

## CITY SCENE

Prague recently hosted former Soviet President Mikhail Gorbachev



# In Good Company

MARK MOBIUS ASSESSES THE RISE OF EASTERN EUROPE, CHATS TO MIKHAIL GORBACHEV AND MARVELS AT THE ARCHITECTURAL BEAUTY OF PRAGUE

**“D**O YOU KNOW THE DIFFERENCE between Slovenia and Slovakia?” That was the line I delivered on a television advertisement promoting our emerging markets funds for my company many years ago. We were surprised by the number of callers asking the difference. I’m reminded of this during my visit to Prague. Of course, this beautiful city is in the Czech Republic, which was once part of Czechoslovakia and now Slovakia has a life of its own – as does Slovenia, which was part of Yugoslavia.

Prior to the First World War, the Czech and Slovak Republics were separate states under the Austrian monarchy but they had no appetite to fight for the empire so the pressure for independence grew. In 1918, in Pittsburgh, Pennsylvania of

all places, Czech and Slovak emigrant organisations signed an agreement to create a joint state after the war. The combined state lasted through the Second World War and beyond, when communism enveloped the country resulting in disastrous economics behind the Iron Curtain.

Then in the 1960s, reform movements sprung up in what was called the “Prague Spring.” While that was brutally crushed by Soviet tanks in 1968, the wave of democratic fervour sweeping Eastern Europe in 1989 resulted in the “Velvet Revolution.” That was when Vaclav Havel and Alexander Dubcek appeared on Prague’s Wenceslas Square and called for a general strike that brought down the communist government. Without the Soviet iron fist to hold them together, the Czech and Slovaks decided to split in 1993.

Prague is an architectural museum. Austrian Empire buildings are overlaid with a wide variety of Romanesque, Gothic and Baroque edifices, which compete with distinctive Czech architectural styles that use cubist and functionalist elements. My favourite building is the art nouveau masterpiece, Municipal House. An imposing glass dome, incredible stucco and gold decorations combine with unique and distinctive modernist chandeliers and fittings, and murals by the master of Czech Art Nouveau, Alfons Mucha.

But the trip was not to enjoy the beauty that is Prague but to attend a conference of companies from all over Eastern Europe, including a number of companies in which we have invested. The surprise keynote speaker was former Soviet president and 1990 Nobel Peace Prize winner Mikhail Gorbachev. Given the recent history of Russian/Czech relations, the mere fact that he was invited to Prague was an event in itself. His talk to a few hundred prominent East European businessmen and international investors didn’t deal with the current political climate in Russia but was quite forward looking.

Gorbachev’s basic message: Eastern Europeans should forget past relations between Russia and their countries and should realise that Russia has changed. He said that there is a new modern Russia that should not be feared and who wants to establish good relations with those countries formerly under Soviet control. I’m not sure if the assembled Eastern Europeans were convinced but I was happy to hear him say it and later told him so in a private meeting. His other topic was, surprisingly, the environment, on which his foundation is focusing.

Talks with company managements at the conference convinced me that things are going quite well in Eastern Europe. Officers of Hungary’s largest bank, OTP Bank, told me that the bank has spread its wings all over the region. In addition to its main operations in Hungary where it has over 400 branches and 8,200 employees, it now has 90 branches in Slovenia, 78 branches in the Ukraine, 109 branches in Russia, 73 branches in Romania, 374 branches in Bulgaria, 96 branches in Serbia, and even 34 branches in Montenegro.

## Surprise keynote speaker was former Soviet president and Nobel Peace Prize winner Mikhail Gorbachev

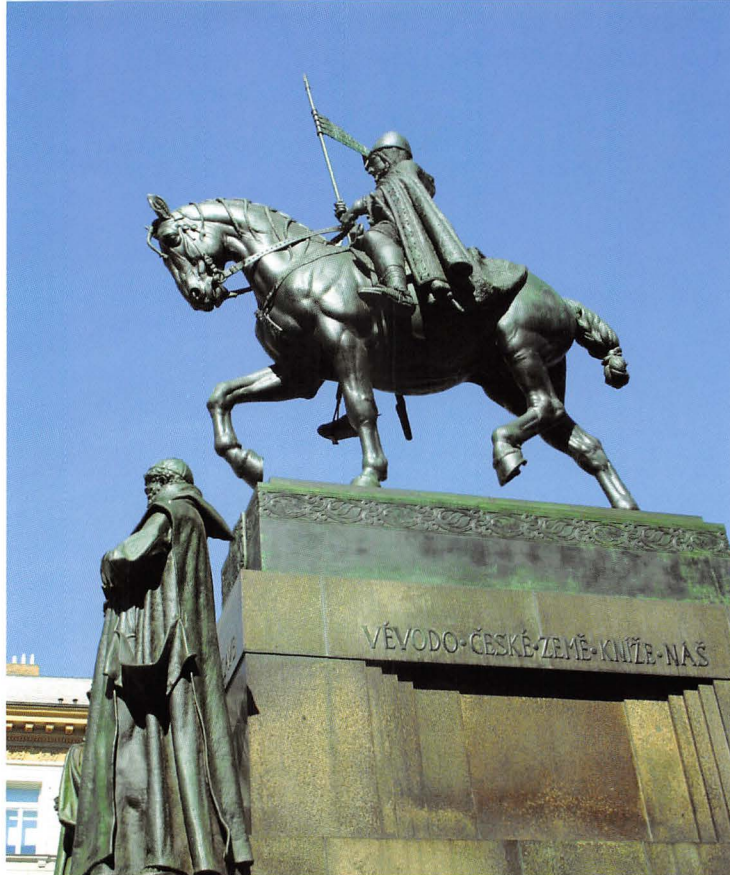
Another Hungarian favourite is MOL, the oil and gas company with operations in the Ukraine, Romania and Croatia. The company managers told us that the firm now has ownership of a 5,500-kilometre network of natural gas transmission lines, large gas storage facilities, as well as joint projects with Russia's Gazprom to evaluate gas transmission and storage opportunities in Central and Eastern Europe. Hungary is quite strategic for gas transmission since it borders Ukraine, Croatia, Romania, Slovakia, Slovenia, Serbia and Austria. Gas from Russia and Central Asia is widely used all over Eastern Europe and is bound to increase. Per capita natural gas consumption in Poland, for example, is about 400 cubic metres per year, while in Germany it is 1,400 cubic metres.

Austrian companies are very active because of the country's historical ties in the region. Immoeast, the Vienna-based property company, has a number of major projects, including three shopping centres in Russia, two large office buildings in Poland, a 500,000-square-metre logistics centre in Romania, as well as two large shopping centres in Austria, five properties in the Czech Republic, including a business park and office buildings. Add to this office parts and office buildings in Hungary, and other projects in Bulgaria, Estonia, Slovenia, Slovakia and Croatia.

The housing market is booming in all these countries, and with the expansion of mortgage financing, the demand for new housing is bound to continue. Mortgage loan penetration as a percentage of GDP is low in most Eastern European countries. In Hungary and Poland, for example, it is less than 10 per cent of GDP compared to 80 per cent in the UK and almost 100 per cent of GDP in the Netherlands.

Media executives from Russia were also at the conference and outlined the potential in their country. Russia's advertisement expenditures ranked 20th in Europe in 2000 at US\$1,125 million. By 2006, expenditures had risen to US\$6,490 million. Even with the growth, the potential is vast if we compare it to the more developed countries in Europe. In 2006 advertising expenditures in the UK were US\$21,856 million and US\$20,764 million in Germany. Given those comparisons, Russia's media market is set to grow, eventually surpassing Germany and the UK.

Between meeting companies, I made my usual shopping forays to see what the local consumers were buying. In this case, I didn't have to go far because a 10-minute walk from



### PRETTY PRAGUE

FROM TOP  
Wenceslas  
Monument;  
the city lit  
up at night

my Marriott Hotel and across the square from Municipal House is Prague's largest shopping mall, the Palladium. Built by an Austrian property group, Palladium has four fantastic glass and stainless levels with more than 200 shops and 30 restaurants and cafés. It has all the features of almost every shopping centre I visit in the world: a palatial feel, spaciousness and all the brands you would find elsewhere: Boss, H&M, Esprit, Swatch, plus some local brands ambitious to hit the big time. One Polish-listed company, LPP SA, has a retail sales network of 292 stores for its "Reserved" and "Cropptown" brands all over Europe and was in the shopping centre, too. Although the Czech Crown has appreciated, things are still cheaper than in Western Europe, so I look forward to the next trip. ■

WEALTH

Country  
Briefing