to my own institution, I think our job is to carry on supporting that process in Europe.

Can Europe continue these two major projects, the introduction of the euro and enlargement during this severe crisis?
Yes. Enlargement is going to take some time anyway, and there are a lot of internal European problems to settle, institutional ones, the precise future of the budget. There is this great so-called "Agenda 2000" to be sorted out, which embraces a lot of things, the shape of the budget, the future of the regional and cohesion funds, the regional assistance program. All that has got to be sorted out alongside enlargement. But I'm sure this will all go ahead.

Do you think banks are in trouble in Europe?
The European banks are quite heavily exposed in emerging markets, in Russia, in Latin America, and in Asia. But most of the major European banks are extremely well capitalized. And although some of the losses may look large in absolute terms, they are small in relation to the assets and capital base of the banks concerned. German banks are very heavily exposed in Russia and in Latin America, but much of that exposure is guaranteed anyway under export credit. So there are going to be some unpleasant stories and one or two are going to take hard knocks. But I have no fundamental worry about the European banking system.

BUY American European Banks

By Bruce Barnard

Europe's top banks are plotting an invasion of the United States after Germany's Deutsche Bank surged ahead of the pack with its $10 billion acquisition of Bankers Trust.

Almost every big name is being tipped to go west, with Dresdner Bank, Germany's second-largest bank; the Dutch ABN-AMRO group; UBS of Switzerland; and Britain's Lloyds TSB Group topping analysts' polls as the most likely predators. The rumored targets include Wall Street's blue-chip investment banks JP Morgan, Paine Webber, and Lehman Brothers.

Meanwhile, things are also heating up in Europe with the merger and takeover frenzy of 1998 carrying into 1999 as banks confront massive competitive pressure from the introduction of the single currency, the euro.

The $80 billion merger of Union Bank of Switzerland and Swiss Bank Corporation last summer, creating Europe's biggest bank, UBS, has already been overshadowed by Deutsche Bank's US foray. The takeover of Bankers Trust will create the world's biggest bank with assets of between $800 billion and $850 billion, overtaking Citigroup, the new US megabank forged by the merger of Travelers Group and Citicorp in 1998.

Even as they mapped out their strategies, European banks were juggling the fallout from the Russian and Asian financial crises. Britain's Barclays Bank became a takeover tip following the sudden resignation of its chief executive, Martin Taylor, following boardroom rows over strategy and a $425 million charge for possible bad Russian loans. Earlier, Mathis Cabiallavetta stood down as chairman of UBS after it took a $700 million loss on the near collapse of Long Term Capital Management, the US hedge fund.

Even as European bankers look west, US investment banks in Europe are laying off record numbers of staff in the wake of the stock market turbulence in late 1998.

The New York headquarters of Bankers Trust, which was acquired by Germany's Deutsche Bank in November.

While its rivals were sizing up possible acquisitions, Deutsche Bank was busy cutting new deals even as it was going through the regulatory hoops to take over Banker's Trust. In the final weeks of 1998, it agreed to pay nearly $600 million for the Belgian subsidiary of France's Credit Lyonnais to add to retail banking operations in Italy and Spain, and it struck an alliance with Nippon Life, Japan's largest life insurance group, to spearhead a move into Japan. It also offered around $550 million for the cable television network of o.tel.o, a German telecommunications company.

Hardly pausing for breath, Deutsche launched into a second shopping spree that yielded a 0.75 percent stake in Italy's Unicredito worth more than $200 million and a 10 percent slice of EFG Eurobank, Greece's second-largest private bank. It also expanded its non-banking activities, with its London-based venture capital unit, Morgan Grenfell Private Equity, paying some $655 million for Coral, Britain's third-largest chain of betting shops.

Deutsche Bank's swoop on Banker's Trust is part of a belated US expansion by German companies, which trailed far behind the top investors in the US, the UK, and the Netherlands. But Daimler-Benz's merger with Chrysler and media giant Bertelsmann's acquisition of Random House, America's biggest publisher, has closed the gap. Deutsche Bank was part of the invasion even before it swooped on Bankers Trust, as it has a 12 percent stake in DaimlerChrysler.

And where Deutsche Bank goes, its main rival Dresdner Bank, is certain to follow. Germany's second-largest bank held informal talks with Paine Webber, the US investment bank, last summer, fueling analysts' expectations that it will tie up a deal during 1999 possibly after the planned listing of its shares on the New York Stock Exchange.

want to go global, they must have a presence in the US market.

Germany's big three, Deutsche Bank, Dresdner Bank, and Commerzbank, have an added reason for going abroad—their small share of a domestic market dominated by state banks, which they are effectively barred from buying into. Deutsche, for example, accounts for less than 5 per-

Investing in US

cent of deposits in Germany.

European banks have stood by while aggressive US investment banks have grabbed most of the lucrative merger and acquisition and corporate finance business on their home turf. Europeans are also-rans in this fast growing sector. When Daimler-Benz wanted help with its merger with Chrysler, it hired Goldman Sachs and not Deutsche Bank—although Deutsche was its biggest shareholder with a 21.6 percent stake. European merger and acquisition activity scaled an all-time high of $775 billion in 1998, and US banks were advisers on most of the big deals.

Deutsche Bank spent more than $3 billion in the past decade trying to muscle into investment banking in London and New York. Its acquisition of Morgan Grenfell, the British merchant bank, in 1989, was initially marred by a clash of management cultures. It then spent billions hiring the best investment brains in the US in a bid to create a US operation almost from scratch. That strategy fell apart in early 1998 when it lost stars, including the 130-strong, California-based high-tech team that defected to Credit Suisse First Boston (CSFB). That's when Deutsche realized an acquisition was the only

With so much going on at home, not least the launch of a currency that is set to challenge the dollar, why are European banks so keen to cross the Atlantic?

The reason is very simple: margins in traditional banking activities are narrowing in overbanked Europe while profits from investment banking operations, an American specialty, are soaring. Furthermore, if European banks

Rolf E. Breuer, chairman of Deutsche Bank (left), and Frank N. Newman, chairman of the board of Bankers Trust, answer questions during a joint press conference in Frankfurt on November 30.

BIG BANKS ON THE PROWL

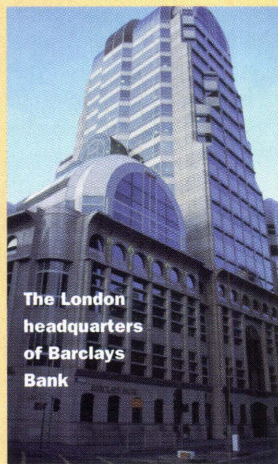
European banking is heading for a bloodbath as a handful of big players hunt for takeover prey and scores of small and medium-sized operators run for cover as the long awaited arrival of the euro changes the rules of the game forever.

While Deutsche Bank's bid to absorb Bankers Trust dominates the headlines, analysts say the real action will take place in Europe where the financial services industry is facing its biggest ever shake-up. Most market watchers agree that within a decade European banking will be dominated by a dozen companies, with the Dutch, Swiss, and British occupying the top slots and the German and French slogging it out to make the cut.

German, French, and Italian banks face "massive consolidation" as globalization, the arrival of the euro, and the spread of Internet and electronic banking compel them to join forces to become more competitive, according to Rolf Breuer, chairman of Deutsche Bank.

The same process is underway in the insurance industry with the leading players swooping on smaller firms; forging relationships with other insurers, banks, and mutual fund companies through cross shareholdings; and moving beyond their traditional markets. As in banking, the industry likely will be dominated by a dozen players at most and led by German behemoth Allianz, the Dutch ING group, AXA-UAP of France, and Italy's Assicurazioni Generali SpA.

So far takeover activity in the banking industry has been fairly calm with most deals, such as the merger last year of UBS and Swiss Banking Corporation sewn up well in advance. But more bids are being contested like the $14 billion takeover of Générale Banque SA of Belgium by Fortis, the Dutch-Belgian financial services group, which saw off ABN-AMRO, the biggest bank in the Netherlands. A few deals are turning nasty, like the hard fought battle between Sweden's Svenska Handelsbanken and Denmark's Den Danske Bank, which won Fokus Bank, Norway's fourth-largest bank.


The London headquarters of Barclays Bank

Even as predators size up their vulnerable domestic markets, smaller banks can't agree on merger terms. Some collapse in acrimony. The three-way merger between Fokus and fellow Norwegian groups Postbanken and Christiana Bank foundered on shareholder resistance.

But Europe's smaller and medium-sized players must merge or face the steady erosion of their domestic business as the barriers that have protected them for decades are stripped away in Europe's increasingly competitive single market. Even in countries like France where governments have shielded banks from outsiders, a combination of huge losses and a strict application of antitrust laws by the European Commission, banks can no longer hide from the market. French tolerance toward its errant banking sector was sorely tested by the $19 billion bailout of Credit Lyonnais, a state-owned bank that embarked on a disastrous expansion program that led to the unwilling ownership of MGM, the Hollywood studio.

Speculation now is focusing on which bank will make the next move and which will be its big-name victim or merger partner. Britain's Barclays Bank topped analysts' New Year's polls of most likely takeover targets, although its $33 billion stock market valuation provides some protection against an unwanted approach. Meanwhile, ABN-AMRO is on the prowl.

—Bruce Barnard

way to break big in the US, which led it to Bankers Trust after reportedly being rebuffed by its first choice JP Morgan.

Other European banks with US ambitions must be prepared for a long search and to pay a premium to bag a big name. Even $10 billion didn't buy Deutsche a seat at the top table as Bankers Trust is less than one-third the size of big hitters like Goldman Sachs and Merrill Lynch, and it only ranked fifteenth in global M&A activity in the first half of 1998, just one above Deutsche itself. But the new group will have more than $600 billion of assets under management and will be the world's number two in the global custody business after Chase Manhattan.

European banks have had a checkered history in the United States. Credit Suisse moved into investment banking back in 1978, but it took more than a decade to turn CSFB into a significant player. Britain's Midland Bank's acquisition of Crocker National was a disaster, and it was forced to sell it at a huge loss to Wells Fargo. The European banks that have enjoyed success have stayed away from Wall Street and invested in safer sectors, like ABN-AMRO, which is a major banker in the Chicago and Michigan regions. However, those were different times and Europe's big players now view an American presence as a must.

While Europe's big banks look abroad, small and medium-sized groups are forging defensive cross-border mergers, often along geographical lines. Italian bank Credito Italiano bought its rival Unicredito for $7 billion last year, and Nordic banks are constantly engaged in merger talks. Other banks are specializing in core activities such as mortgages or lending to specific business sectors.

Others are looking beyond the US and Europe. Last July, ABN-AMRO, for example, paid $2.1 billion for a controlling stake in Banco Real, Brazil's fourth-largest private bank. East and Central Europe also is attracting the attention of West European banks. Meanwhile, Credit Suisse Private Banking is mulling an alliance with a Japanese group or making an acquisition to grow its business in Japan.

For the moment, however, all eyes are on the marriage of Deutsche Bank and Bankers Trust. Ⓔ

Danes Buck European Trend

Social Democrats Face Declining Support

Denmark's Prime Minister Poul Nyrup Rasmussen and the Social Democrats have seen their electoral support decline and their parliamentary majority has shrunk to a single vote.

By Leif Beck Fallesen

Some would say that bucking European trends is a Danish national characteristic. Such an oversimplification is not generally warranted, however, as a broad introduction to the current state of Denmark's politics and economy, the statement has its merits. Political tumult and an economy in sharp decline continue to strain the government and its beleaguered prime minister. Simply put, the Danish model for success is in trouble.

The Social Democratic prime minister, Poul Nyrup Rasmussen, is still in power in Denmark, one of the thirteen Social Democratic heads of government in the European Union. However, contrary to the other EU countries, his party faces declining popularity. In the March 1998 elections, Mr. Nyrup Rasmussen was only able to maintain his grip on government because a fluke election result in the Faeroe Islands in the North Atlantic provided him with a frail majority of one seat in the Danish parliament, the Folketing.

Though elected for a sister party, the member for the Faeroe Islands, Johannes Eidesgaard, broke rank and did not support the government candidate for speaker of the parliament, which was promptly occupied by the opposition. For good measure, Eidesgaard has added that he will not automatically support the government on all issues. His top political priority is to upgrade the current political home rule of the islands to quasi-independence. That, however, is the least of the prime minister's worries.

Opinion polls show that support for the Social Democratic Party has dropped precipitously from the 35.9 percent in the March elections to less than 20 percent in the December polls. This is the lowest level since the 1903 election. The leading opposition party, the Liberals, benefited tremendously, increasing its support to an historic 35 percent. But the left-wing Socialist Peoples' Party also profited, underlining the fact that Denmark's traditionally largest party is simultaneously losing support from both the Left and the Right.

Mr. Poul Nyrup Rasmussen assumed personal responsibility for this debacle and apologized to his party and his voters. He had no choice. In the March elections, he had promised a written guarantee that early retirement benefits would not be touched. These benefits proved to be a major campaign issue, as the opposition parties argued that they should be curtailed and phased out as too expensive to sustain in the long term.

To get non-Socialist support for the budget that was passed in December 1998, the prime minister reneged on his promise for the written guarantee, provoking a storm of protest from local party branches and trade unions. Polls showed that four-fifths of the Danes believed he should leave office, and his critics called him a liar. Mr. Nyrup Rasmussen claimed that his campaign statements had been misinterpreted and that he had given fair warning in later statements. However, his personal credibility has suffered, perhaps permanently.

Virtually all Danish independent economists agree that a reform of this essential element of the Danish welfare

The Baltic Sea Is Becoming an EU LAKE

By Leif Beck Fallesen

The "Blue Banana" is a widely used geographic metaphor describing the arc of growth hubs stretching from the southeast of the United Kingdom through the Benelux countries, Germany, northern Italy, and southern France to the northeast of Spain. The "Baltic Potato," however, is virtually unknown outside its home base, but many believe it possesses significant potential.

Superimposed upon a map of the Baltic Sea the "potato" encompasses virtually all the major cities that were members of the Hanseatic League, which 700 years ago made the Baltic one of the fastest growing regions in its time by developing trade, using a blueprint that resembles the current EU single market. Denmark's prime minister, Mr. Poul Nyrup Rasmussen, president of the twelve-member Council of Baltic Sea States (CBSS), believes that history may repeat itself in the first years of the twenty-first century in the form of a new golden age for the Baltic region.

In less than eighteen months, it will be possible to drive around the Baltic Sea. Halfway through the year 2000, the Oresund tunnel and bridge will link Copenhagen and its Swedish neighbor city, Malmö. Last year the Great Belt Bridge and tunnel was completed, and planning has started for a similar project to link Denmark and Germany across the Fehmarn Belt by the year 2008.

EU ports, including Copenhagen (left), dominate Baltic Sea trade. The Russian port of St. Petersburg (right) is the largest non-EU Baltic port.

Whatever defining characteristic is chosen, it is tempting to call the Baltic Sea an inland lake of the European Union, though this description will never be accepted by the Russians. But almost the entire coastline belongs to EU member countries or countries seeking EU membership, and more than four-fifths of the 50 million people living along the shores of the Baltic Sea are or will become EU citizens when enlargement is completed. Some analysts include more of the hinterland and speak of a Baltic Sea Region of 100 million people.

Regional integration is evident at all levels. The European Commission is the twelfth member of the Council of Baltic Sea states, and Jacques Santer participated in the annual meeting last year in Riga, Latvia, which brought then German Chancellor Helmut Kohl and Russian President Boris Yeltsin together in the first German-Russian meeting on Baltic soil since the Second World War.

The cities of the region "re-created" the Hanseatic League by founding their own Union of Baltic Cities, UBC, in 1992. The membership has since grown from the thirty-two charter members to seventy-eight. This includes Hamburg, which doesn't border the Baltic Sea but is historically a Hanseatic city and economically part of that regional system. Evidence of this is the partnership between Hamburg and St. Petersburg, the main platform of which is a "Baltic Bridge," an effort to develop better transport links between Russia and the European Union.

With NATO membership and EU enlargement issues settled in the short and medium terms (though not to the satisfaction of all involved), business issues have moved to the top of the agenda. Poland and the three Baltic countries—Lithuania, Latvia, and Estonia—already have a proportion of trade similar to that which current EU member states have with each other, and it can be argued that business integration has preceded political enlargement of the European Union, although only Poland and Estonia are on course for EU membership in the first round.

Regional business leaders have organized their own Baltic Sea Business summit meetings, and they believe trade may increase tenfold over the coming fifteen to twenty years if economic growth in the former communist countries averages an annual 5 percent and half that in the current EU-Baltic countries. The wild card is Russia. St. Petersburg is one of the best-performing economic regions of Russia, but even there, growth is likely to be negative this year. The Kaliningrad enclave's economic situation has grown desperate. Without a Russian economic revival, regional growth potential will be stifled. ⓔ

state is overdue. Demographies and economics dictate that something must be done. Currently 180,000 Danes have chosen early retirement, most drawing the equivalent of $18,000 a year, almost equal to the unemployment benefits. Over the next ten years the number of sixty to sixty-four-year-olds eligible for early retirement will increase by 50 percent, effectively overwhelming the public finances. By leaving the work force early, they are also likely to cause a severe labor shortage with very negative consequences for wage inflation and economic growth.

A new retirement plan lowers the official pension age from sixty-seven to sixty-five, despite the official government view that Danes should work longer. However, pensions are much lower than the early retirement benefits, so the government saves money. In addition, early retirement benefits are increased if retirement is delayed from sixty to sixty-two-years-old. Moreover, in the future, to qualify for early retirement benefits, Danes will have to pay what is effectively an insurance premium during their working years. The total set of reforms is extremely complex.

Few political observers believe that support for the Social Democratic Party will remain at their current low levels. However, if they do, they may later in 1999 force a change of leadership in the party and perhaps break up the government, which is a coalition with the Radical Liberal Party. Even with a revival of party fortunes, a power struggle is likely as the ability of Mr. Poul Nyrup Rasmussen to win the next general elections for his party is in doubt. Moreover, reform of the welfare state in Denmark has been put on hold.

Economic challenges are looming this spring. Collective wage negotiations with 800,000 public employees could easily collapse, causing a nationwide strike and forcing the government to halt such action by law. The public employees are demanding that, like their colleagues in the private sector, they should get a sixth week of paid holidays, and receive similar pay increases. The major non-socialist parties will support government legislation to end a strike, but as many of the public employees have traditionally supported the Social Democratic Party, the political costs may be substantial.

The number of Danish sixty to sixty-four-year-olds is expected to increase by 50 percent over the next decade.

The hard line in the negotiations with the public employees also represents government determination to maintain sound public finances at a time that the health of the Danish economy is deteriorating sharply. The government is rightly stressing that in a European Union context many of the figures still look good, especially the unemployment rate of about 6 percent and the surplus on the general government finances. However, those figures are from last year. This year will be different.

Economic growth in Denmark is forecast to be 1.6 percent this year, versus 2.4 percent last year, and thus below the EU average for the first time in five years. This decline reflects official government policy as the lower growth rate should improve the balance of payments. Nevertheless, the economy is slowing much faster than the government expected—the consensus forecast is less than one percent—and for the wrong reason. Exports are losing market share while public expenditure and private consumption have been higher than expected, forcing the government to abandon its ambition of eliminating the deficit this year and paying off the Danish foreign debt by the year 2005.

As Denmark is outside the euro zone, the Danish deficit cannot be smothered by the surplus of the euro countries. If the deficit continues to grow, it is likely that fiscal policy will have to be tightened before the summer—the last thing a beleaguered prime minister would want. The price of parliamentary support from either the Left or Right could be so high that Mr. Poul Nyrup Rasmussen may not want to pay it. ⓔ

Leif Beck Fallesen is EUROPE*'s Copenhagen correspondent and the editor-in-chief of the* Børsen *newspaper.*

LIVING OUTSIDE EUROLAND

Danes decide to keep the krone—for now.

By Leif Beck Fallesen

Technically speaking Denmark is a virtual member of Euroland, although Denmark has not introduced the euro and is unlikely to do so before 2002. Pending the successful outcome of a referendum, which may be held earlier than planned if current trends in public opinion and the economy persist.

In the meantime, the Danish currency, the krone, has been securely latched to the euro. The European Central Bank and the Danish central bank have agreed that the krone and the euro will not allow a divergence of the market rate of more than 2.25 percent from the euro central rate that became operational in January this year.

If that happens the European Central Bank will intervene in the currency markets to support the Danish currency, and as the krone is a very small currency, no one in Denmark believes that an attack will be successful. For the same reason, no one attaches much importance to the ECB's limit on its support—that it must not threaten the monetary stability of Euroland.

However, while this limits the currency risk to Danish business and Danish consumers, it does not mean that Denmark has hitched a free ride. The Danish krone was attacked on the currency markets several times in 1998, forcing the Danish central bank to raise interest rates in its defense, and this may happen again, especially if international investors react negatively to weaker economic data from Denmark.

All Danes are also likely to have to live with a permanently higher interest rate as investors demand a risk premium for holding Danish currency rather than the euro. The premium reflects market conditions and can vary from close to zero to around one percent. The cost reduces economic growth in Denmark and, along with other costs of living outside the euro, may shave as much as half a percent off annual economic growth in Denmark, according to the estimates prepared by the Danish economics ministry.

Denmark has opted to keep its currency, the krone, instead of joining the euro at least for the near term.

All the major Danish corporations and financial institutions have prepared to work in the dual currency mode, euro and krone, but many smaller companies have found it difficult to do so. As most of the small and medium-sized companies are subcontracting to Euroland companies, they have to make offers and accept payment in euros.

Though careful not to politicize the issue unduly, the head of the Danish central bank, Ms. Bodil Nyboe Andersen, makes no secret of the fact that the bank supports Danish participation in the euro and that the price of staying out is no Danish influence on the European monetary policy that the bank is bound to implement in Denmark as a consequence of its link with the euro.

Some members of government have publicly supported joining the euro; notably, the economics minister and leader of the Radical Liberal Party, Ms. Marianne Jelved, is a very strong advocate of Danish membership. Opinion polls in the last half of 1998 showed increasing popular support, with a 7 to 8 percent lead for the 'yes' side if a referendum was held now. However, the lead will probably have to be double that and remain at that level for a long period before a referendum is called. The Danes have voted no before—to the Maastricht Treaty in 1992—and few Danish euro supporters want a repeat performance. ⓔ

Inside
EUROPE

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What They Said...About the Euro

"I am happy to be in a position to report that, overall, the transition to the euro within the Eurosystem and the banking and financial industry has been accomplished to our satisfaction."
—Wim Duisenberg, president of the European Central Bank

"When central bankers highly respect other central bankers, they call them 'sound.' Wim Duisenberg is sound. He and I go back a long way together and have developed a good friendship."
—Alan Greenspan, chairman of the Federal Reserve Bank

"Until now, the euro was only a project. Today, for the first time, we have been able to see it and to use it. You will understand that it is with a certain emotion that I watch a project, around which all our efforts have converged, take concrete form."
—Jacques Santer, president of the European Commission

"We thought it would go well but not this well. It's a formidable vote of confidence in the euro by the financial markets."
—Yves-Thibault de Silguy, finance commissioner of the European Commission

"My first thought is, thank God. If we had been left outside, it would have been a disaster for this country. My second thought is that we have put our public accounts in order, but we still have a long road ahead of us."
—Romano Prodi, former prime minister of Italy

"The single currency will stabilize the common market and strengthen Europe's influence on the international financial markets. It will force recognition as a leading rival of other currencies in friendly competition."
—Gerhard Schröder, chancellor of Germany

"What we are observing today is the natural and happy birth of the euro."
—Jean-Claude Trichet, president of the Bank of France

"Pay in euros? Are you crazy? As if I didn't have enough problems already."
—Bookstore salesman in Madrid

"We are at the beginning of a great political project."
—Dominique Strauss-Kahn, finance minister of France

"What's good for Europe is good for us, and a strong Europe is good for America."
—Robert Rubin, treasury secretary of the US

"My personal view is that I think it is best for Denmark, for employment, and for our welfare society that we join the euro at some point. But the choice must be ours alone, our opt-out can be reversed only by a referendum."
—Poul Nyrup Rasmussen, prime minister of Denmark

"Imagine what the United States would be now if each of the fifty states had its own currency."
—Sir Edward Heath, former prime minister of the UK

"A successful economic union that contributes to a dynamic Europe is clearly in our long-term interests."
—Bill Clinton, president of the US

"What an achievement! The birth of the euro is an historic accomplishment with global consequences."
—Donald J. Johnston, secretary-general of the Organization for Economic Cooperation and Development

WTO Brokers Banana Truce

Both the European Union and the United States claimed victory in their ongoing banana row.

"This is a highly satisfactory outcome for the European Union," commented European Commissioner Sir Leon Brittan. "I'm particularly pleased that it has been made clear that the United States has no World Trade Organization (WTO) authorization to impose its threatened sanctions," Brittan added. The commissioner said that under a truce drawn up by WTO Director-General Renato Ruggiero and effectively approved by both sides on January 29, the WTO would first consider whether the EU's revamped banana import regime was breaking world trade rules. Only if the European Union were found guilty would the question of punishment arise.

"This is exactly what we always wanted to achieve," Brittan said, adding that the EU had enjoyed the support of the "overwhelming majority of WTO members."

The plan drawn up by the WTO delays the possible imposition of planned sanctions by the Clinton administration on selected EU goods. Under the plan, the US and the EU will over the next month engage in consultations to find a mutually agreed solution to the problem.

The Clinton administration also claimed the truce represented a victory for itself. US Ambassador to the WTO Rita Hayes called it "a big win for us...we got all we wanted."

Global Trade Talks Proposed

In his State of the Union speech in January, President Bill Clinton called for a new round of global trade talks. In response, European Commissioner Sir Leon Brittan stated, "I warmly welcome President Clinton's acceptance of the call for a new round of trade talks." The talks, for which no date has yet been set, will be the first since the Uruguay Round that ended in 1993.

Kosovo Crisis Continues

NATO Secretary-General Javier Solana describes the upcoming peace conference to be held in Rambouillet, France, as the "last chance" for the war-torn province to head off intervention by the Western powers. EU and US mediators are trying to seek a pledge from Albanian separatists in Kosovo that would commit the rebel's to attend the scheduled peace talks to be held in the town located near Paris. Solana, the alliance's top civilian official, warned the warring sides to start the peace talks or face military intervention. He stressed that NATO was poised to intervene whenever he, in consultation with alliance members, decided the time was right. "We are prepared to act if the parties do not come to an agreement," Solana stated.

Mexico-EU Talks Upcoming

Negotiations took place in mid-January between officials from the EU and Mexico in order to create a bilateral transatlantic free-trade zone. The preliminary meeting addressed the problems that will be considered at further negotiations. Forthcoming negotiations in Brussels, March 8–12, will be concerned with the exchanging of lists of items for tariff reductions. It is expected that the meetings will continue for most of the year.

EU Leaders Attend Davos Forum

Dozens of high-level government and business leaders gathered in the Swiss Alps for the annual Davos economic forum. European Commissioner Jacques Santer, German Chancellor Gerhard Schröder, French Finance Minister Dominique Strauss-Kahn, Vice-President Al Gore, Russian Prime Minister Yevgeny Primakov, UN Secretary-General Kofi Annan, Treasury Secretary Robert Rubin, and other business and government leaders discussed issues related to this year's theme "Responsible Globality: Managing the Impact of Globalization." The euro also proved to be a popular topic of conversation.

European Parliament Names Panel to Investigate Fraud

Last month, the European Commission agreed to an investigation of its affairs by an independent panel, avoiding being toppled from office in a parliamentary censure vote. The European Parliament President Jose Maria Gil-Robles said, "The committee shall endeavor to see how or to what extent, collectively or individually, the European Commission is responsible for fraud, nepotism, or maladministration."

Website for Businesses and the Euro

The European Commission has launched the "One Stop Internet Shop for Business" (**http://europa.eu.int/business**), a new website designed to help businesses make the most of the single market now that the euro has arrived.

It covers important issues such as law, market rules, Community policies, and general advice. The "Practical Information" section gives access to free services businesses may find helpful, including fairs and exhibitions, business newspapers of each EU country, and a detailed list of more than 500,000 European companies in the European Business Directory.

Bosnia Conference Calls for More Aid

Three years after the US-brokered Dayton Agreement brought peace to Bosnia, the country still needs massive international aid to survive. The Muslim, Croat, and Serb residents still deeply mistrust one another, and it is time for the Bosnian leaders to do more to get their country on its feet.

The international community delivered this message following two days of talks in mid-December when the Bosnia Peace Implementation Council, composed of representatives of forty countries and some twenty international organizations, met in Madrid to weigh the progress of the Dayton Accords and talk about what needs to be done next.

"A lasting peace is starting to take root within Bosnia," the conference attendees stated in a final statement, "but without the scaffolding of international support, the country would collapse."

Carlos Westendorp, the international community's high representative in Bosnia, told the conference that the main tasks remained integrating Bosnian refugees into society, establishing multi-ethnic judicial and governmental institutions, and most important of all, reviving the economy.

"The economy limps along. Bosnia is not yet an attractive place for foreign investors," the former Spanish foreign min-

ister said. "We have to change all that if the economy is ever to act as the dynamo for growth able to create the jobs that are so desperately needed."

He also said there was a great need in Bosnia to end the rampant corruption, fraud, and tax evasion and that the local authorities had to start pulling their own weight and not rely so much on help from others.

"The international community has helped a lot and is willing to continue helping, but it is high time that the authorities of that country assume their responsibilities," Westendorp said, adding that international aid funds would not last forever.

The international community has pumped billions of dollars in aid into Bosnia, and 30,000 troops of the NATO-led multinational force are there indefinitely to maintain peace and keep the more radical elements among the three ethnic groups in line.

NEW EU SUMMIT IN GERMANY

An additional EU summit has been announced by Germany to take place in Bonn on February 26 as the momentum behind Agenda 2000 gathers pace. Subjects for discussion include EU enlargement and EU budget reform, which will both be further discussed at the EU summit on March 24–25. The German government is pushing for a reduction in the amount it contributes to the EU budget. The meeting, originally planned for Brussels, will now take place in Berlin, which becomes Germany's capital this summer.

NOTEBOOK: THE EU'S SILK ROAD PROJECT

A new "silk road" will soon be carrying goods once again between Europe and Asia as part of a European Union project designed to upgrade highway, rail, and maritime transport links across thirteen countries in the Caucasus, Black Sea, and Central Asian regions. EU officials involved in the ambitious project hope the resulting economic integration will foster prosperity and stability in the Newly Independent States along the route.

"We want to help these countries develop their own alternative or complimentary routes to what exists in the region now," explains Daniel Stroobants, the task manager for the Europe-Caucasus-Central Asia Transport Corridor, or TRACECA, as the project is known.

There are existing east-west routes through Russia and through Iran and enough north-south routes, but nothing adequate linking these particular countries from east to west, he adds.

European Commission spokeswoman Lousewies van der Laan says that many of the countries that will benefit are landlocked with substandard access to world markets. However, some of them are major producers of energy, raw materials, and cotton and need a speedy, efficient, and cheap way to get their goods to customers in the West.

Mr. Stroobants notes that, since the collapse of the Soviet Union, little has been spent on transport infrastructure by many of these countries that formally received funds from Moscow for such things. Moreover, as the Newly Independent States struggle to make ends meet, little remains for things like maintaining bridges or paving roads.

So far, the EU has provided $72 million to fund projects along the TRACECA corridor from Europe to the Chinese border, including feasibility studies and technical assistance. International lending institutions, such as the World Bank and the European Bank for Reconstruction and Development, have pledged loans worth $250 million for further work.

In September, leaders from the countries involved in TRACECA—Azerbaijan, Armenia, Bulgaria, Georgia, Kyrgystan, Moldova, Romania, Turkey, Ukraine, Uzbekistan, Kazakhstan, Tajikistan, and Turkmenistan—met in the Azerbaijan capital of Baku and signed an EU-sponsored agreement that accords the right of transit to all the signatories and sets conditions for tariffs.

Other sections of the accord cover the modalities for road, rail, and maritime transport and streamline customs procedures and documentation.

"It is very important to harmonize the whole system and let Western transport operators know that the corridor is there, that it is safe, and that all the bureaucracy and paperwork are coordinated so they'll have a smooth and trouble-free journey," Stroobants says.

The TRACECA project is part of the European Commission's TACIS program set up to provide financing for the transfer of know-how to the countries of the former Soviet Union and Mongolia to foster market economies and democracy. The transport corridor idea was first put forward in 1993.

"We first understood the urgent infrastructure needs of the region when we were trying to send humanitarian aid there in the early 1990s and discovered how difficult it was," Van der Laan says. "So we decided to link them all together along a single route."

European officials say that fostering this type of cooperation will lead to stability and security in a turbulent yet strategic region that has seen its share of ethnic strife and separatist violence. And they proudly point out that that the TRACECA Baku conference was the first time an Armenian leader had visited Azerbaijan since those two neighbors fought a bloody and still unresolved war over the contested region of Nagorno Karabakh.

Before talks with his Azeri host President Geidar Aliyev, Armenian Prime Minister Armen Darbinian said he was eagerly awaiting a new chapter in their relations and a peaceful resolution to their squabble.

Along with improving the movement of goods, it is that kind of positive political gesture that EU officials are counting on the new silk road to also achieve.

—*Benjamin Jones*

INSIDE EUROPE

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Bruce Barnard, Benjamin Jones

Reuters contributed to news reports in this issue of *Inside Europe*.

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Europe began 1999 just as it finished 1998 closing mega takeover and merger deals on a daily basis spanning sectors as diverse as tobacco and telecommunications to designer clothes and oil exploration.

Many analysts reckon the value of mergers and acquisitions deals in Europe will overtake transactions in the United States in 1999 thanks to the catalytic effect of its new single currency, the euro. Last year European deals were worth some $800 billion, and the spending in the opening weeks of the year maintained this frantic activity.

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The most spectacular deal was pulled off by **Vodafone**, the British international mobile phone operator, which brushed aside **Bell Atlantic** and **MCI WorldCom** to take control of **Air Touch**, the US's biggest wireless carrier, for $61 billion. One of the biggest takeovers of all time, it will create the world's largest mobile phone group, capitalized at more than $110 billion with 23 million customers in 23 countries across 5 continents.

Much smaller, but equally significant for its industry, was the $8.7 billion merger of **British American Tobacco (BAT)** and South African-owned **Rothmans International**, which created the world's second-largest cigarette firm, with a 16 percent market share, breathing down the neck of market leader **Philip Morris** with 17 percent.

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The banking business didn't have to wait long for the first big deal of the year. **Banco Santander SA**, the largest bank in Spain, paid $11.3 billion for **Banco Central Hispano**, the third-largest, to create one of Europe's top-ten banks with a market capitalization of around $32 billion and the biggest foreign presence in Latin America.

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Ford Motor Company bought the auto operations division of Sweden's **Volvo** in late January for $6.45 billion. Ford, the second-largest auto maker in the world, hopes the purchase will bolster its European and global sales. It will be aided by Volvo's reputation as a car maker with excellent safety standards. Volvo meanwhile recognized the advantages of being part of a major automobile firm. Volvo Chairman Hakan Frisinger stated, "This is a solution which strongly enhances both the prospects for Volvo Cars, its employees, and for the Volvo Group as a whole."

Ford had entered a bidding war with Italy's **Fiat**, which had offered a bid of $7 billion. However, the Fiat bid was to include the purchase of Volvo's truck operations division, which was one of the defining factors when Volvo came to make their choice. Volvo meanwhile is intending to buy a 13 percent share in fellow Swedish automotive firm **Scania**.

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Airbus Industrie, the European aircraft manufacturer, booked a record 556 firm orders valued at $39 billion in 1998, falling short of its target of overtaking arch rival **Boeing**. However, the four-nation consortium moved within sight of its goal of achieving a steady 50 percent share of world orders for large commercial jets.

The Airbus order intake was up 20 percent on 1997, but Boeing announced orders for 656 planes valued at $42 billion last year. Airbus has only once beaten Boeing—in 1994—but chief executive Noel Forgeard says he prefers to concentrate on profitability rather than on market share.

Airbus said it expects orders to fall during 1999, but the decrease will not affect production over the next two years as the company has an order book of 1,300 planes. Separately, Mr. Forgeard said the company would need thirty to fifty orders from several airlines to formally proceed with its planned super jumbo, the double-decker A3XX, which is aimed at breaking the lucrative monopoly of the Boeing 747.

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Europe's former state telecoms monopolies are feeling the heat as private companies eat into their markets, forcing prices to all-time lows and raising fears of large layoffs at the start of the second year of open competition.

Germany's **Deutsche Telekom AG**, Europe's largest telephone operator, has lost 30 percent of its long distance market, and in the fast growing mobile phone market, it is trailing its main domestic rival **Mannesmann AG**.

Meanwhile, **France Telecom** saw its share of the mobile phone market fall to less than 50 percent last year, and it is expected to decline further in 1999 as newcomers such as **Bouygues Telecom** and **Cegetel** expand their coverage. The two companies are not faring much better abroad. **Global One Communications SA**, their joint venture with **Sprint**, the US long distance carrier, is losing money—one report put its after-tax deficit at $809 million in 1998—and is not expected to break even until 2001.

The industry expects Deutsche Telekom to compensate for lost market share by tapping into new global markets, mainly through acquisitions. Its foreign forays haven't proved successful apart from a joint stake with **Ameritech** and **Matav** in Hungary.

But it was rumored to be mulling a move for **Cable & Wireless**, a successful UK-based company that has a large fiber-optic network, a sizeable presence in Asia, and it recently acquired MCI WorldCom's US internet business.

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Europe's post offices also are rushing into new businesses to cushion the loss of monopoly revenues and repel the invasion of foreign companies into many of their higher margin markets.

Deutsche Post of Germany is making the running, recently paying more than $1 billion for **Danzas**, a giant Swiss freight group, hard on the heels of its purchase of 50 percent of **Securicor Omega**, a British parcel express company. Other acquisitions include a 51 percent share in **Servisco** of Poland and 68 percent of **Durcos** of France. Deutsche Post also owns 25 percent of **DHL Worldwide Express**, the global courier firm.

The spotlight has now shifted to the UK, where the post office signaled the start of a buying spree after paying between $500 million and $575 million for **German Parcel**, Germany's fourth-largest parcels business.

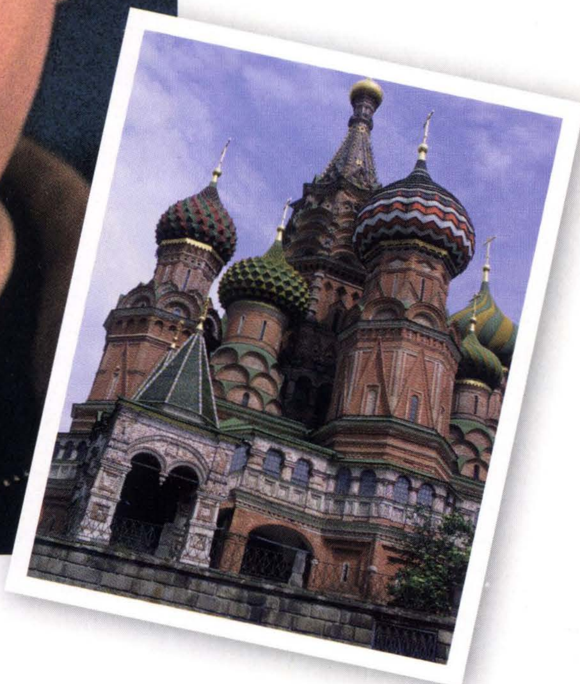
John Roberts, CEO of the British **Post Office**, said the company has to act quickly to build up its overseas business. To this end, the Post Office acquired **German Parcel**, the third-largest private carrier in Germany. "Within the next few years we will see only three or four major players in Europe...and we intend to be one of the players," he said.

The pioneering Dutch **TNT Post Group** stayed ahead of the pack, paying $360 million for **Jet Services**, one of France's leading express operators. TNT Post Group was floated on the stock exchange last year by **KPN**, the privatized postal and telecoms company, which became the first post office to break into the express and logistics markets with its $1.45 billion purchase of the Australian **TNT Worldwide Express** in 1996.

—Bruce Barnard

Moscow Mayor Eyes Kremlin

By Martin Walker



Moscow's powerful and popular mayor, Yuri Luzhkov, announced recently the formation of a new moderate, left-of-center political party called "Fatherland."

Yuri Luzhkov may not be "the most powerful mayor on earth" as Russian television likes to call him, but he certainly has an uncanny sense of timing. His announcement that he was forming a new moderate and left-of-center political party called "Fatherland" came in the week that President Boris Yeltsin went back into the hospital with pneumonia and as Russia went into political shock over the assassination of the popular human rights activist and politician Galina Starovoitova.

Perhaps it takes times like these to make the bullet-headed Luzhkov sound like a democrat. Nobody has ever questioned his efficiency as a city boss. Moscow is a Russian city that works. It pays its bills and maintains a makeshift welfare state for its pensioners and unemployed. The metro trains run on time, and big and glossy projects from new hotels to corporate headquarters to the rebuilt Cathedral of the Savior, complete with gold-leaf domes, get completed ahead of schedule. No wonder the Russian Orthodox Patriarch Alexei II calls Luzhkov "a true son of the Church."

Moreover, some of Europe's leading Social Democrats take Yuri Luzhkov's claim to be one them very seriously. Germany's new chancellor, Gerhard Schröder, made a point of getting to know Luzhkov on his first trip to Moscow. The UK's Tony Blair had told him Luzhkov was the coming man. Blair made time to see the Moscow mayor at Downing Street on the day of his big speech to his own party conference. Luzhkov returned Blair's compliment by borrowing the British prime minister's "Third Way" rhetoric wholesale for the launch of his own political party.

"We will avoid any form of extremism," he told the founding meeting of Fatherland. "We will absorb everything that is logical from the Left and everything that is logical from the Right."

He said he believed in free enterprise and the market economy but also stressed that "in this time of economic crisis we need the firm hand of the state." He blasted Russia's economic reformers of that first headily pro-Western phase of the Yeltsin presidency, Yegor Gaidar and Anatoly Chubais.

"Gaidar released prices all at once, without thinking of the social consequences," Luzhkov complained. "The second mistake was wholesale privatization carried out by Chubais. He gave everyone a privatization voucher of 10,000 rubles, and in six months, you couldn't buy a kilo of sausages with it. And the West was happy with all of this."

Luzhkov brings three priceless assets to Russia's political scene in this twilight of the Yeltsin era. The first is a proven track record of running Moscow. The second is the careful blurring of his politics, which can sound hopeful to both a Western banker and a Russian pensioner who thinks with nostalgia of 'the good old days' of the Soviet system, when at least there was cheap housing and enough to eat.

The third and crucial asset is money. Yuri Luzhkov's Moscow works because he has made the city into a co-owner of half the enterprises in town. When he became mayor in 1992, he persuaded Yeltsin to let Moscow opt out of the scheme to privatize federal property. In effect, the Moscow city government took over the old state property assets. Therefore, Moscow City Inc has become a partner in more than 200 of the biggest firms, from car assembly plants to laundromats, property developments to fast food. Businessmen grumble, discreetly, but cooperate. Despite the crime and corruption and bureaucracy, Moscow has incomparably the best-developed infrastructure in Russia and a government that knows just enough about the way laws and markets work to keep the deals it makes.

"We will absorb everything that is logical from the Left, and everything that is logical from the Right."

So, Mayor Luzhkov's office on still-glitzy Tverskaya Street is the most promising power base in Russia after the Kremlin. Moscow dominates the national economy. More than 60 percent of foreign investment into Russia and more than 80 percent of all Russian capital is banked or invested in Moscow. The average Muscovite earns three times the Russian average, and the shops are still full of goods. Tax revenues per Muscovite are seven times the national average. Moscow has 6 percent of Russia's population and produces 15 percent of Russian GDP—without counting the contribution of the city's giant underground economy.

All this wealth allowed Luzhkov to present himself as the city boss with a heart. There was a time when parking fines went into a special Luzhkov bank account, but the money went straight out again to finance the orphanages and hospitals that might otherwise have closed. Luzhkov's combination of populism, pragmatism, and philanthropy explains why he was reelected with 90 percent of the vote.

Not only is the wealth of Moscow lined up behind Luzhkov's political ambition. He has his own television channel, Centre TV, which is on track to cover the whole country early in 1999. Last spring, Luzhkov launched a new national newspaper, *Rossiya*, which suggested his ambitions range far beyond the capital. The mayor even has his own navy, in a city 600 miles from the sea. It subsidizes a naval battle cruiser that Russia itself cannot afford to repair.

Yuri Luzhkov has also been building a quiet coalition of political allies, who share his own suspicions of the other leading candidate to succeed Yeltsin, General Aleksandr Lebed. The Communist Party leader, Gennady Zyuganov, who easily commands 20 percent of the vote, has spoken approvingly of an electoral alliance with Luzhkov's new center-left. Luzhkov has suggested that his preference for prime minister would be Grigory Yavlinski, head of the liberal-centrist Yabloko Party, who combines staunch democratic credentials with economic reform and has a high credibility rating in the West.

Luzhkov has built alliances with provincial leaders, signing well-publicized trade deals with poor regions, and backing (with money and personal appearances) fourteen winning candidates in recent regional elections, including the St. Petersburg Mayor Vladimir Yakovlev. Even Arkady Volsky, the well-connected ex-Soviet official who now runs the Industrialists' Confederation and has had a nose for power since Leonid Brezhnev's days, is now saying Luzhkov may be the best bet to stop the "adventurism" of General Lebed.

However, is Luzhkov a Russian leader who can regain the confidence of the West's political and financial leaders? He is an outspoken nationalist, who worries the Ukraine with his demands for the return of the Crimea. He worries the Baltic states, after joining a picket line outside the Latvian embassy in Moscow, accusing Latvia of "genocide" toward its Russian minority. He has praised Alexander Lukashenko, the unsavory dictator-president of Belarus, for his goal of a new union between Russia and Belarus.

Luzhkov is what Russians call a *Vozdh*, a tough boss, which may be what the country needs after the rudderless chaos that has followed Yeltsin's semi-retirement. However, he looks like a boss who could win power, and keep a majority of support in the Duma, the Russian parliament, while also reassuring worried Western investors and Russia's own new capitalists. His biggest strength, at home or abroad, is that he looks better than the alternatives of a Communist-Nationalist coalition, on the one hand, or the fiery ex-paratrooper General Lebed on the other. Ⓔ

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Primakov in Profile

By Martin Walker

Yevgeny Primakov fought hard against becoming Russian prime minister after last year's financial crisis. He protested that at sixty-two-years old he was enjoying life too much, with a new wife and new baby, to inherit the bed of nails that had already destroyed the careers of the last three prime ministers to serve under the impetuous President Boris Yeltsin.

As Russian foreign minister, Primakov also had the job he had always wanted ever since he became a foreign policy specialist as *Pravda's* expert on the Middle East in the 1970s. Primakov, who in this period became a regular acquaintance, if not friend, of Saddam Hussein, was one of the crucial handful of Moscow's Arabists who had to devise a new Soviet policy for the region after the Yom Kippur war of 1973.

The humiliation of Anwar Sadat's expulsion of the Soviet advisers from Egypt and President Nixon's announcement of a nuclear alert to warn Moscow that an Israeli defeat would not be permitted, both combined with the OPEC price rise to throw into chaos the traditional paradigm of the US supporting Israel and the Soviets backing the Arabs. The fall of the Shah of Iran in 1978 followed by the persecution of the Tudeh (Iran's Communist party) convinced Moscow that anti-Americanism in the Middle East was by no means synonymous with a pro-Moscow stance. Primakov relished the complexities of this situation and was one of the few Soviet commentators who appeared to understand that its real meaning was that progress could only be made if the US and Soviets were able to work together to stabilize the region.

Much of this period of his life is murky. Some say that his *Pravda* job was cover for a career in the KGB. Others say that he was sidelined to *Pravda* after being on the losing side of a struggle inside the Central Committee policy staff. Moscow still keeps this kind of secret.

But Primakov swiftly emerged in the *perestroika* period of the 1980s as a key figure on the foreign affairs committee of the Supreme Soviet. He supported the *Noviye Myshleniye* (New Thinking) group that gave the intellectual backing to Mikhail Gorbachev's call for an end to the unwinnable arms race and a new era of détente.

Russian Prime Minister Yevgeny Primakov (left) shaking hands with President Boris Yeltsin (right) has proved to be a stabilizing figure in a country rocked by instability.

With the collapse of the USSR after the 1991 Moscow coup, Yeltsin appointed Primakov head of the new Foreign Intelligence Service. This was not a direct heir of the KGB; the fearsome power of that institution was supposedly weakened by its division into the foreign service and counterespionage. However, there is no doubt that spying continued, with a particular focus on technological espionage.

Because of this past, there was initially great suspicion in the West in early 1996 when Primakov was appointed foreign minister in place of the supposedly too pro-Western Andrey Kozyrev. Primakov's speeches in the Duma had stressed the need to safeguard Russia's national interest against too much subservience to the triumphalist West. In fact, although some of his rhetoric (and his special relationship with Saddam Hussein) continued, Primakov proved to be a pragmatic figure. Realizing that Russia could not veto the enlargement of NATO into Central Europe, he negotiated the new Joint Partnership Agreement that gives Russia an institutional role in the NATO alliance. He also backed the deployment of Russian troops in the Bosnian peacekeeping operation and forged a robust and mutually respectful relationship with Secretary of State Madeleine Albright.

As prime minister, Primakov has proved to be a stabilizing figure, who has reassured both Western investors and worried Russians that the August 1998 default on Russia's foreign debt did not necessarily presage a wholesale collapse of Russian democracy and the reform process. Primakov has bought time and has managed to stay above the clan feuds between rival industrial tycoons that destabilized previous Russian governments. In the process, although he was appointed as a compromise figure, he has started to become a viable candidate for the successor to Boris Yeltsin. However, if the economy goes wrong again, he has neither a political party nor great body of institutional support to sustain him.

"If the worst comes to the worst," he told a foreign visitor late last year, "I just go back to my family, which is what I wanted to do all along." Ⓔ

EU-Russia

Hope, Goodwill, and Bafflement

The current relationship of the European Union with Russia is a complex mixture of hope, goodwill, and total bafflement, all wrapped up in a deeply nervous fear of the implications if the Russian crisis gets bad enough to create a humanitarian disaster and waves of refugees. Nobody in Brussels will talk on the record about the nightmare scenario of a breakdown of authority in a country with more than 20,000 nuclear warheads available to the highest or most ruthless bidder. However, that, along with dark memories of Chernobyl, is the fear at the back of European minds.

At the same time, most EU diplomats and officials are aware that there is another and far more hopeful scenario. This view assumes that after a bumpy period of stabilization and economic recovery, the Russian economy starts to take off. A vast market of 150 million people, well-educated and hungry for consumer goods, could become an important locomotive for European growth in the next century. At the same time, Russia's vast reserves of raw materials, from oil to natural gas, iron ore to precious metals, timber to raw chemicals, could foster a hugely prosperous symbiotic trade relationship.

The problem is how to get there from here, how to help Russia stabilize after the financial collapse of last summer, and how finally to get the economy moving again. Two lessons have been learned. First, the comforting realpolitik that said that the dominant role of organized crime was just a passing phase and that the Russian Mafiya were robber baron capitalists who would soon become a force for stability, has now been thoroughly exploded. The Russian Mafiya appears unaware that their American predecessors learned that there was more money to be made from legal gambling in Las Vegas than from illegal activities. Until Russia's *Vori v Zakone* (thieves-in-law) understand the merits of honest moneymaking, there is little point in seeing them as any source of hope for the future.

Russian Prime Minister Yevgeny Primakov (left), Austrian Chancellor Viktor Klima (center), and European Commission President Jacques Santer discussed EU-Russia issues at last year's EU summit in Vienna.

The second lesson is that there is no point in throwing money at Russia. It is not a place with the skills and traditions of law, commercial contract, and investment banking that can benefit from a Marshall Plan. Western money disappears in Russia just the way that Napoleon's and Hitler's armies once did, swallowed up in the forbidding vastness of the place. There can be no quick fix to Russia's problems, and severe limits restrict what the West can do except back the reform process in general and invest with great caution in good projects and good people. There is no shortage of either, and they need all the help they can get to install the structural reforms of the tax and financial systems that are a precondition to progress.

"The Russian crisis is multifaceted. So too must be the response of the EU," said Europe's fifteen heads of government after meeting in December at the Vienna summit. "The EU is ready to help Russia in overcoming the crisis through credible and sustained market-based reforms, while respecting urgent social needs, and a continued commitment to democracy, including freedom of the media, the rule of law, and respect for human rights."

The trick will be to convert those sensible platitudes into real policies, starting with the $500 million emergency food aid program that is now being prepared to get the Russians through the worst part of the winter. It is no accident that Russian revolutions have historically come in February and October, when the harvests are in and when they have been eaten. In late 1998, there was less a food shortage than a series of distribution disasters. However, after their worst harvest in a generation, the Russians are facing serious food shortages in the February-March-April period of 1999. The EU is trying to devise a way to keep this food aid out of the hands of the

Relations

By Martin Walker

Mafiya and corrupt sectors of government and get it to the hospitals, orphanages, schools, and elderly who need it. This will not be easy.

The second EU policy is to keep plugging away at those aid programs where it thinks it is making a difference. In particular, these are the projects to improve the safety of Russian nuclear power plants and to inculcate the banking, accounting, and financial skills that both the public and private sectors sorely need. Along with this (costing about $120 million a year) goes a slow, uphill task of education in the basics of capitalism. Not only has the Russian farm sector been left largely in the hands of the traditional managers of the old collective farm system, but also the basic legal reform of land privatization has yet to be enacted. Above all, land cannot be used as collateral for loans, stresses the European Commission, and until it can, there is little that the magic of the market can do for Russia's farmers.

There is nothing wrong with the structures and institutions of the EU-Russian relationship. There is a partnership and cooperation agreement, under which ministers meet regularly at a cooperation council, and officials meet in joint committees. These are agreeable and solemn occasions, which always publish portentous communiqués with few tangible results, except for the ritual statements of EU support for Russian reform and for its membership in the World Trade Organization. However, whereas the EU ministers and their officials can make decisions and send them into a functioning bureaucratic system and know that money and projects will emerge at the other end, so far the Russians have proved unable to turn their decisions and promises into anything approaching reality.

Until last summer's collapse, the EU-Russian trade relationship was not unhealthy. Europe imported around $25 billion a year in energy and raw materials and exported back a similar value of finished and consumer goods. Since the collapse, the energy purchases have continued, but Russia's ability to import has collapsed. The EU has accepted the situation and has eased some (but far from all) restraints on imports of dumped goods like steel, after considerable US pressure on the Europeans to share the burden of managing the Russian and Asian crises by buying their exports.

The EU is planning a $500 million food aid program to get Russians through the winter. Markets, like the one in St. Petersburg (below), are expecting shortages due to the worst harvest in a generation.

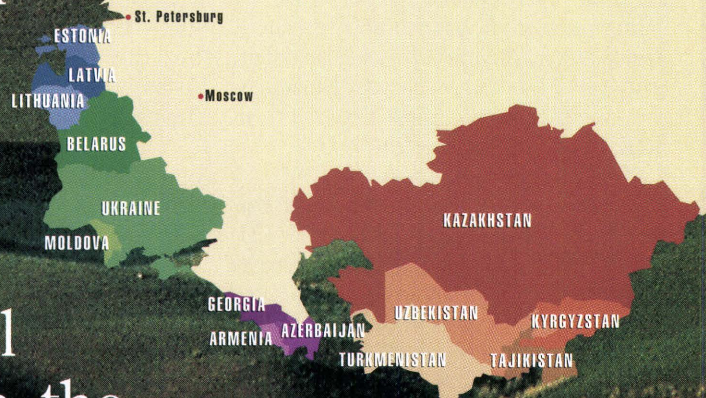
There has perhaps been one missed opportunity. Last September, the former EU ambassador to Moscow, Michael Emerson, who is now at the Center for European Policy Studies think tank in Brussels, put forward a bold plan. It called for an internationally backed currency board to stabilize the Russian financial system. A currency board, now familiar from its success in Hong Kong and Estonia, allows the issuance of no more local currency than is backed by hard currency reserves. Mr. Emerson proposed such a board, capitalized at $35 billion (which would more than finance the current Russian economy) and financed 60 percent by the EU and 20 percent each by the US and Japan. The idea, while theoretically sound and promising and studied with some interest in the US Treasury, went nowhere because the Russian government refused even to discuss it. It sounded too much, according to one Russian spokesman in Brussels, like "a humiliating imposition upon us."

As British foreign secretary Ernest Bevins said in 1947, when the US proposed the original Marshall Plan and the then Soviet foreign minister, Vyacheslav Molotov, tried to haggle over the terms and issues of national economic sovereignty, "Beggars can't be choosers." That is the hard and uncomfortable dilemma. Russians do not yet feel like beggars and insist on being choosers. In a democracy, even as frail as that of Russia, the reaction is understandable, particularly when the beggar in question still sees itself as a serious nuclear superpower. Its neighbors tend to see this nuclear inheritance from the Soviet era as a terrifying and barely controlled nightmare. It makes the West take Russia seriously but in the wrong way. It is not Russian power that Europe now fears, but Russia's weakness. Only the Russians can make the patient strong enough to sit up once more and start taking nourishment. ⓔ

The Newly Inde

By

Benjamin Jones and Leif Beck Fallesen



Eight years after the collapse of the Soviet Union, most of the newly created republics have yet to achieve their economic, political, and social goals modeled largely on the West. The three Baltic republics—Lithuania, Latvia, and Estonia—have perhaps done best, but then they moved fastest and farthest from Moscow's orbit, were quick to adopt reforms, and rejected membership in the Russian-led Commonwealth of Independent States. ■ That was probably wise as

pendent States

A country-by-country look at how each is faring today.

Kyrgyzstan is considered the most beautiful of the region's republics with magnificent mountains, alpine valleys, and broad grasslands.

RUSSIA

today this alliance aimed at cooperation and closer economic integration is in trouble, buffeted by the turmoil in Russia and hampered by the uneven development among the twelve members. ■ What's happening in Russia, both politically and economically, is everyday fare in the international media. But what's going on in the other eleven so-called "Newly Independent States" is also important. *EUROPE* offers the following country-by-country profile of the progress each has made and the challenges each still faces.

ESTONIA. Though the Asian crisis has devalued the connotation, Estonia still likes to be called the 'tiger' economy of the Baltic Sea. With an economic growth rate of close to 11 percent in 1997 and half that last year, the name is not unjustified. Last year, Estonia was the closest of the three Baltic states to catch up with its GDP of the communist era. Negative growth in Russia will affect growth in Estonia more seriously in 1999 and threaten a tiger status that usually calls for a minimum of 5 percent annual economic growth. However, the vitality of the Estonian economy, sustained by historic links and current investments from Finland, was an essential factor in the European Commission assessment of the country last year. It secured for Estonia the opportunity, alone among the Baltic states, to be in the first wave of countries to join the European Union in the enlargement process that has already started.

Estonia, like Latvia, has also improved relations with Russia, strained by what the Russians called mistreatment of a sizable Russian minority in the country, though relatively smaller than that in Latvia. The Estonian parliament liberalized the citizenship laws, in practice offering Estonian citizenship to all born in the country since 1992. Russia promised to revoke extra tariffs imposed on Estonian exports to force the issue, and a positive impact is expected on negotiations for a new border treaty regulating a disputed area.

Located on the Baltic Sea, Estonia's capital city Tallinn is an important conduit for trade between the Nordic nations and Russia.

The Estonian currency has been linked to the German mark since 1992, and from the beginning of this year, this has de facto been a link to the euro. Though solidarity among the Baltic states should not be overrated, early Estonia membership in the EU will certainly help its neighbors achieve their ambitions of membership at a later stage.

LATVIA. Latvia was not awarded the coveted seat in the group of East European countries given priority in European enlargement negotiations, the so-called first wave, later this year. However, the EU Vienna summit did let Latvia into a "halfway house," stating that Latvia could start talking directly with the European Union this year about membership.

The positive evaluation by the European Commission of Latvia's eligibility for membership in November 1998 had raised Latvian hopes, and the interim solution keeps the ambition alive. Furthermore, morale was boosted by the fact that Latvia in October 1998 became the first of the three Baltic countries to be admitted into the World Trade Organization, easing access for Latvian exports to a number of important markets.

A solution to the citizenship status of the Russian minority of about one-third of the 2.4 million inhabitants of Latvia has proved crucial to EU membership and relations with Russia and the other Baltic Sea states. Strict requirements, especially knowledge of the Latvian language, kept naturalization at a very low level, but a referendum in October 1998 relaxed the rules and will give all children born in Latvia after 1991 an automatic right to citizenship.

The new rules were ratified by 53 percent of voters, but the 45 percent who voted against relaxing the rules show that strong resentment remains for the Russian minority that settled during Soviet rule. However, the Russian government praised the outcome, and the rules conformed to the ideas put forward by the Organization for Security and Cooperation in Europe. Moreover, the referendum has effectively removed the last political roadblock on the route to full Latvian EU membership.

Like its Baltic neighbors, Latvia has suffered as a result of the Russian crisis. Moreover, Latvia's 1998 GDP has been calculated by the European Bank for Reconstruction and Development to be only 58 percent of what it was in 1989 under communism. This figure signals that Latvia has the longest way of the three Baltic states to catch up.

LITHUANIA. The president of Lithuania, Valdas Adamkus, was born in Lithuania, a freedom fighter in the Second World War, fled to the US and worked for the Environmental Protection Agency (EPA) for twenty-seven years before returning and winning the presidential elections in late 1997.

Adamkus revoked his US citizenship only shortly before the election, and he is just one of a number of Baltic-Americans who have repatriated themselves in essential functions in their native countries. They are highly instrumental in integrating their countries into Western security and economic structures.

Russia still accounts for close to a quarter of Lithuanian foreign trade, and the Russian crisis has hit the economic growth rate in Lithuania. Although growth is expected to be more than 5 percent in 1999, GDP in 1998 was less than two-thirds of what it was in 1989, the last year of communism. Half of Lithuanian industry has been privatized and is doing well, but the state-owned half is in a crisis.

Baltic ties are especially strong with Denmark, which like the other Nordic countries has supported early Lithuanian membership in the European Union. But Lithuania was severely disappointed by the European Commission report, which, despite noting the progress made, concluded that the country was not ready for membership.

One of the critical issues raised by the European Commission was the failure to prepare the Ignalina nuclear facility for closure. It is similar to Ukraine's stricken Chernobyl plant, and virtually all the Baltic Sea partners have voiced security concerns. Lithuania claims that some of these concerns are economic rather than environmental, as the energy produced by the nuclear plant is much cheaper than that available elsewhere in the region. But few doubt that a firm decision to shut

down Ignalina will have to be made if Lithuania is to receive the invitation it hopes for to open EU membership negotiations at the end of this year. Nevertheless, that may not be enough.

BELARUS. It was in the Belarus capital of Minsk where the historical 1991 agreement was signed by the host president and his colleagues from Russia and Ukraine to dissolve the Soviet Union. None of the three have weathered the following years well, and Belarus itself is expected to see negative growth of 2.1 percent in 1999 and inflation roaring along at 177 percent, the highest in all of Eastern Europe. This follows what the government hailed as "the economic miracle of 1997" when the GDP grew 10 percent. However, analysts credit that growth to old command economy tricks, such as pumping state money into failing enterprises that produced items that were impossible to sell.

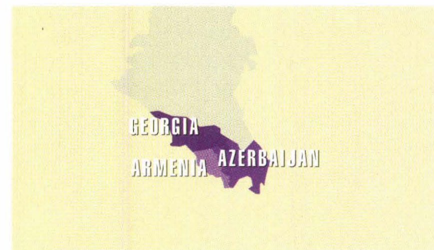
President Alexander Lukashenko openly embraces old statist economic policies, and he cannot seem to change his political spots either. Three years ago he forced through a referendum that granted him increased powers over the parliament and judicial system. A dismal human rights performance, scarcity of meaningful economic reform, and other problems have forced the US government to suspend tens of millions of dollars in aid to Belarus and advise American businesses to invest elsewhere.

MOLDOVA. With its 4.3 million people packed into an area the size of Maryland, Moldova is the most densely populated of the Newly Independent States, and perhaps the least known. Tucked between Ukraine and Romania, the landlocked nation is expected to suffer negative growth in 1999 and inflation at around 11 percent. Its major industries are food processing (including a growing wine sector), electrical energy, engineering, and metal processing, and analysts say that the unreported or underground economy accounts for some 16 percent of GDP. Privatization began shortly after independence in 1991 and has continued apace through voucher, cash, and tender purchases of small and medium-sized businesses, as well as large enterprises. The botched privatization of the state-owned telecom company, Moldtelecom, in which one finalist dropped out and the other ended up offering too little, muddied the entire program to shed state-owned firms.

Like many Newly Independent States, Moldova has had problems with separatists. In the early years of this decade, the country's Transdniestr region tried to break away, resulting in a short, sharp war in 1992. Transdniestr authorities set up their own economic and finance structure operating independently of the rest of Moldova, and the conflict still remains to be satisfactorily solved. President Petru Lucinschi was elected to a five-year term in 1996.

UKRAINE. It is not surprising that this large and very important Eastern European country suffers from a touch of schizophrenia situated as it is between reformist and progressive Poland and collapsing Russia. Looking west, Ukrainians see their Polish neighbors enjoying relative prosperity after the painful shock therapy of swiftly changing to a market economy and preparing to join NATO and perhaps the European Union in a few years time. To the east, the Ukrainians see their former Russian masters struggling to cope with economic meltdown, rising extremism, and a host of other ills. Ukraine was once one of the Soviet Union's most productive republics with an extensive industrial base, bountiful natural resources, some of the world's richest soil, relatively good transport infrastructure, an educated and skilled labor force, and little ethnic tension. The potential is there. Until Russia's financial problems began last summer, the country's economy was showing some signs of recovery or at least the decline had slowed and inflation was being brought under control. But as in many Newly Independent States, corruption is rife; the bureaucracy is mired in practices dating back to the old Soviet days; and despite its size, location, and regional importance, Ukraine has only attracted a scant $2.2 billion in investment from the West. Adding to its woes, analysts expect 3.2 percent negative growth in 1999 and the resurgent inflation rate topping 30 percent.

President Leonid Kuchma is expected to run again in elections scheduled for next October, but a recent opinion poll showed that almost 80 percent of those questioned said they did not want him in office for a second five-year term. The United States sees Kuchma as helping the steady, if slow, progress toward turning Ukraine into a truly democratic nation, and Washington considers the country essential to stability and nuclear non-proliferation in Central and Eastern Europe. However, a recent report by the Council of Europe slams Ukraine for not respecting human rights, democracy, and the rule of law—criticism that could harm the country's bid for European Union associate partner status.



ARMENIA. Armenians proudly boast that theirs was the first Christian nation in the world, dating back to 300 AD, and with millions of Armenians spread out in a diaspora from the Caucasus to California, it has long been the most westward looking of the Newly Independent States. An entrepreneurial spirit, rapid and extensive privatization, and liberal trade and business laws could provide Armenia with the foundations necessary to turn this poor and landlocked mountainous country into a regional success story, helped along by the aid, loans, and programs supplied by the United States, European Union, and international lending institutions. GDP growth has been consistent since independence and is expected to increase around 4 percent in 1999, with inflation at just more than 9 percent.

Armenia is also one of the most politically stable countries in the region and recently held presidential elections praised as largely free and fair by inter-

national observers. But the winner, Robert Kocharyan, is a hard-liner on the issue of Nagorno-Karabakh, a contested region over which Armenia fought a bloody and still-unresolved war in the early years of this decade with neighboring Azerbaijan. Until that conflict is settled and Armenia moves to shore up relations with long-distrusted, but powerful, Turkey, the country will have problems attracting significant private investment and truly integrating itself with the rest of the potentially wealthy region.

AZERBAIJAN. "Texas in the 1920s" and the "Persian Gulf in the 1970s" are two of the comparisons being bandied about concerning Azerbaijan as oil men from around the world pour into this small country on the Caspian Sea eager to exploit its petroleum riches. Estimates run to 14 billion barrels of oil, but rampant corruption and rock-bottom prices for the once-precious stuff mean that the much-ballyhooed economic boom is still a ways off. At the same time, woefully inadequate business, tax, and accounting regulations and standards hamstring potential foreign investment. But the Azeri economy grew by 8.5 percent in 1997; inflation is less than 1 percent; the currency is stable; and the government is working on an ambitious privatization program, so it's not all gloom and doom.

The political picture is just as mixed. In October, voters reelected President Geidar Aliev, a former KGB chief and Communist Party boss in the old Soviet days, in elections that the leading opposition candidates boycotted to protest the incumbent's control of the electoral apparatus and the media. European and American observers said the voting was rigged and local monitors were intimidated. The US embassy in the capital, Baku, describes political reform as "incremental," and although the recent elections were criticized, they were an improvement over earlier contests. In his inauguration speech, Aliev said he was prepared to hold a "constructive dialogue" with the opposition, which he termed "an important attribute of democracy."

Since his election as president in 1995, Eduard Shevardnadze has overseen Georgia's rapid economic growth.

GEORGIA. Following a spate of political unrest in the early years of this decade, the Caucasian nation of Georgia has largely settled down, thanks to careful handling by President Eduard Shevardnadze, who as Gorbachev's foreign minister helped end the cold war. Since 1996, the country has enjoyed one of the fastest-growing economies among the Newly Independent States, with a stable currency and manageable inflation. Growth in 1999 is expected to be around 6.5 percent. A relatively warm climate means almost any crop can be grown in Georgia, including grapes from which the country's famous wine and brandy are made, and agriculture accounts for some 70 percent of GDP. Situated on the Black Sea and with its long border with Russia, many Georgians see their country becoming a key transport hub for the region as trade increases among the Caucasian and Central Asian nations.

The only dark spot on Georgia's horizon is the problem of separatism, especially the periodic revolts staged by rebels in the Black Sea province of Abkhazia, which declared independence in 1993. Russian troops moved in to restore order but unrest continues. The United States and European Union give the reformist Shevardnadze high marks for trying to bring peace, stability, and prosperity to Georgia, and the country is a major beneficiary of a wide range of aid programs.

KAZAKHSTAN. Mineral rich and huge, stretching across the Eurasian land mass from the Caspian Sea to China and as large as Western Europe, Kazakhstan was the Soviet Union's preferred testing ground for nuclear weapons and launching pad for the nation's space program. Today, hopes for prosperity by the country's 16 million people are based on oil with the Tengiz field in the northwest of the country alone containing an estimated 9 billion barrels of proven reserves. Many billions more, some estimates speak of 30 billion barrels, could lie beneath Kazakhstan's share of the Caspian Sea, and there are extensive gas deposits and mineral reserves in the country. Like other petroleum producing nations around the world, Kazakhstan has been poleaxed by the recent fall in oil prices, and investors are pumping less money into the sector. But two large American oil companies active in the country, Chevron and Mobil, say they will maintain their investment plans to increase production capacity. Russia's problems and the crisis in East Asia have also hit the economy. GDP growth is expected to be around 3 percent this year but down to 1 percent in 1999 because of lower export commodity prices and a fall in Russian demand for Kazakh products. Inflation for 1998 was expected to be some 9 percent at year's end, down from 11.2 percent last year.

Presidential elections in January returned to office Nursultan Nazarbayev, yet another Soviet-era boss in the Newly Independent States who has managed to cling to power through less-than-democratic maneuvering. Nazarbayev has steadily increased his powers, a friendly parliament recently extended the presidential term from five to seven years and the Central Election Commission dropped the incumbent's main rival, former prime minister Akezhan Kashegeldin, from the ballot. However, the West likes Nazarbayev because he is seen as a force for stability, and his government

is taking slow, yet steady, steps toward a full market economy and an ambitious privatization program is making progress.

KYRGYZSTAN. Considered by many Central Asia hands as the most beautiful of the region's republics, Kyrgyzstan boasts magnificent mountains, alpine valleys, and grasslands that stretch forever. Abundant water and rich soil provide a perfect environment for agriculture, which accounts for 43 percent of GDP, followed by services and related sectors at 30 percent, industry at 16 percent, and trade at 11 percent. Some see this last sector expanding significantly in the future if Kyrgyzstan can transform itself into a transport hub for trade between a booming China and the rest of Central Asia. The government is keen to attract more foreign investment, and an essential part of the program is the privatization of the country's largest enterprises in the mining, fuel and energy, civil aviation, and telecommunications sectors. Impressed by the rapid transition to a market economy, the EBRD, Asian Development Bank, IMF, and World Bank have provided many loans, grants, and assistance programs. But unemployment remains high among Kyrgyzstan's 4 million people, and Russia's problems are not helping matters.

Western oil giant Chevron has invested heavily in Kazakhstan's Tengiz oil field.

President Askar Akayev is probably the least dictatorial and heavy-handed of the Central Asian leaders and has gotten high marks for his efforts at dragging his country into the world economy and for economic reforms that will help Kyrgyzstan achieve around 3 percent growth in 1999. Inflation will be on the high side at more than 11 percent.

TAJIKISTAN. In a recent *Wall Street Journal* survey of twenty-seven Eastern European nations and Newly Independent States carried out by area experts and economists, Tajikistan came dead last in such categories as integration into the world economy, investment climate, political stability, rule of law, and business ethics. Some of that can be blamed on the country's physical isolation as Tajikistan is wedged among China, Afghanistan, Uzbekistan, and Kyrgyzstan and is truly the back of beyond. Its other problems, however, stem from a bloody political-religious war with clan overtones that officially ended in 1997, although violence continues along with endemic corruption, a Wild West social environment, and meddling by neighbors who attempt to discourage or foment things like Islamic fundamentalism, depending on their own interests and goals.

Movement toward shedding the old Soviet-style economy for a more market-oriented system has been long and difficult, but the Russian-backed government of President Emomali Rakmonov is making a valiant effort and has instigated privatization programs, price liberalization, banking reforms, and other measures to ease the way to eventual peace and prosperity for Tajikistan's 5.8 million people.

TURKMENISTAN. After geologists told President Sapamurat Niyazov that his country was sitting on vast gas reserves and could become the next Kuwait, he ordered more than twenty luxury hotels be built with imported Italian marble and French fineries on the outskirts of the capital Ashgabat. Today, they sit lonely and largely unoccupied, a warning on the future squandering of Turkmenistan's riches and a reminder of the president's hubris. And the riches are certainly there. According to estimates, Turkmenistan possesses somewhere between 10 and 14 trillion cubic meters of natural gas, making it the fourth-largest potential gas supplier after the United States, Russia, and Iran. However, the lucrative gas sales will have to wait until Turkmenistan and its foreign partners figure out how to ship the stuff to Western markets, avoiding the Russian pipeline system or going through neighboring Afghanistan. There could also be a lot of oil under the sands of the Kara Kum Dessert, which covers 80 percent of the country and which in Soviet days produced export-quality cotton.

In a region known for leaders seriously lacking in democratic credentials, Niyazov is a real throwback to Soviet practices. In power now for eighteen years, after independence he dubbed himself *Turkmenbashi* or "Father of all Turkmens," and everywhere one looks these days his visage adorns billboards, posters, lapel pins, and even the hand-knotted carpets for which the country is famous. There is one political party permitted; all media is government-controlled.

UZBEKISTAN. At first glance, this nation of 25 million people located in the heart of Central Asia and with abundant natural resources should be an investor's dream. It is the world's fourth-biggest producer of cotton; has large gold, uranium, and copper deposits; is among the ten leading producers of natural gas; and is self-sufficient in oil. Uzbekistan is also ideally situated to be a regional transport hub and, thanks to the glorious Silk Road cities of Samarkand and Bukhara, is a major tourist destination. And in the early years of independence, multinationals like tobacco giant BAT Industries of Britain, auto maker Daewoo of South Korea, and others poured hundreds of millions of dollars into the country, built factories, and set up shop. But last year Uzbekistan only attracted around $60 million in investment, and diplomats and foreign businesses blame President Islam Karimov's macroeconomic policies for the downturn, specifically new foreign exchange controls that suddenly made it much more difficult to convert local earnings into hard currency. International lenders are also backing away, again citing overly strict control of the economy. Growth is expected at around 2.3 percent in 1999 with inflation at 31 percent.

Karimov also runs a tight ship politically. He is a classic example of a Central Asian autocrat, paying lip service to the democratic reforms urged by Washington and Brussels but doing little to put them into practice. The president argues that, in a region where Islamic fundamentalism is rife, political stability is his overriding concern, and he uses that excuse to stifle opposition political parties and curtail a free press. ⓔ

Leif Beck Fallesen is EUROPE*'s Copenhagen correspondent. Benjamin Jones is* EUROPE*'s Madrid correspondent.*

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LONDON

PRINCE ALBERT GOOD AS GOLD?

The dangerously decayed Albert Memorial in London's Hyde Park has finally been fixed, and no sooner was the restoration work completed than controversy arose again over whether you love it or hate it.

The memorial was built to honor Queen Victoria's husband Prince Albert who died prematurely in 1861 aged only forty-two—reputedly after contracting typhoid due to the poor state of the drains at Windsor Castle.

At the time there was great debate about whether and how to commemorate the German prince to whom Victoria had been happily married for twenty-one years and who had fathered her nine children. Eventually a gothic design by the noted Victorian architect Sir George Gilbert Scott was chosen.

It was completed in 1876 near the site of the 1851 Great Exhibition, which had celebrated industry and technology, had been promoted by the prince, and had attracted an astonishing 14,000 exhibitors from all over the world.

The grandiose design, a monumental interpretation of a medieval shrine, provoked both affection and hostility over the years. "Finally it gained acceptance as a relic of the age it so accurately portrays," according to the *Guide to the Architecture of London*.

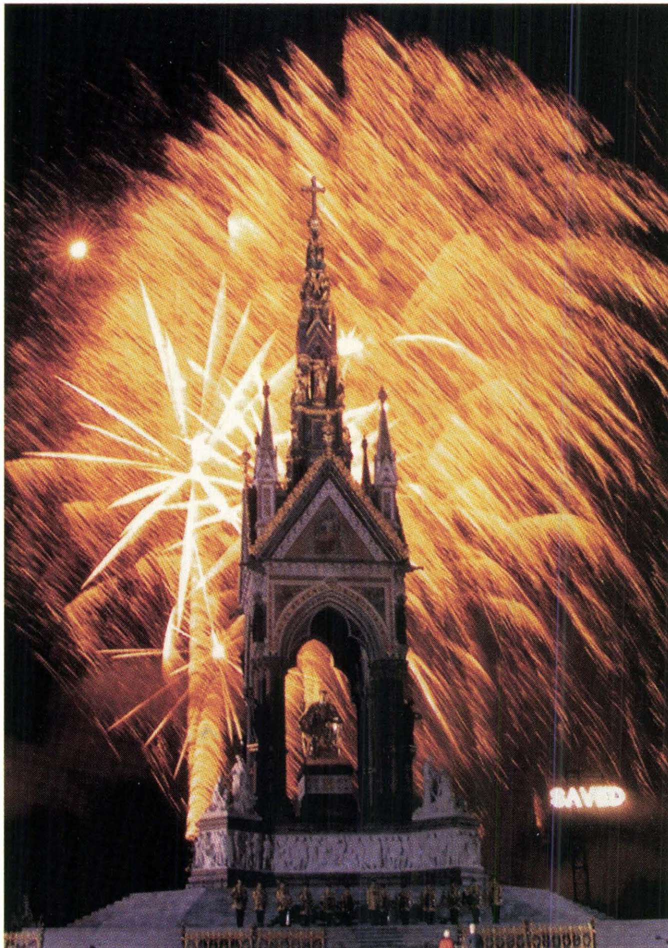
Well, perhaps, but in reality the Albert Memorial was largely ignored and neglected and fell into such a state of disrepair that in 1983 a large chunk of masonry fell off, narrowly missing a passerby. For fear of collapse, it was put under scaffolding in 1990 and for the next few years looked for all the world like a hangar for the Space Shuttle relocated to London's Hyde Park.

Eventually, English Heritage found the $18 million necessary to restore the monument and the delicate work began in 1994. Hundreds of craftspeople from all over the UK were engaged, as well as mosaic artists from San Marco cathedral in Venice.

"The most complex restoration in the world," was how project manager Alasdair Glass described the four years his team spent working on the reconstruction.

The project involved dismantling the 175-foot high structure, cleaning, repairing and replacing thousands of pieces of marble, granite, iron, bronze, glass, and semiprecious stones.

The larger-than-life, fourteen-foot high statue of the prince was originally gold, but had been painted black during the First World War, allegedly "for fear of attracting passing Zeppelin bombers." Historians now believe that the real reason was that the cabinet felt it tactless to have a golden German prince on London's most prominent site at the height of the war.



Last October, Queen Elizabeth II unveiled the restored Albert Memorial, which took four years and $18 million to repair.

The prince and his guardian angels have now been re-gilded. The memorial's black and gilded spire, multicolored marble canopy, mosaics, enamels, wrought iron, and nearly 200 sculpted figures have been revealed in all their original glory.

Is it beautiful, is it art, or is it simply a gothic monstrosity? The debate has started again about whether the Albert Memorial is glowing or simply garish. When she unveiled the restored monument late last year, Queen Elizabeth was reported to have been a bit dismayed by the shining brilliance of the giant golden statue of her ancestor.

Mind you, she is not alone. Queen Victoria is reported to have been less than amused. "Too like a market cross," she wrote in her diary after seeing the plans, suggesting it was more suitable for the crossroads in a market town than as a memorial to her beloved Albert.

—David Lennon

DUBLIN

NEWMAN'S OTHER WORLD

Take a Victorian castle in the heartland of Ireland's lush bloodstock country. Take a Hollywood icon. Add a dash of gourmet salad dressing and salsa dips and a multimillion dollar commitment to charity and sick children.

The result? Paul Newman and the Barretstown Gang Camp in the rolling pastures of County Kildare, thirty-five miles south of Dublin.

Newman's involvement in the charity world, like his lengthy Hollywood career, is well chronicled. In the mid-eighties, he joined Dr. Howard Pearson, a medical friend, in setting up the first "Gang" camp in Connecticut. Now there are six, two of which are in Europe (at Barretstown Castle and L'Envol, in France).

Paul Newman's philanthropy has opened two camps for European youngsters.

Since 1986, the seventy-four-year-old Newman has provided more than $100 million of profits to charity through his "Newman's Own" brand of spaghetti sauces, salad dressings, salsa dips, and microwave popcorn. Not bad for an Oscar award-winning movie star who seemed at one time destined to enter his affluent family's sporting goods business in Cleveland, Ohio.

Almost 3,000 projects have benefited from Newman's largesse and business acumen. In County Kildare, sick European children from seven to sixteen are transformed—in Newman's words—from "patients" to "kids." The children, with cancer and blood disorders such as hemophilia and pediatric AIDS, have their lives transformed by a summer camp of therapeutic recreation, including theater, creative writing, and playing in the woods.

Every child gets the closest personal attention. There is one counselor for two children and a twenty-four-hour medical team to unobtrusively monitor their health. Medical staff members are recruited from participating hospitals throughout Europe.

During one of his frequent visits to Barretstown (six times in the past five years), Newman told an *Irish Times* writer, "The camps work because the illness is not the exception, it's the rule. So, if there's nothing that they have to hide, the kids can be re-created as normal kids because they are relating to other kids who have the same thing. They can be ordinary and raise hell and behave badly. They arrive alone and leave with an extraordinary family."

Newman launched Barretstown in 1994 with a $2 million donation. Newman's fellow actor and friend Peter O'Toole suggested the location. It became his first European venture.

The medieval-style castle, which resembles a Hollywood film set, is located on 500 acres of land, surrounded by lawns, gardens, a lake, woodlands, and rolling fields in the foothills of the Wicklow Mountains.

It once belonged to Elizabeth Arden and was later owned and renovated by Garfield Weston. It is now owned by the Irish government, which has leased the castle and grounds to The Barretstown Gang Camp Fund for the next ninety years at a nominal one Irish punt ($1.47) per year.

Apart from the start-up capital, Newman insists that Barretstown must be funded through its own efforts. "It mustn't be a satellite of something in the States," he says.

The project has already raised almost $20 million, but it requires a further $3.7 million to increase its capacity and provide a much needed sports center. Irish fund-raisers have now set an ambitious target of raising an additional $30 million before 2004.

Newman insists that his charity work is not driven by any personal trauma, including the 1978 death of his only son, Scott Newman, from a drugs and alcohol overdose.

"I just woke up one morning in 1986 with the idea in my head," he says. "It was just the recognition of how lucky I was and how unlucky some other kids can be."

With his actress wife of forty years, Joanne Woodward, Newman spends more and more of his time on charity projects, giving him a saintly reputation that he dismisses thus: "When I go to that great rehearsal room in the sky and the book is written in terms of the graceful and the disgraceful, I'll probably be right there in the middle of everybody else."

Thousands of youngsters would disagree with that verdict.

—Mike Burns

LISBON

PORTUGAL-SPAIN SUMMIT YIELDS COOPERATION

The Portuguese-Spanish summit held in the Algarve in late 1998 was the most significant since the countries threw off their respective dictatorships more than twenty years ago, their prime ministers agreed.

Portugal's António Guterres and Spain's José Maria Aznar emerged to proclaim a "complete consensus" on issues related to reform of the European Union budget. Newspapers had reported that Spain supported European Commission proposals to assign aid by region, instead of by member state. That would mean Lisbon losing out because its income per capita is more than 75 percent of the EU average. Spanish officials in the Algarve worked hard to scotch those rumors.

The two countries' united front helped ensure the budget decision was postponed at the EU summit in Vienna a week or so later. As net recipients of EU aid, both will suffer if the budget for the five years from 2000 is frozen at the level of the previous five-year period, as the Commission also suggests.

If the two governments are to be believed, though, the most significant outcome of the Algarve meeting was their accord on sharing water resources.

At stake are four rivers that flow from Spain into Portugal, the most fiercely contested being the Guadiana, in the south. Portugal has long sought guarantees on minimum flows, after a series of droughts.

"This is the most ambitious accord we have ever reached," Guterres told journalists. "It safeguards all legitimate Spanish and Portuguese concerns."

It is not true to say that the treaty's small print showed a different picture because none was available. No copies were handed out, and negotiators declined to discuss details. Those, they explained, were contained in annexes hammered out at the last minute and not yet printed.

It is clear, however, that the Guadiana was the main cause of disagreement. Its waters are in demand from Spanish farmers seeking to expand production, with government encouragement. That led to friction between Spain's agriculture minister and its environment minister, who

was keen to reach a compromise after two years of negotiations.

In any case, the accord may not be applied in the first year if the current dry spell continues. Its terms are suspended when water is short.

But with the Guadiana, it makes little sense to talk of average annual flows because of huge irregularities. As a result, Portugal cannot call on the accord when it most needs it.

—*Alison Roberts*

LUXEMBOURG

EUROPEAN COURT COMES INTO ITS OWN

Mr. Taylor, a sixty-two-year old Englishman, felt cold last winter and believed he should receive the special cold weather payments that the British government makes to old people during especially chilly conditions. But the British government disagreed, maintaining that Mr. Taylor had not yet reached the statutory retirement age of sixty-five for men, and was therefore not "old."

The case has come to the European Court of Justice (ECJ) in Luxembourg, and the eminent judges will shortly deliver the definitive word on just how long you have to have lived to be called old. A silly matter for this august legal body to concern itself with? Not if you consider the full implications of the Court's statutory responsibility "for maintaining the balance, on the one hand, between the respective powers of the Community institutions and, on the other, between the powers transferred to the Community and those retained by the member states."

In other words, the ECJ is the European Union's supreme legal authority, and its writ runs as far as there are laws to be obeyed or to be challenged. Is Denmark entitled to prevent golden bees from entering the island of Laeso in order to protect the Laeso brown bee? Yes, said the Court recently, protection of species came above free movement of goods in this case.

Moreover, what of the case brought by a woman in the UK against the train company that employed her. The company offered free travel to employees and their spouses or partners of the opposite sex but refused to grant the concession to the woman's female partner. The Court said this decision could not be overturned on sexual discrimination grounds because the same would apply if two men were involved and that while Community law protected against discrimination based on sex, this did not include sexual orientation.

However, for all its heroic work on behalf of individual litigants, most of the Court's work concerns weighty constitutional questions and business rulings that can have major economic repercussions. Its importance rests on two essential facts, namely that EU law takes precedence over national law and that the language of the EU treaties, which the ECJ is bound to enforce, is openly federalist in character—providing specifically for the "ever closer union of the peoples."

This is a potent combination of power and responsibility, and it has led to fierce dispute in recent years, most notably with the Conservative government of John Major in the UK in 1996. Angered by ECJ rulings on maximum working hours and the rights of foreign fishermen in UK waters, Major formally proposed to other EU leaders a number of reforms designed to restrict drastically the Court's authority and influence.

With the election of a far more EU-friendly government under Tony Blair in 1997, these reform plans have been cast aside and British hostility to the Court has been emphatically ended. The new Lord Chancellor (chief government law officer), Lord Irvine, said last summer that more than any other body it was the Court that had opened the Community up to free trade and made it "a close-knit international legal structure which exercises a vital influence upon our polity and economy, and a dynamic influence on our domestic law."

The coming enlargement of the EU to twenty-two countries will place new strains on the Court and perhaps call for changes in its role and practices, but this is a long way off yet. More immediate is the challenge of coping with the extra workload next year when the Court adds immigration, asylum, and external border management policy to its responsibil-

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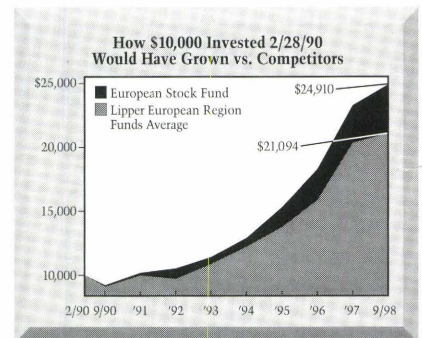

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6.96%, **16.89%**, and **11.21%** are the fund's average annual total returns for the 1-year, 5-year, and since inception (2/28/90) periods ended 9/30/98, respectively. Figures include changes in principal value, reinvested dividends, and capital gain distributions since inception. Investment return and principal value will vary, and shares may be worth more or less at redemption than at original purchase. (Source for Lipper data: Lipper, Inc.)
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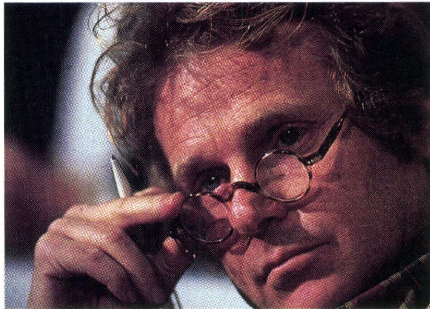
ities. In addition, the ECJ's Court of First Instance is awaiting a flood of appeals over trademark decisions now that the EU's new trademark office has begun business in earnest. Excellent news for Luxembourg where the Court, its 1,000 or so employees, and its numerous support offices make their home and pull in a heavy flow of high-profile visitor traffic. Any expansion of the Court's activities will surely be welcome to the city's property owners, hoteliers, and restaurateurs, not to mention the national treasury.

—Alan Osborn

PARIS

DANY THE RED RETURNS

Like the prodigal son, Daniel Cohn-Bendit is back. Thirty years after President De Gaulle's government expelled him from France for the leading role he played in the May 1968 student uprisings, the French-born son of Jewish refugees has made a triumphant return from his political exile in Germany. Flamboyant as ever, with a mop of red hair to match his fiery temperament, he is leading France's Green Party into the European Parliament elections in June.



The controversial Daniel Cohn-Bendit returns from exile.

Now fifty-three, "Dany" has gained three decades' worth of experience and self-assurance, without losing any of the energy, eloquence, and delight in provocation that made him such an inflammatory figure during the student riots of 1968. While banished from France, he took out German citizenship, established himself as an author, became a member of Germany's Green Party in 1984, served as Green deputy mayor of Frankfurt, was elected as a member of the European Parliament for the Greens in 1994, and all the while honed his considerable talent as a popular speaker. He has a particular gift for coining quotable slogans. Some of his youthful battle cries seem just as relevant to French society today as when he first hurled them defiantly at the Establishment.

"We are all German Jews" was originally shouted in defiance of being labeled a "German anarchist" by the then-leader of the French Communist Party, Georges Marchais. The phrase grew to symbolize a refusal of any kind of exclusion and was adapted for various occasions: "We are all immigrants," "we are all foreigners," "we are all illegal residents." Cohn-Bendit sees it as still being relevant today to defend everyone living on the edge of society. "It's a slogan which has led a life of its own and has survived as a symbol of solidarity. It's a good slogan, with a lot of emotional clout. It can handle several transformations. I wish it a long life."

Another 1968 rallying cry that still echoes loudly thirty years later is the statement, "The economy is fatally wounded, so let it die!" When Cohn-Bendit came up with it, he was condemning the consumer society, which flaunted prosperity and materialism. Now, he says, the slogan has a different meaning. "The world has become harsher, and it's hard to understand how so much poverty can have developed when all the statistics keep telling us that we are richer than ever before."

Wherever he goes, he provokes because he needs to be noticed, loves to seduce or shock, taunt or tantalize and can handle anything except being ignored. He has chosen the European Parliament elections for his French comeback because they are the only ones for which any European Union national can stand in any of the EU countries. He could have been Germany's candidate, but he claims that would have been far too easy. "I prefer taking risks," he confirms and adds, "I need a new challenge."

France's Green Party has not exactly slain the fatted calf at his boisterous return. They watch him bounding from one interview to the next, listen to him describing Robert Hue, the leader of the French Communist Party, as a stick-in-the-mud, themselves as whining Lefties, and worry what he might say or do next.

Particularly Dominique Voynet, the leader of the French Greens, cannot hide her irritation at his sudden intrusion into "her" terrain. Not only does he openly support the euro, which the Greens oppose, but he also spoke out against Prime Minister Jospin's "inflexible" attitude toward illegal immigrants—a political "gaffe" that was deeply embarrassing for Voynet. As the government's environment minister, she is supposed to support Jospin's policies; as leader of the Greens, she is obliged to stand by the party's European candidate. She grimly sided with Cohn-Bendit when he publicly demanded that Jospin should grant legal immigrant status to everyone who applies and then had to take a public tongue-lashing from Jospin in the National Assembly, for the "irresponsibility" her party had shown by opposing government policy.

Small wonder that she describes the outspoken Dany as "unmanageable" and compares his charismatic performance to a snake dance. "Facing him, we are all in the situation of Mowgli with Kaa the python," she observes dryly. Just like the serpent in *The Jungle Book*, she admits that Cohn-Bendit is "fascinating and exciting but all the more dangerous because everyone gets taken in by such charm and talent."

Dangerous or not, the man who delights in describing himself as a European "bastard" is busy weaving his spell on the French public and media. Ever conscious of playing to the widest audience possible, Daniel Cohn-Bendit declares himself an ardent Europhile, "determined to defend the idea of Europe against any national exceptionalism and against all forms of regional favoritism." Golden-tongued as well as red-haired and green at heart, Dany the comeback kid promises to stage one of the most colorful election campaigns on the French political stage this spring.

—Ester Laushway

MADRID

TELEPHONE COMPETITION BENEFITS CONSUMERS

Spaniards received an early Christmas present on December 1 when the country's telecommunications market was fully liberalized, opening up the sector to unrestricted competition for the first time and setting off a scuffle among the handful of fixed telephony companies to offer the lowest rates and best service. Moreover, the market will get even hotter when some twenty other companies eventually enter the market as planned, according to industry ana-

lysts and government officials.

The liberalization will "open the doors in Spain even wider to the information society, technological development, and innovation," Development Minister Rafael Arias Salgado said on the big day, adding that over the next two years the sector will explode while rates should drop.

On the day full liberalization began, a third fixed-line telephone company backed by France Telecom, Uni2, opened for business to compete with the former state-owned and now privatized Telefonica and Retevision, which Telecom Italia controls. BT Telecomunicaciones, British Telecom's Spanish subsidiary, is to begin fixed-line operations in April.

For more than forty years until 1997, the Spanish telecommunications market was Telefonica, the government monopoly notorious for outdated and overloaded equipment, surly service to its customers, and price gouging. However, since Retevision came along last January, Telefonica has been forced to clean up its act and present itself as a client-friendly, state-of-the-art company.

Telefonica still dominates the sector but is clearly losing ground with Retevision already having captured 10 percent of the market and Uni2 planning on carving out at least 7.5 percent within a decade. The new company is offering what it touts as "the lowest rates yet" and is looking to invest $1.4 billion to achieve its aims. Moreover, both Retevision and Uni2 say they will join Telefonica and BT-backed Airtel in the booming mobile phone market soon.

Analysts note that the Spanish telecommunications market has plenty of room for growth as there are only forty telephones per one-hundred inhabitants, or ten less than the average in the rest of Europe, and sales of mobile phones alone are expected to more than double to 10 million by 2002.

—Benjamin Jones

VIENNA

CLEANING UP THE AUSTRIAN ART WORLD

After more than a half-century in the collections of Austria's most famous museums, hundreds of artworks stolen by the Nazis are being returned to their rightful owners. Everything from paintings to coin collections, weaponry to tapestries were expropriated from Jews after the Nazis swept into Austria in 1938.

Now, at the prompting of Elisabeth Gehrer, Austria's minister of education and cultural affairs, these works of art are being returned to the families from whom they were stolen." It is a moral question," said Gehrer's spokeswoman Heidemarie Glueck. "Fifty years later, we see things a bit differently (than at the close of the war)."

Many of the thousands of artworks confiscated by the Nazis were returned to their owners after the war. Nevertheless, hundreds of pieces were slipped into the collections of the country's leading museums, including the Kunsthistorisches Museum, the Albertina, and the Belvedere.

Often, owners of artworks were required to make "donations" to the Austrian government before being granted permission to ship the remainder of their art collections out of the country. At other times, the government used laws preventing the export of artworks to keep the valuables in Austria's hands.

Gehrer began pushing for return of this stolen art after two Egon Schiele paintings on loan to the Museum of Modern Art in New York were the center of an international row in early 1998.

The expressionist paintings from Austria's Leopold Foundation were confiscated by US authorities after heirs of the paintings' prewar owners claimed the art was theirs. Although a New York judge rejected their claims, the controversy prompted Gehrer to call for the review of museum pieces.

The incident in New York "triggered the decision (by the government) to clean up in a sort of bold and resolute move," said Robert Liska, vice president of Austria's Jewish community.

Glueck said about 400 to 500 catalogue numbers from ten state-owned museums are now set for return. Items such as coin collections have multiple pieces but only one catalogue number.

The artworks now set to be returned fall into three categories. They include

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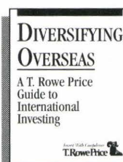

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art expropriated by the Nazis and not allowed out of the country despite Jewish ownership claims; works that were purchased on the open market and doubts later arose about their rightful ownership; and art for whom no owner can be traced.

A six-member historic commission is reviewing ownership claims. Among those families whose claims already have been proven are the Rothschilds. Those works that aren't claimed will be sold off and the proceeds set aside in a special fund for Holocaust victims.

Meanwhile, Gehrer is urging museums owned by cities and provinces to review their collections and return those works of questionable origin.

—Susan Ladika

BRUSSELS

CORRUPTION TRIALS END IN CONVICTIONS

Three of Belgium's leading politicians, all members of the governing Socialist parties, and French arms manufacturer Serge Dassault were found guilty of corruption by the Belgian supreme court in a three-month trial that ended just before Christmas. Together with eight other accused, they received suspended prison sentences. Much worse for them, however, their reputations were in tatters and their political careers ruined.

The best known was Willy Claes, who was forced to resign as NATO secretary-general when he was indicted. He had previously been a vice-premier, economics minister, and foreign minister. Alongside him in the dock was Guy Spitaels, formerly the most powerful figure in Belgian politics, a former Socialist Party leader, vice-premier, and minister-president of the Walloon region. The third "big fish" was Guy Coëme, yet another former vice-premier and the defense minister at the time when the offenses were committed.

The instrument of their corruption, Serge Dassault, remains the head of the Dassault firm, of which his father was the founder. The charges against the eleven Belgians accused related to defense contracts awarded to Dassault and the Italian firm, Agusta, nearly ten years ago. The case against the three ministers was that they had improperly favored the two firms in awarding the contracts in exchange for cash provided to their political parties. The other eight defendants were Socialist Party officials—some of whom had pocketed part of the bribes—and a lawyer who acted as a go-between.

The judges strongly condemned the accused men, even though the prosecutor-general had pleaded that the former ministers had not personally benefited from the bribes and that the whole area of political financing had been a murky zone at the time. The law has since been tightened up, and political donations of any kind by companies have been outlawed.

The result has been to cast a pall over the reputation of politicians in general, which is unlikely to be lifted by two other high-profile trials expected in 1999. One relates to the murder of former Socialist leader André Cools in which yet another former Socialist minister is implicated. The other concerns the notorious convicted pedophile Marc Dutroux, who, with other defendants, is accused of a string of child kidnappings and murders. Widespread allegations that Dutroux was "protected" by corrupt officials and politicians have not been substantiated despite a detailed parliamentary inquiry; however, the whole judicial and policing system has emerged in a very bad light.

—Dick Leonard

STOCKHOLM

LIFE OUTSIDE THE EURO

Sweden may be a member of the European Union, but with the advent of the euro and Sweden's decision not to join, critics charge that Sweden is a marginalized member at best.

EMU advocates picture Sweden as a child with her nose pressed up against the window of a candy store, unable to get in. They say not joining EMU hurts Swedish business, will drive up interest rates, and make the krona vulnerable.

However, those against EMU and the euro see monetary union as a threat against sovereignty. Two of the most outspoken critics are the leaders of the Left and the Green parties, which the minority Social Democratic government is relying on to help it get its bills through the Riksdag, Sweden's parliament.

Both want a referendum on EMU in conjunction with Sweden's 1999 European Parliament elections. They believe Swedes will reject monetary union and see that as a wedge to push Sweden out of the EU entirely.

The Swedish government has worked hard to avoid an EMU referendum, and the decision not to join monetary union from the start was largely a political one. Since voting to join the EU in 1994, Swedes have become increasingly disillusioned with the union. Jobs and lower domestic prices promised by politicians during the campaign before the referendum for the most part have not materialized. Given that, the majority sees no advantage in replacing the krona with the euro.

However, the krona has always been the target of currency speculation. In 1992, then-central bank governor Bengt Dennis was forced to increase the important lending interest rate to an astronomical 500 percent in an effort to defend the currency. The current governor, Urban Backstrom, worries that the euro will make the krona even more vulnerable.

Thomas Franzen, director of the national debt office, disagrees. "I believe that Sweden, as a country outside the EMU, will be regarded as an interesting market for diversification," he says. Franzen predicts Sweden will attract international investors in increasing numbers in 1999 and beyond. At the same time, he acknowledges that Swedish investors are going to have to move into euro-denominated investments, perhaps at the expense of the krona-based instruments.

Swedish companies have worked to get ready for the euro so that they can bill customers outside of Sweden and keep books in the new currency. Nevertheless, at the end of October, the Federation of Swedish Industries said that a third of the medium-sized companies responding to a survey said they weren't ready. Nor did listed companies rush to take advantage of the Stockholm Stock Exchange's program for trading shares in euros.

While euro-denominated bank accounts will be available, average Swedes probably won't have them. Instead, they'll go right on doing what they've always done when traveling abroad—changing money at the whim of exchange rate setters. Ironically, they're in good Nordic company, since only Finland is participating in EMU.

In Finland, there is concern that the Swedes may devalue the krona to help exports at the expense of Finnish indus-

try, notably the forest products sector. Backstrom has made a point of meeting with Finnish bankers and industry leaders to try to reassure them, but the Finns remain skeptical.

—Ariane Sains

HELSINKI

BUILDING THE NEXT NETWORK

New technology has always fascinated the Finns. No country in the world has more microwaves per kitchen than does Finland. The Nordic nation also boasts the world's highest percentage of Internet-connected homes, and half of all Finns own a mobile phone. It's no wonder, then, that the country is already planning the "third generation" mobile communications network, which will combine the mobile phone, the Internet, and multimedia.

High-tech enthusiasts are predicting that by 2002 the average Finn will have a mobile phone that includes a small screen and a camera. Not only will the user see the person to whom he is talking, but he also will be able to send a brief video image of the scene from where he is calling, such as the museum he just visited in London or the snakebite he just got in Australia. Furthermore, while on the go, users will also be able to surf the Internet, get up-to-the-minute stock quotes, check the weather in any city, and send and receive e-mail. The scope is limitless.

Such advances, however, will require a faster and more stable network of communication stations than is currently available. To this end, the Finnish government has been the first to announce free access to any operator interested in taking part in developing such a network. According to the communications ministry, four operators will be chosen and granted a twenty-year commission to operate it. Building such a network will require both highly advanced communications expertise and extensive resources. The network needs a dense network of antennas and must be able to transmit two megabytes per second, which is ten times faster than any current mobile phone system.

For the moment, two operators are prepared to participate—the newly privatized Sonera (formerly Finnish Telecom) and Radiolinja, a company jointly owned by local private telephone companies. As of December, space remained for two other companies, most likely foreign; however, the ministry had set a January deadline for companies to make their interest known, with the official application due in the spring.

For Finns, however, it is of little concern who owns the network as long as it works, is cheap to use, and feeds their appetite for new high-tech toys. Indeed, Finland's most famous company, Nokia, which has recently emerged as the world's leading mobile phone producer, shares the same desire.

—Thomas Romantschuk

THE HAGUE

THE REFUGEE DILEMMA

The problem is getting thornier by the day. Suddenly, politicians and the public have awakened to the issue of the seemingly endless wave of asylum seekers coming into the Netherlands. The Dutch agree that something has to be done, but no one seems to know how—or even if—the flow can be tempered.

The Netherlands, which has the highest population density in the European Union, finds itself in the uncomfortable position of attracting far more refugees per capita than any other EU-member state. In terms of cumulative numbers, Germany actually takes in more total refugees, however, the Dutch take in one asylum seeker for every 440 Dutch citizens, compared to Germany's ratio of one for every 780 Germans or Italy's one for every 30,000 Italians. With more than 35,000 new cases in 1998, the Netherlands registered more asylum seekers than Austria, Belgium, Denmark, Finland, Greece, Italy, and Norway combined.

The reasons behind these numbers are manifold. The different ways in which countries count refugees creates some of the wide variations between the numbers. Some of the countries simply don't register immigrants but allow them to remain, albeit illegally. Also, compared to neighboring countries, the Netherlands offers relatively liberal asylum laws and generous benefits that refugees receive from their first day in the country. However, it's not just the money ($50 a week) or the access to medical care that attracts refugees to the Netherlands. According to the Dutch system, every person who applies for asylum enters a procedure that may take years to determine whether he or she really meets the requirements defined by the Geneva Convention of 1951 for political asylum. Many don't qualify, but if their asylum applications are rejected, they are entitled to government-paid lawyers to challenge the cases in court. Many do not carry passports or other official documents that could facilitate sending them back to their country of origin, and most of them tend to remain, legally or illegally.

The immigration flow toward Western Europe started in the early 1990s after the fall of the Iron Curtain and the implementation of the Schengen Agreement, which abolished border controls between most EU countries. The collapse of the Soviet Empire and the Balkan wars caused the first inflows of refugees, and later, displaced people began to arrive from countries like Iraq, Iran, Afghanistan, Sri Lanka, Somalia, Sierra Leone, Liberia, and numerous others.

The EU lacked—and is still lacking—an overall approach, as asylum issues are part of the so-called third pillar of the EU treaty, which is confined to cooperation between national governments. In the Netherlands, adapting old rules turned out to be a slow legislative process, and until recently, there was no political majority for a stricter policy. The fear of being labeled xenophobic or racist often impeded attempts at rational analysis of the situation. Meanwhile, the administrative burden became unbearable. The acceptance of asylum seekers could not keep up with the inflow causing lengthy waiting times and overcrowded refugee compounds. The number of cases overwhelmed the government offices charged with processing them, and unrest grew among citizens in the towns where refugees were forced to live.

Late last year, the situation became so desperate that hundreds of asylum seekers were temporarily sheltered in army tents, many of which leaked and lacked sufficient heating. A public and political outburst of indignation ensued, and the government hastily found better tents.

For the Dutch, the recognition of the necessity to stem the tide of asylum seekers collides with the national tradition of liberalism and tolerance toward refugees. After all, in the seventeenth century, during the Dutch golden age,

tens of thousands of refugees migrated to the Netherlands, contributing greatly to its economic wealth. There is also a strong sentiment among the population and political parties that helping needy refugees is a Christian mission. However, the Dutch are hesitantly acknowledging that something must be done to alleviate the strains on the country's housing, education, health care, social security system, labor market, judiciary system, budget, and public safety.

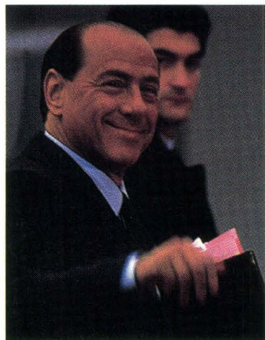
Job Cohen, the secretary for asylum affairs, is moving toward a tougher approach. As a start, he wants to change the Netherlands' image abroad as soft on asylum seekers, which he hopes will diminish the inflow. Furthermore, a much tougher immigration law is in the making, but it will take time to be implemented. The government also hopes for greater European cooperation. That will almost certainly be futile, as no other country appears ready to volunteer to share the Dutch difficulties.

—Roel Janssen

ROME

ITALY BY NUMBERS

Each January, Italians look forward to learning informational tidbits that emerge as part of a series of national statistical surveys, such as the fact that Silvio Berlusconi, Italian television tycoon, leader of the political opposition, and former prime minister, remains the richest person among the Italian representatives and senators, beating out Senator Giovanni Agnelli, owner of Fiat.



Leader of the political opposition and former prime minister, Silvio Berlusconi, emerges as one of the richest political figures in Italy's annual surveys.

Compiled and published by the state-run ISTAT, the *Sondaggi* that yield such juicy information are ostensibly intended to offer an in-depth view of the state of the country.

As part of this year's report, Italians also learned that Berlusconi's tax return was greater than the combined tax returns of all the ministers of the present center-left government combined. Oddly, Berlusconi, according to his tax returns, only owns one automobile, an old Renault R4, a rather rickety car that was fashionable with young protesters and hippies during the 1960s and 1970s. Even he seemed surprised. "I guess someone uses it at one of my villas," he said. Agnelli, too, doesn't seem to enjoy automotive exhibitionism. He only lists two small cars registered under his name—both Fiats, of course.

One item released by the statistical center, however, has attracted more serious attention from politicians, businesspeople, and the press. It seems that at least 10 million "moonlighters" don't pay taxes or pay less than they should. That is a tremendous figure when one considers that the entire Italian population numbers 57 million people. According to the report, the majority of these workers reside in the South, particularly in Sicily.

The surveys also revealed that the regions receiving the most government money aren't—as one would expect—the southern regions, which are the country's poorest and least developed, but rather the rich and industrialized northern regions.

Some of the information proved less surprising. The most polluted cities in Italy are almost all in the South. The cleanest city is Mantova, birthplace of the great Latin poet Virgil. The dirtiest is Lecce, at the farthest extremity of Puglia. Surprisingly, Milan ranks only sixtieth among cleanest cities even though it has had almost no heavy industry since transforming itself into Italy's financial center. Rome, however, is much better off. The capital, which is frenetically preparing itself for the invasion of pilgrims coming to celebrate the 2000 Holy Year, is the fourteenth cleanest Italian city.

—Niccolò d'Aquino

BERLIN

TOUGH CHOICES FOR SCHRÖDER

Germany's 60 million voters wanted "change without risk." Instead, they have gradually realized that the new Social Democrat-Green coalition government will be much more experimental and will bring about a considerable change in the political climate. By promising that he would "not do everything differently, but do it better," Chancellor Gerhard Schröder succeeded in making inroads toward the political center. However, the center forces him to pursue a pragmatic policy that is controversial within his own Social Democratic Party and among the Greens. Furthermore, governing Germany requires a difficult balancing act between the federal government and those of the fifteen *länder* (states). Disagreements have already surfaced over the controversial tax reforms. Not only is industry worried at an increased burden on small and medium-sized companies but so are the länder, including those governed by the SPD.

Conflicts, mistakes, and communication breakdowns have marked the coalition's first weeks in office and have taken the shine off Schröder's election victory over Helmut Kohl. "Our problem was that we took on too much at the beginning," the chancellor admitted. The coalition has been ill disciplined, critical of many of his ideas, and divided over planned higher environmental taxes. The increases are supposed to finance cuts in non-wage labor costs in the form of employers' and employees' contributions to pension, unemployment, and health insurance funds.

Schröder has agreed to introduce new energy taxes but wants to give exemptions to industry, which angers the Greens. The environmental reform planned for January 1, 1999 has been postponed by three months to allow time to implement a complex package of measures tightening rules on low-paid employment. In the future, so-called "DM 620 jobs" (referring to the weekly wage in deutschemarks—roughly equal to $370) would be freed from tax. Instead, employers would pay a roughly equivalent sum into overburdened state social security funds. However, no one knows how long the government can maintain its century-old social welfare program at its present level. A decisive change is already underway in economic and social policy. As one of its first acts, the coalition passed legislation reversing the limited but successful supply-side reforms of Kohl's government, which trimmed pension entitlements and sick pay to reduce the crippling labor costs of German business.

In a short space of time, Oskar Lafontaine, in charge of a strengthened finance ministry and chairman of the SPD,

has rocked a lot of boats. He has stepped on toes at the Bundesbank, the European Central Bank, and throughout the German business community. The British tabloid press labeled him "the most dangerous man in Europe," and Joseph Beckmann, president of the Textile Industry Association, called him a "dictator." Lafontaine's plans to redistribute some of the burden from rich to poor and from big business to workers and families mark a significant break from the supply-side policies of Helmut Kohl and Theo Waigel, the former finance minister.

Moreover, the new government will be judged on whether it can offer remedies for Germany's most pressing problem—double-digit unemployment. Lafontaine plans a Keynesian program to boost consumption underpinned by greater economic and social policy coordination in the European Union. In a television interview, Lafontaine set a goal of reducing unemployment by 1 million by the next national election in 2002. Schröder, who tied his own political fate to the reduction of unemployment, is pinning much hope on Germany's tradition of consensus. He attaches a high priority to an "alliance for jobs" in which government, trade unions, and employers would create a framework for increasing employment. The first meeting took place in December 1998, and Schröder wants his "alliance for jobs" to meet regularly over the four-year legislative period.

The omens, however, are not promising. German companies expect weaker export growth and a drop in profit margins in 1999, and forecasters say that unemployment in Germany is likely to remain close to 4 million. The decline in unemployment, which has been falling throughout 1998, ended in November when the number rose from 4 to 4.113 million.

A $1.1 billion government-backed program to place 100,000 young people in employment beginning in 1999 will relieve tension in the labor market. However, economists predict that this beneficial effect would be "limited or perhaps even offset" by the ending of other government employment-creation programs.

During Germany's six-month EU presidency and the launch of the euro, the new German government will advocate joint European action on energy taxation to provide political cover for its plans to push through politically unpopular increases in gasoline and other taxes in order to make German labor costs cheaper. Lafontaine's urge for harmonization of tax rates across the EU has put him on a collision course with the UK government. Such taxes threaten to push the United Kingdom's attractive average tax rates up to Germany's high levels. While Germany is pressing for harmonization of taxes in the EU, its leaders have blocked all discussion of any increase in Germany's low VAT rate of 16 percent because the government fears that a rise would slow consumption and hinder creation of new jobs.

Another simmering EU issue remains Germany's frustration with its disproportionately large contribution to the EU budget. In a government statement, Chancellor Schröder pressed for a net contribution cut from the $13 billion a year Germany pays now.

—Wanda Menke-Glückert

ATHENS

GREECE'S NEXT COMMISSIONER

Two upcoming Socialist politicians are competing to be nominated as Greece's next European commissioner. The frontrunner is George Papandreou, the deputy foreign minister and son of the late prime minister Andreas Papandreou. But Anna Diamantopoulou, deputy minister for development, has been mounting a strong challenge for the post.

The Socialist prime minister, Costas Simitis, plans to replace the incumbent, Christos Papoutsis, who holds the Commission's energy portfolio. Papoutsis has sometimes criticized the Simitis faction in the Panhellenic Socialist Movement (Pasok) and does not belong to the group of *eksynchronistes* (modernizers) who are trying to bring Greece's economy in line with the rest of the European Union.

Government advisers say Simitis wants the job to go to a youngish member of the modernizing faction. The commissioner's post already carries considerable status in Greece, but as the country's prospects for becoming the twelfth member of the euro zone improve, it is becoming more significant.

Greece was excluded from the founder group of euro members because it could not meet the economic criteria for membership. But it has made rapid progression reducing the budget deficit and public debt over the past year and hopes to achieve the remaining targets—reducing inflation and long-term interest rates to levels close to the euro zone—by the end of this year. That would allow Greece to join the euro zone in January 2001.

Getting closer to the EU is a priority for the Simitis government, and the choice of commissioner will reflect that policy. George Papandreou already has a track record as a consensus-seeker in domestic politics. He played an important role in uniting the different factions in Pasok behind Simitis after his father's death in 1996.

Papandreou, who gave up an academic career as a sociologist to run for parliament with Pasok in the early 1980s, served as a junior foreign affairs minister and also held the education portfolio in his father's government. He helped build bridges with the Greek-American community and other diaspora Greeks before focusing on European affairs.

Since Simitis took over, Papandreou has worked on improving Greece's relations with its Balkan neighbors. But he is also a familiar figure at EU councils where he often stands in for Theodoros Pangalos, the foreign minister.

Papandreou says Greece is "shouldering an important burden of trying to promote European institutions and values" in the Balkan region. "We're trying to create a common vision for the region, getting beyond the ethnic problems and divisions to seeing all these countries eventually joining the EU."

His rival for the commissioner's job has a low profile abroad but has earned respect at home for taking a practical approach to the problems of loss-making state-owned corporations. Diamantopoulou, a civil engineer from northern Greece, worked her way up through the Socialist Party ranks. At the development ministry, she is in charge of privatizing a group of debt-burdened companies and seeking new investment.

Socialist insiders say that if Diamantopoulou fails to get the commissioner's job she is sure of getting promoted in the next cabinet reshuffle. She would remain a strong candidate for the commissioner's post in the future. At the moment, however, the Simitis government has so few women members that the prime minister cannot afford to lose Ms. Diamantopoulou to Brussels.

—Kerin Hope

ARTS & LEISURE

BOOKS

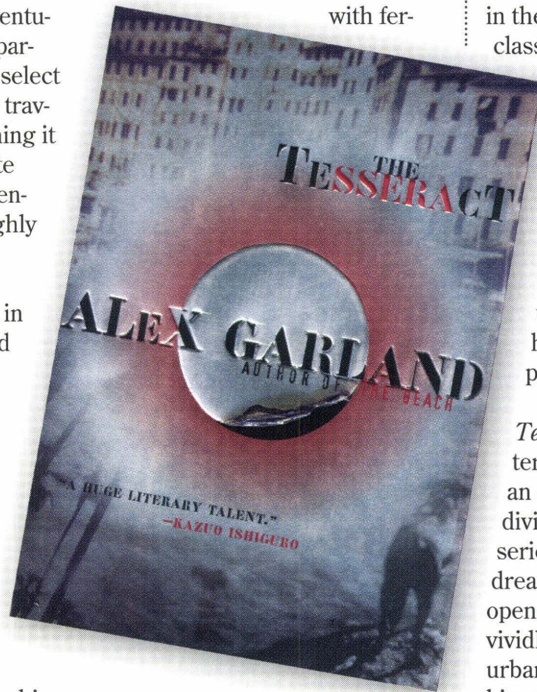
The Tesseract

By Alex Garland; Riverhead Books; 273 pages; $25

In 1996, British writer Alex Garland's debut novel, *The Beach*, proved to be nothing short of a phenomenon. It spins the adventure of a young traveler in Thailand searching for and eventually finding a beach paradise inhabited by a select community of fellow travelers and then watching it gradually disintegrate around him. It is an engaging, complex, highly charged work that reads like a film and was critically lauded in the United States and throughout Europe. The twenty-eight-year-old Garland earned widespread praise from several prominent authors. Booker Prize winner Kazuo Ishiguro, wrote, "*The Beach* will be remembered down the years not as a neo-hippy cult hit but as our first glimpse of a huge literary talent." Throughout the United Kingdom it was nearly impossible to board a train or a bus without seeing a twenty-something hunched over a copy. Garland won the prestigious Betty Trask Award in 1997 for the best first fiction by a young writer.

Danny Boyle of *Trainspotting* fame is directing a film version of *The Beach* starring Leonardo Di Caprio (controversially awarded the lead role ahead of Scottish actor Ewan McGregor). Given the star power behind the film, it seems destined to broaden Garland's audience and further entrench him as the cause célèbre of the literary media and British style magazines.

Against this backdrop, both fans and critics have awaited his second release with fervent expectation. *The Tesseract* (the title refers to a fourth dimension the human mind cannot comprehend) proves to be a mature work, establishing Garland's reputation as a lucid and fascinating storyteller.



The story revolves around the shooting of a *mestizo* gangster named Don Pepe in Manila by Sean, a paranoid adrenaline-fueled Englishman. The incident and subsequent action, however, is viewed from countless different perspectives with no central character nor a linear narrative to aid the reader.

As Sean is pursued on foot through the dark streets of Manila by the henchmen of the mestizo, we are introduced gradually to other characters, seemingly unlinked to the shootings except for the fact that they live in the same city. A middle-class family with a disturbing hidden history overhears the gunshots nearby, and two street children who become witnesses to Sean's attempted escape. Garland interweaves the lives of all the characters as they hurtle toward the suspense-filled finale.

Garland drives *The Tesseract* with his characters. He gives the reader an overall image of each individual using flashbacks, a series of memories and dreams set in bright, wide open spaces, which contrast vividly with the modern urban nighttime claustrophobia of Manila. This method initially unsettles the reader but gradually becomes rewarding as the characters are carefully revealed while the devastating 'real-life' events unfold.

Under what must have been tremendous pressure given his early reviews, Garland has responded with a strong second novel that will fare well on its own as well as in comparison to its predecessor.

—*Stuart Egan*

This Blessed Plot: Britain and Europe from Churchill to Blair

By Hugo Young; Overlook Press; 360 pages; $35

The history of Britain's relationship with the European Union is an unhappy one. Twenty-five years after entering the club, the British still view membership with ambivalence and suspicion.

Hugo Young, chief political columnist of the *Guardian*, has produced a superb account of this tortured relationship and the missed opportunities that followed. His book, which was released in the UK in November and which will be published in the US in May, combines genuine scholarship with narrative verve. He grapples with the essential question that has preoccupied us for more than a generation: Is Britain a European country?

In 1945, a victorious Britain placed itself at the intersection of three circles representing the United States, the Commonwealth, and Europe, in that order. The British elite viewed continental Europe's first efforts at closer cooperation with weary disdain. One Foreign Office document warned that Britain should not "chain itself to a corpse."

A sea of cynicism swallowed up most dissenting voices, but one notably prescient memo appeared in 1949. The author was Sir Henry Tizard, chief scientific adviser at the Ministry of Defense. "We persist in regarding ourselves as a Great

Power," wrote Sir Henry, "We are not a Great Power and never will be again. We are a great nation, but if we continue to behave like a Great Power, we will soon cease to be a great nation."

Britain failed to join the original six at the Treaty of Rome. When the government woke up to the significance of the new European Economic Community, it was too late. De Gaulle cast his humiliating veto. Britain had to wait another fifteen years for membership.

As Young points out, the proponents of membership were also riven by inner ambivalence and woolly thinking. They were less than candid with the public about the political obligations of membership, preferring instead to stress its economic benefits.

The real transfer of sovereignty—to the European Court of Justice and the European Commission—was left unaddressed. Instead, the government muddled through in a mistaken belief that somehow the British could have it both ways: cooperation without the institutions of cooperation, which would inevitably constrain the freedom of maneuver.

Hugo Young draws several sharp pen-portraits of the chief characters in his drama: the slippery Labor prime minister Harold Wilson; the loner Edward Heath; the majestic but increasingly manic Margaret Thatcher, whose obsession with Europe led to her downfall; the vacillating and tormented figure of John Major.

He offers many revealing anecdotes. My favorite turns on the run-up to Thatcher's infamous Bruges speech in 1988 when she denounced Jacques Delors. The first draft talked about Britain alone having saved Europe from "Prussian domination" and contrasted the success of the British Empire by comparison with the imperial failures of France, Spain, Portugal, and Holland.

Back came a pained reply from the private secretary to Sir Geoffrey Howe, then foreign secretary. The minister does not much like suggestion that the British were better colonialists than the Europeans. Indeed, "is it not a fact anyway that we lost our North American colonies before Spain lost her South American colonies?"

The striking impression reading this book is how little has changed. The arguments about membership in the EEC in the 1950s and 1960s are as familiar as the arguments about membership in the single currency in the 1990s: whether to be outside looking in or whether to be inside shaping a joint project, whatever the risks.

Tony Blair says he wants the British to adopt a more constructive approach, but he has still to spell out a timetable for joining EMU—the EU's key project. If there is a lesson, it comes at the end of this book. The EU exists. It has survived for many decades. Europe's leaders are committed. It is time for the British to exorcise their demons and come to terms with membership.

—Lionel Barber

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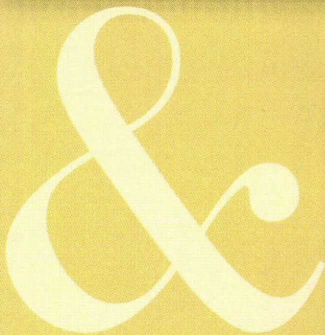
On May 9, 1950, French Foreign Minister Robert Schuman (left) announced a plan, conceived by French businessman Jean Monnet (right), proposing to pool European coal and steel production under a common authority. Six countries—Belgium, France, the Federal Republic of Germany, Italy, Luxembourg, and the Netherlands—signed the European Coal and Steel Community Treaty on April 18, 1951. The Schuman Declaration was regarded as the first step toward achieving a united Europe.

Almost half a century later, the Dutch President of the European Central Bank, Wim Duisenberg, announced the introduction of Europe's new single currency—the euro—marking a further step toward achieving a united Europe. On January 1, 1999, the euro became the single currency for eleven of the fifteen European Union nations.



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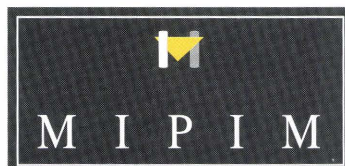

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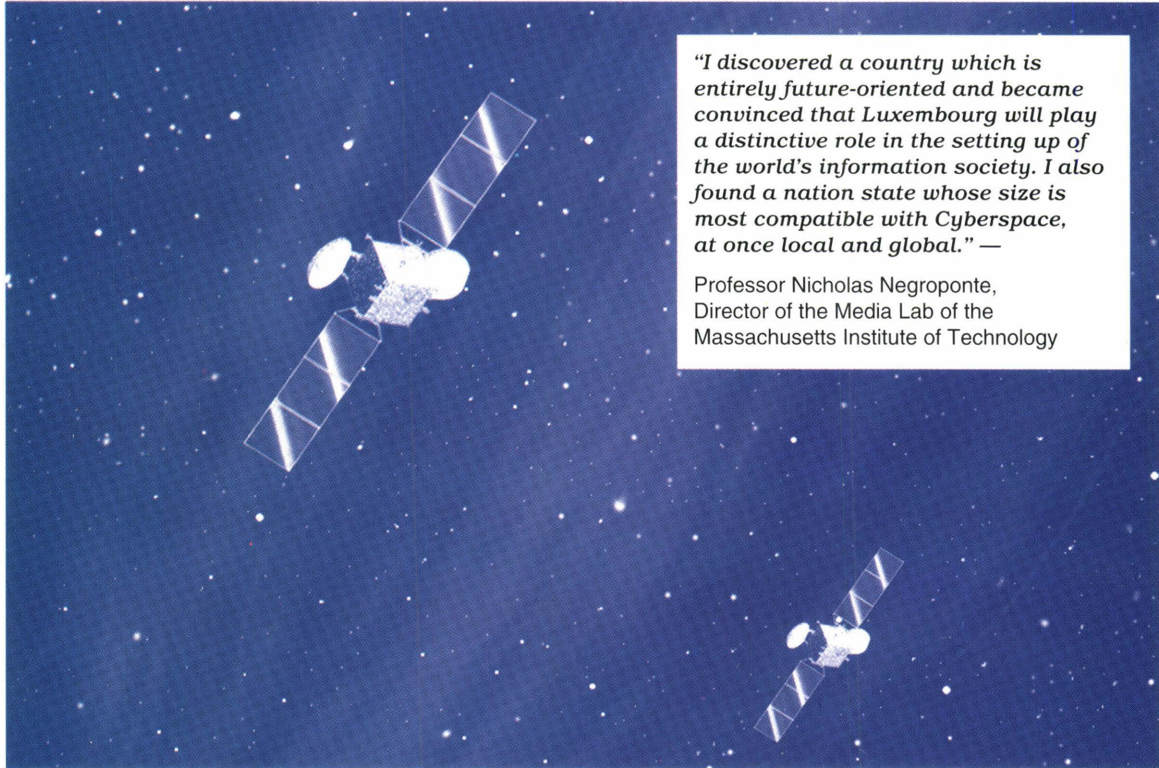

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