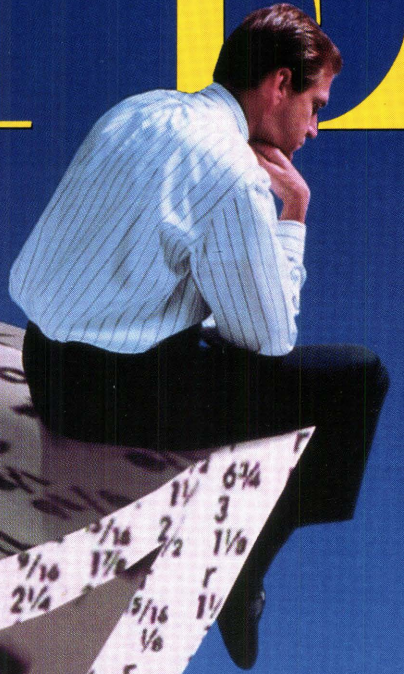


# EUROPE

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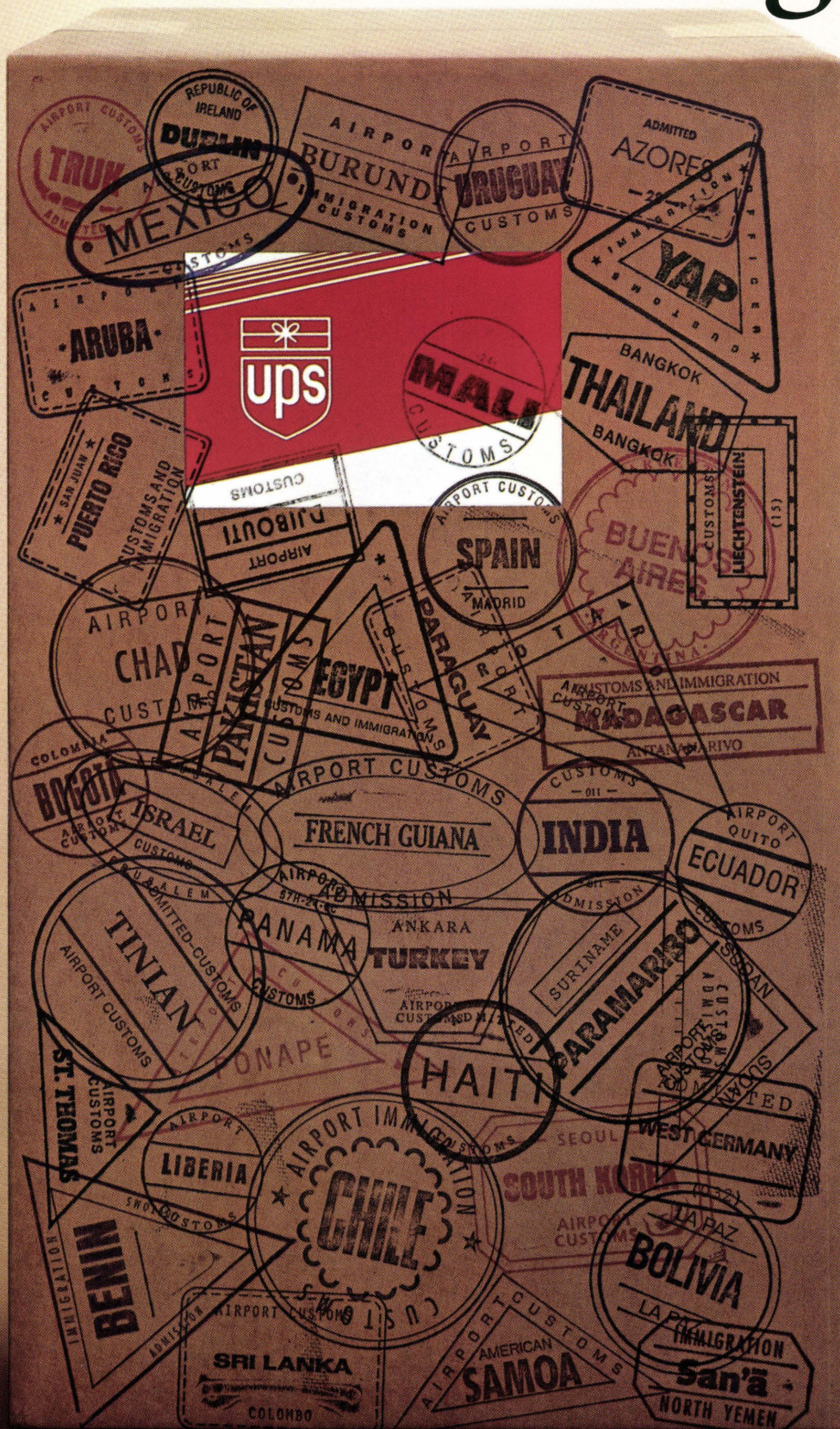
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SEAN KELLY

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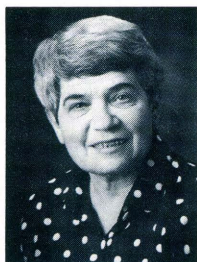
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# Letter From The Editor

# E

ASTERN EUROPEAN COUNTRIES are striving, struggling, and searching for new ways to establish successful market economies and democratic governments. One year after the dramatic revolutions that succeeded in toppling their communist rulers, the individual countries are taking different routes to try and solve their massive economic problems.

*Europe* takes a first-hand look at these countries and at their progress one year later. Even though their problems have been compounded by the Gulf crisis and the lack of large-scale immediate Western investment, Eastern European leaders are still optimistic about their long-term economic and political prospects.

The Czechoslovakian and Hungarian Ambassadors to the United States present their very candid views and opinions to our readers in exclusive interviews.

Rita Klimova, the Czechoslovakian Ambassador, is outspoken about the future of Central Europe, Czechoslovakian-U.S. relations, the reasons for the success of the "Velvet Revolution," and the role music played in the country's successful revolution.

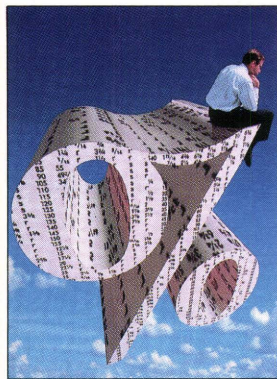
Peter Zwack, the Hungarian Ambassador, talks openly about his country's troubles and calls for large-scale Western investment in Hungary. The Ambassador gives a convincing argument for investing in his nation.

Amy Kaslow, who covers Eastern Europe for the *Christian Science Monitor*, explores the changes that have taken place in the last year and explains how difficult it has been for Eastern Europeans to absorb such rapid change in their daily lives in such a short time. *Europe* also looks at the cities of the East in a business guide to the region, at the emerging "free press," and at privatization, convertibility, and future "hard" currencies in Eastern Europe.

Richard Longworth, *Chicago Tribune* bureau chief in London, gazes into his crystal ball to find out what countries might become members of the E.C. down the road.

Our member state report focuses on France. Reginald Dale, based in Paris as the economic and financial editor of the *International Herald Tribune*, points out that, while the French economy is strong, the French are in a period of reassessing their role in the world. Dale analyzes France's military role in the Gulf, while Ester Laushway describes France's celebration of the 100-year anniversary of Charles de Gaulle.

Finally, our book review section is expanded for this issue to bring you updates on the latest books published on Eastern Europe.



COVER: Eastern Europeans ponder their economic future. © Ron Lowery/tony stone worldwide

Robert J. Guttman

Robert J. Guttman  
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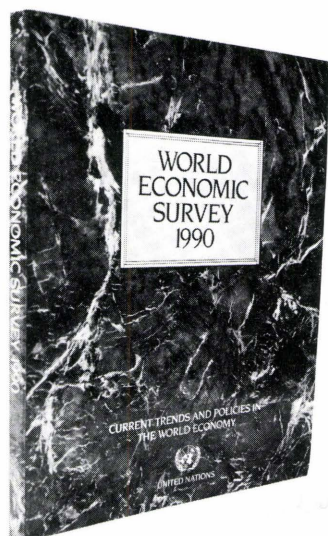
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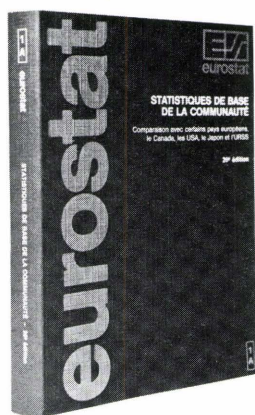
### World Economic Survey 1990

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### World Economic Outlook October 1990 International Monetary Fund

The definitive report of world developments in economic policy, output and employment, inflation and commodity prices, exchange market developments, and trade and payments.

Higher oil prices will weaken world economic output in 1990-91, but the impact of the latest oil shock is expected to be less severe than earlier ones in the seventies. A trend towards a slower growth rate in the world economy is confirmed, with the exceptions of Japan and Germany. External debt of developing countries is projected to increase by 9 percent in 1990-91.

The *World Economic Outlook* contains these projections and numerous others derived from extensive research by the staff of the International Monetary Fund. It takes into account the uncertainties surrounding the Middle East and suggests that the economic consequences of events could be more serious than estimated in the projections.

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# EUROPEAN

## COLUMBUS DAY, SPANISH STYLE

**Spain, too, celebrates  
Columbus Day.**

Although Columbus was actually born in Genoa, Italy, Spaniards consider him their "native son" since Spain's Queen Isabella provided him with the financial backing that enabled him to reach America after over two months of indefatigable struggle against the Atlantic.

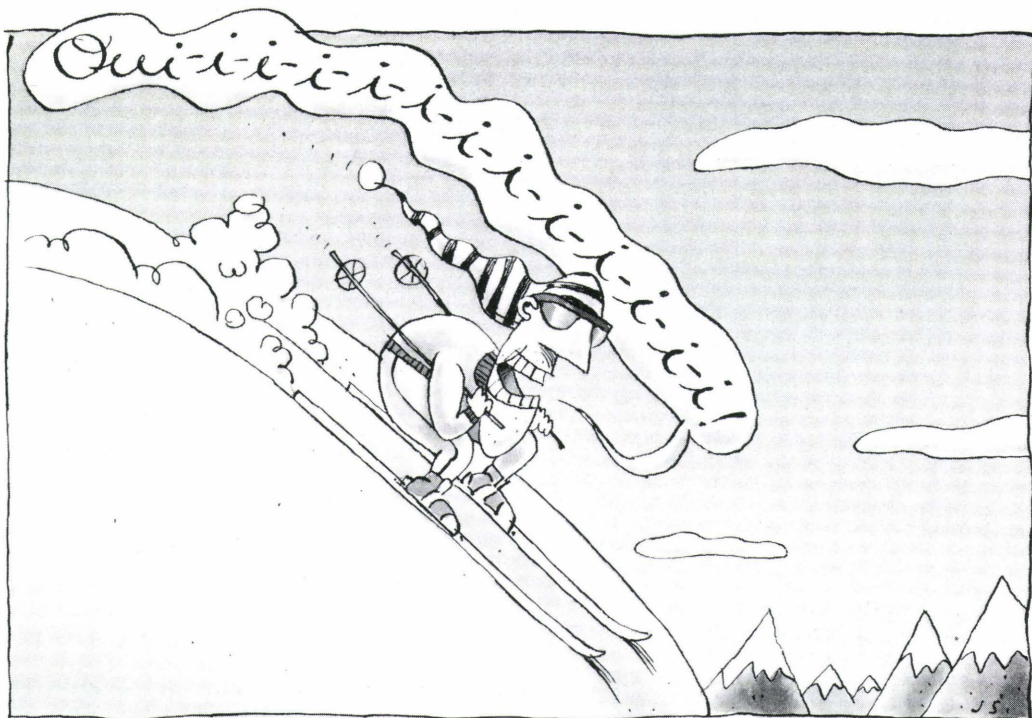
The two countries celebrate the occasion differently, however: In America, Columbus Day always falls on a Monday; Spain stays true to the actual date: **October 12**.



# Paradise in Eastern Europe?

The resorts around Hungary's Lake Balatin, the largest lake in Western and Central Europe, are already large tourist attractions for Eastern European vacationers.

Will Lake Balatin now also become the preferred choice of Western Europe's elite? Open year-round, there are plenty of activities for all, including water sports in the spring and summer, ice skating in the winter, and prestigious international conferences and cultural events in the fall. To entice visitors, the Hungarians have published a provocative travel brochure advertising its tourist resorts.



# Learn French on Skis!

Now you can learn French in Mègève in the beautiful French Alps as you ski! A company called "The French Connection" has announced a new and original language vacation that

includes intensive morning language classes complemented by magnificent afternoon skiing. In the evenings, participants can frequent nearby jazz clubs, casinos, cinemas, and discos. A two-

week stay between January and March 1991 costs \$1,840, and includes accommodation and board, French lessons, an unlimited ski pass, and the international ambiance of Mégève.

**ROYALTY HAS ITS PRIVILEGES!—**

At the top of "Fortune" magazine's list of billionaires are three members of European royalty: the United Kingdom's Queen Elizabeth II (\$11.7 billion); Gerald Grosvenor, sixth Duke of Westminster (\$5.4 billion); and Queen Beatrix of the Netherlands (\$4.4 billion). Other notable Europeans in the "Billionaire Club" include:

- Italy's Giovanni Agnelli (39.4 percent of the Fiat Group, \$4 billion);
- Germany's Johanna Quandt (67

percent of BMW, \$4 billion):

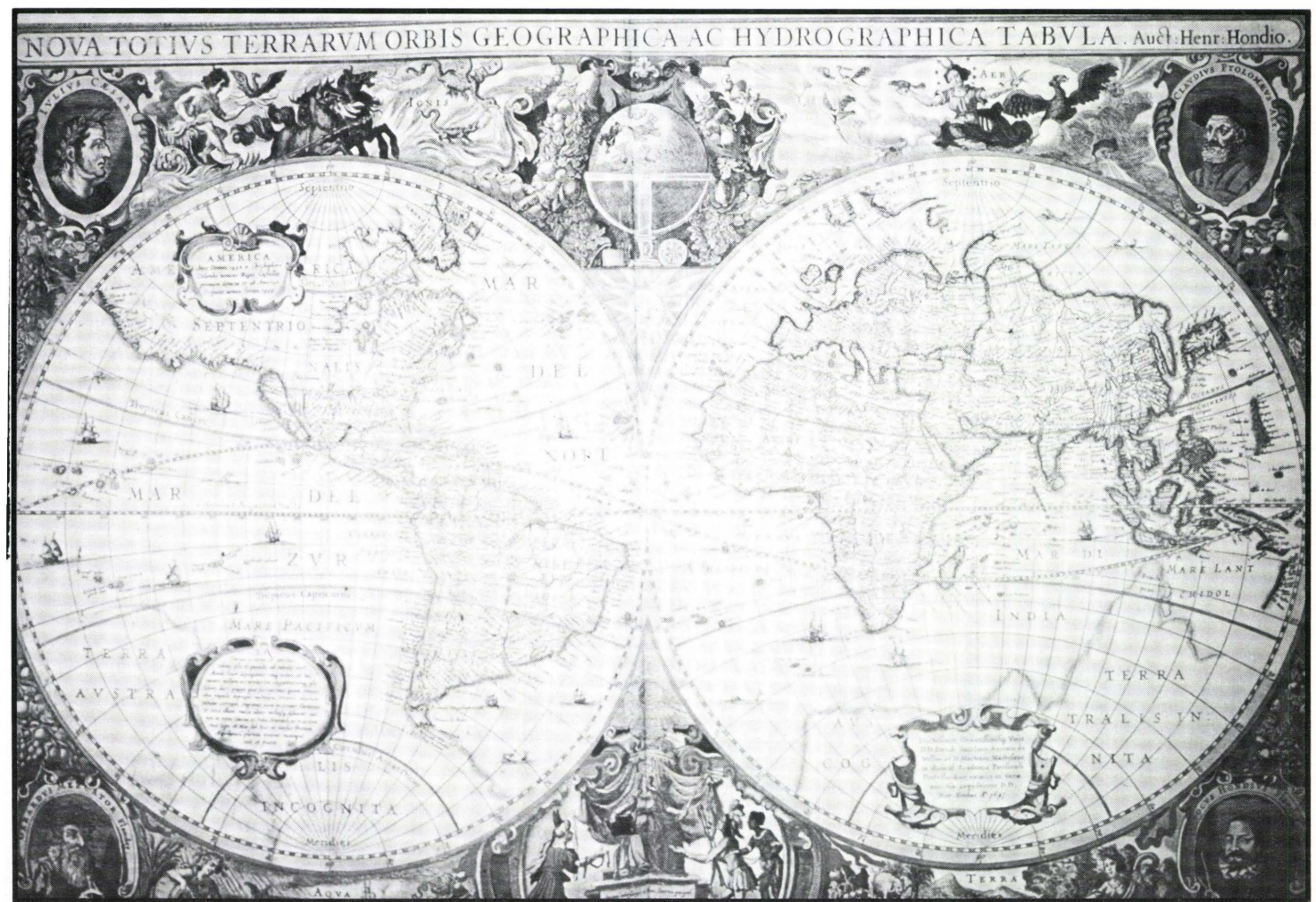
- Germany's Karl Erivan Haub (all of the supermarket chain Tengelmann AG, 53 percent of Great Atlantic & Pacific Tea Company (A&P supermarkets), \$2.9 billion);
- Italy's Carlo de Benedetti (41 percent of computer producer Olivetti, \$2.7 billion);
- Spain's Esther and Alicia Koplovitz (98 percent of the construction firm Construcciones y Contratas, \$2.2 billion);
- France's Liliane Bettencourt (25

percent of L'Oréal, and 4 percent of Nestle, \$2 billion);

- **Belgium's Michele Ferrero (80 percent of confectioner Ferrero, \$1.5 billion);**
- **Italy's Benetton family (81.3 percent of Benetton SpA, \$1.2 billion);**
- **Germany's Reinhard Mohn (89.3 percent of media conglomerate Bertelsmann AG, \$1.2 billion);**
- **France's Max Schachenmann (100 percent calcium carbonate manufacturer Pleuss-Stauffer, \$1 billion).**



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# EASTERN EUROPE

# 1 YEAR

## MASSIVE ECONOMIC TRANSFORMATION NOW UNDER WAY

**A** year after the sweep of political revolution in Eastern Europe, former Soviet satellites are now engaged in much more measured change—that of economic transformation.

In Czechoslovakia, Hungary, and Poland, whose economic systems are still dominated by the state and cooperative sectors, the political will to move away from subsidies and baseline, mediocre production, and toward decentralization and competition is strong. Reforms in Bulgaria and Romania, on the other hand, are retarded by a confused political landscape and adversity to change.

Those nations now anxious to integrate into the world economy recognize that market economics must be more than a refrain, and that they must become a reality for successful democratization. Recent events, and those in the near future, pose particular challenges to the emerging democracies. German unification, the Gulf crisis, and the disintegration of trade among members of Comecon (the Council for Mutual Economic Assistance, also known as CMEA) could dramatically alter the economic “shock programs” under way in the region.

Germany, an historically strong link between East and West, is now focused on itself. With fists full of German marks, former East Germans now prefer to buy goods from the West, and Poland,

Czechoslovakia, and Hungary have lost an important trading partner. German capital is largely tied up in the costs of binding the newly united country, but the Germans are well poised to enter Eastern European markets and to invest in their firms. However, mindful of Germany's future economic might, nationals from Warsaw to Prague also anxiously solicit participation from other European, American, and Asian businesses.

Oil price hikes in recent months have only exacerbated the East's financial woes. As of January 1, 1991, the Soviet Union—the principal supplier of Eastern European energy and purchaser of Eastern European goods—will demand hard currency at world market prices for its oil and gas exports.

Seemingly undaunted by the magnitude of their repair work, Eastern European governments are feverishly reforming their fiscal and monetary policies. Plans to dismantle the overburdened state-owned enterprises (SOEs) are under way, and governments are considering schemes to relieve themselves of assuming both ends of the buyer-supplier relationship. Their common goal is to propel their goods and services into the international market and to develop a stable economy at home.

### Privatization Prospects

The first practical order of business in all of the reforming countries is to pare down excessive government control over inefficient industries and agricultural production. Also, they all lack local money to purchase SOEs. International capital is needed, but would-be foreign investors are receiving a mixed welcome.

**W**estern commercial and investment banks have been beckoned to **Hungary**, for instance, to play a major role in privatizing the country's biggest state-owned firms. Istvan Tompe, former managing director of Hungary's State Property Agency, recently told a group of foreign bankers gathered in Washington that 50 to 80 companies will be on the auction block during the next year.

This may be an opportunity for Budapest officials and their commercial bank creditors to orchestrate some innovative deals, since over 80 percent of Hungary's \$20-billion debt is owed to commercial banks. But Tompe and other Hungarians warn of local resentment toward foreign purchasing power. “It's a problem of privatization that we need foreign capital . . . When it comes in, many people don't like it.”

Hungarian Finance Minister Ferenc Rabar is one who would probably like to discount the idea of retiring old debts to commercial banks in return for equity in Hungarian enterprises. He favors employee ownership options and company sales to local communities—in essence a Hungarian operation. This is just one area in which domestic debate continues in Hungary concerning the pace of reforms.



**C**zechoslovakia's Finance Minister Vaclav Klaus is trying to overcome what he sees as major obstacles to reforms—the lack of property rights, of local purchasing power, and of a pricing structure. Earlier this year, he launched a radical privatization policy, geared toward awarding ownership to the private citizen rather than raising cash for the government treasury.

Czechoslovakia's history of conservative fiscal and monetary policies has kept the country's borrowing to a minimum. Today, its debt is roughly \$8 billion. The strong industrial base is in a competitive position, especially if military production is successfully turned into civilian production. But its new and important membership in the International Monetary Fund (IMF) and the World Bank as of September 1990 calls for a more cogent program with a single voice.

**E**ntering the second full year of radical planning, Poland's Parliament recently passed a privatization resolution for employee ownership. According to the law, workers are entitled to a 50-percent discount on stock from the company for which they work. This is good for up to a year after the company goes public, and on a limited basis. A pricing structure is also being established.

Unemployment is rising steadily, a natural by-product of economic restructuring. Polish Finance Minister Leszek Balcerowicz recognizes the importance of speed in implementing his shock program. In addition, although the minister has sustained the public's endurance thus far, Polish patience for reforms always seems to be at a low ebb.

Warsaw is anxious to reduce the \$40-billion debt it owes mostly to

### International Assistance

Despite these needs, says an economist with the U.S. Export-Import Bank, "Hungarians, Czechs, and Poles, for example, are not anxious for foreign commercial banks to own their country's corporate resources." He adds that "banks don't like to be equity holders; they're not in the business of running things. Banks want fee income and quick turnaround. They want to own property and sell it off quickly if there are legitimate buyers at the end of the process. Otherwise, they're swapping one risky paper for another."

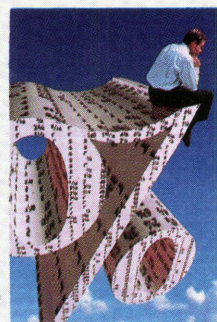
German institutions have the longest history of East-West trade and finance, and, to date, over 30 German banks have established a presence in the East. Even with the financial strains of unification, these banks won't give up their dominant role as deal maker between East and West, but rather will capitalize on it.

In the short term, it may not be what the commercial banks offer in terms of fresh credit to Eastern Europe as much as what they are willing to take back in terms of debt. Hilmar Kopper, chief of Deutsche Bank, Germany's largest commercial bank, is a strong proponent of debt reduction for Poland. He has singled out this country by asking governments and commercial banks to assume their "fair burden of sharing," he says, because Poland ranks above all other debtor countries in "mobilizing political goodwill in the West."

The International Finance Corporation (IFC), a World Bank affiliate, matches international investors with a burgeoning private sector in developing countries. It has been active in Hungary since 1985, and in Poland since 1989. The IFC assists both countries in privatizing,

• B Y A M Y K A S L O W •

# LATER



official creditors. Balcerowicz is shuffling back and forth from commercial to official bankers, asking for relief, and reminding them of the drop-off in German trade, the slowdown in Soviet-Polish deals, and the exorbitant costs of imported oil.

Of all the slow reformers, including Bulgaria, Yugoslavia, and even the Soviet Union, **Romania** still remains beyond the pale.

At a great cost to the country's vitality, the Bucharest Government has ruthlessly worked its population to wipe out its foreign debt. Only some bills owed to various export credit agencies now remain.

Almost a year after the fall of the Communist regime, however, the internal debate concerning the abandonment of old policies continues. National Salvation Front Prime Minister Petre Roman recently declared to Parliament that the economy was on the verge of collapse, but that he was ill-prepared to implement many of the reforms he had called for.

Despite the country's creditworthiness, there is no reservoir of support for Romania in the international financial community. Finance Minister Theodor Stolojan has asked overseas bankers, investors, and governments to funnel \$1 billion a year into the beleaguered economy. But bankers may be more disposed toward channeling funds to indebted countries like Hungary and Poland, rather than debt-free Romania.

banking, and attracting foreign investors to export-oriented firms, cooperatives, larger industries, and new developments such as tourism—all designed to reap precious foreign exchange. The IFC's two Eastern-oriented offices are in Vienna and Warsaw, and it will soon commence work in Bulgaria and Czechoslovakia with joint-venture projects.

The European Bank for Reconstruction and Development (EBRD) may provide a strong stimulant to Eastern Europe's newborn private sector. Sixty percent of its work will focus on private, rather than state, projects. The remaining 40 percent of its work will help the public sector in areas such as education, health, and communications. The E.C. will be the majority shareholder in the total capital of \$12 billion. The United States will hold 10 percent.

It took more than 40 years to bring about the political changes that took place in Eastern Europe in 1989. These newly free countries do not have the luxury of waiting that long to transform their economies. They are feverishly working against the clock to install workable free-market systems. €

Amy Kaslow reports on domestic and international economics for the *Christian Science Monitor*.



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*Rita Klimova, the very personable Czechoslovakian Ambassador to the United States, talks candidly about the 1989 Velvet Revolution, her country's current economic situation, hopes for E.C. membership, and relations with the United States. She also discusses the Soviet Union in our exclusive Europe interview.*

*Klimova, a former economics professor, who served as President Vaclav Havel's translator when he took over the reins of Government, spoke with Robert J. Guttman at the Czechoslovakian Embassy in Washington, D.C. in September.*

**Alexander Dubcek has stated that Czechoslovakia would probably become a full member of the European Community by 1991. What are your comments?**

I think that's too optimistic, but I'm glad he's optimistic. It's good news, but I don't think that the E.C. would have us now

**ciate membership?**

Yes, associate status and especially political ties and contacts. These would be very positive, but we should be realistic about our economy, about what is happening, and about what hasn't happened yet.

**What is happening with your economy?**

The important date will be January 1, 1991, when many laws will go into effect. But, 10 months after the political situation radically changed, there are still no private shops or private restaurants along the main streets of Prague. The former can be counted on the fingers of two hands, the latter on those of one hand, but that's still negligible in an area where, theoretically, it should be so easy to set up small-scale businesses, such as pizza parlors.

**How are you trying to introduce entrepreneurship? What will the new laws do?**

A recent quote in "Newsweek" says: "Ten months into the Czech revolution, communist state planning remains almost the same." Is this true?

I'm afraid it is. However, on another subject, Czechoslovakia has a long tradition of monetary conservatism—a blessing, I would add.

**How does it feel to realize you are now part of the Government?**

Wonderful. It's very nice to wake up in the morning and know that our problems are entirely different. But things are very complicated. People have some 40 years of communist rule behind them. Before that, except for a very brief intermission, we had Nazi rule. So, really, after almost 50 years, people have forgotten how to be entrepreneurial, to take risks, to work hard.

Everybody has commented on the fact that things are so pressing at home. Yet

## *Czechoslovakia's Ambassador to the United States*

# • R I T A • KLIMOVA



PHILIP BERNINGHAM

purely for economic reasons.

**Is one of Czechoslovakia's goals to become a member of the European Community?**

Absolutely. Who wouldn't want to be a member of the European Community? That would signify a full-fledged and functioning market economy.

**When do you realistically see Czechoslovakia joining the Community?**

I don't know. For political reasons, the E.C. may dispense with some of the demands it makes on Eastern European countries. That would be very nice, but somehow I don't see it doing that. To achieve a full-fledged, functioning economy comparable to that of Austria, or any of the other members for instance, will probably take five to eight years, if not more.

**In the meantime, do you see any type of asso-**

There has to be a law on taxes. That is very important. You can't have people, uniform accounting procedures, foreign capital, and foreign help in starting ventures without new laws. But only now is a consensus emerging about the necessity of a fast-moving radical reform.

**Do you think that something like Poland's economic shock treatment should take place in Czechoslovakia?**

I hope so. That is the scenario, except that we have much better conditions than Poland. We have equilibrium on many markets; if it's done right, we don't need to touch rock bottom like Poland. But we cannot avoid—and this is my opinion—fairly large-scale unemployment. And consensus is only now emerging among the economists on that issue. Among the politicians and the population, that consensus still has to be formed.

the Parliament was duly elected, voted itself very large salaries, and went off on vacation. Everybody else went off on vacation, too, so the Parliament only did what the population does. Despite pressing matters, a large number of people went abroad because it was allowed.

**What American companies are investing in your country?**

A number of contracts have been concluded with General Electric, U.S. West, Bell Telephone, and others. Although there have been some problems, these are at a fairly advanced stage.

**Is one of the goals of the new Government to bring in foreign investment?**

Absolutely. Certain joint ventures and private enterprises are completely foreign-owned. But we are now negotiating a



# Privatization

While in Washington for the International Monetary Fund (IMF) meetings in September, Czechoslovakian Finance Minister Vaclav Klaus spoke to *Europe* about his country's road to privatization.

Klaus described privatization as "a process of transforming property rights," in which "there are two steps—two independent Transformation Acts. One of them is the Small Privatization Act; the other is the Large Privatization Act." Klaus emphasized that he hoped the privatization of small businesses would start *now*... "before Christmas... this year... very quickly."

Klaus said that "it is more difficult, more complicated, to privatize a large firm than a small repair shop." State-owned enterprises (SOEs) are being transformed into joint stock companies owned by the Czechoslovakian Government as the first step in the privatization process for large enterprises. Following are the three parts of the privatization process.

- **Step One** is the sale of shares of government-owned joint stock companies to the citizens of Czechoslovakia in return for "vouchers." Klaus explained that the vouchers are a crucial part of the privatization plan. "Because of the lack of domestic capital," he told IMF participants, "... we plan to augment the wealth of the population by distributing a part of the state's property in the form of free (or nearly free) vouchers to the public at large. The vouchers will be used as claims for shares of state-owned enterprises."

- **Step Two** envisages the sale of shares of the state-owned enterprises to Czechoslovakians and Czechoslovakian companies.

- **Step Three** foresees the sale of SOE shares to foreign investors.

The Office of Privatization in the Ministry of Finance is preparing the legal structure within which privatization can take place. Commissions on privatization would be set up at the federal, republic (Czech and Slovak), and municipal levels. The industrial sector is expected to privatize first, followed by the service sector.

—Elizabeth Robinson

protection of investment treaty with the United States that hasn't yet been signed. However, we have already signed a trade agreement and are about to get most-favored-nation status.

**Looking back, why was 1989 the year that saw Eastern Europe change? Why was the revolution peaceful?**

We were afraid of a regime that proved to be a house of cards. The communist system in the Soviet Union and elsewhere just ceased to function. Some Americans said: "We Americans won." I don't think that's right, it wasn't a demonstration of the capitalist system. This experiment with human guinea pigs, which had been going on for 70 years, was only winding down and, in 1989, it became clear that Soviet tanks would not roll in the streets of Czechoslovakian cities.

**So, do you think that, in 50 or 100 years, communism will just have been a passing ideology?**

It will have been an aberration in experiments with social engineering.

**What will Czechoslovakia look like in 2000?**

In the year 2000, I hope we'll be along the road toward full-fledged E.C. membership, that we will have a functioning economy, and that between now and then no convulsions or painful events will occur.

**How is the Persian Gulf crisis affecting your country?**

The immediate effect has been a loss of foreign currency for arms exports. Iraq was one of our trading partners; we had tanks ready for delivery, but we have now joined the boycott of Western countries. We have very serious problems with oil. Oil production is declining, and we have been completely dependent on the Soviet Union.

**When do you hope to have a convertible currency?**

Internal convertibility will begin on January 1, 1991. This means that you cannot take your profits out of the country immediately and is one of the aspects to be negotiated with the United States in the protection of foreign investment treaty. To my knowledge, Czechoslovakia and the United States are at the bargaining stage, but our side was in favor of letting hard-currency profits be exported immediately. Soft-currency profits, on the other hand, meaning ruble profits or whatever, can be exported only during a

period of five years, and only 20 percent of invested capital can be converted into hard currency during one year.

**What's the official name of Czechoslovakia?**

The Czech and Slovak Federal Republic, which is a bit cumbersome and long.

**Why did you change it?**

Because the Slovaks felt that they wanted a capital "S" in there. So, first they added a hyphen, which was cumbersome and not satisfactory for the Slovaks. We are having many problems in that area now.

**That leads to another question: Now that communism is withering away, what will happen to the Czechs and the Slovaks? Will you stick together?**

Yes. We will stay together, but the federation will probably be much weaker... or stronger. There's a slogan now saying that a strong federation requires strong national republics, which, to my mind, is dialectical nonsense. My understanding is that a minority in Slovakia is being very vocal and very loud and wants an independent Slovak National State.

**Do you see Prague once again becoming an intellectual capital, now that you have new freedoms?**

I hope so, but I'm doubtful about a sufficient number of government subsidies for all this. There is much discussion about this. Our President, of course, feels very strongly about the theater. Our Minister of Finance feels very strongly against all kinds of subsidies. Publishing, for example, is undergoing a very difficult period because it doesn't get government subsidies; the cost of books is therefore skyrocketing.

**What kind of economic system would you like? Would it be like that of the United States or more like Western Europe?**

The system that the majority of Czechs and Slovaks want is more similar to the Western European model.

**What are you doing to attract foreign investment?**

We've seen a lot of ups and downs in the last 10 months. We're in a down period now because some foreign investors have come away disappointed: The Government hasn't quite got its act together, different Government agencies will tell potential investors different things. These are things we have to change. Our federal and national governments have to be stronger in order to deal with foreign



investors and promise them what they need to invest.

**What do you hope to see with regard to your future relations with the Soviet Union?**

Business, business, business, because quite a sizable share of our foreign trade is aimed at the Soviet Union and is something we cannot just do away with overnight. Our oil comes from there and now we have had quite hopeful negotiations with the Russian Federation, based on which we will give them various consumer goods and machinery in exchange for oil.

**How will a unified Germany affect Czechoslovakia?**

At the moment we have many problems, because the German Democratic Republic was one of our most important trading partners and one of the most important shipping destinations for Czech and Slovak tourists. We are also having problems with the contracts between our factories and those of the former GDR. I think about 12 percent of foreign trade was with the GDR. Now, that area is off limits for us because it's a hard-currency area.

**Do you have any worries about a unified Germany?**

West Germany is a democratic country. The fact that West Germany is absorbing East Germany is positive and it will be a democratic neighbor we can live with. I spent my childhood, during the war, in the United States, not under German occupation like most people of my age who are therefore more apprehensive about a unified Germany. My attitude tends to be more like that of 20- and 30-year-olds, whose only experience of West Germany is of rich tourists who come to Czechoslovakia.

Nevertheless, I think I am apprehensive about them. I want to further U.S.-Czechoslovakian ties in all areas because, if things are left to develop spontaneously, Germany will be such an economic might that there will be a great deal of economic Germanification of Eastern Europe along market lines.

**How would you describe Vaclav Havel?**

He's a good friend of mine, so I don't know how I could describe him. He has incredible political intuition and a huge moral authority in the country. He likes to call himself a non-political politician. He's learning the day-to-day workings of politics by trial and error because there's no other way.

**For an American audience, it's hard to grasp how people survived under communist rule. How was day-to-day living? How did you get through?**

Most people, on the one hand, tried to forget about it by cultivating their weekend houses and their private interests. On the other hand, most people compromised, except for a handful of dissidents who wouldn't, and who went to prison. I was never in prison myself. So I count myself among those who, although I was fairly active in the dissident movement in the final years, have made compromises during my life that I probably shouldn't have made, that were not healthy.

**Was the East-West division unnatural?**

Absolutely. It was very detrimental to Central Europe. I'm a great believer in Central Europe. There is a Central Europe that is very real.

**People talk about rock-and-roll music playing a key role in your revolution? Is this true?**

Yes. Not only rock-and-roll, but again the *Zeitgeist* of the civil rights movement of the Sixties. This period had a very strong influence on an extremely important sector of the dissident movement, including Havel himself.

Civic Forum, the mass movement that formed around Czechoslovakian President Vaclav Havel during last year's Velvet Revolution, elected Vaclav Klaus, currently Finance Minister, as its first chairman.

This appointment comes as a surprise, since the candidate of the movement's council, Martin Palous, was rejected. The reason for this seems to be the decision to move Czechoslovakia more quickly toward a free-market economy. Klaus is an outspoken advocate of radical transformation, although some of his colleagues note that his program contains inadequate safeguards for the economically weak.

## Convertibility

**J**osef Tosovsky, President of the State Bank of Czechoslovakia, feels that convertibility—or the process of making the Czechoslovakian currency (koruna) tradable on the world currency market—will have two phases: limited internal convertibility and full convertibility. Earlier this year, Government officials expected to achieve limited internal convertibility by January 1, 1991, and full convertibility at some later date, probably within five years.

When asked about this likelihood in an interview with *Europe*, Tosovsky replied: "The convertibility for which we are preparing now is [one] of current-account transactions [goods and services bought and sold within a current fiscal year]... not full convertibility, which would include capital account transactions..."

"This convertibility will be only for our companies, not for households. For individuals... we will put some limits on what portion of korunas can be exchanged for touristic purposes... We can't afford to open full convertibility for all participants now. It would be very, very costly."

Because Czechoslovakia is in an economic transition period, no specific date has been set for full convertibility, which would include capital-account transactions and the actual trading of currency abroad. Tosovsky stresses that full convertibility would happen as soon as possible, with limited convertibility as a prudent first step. During this transition, monetary policy will be very restrictive. Tight fiscal and monetary control is meant to limit inflation and is an important precondition before prices are liberalized and convertibility begins.

One of the main tasks for the State Bank of Czechoslovakia—the country's Central Bank—is to reorganize the Czechoslovakian banking system so that it works efficiently. The State Bank is developing the new system in conjunction with the IMF and the World Bank, and through bilateral cooperation.

The new banking system in Czechoslovakia consists of the Central Bank and a system of commercial banks. The State Bank will help create the new stock market and the foreign-exchange market.

Elizabeth Robinson is a freelance writer in Washington, D.C.



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*Free Press Emerges in Eastern Europe*

# “Read All About It”

JAMES D. SPELLMAN ■

**A**S GOVERNMENTS THROUGHOUT EASTERN and Central Europe navigate treacherous courses toward market-based economies, so too the emerging press struggles with the perils of capitalism as journalists and publishers test, define, and exercise their newfound freedoms. Ironically, Adam Smith’s metaphorical “invisible hand” in free markets may actually wield more force in silencing independent voices than did the censors on the front line of communism’s propaganda war.

Since statues of Marx and Lenin began to tumble in the summer of 1989, thousands of newspapers, periodicals, and broadcast stations, which helped sustain underground networks of opposition forces, have become more professional and commercial. In Poland alone, the media renaissance led to 600 new publications in five months—even though the industry was reeling from both tenfold increases in printing costs and plummeting sales as cover prices soared.

Many start-ups in the region, however, retain fraternal ties to their political origins, from labor unions to Social and Christian Democratic Parties to the Greens. Others experiment with joint ventures with the West to gain managerial expertise, modern printing technologies, and hard-currency advertising revenues. Meanwhile, many communist flagship newspapers and broadcast stations lumber on. Some have simply redressed their image, dropping Soviet-style medals, to become more competitive. They still print party pabulum, however; others have sold out to foreign press barons.

Indeed, the West’s press lords are seen as major threats to the development of an independent quality press in Eastern and



Central Europe. Rupert Murdoch’s News International has about a 49-percent share in the Hungarian weekly tabloid *Reform* (circulation: 500,000) and its evening daily *Mai Nap* (75,000). His rival, Robert Maxwell, took 40-percent stakes in the Hungarian morning daily *Magyar Hirlap* (100,000) and the eve-



ning newspaper *Esti Hirlap* (75,000) in Budapest. Of a total of 40 national and provincial daily newspapers in Hungary, 15 are controlled by foreigners. Another media giant, the German Axel Springer Group, holds shares in eight newspapers in the former German Democratic Republic (GDR) and has slated as much as \$300 million more in investments there during the next few years.

Industry analysts estimate that the West could invest more than \$3 billion in developing media in Eastern and Central Europe during the next five years. In global strategies, the region is viewed as providing the only significant growth opportunities in the medium term to offset saturated Western markets, some of which are now on the brink of a recession.

The West's impact on the East is particularly acute in the former GDR, where the editor of an alternative weekly newspaper in Leipzig, *Die Andere Zeitung*, saw the voices of his country being swept aside in the public debate on a unified Germany. "If you read West German newspapers, you see only the happiness of the people of the GDR," says Jan Peter, the 21-year-old editor-in-chief of the weekly, which has a circulation of 50,000 and was, before unification, one of the few independent East German newspapers published solely by East Germans.

"We who live in Leipzig, Halle, and elsewhere... are happy about our future, but we have fears and very difficult problems," says Peter. "My newspaper wants to write about these problems, such as fears of unemployment. And we want to support alternatives. If there are people who want different things—alternatives to what West Germans are proposing—in economics, culture, and society, we want to portray them. We don't want to be overwhelmed by all things from West Germany, but we don't have any time. West Germans are coming like gold diggers in Alaska. They have the money; we don't."

The entrenched position of communist *apparatchiks* in the press and post offices (resulting largely from inertia) has also hurt the development of a free, independent media in the region, according to many editors of the once-*samizdat*, or secret, publications. "The majority of the printing presses are in the same hands as they were 10 to 15 years ago," says Ivan Baba, editor-in-chief of the now-suspended Hungarian independent daily *Datum*. "Those papers that were writing for the Communist Party for 40 years have suddenly declared themselves indepen-

#### STATE OF THE PRESS IN CENTRAL AND EASTERN EUROPE

**Bulgaria** Population: 9 million  
Daily newspaper circulation:  
2.3 million (1985)  
17 dailies (7 national)  
6,000 journalists

**Czechoslovakia** Population: 16 million  
Daily newspaper  
circulation: 4.5 million  
(1985)  
30 dailies (8 national)  
7,500 journalists

**German Democratic Republic**  
(until October 3, 1990)  
Population: 17 million  
24 dailies (8 national, 14 in district  
capitals)

**Hungary** Population: 10.6 million  
Daily newspaper circulation:  
2.5 million (1985)  
30 dailies (6 national)  
5,300 journalists

**Poland** Population: 38 million  
Daily newspaper circulation:  
7.7 million (1985)  
47 dailies (8 national)  
10,000 journalists (est.)

**Romania** Population: 23 million  
16 dailies (6 national: 3 in  
Hungarian, 2 in German)  
3,100 journalists

Source: Survey of the Emerging News Media in Central and Eastern Europe. World Press Freedom Committee

dent and are behaving as the opposition. Their distribution today is still in the same hands—in the postal system that is still staffed by the people who searched and blocked mailings under the communists. If you can't get the paper to the readers, you have no chance of survival." The former Neiman Fellow at Harvard University says that part of the reason behind halting *Datum's* publication in April was that many copies were never delivered.

In the Soviet Union, press laws are in various states of enactment. On August 1, for example, individuals were permitted to found their own publications for the first time since the 1917 Revolution. But Natalya Gevorkyan, a journalist for *Moscow News*, says that these laws fail to

guarantee press freedoms common in the West. Government resistance to her newspaper's inquiries into abuses of the KGB remains as tenacious as it was in *perestroika* days.

Hungary, Poland, Czechoslovakia, and Romania are in various stages of drafting and enacting press laws, according to Paltin Nottara, director of the Paris-based Association IDEA, which is engaged in media development projects in the region. "The press in these countries," he says, "is working on goodwill, a gentleman's agreement with the Government."

Survival of an independent press, many editors insist, boils down to a question of money, not quality, as *Datum's* Baba puts it. "There is freedom of the press—anyone can publish, but only if he has the money," he says. "We have the freedom to make an independent distribution system, but, here too, it is a question of enormous amounts of money—more than \$1 million."

To survive, the press in Eastern and Central Europe must also be in step with the political and cultural development of its readers. At first, they were rapacious to "hear forbidden words," according to Stefan Tafrov, foreign desk chief of *Demokratia*, a publication of Bulgaria's Union of Democratic Forces Party. Now, curiosity is fading as Western news sources, entertainment, including the music video channel MTV, and domestic news are more easily available.

In the view of Andrezej Krzysztof Wroblewski, editor of the Polish weekly *Gazeta Bankowa* (circulation 22,000), this creates a more ambiguous problem for new papers to attract and gain readers' confidence. "Our press cannot live too much ahead of the economic, social, and other aspects of the country's development," says the former Neiman Fellow. "Our society has not been prepared yet for a full-market economy with another scale of social values. It is like changing—overnight—the names of cities, using different currency units, switching from kilometers to miles. Two generations of Poles have been raised and educated in socialism. It will take time for people to understand, especially such notions as quality and justice... and before they become more individualistic, more entrepreneurial." E

James D. Spellman, a freelance writer based in Geneva, is associated with the World Economic Forum.



# Peter Zwack

**P**eter Zwack, recently appointed the new Hungarian Ambassador to the United States, speaks out about Hungary's new march to capitalism, its massive economic problems, and its search for foreign investment in an exclusive interview with Europe.

Ambassador Zwack, until recently an American citizen, spoke with Robert J. Guttman at the Hungarian Embassy in Washington, D.C. in September.

**Why do you feel you were chosen as the new Ambassador?**

The fact that I used to be an American citizen was an important factor. I had to renounce my citizenship because, obviously, you cannot be an American and become a Hungarian Ambassador. I was selected because of my knowledge of the American economic system and my background as an American citizen. Also, I am a businessman: Today, traditional diplomacy is rapidly vanishing, and diplomats have to be a combination of diplomat and businessman.

**What type of business were you in?**

My family owns the quasi monopoly in Hungary on wine and spirits. We have about 99 percent of Hungarian exports in fine spirits, and we also produce a digestive, Unicum, which is a monopoly in Hungary.

**Would you say that one of your overall goals is to become a member of the E.C.?**

Yes.

**How would that happen?**

I think there are two stages. Starting in 1992, we would like to have some kind of associate status. The word "member-

ship" doesn't even apply then, it would be a relationship in the sense of "association." Then, a step further, full membership by the end of the century. This, of course, is difficult because even the Austrians are having a tough time with it. But when Austria gets in, she can help pull us into the E.C.

**Prime Minister Jozsef Antall stated that he would like Hungary to become an E.C. member in 1995. What are your comments?**

We would like that, but I am not certain whether we will be able to do so. Obviously if the necessary preconditions for membership occur, such as an economic transformation, we are hopeful.

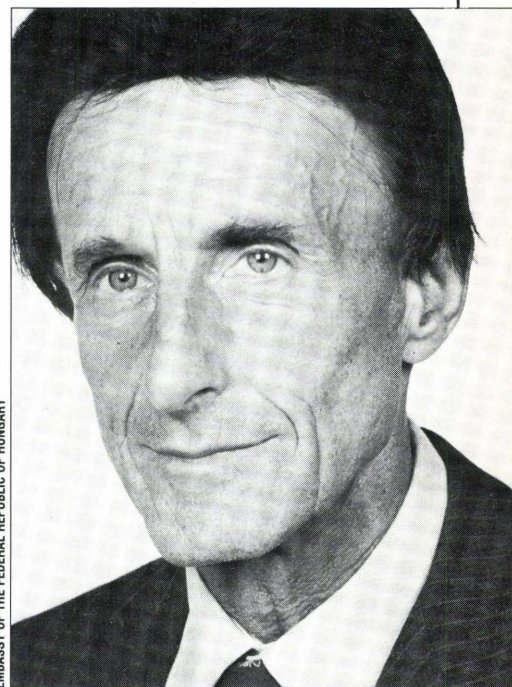
And this is in America's as much as in Hungary's interest. It is important that the United States have a very firm pied-à-terre in the only country in the Eastern European region today that is sound enough to be a bridge between it, the Common Market, and the roughly 400 million Soviets and other Eastern Europeans.

Why Hungary? Geographically, it is perfectly located: It thinks in Western, not Eastern European, terms. We also have a long history of democratic transformation. Our economy is having problems, but it is stable, as are our politics.

**What relations do you expect Hungary to have with the Soviet Union in the future?**

They will be perfectly correct, equal, on a state-to-state level, and as trading partners.

We have to be careful. We are anti-communist, but it is not in our interest to have bad relations with the Soviet Union, especially now, when America is very strongly supporting President Gorbachev. So our aim is to have stability in the region, be that ethnic, economic, or political.



EMBASSY OF THE FEDERAL REPUBLIC OF HUNGARY

*Hungary's Ambassador to the U.S. speaks out about his country's march to free-market economics and the urgent need for foreign investment.*



## E.C. Efforts in Eastern Europe

The E.C. has given financial and technical assistance to the Eastern European countries since the end of last year, when their communist regimes crumbled. Since then, the E.C. has opened two Delegations (in Warsaw and Budapest), and initiated—or participated in—further aid programs. A short rundown of recent activities follows.

### October:

- According to a recent E.C. Commission report, Eastern Europe stands to lose about \$7 billion this year and much more in 1991 as a result of the Gulf crisis.

The E.C. Commission has therefore proposed to set up a special fund to offer balance-of-payment support and to help carry out reforms such as currency convertibility. The proposal was presented to the Group of 24 on October 19.

- The E.C. granted Poland a \$34-million loan to assist small- and medium-sized projects in industry, tourism, environmental protection, and energy conservation and efficiency.

The loan will be issued by the European Investment Bank (EIB) to the state-owned Polish Export Development Bank, which plays a key role in financing projects in the industry and service sectors.

Priority will be given to private-sector projects and, in particular, to joint ventures with E.C. partners. This is the third EIB loan to Poland since the beginning of the year.

- Poland began talks with the E.C. on a special association treaty. E.C. Trade and External Relations Commissioner Frans Andriessen said he did not exclude full E.C. membership for Poland by the end of the century. Andriessen opened the E.C.'s first permanent office in Warsaw on September 21. (see below for address)
- The E.C. announced a new aid package to Eastern Europe totaling \$36 million.

This package includes the first E.C. payments to Bulgaria and Czechoslovakia under the 24-nation program of Western financial assistance to former communist countries, which is being coordinated by the Community. The largest portion of the aid (\$22 million) will go toward developing private enterprise in Bulgaria's seriously troubled agricultural sector. The rest is to be spent on educational and technical cooperation with Poland and Czechoslovakia.

- The E.C. sent a team of experts to Prague to study the possibility of creating

a fund to help Czechoslovakia overcome eventual economic shocks and overhaul its economy.

The fund would be modeled on similar projects undertaken in Poland and Hungary, and would be part of a joint initiative launched by the Group of 24. Henning Christophersen, the E.C. Commissioner for economic affairs, has also promised E.C. technical assistance to help Czechoslovakia create a modern finance ministry to administer the revamping of the country's economy as efficiently as possible.

### September:

- An international organization to help Central and Eastern European nations solve their environmental problems opened in Budapest on September 6. The Center will be a non-profit, non-governmental organization. It will be directed by an international board of 15 members appointed by the E.C., the United States, and Eastern Europe. Of the initial \$10-million budget, the E.C. will provide \$2 million over the next three years.



#### Provisional Addresses of E.C. Delegations in Eastern Europe:

##### Poland:

Delegation of the Commission of the European Communities  
Room 3106  
c/o Warsaw Marriott Hotel  
Lim. Centre  
Al. Jerozolimskie 65/79  
00-697 Warsaw  
Tel.: 011-48-22-306.306  
Head of Delegation: Mr. A. Dijkmeester

##### Hungary:

Delegation of the Commission of the European Communities  
Berc utca 23  
1016 Budapest  
Tel.: 011-36-1-166.44.87  
Head of Delegation: Mr. H. Beck



**Why was 1989 the year in which Eastern Europe opened up?**

*Perestroika* started in Hungary in 1968, it wasn't Gorbachev who started it, although there is no question that he should be given credit. Hungary initiated a new start in 1968. The second factor is the economic collapse of communism.

**Can communism be reformed, or is it an aberration?**

Communism has gradually ended. One cannot reform communism; it's a bad and unworkable system. It's like a religion: It's fanaticism. The idea of Marx is beautiful, but inconceivable. It's an illusion.

**As a former businessman, what will you do to attract American firms to Hungary?**

We have to make legislative changes in Hungary. The first issue will, of course, be privatization. Then, we'll deal with currency convertibility. Initially, this will be internally convertible, and will eventually attain commercial convertibility.

**Will American firms have to barter to be able to bring money out?**

No. Today you can make a joint venture, or even buy 100 percent of a Hungarian company, and take out your profits in hard currency.

**What are you telling American firms? Why should they invest in Hungary?**

First, labor is cheaper and highly qualified. Second, if an American company wants to sell to the Soviet Union, it will see it is impossible to do so, because the transportation network just doesn't work. So why not produce in Hungary and export to the Soviet Union? The Soviets pay in hard currency. Hungary could be the production center aimed at the Soviets; or there could be straight trading between Americans and Soviets.

**How will a unified Germany affect Hungary?**

In one way it will affect Hungary negatively because East Germany was our third-largest trading partner after the Soviet Union [number one] and West Germany [number two]. We have lost East Germany's business, which is a big loss. And, quite obviously, with West Germany paying much more attention to building up the former East Germany, we're going to get less attention. In a way, this is an opportunity for American business to grab a foothold—and we want American business.

**Does Hungary fear Germany's unification be-**



### cause of history?

No. The preconditions are different. After World War I, the ground was set for a madman like Hitler. Now an enormously strong country is unifying, which is not looking to expand, and doesn't need to prove a point.

### How is the Middle East situation affecting Hungary?

It is a complete disaster for us. We have experienced a loss of about \$400 million due to exports and imports from Kuwait and Iraq. That is nothing in America, but in our country it is very significant. €

Hungary's governing center-right Democratic Forum took a beating in the October 14 local elections. In Budapest, home for 20 percent of Hungary's 10.5 million people, the two major liberal opposition parties together won more than 50 percent of the vote. Democratic Forum, on the other hand, won only 33 percent.

The city's new mayor is likely to be Free Democrat Gabor Demszky, whose party was the clear winner with 34 percent of the vote both in Budapest and nationwide.

The election turnout was remarkably low: Less than 30 percent of eligible voters went to the polls in this, their sixth, election in 10 months.

## Questions and Answers on Hard Currency

### What is hard currency?

A hard currency is any internationally acceptable means of exchange that is not subject to government controls on its use and is not held up by artificially maintained exchange rates. A hard currency may, nevertheless, still be subject to weakness on world financial markets.

The U.S. dollar, for example, still regarded as the world's most popular unit of transaction and accounting, has lost over 50 percent of its value since the mid-1980s. The German mark-dollar exchange rate fell below 1.50 German marks to \$1 in October 1990, the lowest level in 45 years.

Hard currency is in demand for transactions so that the party receiving payment can be confident of exchanging the funds into his or her own money, without fear of sudden massive devaluation or instability in the financial system of the country issuing the currency.

International investors use hard currencies for the same reason. In addition to the confidence factor in choosing a currency in which to hold their funds, owners of international capital seek a political regime unlikely to replace restrictions on their assets in times of turmoil or confrontation. While every major country monitors money movements across its borders, countries such as Germany, the United Kingdom, Switzerland, and the United States have traditionally been popular hard currency investment locations.

### What is convertibility?

First, convertibility exists when the holder of a currency is able to transfer the money in question into a hard currency without restrictions. Second, true convertibility occurs at a single free-market exchange rate, not one imposed by a government or by central banks.

The currencies of most Western countries are convertible, and many of the former Eastern bloc countries are moving toward that goal. In January 1990, Poland made the zloty freely convertible into U.S. dollars as part of a package of economic measures designed to liberalize and restore confidence in its economy.

Other formerly controlled economies are moving in the same direction. Czechoslovakia has announced plans to move to convertibility next year, while Yugoslavia recently tied the dinar to the German mark.

### What are unified exchange rates?

When a country moves from a two- (or more) tier system of exchange rates to one single rate for all transactions, as in a number of former communist economies, its exchange rate is said to be unified.

For example, many countries used to charge one rate to tourists and another for commercial transactions. In addition, one or both of these rates was often artificially high in relation to the free-market exchange rate, or what could be obtained on the black market for the currency.

While not necessarily implying convertibility, a unified rate is an important step to establishing credibility on world financial markets.

—Colin Waugh is a freelance writer specializing in financial issues.

EUROPE

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# The Challenge of a New European Architecture:

## Implications for the EC's Internal and External Agendas



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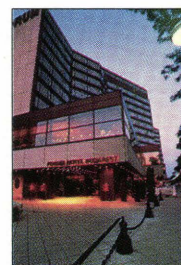


# A Business Guide to Central Europe

*"Power Lunches" Come to the East*

**S**INCE CENTRAL EUROPE OPENED ITS FLOOD-gates, the first wave of travelers has overwhelmed and enriched hotels and restaurants on the Vistula, Vlatava, and Danube Rivers. Once ranked as little better than "quaint," they now offer overbooking, bumping, and rising prices. How do Central Europe's capitals and industrial centers rate as places to do business?

ROBERT HASLACH ■



INTER-CONTINENTAL HOTELS

## Vienna

Vienna views itself as the gateway to the East. Austrian companies have been the leaders in joint ventures in Central Europe and at facilitating deals for others. Austrians recommend that those investing in Central Europe start in Vienna—to learn from people who have been doing business with the newly emerging democracies since before last year's revolutions.

The Habsburgian legacy is tantalizingly visible from Vienna, even if clad in a social-democratic cloth coat, not an ermine mantle. Despite talk of a regional, neo-Habsburgian "Pentagonale," Austria is focused on joining the European Community before the single market alters the architecture of Europe.

Along with its culture, food, and wine, Vienna offers Central European regional financial and commercial expertise. Japanese companies may hunt outside the gates, but increasingly their Danubian regional headquarters lie within the walls of Vienna. One observer sees Austrians as the antibodies to the Japanese: sharp businessmen able to take time to enjoy themselves.

The benefits of doing business from Vienna are significant, if not cheap. Expect to pay \$200–\$250 per night for a room, and \$50–\$80 per person for dinner. Telephones and faxes work well, and



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most hotels offer a business center. Some suggest commuting from Vienna to Zagreb, Prague, and Budapest. Indeed, that may be cost-effective and time-efficient next year if express rail service is re-established to those cities and to Trieste. In the meantime, the five-and-a-half-hour rail journey to Prague makes Vienna's Schwechat Airport and Austrian Airlines the line of least resistance into Central Europe.

## Budapest

Downstream from Vienna, on the Danube River, Hungary's Prime Minister Jozsef Antall shares Austria's E.C. dreams: associate status by 1992, and full membership by 1995 or 2000. Hungary's econ-



Central European capitals now cater to growing numbers of international business travelers, and Western hotels help to meet demand. From top: the Forum Hotel in Budapest; Wallenstein Garden, Prague; Vienna.

AUSTRIAN NATIONAL TOURIST OFFICE



omy must be brought closer in line with that of the Community but, with some 2,000 joint ventures already registered and still being counted, Hungary is eagerly pursuing business with the West.

Exports to hard-currency customers are replacing shipments to COMECON. Visitors will find a supply of German marks or dollars useful. In April, one-third of retail shops, accounting for 10 percent of all sales, were privately owned. Benetton, Adidas, McDonald's, and Julius Meinl are in town. Ikea's new Budapest store is supplied locally with goods that Ikea once sold only in the West.

In Budapest, the **Atrium Hyatt** (\$150 for a double room) is a prime business location. Across Chain Bridge from the Royal Palace, and near the **Forum** and **Duna** hotels, it has a business center, an indoor pool and gym, good beds, and good service. Next to the multicolored tile roof of the Matthias Church, the well-praised **Hilton** preserves a baroque façade, a 13th-century Dominican monastery, and a Roman milestone. Other hotels, some with "health-giving" mineral water spas, include the **Forum**, the **Ramada Grand Hotel** on Margaret Island, the **Duna**, **Gellert**, and, as "best bargain," the **Panorama** in a forest on Szechenyi Hill in Budapest's 12th District.

Budapest "power meals" are likely to be held at the Hyatt, Hilton, or Forum hotels, and largely in German. Plan on reserving tables well in advance. Beyond the hotel world, **Gerbeaud**, at Voro-smarty ter 7 near the Forum Hotel, is Budapest's most famous coffee house. The up-scale **Ala Bardos**, at Orszaghaz utca 12, is small and open only for dinner. In Pest, the privately owned **Legradi's** small subterranean room is a place to rub shoulders with diplomats and Hungarian celebrities. Budapest's first privately owned restaurant, **Vadrozsa** ("Wild Rose") at Pentelei Molnar ut 15, is in a residential area of Buda. One Embassy-recommended restaurant offering genuine Hungarian cuisine is the **Matyas Pince**, at Marcius 15 ter 7.

### Czechoslovakia

Hungary is ahead of Czechoslovakia in developing a market economy. Presently, Czechoslovakia lacks tax laws and capital markets, foreign participation is limited, and privatization is somewhere in the distance. The state-owned Skoda auto works has been flirting for months with two Western consortia of investment partners. On the other hand, Austria's Raiffeisen Zentralbank Österreich has al-

ready acquired 33 percent of Bratislava-based Tatrabank, with an eye to creating a retail banking network in Slovakia.

### Prague

As its 1.2 million residents already know, charming and hilly Prague on the Vltava River lies in industrialized Bohemia. One of the most beautiful cities in Europe after Paris, "Prague is filled with an ebullient people full of hope and optimism, frighteningly so," said a visiting scientist.

Prague is a public transportation mecca. Its efficient, widely used electric trolley buses, trams, and elegant Russian-designed, three-line subway operate on the honor system.

Prague's best known hotel is the aptly named **Palace**. An Austrian-Czechoslovakian joint venture, the newly refurbished five-star hotel recently quoted \$350 for a double room. It has a small casino but neither pool nor gym. A mid-summer traveler found it neat and beautiful, but overpriced even at a corporate discount rate. The flood of visitors overwhelmed the telephone system. While it was easy to place international calls, the difficulty of receiving them shows how the domestic circuits are overloaded.

Dining is chancy outside the major hotels and even there, reservations should be made well in advance. The **Slavia Café** across from the National Theater is reliable for an emergency sandwich or *picador* (the standard baguette with a sausage poked through its length). Also near the National Theater is the 16th-century beer house, **U Fleka**, which offers beer and beef or pork goulash. Business executives report the Palace Hotel restaurant to be the best in town. They also frequent the **Opera Grill** at Divadelni 24; it is elegant and small, serves continental cuisine, and has a house pianist who plays 1920s jazz. At the upper end of the price scale is the **Diplomatic Club** at Karlova 21; its urbane club atmosphere makes it a good address to do business—for those who can get in.

Also recommended are **U Maliru** ("At the Painters") at Maltezske namesti 11, which offers decorated ceilings and very good and reasonably priced meals; **U Pastyrky**, at Belehradská 15, serves ethnic Czechoslovakian cuisine and has an orchestra; **U Tri Pstrosu** ("The Three Ostriches") is at the foot of Mala Strana Tower across the Charles Bridge.

### Poland

Warsaw is much like Budapest and Prague as a place to do business, right

down to the air and water pollution.

An informal market-driven, semi-official economy is generating enough cash for some to replace their Lada and Skoda automobiles with used BMWs and Mercedes. Poland's traders, small businessmen, and shopkeepers are eroding the old system: a controlled economy combined with open markets. Fuel, meat, and other commodities were rationed at a low price, but sold on the open market at a high price.

Access to Warsaw is easy from Okęcie International Airport, 10 kilometers southwest of the center. Although not really part of Warsaw's life, Western hotels like the **Marriott** and **Holiday Inn** provide excellent service, rooms, meals, and communications. Taxis are available and reasonable. There is a great deal of pressure on restaurants: Even in hotels, reservations are a must.

There are two worlds in Warsaw: that of international business and the real life of the city. Western retailers, either already in business or negotiating to enter Poland, include Julius Meinl and Leclerc; Puma, Quelle, and Benetton; Hertie, Ikea, and Affelou. Warsaw's cultural life is broad and deep. Theater, opera, visual arts, and films are priced for the local economy.

Warsaw's hotels are generally extremely tall. The downtown skyscraper **Warsaw Marriott Hotel** (\$185 for a double room at the corporate rate) has 521 rooms on top of 20 stories of offices. The Orbis-run **Hotel Forum Warsaw** offers 751 rooms in 29 or more stories on Nowogrodzka Street. The **Warsaw Holiday Inn** (\$136-\$229) charges in German marks and offers a sauna, whirlpool, solarium, and fitness center. Others include the **Europejski Orbis Hotel**, **Grand Orbis Hotel**, the **MDM Hotel**, and the more modest **Metropol**.

There is one last element with three unknowns. That is the power of Berlin to pull Budapest, Prague, and Warsaw and smaller cities from Vienna's economic and financial orbit to its own. The two poles, north and south, may ultimately balance each other as they have in the past. €

Robert Haslach is a frequent contributor to *Europe*. Haslach's interview with Caspar Weinberger appeared in *Europe's* September 1990 issue.

For information on visa requirements and other travel tips to Eastern Europe, please turn to page 44.



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# Future E.C. Members?

*Sweden, Norway, Finland  
Build Bridges to the  
Community*

**E**ARLY NEXT YEAR, THE GOVERNMENTS OF Denmark and Sweden are expected to agree to build a bridge, or a combination of a bridge and tunnel, across the narrow Baltic strait that separates them. The project, when completed, would be the first land link from the Nordic nations south to continental Europe.

There is a lot more to this undertaking than cement and steel. A bridge across the Sound, as the strait is known, would make it possible to drive from Lapland in northernmost Scandinavia to Calabria in southern Italy. It would end millennia of geographic isolation for the three Nordic nations north of the Baltic—Sweden, Norway, and Finland. And it would be a powerful, tangible symbol that these nations are ending their political isolation from the rest of Europe and linking themselves to the Continent's future.

This may seem a lot of weight for a mere engineering project, but it reflects no more than what is actually happening. The talk from the Nordic north these days is of all three nations joining the European Community, probably during the next decade, as part of the great European rearrangement of alliances and markets that is accompanying the end of the cold war.

For Norway, this is no great surprise. Unlike the other two, it already belongs to the North Atlantic Treaty Organization. More important, it negotiated E.C. membership at the same time as Britain, Ireland, and Denmark, only to reject it in a 1972 referendum. Public opinion polls favor membership, and it has always been assumed, in Brussels at least, that the Norwegians would try to join again when the wounds of 1972 had healed.

But the new attention being paid to E.C. membership by Sweden and Finland

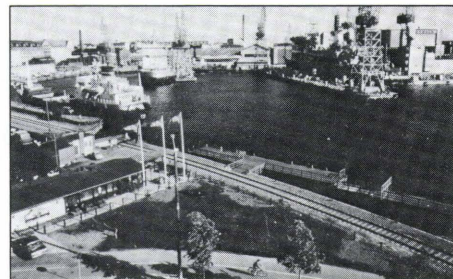
is a direct result of the end of the cold war, which has altered the whole concept of neutrality.

After World War II, all the nations on Russia's western border were forced into communism, except for Finland (and Norway, which shares a few miles of frontier with the Soviet Union in the Arctic north). Geography helped Finland: It lay well north of Europe's strategic heart and offered no route for another German invasion. So did Finnish neutrality and its ability to convince the Soviets that it offered no threat.

Sweden, for its part, has been officially neutral for 150 years. This neutrality was reinforced after World War II by its responsibility to Finland: The Soviets slept more easily knowing that the nation on the other side of neutral Finland was also non-aligned.

This neutrality not only kept both nations out of NATO, but also barred membership in the E.C., which the Soviets considered to be NATO's banker. Both nations joined the European Free Trade Association (EFTA) and set up trade arrangements with the Community. But so long as the cold war lasted, actual E.C. membership was out of the question.

The cold war is now over, and the Soviets, busy laying their own lines to Western Europe, are indifferent to Nordic membership in the Community. For the first time, therefore, membership is possible. But this raises another question:



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The talk from the Nordic countries these days is of all three nations joining the E.C., probably during the next decade. Top: Helsinki; above: Stockholm.

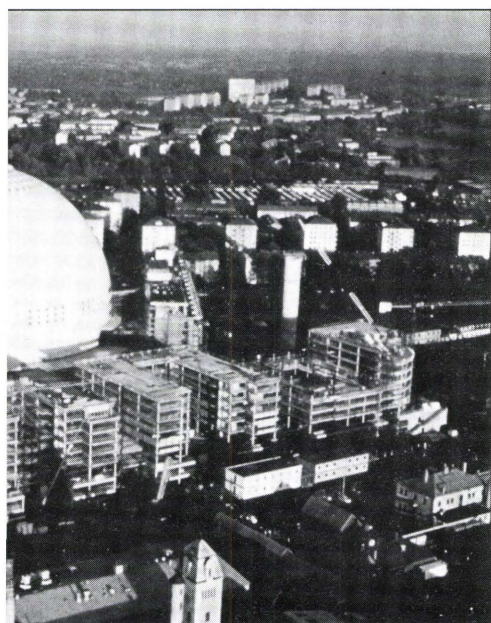
RICHARD C. LONGWORTH ■



Is it also a good idea?

For the moment, the question needs no answer, for two reasons. The six EFTA countries are negotiating something called the European Economic Space (EES) with the Community. (It may end up being called the European Economic Area, or EEA. "Space" is a French concept that the British consider too nebulous, or, in British Prime Minister Margaret Thatcher's phrase, "airy-fairy." They want it to be called an "Area" instead, and this is probably how it will turn out.)

Whatever the final name, the EES or EEA will update present E.C.-EFTA arrangements, which amount to a free trade zone. Under the EES, the EFTA nations would sign on to the agreements embodied in the 1992 project, which would extend the single market to EFTA and make the rules of free movement of goods, capital, and labor applicable to all 18 nations. It would leave EFTA outside any economic, monetary, or political union, however, and would give it no voice in Community decision-making.



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Negotiations on the EES could be finished this year. And since the E.C. has said that it will accept no applications for full membership until 1993, the official mood in Stockholm and Helsinki is to see how the EES works, and to postpone any decisions on membership for two or three years.

This attitude to both neutrality and E.C. membership is best summed up by Ilkka Suominen, the Finnish Trade and Industry Minister and leader of Finland's Conservative Party. "If the world changes from confrontation to more co-

operation, then where does neutrality lie?" he said in an interview. "Neutrality means avoiding taking sides in super-power conflicts. If this changes, then what does neutrality mean?" In Suominen's view, Finland is headed for eventual E.C. membership. But there is no rush, he says: "First, we'll make the EES work, and we'll see what comes next."

Nevertheless, the pressure is on. The debate is too new for public opinion to have hardened, but polls in each country show more support for membership. Business seems solidly in favor: Swedish economists estimate that 95 percent of the country's business executives support entering the Community. And in Finland, Pertti Voutilainen, Chief Executive Officer of the metals multinational Outokumpu Corporation, predicts that "our strongest companies will gain" from closer ties to the E.C.: He cites the metals, chemicals, and forest industries.

Politically, too, the idea is catching on. Conservatives in Finland and Sweden tend to favor membership, and the Social Democratic parties, once hostile to the idea, have now begun to seriously consider it. Last June, Swedish Prime Minister Ingvar Carlsson, a Social Democrat, published an article that said Sweden could join the E.C. only if there were lasting changes in the European security pattern, and if the E.C. did not expand its political union to include a unified security policy. "This article sounded negative at the time," Foreign Ministry official Michael Sohlman said, "but actually it opened the discussion toward a new direction."

Neither Finland nor Sweden wants to give up its neutrality. Unlike Austria, another potential E.C. member, neutrality was not imposed upon these two countries, and both governments and people are used to it. But can neutrality be squared with E.C. membership? That depends.

Unlike most Western Europeans, the Swedes and the Finns want to see more proof before concluding that the division of Europe is over. At the same time, they are intensely curious about the E.C.'s move toward political union. France and West Germany, which initiated this move, say they want political union to include a unified security policy, but neither has said just what this means. It could mean consultations on creating peaceful conditions in Europe, or it could be the first step toward a common European defense. The latter could keep Sweden and Finland out forever—a fact that should

carry weight when E.C. talks on political union begin in December.

The Nordic nations fear that a decision to stay out of the E.C. could condemn them to a permanent marginalization on the northern fringes of Europe. "Can Sweden remain outside [the E.C.] if Norway or Austria are in?" Sohlman asks. "We'll see, but the answer is probably no." And Olli Divinen, foreign editor of the Finnish newspaper *Helsingin Sanomat* and an outspoken advocate of E.C. membership, adds: "There's a feeling now of being on the fringe of Europe, of being left out of the mainstream. I'm convinced Finland will join. We don't have a choice."

Both nations already do more than half their trade with E.C. nations, and both are investing more in the Community as the end of 1992 approaches. Sweden, along with the United States and Japan, has become one of the single biggest investors in the E.C.—to the point that the flow of money to the south is affecting its current-account balance and taking funds away from investments at home.

Finland, too, sees the focus of action moving further away. "With the changes in Europe, there could be the formation of a Sun Belt area from the Pyrenees to the Caspian [Sea]," Suominen says. "Investment, including Finnish capital, will go there because [that is where] the markets are. There could be a real danger that we would become just pulp producers."

Membership would not be easy. Neutrality is only part of the problem. Both nations have heavily protected farm sectors—Finland devotes 4 percent of GNP to farm subsidies and has some of the world's highest food prices.

Sweden already has liberalized its financial and investment laws, and probably would have little trouble meeting E.C. standards for free movement of capital. But forests are sacred to Finland, accounting for 40 percent of exports. The forest industry is efficient and probably competitive, but forest ownership is so sensitive that foreigners are not allowed to own Finnish land—a restriction that would certainly have to go, no matter how emotionally painful. **E**

Richard C. Longworth is the chief European correspondent for *The Chicago Tribune* and a contributing editor to *Europe*. His article, "Central Europe: Potential for Prosperity," appeared in *Europe's* July/August 1990 issue.

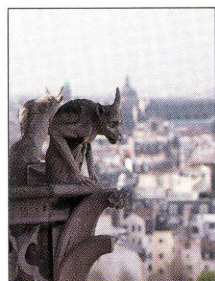


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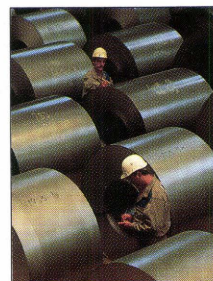


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**A** FRENCH JOURNALIST RECENTLY ASKED A number of foreign correspondents in Paris what they thought of the current state of France. He suggested that the country's political system had been damaged by a recent campaign financing scandal, and that French society risked being torn apart by mounting disputes over immigration. He seemed disappointed that most of the correspondents disagreed: Nearly all thought the country appeared to be highly successful, prosperous, and stable.



© GILLES SAUSSIER/GAMMA LIAISON

France's strong economic performance is mirrored in its 3.4-percent growth rate over the past two years and increasing trade with its E.C. partners. Above, from left: Notre Dame Cathedral; Paris' new "geode" monument; the Usinor-Sacilor metals company.

*Rosy Economic Forecast Threatened by Gulf Crisis*

# FRANCE



## France's Foreign Policy Balancing Act

The eruption of the Gulf crisis has posed a major challenge to French foreign policy at a time when the country is seeking to adapt to fundamental changes in the international power structure.

With the sudden end of the cold war and the emergence of a powerful united Germany, France was already in the pro-



© PATRICK AVENTURIER/GAMMA LIAISON

cess of re-examining its relationship with the United States and NATO, and exploring how Paris could promote and lead a common European foreign and defense policy.

President François Mitterrand is now engaged in a delicate external balancing act. On the one hand, he recognizes that the North Atlantic Treaty Organization must be kept alive, at least in some form, and that U.S. forces should remain in Europe at a time of growing German strength. On the other hand, with the end of armed confrontation between NATO and the Warsaw Pact, he wants to establish France as Europe's leading politico-military force, independent of U.S. influence.

Now, the Iraqi crisis has propelled him into a tricky domestic balancing act as well. Mitterrand is trying to maintain a national consensus behind his policy of backing the Western political and military effort against Saddam Hussein, while simultaneously catering to powerful elements of French public opinion that distrust or oppose that policy.

At the same time, he has been asserting France's credentials as a world political leader by taking a much higher profile in the crisis than other European leaders. For example, he used the platform of the United Nations General Assembly in New York to make a much publicized appeal to keep the door open to Saddam Hussein; and he was the first Western leader to visit the Gulf region after the

crisis began.

In a French opinion poll taken four weeks after the invasion of Kuwait, 57 percent of the respondents said they would like to see complete French solidarity with the United States and Britain in tackling the crisis. But a significant 33 percent said they thought France should steer an even-handed course that did not disrupt French relations with either its Western allies or the Arab nations.

At present, France has the second-biggest military force among the Western allies in the Gulf after the United States. This is in sharp contrast to the early days of the crisis, when some Western officials were dismayed by what they took to be French signals to Iraq and other Arab states that France was in a different category from the rest of the Western nations.

There were reports, for example, that France, a longtime friend and military supplier to Iraq, had secretly, though unsuccessfully, sought privileged treatment for French hostages. Also, France had initially hesitated to step up military pressure on Baghdad.

Explicit calls for caution came from Jean-Pierre Chevènement, the Defense Minister, and a leader of the governing Socialist Party's left wing. Saying that a Gulf war could cost 100,000 lives and engulf the Middle East, he warned against "getting carried away by irresponsible ideas," and questioned the legal basis for armed intervention.

French resolve noticeably stiffened in September after Iraqi troops raided the French Embassy in Kuwait and kidnapped several French nationals, and the French military presence was significantly boosted.

But Mitterrand caused a flurry of alarm among U.S. and other allied officials with his speech to the United Nations. In this, he appeared to deviate from the line taken by the U.N. Security Council and other Western governments on such issues as the point at which Iraq should withdraw from Kuwait, and whether or not the former Kuwaiti ruling family should be restored to power.

French officials subsequently explained that, while there were "some different approaches" between France and the United States, Mitterrand had in no way intended to diverge from the Security Council's positions. Instead, they said, he

wanted to keep doors open rather than close them.

The main point, Paris analysts say, is that Mitterrand privately supports the U.S. position. But he will not be able to maintain a domestic consensus behind the dispatch of French troops unless he both leans over backward to give peace a chance and publicly keeps his distance from Washington.

Despite Mitterrand's efforts, the domestic consensus, as one commentator puts it, is already beginning to look "ragged at the edges." On both right and left, voices are being raised against the idea of being dragged into an American-led military offensive without France having a say in the matter. Some critics say that, just by participating in the allied force, Mitterrand has compromised France's independence. Yet other politicians are nervous that Jean-Marie Le Pen, leader of the extreme right National Front, has come out more or less in favor of Saddam Hussein and against French intervention.

All this, Paris analysts say, makes it even more important for Mitterrand to keep insisting, as he has, that France maintains independent control of its Gulf forces and will not place them under U.S. command. At the same time, Mitterrand is publicly using the crisis to promote the plans for closer European defense cooperation that he already favored before the Iraqi invasion.

But he is also quietly engaging in close military cooperation with the United States, and has given Washington secret technical information on the capabilities of the numerous French weapons that are in the hands of Iraqi forces.

If it came to war, allied officials say they are confident that Mitterrand would have little hesitation in engaging French forces alongside his Western allies. Meanwhile, his public balancing act is likely to continue in the full glare of the spotlights.

—Reginald Dale



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The French journalist admittedly works for a conservative newspaper, which might have been happy to hear criticisms of how the country is faring under a Socialist administration. But his approach also appeared to echo a more widespread phenomenon. While today's France looks to be doing very well by most standards, particularly to outside observers, many French people say they detect a mixture of malaise and uncertainty beneath the surface.

Superficially, the country is showing signs of spectacular progress. Paris is gleaming with new and refurbished monuments, and is bidding to become a major European corporate and financial center. The newly developed La Défense area on the capital's western rim now claims to be Europe's largest business district; around the nation, massive investments are being made in highways, airports, and record-breaking high-speed trains; and, after years of being an international laughing stock, the French telephone system is now one of the world's best.

But France regularly goes through periods of critical self-examination and doubt, in which it becomes fashionable to question the country's ability to cope in the modern world. Only recently, for example, did French politicians and economists declare an end to *la crise*, a specter of economic distress that, according to crisis theory proponents, arose in the mid-1970s and haunted French life for more than a decade.

While the French economy is looking better than it has in years, the latest malaise is often attributed—at least by the intelligentsia—to forebodings about the country's vulnerability in the E.C.'s post-1992 single market, the threat of domination by a powerful and newly united Germany, and immigration. On top of that has come the uncertainty generated by the Gulf crisis and the surge in world oil prices (already widely described in France as "the third oil shock"), and a wave of violent protests by farmers against cheap agricultural imports.

Nevertheless, France today seems in many ways better equipped to face some challenges than it would have often been in the past, when its economy was weaker and its political and social divisions more pronounced. The seven years since 1983, when President François Mitterrand abandoned his futile attempt to impose dogmatic left-wing economic policies, have seen a steady economic recovery that has squeezed inflation out of the system and turned the French franc into



The political changes in Europe and the crisis in the Gulf are leading France to re-examine its foreign policy vis-à-vis a united Germany, NATO, and the United States. Above: La Défense; left: arrival of the "Clemenceau" in Djibouti, Africa; Mitterrand on his recent visit to Saudi Arabia.

*"Paris is gleaming with new and refurbished monuments, and is bidding to become a major European corporate and financial center."*

one of the world's hardest currencies.

Two "black spots," as the Government calls them, persist. Unemployment, although now out of double figures, is still too high at around 9 percent, and the trade deficit continues to give grounds for concern.

But the French economy secured a glowing progress report earlier this year from the Paris-based Organization for Economic Cooperation and Development (OECD) in its annual assessment of France's prospects. In 1990, it said, the French economy "could outperform the average of the other countries in the OECD on both the inflation and growth fronts for the first time since the 1970s." Confessing that it was pleasantly surprised by the strength of France's 3.4-

percent growth rate over the past two years, the OECD said expansion would slow to 3.1 percent this year and to 2.8 percent in 1991. But with most industrial economies slackening, French growth would be "at least as well maintained as elsewhere in Europe," it added. Analysts are also encouraged by the way in which France is switching its trade toward its E.C. partners and away from its former export reliance on less dependable destinations in the Third World.

All these rosy forecasts, of course, have now been thrown into question by the Gulf crisis. But, in a preliminary report in October, a special "Anti-Crisis Group" assembled by the Government predicted that, in the absence of a major catastrophe, France (and its European partners) should avoid serious economic disruption. With the outcome of the Gulf crisis still unknown, nobody is prepared to make detailed forecasts. But none of the possible oil price and exchange-rate scenarios considered by the group led to a French recession.

The country, however, is braced for things to get worse. In an opinion survey published in October, nearly three-quarters of those polled said they expected higher inflation, a decrease in their purchasing power, and an increase in the French trade deficit in the months ahead. Nevertheless, 84 percent said they were



## Charles de Gaulle: "The Man of June 18."

In France, 1990 is the year of Charles de Gaulle. The General was born 100 years ago on November 22, died 20 years ago on November 9, and first became part of history 50 years ago, when, on June 18, 1940, he made his now-famous appeal for French resistance against Germany.

The French have thrown themselves into celebrating the three anniversaries with an ardor not always matched during de Gaulle's lifetime. The country is awash in commemorative publications, plaques, radio and television specials, posters, and exhibitions.

The festivities are drawing to a solemn ceremonial close this month, with the unveiling of the scale model of a de Gaulle memorial in Paris. When built, it will be a 130-foot-high flame on the Place de la Porte Maillot, facing the Arc de Triomphe.

The celebrations began with a bang on June 18, with a sound-and-light extravaganza along the banks of the Seine River in Paris. One million spectators gathered to watch a recreation of World War II with the help of 800 loudspeakers, 6,000 projectors, and 10 tons of fireworks. It was a high-decibel tribute to that other June 18, 50 years ago, when de Gaulle effectively launched the French resistance movement by broadcasting an appeal to his countrymen not to submit to the German occupation of France.

Until then, de Gaulle had been an obedient soldier, a man steeped in army discipline since his boyhood. But on that day, he stepped out of all ranks and became a rebel with a cause. Without any authorization except his own, he flew to London and somehow convinced British Prime Minister Winston Churchill to give him a few minutes' airtime on the BBC for a radio broadcast to France. Only the day before, the French wartime Government of Marshall Henri Pétain had announced its surrender to the Germans and its decision to ask Germany for an armistice. De Gaulle went on the air and appealed to the French not to surrender. "Whatever may happen," he insisted, "the flame of French resistance must not and will not be extinguished."

Not many heard de Gaulle's now historic first broadcast from London. But he continued to speak to the French daily to ask soldiers and civilians to join him in England. Initially, only a handful rallied to



Until his famous radio broadcast, Charles de Gaulle was unknown, yet he knew he was "making history."

his call. Within 10 days, however, the British Government officially recognized de Gaulle as Head of the Free French, having realized that he was the one man capable of uniting the previously isolated pockets of resistance in France.

Even now, with a subsequent political career studded with historic highlights to choose from, the French still remember de Gaulle as "the man of June 18." In a public-opinion poll conducted this spring, 43 percent of those questioned pinpointed the June 18 appeal as the key moment of his career.

French journalist Jean Lacouture has written a three-volume, in-depth biography of de Gaulle that is currently being translated into English. While Lacouture has never been a fervent *gaulliste*, he says that, even from his detached viewpoint, the General did, indeed, stand head and shoulders above the rest of those who were trying to save France. Lacouture states that what singled de Gaulle out was "a sense of action, of organization . . . the genius to find the place where it was possible to act. He was only a young general with a microphone and the chance of speaking to the others. He was nothing, but he was certain that he was a man making history."

Make history he did. Whether it was his obstinate insistence on having France accepted on equal terms by the Allied forces, his controversial handling of the war of independence in Algeria in the 1950s, or his inflammatory cry of "*Vive le Québec libre!*" while visiting Canada, he left his mark wherever he went.

Over the years, the tide of public acclaim that swept him to power in France at the close of World War II has ebbed and flowed several times. Two million French cheered him along the Champs Elysées when Paris was liberated in 1945. Just a year later, he thought it wise to step down as France's leader. In 1958, he returned to power, only to resign again in 1969, the year before he died.

This year, France is once more riding high on a torrent of de Gaulle adulation. Forgotten are the criticisms and controversy that once surrounded the General. In death, in retrospect, he looms even larger than life. Lacouture ascribes the current wave of de Gaulle nostalgia to the French need for powerful, charismatic leaders—"political popes" he calls them—a need that he claims is not being fulfilled by anyone today.

Pierre Lefranc, co-founder and Vice-President of the Charles de Gaulle Institute in Paris, puts the General's newfound popularity down to the impressive accuracy with which he predicted many world events now taking shape, such as the unification of Europe and the collapse of communism. "With the passage of the years, and as his predictions come true, this man, who already stood out during his lifetime, is now taking on the dimension of a great hero."

De Gaulle's legendary stature is being further sanctified this month by a five-day colloquium on *De Gaulle and his Century* at the United Nation's Educational, Scientific, and Cultural Organization in Paris. Participants from 60 countries are meeting to discuss the influence of his ideas on international politics right up to the present day.

De Gaulle once wrote: "Because everything always begins again, what I have done will sooner or later be the source of new passions after I have died." Again the General has turned out to be right. E

Ester Laushway is the Paris correspondent of *Europe*.



ready to accept sacrifices to tide the country over the crisis, provided such sacrifices were demanded equally from all levels of society.

French commentators took this as a sign of maturity from an electorate that appears closer to a broad-based national consensus than at most times in France's history.

It is true that between 13 percent and 15 percent of French voters consistently support the extreme right-wing anti-foreigner National Front Party led by Jean-Marie Le Pen, at least partly for its opposition to immigration. (Three-quarters of those responding to a Government survey earlier this year said there were too many Arabs in France, and nearly half said there were too many blacks.)

At the other end of the political spectrum, the star of the once powerful pro-Moscow Communist Party has waned, leaving a broad middle ground stretching from the governing Socialists on the left, through the opposition Center parties, to the neo-Gaullist RPR, led by Paris Mayor Jacques Chirac, on the right.

Since Mitterrand's U-turn in 1983, the mainstream political forces largely agree on the direction in which the country should be heading and on the conduct of economic policy. Many French voters say the passion has gone out of the left-right struggle that used to split the country down the middle at election times.

All the main parties now understand that, if France is to survive and prosper in the modern world, it must cooperate with its neighbors. Economically, if not politically, it is increasingly accepted that the country's independent freedom of maneuver on the world stage is limited.

Most French politicians and economists acknowledge that this means the adoption of free trade, open-market policies, and the dismantling of the centuries-old French traditions of protectionism and central government planning. Some would say the transition still has a long way to go. Senior Bush Administration officials have made a point of singling out France as the E.C.'s protectionist ring-leader—on issues ranging from television movies to the right of establishment of American lawyers.

But few would dispute that the move to more liberal economic policies has been one of the main factors behind France's impressive economic recovery. The other has been a considerable degree of austerity, including wage restraint, for most of the past seven years.

Such strict conservative policies have

troubled many socialists, who feel that their party may be losing touch with its traditional supporters and their interests. The Socialist Government, with Mitterrand in the lead, is now making an effort to pursue policies that will try to reduce social inequalities without jeopardizing

*"Few would dispute  
that the move to  
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economic policies  
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main factors behind  
France's impressive  
economic recovery."*

the achievements of seven years of belt-tightening.

The minority Socialist Government remains generally popular and seems unlikely to be voted out of office in the near future. For that to happen, the communists would have to join forces with the center- and right-wing parties in a vote of no-confidence in the National Assembly. Indeed, many analysts believe the Socialists now have a good chance of staying in office until the next parliamentary elections in 1993, and perhaps of winning those elections, too.

It is true that the Socialists have suffered from feuding over who is to succeed Mitterrand as the party's candidate in the presidential elections set for 1995. The front-runner for the succession remains Michel Rocard, the popular Prime Minister, who, in recent months, has pulled further ahead of former Prime Minister Laurent Fabius, thought to be Mitterrand's personal favorite. Ill-judged jockeying for position by Fabius, however, split the party and lost him considerable support earlier this year.

But the Socialists look relatively united compared to the divisions that have weakened the ranks of the center- and right-wing opposition, where long-established leaders are seeking to keep a younger generation from coming to power. It seems likely that the centrist former President Valéry Giscard d'Estaing and Jacques Chirac, who has run twice and lost, will both contest the presidential election. On present showing, Rocard would beat either or both of them.

By then, however, much will have changed. It should also be clearer whether the country's current doubts about itself are justified, or whether they are based on no more than a passing malaise.

The coming five-year period should start to answer the two main questions worrying the French establishment: Can France compete in the single market and will it be dominated by Germany? It should also provide some clues as to whether France's strategy for containing Germany, rapid E.C. economic, and political integration, can work.

French policy-makers now realize that it will be increasingly difficult to continue the country's postwar strategy of maintaining French political, military, and diplomatic influence—preferably bilateral—over Germany. And with that country's enhanced political status following unification, the old goal of an E.C. is looking decidedly unrealistic.

France's answer—to dilute German power in a united Europe—has wide support among other E.C. countries and in the E.C. Commission in Brussels. But the Gulf crisis and German and British hesitations over some aspects of closer European union have raised fresh question marks about the speed with which that can be achieved.

Inside France, too, there are questions as to whether the average citizen is ready to go as fast as the country's political leaders on European union. Commentators who believe in the malaise theory say that one reason for it is the tension generated by pockets of underlying nationalist resistance to the country's immersion in the European melting pot. €

Reginald Dale is Economic and Financial Editor of the *International Herald Tribune* and a contributing editor to *Europe*. His article "Europe's New Architecture" appeared in *Europe's* July/August 1990 issue.





### GOVERNMENT

**FORM OF GOVERNMENT:** Republic. The president is elected every seven years by universal suffrage. He maintains the right to dissolve the National Assembly or to ask Parliament to reconsider a law; he is also head of the armed forces and can take special measures in times of national emergency.

Two houses, the National Assembly and the Senate, make up the Parliament. The Cabinet is appointed by the president upon the recommendation of the prime minister and may be assisted by one or more "secretaries of state." It determines the nation's policy and has the power to initiate legislation. The president appoints the prime minister.

**PRESIDENT:** François Mitterrand  
**PRIME MINISTER:** Michel Rocard



### BRIEF HISTORY

**1789:** The French Revolution marks the end of the absolutist monarchy in France, and leads to the Declaration of the Rights of Man and the Citizen.

**1871:** France loses Alsace-Lorraine (returned to France after World War I) to Germany following the Franco-Prussian War.

**1940:** France surrenders to Germany, and is split into an occupied north and an unoccupied south, headed by Marshall Pétain.

**1945:** France is liberated; de Gaulle forms a provisional government.

**1946:** The Fourth Republic is born. It is marked by economic restructuring and colonial wars.

**1959:** The Fifth Republic is established. De Gaulle returns to power, drafts a new Constitution that strengthens the presidency and reduces legislative powers.

**1981:** François Mitterrand becomes France's first socialist president.



### DEMOGRAPHICS

**POPULATION:** 56,303,985 (1990).

Under 20: 27.7 percent; 20-65: 58.3 percent; Over 65: 14 percent.

**RELIGION:** Roman Catholic: 76 percent.

**LANGUAGE:** French, some regional dialects.

**GDP:** \$950 billion (1989).

**CURRENCY:** Franc. Average exchange rate 1989: \$1.00 = 6.38 French francs.

### MISCELLANEOUS

- **Golf** is becoming one of France's most popular leisure activities. In 1981, the French Golf Federation registered about 43,000 golfers; by 1989, that number had risen to 160,000.

- **Tourism:** The country boasts some 5,000 museums, visited by 42 million tourists every year. In 1989, some 2.5 million Americans traveled to France.

- **The French abroad:** More than 1.3 million French people live abroad, almost half of them in Europe (645,439). The rest live in North America (230,419), Africa and the Middle East (309,732), and Latin America (74,085.)

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### GEOGRAPHY

**AREA:** 547,026 square kilometers.

**LARGEST CITIES:** (1983 figures): Paris (the capital): 2,150,000; Marseilles: 868,435; Lyon: 410,455.

**CLIMATE:** Most of France has a temperate climate. The country's southern region enjoys Mediterranean temperatures.

**OVERSEAS DEPARTMENTS:** Guadeloupe (West Indies), Martinique (Lesser Antilles), French Guiana (South America), Reunion (Indian Ocean). Departments elect representatives to the French National Assembly, and maintain the same administration as mainland France.

**OVERSEAS TERRITORIES:** New Caledonia, Wallis and Futuna (South Pacific), French Polynesia, French Southern and Antarctic Territories. Territories can be compared to Departments. They also have a locally elected government, however.



### BUSINESS

**FRENCH INDUSTRIAL LEADERS:** Renault; Compagnie Générale d'Electricité; Elf-Aquitaine; Peugeot S.A.; Total; Saint Gobain P.M.; Usinor-Sacilor; Thomson; Rhone-Poulenc; Michelin.

**MAJOR BANKS:** Crédit Agricole; Banque Nationale de Paris; Crédit Lyonnais; Société Générale; Compagnie Financière de Paris et des Pays-Bas; Compagnie Financière de Suez.

**FOREIGN TRADE:** France is the fourth-largest exporter and the fifth-largest importer on the foreign trade market.

**MAJOR TRADING PARTNERS:** Germany, Italy, United Kingdom, Belgium, Luxembourg, United States.



# The Beauty of Trains

*Traveling Through France on  
Rails*



The network of French high-speed TGV trains, which can reach up to 186 miles an hour, is now being expanded. Eventually, planners hope, it will pass through the Channel Tunnel.

**W**HILE IT MAY BE FASTER TO FLY ACROSS Europe, the train, it seems, will remain a mainstay of public transportation on the Continent. For in Europe, the train network not only endures, it excels. Trains are not only a way to get from point A to point B, but also offer a pleasurable experience along the way. Indeed, Amtrak executives should go to Europe and furiously fill their notebooks with details.

The popularity of trains undoubtedly has much to do with the fact that Europe is so compact, that service is so good, and that both trains and tracks are well maintained.

European luxury trains have a long-standing tradition of sumptuous elegance and fastidious service. The prototypical

Orient Express remains legendary and, today, one can also choose first-class train passage on such specialized trains as the Venice Simplon Orient Express, the Flying Scotsman, or the Andalusian Express.

In Europe, the train network works and locals are accustomed to using it. Ever since the intrepid Phileas Fogg

■  
SOFIA  
YANK BASSMAN



## Starlight Express

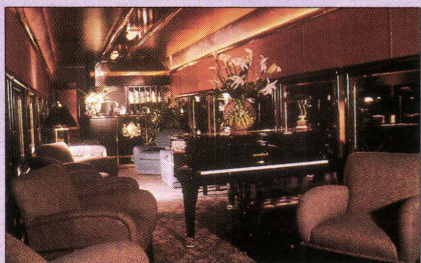
Luxury train travel, usually synonymous with the legendary Orient Express has come to the United States.

The **American-European Express**, inaugurated last November and operating in conjunction with the European-based company that runs the Nostalgie Istanbul Orient-Express, hopes that sophisticated old-timers and new generations of romantics will make the time to enjoy leisurely train travel.

William Spann, President of the American-European Express Railway Company, "feels strongly that we've abandoned an awful lot of nice things in the United States in return for efficiency... one being a comfortable way to travel."

The trip from Washington, D.C. to Chicago takes about 17 hours. The restored cars, some of them Pullmans, seem right out of movie sets, with their tasteful faux finishes, wooden inlay designs, and polished mahogany walls. Cocktails are followed by a seven-course dinner, a fair night's rest in a smallish sleeping compartment, and a wonderful breakfast.

It is a perfect way to travel.



The piano lounge in the American-European Express.

The **American-European Express** started with a Washington-Chicago routing and has added a New York-Chicago leg with a stop in Philadelphia. One can package the trip in many ways: American Airlines offers special one-way fares, and hotels in the four cities serviced, such as the Four Seasons, The Barkley, and the Helmsley Palace, are participating in the special package plans. For more information, call 1-800-677-4233.

—Sofia Yank Bassman

tucked a copy of "Bradshaw's Continental Railway Steam Transit and General Guide" under his arm in Jules Verne's novel *Around the World in Eighty Days*, prior to setting out on his dicy adventure in 1872, many on the Continent know that, while it might not be the quickest way to get around, it offered, on many routes, unparalleled scenery, better-than-average companionship, and superior meals and service.

A recent *Travel & Leisure* magazine survey showed that a plane trip from Frankfurt to Brussels took only a scant one hour compared to five-and-a-half hours by train. The survey did not factor in the hassles of getting to and from airports as well as possible plane delays; in fact, the consensus is that European trains have a better on-time performance rate than planes. On top of that, the airfare between Frankfurt and Brussels runs between \$206-\$375, while corresponding train fares are from \$94-\$142. And on the latter, there's not even an extra charge for the scenery.

Of late, much attention has been focused on France's TGV, a high-speed rail network that gets better every day. The *train à grande vitesse*, a sleek Concorde of the rails, swirls along at 186 miles an hour on selected routes, leaving Japan's famed Shinkansen, or "bullet train" (which, at the fastest speed, rattles the rails at a slightly tamer 171 miles per hour) in its dust. Amtrak, which calls its Northeastern corridor Metroliner the "fastest train in North America," comes in at 125 miles per hour.

Denis Douté, manager for the French Intercities Systems Development for Rail Transportation Systems, explains the difference between the TGV and the Metroliner. "They both offer special, high-quality services, and reserved seating for a fraction of the price of flying." TGV fares range from \$45-\$67 with a supplement attached for certain rush-hour times for the two-hour, 264-mile Paris to Lyon run; the Metroliner costs \$79-\$123 for the 225-mile trip that takes between two-and-a-half and just under three hours. "But I can tell you," Douté adds, "that I rode the Metroliner between Washington and New York, and wasn't able to write. In the coach of the TGV, you would be amazed by the quality of the comfort. Even at 186 miles per hour, you really can write as though you were sitting behind your own office desk. That's pretty amazing."

Currently the three main TGV routes form a "Y" shape spoking out from Paris.

The very popular service from Paris to Lyon is used by almost 20 million passengers a year; a route from Paris to Le Mans caters to sports car racing aficionados; and the third route connects Paris with Lille near the Belgian border. Eventually this route is to reach Brussels, and connect with, and go through, the 30.7 miles of Channel Tunnel. If all goes according to schedule, you should be able to "Chunnel" through on the TGV in May 1993.

The economic impact of the TGV on the cities served is perhaps most clearly projected in the "interconnect" service that will run from Paris to Marne la Vallée, about 50 miles east of the capital, where Euro-Disneyland will open its first segment in 1992; this service, according to Douté, is partly financed by the Disney company. Similar interconnect services are planned from Paris' Charles de Gaulle Airport to Lyon. All interconnect service will feed into all other TGV lines.

With 1992 just a breath away, the E.C. can look forward to continuing improvements and dependable and comfortable train service. After all, it is a European tradition. ❧

Sofia Yank Bassman is a freelance writer in Washington, D.C.

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# CAPITALS

## Ending the Draft?

MADRID—The debate over universal military service has been a fixture in Spanish politics for the last five years. But the decision to send warships—with 166 draftees among the crewmen—to patrol the Middle East in support of the United Nations embargo against Iraq has revived calls for an end to the draft.

The *mili*, as Spaniards call their 12 months of obligatory military service, is seen as a waste of time and an unnecessary economic sacrifice by the majority of the 240,000 young men who are called up each year. In addition, serving the country appears to be a dangerous proposition, and that even before a frigate and two corvettes began roaming the Red Sea and Gulf of Oman this fall. Newspapers routinely write of lawsuits stemming from the deaths of conscripts due to negligence, hazing, or abuse.

Ironically, much of the *mili*'s bad publicity is a result of widespread reform in the armed forces instituted by the socialists since they took office in 1982. Defense Minister Narcis Serra modernized the navy and air force, while also reducing the size of the bloated Franco-era army. Most important, given the country's history of military coups, Serra placed the armed forces firmly under civil control, curbing the autonomy of military courts, and enabling conscripts to defend their rights.

Originally, the socialists and

other liberals agreed that universal military service should be defended as preventing the kind of favoritism that allowed the rich to escape service while poor conscripts were slaughtered in turn-of-the-century colonial wars.

But now the socialists are alone. The communist-led United Left has proposed a referendum on the draft for the fall, and even the conservative Popular Party—many of whose elders served in Franco governments—has hinted at the need for an all-volunteer army.

The socialists say a professional army would cost too much, and have countered with a plan to reduce universal service from 12 months to nine months. But they admit that the armed forces need to attract better-trained, longer-serving people to operate sophisticated modern equipment. And so far, the armed forces have fallen far short in plans to recruit 18 percent of their personnel.

—RICHARD LORANT

## A Capital Decision

BONN—In the intense, lively controversy over whether Berlin or Bonn should become the capital of a united Germany, there is a rare phenomenon: The supporters of the respective cities are not divided by party allegiance, ideology, denomination, age, or sex.

Walter Momper, Berlin's Social Democratic Mayor, who obviously favors Berlin as the cap-

ital, faces fierce opposition from fellow Social Democrat Horst Ehmke, Deputy Chairman of the Social Democratic Party SPD, and one of the most eloquent backers of Bonn. "This emotional battle is most intriguing," says Ehmke. "I find myself in agreement with Finance Minister Theo Waigel of the Christian Social Union (CSU). I don't usually share his political views, but he is damned right on the Berlin issue!" Waigel has stated firmly that he has no spare cash to finance a move from Bonn to Berlin. In fact, the cost factor (estimated at around 80 billion German marks (\$53.3 billion) in taxpayers' money, is becoming an increasingly effective pro-Bonn argument as unity becomes more expensive than originally anticipated.

Although, at the insistence of the East German Parliament, Chancellor Helmut Kohl had to concede in the Unity Treaty that Berlin would become the capital of united Germany, the

Treaty did not stipulate the location of the seat of government.

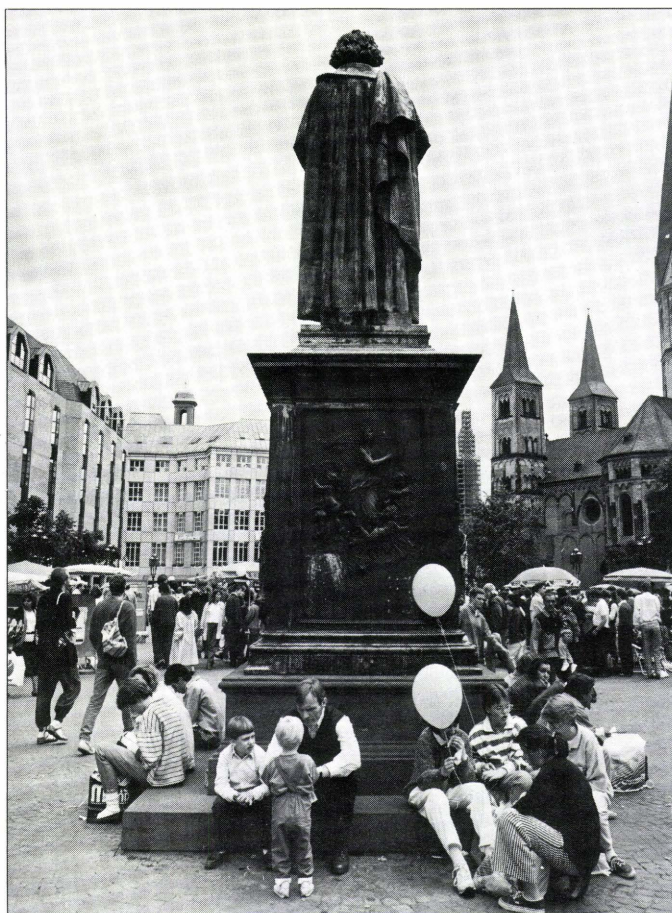
Kohl has been playing down the issue, saying that this would be up to an all-German Parliament and the Upper House to decide. He recently said that, unlike some other representatives, he had more important things on his mind. This was an obvious gibe at President Richard von Weizsäcker who, some critics say, quite unnecessarily unleashed the capital debate by coming out in favor of Berlin.

The compromise that Bonn will remain the seat of government is acceptable to Bonn backers. Berlin supporters, however, want more than just representative status. Momper is not content with Berlin carrying the title "capital" and being the official residence of the federal President. To support his campaign for Berlin's full capital status, his administration has compiled a 56-page pamphlet, *Capital Berlin—Facts and Arguments*, and is spon-

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Berlin is Germany's new capital, but many would like to see the government remain in Bonn, above, to underline the country's federal character.

soring a costly advertising campaign, in which politicians, television personalities, writers, and artists say that only Berlin can fulfill the functions of a capital. On the whole, public opinion polls give Berlin a clear majority. Polls that offer the choice of dividing functions between the two cities, however, give a totally different result: Just over 60 percent would like to see Bonn as the seat of government.

In the end, the politicians will decide. For four decades, the small town on the Rhine River, with its 300,000 inhabitants, has been associated with the most successful, stable democracy Germany has known. And, with the exception of Berlin, the other 10 former West German *Länder* would rather see Bonn as the seat of government. Recently, Max Streibl of the CSU, and Premier of Bavaria, lashed out at Berlin, saying that he would have no part in a German capital in

Kreuzberg, one of the Berlin districts. Kreuzberg, with its mostly Turkish population, has become known for demonstrations by anarchists, violence with the police, and apartment squatting. Social Democrat and Premier of North-Rhine-Westphalia, Johannes Rau, is also in favor of Bonn, because that would emphasize the country's federal character and its efforts toward European unity.

How will the five former East German federal states vote? No one knows, but critical voices against Berlin are being heard in Thuringia and Saxony, where people have not forgotten how Erich Honecker and company always favored Berlin at the expense of the regions. It therefore seems that federalists will vote for Bonn—in both the former East and West Germanys.

—WANDA MENKE-GLÜCKERT

## Refining Vacation Palates

LONDON—The British “package holiday”—that annual vacation spent sizzling on a crowded beach in Spain, eating “traditional” local dishes such as fish and chips, and drinking vast quantities of British beer—is on its way out.

The supermarket approach of “stack ‘em high, sell ‘em cheap” made overseas holidays available to millions of low- and moderate-income Britons for the first time during the 1970s and 1980s. Low-cost air travel offered by new charter companies, together with high-rise hotels hastily built along the Spanish coast where land and labor were cheap, made up the “package” that made the vacation possible.

Between 1978–88, the number of people going on package holidays climbed to 12 million. The fact that millions of ordinary working-class people living on a sun-starved island off the coast of northern Europe could afford a holiday in the sun each year was a tremendous achievement for the British economy, and provided an economic boost for nations like Spain, Portugal, and Greece.

But the very success of the mass-market package holiday contained the seeds of its decline. The British vacationer, complaining that the locals did not speak English, that it was impossible to get a decent English meal anywhere, and that the beer was “funny,” became a cliché. And so, restaurants and bars soon mushroomed along the coast of Spain and the other Mediterranean resorts that catered to the insular palate of the British.

The package travelers did not really visit the country of their vacation, either. They simply boarded an aircraft in Britain, flew directly to an airport beside the resort, were bused to the hotel, and, for the next week of two, their only contact with Spain or Greece would be to ask their waiters

for another beer.

The uncontrolled growth of the huge resorts led to low standards of accommodation and poor service. Airport congestion and hotel overbookings began to take their toll, complaints grew, and package holidays began to get a negative image. By the end of the 1980s, telling a neighbor or work colleague that you went for a package holiday to the Costa del Sol no longer evoked the envy or emulation it would have done 10 or 15 years ago. In fact, it was more likely to invite ridicule or pity.

At the start of the 1990s, the British have become accustomed to foreign travel and are more selective about what is provided—the sun alone is no longer enough. British vacationers of this decade want more exotic, more unusual, and more active vacations.

The traditional package holiday still exists, and still attracts millions, but the numbers are in sharp decline: They fell from 12 million in 1989 to 10 million this year. For 1991, the forecast is probably only seven million to eight million.

For the travel business, 1990 has therefore been an “appalling” year. *Travel News*, a trade newspaper, reported that, by late September, 199 bonded travel agents and seven tour operators had closed down.

High interest rates and declining economic activity played their role, but essentially it appears that palates have become more refined, and that fashion has changed. People want something different and more individual, and it looks like Britons are now turning to the United States. Spain is out, Florida is in; the Alps are out, the Rockies are in—after all, the natives there do speak English.

—DAVID LENNON



## In the Pipeline

AMSTERDAM—The E.C. Energy Commissioner, Antonio Cardoso e Cunha, recently irritated the Dutch Government when he called the coupling of gas prices to oil prices “no longer justified,” and argued that, with oil prices shooting up as a result of the Gulf conflict, consumers of gas had become victims of speculative oil prices.

The system of coupling gas prices to those of oil dates back to the 1970s when natural gas was relatively scarce in Europe. Cardoso e Cunha claims that the price coupling can have a negative influence on public opinion, and that it could harm consumers. Major industrial leaders would agree with this argument, but the Dutch Government and oil companies are not convinced. Anton Grotens, Managing Director of the Dutch company Gas Unie, defends the Dutch pricing system, saying that the ups and downs of the dollar value would undoubtedly introduce uncertainties in a market that would become jittery owing to its dependence on price manipulations by non-E.C. suppliers.

Gas Unie claims that, through this system, the shock in price differences is slowed down for households as they are protected by a maximum price adaptation of three Dutch cents per cubic meter of gas each half year. However, Dutch gas distributors disagree and are calling for an “autonomous” gas market.

While the Dutch Government and the E.C. Commission may be divided on the subject of pricing systems, they agree that the Gulf conflict has made clear that it is high time for the E.C. to put together a coordinated energy policy, as was recently proposed by Dutch Prime Minister Ruud Lubbers. This is reinforced by the E.C.’s oil and gas consumption figures over the past decade, which have risen by 5 percent and 2 percent, respectively.

When the Dutch discovered vast amounts of natural gas after World War II, it was a blessing for a country severely hit by war and the loss of Indonesia. It has subsequently given the Dutch Treasury a solid supply for years and is by no means exhausted. Only last week, Gas Unie announced a new find worth 56 billion guilders (\$32.6 billion).

Gas Unie has a pivotal function as the sole purchaser and carrier of natural gas. It already supplies Germany, Belgium, France, Switzerland, and Italy, and, with the latest find, can continue to do so for another decade.

So far, the Dutch have handled their reserves smartly, observers say, using up the small fields gradually and being very cautious with their large field. This is in comparison to Norway, the Soviet Union, and Algeria, which have reached the limits of their production capacity. The United Kingdom, meanwhile, produces only for home consumption and will have a shortage by the year 2000. The Soviet Union can step up its future capacity, but will need Western help to do so.

—NEL SLIS

## Stinging Economic Nettles

ATHENS—As Athenians returned from their summer vacations, Prime Minister Constantine Mitsotakis grasped one of Greece’s more formidable economic nettles—the social insurance and pensions sector. Virtually destitute and ridden with anomalies, Mitsotakis found the economic nettle had a sting to match: His ideas for reforming it led to massive protests and repeated general strikes, which forced him to make substantial concessions.

The 16 largest pension funds, covering 98 percent of Greece’s one-and-a-half million pensioners, are showing a com-

bined deficit this year of almost \$5 billion, of which the state’s own Social Insurance Foundation (IKA) accounts for just over half. With 250,000 new pensioners in the next five years and unchanged payment trends, that figure would increase from 7 percent of GDP today to 10 percent in 1995. The only way to reverse this is to establish a healthier balance between contributions and benefits.

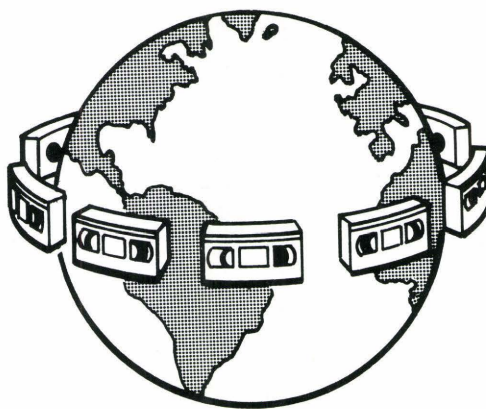
When the system was launched in the 1950s, eligibility criteria for pensions were

set low to encourage people to insure themselves, and they remained low. Consequently, public-sector employees have until now been able to retire after 15 years of service (women) and 25 years (men). In addition, whole categories of people—for example, refugees returning from Eastern Europe—are entitled to receive IKA pensions without even having paid contributions.

Minimum pensions also increased when they were coupled to private-sector minimum

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wages, which rose sharply under the previous Socialist Government's automatic index-linked income policy. There was thus little incentive for people to pay more than the minimum contributions, since the difference between the pension available after thirteen-and-a-half years' work and that after 27 years was not great. Thus, 70 percent of IKA pensioners receive the minimum pension, the majority swelling the army of self-employed with small businesses after early retirement.

After heavy reductions in the merchant marine work force, the Seamen's Pension Fund (NAT) is in especially poor

then by any unmarried daughter. By that time, the latter may already be drawing her own early retirement pension and therefore be living very comfortably.

Much, but not all, of this is now set to change. The retirement age will rise by stages to 60 for men and 58 for women (or 50 if they have underage children). Invalidity pensions will be awarded on strict medical criteria. There will be a 3-percent rise in all contributions, and most insured people will pay 25 percent of the cost of medicines.

But Mitsotakis had to abandon, at least temporarily, his proposal to amalgamate the rel-

generations, they have considered themselves—and were considered by others—to be Italy's vital industrial center, as well as its spotless soul. Now they are discovering, to their great dismay, that their city is allegedly heavily involved in major criminality of the most unwanted kind. "The real Mafia is in Milan," revealed Attorney General Adolfo Boria

d'Argentine, in charge of the city's law and order. Money from all over Italy is supposedly laundered, recycled, and reinvested in Milan, Italy's financial nerve center. The scandal has touched the city's highest authorities, including the mayor.

The controversies over organized crime have rocked national politics for several weeks with unprecedented violence. And, for the first time, Francesco Cossiga, the President of the Republic, has now gotten into the fray, breaking the self-imposed self-restraint that has characterized the first five years of his seven-year mandate. Some of his critics charge that he has renounced his duty to remain objective, which the Italian Constitution requires of the (largely symbolic) figure of its Head of State.

Cossiga, beginning with a justifiable preoccupation over the increasing crime that is often somehow connected to the political world, criticized the actions of one politician whom Italian public opinion has placed in the front line in the war against corruption: the former mayor of Palermo, Leoluca Orlando, a member of the Christian Democrats. In the last elections, Orlando received an overwhelming victory. And yet, he was unable to take up his job as mayor because of ostracism within his own party.

The problem is aggravated by the fact that Orlando has an ideological affinity with a group of Jesuit priests who are viewed with suspicion by the political establishment because of their outspokenness against corrup-

tion. The seriousness of the dispute is illustrated by the fact that Cossiga, albeit a Catholic himself, did not hesitate to criticize the Jesuit counselors of the ex-mayor.

—NICCOLÒ D'AQUINO

## Studying for Success

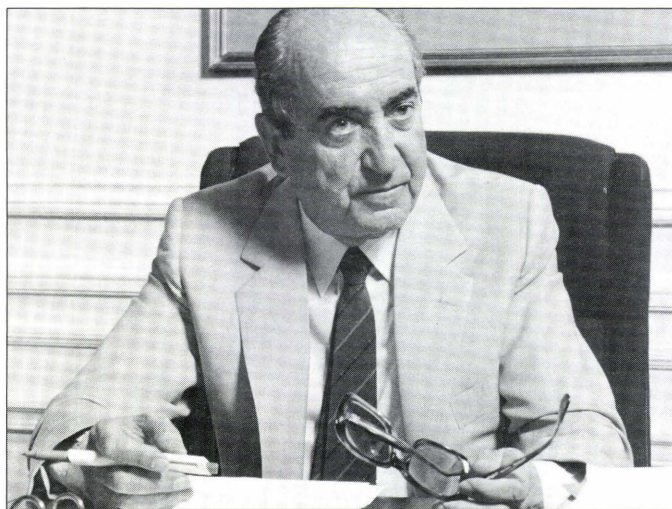
COPENHAGEN—Although success stories do not abound in the Danish Government, the career of the very outspoken liberal Minister of Education, Bertel Haarder, must be considered one of them. A survivor of the non-socialist Government formed by conservative Poul Schluter in 1982, he has implemented a major structural turnaround of Danish higher education.

In 1976, close to 50 percent of all young Danes chose university studies, typically liberal arts, which led to teaching and other jobs in the mushrooming welfare state. Only 20 percent chose an education targeting the private sector.

Fourteen years later, that scenario has completely changed. This year, less than 20 percent of the young opt for studies relevant to the public sector, and more than 40 percent are preparing for jobs in the private sector. Business, economics, computer, and engineering studies have replaced literature, sociology, and history.

For most, it is much more than a change of subject matter. The class of 1990 is very different from the class of 1976, or, for that matter, from that of 1983. Nowadays, individualism and hard work are the order of the day and, although education is still free at all levels, government cost-of-living grants and loans are now only available when a tightened study schedule is strictly adhered to.

Even before the collapse of communism in Eastern Europe, left-wing parties found it hard to woo the young. Now it is vir-



Greek Prime Minister Constantine Mitsotakis' overhaul of the country's generous pension system has met with some resistance.

shape. Here again, it has been common for a man to go to sea for two or three years, retire on the minimum NAT pension, and spend the rest of his life supplementing it by working as a fisherman. Another conspicuous anomaly of the system is the fact that 30 percent of IKA's former contributors draw invalidity pensions, as against an E.C. average of around 10 percent.

Dramatic instances of multiple pensions also abound. These often arise because of the provision that a retired civil servant's or army officer's pension may be "inherited" after his death, first by the widow and

actively prosperous pension funds of the powerful banking and public-sector unions with IKA, and thus eliminate some pockets of accumulated privilege. Nor did the final legislation include his plan to peg 1991 minimum pension increases to half the public-sector wage rise, which would have meant a substantial saving of revenue next year.

—PETER THOMPSON

## Troubling Times

ROME—These are embarrassing times for the Milanese. For



tually impossible. Student unions, once able to influence staff appointments and academic curricula, are now merely asking for quality. And the law that gave them that power—following the student rebellions of 1968—is being replaced this fall by one that will restore most professorial privileges.

Danish students do not grade the teaching of their professors, nor do Danish universities and business schools have the same incentive to fire substandard teachers as U.S. institutions, who have to attract students in the market. But students are complaining on an unprecedented scale, and teachers who do not heed complaints now get the sack. The top civil servant responsible for higher education in the Ministry of Education, Knud Larsen, says that students are often more disciplined than their professors and demand greater efficiency in teaching than many professors can cope with. It is no wonder that many parents secretly worry whether they can compete with these graduates when they hit the market in four of five years' time, many of whom will also have language skills and foreign study experience.

—LEIF BECK FALLESEN

## Good-Bye, Macao

LISBON—The Portuguese-administered enclave of Macao on the Chinese mainland is currently the focus of considerable controversy. The alleged scandal involving the enclave's Portuguese governor, Carlos Melancia, a personal friend and ally of Portuguese President Mário Soares, is rocking the small territory and ruffling relations with Peking.

Allegations of attempted bribery and worse, involving Melancia and a West German firm of consultants attempting to win a lucrative contract to build an offshore airport in Ma-



Macao, above, has been administered by Portugal since 1557. It will be returned to China in 1999.

cao, have appeared in Portuguese newspapers for the past eight months. Now, disclosures of apparently compromising telefaxes and other documents have finally led to questions in Parliament and to an official enquiry.

But since the legal and judiciary machinery grinds very slowly in Portugal, the Governor and his associates have, in the meantime, been subjected to a veritable trial by newspaper. As Miguel Sousa Tavares, a leading press commentator, wrote: "The Melancia case is a classic example of how a deficient justice system allows public opinion to condemn a man before he is even formally accused."

In fact, Peking has rejected the airport project because it sees no need for it. Indeed, the Chinese capital has shown itself increasingly irritated by the Governor and his grandiose—and belated—plans to leave some marks of Portugal's presence in Macao before its return to China. The alleged scandal has sharpened the Chinese irritation, and Peking has warned Lisbon of negative effects on bilateral relations.

Portugal's 400-year-old involvement in Macao, the last vestige of its once mighty empire, will draw to a close on December 20, 1999, when Lisbon formally returns the territory to China, two years after Britain hands back neighboring Hong Kong. Lisbon won the right to administer the south China

coast trading post of Macao from a Chinese emperor in 1557.

Among its population of 450,000 are 100,000 Portuguese passport holders entitled to move freely around the European Community. This is complicating the final days of the Portuguese Administration in Macao: Lisbon is pledged to give unqualified rights to any Macao resident who can show a legitimate claim to Portuguese nationality. Other E.C. countries, particularly the United Kingdom, have therefore expressed concern that thousands of Hong Kong residents, who have been refused full British citizenship, may use Macao as a back door entry point to Europe.

There is reason for this British concern. Portugal's commitment to the region's population has already fueled a flourishing racket among Hong Kong citizens keen to use Macao as a way around the United Kingdom's restrictions and to leave the area before China takes over.

—KEN POTTINGER

## Bond Market Takes Off

LUXEMBOURG—The bond market in Luxembourg has taken off following the scrapping of all government controls on bond issues last July 1, 1990. Banking officials believe that this lucrative market, al-

ready worth \$2.5 billion, could double by the end of the year, and that it could be worth about \$6 billion next year.

Market deregulation means that private companies—many from Belgium—will now be able to list their placements on the Luxembourg stock exchange.

Prior to the move—which coincided with the E.C.'s decision to do away with all capital controls in eight of the 12 member states—the Luxembourg Government operated a strict system under which both private and public borrowers had to wait their turn in line before making placements with individual banks. There were also fixed ceilings of \$333 million on public issues and \$10 million on private placements.

International financial groups, particularly Belgian ones, will also soon get the go-ahead to set up investment companies in Luxembourg. These new companies, which will be allowed under legislation brought in under the 1991 budget, will fall outside the special regime for holding companies, but be subject to very low levels of taxation.

Luxembourg holding companies have always been considered by outside investors as significant tax havens, as they are exempt from taxes both in Luxembourg and abroad. However, legislation enacted in the 1920s forbids them from engaging in any commercial activity, and they are prevented from employing management to run their day-to-day affairs.

The new investment companies will be able to operate like normal companies, and investors say they will be more responsive to the needs of modern management.

—DENISE CLAVELOUX



## ATHENS

Former actress and former socialist Minister of Culture, *Melina Mercouri*, was one of the all-party delegation to Tokyo hoping to bring home to Greece the 1996 centenary Olympic Games. When the International Olympic Committee announced its decision to give the Games to Atlanta, Georgia, she had—as she usually does—an epigram for the occasion: “Coca-Cola has prevailed over the Parthenon, but not over history.” Last month, Mercouri lost in her bid to become mayor of Athens.

## BONN

*Rolf Liebermann*, 80, composer and opera director, disclosed the trick with which he lured his friend *Igor Stravinsky* to celebrate his 80th birthday in Hamburg. At least four years before that day, Stravinsky promised Liebermann to celebrate it in Hamburg, where the latter was opera director.

Alas, one year before the event, Stravinsky telephoned to say that he had been invited by the Kremlin and that he wanted to go to the Soviet Union very much after so many years of absence. While understanding his friend, Liebermann did not give up on his pet project. He telephoned a good acquaintance of *Jacqueline Kennedy*, and suggested that the Kennedys invite Stravinsky for this important occasion. A few days later, a worried Stravinsky telephoned Liebermann from Los Angeles to tell of his dilemma. “Although I feel Russian at heart, I am an American citizen and cannot decline the Kennedy invitation and go to Moscow. The only solution would be to stick to our original Hamburg plan.” Liebermann was only too pleased to oblige.

## PARIS

Nothing has stopped this season’s fashion scene from its unusual and extravagant sense of fun. The spring 1991 ready-to-wear shows, which have been under way in Paris in recent weeks, are holding fast to their tradition of featuring the outlandish. Designer *Thierry Mugler* showed off an eccentric spring collection to fans that included *Madonna*, *Diana Ross*, and *Danielle Mitterrand*. The collection was considered even by some of the most daring trend-setters as largely impractical and unwearable, but such is life in *haute couture*!

## ROME

Italian cigar smokers have noticed that the myths and heroes of the past generation are being stashed away. One of the most-smoked cigars in Italy, the “Che” brand, is now adapting to modern times. The cigar’s reference to Marxist revolutionary *Che Guevara* is not at all incidental. Indeed, the Dutch company Henry Wintermans, which distributes the cigars in Italy, had created a very explicit design for the cigars’ metal containers. The famous face of Commander Che Guevara was portrayed by a clever and artistic overlapping of stylized tobacco leaves. The leaves are still on the new boxes, but the face is not.

Italy, too, has its own *Reverend Jesse Jackson*. He is *Mario Capanna*, a prominent figure of the 1968 student protests and now a deputy of the Italian Green Party. On a personal mission to Iraq, *Saddam Hussein* released 10 Italian hostages in poor health to him. He was criticized by the Foreign Ministry upon his return because of the seemingly arbitrary selection of the freed hostages.



The Basilica of the Sacred Heart is a major landmark in Brussels.

## Tunnel Vision

BRUSSELS—Take a deep breath of fresh air, for you are about to enter the Leopold II tunnel, one of the longest tunnels in Europe. Built in 1982, it stretches from downtown Brussels to the rococo church of Koekelberg. More than two kilometers long, the tunnel that was once the pride of Belgian engineers has one problem, however: It is a health hazard.

From morning to evening, thousands of cars pass through the tunnel, resulting in a high concentration of car pollution. A study sponsored by the Environment Ministry claims that the air in the Leopold II tunnel is “the most polluted anywhere for a large part of the city’s population.” Another study indicates that, while ventilation inside the tunnel works well, the system that pumps the air outside is inadequate. Experts say that the pumping system should be rebuilt closer to the blowers—at a high price.

Officials announced in September that they would divert traffic if pollution levels became too dangerous for human health. They were also planning to set up green plants and concrete container walls around outside openings of the pumping system to prevent pedestri-

ans from breathing high levels of carbon monoxide.

The fate of the Leopold II tunnel is only part of Brussels’ problem with car congestion. “Belgians consider their car an extension of their home,” says former Transport Minister Herman de Croo. “All we can do to limit traffic from the suburbs is to create a more alluring train system.”

But that is still a long way off. Trains in Belgium arrive on time, but they are outdated, too crowded during rush hour, and empty during off-peak times. And unlike most European capitals, Brussels has no rapid commuter train system, although plans do exist to build one. Subways do run well, but most drivers still prefer taking their cars through the numerous tunnels and speedways that run right into the center of Brussels.

Indeed, promoters who are building new quarters in Brussels for the European Community expect an additional 40,000 cars to enter the Belgian capital when all the works are completed in a few years. By then, the number and size of traffic jams may finally force drivers to take the subway and avoid the choking fumes of the Leopold II tunnel.

—CHRISTOPHE LAMFALUSSY



## Where's the Beef?

DUBLIN—The crash of the Goodman meat empire, which controlled 40 percent of the Irish beef industry with an annual turnover of almost \$2 billion, sent tremors through the economy and forced an emergency meeting of Parliament to prevent foreign banks calling in their debts and dismantling the network of companies that stretches across Europe and even to Brazil. The crash could not have come at a worse time: Irish farmers were just getting ready to sell their fattened cattle to the Goodman plants, the closure of which would have plunged many into bankruptcy.

Long hailed as one of the most successful food conglomerates in the E.C., Goodman International was suddenly revealed to be burdened with unsecured debts of about \$800 million and a series of disastrous overseas investments. Larry Goodman, the secretive and taciturn owner of the stricken group, was confronted by the alarmed representatives of 31 banks, most of them non-Irish, who claimed that they had been left ignorant of the real state of the group's tangled financial operations.

In such a case, the banks would usually have put the group in the hands of a receiver, who would try to sell off the assets at the best possible price. With 40 percent of the country's beef output in jeopardy, however, the Government moved quickly, recalling the legislature from its summer recess and rushing through a measure allowing Goodman instead to appoint an "examiner" who would have up to six weeks to see if the group could be made viable.

The invasion of Kuwait by Iraq was the breaking point for Goodman International. The company had been struggling to recover from the loss of export markets in the Middle East because of the scare over "mad cow disease" in Britain and the

collapse of share prices in two British food groups, Berisford and Unigate, over which Goodman had been trying to get control through huge borrowings. In addition, Iraq owed Goodman about \$300 million.

There was also a political fall-out from the crash that is still reverberating. Goodman was reputed to have close links with Fianna Fail ministers and, in 1987, the Government restored export credit insurance for the Goodman trade with Iraq—then still at war with Iran—which had been canceled by the previous administration. One of the strongest critics of this special treatment for Goodman was Desmond O'Malley, leader of the Progressive Democrats, whose small party joined Fianna Fail in a coalition government last year.

As the new Minister for Industry and Commerce, O'Malley again canceled the export insurance for Goodman's beef trade with Iraq. But some of the foreign banks have claimed in court proceedings that Goodman executives had informed them of indications by Fianna Fail ministers that the export insurance would be restored. O'Malley has strongly denied that claim.

While all this is going on, the collapse of Goodman International will leave lasting marks on the country's agricultural, banking, and political sectors. —JOE CARROLL

### Date Set for Stage Two of EMU

At their October 27-28 summit in Rome, E.C. leaders committed themselves to starting Stage Two of European Monetary Union, or EMU, on January 1, 1994.

This phase would establish a European central bank, the EuroFed, contingent upon completion of the single market, ratification of the EMU treaty by the national parliaments, and a well functioning exchange-rate mechanism. In 1997, a progress review would enable leaders to decide on a starting date for Stage Three—the adoption of a single currency.

British Prime Minister Margaret Thatcher was the only E.C. leader to oppose the agreement, arguing that it was too early to decide on dates before the December 14 intergovernmental conference (IGC) on EMU. E.C. Commission President Jacques Delors, on the other hand, called it a mandate for the IGC.



The crash of Ireland's Goodman meat empire, one of Europe's leading food chains, will be a major blow to many Irish farmers, who sold their cattle to the company.

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# EC NEWS

## FINANCE

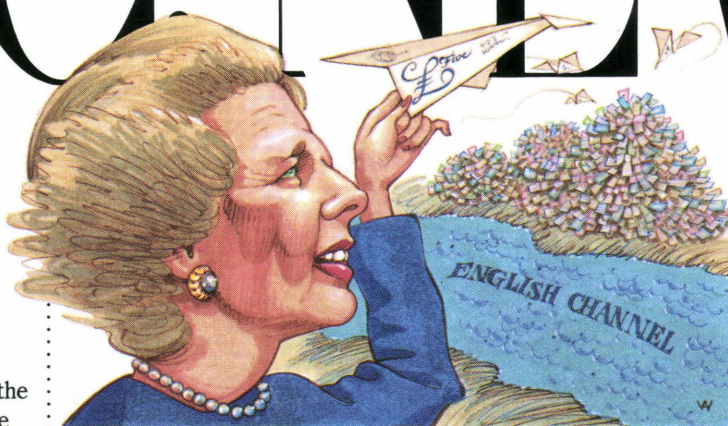
### Britain Joins ERM

AT THE BEGINNING OF October, two months before the intergovernmental conference on economic and monetary union (EMU) begins in Rome, the United Kingdom, after years of opposition, finally joined the exchange rate mechanism, or ERM. The pound sterling entered the mechanism at a moderately high exchange rate of 2.95 German marks to the pound.

The ERM, which forms part of the wider European Monetary System, now includes all E.C. members except Portugal and Greece. The ERM controls the fluctuation (i.e. appreciation and depreciation) of member state currencies against each other within a certain range. The main goal of the system is to ensure monetary stability, keep inflation down, and allow reasonably low interest rates.

The United Kingdom waited to join the ERM because it felt this move would entail a pooling of sovereignty in economic and monetary matters. ERM membership implies a commitment on the part of the Bank of England to use monetary policy first and foremost to stabilize the pound.

However, this had already become the guiding principle of Britain's economic policy. ERM membership therefore seems to offer what had been



BILL ALLEN

difficult to achieve by the use of monetary policy at the domestic level, namely, stability of the pound and inflation control.

The immediate effect of the move on the British economy has been a minor stock market boom. Chancellor of the Exchequer John Major acknowledged, however, that the United Kingdom would still have to face the nation's fundamental economic problems—including high inflation and declining competitiveness.

British industrialists are concerned that the high exchange rate will damage their competitiveness as exporters. A stronger pound against a weaker dollar, they argue, could make the U.S. market increasingly inaccessible for British products. On the other hand, the British business community has commented positively on the effects of exchange rate stability, especially since this will facilitate overseas investment planning. It hopes that the pound's increased stability will result in enhanced internationalization of British business as the 1992 single market approaches.

E.C. Commission President Jacques Delors expressed his satisfaction at Britain's long-awaited arrival in the ERM.

### Greece and Portugal Want to Hop on EMU Bandwagon

AFTER BRITAIN'S DECISION to join the E.C.'s exchange rate mechanism, or ERM, Portugal

and Greece are now the only E.C. members that do not belong to the system of exchange-rate control.

Since neither wishes to be excluded from the process toward monetary union, the Governors of the central banks of Portugal and Greece have noted their countries' intention to join the ERM before the second stage of European Monetary Union (EMU) becomes a reality. The E.C. Commission has proposed that this should happen on January 1, 1993.

ERM membership is an indispensable requisite for participation in the second stage of EMU, which will establish the EuroFed, a single and politically independent system of the E.C.'s central banks.

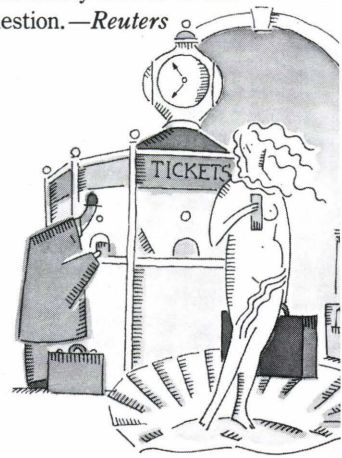
## SINGLE MARKET

### Where Have all the Artworks Gone?

EVERYONE KNOWS THAT "1992" implies the free movement of goods. But should those "goods" also include such masterpieces as Pablo Picasso's *Guernica* or Michelangelo's *David*?

The E.C. agrees in principle that member states should retain the right to keep their national treasures within their own borders. National viewpoints start to differ,

however, when it comes to determining which works of art should be categorized as such. The E.C. has set up a special committee of customs and culture officials to find a satisfactory answer to this question. —Reuters





## SOCIAL AFFAIRS

# European Parliament Favors Vote for Immigrants

ACCORDING TO THE European Parliament, E.C. governments should grant immigrants the right to vote and the right to candidacy in local elections.

The European Parliament has called for additional E.C. funding for a charter of immigrants' rights and other measures to fight discrimination. This call for action was encouraged by a special parliamentary committee set up 10 months ago to investigate racism in the Community. The report suggests allowing those immigrants who have legally lived in the E.C. for five years or more to be candidates and voters—at least at the local level.

The Parliament is expected to adopt the report by a large majority; it will then be up to the Commission to enforce legal proposals. —Reuters

## SOCIAL AFFAIRS

# Parliament Releases Funds to Romanian Orphans

THE EUROPEAN PARLIAMENT recently passed a resolution calling on the E.C. Commission to take action to save thousands of Romanian orphans threatened by cold, hunger, and disease. Romania's Ambassador to the European Community, Constantin Parvutoiu, estimated that at least \$20 million would be needed for an emergency program to aid 120,000 Romanian orphans. Since

communist dictator Nicolae Ceaucescu's overthrow last December, the E.C. has given Romania \$15.5 million in emergency aid. —Reuters

## COMPETITION

# Commission Becomes Merger "Watchdog"

THE RECENT "STRATEGIC alliance" between Italy's Fiat SpA and the French Compagnie Générale d'Electricité S.A. (CGE) will enable the E.C. Commission to exercise its new authority to maintain fair competition in the E.C.'s economic area.

The merger, which was announced on October 4, 1990, calls for the "rationalization of industrial activities...and the creation of a European holding company with parity shareholding in order to develop joint forms of intervention in sectors of common interest."

This major link-up comes just after the enactment of a new mergers regulation that allows the Commission to examine mergers while still in the planning stages. It also gives the Commission the authority to veto or modify mergers that would damage competition in the single market.

In compliance with the new regulation, which went into force in September, Fiat and CGE were required to notify the Commission of their proposed merger because their aggregate turnover exceeds \$6.6 billion. According to Commission sources, the telecom alliance will be closely scrutinized.

Under the deal, Fiat will become one of CGE's largest shareholders, acquiring a 6-percent stake of the company at a cost of \$826 million. In turn, CGE, France's third-largest industrial group, will take a 3-percent stake in Fiat for \$390 million.

## The New Germany in Facts and Figures

**AREA:** 357,041 square kilometers (137,853 square miles).

**POPULATION:** 78.4 million.

**LARGEST CITIES:** Berlin, the official capital: 3.8 million; Hamburg: 1.5 million; Munich: 1.25 million; Cologne: 900,000.

**POLITICS:** The newly formed country will assume the West German Basic Law and political structure. The lower house of Parliament, the *Bundestag*, will have 663 members. The enlarged upper house, the *Bundesrat*, will represent the 16 federal states, or *Länder*. The first all-German elections will take place on December 2, 1990.

**ECONOMY:** Unification will reinforce West Germany's position as Europe's strongest economy. It will be the third-largest economy in the world, after the United States and Japan.

• Experts predict that it will be years before the standards of living in the eastern part of Germany match those of the western part.

• After an initial 7.5-percent jump in inflation in July, prices rose only slightly in August. The West German inflation

rate rose only 3 percent in September.

• West Germany's 1989 GNP reached \$1,078 trillion; East Germany's GNP reached \$215 billion.

**TRADE:** West Germany had a \$82-billion trade surplus in 1989. Most of East Germany's trade was with the centralized economies of Eastern Europe. The united Germany will have a dominant trade position in the Eastern bloc.

**INDUSTRY:** Both East and West are particularly strong in engineering, cars, electronics, and chemicals.

**AGRICULTURE:** Forestry and fishing provided 11 percent of the jobs in the East, and 5 percent in the West.

**DEFENSE:** Germany will be a member of NATO; upon Moscow's request, no NATO troops will be stationed on former East German territory.

• East Germany's armed forces reached their highest figure last year, with 175,000 men. The former East German army will cease to exist; some of its former members will be absorbed into the *Bundeswehr*. The German army will be limited to 370,000 men.

## POLITICS

# Europeans Praise Gorbachev

E.C. LEADERS HAVE WARMLY congratulated Soviet President Mikhail Gorbachev on winning the Nobel Peace Prize. British Prime Minister Margaret Thatcher called it a "richly deserved reward," and French President François Mitterrand agreed that the good news was

"fully merited." Mitterrand described Gorbachev's actions as "the decisive factor in reducing tension in the world and especially in Europe . . ."

German Chancellor Helmut Kohl wished the Nobel Peace Prize winner "strength and success to continue the policies that have just won such high international recognition." And Spain's King Juan Carlos said the prize was "an honor that testifies to [Gorbachev's] intense work to draw together and boost understanding among the world's nations."



# E.C. Pledges Assistance in Gulf Crisis

THE E.C. AND ITS MEMBER states have pledged \$1.5 billion European Currency Units (roughly \$2 billion) in relief for Egypt, Turkey, and Jordan, the frontline states that have been severely affected by the crisis in the Middle East. This aid comes in addition to significant

individual and military contributions that the member states have already made to these countries.

# E.C. Removes Sanctions Against China, Iran

E.C. FOREIGN MINISTERS

agreed to lift their sanctions against China and Iran and to restore diplomatic relations with Vietnam. The E.C. has said that it will continue to be

vigilant against any human rights violations in these countries, and that it will speak out forcefully if they should occur in the future.

# Eastern European Travel Tips

## Czechoslovakia

No visa is required of U.S. passport holders for visits of up to 30 days. Major credit cards are widely accepted in Prague, Bratislava, and Brno. AT&T Direct has a toll-free number in Prague that dials right into the U.S. telephone system. This is good to use, because hotels add steep long-distance toll charges for numbers dialed through the Prague switchboard.

## Hungary

Starting November 1, 1990, U.S. passport holders do not require visas to enter Hungary. The forint may not be imported or exported, but most major Western credit cards are accepted at hotels and restaurants. AT&T Direct offers a toll-free number from Budapest. If you fly to Budapest on Malev, you will breeze through Ferihegy Airport's brand new terminal. All other airlines drop you off at the aging, and less efficient, original terminal. The trip from the airport to the city should not cost more than \$10.

## Poland

Poland still has a complicated visa procedure for U.S. passport holders. Send a completed visa application form, your passport, two passport photos, and \$23, and wait about a week. The Polish travel agency, Orbis (1-800-223-6037), may be useful in finding a hotel. All Western and Orbis hotels, restaurants, and nightclubs in Poland will accept your credit cards. Money, otherwise, is a headache. Upon entry you are required to register the precise amount of cash and cash equivalents you are carrying, and then turn out your pockets when you exit. You should not have more than you brought in. And don't even think of importing or exporting zlotys. One consolation: The 10-kilometer trip from Okęcie Warsaw International Airport is no problem. AT&T Direct has no number for calling home from Poland.

## Romania

Even if it doesn't require any photos or application form, Romania has placed a high value on its visa: Send the Embassy's consular section your passport, a self-addressed stamped envelope, and a money order for \$30. They'll send you a visa good for up to six months. Or you can pay in cash at the border. Romanian money is the leu: don't take it in or out. Your credit card will be good at your Bucharest hotel, for which you may need the official tourist agency: (212) 697-6971.

## Bulgaria

As of October 3, 1990, Bulgaria eliminated the visa for U.S. passport holders visiting for up to 30 days. But don't pack any lei in your luggage when traveling to Sofia: local currency import and export is forbidden. Western credit cards are acceptable import items. None of the U.S. telephone companies has an easy access telephone number from Bulgaria. Its tourist agency is Balkan Holidays: (212) 722-1110.

—Robert Haslach

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B. Paid and/or requested circulation		
1. Sales through dealers, street vendors and counter sales	689	689 (est.)
2. Mail subscription	14,591	14,000
C. Total paid and/or requested circulation	15,280	14,689
D. Free distribution by mail, carrier or other means		
Samples, complimentary and other free copies	3,861	3,590
E. Total Distribution (Sum of C and D)	19,141	18,279
F. Copies not distributed		
1. Office use, left over, unaccounted, spoiled after printing	1,828	810
2. Return from news agents	916	911 (est.)
G. TOTAL (sum of E, F1 and 2—should equal net press run shown in A)	21,885	20,000



# BOOKS

## in

# REVIEW

**The Shattered Bloc.** By Elie Abel. Houghton Mifflin Company, Boston. 278 pages. \$20.95.

**The Bloc That Failed.** By Charles Gati. Indiana University Press, Bloomington and Indianapolis. 226 pages. \$12.50.

The rapid pace of last year's political and economic transformation of Eastern Europe makes it a daunting task to order these events in an historically meaningful way.

Elie Abel's *The Shattered Bloc* and Charles Gati's *The Bloc that Failed* are among the first to take up that challenge. In view of the enormity of the topic, both can be considered unmitigated successes in terms of timeliness, analytical depth, and readability. Despite some overt similarities—an identical cover photograph illustrating the opening of the Berlin Wall, and virtually matching titles—each book approaches the subject differently.

*The Bloc That Failed* examines the Soviet Union's failure to transform its relationship with Eastern Europe from one of dominance to one of influence. Gati tends to overstructure the argument with successive breakdowns of the subject into various sets of sub-problems or questions, but this technique makes it an excellent guide for anyone needing a solid framework on which to build a deeper understanding of the region's complex history.

Comprising three main sections, the first reviews Soviet policy in Eastern Europe from Stalin to Chernenko; the second examines the early Gorbachev reform era (1985–88); and the third concentrates on the revolutionary changes of 1988 and 1989.

Within this framework, and especially in the final section, Gati seeks to determine future Soviet relations with the emerging democracies of Central Europe, these nations' success in switching to market economies and political pluralism, and the West's role in assuring perma-

nent change.

His conclusions are "cautiously optimistic." He is confident that some countries, for instance Hungary, will manage to make the transition, but does not rule out at least a partial reversal of the revolution if support for political reform wanes under economic hardship.

*The Shattered Bloc* conveys the upheaval in Eastern Europe much more palpably. Abel's country-by-country analysis allows him to go into much greater historical detail, and also reflects his passionate involvement with the region's history since he was posted there as *The New York Times* correspondent in the 1950s. Written after spending the summer of 1988 in Eastern Europe, Abel's stock of conversations with everyone from Government officials to cab-drivers make it a highly readable appraisal of the region's problems and aspirations.

Considering the role the European Community has played in coordinating Western assistance to the reforming Eastern bloc countries, a full discussion of the E.C.'s importance in maintaining regional stability is missing in both works. Both discuss the challenge now facing the West, but concentrate on its future ability to balance its commitments to developing countries; its future security arrangements; and the need to prepare for possible upheaval in the So-

viet Union if that country does not meet its own reform objective. Abel's parting hope is that America and Western Europe will do all in their power to ensure lasting change and the completion of the historic transformation of Eastern Europe.

—Maevé O'Beirne

**The Magic Lantern.** The Revolution of '89 Witnessed in Warsaw, Budapest, Berlin and Prague. Timothy Garton Ash. Random House, New York. 156 pages. \$17.95.

*The Magic Lantern* is Timothy Garton Ash's eyewitness account of the tumultuous events in Poland, Hungary, East Germany, and Czechoslovakia that led to the uprisings and the fall of those countries' communist regimes at the end of 1989.

The author devotes a chapter to each uprising. He describes the Round Table talks and elections in Poland; the reburial in Budapest of Imre Nagy and the subsequent political negotiations between the Communist Party and the opposition groups; the popular and virtually non-violent demonstrations in Leipzig that ultimately led to the crumbling of the Berlin Wall in November; and an up-to-the-minute account of events in Prague, where he witnessed Czechoslovakia's revolution from a strategic location: the

basement of the Magic Lantern theater, Civic Forum's headquarters.

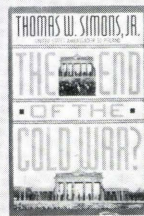
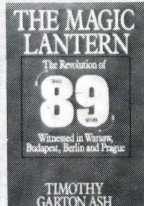
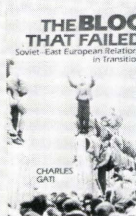
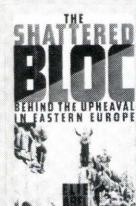
*The Magic Lantern* is more than just an account of these hectic events, however. A thoughtful concluding chapter, in which Garton Ash's training as an historian comes to the fore, helps to put the revolutions of 1989 into perspective.

He argues that these revolutions, in comparison to all others before it, bear the most similarities with those of 1848, and sets out to explain similarities and differences between them. There is, for instance, the importance of national pride, of economic, political, and social interests, the emergence of the concept of the "citizen" as opposed to being a "component in a deliberately atomized society," and of civility, "that is, [being] polite, tolerant, and, above all, non-violent" as opposed to "controlled or manipulated by the Party or Party-State."

Lewis Namier's argument that the 1848 revolutions were "born at least as much of hopes as of discontents" and erupted as the result of "European peace carefully preserved on a consciously counter-revolutionary basis" can, says Garton Ash, also be applied to 1989. While both 1989 and 1848 had underlying economic and social motives, their main thrust was ideological, and they were led by intellectuals.

In conclusion, Garton Ash writes that, while the West ponders over "how we might help them," he wonders how "they can help us." Indeed, he says, their uprising against 40 years of communism have reaffirmed the importance of democratic values. This, he stresses, is an important lesson to the West. In that vein, he continues, the European Community is the "one and only, real existing common European home. Intellectually... '1989' in Eastern Europe is a vital complement to '1992' in Western Europe."

*The Magic Lantern* is not only a very readable chronicle of the 1989 revolutions, but also a valuable piece of contemporary history. Timothy Garton Ash has managed to bring to life last





year's breathtaking events, and has attempted to put into historical perspective some of the many questions that now arise as Europe's political and economic "landscape" changes.

Garton Ash is confident that Eastern Europe will not return to communism. However, he does caution that the region will need help to achieve successful democratic transformation. And this, he warns, "depends to a significant degree on the commitment and ingenuity of the West in general, Western Europe in particular, and above all ... on a Germany remaining Western."

—Anke Middelmann

### The End of the Cold War?

By Thomas W. Simons, Jr. St. Martin's Press, New York. 188 pages. \$16.95.

It is unusual for U.S. Ambassadors to write a book while still

on duty: Usually we read their memoirs after they have retired.

Not so with Thomas Simons, Jr., currently the United States Ambassador to Poland, and previously the Deputy Assistant Secretary of State for European and Canadian Affairs, responsible for America's relations with Eastern Europe and the Soviet Union.

### The End of the Cold War?

looks at the last 10 years of the cold war but "focuses most closely on American policy." Simons gives equal credit for the end of the cold war to Soviet President Mikhail Gorbachev and former U.S. President Ronald Reagan. He also presents interesting comparisons on how domestic politics really determine the ability of superpowers to conduct their foreign policies: Both are constrained by "elites," a term he mentions frequently but fails to define, who prevent them from having a totally free hand in conducting arms control

talks.

The author devotes much of the book to Eastern Europe. With the glaring failure of Stalinism and communism in Eastern Europe, "a degree of genuine diversity emerged in the area, far greater than anything the Soviets had tolerated in practice." Giving a brief background of dissent against their communist rulers from the 1950s through 1989, the author convincingly argues that communism never did take hold in the Eastern European satellites of the Soviet Union, and that it was therefore not so difficult for them to break away last year when Gorbachev announced that he would not use force to keep their communist governments in place.

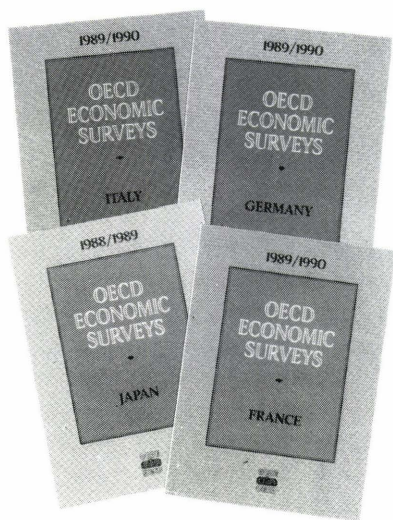
With the important Conference on Security and Cooperation in Europe meeting taking place in Paris this month, one of the more interesting parts of the book is Simons' comprehensive

look at the origins of this organization, and the importance that Eastern Europe has placed on it. He also presents a compelling case for active U.S. involvement in helping them chart their future course to market economies and political democracies.

Finally, Simons states that "diversity within the Soviet Union" is of fundamental importance to finally ending the cold war. And he feels "at the end of the path lies a Europeanization of the Soviet Union ... which will change the character of Soviet policy itself."

Simons presents an insider's account of the last 10 years in East-West relations, and a good presentation of the conditions that prevailed in Eastern Europe and led to the successful revolutions. Although a book of only 188 pages cannot possibly give all the details on such a massive topic, **The End of the Cold War?** is a good place to begin.

—Robert J. Guttman



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Today, the French fashion industry generates annual revenues of more than \$16 billion.

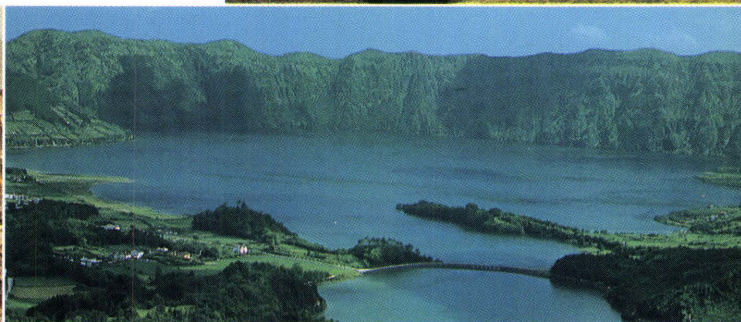
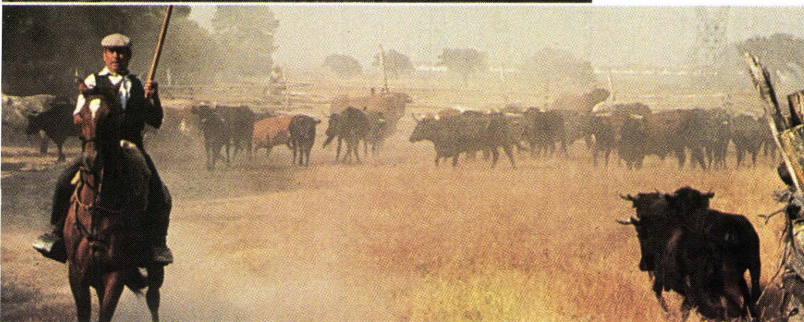
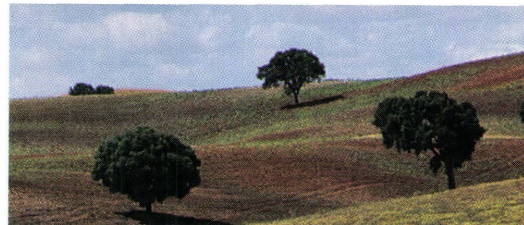
Our photo shows one of French designer Jean-Paul Gaultier's 1990-91 winter ready-to-wear pieces. The model is clad in a moiré silk pantsuit with fishnet back and Louis XIV wig.

in closing . . .





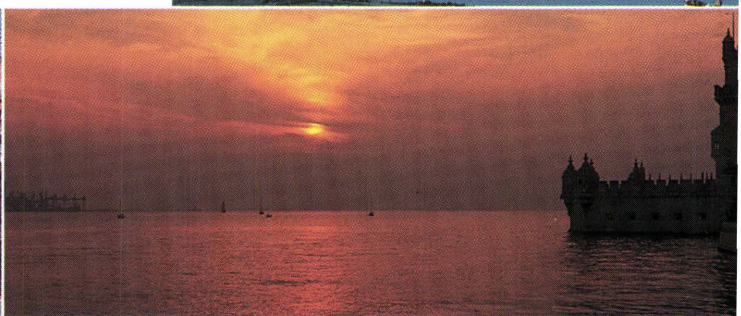
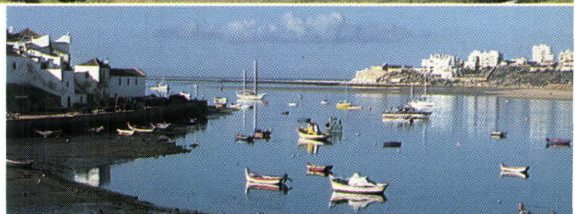
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