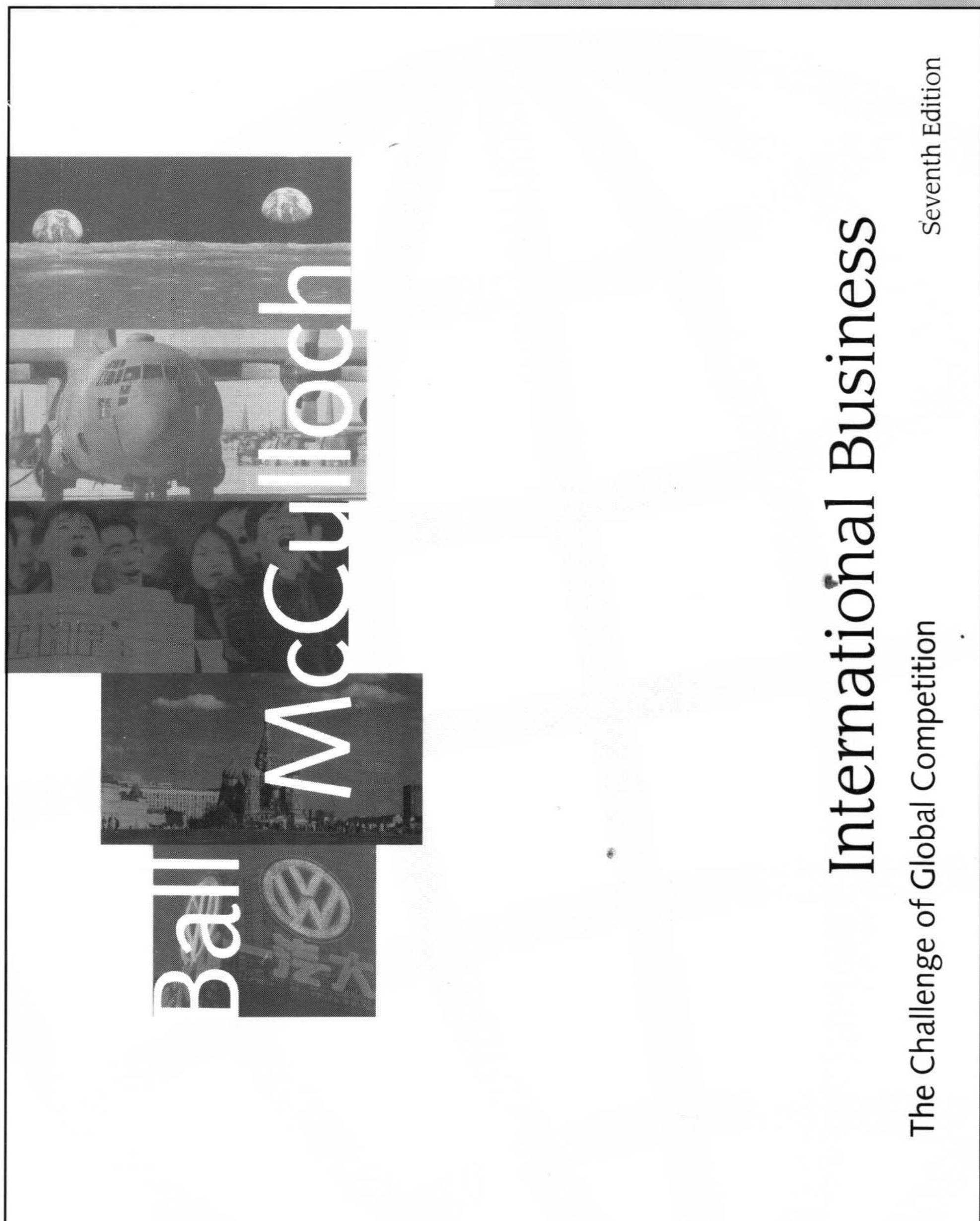
1999-2000 Update

to accompany



1999–2000 Update
to accompany

INTERNATIONAL BUSINESS:

The Challenge of Global Competition

Seventh Edition

Donald A. Ball

Wendell H. McCulloch, Jr.

Boston Burr Ridge, IL Dubuque, IA Madison, WI New York San Francisco St. Louis
Bangkok Bogotá Caracas Lisbon London Madrid
Mexico City Milan New Delhi Seoul Singapore Sydney Taipei Toronto

McGraw-Hill Higher Education

A Division of The ***McGraw Hill*** *Companies*

1999–2000 UPDATE TO ACCOMPANY INTERNATIONAL BUSINESS THE CHALLENGE OF GLOBAL COMPETITION

This book is printed on acid-free paper

1 2 3 4 5 6 7 8 9 0 QPD / QPD 9 0 9 8 7 6 5 4 3 2 1 0 9

ISBN 0 07 2356995

Vice president/Editor-in Chief *Michael W Junior*
Publisher *Craig S Beytien*
Marketing manager *Kenyetta Giles-Haynes*
Project manager *Christine Parker*
Senior production supervisor *Lori Koetters*
Designer *Laurie Entringer*
Compositor *Carlisle Communications, Ltd*
Typeface *10/12 Times Roman*
Printer *Quebecor Printing Book Group/Dubuque*

http //www mhhc com

P R E F

The authors of this book and its publisher feel an obligation to the instructors who have adopted the book, as those instructors do to their students, to provide the most accurate and up-to-date information To that end, there follows a brief update for each chapter

CHAPTER 1

WHO IS THE BIGGEST WITH THE MOSTEST?

Comparison of Country GNP and Company Total Sales

In 1997, 23 nations (versus 22 in 1995) had GNPs larger than the total annual sales of General Motors, which replaced Mitsubishi as the international firm with the highest sales in the world. Although the ratio of 51 firms to 49 countries remained the same, a number of the names were different. The fact that all the Japanese firms on the list except Sony dropped several places in the ranking indicates the impact of the Asian crisis, during which the Japanese yen's value fell 21.7 percent against the dollar, thus yielding fewer dollars when the yen was converted to dollars in 1997.[1]

Lessening of American Dominance?

In 1997, the countries with the most companies on the Fortune Global 500 were as follows:

United States	175
Japan	112
France	39
Germany	42
United Kingdom	35

There were 13 more American companies on the 1997 list than on the 1995 list, whereas Japan had 14 fewer firms in the Fortune Global 500. Thirty-two of the 50 most profitable companies (64 percent) were American. General Motors and Ford continued to be the international firms with the largest sales. Of the top 100 companies ranked by the market value of their stock, 60 were American, 37 were from the European continent, and just 3 were Japanese.[2]

TABLE 1–3 Ranking of International Firms and Nations According to GNP or Total Sales in 1997

Ranking	*Nation or Firm*	*$ Billion*	*Ranking*	*Nation or Firm*	*$ Billion*
1	United States	$7,690.1	56	Chile	73.3
2	Japan	4,772.3	57	*Daimler-Benz (G)*	71.6
3	Germany	2,319.5	58	*Daewoo (K)*	71.5
4	France	1,526.0	59	*Nippon Life (J)*	71.4
5*	United Kingdom	1,220.2	60	Egypt	71.2
23	Turkey	199.5	60	*British Petroleum (UK)*	71.2
24	*General Motors (US)*	178.2	62	*Hitachi (J)*	68.6
25	Denmark	171.4	63	Pakistan	67.2
26	Thailand	169.6	64	Ireland	66.4
27	Hong Kong	164.4	65	*Volkswagen (G)*	65.3
28	Norway	158.9	66	*Matsushita Elect. (J)*	64.3
29	*Ford Motor (US)*	153.6	67	*Siemens (G)*	63.8
30	*Mitsui (J)*	142.7	68	*Chrysler (US)*	61.1
31	Poland	138.9	69	Peru	60.8
32	South Africa	130.2	70	New Zealand	60.1
33	*Mitsubishi (J)*	128.9	71	*Mobil (US)*	60.0
34	*Shell Oil (UK–Neth)*	128.1	72	*U.S. Postal Service (US)*	58.2
35	*Itochu (J)*	126.6	73	*Allianz (G)*	56.8
36	Greece	126.2	74	*Philip Morris (US)*	56.1
37	Finland	123.8	75	*Sony (J)*	55.0
38	*Exxon (US)*	122.4	76	Czech Republic	53.5
39	*Walmart (US)*	119.3	76	*Nissan (J)*	53.5
40	Iran	113.5	78	*AT&T (US)*	53.3
41	*Marubeni (J)*	111.1	79	*Fiat (It)*	52.6
42	Portugal	103.8	80	Ukraine	52.4
43	*Sumitomo (J)*	102.4	81	*Honda (J)*	48.9
44	Singapore	101.8	82	*Unilever (UK–Neth)*	48.8
45	Malaysia	98.2	83	*Nestlé (S)*	48.3
46	*Toyota (J)*	95.1	84	*Credit Suisse (S)*	48.2
47	Israel	92.8	85	*Dai-ichi Life (J)*	47.4
48	*General Electric (US)*	90.8	86	*Boeing (US)*	45.8
49	Philippines	89.3	87	*Texaco (US)*	45.2
50	Colombia	86.8	88	Hungary	45.0
51	*Nissho Iwai (J)*	81.9	89	*Toshiba (J)*	44.5
52	Venezuela	78.7	91	*State Farm Insurance (US)*	44.0
53	*IBM (US)*	78.5	92	*Veba (G)*	43.9
54	*Nippon T & T (J)*	77.0	93	Algeria	43.8
55	*AXA (F)*	76.9			

*Numbers 6 through 22 are also countries.

Letters in parentheses indicate a firm's nationality: F = France; G = Germany; It = Italy; J = Japan; K = South Korea; S = Switzerland; UK = United Kingdom; Neth = Netherlands.

Sources: "Total GNP 1997, Atlas Method," (Washington, D.C.: World Bank, 1997), pp. 1–4, www.cdinet.com/DEC/wdi98/new/databytopic/gnp.pdf (November 21, 1998); and "1998 Fortune Global 5 Hundred," www.pathfinder.com/fortune/global500 (November 18, 1998).

C H A P T E R

2 HOW MUCH DOES IT COST TO DO WHAT WITH WHOM?

World Trade Growth

The World Trade Organization reports that 1997 global merchandise exports grew 9 5 percent in terms of volume compared to 1996, this was the highest growth rate in two decades, with the exception of 1994 (10 percent) However, when stated in terms of U S dollar value, the increase was only 3 percent The difference between volume- and value-based growth rates was caused primarily by the significant depreciation of the major currencies against the dollar (see the following table) Another reason for the slowdown in the value-based growth rate was the declining dollar export prices caused by the slump in Asian demand as a result of the Asian financial crisis, which was expected to continue well into 1999 This year in Asia, only the economies of Singapore, South Korea, Philippines, Vietnam, Taiwan, and China are expected to experience positive growth [1]

Trends in Exchange Rates of Major Currencies against the Dollar (percent)

	1996	*1997*
Japan	−13 5	−10 1
Germany	−4 8	−13 2
Netherlands	−4 8	−13 6
France	−2 4	−12 4
Spain	−1 6	−13 5
United Kingdom	−1 1	4 9
Canada	0 7	−1 5
Italy	5 6	−9 4

Source Prepared by Jetro from data in *International Financial Statistics 1997 Yearbook* (Washington D C IMF) www jetro go jp/WHITEPAPER/Trade98/part1/ 3 html

Leading Exporters and Importers in World Merchandise Trade

The 10 leading exporters and importers in world merchandise trade in 1997 are listed in the following table

Leading Exporters and Importers of Merchandise in 1997 (billions of dollars and percent)

Rank	*Exporters*	*Value**	*Share*	*Rank*	*Importers*	*Value*†	*Share*
1	United States	$688.9	12.6	1	United States	$899.2	16.1
2	Germany	511.7	9.4	2	Germany	441.5	7.9
3	Japan	421.1	7.7	3	Japan	338.4	6.0
4	France	287.8	5.3	4	UK	307.2	5.5
5	UK	280.1	5.1	5	France	266.8	4.8
6	Italy	238.9	4.4	6	Hong Kong	208.7	3.7
7	Canada	214.4	3.9	7	Italy	208.6	3.7
8	Neth	193.5	3.5	8	Canada	201.0	3.6
9	Hong Kong	188.1	3.4	9	Neth	177.1	3.2
10	China	182.7	3.3	10	Belg Lux	155.5	2.8

*FOB
†CIF
UK = United Kingdom. Neth = Netherlands. Belg Lux = Belgium–Luxembourg.
Source: Press release (Washington, D.C.: WTO), March 19, 1998, www.wto.org/wto/intltrad/internat.htm (January 12, 1999).

Major U.S. Trading Partners

The 1997 ranking of U.S. major trading partners is the same as the 1996 ranking with a few exceptions, the most notable being Mexico's replacement of Japan as the second most important customer for U.S. exports. Note also that there are important differences in the value of both exports and imports in Table 2–4.

Foreign Investment

Portfolio Investment. As we predicted on page 52 of the seventh edition, portfolio investment continues to grow. In 1997, persons residing outside the United States increased their ownership of American securities by nearly 32 percent over 1996 with 54 percent in equities and 46 percent in bonds. At the same time, Americans increased their holdings of

TABLE 2–4 Major Trading Partners of the United States in 1997 ($ billion in current dollars)

Imports from	*Amount*	*Exports to*	*Amount*
1 Canada	$168.2	1 Canada	$151.8
2 Japan	121.7	2 Mexico	71.4
3 Mexico	85.9	3 Japan	65.5
4 China	62.6	4 United Kingdom	36.4
5 Germany	43.1	5 South Korea	25.0
6 United Kingdom	32.7	6 Germany	24.5
7 Taiwan	32.6	7 Taiwan	20.4
8 South Korea	23.2	8 Netherlands	19.8
9 France	20.6	9 Singapore	17.7
10 Singapore	20.1	10 France	16.0

Notes: Exports stated on FAS basis. Services not included. Imports stated on CIF basis. Services not included.
Source: From *Monthly Bulletin of Statistics* published in *Statistical Abstract of the United States 1998*, Washington, D.C.: U.S. Census Bureau, September 25, 1998, www.census.gov/prod/3/98pubs/98statab/sasec28.pdf (January 13, 1999).

TABLE 2–5 Foreign Direct Investment in 1997 ($ billion in current dollars and shares in percent)

Country	*Amount*	*Share*
United States	$ 860 7	24 3%
United Kingdom	414 6	11 7
Japan	356 2	10 6
Germany	321 6	9 1
France	242 0	6 8
Netherlands	204 9	5 8
Canada	123 2	3 5
Other	1017 8	28 7
World total	$3 541 0	100 0%

Notes Most data for 1997 are provisional Data are converted to $US using the yearly average exchange rate
Source OECD Recent Trends in Foreign Direct Investment www oecd org/daf/cmis/fdi/fdibis pdf (January 15 1999)

foreign securities by 13 percent, 31 percent of which was in bonds and 69 percent in equities An increasing number of international firms were listing their bonds and equities on foreign exchanges

Foreign Direct Investment. The book value of all foreign direct investment (FDI) is now well over $3 trillion Investment outflows hit a new high of $424 billion in 1997 and were expected to reach a record of $430 to $440 billion in 1998 despite slower world economic growth and the crisis in financial markets The fact that the $400 billion inflows of 1997 are about double those of 1990 and seven times those of 1980 illustrates the acceleration of the tempo of globalization [2]

Developing Nations. Especially noteworthy in 1997 was the dramatic increase in the FDI flows to developing nations, which rose to $149 billion, 37 percent of total FDI Latin America was the developing region that received the largest increase in FDI inflows due to a number of factors. (1) numerous privatizations, (2) substantial real growth rates, and (3) appealing investment environments African nations, which were not particularly appealing to foreign investors in the past, now attract high levels of FDI, especially those that are politically stable As an example, U S investment in Africa tripled in 1997, although it still represented only 3 2 percent of total U S FDI

Developed Nations. Nearly 40 percent of the FDI outflows and inflows of the developed nations in 1997 were accounted for by American and British firms The most active foreign investors in the United States were Swiss firms followed by companies from the UK After including their outflows, Table 2–5 presents the foreign direct investment *positions* of the world's largest investor nations at the end of 1997 [3]

U.S. Foreign Direct Investment. American firms continue to be the largest foreign investors, having nearly a fourth of the world's FDI and more than twice that of firms from the United Kingdom, the nation with the second largest FDI

Foreign Direct Investment in the United States. By 1997, foreign direct investment in the United States had risen to $681 7 billion, which represented nearly 20 percent of the world's FDI and 75 percent more than the FDI in the United Kingdom, the second largest recipient of foreign investment The following table presents both the U S FDI and the FDI in the United States (1977 data for Tables 2–7 and 2–8 in the text)

U.S. FDI Position Abroad and FDI Position in the United States on a Historical Cost Basis, 1997 ($ billion and percent share)

U.S. FDI Position Abroad			FDI Position in the United States	
Country or Region	*Total*	*Percent of Total*	*Total*	*Percent of Total*
All countries	$860 7	100 0%	$681 7	100 0%
Canada	99 9	11 6	64 0	9 4
Europe	420 9	48 9	425 2	62 4
United Kingdom	138 8	16 1	129 6	19 0
Netherlands	64 6	7 5	84 9	12 4
Germany	43 9	5 1	69 7	10 1
Switzerland	35 2	4 1	38 6	5 7
France	34 6	4 0	47 1	6 9
Latin America and other Western Hemisphere	172 5	20 0	35 7	5 2
South and Central America	116 0	13 5	10 0	1 5
Brazil	35 7	4 2	0 7	*
Mexico	25 4	3 0	1 7	0 2
Panama	21 0	2 4	6 6	0 8
Other Western Hemisphere	56 5	6 6	25 7	3 8
Bermuda	33 1	3 8	3 4	0 4
Netherlands Antilles	5 4	0 6	7 7	0 9
UK Islands (Carib)	12 1	1 4	12 0	1 4
Africa	10 3	1 2	1 6	0 2
Middle East	9 0	1 0	6 9	1 0
Israel	2 3	0 3	2 3	0 3
Saudi Arabia	3 1	0 4	1 6	0 2
Asia and Pacific	142 7	16 6	148 2	21 7
Australia	26 1	3 0	16 2	2 4
Hong Kong	19 1	2 2	1 8	0 3
Japan	35 6	4 1	123 5	18 1

* = < 0 1 percent

UK Islands (Carib) = United Kingdom Islands (Caribbean)

Source Bureau of Economic Analysis U S Direct Investment Position Abroad 1997 www bea doc gov/bea/di/diapos97 htm (January 16 1999) and Foreign Direct Investment Position in the U S 1997 www bea doc gov/bea/di/fdi61 97 htm (November 20 1998)

Twenty Largest Foreign Investors in the United States. In 1998 only 3 of the 20 largest foreign investors in the United States were able to maintain the positions they had in Table 2–9 for the year 1996 There were also four new names and three new companies in 1998 (Grand Metropolitan is now called Diageo PLC). Following is the 1998 ranking To get updated information for Table 2–9, page 60, visit the Forbes Web site at www forbes com/tool/toolbox/int500/asp/100 asp?table=investor&year=1998 (November 18, 1998)

Table 2–10 Top and Bottom Countries for GNP/Capita. World Bank data for GNP/capita in 1997 are considerably different from the data in Table 2–10, page 62, in the text Not only are the values higher, the ranking has changed appreciably To compare 1995 and 1997 data, go to the World Bank Web site at www worldbank org/data/databytopic/keyrefs html

TABLE 2–9 Twenty Largest Foreign Investors in the United States in 1998 ($ million)

Rank	*Foreign Investor*	*Country*	*Rank*	*Foreign Investor*	*Country*
1	Royal Dutch Shell	Netherlands/United Kingdom	11	Hoechst AG	Germany
2	British Telecommunications	United Kingdom	12	Nestle	Switzerland
3	Sony	Japan	13	Honda Motor	Japan
4	Diageo PLC	United Kingdom	14	Delhaize	Belgium
5	British Petroleum	United Kingdom	15	Philips Elect	Netherlands
6	Toyota	Japan	16	Tenglemann	Germany
7	Royal Ahold	Netherlands	17	KLM Airlines	Netherlands
8	Petroleos de Venezuela	Venezuela	18	AXA UAP	France
9	Matsushita Electric	Japan	19	Novartis	Switzerland
10	BG PLC	United Kingdom	20	Siemens AG	Germany

Source 1998 Forbes International 800 www forbes com/tool/toolbox/int500/asp/100 asp?table=investor&year=1998 (November 18 1998)

C H A P T E R

3 Underground, Above Ground: The Richest and the Poorest

Retaliation. On page 96 of the seventh edition, we discussed U S retaliation against the EU's ban on hormone-treated beef In December 1988, the U.S Trade Representative announced that the government would increase import duties on selected European products as a result of a dispute with the EU over its discrimination against Latin American bananas A World Trade Organization Dispute Settlement Body ruled against the European Union and gave it until January 1999 to comply with WTO rulings. Because the European Union continues to discriminate against Latin American bananas, the Office of the U S Trade Representative has developed a list of European products on which the United States threatened to apply 100 percent import duties in 1999 [1]

Dumping. In Chapter 3, page 96, we mentioned that antidumping suits have become the favorite means of manufacturers, primarily in the industrialized nations, to protect them selves from less expensive imports Now over 40 nations (including the EU considered as one nation) have them See the following table for the number of antidumping cases in 1997

Antidumping Cases in 1997

Accusing Nations	*Number of Cases*	*Principal Targets*	*Number of Cases*
Australia	42	China	31
European Union	41	South Korea	16
South Africa	23	Taiwan	16
United States	16	United States	15
Argentina	15	Germany	14
South Korea	15	Japan	12
Canada	14	Indonesia	9
India	13	India	7
Brazil	11	United Kingdom	6

Source Dumpers or Dumped Upon? *The Economist* November 7 1998 p 76

Categories Based on Levels of Economic Development. On page 105 in the seventh edition you will find the World Bank's country classification system based on income levels, with limits based on GNP per capita Recently, the Bank raised the limits of the income levels, and it is using values based on 1997 GNP/capita The following table presents the new and former values

World Bank Classification of Economies According to GNP/Capita

Former Limits	*New Limits*
1 Low income ($750 or less)	1 Low income ($785 or less)
2 Lower middle income ($750–$3 035)	2 Lower middle income ($786–$3,125)
3 Upper middle income ($3 036–$9 385)	3 Upper middle income ($3,126–$9 655)
4 High income ($9 386 or more)	4 High income ($9 656 or more)

Source Classification of Economies *Groups of Economies* www worldbank org/daya/databytopic/kevrefs html Click on Classification of Economies (January 18 1999)

Underground Economies. A report on the underground economy adopted by the European Union in 1998 estimated undeclared work at between 7 and 16 percent of the EU's GDP, corresponding to between 7 and 19 percent of declared employment Of the countries listed in Figure 3–4 on page 106, only two (Sweden and Denmark) have 1998 values of undeclared jobs that are different from the 1994 values in the book Both nations have values of 7 percent for 1998 compared to 18 percent in 1994 [2]

TABLE 3–4 GNP/Capita Based on UNICP for Selected Countries in 1997

Country	*GNP/Capita in US$ Converted at World Bank Adjusted Rates*	*GNP/Capita in US$ Based on Purchasing Power Parity*
Switzerland	$44 430	$26 320
Japan	37 850	23 400
Norway	36 090	23 940
Denmark	32 500	22 740
United States	28 740	28 740
Mexico	3,680	8 120
Indonesia	1 110	3 450
China	860	3 570
India	390	1 650
Uganda	330	1 050

Source GNP per Capita 1997 Atlas Method www worldbank org/data/databytopic/gnppc97 pdf (January 17 1999)

C H A P T E R

4 UNITED NATIONS BATTLE TO BE KING OF THE MOUNTAIN

Membership in the United Nations (UN) Security Council is highly prized, and there is frequently fierce competition for the nonpermanent seats There are two seats reserved for Western Europe and North America, and for membership beginning in 1999, Canada, Greece, and the Netherlands were the contestants Canada invited members of the General Assembly, which elects the nonpermanent Security Council members, to a performance of Cirque du Soleil Greece hosted more than 100 UN delegates and their spouses on a cruise of the Aegean, while the Netherlands treated its guests to a moonlight boat ride around New York City In the voting, Canada and the Netherlands won The other three seats, beginning in 1999, were won by Argentina, Malaysia, and Namibia [1]

World Bank Shift to Health and Education

Under the leadership of its president, James Wolfensohn, who is expected to be reelected in 2000 to a second five-year term, the World Bank has changed its emphasis It has shifted from projects, such as infrastructure and energy, which promote industrial developments to programs, such as health and education, that foster social advancement

In the first quarter of 1998 it raised a record $14 9 billion in 17 currencies at low financing costs, frequently at interest rates below the benchmark London Interbank Offered Rate At that time the World Bank had $107 billion in loans outstanding [2]

International Monetary Fund to the Garbage Can?

In 1998 there were calls to abolish the International Monetary Fund (IMF) One proposal would replace it with three small multilateral institutions One institution would provide timely, uncensored information on countries' financial health The second would help prevent crises by playing an active role in the world's financial system rather than a reactive one, as the IMF currently does The third would be in charge of "cleanup" and would deal with countries that in spite of all efforts go into a crisis Under strict conditionality, it would provide funds and help them restructure their debts [3]

Bank for International Settlements to Asia

In 1998 the Bank for International Settlements (BIS) opened its first overseas office in Hong Kong As you remember, its headquarters are in Basel Switzerland The Hong Kong office comes as part of efforts by the BIS to strengthen financial sector supervision in the wake of the Asian financial crisis [4]

World Trade Organization Star Chamber Hearings

The World Trade Organization (WTO) disputes panel has begun action at a faster pace than was achieved by its predecessor, GATT. In just 3 years the WTO dealt with 132 complaints; over its 47-year existence, GATT heard only 300. More than 30 countries, including China and Russia, are lining up to join WTO, the membership of which had grown to 132 countries by mid-1998.[5]

However, the WTO is not without critics. One author says it is perpetuating the trade barriers it was intended to eliminate. He says a big problem is the WTO hearing process, in which hearings are equivalent to star chambers that are held in secret and from which outside attorneys are excluded. He cites three recent decisions that advance protectionism, not free trade.[6]

Organization of Petroleum Exporting Countries: Dangerous New Power

In 1998 the Organization of Petroleum Exporting Countries (OPEC) was supplying only 40 percent of the world's oil, but it sits on 75 percent of the world's proven reserves, and its oil is much cheaper to exploit than that in fields in the North Sea and Alaska. The Centre for Global Energy Studies, a London-based think tank, predicts that non-OPEC oil supplies will begin to run out around 2005.

When the Asian financial crisis ends, growth in demand for oil in that region will resume. Putting these factors together makes it clear that OPEC will be in a powerful position in the not distant future.[7]

European Union Gaping Loophole

Although the economic and monetary union has brought nations together with the European Central Bank and the euro (both discussed elsewhere), one important business, remains national: domestic financial services. A country imposes its own conduct of business rules on banks operating in its territory and can block certain services in the name of the "general good." This is a "gaping loophole" that allows the protection of domestic financial services.[8]

Association of South East Asian Nations: Peek into Each Other's Closets?

The 18 months leading into 1999 was a difficult period for the Association of South East Asian Nations (ASEAN). It was unable to stem the region's financial crises. Of its nine members, seven went through a change of leader or regime. A prospective tenth member, Cambodia, fell victim to a coup. Some countries, most notably the Philippines and Thailand, are calling for ASEAN to modify some of its most cherished principles. They suggest that ASEAN address difficult regional and domestic issues, but the response from Burma, Laos, Malaysia, and Vietnam has been swift and negative.[9]

On the positive side, the ASEAN members agreed to speed up tariff cuts to achieve a regional free trade area. It is thought that increasing trade would help overcome the negative impact of currency devaluations in ASEAN countries.[10]

Mercosur (Mercosul in Portuguese): Gaining on Us

In the decade to 1999, trade among Mercosur members has grown fivefold, and it is now the world's third largest economic bloc after the North American Free Trade Agreement countries and the European Union. The members are now discussing a monetary union similar to the European economic and monetary union.[11]

C H A P T E R

5 THE EURO: NEW CURRENCY, NEW SYMBOL: €

On Friday, January 1, 1999, the euro arrived, and over the weekend before trading began on Monday, January 4, private and central banks, stock exchanges, and financial institutions across Europe converted bank balances and security portfolios to the euro. It went smoothly, as did the trading that began on Monday.[1]

The euro will coexist with the national currencies of the 11 Economic and Monetary Union (EMU) countries until 2002, when euro coins and notes will be introduced and the national monies will disappear. Page 174 shows a picture of the new euro notes. During the 1999–2002 transition phase the rule of "no compulsion, no prohibition" will apply. This means that everyone has the right to pay in euros or national currencies.

To convert between euros and the national currencies, one applies the official conversion rates exactly, which means one carries them to a precision of six digits. One follows the mathematical rounding rule that a value of 0.0005 is rounded upward to 0.001. One does not use bilateral conversion rates, which means that to get, for example, from francs to D-marks, one convert from francs to euros and then from euros to D-marks.[2]

For one author's evaluation of winners and losers due to the euro, see the box "Bonanza or Burden."[3]

European Central Bank: Nations Surrender Sovereignty

The 11 EMU member countries surrendered their monetary policy powers to the European Central Bank (ECB). It operates under a legal obligation to maintain price stability in Europe and has said it will not tolerate either inflation or deflation.[4]

Bonanza or Burden

The euro's launch, like any big economic event, will have its share of winners and losers.

Winners

- **Catalog retailers.** They can market more easily across borders now that pesky currency conversions are history.
- **Brussels.** The European Union has its headquarters here. The euro will lead to more centralized decision making.
- **Conference organizers.** They cashed in as the project was being pulled together and now get to arrange events like "The Euro: One Year On."
- **Tourists.** Vacationers eventually will be able to buy bratwurst and baguettes in one currency.
- **British tabloids.** The euro gives them a hook to bash "menacing" Germans and the UK government for toying with British sovereignty.
- **Bargain hunters.** Cross-border comparison shopping becomes a snap. That puts pressure on retailers to cut prices.
- **Multinationals.** Finances become streamlined, and it will be easier to do business across borders.
- **Robert Kalina.** The Austrian who designed the euro bills and notes.

Losers

- **Laundromats.** Once euro coins start circulating, coin-operated machine businesses will have their work cut out for them.
- **"Piggy-bank" charities.** These organizations hang out in airports to solicit spare change that travelers don't want because money changers refuse to touch it.
- **At-risk employees.** The euro pressures companies to become more efficient and enter into mergers. Pink slips await.
- **Families.** The euro encourages people to leave their homelands to seek work.
- **Swiss exporters.** Switzerland is not in the euro, so investors looking for a strong currency may buy Swiss francs, pushing up the value. Bad news to Swiss exporters.
- **Cops.** A money launderer needs a briefcase to carry $1 million in U.S. currency, but a smaller tote will now do thanks to the 500-euro note (worth about $600).
- **Inflation hawks.** Italians, French, and Spanish will be involved in euro-interest-rate decisions instead of just inflation-phobic Germans.
- **Midcap companies.** Institutional investors can seek the best investments throughout Euroland, not just at home.