

Welcome to the 2002 World Cup. This is our second publication about the World Cup and Economics, replicating the same format as our first edition in 1998. This year's tournament, again likely to be watched by close to half the world's population, is the first to be hosted jointly by two countries, Korea and Japan, and will be an interesting experiment. This will be the first World Cup held in Asia, and will be watched closely by media and sporting organisations alike for its success.

We provide a brief history of the competition and analyse whether there is any correlation between economic and football/soccer success. We take a look at all the 32 successful entrants and examine their current economic health and state of the nation.

We are delighted to be able to present Sir Alex Ferguson's favourite soccer players of all time

from around the globe.

We also present our World Cup 2002 dream team from today's stars.

Once more, we offer our 'tips' for the four semi-finalists.

This book aims to provide a more light hearted look at the world, and is designed to help our clients enjoy the 2002 World Cup. We hope that readers don't get upset at any of our comments or predictions!

Thanks to all my colleagues in the global economics department for helping to create this book, and we hope it stimulates as much interest as the last one.

**Jim O'Neill**

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## THE WORLD CUP HISTORY

The first World Cup was held in Uruguay in 1930, and with the exception of the inter-war years from 1938 to 1950, it has been successfully held every four years since 1930.

Past winners can be seen in the table below.

Following France's victory in 1998, there are now **seven** countries that have won the World Cup, three from South America and now four from Europe. Brazil have won the trophy four times – more than any other country, with Germany and Italy winning it three times each.

Argentina and Uruguay have both won it twice, with England and France only once.

The fancied winners for 2002 not surprisingly come from past winners, with other competitors very much outsiders. Argentina and France are the favourites according to bookmakers in the UK.

Two intriguing facts about the 2002 competition are that no team from outside Europe or Latin America

has ever won the competition, and also no team has ever won it outside their own continent except Brazil with their 1958 victory in Sweden. This adds an element of unpredictability to the 2002 competition, especially given the local conditions that the favoured teams from Europe and Latin America will have to get accustomed to. Very few footballers will have experienced life in Asia and in addition to the summer humidity, the distance from home might be a relevant factor for some players (the different time zone makes for difficult sleeping arrangements!)

As for the challenge from less favoured countries, host nations have often thrown up strong performances, and indeed as can be seen in the table, **six** host nations have won the tournament, 37.5% of the sixteen past competitions. This fact should be an extra incentive to this year's joint hosts, Korea and Japan, although it will be a truly incredible achievement if either were to succeed.

There are the same number of finalists as 1998 - 32 teams, initially divided into 8 groups of 4. Each team plays the others in their group with the two top teams then progressing to the next stage, which will be a knock out. These 8 winners will then progress to the

## World Cup Finals

Year	Host Country	Winner	Runner-up	Score
1930	Uruguay	URUGUAY	Argentina	4-2
1934	Italy	ITALY	Czechoslovakia	2-1 (extra-time)
1938	France	ITALY	Hungary	4-2
1950	Brazil	URUGUAY	Brazil	2-1
1954	Switzerland	WEST GERMANY	Hungary	3-2
1958	Sweden	BRAZIL	Sweden	5-2
1962	Chile	BRAZIL	Czechoslovakia	3-1
1966	England	ENGLAND	West Germany	4-2 (extra-time)
1970	Mexico	BRAZIL	Italy	4-1
1974	West Germany	WEST GERMANY	Holland	2-1
1978	Argentina	ARGENTINA	Holland	3-1 (extra-time)
1982	Spain	ITALY	West Germany	3-1
1986	Mexico	ARGENTINA	West Germany	3-2
1990	Italy	WEST GERMANY	Argentina	1-0
1994	United States	BRAZIL	Italy	0-0 (3-2 penalty kicks)
1998	France	FRANCE	Brazil	3-0
2002	Japan/Korea	?	?	?

quarter finals, the four winners of which will then compete in the semi-finals, with the final to be played on 30 June in Yokohama, Japan and the 3<sup>rd</sup> vs 4<sup>th</sup> playoff on 29 June in Daegu, Korea.

All in all, 64 matches will be played in 20 different cities in South Korea and Japan, with the world's major TV stations giving saturation coverage.

This is a huge difference from the first tournament in 1930, when just 12 teams competed in Uruguay with the four European entrants, Belgium, France, Romania and Yugoslavia taking 3 weeks to arrive by boat!

The increasing sophistication and commercialisation of football explains the novel choice of co-hosting between Korea and Japan. Indeed, the choice of host has taken on a massive economic and social aspect, with enormous debate about the choice for the 2006 hosts, Germany. South Africa was widely expected to be awarded the competition, but some tactical voting by FIFA participants (the body of world football) resulted in a more conventional choice.

Following the arguments surrounding the 2006 choice, FIFA are under pressure to make South Africa the automatic choice for 2010, and also to specify a defined pattern, alternating every other tournament between Europe and Latin America. Another suggestion which fluctuates in terms of popularity is to consider shifting the frequency of the World Cup to every 2 years instead of the current 4 years, a shift that would be very controversial in the eyes of lovers of other sports, notably athletics.

Given that this is the first World Cup being hosted in Asia, the world's business community will take as much interest as supporters given the potential benefits from advertising and sponsorships. More than half of the world's population is in Asia, with China and India having a combined population of 2.1 billion alone. Success involving local players will have a lasting impact.

It will be interesting to see the post World Cup transfer activities of Europe's top wealthy club teams. Since the 1998 Finals, it has become a popular belief that the clubs and players have bled the game's finances as much as possible. Unless the 2002 competition can inject a fresh 'theme' to stimulate

media rights inside and outside Europe or a dramatic boost to replica shirt sales or some completely new concept, the leading clubs are likely to be less frivolous going forward, regardless of the actual winners of this trophy.

No doubt, the leading thinkers of FIFA and other creative business people will be working overtime to develop a fresh angle, while most supporters will be interested in trying to spot the next Pele, Beckenbauer, Cruyff, Maradona or Zidane to emerge.

## ECONOMICS & FOOTBALL

In 1998 when we examined this issue, we showed a rather 'tongue in cheek' analysis of the correlation between football and economics and we have developed this theme further.

One of the more intriguing aspects of football is that quite a few of the world's wealthiest nations are **not** successful at the game. Within the G7, neither the US nor Japan have any global influence as yet despite clear evidence of the sport's increased popularity over the past decade and the transfer of professional players from both countries to Europe. Within Europe, Switzerland is a relatively unsuccessful soccer nation compared with its GNP per capita.

On the other hand, the most prosperous European nations, England, France, Germany and Italy are the most successful football countries.

The latest FIFA global rankings show a very loose pattern of correlation with GNP capita, with the more successful nations within Europe and Latin America also the most prosperous.

## FIFA RANKINGS AND WORLD GDP PER CAPITA

It might be argued that the correlation between economic and football success is on the rise.

Despite what was noted earlier about Japan and the US, this year's finals will include representative teams from six of the G7 countries. Only Canada and India are omitted from the world's top 10 economies, and nations representing some 84% of the world's GDP will be competing, probably a bigger proportion than

## ALL TIME WORLD CUP TABLE

	Played	Won	Drawn	Lost	Goals		Points
					For	Against	
1 Brazil	80	53	14	13	173	78	120
2 Germany (West)	78	45	17	16	162	103	107
3 Italy	66	38	16	12	105	62	92
4 Argentina	57	29	10	18	100	69	68
5 England	45	20	13	12	62	42	53
6 France	41	21	6	14	86	58	48
7 Spain	40	16	10	14	61	48	42
8 Yugoslavia	37	16	8	13	60	46	40
9 Russia/USSR	34	16	6	12	60	40	38
10 Uruguay	37	15	8	14	61	52	38
11 Holland	32	14	9	9	56	36	37
12 Sweden	38	14	9	15	66	60	37
13 Hungary	32	15	3	14	87	57	33
14 Poland	25	13	5	7	39	29	31
15 Austria	29	12	4	13	43	47	28
16 Czechoslovakia	30	11	5	14	44	45	27
17 Mexico	37	8	10	19	39	75	26
18 Belgium	32	9	7	16	40	56	25
19 Romania	21	8	5	8	30	32	21
20 Chile	25	7	6	12	31	40	20
21 Scotland	23	4	7	12	25	41	15
22 Switzerland	22	6	3	13	33	51	15
23 Paraguay	15	4	6	5	19	27	14
24 Bulgaria	26	3	8	15	22	53	14
25 Portugal	9	6	-	3	19	12	12
26 Cameroon	14	3	6	5	13	26	12
27 Denmark	9	5	1	3	19	13	11
28 North. Ireland	13	3	5	5	13	23	11
29 Peru	15	4	3	8	19	31	11
30 Croatia	7	5	-	2	11	5	10
31 United States	17	4	1	12	18	38	9
32 Nigeria	8	4	-	4	13	13	8
33 Morocco	13	2	4	7	12	18	8
34 Colombia	13	3	2	8	14	23	8
35 Norway	8	2	3	3	7	8	7
36 Ireland	9	1	5	3	4	7	7
37 East Germany	6	2	2	2	5	5	6
38 Wales	5	1	3	1	4	4	5
39 Algeria	6	2	1	3	6	10	5
40 Saudi Arabia	7	2	1	4	7	13	5
41 Tunisia	6	1	2	3	4	6	4
42 Costa Rica	4	2	-	2	4	6	4
43 South Korea	14	-	4	10	11	43	4
44 North Korea	4	1	1	2	5	9	3
45 Cuba	3	1	1	1	5	12	3
46 Iran	6	1	1	4	4	12	3
47 Turkey	3	1	-	2	10	11	2
48 Honduras	3	-	2	1	2	3	2
49 Israel	3	-	2	1	1	3	2
50 Egypt	4	-	2	2	3	6	2
51 South Africa	3	-	2	1	3	6	2
52 Jamaica	3	1	-	2	3	9	2
53 Kuwait	3	-	1	2	2	6	1
54 Australia	3	-	1	2	0	5	1
55 Bolivia	6	-	1	5	1	20	1
56 Japan	3	-	-	3	1	4	0
57 Iraq	3	-	-	3	1	4	0
58 Canada	3	-	-	3	0	5	0
59 DutchEastIndies	1	-	-	1	0	6	0
60 Utd A. Emirates	3	-	-	3	2	11	0
61 New Zealand	3	-	-	3	2	12	0
62 Greece	3	-	-	3	0	10	0
63 Haiti	3	-	-	3	2	14	0
64 Zaire	3	-	-	3	0	14	0
65 El Salvador	6	-	-	6	1	22	0

Points calculated using 2 for a win and 1 for a draw. Only world cup final games included.

Source: [www.worldcuparchive.com](http://www.worldcuparchive.com)

at anytime previously.

In terms of GDP and population, Europe and the Americas are clearly well represented, and with China, Korea and Japan competing, Asia's representation is much bigger than in the past.

A nagging doubt amongst the football 'purists' is that the ease of entry to the finals has been shifted in order to accommodate more regions, both in terms of populous and especially wealth. Surely a valid answer could be that unless these 'new' countries can get access to the table at the highest levels then their ability to develop football further will be severely limited. Presumably the cleanest test will be success on the field in Korea and Japan!

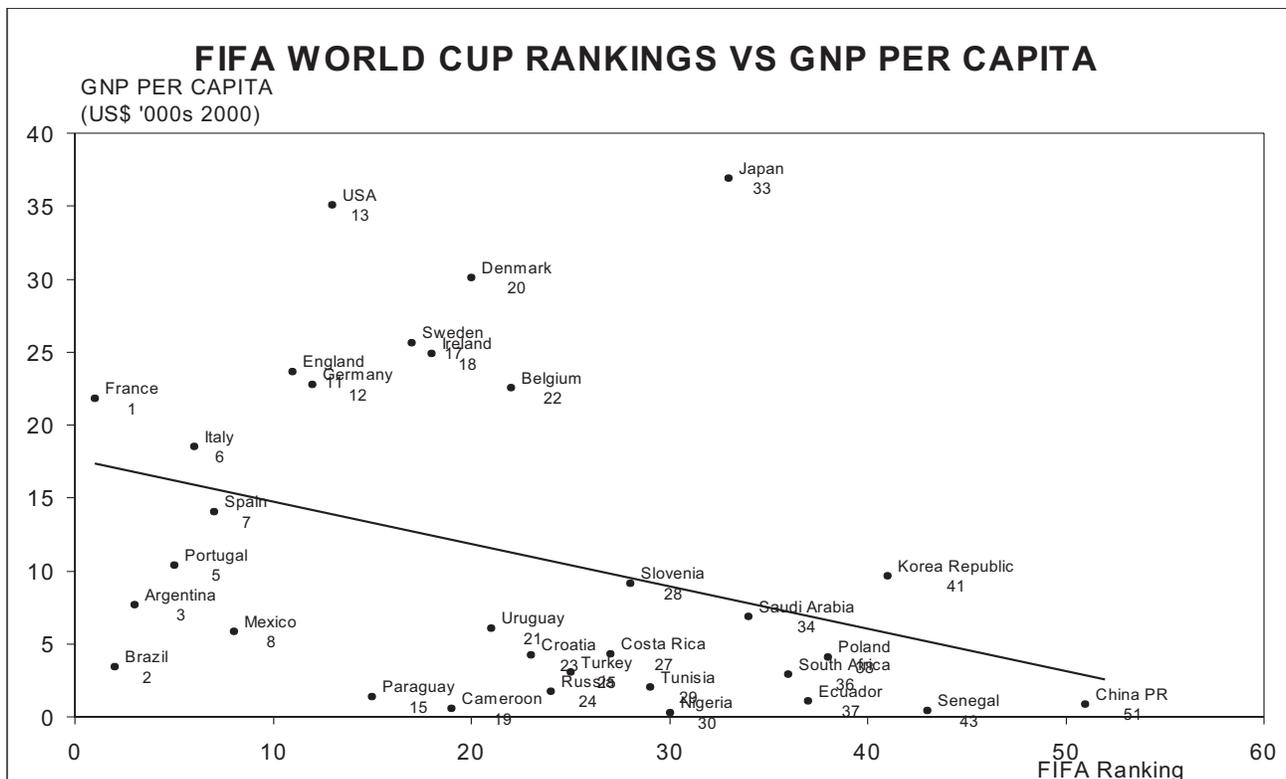
As far as our thinking about the world economy is concerned, the evidence is reasonably strong that the world economy and football are moving in the same direction. Late in 2000, we published a global economics paper entitled 'Building Better Global Economic BRICs' (Global Paper Number 66) in which we argued that the coming decade would see continued rapid growth in Brazil, Russia, India and China relative to the G7; and consequently for better global economic

management, the G7 needs to be reformed in order to accommodate these four countries. Given that Brazil and Russia are two 'serious' footballing countries, if the world's economic leadership goes this way, it would be a positive sign of economic and football correlation!

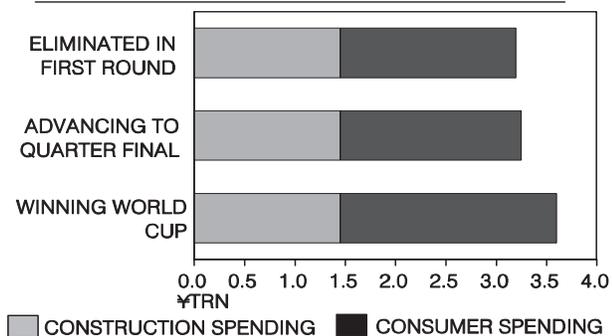
**INDIVIDUAL NATIONAL SUCCESS AND FOOTBALL**

Given the better performance of the Japanese stock market in 2002, no doubt many will be enthusiasts of the idea that the World Cup will help rescue Japan from its long economic slump!

According to a Financial Times story of December 21<sup>st</sup> last year, HSBC published an analysis showing that the stock markets of the developed countries which have won the World Cup since 1966 have outperformed global indices by 9%. What this analysis may not have revealed is that three of the five winners, England, Germany and France all won on their home territory which could have meant that it was the construction of new stadiums and related preparation that led to a better perception of economic fortunes rather than the eventual victory.



**IMPACT OF WORLD CUP ON JAPANESE ECONOMY  
DEPENDING ON PERFORMANCE ON JAPANESE TEAM**



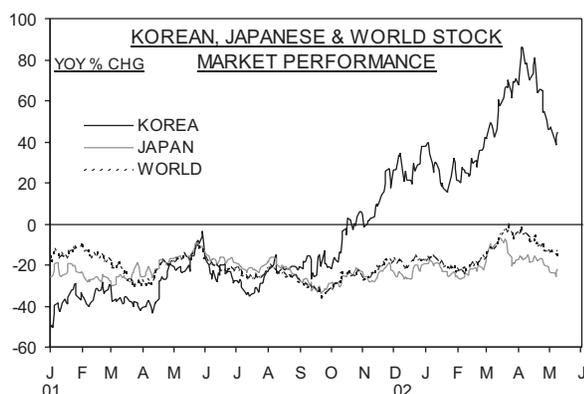
Source: Institute of Social Engineering, Dentsu Inc.

According to the same FT story, an independent Japanese research report has suggested that if Japan were to win the World Cup, the economy would be boosted by ¥1,604bn. This is not a trivial amount, although somewhat less than a more likely fresh stimulative package from the Japanese Government to help the public get over the disappointment of failure this summer.

A separate report from Dentsu Inc, a leading Japanese advertising company, claims that the World Cup might result in an economic stimulus of ¥3.0trn, and if Japan wins, they estimate it to be worth just over ¥3.5trn, not far off 1% of GDP.

As for Korea, its World Cup organising committee has apparently forecast that simply hosting the tournament will result in a KRW8.8trn windfall and create 350,000 jobs.

Looking at the past 12-months year-on-year performance of major stock markets, perhaps this is more evidence that football is a major coincident or slightly leading indicator of economic activity.



**CHANGES IN THE G7 STOCK MARKETS**

	Index	% Change Year to date
US	S+P 500	-7.2
Japan	Nikkei 225	+9.4
Germany	Dax	-5.0
France	CAC40	-6.1
Italy	Milan	-4.2
UK	FTSE100	-0.8

The performance of the major markets in the run up to the tournament would appear to suggest some are having a rethink however. Perhaps Korea will not be the 2002 competition winner!

**THE BOOKMAKERS ODDS OF  
WINNING THE 2002 WORLD CUP**

Argentina	7-2
France	4-1
Italy	6-1
Brazil	6-1
Spain	9-1
England	9-1
Portugal	12-1
Germany	14-1
Russia	40-1
Cameroon	40-1
Paraguay	50-1
Croatia	50-1
Republic of Ireland	50-1
Turkey	50-1
Uruguay	50-1
Japan	66-1
Nigeria	66-1
Sweden	66-1
Belgium	80-1
Denmark	80-1
Poland	80-1
Mexico	100-1
Senegal	100-1
Slovenia	100-1
Ecuador	125-1
South Korea	150-1
U.S.A.	150-1
Costa Rica	200-1
South Africa	200-1
Tunisia	200-1
Saudi Arabia	250-1
China	350-1

Source: Labrokes.com, May 2002

**THE 2002 WORLD CUP**

Argentina heads confidently to the 2002 World Cup after comfortably winning the South American qualifying group. In doing so, the Argentine team, coached by Marcelo “el loco” (“mad man”) Bielsa produced 13 wins and 4 draws in 18 matches, leaving behind its South American arch-rivals Brazil and Uruguay. Presently, Argentina stands second in FIFA’s latest world ranking.

Sport analysts and bookmakers rate Argentina as one of the favourites to win the World Cup. Certainly, strong “fundamentals” back these “projections”, as the list of players at coach Bielsa’s disposal is endless and includes great talents and international stars for every single position on the field. On the forward front, Argentina leads with some of the world’s greatest strikers, such as Gabriel Batistuta (Roma, Italy), Hernán Crespo (Lazio, Italy), Claudio López (Lazio, Italy), Javier Saviola (Barcelona, Spain), and Claudio Caniggia (Glasgow Rangers, Scotland). In the midfield, the array of talent is outstanding, including players such as Juan Sebastian Verón (Manchester United, England), Pablo Aimar (Valencia, Spain), Javier Zanetti (Internazionale, Italy), Juan Román Riquelme (Boca Juniors, Argentina), Ariel Ortega (River Plate, Argentina), and Marcelo Gallardo (Monaco, France). One of these players will have the role of “creator-in-chief” of the team that Diego Maradona masterfully assumed in the past. At the back, resources available include defenders such as Mauricio Pochettino (Paris St Germain, France), Roberto Ayala (Valencia, Spain), Juan Pablo Sorín (Cruzeiro, Brazil), and Walter Samuel (Roma, Italy), which should allow the Argentine coach to build a powerful defense.

Tension, nervousness and excitement are guaranteed for Argentine fans in this World Cup. In the first round, Argentina will face England, Sweden and Nigeria in the so-called “Group of Death”. The match between Argentina and England stands out as one of the most exciting of the tournament due to the rivalry and history of dramatic World Cup encounters between these teams. The two nations have met three times in World Cups before, in 1966, 1986 and 1998, and delivered highly controversial matches. Remarkably, in two of these occasions, the winner of

the match ended up winning the Cup. The first encounter was in England in 1966, for a quarterfinal match. Controversy began due to the improper behaviour of the Argentine captain Ratín, which triggered a massive verbal reaction by the English fans present at the stadium. England won by a single goal. The two teams met for the second time in 1986 in Mexico in another quarterfinal contest. Argentina, under the leadership of Diego Maradona, who scored the two Argentine goals, managed to win by 2-1. Diego Maradona scored the first goal with his hand without the referee noticing. Later on, Maradona said that it had been the “hand of God” that had scored the goal, which the English have never forgotten or forgiven to this day. In his second goal, Maradona displayed all his talent and brilliance, picking up the ball inside the Argentine half and dribbling all the way before slotting it in the English goal. The last time Argentina and England played each other was in the second round in France 1998. The feelings running prior to the match were passionate. After a highly contested match, Argentina won on penalties after extra time, and of course, an incident involving a certain Mr Beckham stole the headlines.

Beyond the first round, should Argentina win the group, it could meet neighbouring arch rival Uruguay in the second round, who will probably come second in Group A. Whereas if Argentina were to qualify in second place, it could face France, the favourite team to win Group A. Third or fourth place in the group would send the team back home much earlier than most Argentines would accept.

**FOOTBALL IN ARGENTINA**

Football is the most popular sport in the country and the World Cup is a major event. When the national team plays, the country almost paralyses, with sentiment ranging from euphoria when it wins to deep depression when it loses.

The local league is highly competitive. Boca Juniors and River Plate are the most popular teams. In the past years, Argentina became a major producer of football players for export. Today, several Argentine players populate the major European leagues.

Argentina has an extensive history of success in international football tournaments. Local teams have

won several international tournaments, both at the continental and intercontinental level. The national team has won the FIFA World Cup in two occasions, in 1978 and 1986, and has been the runner-up in another two occasions, in 1930 and 1990. The younger players have also performed brilliantly recently, suggesting that Argentina will continue to be a football “superpower” in coming years. The national team has won the FIFA World Youth Championship four times, in 1979, 1995, 1997 and 2001. In the Olympics, the football team has never managed to win gold, but has won silver medals twice, in 1926 and 1996. Finally, at the continental level, Argentina’s performance has been impressive, only equalled by neighbouring Uruguay. The national team won the America Cup 14 times between 1921 and 1993.

### THE STATE OF THE ECONOMY

The 2002 World Cup finds Argentina in one of the most severe economic crises in its history. The economy has not been able to get out of a recession that started shortly after the previous World Cup in late 1998. At the beginning of the year, the government abolished the 10-year old 1:1 peg of the Peso to the US Dollar and established a floating FX regime. Since then, the Peso has continuously weakened against the US Dollar. As economic activity plunges, unemployment climbs and tax collection collapses, widening the fiscal gap. Real GDP has fallen in the past three years and looks set to record the largest decline in a decade in 2002. As the government, who has defaulted on public debt obligations, has no access to credit, it covers its expenses by issuing currency and bonds that play the role of a quasi-currency. Inflation has picked up, and should currency weakness spiral, the risk of hyperinflation will be high.

### THE STATE OF THE NATION

Economic crisis has brought along with it a great deterioration of political and legal institutions. Social unrest triggered the fall of two presidents in late December. The legal protocol surrounding presidential succession gave the country five presidents in two weeks in late December and early January. The current interim government, headed by President Eduardo Duhalde, has the gigantic task of rebuilding Argentina’s political, legal and economic

institutions, and of designing an economic program to pull the economy out of recession and set the base for sustainable growth.

<b>Previous Appearances: 12</b>
1930, 1934, 1958, 1962, 1966, 1974, 1978, 1982, 1986, 1990, 1994, 1998
<b>Honours</b>
Winners: 1978, 1986
<b>Odds</b>
7 - 2

**THE 2002 WORLD CUP**

Belgium looked set to qualify for Japan, as of right, until a loss to Croatia in their final Group 6 game saw them face a tough play-off against a fancied Czech Republic. Victories home and away saw the Belgians through to their 6<sup>th</sup> consecutive World Cup finals, the only team to have achieved this without having hosted or won the event. The original “Red Devils” will be confident of progressing to the next stage, through a relatively weak Group H. However, they will need to improve on the three bland score draws achieved at France ’98, that saw them go out at the group phase. Their previous best result was a creditable fourth in 1986.

Japanese summers may prove a leveller and these odds could seem very generous by the end of June.

Gilles “Bob” De Bilde, Marc “Mr.1,000 Volts” Wilmots, Danny “the Prof.” Boffin, and Emile “Triple Word Score” Mpenza form the backbone of a talented squad. (For the interested, the first two nicknames were coined, respectively, by fans of Sheffield Wednesday (still a solvent football club when we wrote this) and Schalke 04. The last two are ours.) Whether they can emulate the great 1986 Belgian side containing the likes of Jean-Marie Pfaff, strikers Jan Ceulemans and Nico Claesen and midfielders Enzo Scifo and Franky Van der Elst is debatable.

**FOOTBALL IN BELGIUM**

“The Red Devils” earned their nickname in 1906 after an away match against Holland. Playing for the first time in red, they were 2-1 down with 15 minutes left, but scored twice to win 3-2. Arguably Belgium’s most famous footballing moment came with victory in the 1920 Olympics although coming a close second is the 5-1 drubbing of the then world champions Brazil in 1963, by the then amateur Belgians. Professional football did not arrive in Belgium until 1967. The suspension and subsequent banning in 1930 of Belgium’s most “famous” player, Raymond Braine of Beerschot, for opening a pub is our particular highlight!

<b>Previous Appearances: 10</b>
1930, 1934, 1938, 1954, 1970, 1982, 1986, 1990, 1994, 1998
<b>Honours</b>
Semifinalists: 1986 (4th)
<b>Odds</b>
80 - 1

**THE STATE OF THE ECONOMY**

Belgium is an open economy and is not only goods and services that cross the borders to and fro. It is also footballers. The Bosman ruling has seen the majority of the best Belgian players move abroad, primarily to Germany, the Netherlands and France. This must be globalisation at work. However, the national side has a core of domestic players, mainly drawn from Anderlecht (Glen de Boeck, Walter Baseggio, Yves Vanderhaeghe and Marc Hendrixx) and Club Brugge (Gert Verheyen, Timmy Simons).

**STATE OF THE NATION**

State of the national side, we mean. A current world ranking of 21 sees them rated at their highest since 1995. The bookmakers have them at odds of 80-1 but the harsh heat and humidity of the Korean and

**THE 2002 WORLD CUP**

Despite being a legendary power in soccer, Brazil is arriving in South Korea as an underdog, because during the qualifying rounds the national team played poorly and only just about made it. The last time this happened was in 1994, but back then the humbling qualifying struggle armed the team with the spirit and determination to win the 1994 World Cup in Pasadena. Unfortunately, the team's current organizational disarray is reminiscent of the team which played in the cup in 1966 in England, when they failed to go past to the first round after a terrible upset against a Portugal led by the legendary Eusebio.

Yet, as a talented underdog, Brazil could surprise, particularly if coach Felipão allows his team just to play some good free spirited soccer, instead of stifling them with the defensive tactics used by coach Zagallo, who behaved like a central planner in France, 1998. It is highly likely that Brazil will qualify at least to the second round, because they have no match for them in Group C. On what could become known as the battle of debt dynamics, Brazil's first game will be on June 3 against Turkey in Ulsan, Brazil being the favourite on both grounds. Things will get tough thereafter, because for it to reach the semi-finals, Brazil will have to defeat either Argentina, England, or France, to be followed then by either Italy or Germany.

**FOOTBALL IN BRAZIL**

Together with samba, caipirinha, and coffee, soccer is one of the strongest national symbols and sources of pride of this tropical nation. But there is much more about Brazil than those four symbols, as the country is well respected for its aircraft exports and, more recently, competent economic management, particularly under the tenure of central bank Governor Fraga. Coach Felipão seems more hesitant about choosing his team than Brazil was about the exchange rate before the 1999 devaluation, because he cannot make up his mind and has to draft 23 players from a 50-player strong roster.

Felipão may well be the coach, but like with the devaluation, it is President Cardoso who will

ultimately call the shots - he already asked Felipão to draft Romario, the mercurial and explosive striker. With Romario, Brazil would have an R-squared line up with Romario and Rivaldo, thus assuring the goodness of fit of our regressions for this tournament. But so far, Felipão has resisted the presidential orders. There are other Rs to strengthen the team, including two Ronaldos (one Paulista, the other Gaúcho), and not just one, but two Juniors (one Paulista, the other Pernambucano). Add the intriguing names of Vampeta and Tinga to Roberto Carlos, Júnior, Cafú, Adelson Ponga, Gilberto Silva, and Kaká, and Brazil has a fantastic team.

**STATE OF THE ECONOMY**

In South Korea, the soccer team will afford to focus solely on soccer, because macroeconomic fundamentals are better than what they were four years ago. Since then, Brazil abandoned its crawling band (1999), moving to a managed floating exchange rate system. FDI and privatization revenues declined somewhat since they peaked in 2000, but thanks to a shift to growing trade surpluses, the current account deficit has fallen faster than FDI. Today the stock of short term external debt is smaller, while the concentration of domestic debt maturities is smaller than in 1998. The primary fiscal balance has shifted to a surplus of about 3.5% of GDP from a deficit of 1.0% in 1998, mostly through higher taxes and partly through spending cuts.

Like the soccer team, Brazilians do not have great expectations for their economy this year, particularly after a disappointing 2001, when the economy performed reasonably well in light of the strong external and domestic shocks it suffered. The economic outlook for Brazil will improve in 2002. The policy underpinning for Brazil is solid, based on primary fiscal surpluses, which are likely to remain at 3.5% of GDP target agreed with the IMF, and tight monetary policy, with real interest rates in excess of 12.0%. Industrial production bottomed during 4Q2001 and overall real GDP growth should recover in 3Q2002, closing the year at about 3.0% on a yoy quarterly basis and a 1.8% average for 2002. The trade surplus continues to rise, reaching US\$4.0bn in 2002, thus reducing the current account deficit below US\$21bn.

Capital inflows picked up thanks to sovereign and corporate issuance in capital markets and one-off sales of shares by the state bank BNDES. An increase in debt financing more than offset the drop in FDI, allowing BACEN to gain US\$1.0bn in international reserves in the year through April 30. Brazil has an active 15-months stand-by and SRF programs with the IMF, which expire in December 2002. Provided that the government meets all the performance criteria, the IMF entitles the government to draw up to US\$9.7bn by mid-year, if it so desires.

We believe that capital inflows will rebound after the elections, driven by a recovery in FDI. A favourable electoral outcome supported by capital inflows will likely reduce Brazil risk (as measured by the EMBI+), allowing for a reduction of BACEN's SELIC interest rate, and support the exchange rate. This notwithstanding, we believe that the FX market will remain volatile and probably weakening through the second round of the elections, because pre-electoral uncertainty could lower capital inflows until there are signs that the official candidate could win.

### STATE OF NATION

In Brazil, presidential elections are on the same four-year cycle as the World Cup, being conducted in two rounds, which are scheduled for October 6 and October 27. These elections will be more difficult than those in October 1998, when President Cardoso sought a second term and easily defeated PT's candidate Mr. Luis Inacio da Silva (Lula) in the first round. This is probably because the official candidate, Mr. Jose Serra (PSDB) is presently experiencing harsh opposition from former government allies (mostly from PFL and to some extent some areas within PMDB) has still to prove that he has the charisma and popularity enjoyed by President Cardoso.

Nonetheless, we believe that the official candidate Serra (PSDB) will likely to win against Lula on the second round. Yet, political noise will remain very high at least through June, because Mr. Serra still has to appease the ruling coalition and launch his campaign, while Lula is likely to rise further in the polls, perhaps to the mid-40s. Recent polls released in April and May show that Lula has regained

strength in the presidential race, remaining in first place with almost 40% of the vote. Mr Serra is struggling to remain in second place, being almost tied with self-declared populist Garotinho (PPS) with 19% and Ciro Gomes (PSB).

We believe that a credible track record, the recovery in the popularity of President Cardoso, ample support from the media and industrial and financial lobbies, and a strong federal investment spending budget are all factors which are likely to turbo-charge Serra's campaign, propelling him to the presidential palace in January 2003.

After the World Cup, the main things to watch will be the ability of Mr. Serra to launch his campaign, followed by the quality of Mr. Serra's economic team and program for 2003 and beyond.

<b>Previous Appearances: 16</b>
The only nation to have taken part in every World Cup
<b>Honours</b>
Winners: 1958, 1962, 1970, 1994
Runners-Up: 1950, 1998
Semifinalists: 1938 (3th), 1974 (4th), 1978 (3rd)
Hosts: 1950
<b>Odds</b>
6 - 1

**THE 2002 WORLD CUP**

Known as the “Indomitable Lions”, Cameroon will be competing in their fifth World Cup this year, a record for an African nation. Cameroon has the best record of any African nation in the World Cup, with their memorable quarterfinal appearance in 1990, where they lost in extra time to England. As current holders of the African Nations Cup, together with Nigeria they will be Africa’s best hope of lifting the Trophy in 2002. They have also had recent success by winning the under-23 Olympic gold medal at the 2000 games in Sydney. Unfortunately for Cameroon, they face a tough qualification group, which includes Germany, Ireland and Saudi Arabia. Germany is the clear favourite to win the group and we think Cameroon will struggle to beat Ireland. If Cameroon manages to finish runners up in Group E, they would face the winners of Group B, probably Spain. Sadly, we think an appearance in the second round is the best they can hope for.

Their star player is Striker Patrick Mborna who currently plays for Serie A team AC Parma and featured in Cameroon’s 1998 campaign in France. Mborna will be in familiar surroundings in Asia, having spent time in the Japanese J-League. Indeed, in his first season in Japan he finished top goal scorer with 25 goals in 28 games, he was the first player to score a hat trick in the J-league and holds the record for the fastest goal (26 seconds). One factor that has worked against Cameroon in the run-up to the finals has been problems keeping hold of a manager. For this World Cup German-born coach Winfried Schafer, the former manager of VfB Stuttgart, will coach them. One thing is for certain, if this year’s Cameroon team play anything like previous efforts in the World Cup they will be great to watch.

**FOOTBALL IN CAMEROON**

Cameroon is probably Africa’s most successful footballing nation. The Germans introduced Football to Cameroon in 1880, although Cameroon’s domestic football teams were not affiliated with the African Football Confederation until after independence in 1960. Since the 1960s Cameroon’s best domestic football teams have had several successes in the African

Champions Cup winning it for the first time in 1965 and three times during the 1970s. In the 1980s the national team has enjoyed similar success winning the African Nations Cup in 1984 and 1988. Their greatest achievement was reaching the quarterfinal of the 1990 World Cup, an achievement that first put African football on the map. Cameroon also claims to have the most famous African football player of all time in Roger Milla. Milla was twice winner of the African Golden Ball and is the oldest player to score in the World Cup at the age of 42.

**STATE OF THE ECONOMY**

The former French Cameroon and part of British Cameroon merged in 1961 to form the present country. The country is reasonably well developed relative to some of its African neighbours owing to its abundance of natural resources that include oil, coca and coffee. The petroleum industry in Cameroon is well advanced with this being developed in the early 1970s.

The domestic economy recovered well from the commodity-induced weakness in the mid 1980s. After a largely unsuccessful IMF program which followed the devaluation of the CFA Franc in 1995, the authorities have tackled some of the major imbalances in the economy. After the completion of the latest IMF program in 2000, the IMF has pressed for more reforms such as privatisation and increased budget transparency. In 2001 the economy expanded by around 5%.

**STATE OF THE NATION**

Cameroon is one of the better endowed African nations it still suffers from many of the typical problems associated with developing countries such as a generally unfavourable business climate for enterprise, reliance on agriculture (some 43% of the economy), top heavy civil service, and to some degree, political instability.

<b>Previous Appearances: 4</b>
1982, 1990, 1994, 1998
<b>Odds</b>
40 - 1

**THE 2002 WORLD CUP**

China makes its debut in the World Cup this year, but may not progress well particularly given it is up against well established teams in the first round. But this will unlikely deter the tens of thousands of Chinese fans from travelling to South Korea celebrating the coming out party for their national team.

**SOCCER IN CHINA**

China is long known as a nation of outstanding ping-pong players and gymnasts, but never gained a reputation in soccer! However, this is the first time ever in history that China's national team has made it to the World Cup. This is in its own right a cause for celebration. Remember the fireworks in Beijing?

China indeed has come a long way. Soccer as a sport started to become popular only in the early 1980s. A shortage of good coaching and severe constraints in facilities have slowed its development. Our GS economist attended China's top and best funded university which, in the early 1980s, had only one soccer field on sand, not on green grass, for its 10K plus student population. As China's economy grows, however, funding has become available to build more and better soccer fields. More and more Chinese kids are giving up ping-pong for soccer which they find more exciting. Today there are a half dozen or so professional soccer clubs across the country. Each soccer game is aired live on national TV networks and it is common for good teams to receive generous corporate sponsorship with good players getting hefty bonuses, very much following the Western trend. It is estimated there are over 100 million declared soccer fans, according to a Chinese internet survey. The nation went wild when the Chinese national team qualified to participate in the World Cup for the first time. Regardless of China team's performance at the World Cup, we predict soccer, already one of the most popular sports, is going to stay in China for generations to come.

**THE STATE OF THE ECONOMY**

Not surprisingly, China has a lot more reason to celebrate its economic performance than its achievement in soccer so far. The economy bucked the global trend last year to achieve 7.3% real GDP

growth. The government's new budget, unveiled in March, projects 3% of GDP in deficit spending, mostly for public infrastructure such as highways, bridges, and ports. Massive public investment and a recent cut in interest rates by the People's Bank of China should keep domestic demand growing at a healthy speed. Most encouraging is a strong pick-up in exports, which rose more than 14% in the first two months of this year, by far the best performance in Asia. Foreign direct investment has also continued to rise. While we continue to expect China to finish 2002 with 6.8% in real GDP growth, latest data point to some upside risk to our current forecast.

**STATE OF THE NATION**

The first time entry into World Cup marks just one of the many noteworthy events for the Chinese nation. China has finally cemented its membership at the World Trade Organization as reward for its 16-year marathon bid. Beijing has been selected as the host city for the 2008 Olympics. In fall 2002/spring 2003, President Jiang Zeming and Premier Zhu Rongji are expected to retire and pass the baton to the next generation of leaders. We expect the transfer of power will go smoothly and there will be policy continuity and political stability ahead under the new leadership. China will continue to move forward towards a free market economy and as the WTO, World Cup and Olympics show, further integrate into the world.

**Previous Appearances**

No Previous Appearances

**Odds**

350 - 1

**THE 2002 WORLD CUP**

Costa Rica qualified to the World cup finishing first in the CONCACAF region, ahead of Mexico and the United States. Not being a football powerhouse, Costa Rican fans are likely to be satisfied by matching the performance of Italy 90, its only other World Cup appearance. Back then, the “Ticos”, as Costa Rica nationals are known, made it to the second round after finishing second in their group, below Brazil, by defeating Scotland and Sweden. Once again, Costa Rica (27<sup>th</sup> in FIFA’s rankings) shares its group with favourite Brazil (2), so its best shot to advance to the second round is to defeat China (51) and at least draw with Turkey (24).

**FOOTBALL IN COSTA RICA**

Hopes among Costa Rican fans are higher than ever. This is because the national team arrives at its second World Cup after winning seven out of ten games qualifying and losing only once.

Costa Rica’s greatest strength is its offensive line-up. Strikers Ronaldo Fonseca and Manchester City’s Paulo Wanchope led the team to top the scoring category during the qualifying round. However, the fans favourite and main inspirational figure continues to be Heran Medford, who played a key role in Italy 90’ to get the “Ticos” beyond the first round.

**STATE OF THE ECONOMY**

Costa Rica’s economy depends basically on tourism, agriculture, and electronics exports. Over the last decade Costa Rica has progressed in opening up the trade system, diversifying exports and improved development indicators, including poverty reduction and education.

Political stability and relatively high educational levels makes Costa Rica a good destination for foreign direct investment (FDI). Nevertheless, there remain significant challenges in terms of fiscal adjustment and structural reforms, particularly in the modernisation of the electricity and telecom sectors.

The global slowdown in 2000 contributed to a deceleration in real GDP growth which dropped sharply in 2000 and 2001 to 1.5% and 0.5%

respectively, from 8.4% in 1999. Lower growth has widened the public sector’s fiscal deficit and worsened debt ratios.

While a recovery in global demand should help, Costa Rica will likely only grow modestly in 2002. This is partly because the lack of support for structural reforms, in a change-of-administration year, is likely to deter private domestic investment and FDI.

**STATE OF THE NATION**

According to CIA reports, Costa Rica is a story of stability and peace compared to its Central America neighbours. Since the late 19<sup>th</sup> century, only brief periods of violence have marred its democratic development.

Costa Rica is a presidential republic composed of seven provinces. The executive branch is composed of the president, two vice-presidents and a council of government, integrated by 17 ministers. The legislative branch is vested in the national assembly, a unicameral body composed of 57 members. Legislators may be re-elected after a four-year term for one additional term the president may not.

There are over a dozen political parties in Costa Rica but only the National Liberation Party and the Social Christian Unity Party two have occupied the presidency since 1949.

<b>Previous Appearances: 1</b>
1990
<b>Odds</b>
200 - 1

### THE 2002 WORLD CUP

Based on current rankings, Croatia faces a tough challenge in Group G. The group includes Italy and Mexico which are ranked 4th and 8th in the world respectively. The final group member, Ecuador, is ranked 36th by FIFA.

Since coming third in France four years ago, Croatia's results have been mixed, and its world ranking has dropped to 23. However, performance was solid during the qualifying round, in which Croatia was undefeated and emerged as the winner of Group 6. Only two goals slipped past the strong defence in the eight qualifying matches – the lowest number of any country participating in this year's World Cup.

Croatia is facing Mexico in the group's opening match, which could be decisive. With a win here, we think Croatia could very well secure 2<sup>nd</sup> place in the group after Italy.

### FOOTBALL IN CROATIA

Football and other sports play an important role in the Croatian national identity. In fact, since becoming independent from Yugoslavia in the beginning of the 1990s, the small country has achieved remarkable successes. The 1998 World Cup bronze medal came as a surprise to almost everybody. More recently, we have seen spectacular performances by Goran Ivanisevic, who won a historical victory at Wimbledon in 2001 after having to play the qualifying tournament. Another extraordinary Croatian performance came at this year's Winter Olympics when Janica Kostelic became the first Alpine skier ever to win four medals (three gold and one silver) and that just two months after returning from a major injury.

This year's World Cup team includes many of the stars of the 1998 team, including Davor Suker, who was top scorer in France with six goals and Robert Prosinecki – now playing in Portsmouth. In addition, the team boosts strong younger players, including the 23 year old Igor Tudor - the Juventus defender who was voted Croatia's player of the year in 2001.

### THE STATE OF THE ECONOMY

Recent years economic performance has been strongly correlated with results achieved by the National team. Simple correlation analysis (more rigorous granger causality testing is made difficult by the short time series available) shows a strong positive correlation between growth and the balance of matches won and lost. The recession in 1999 was mirrored by a number of losses following the 1998 success. In 2001 the first place in the qualifying group round was mirrored by clear growth outperformance compared to most other European countries.

### STATE OF THE NATION

Much of the reform process in Croatia has been aimed at achieving close integration with Western Europe and the EU in particular. Developments in the football labour market have in this sense been ahead of the broader integration trends. This is clear from the very high mobility of Croatian football labour, which has been driven towards the EU by large wage-differentials. However, not even the important Stabilisation & Association Agreement between the EU & Croatia from October 2001 includes direct measures to integrate EU and Croat labour markets.

<b>Previous Appearances: 1</b>
1998
<b>Honours</b>
Semifinalists: 1998 (3rd)
<b>Odds</b>
50 - 1

### THE 2002 WORLD CUP

Little Denmark was the surprise package of the 1990s, punching above its weight in football terms. Surprise winners of the European championship in 1992, the country also performed well in the last World Cup, eventually losing 3-2 in a closely fought quarterfinal contest against Brazil. Denmark finished the qualifying phase unbeaten but now faces a tough challenge, placed in the same group as current world champions France. Qualification for the second phase will hinge on the encounter with Uruguay. The international retirements of Peter Schmeichel and the Laudrup brothers means that the players to watch include tricky winger Jesper Gronkjaer and prolific striker Ebbe Sand (scoring 9 of the 22 goals in the qualifiers).

### FOOTBALL IN DENMARK

For decades football was considered an amateur sport in Denmark. But about thirty years ago some of the most talented Danish footballers were tempted, perhaps as a consequence of the high taxes and duties in Denmark, into earning their keep at high-paying Italian clubs, and others have followed since so that Denmark has become an exporter of players to top European clubs. Denmark is now a nation of avid football fans. There are about 300,000 active soccer players, ranging from 5-year old youngsters to experienced veterans in the old boys' clubs. The whole country therefore follows the exploits of the national team and rejoiced when the Danish team won the European Cup in summer 1992.

### THE STATE OF THE ECONOMY

In the 1998 version of this World Cup book we stated that the international fortune of the Danish national team leads the state of the economy, according to an unscientific correlation analysis carried out at the time. This "model" seems to have held up with average GDP growth in Denmark since 2002 being above trend and only a little lower than the European average (2.4% compared to 2.7%). That said, the Danish economy, as elsewhere in Europe, slumped last year on the back of weaker foreign demand for exports, but also as a consequence of Danish economic policy that has aimed to avoid the economy

overheating after the boom in the late 1990s. The recovery is like to be sluggish on the back of poor prospects for the export sector and weak income growth and rising unemployment, due to restrained private consumption.

### THE STATE OF THE NATION

With its small population of just over five million inhabiting a relatively small European country, Denmark in terms of inhabitants counts for very little at the global level. But perhaps precisely for these reasons there has developed among Danes, a strong inclination to seek international contact and co-operation. That said, the Danes remain fiercely protective of their sovereignty and perhaps more importantly, their welfare state. Indeed, for these reasons, the Danes rejected EMU membership at a referendum in September 2000 and have distanced themselves from the most Euro-enthusiastic ideas of accelerating integration.

The Danes are likely to have the chance to vote again on EMU membership before the 2006 World Cup. But it is unlikely that the current improvement in the Danes attitude to EMU will mean that the world champions, France, will take it easy on them in their first round match on 11<sup>th</sup> June!!

<b>Previous Appearances: 2</b>
1986 and 1998
<b>Odds</b>
80 - 1

**THE 2002 WORLD CUP**

Ecuador arrives at its first World Cup finals after finishing second within the highly competitive South American qualifying group, below Argentina and slightly ahead of Brazil and Paraguay. On paper, the prospects for this small Andean nation to make it beyond the first round are not very encouraging. Based on FIFA’s official rankings, Ecuador (36) is clearly the underdog of group “G”. Ecuador will face Italy(6), Mexico(7) and Croatia(23) starting on June 3.

**FOOTBALL IN ECUADOR**

Football is, by far, the most popular sport in Ecuador. In its first World Cup appearance, there is hardly any downside. The national team’s players and coach Hernan “Bolillo” Gomez already have the status of national heroes for making second place in the South American qualifying round. Nevertheless, expectations are high and one can safely expect that the country will ground to a halt when the national team plays and massive celebrations are likely to take place even in the event of a draw.

Traditionally poor by South American standards, Ecuadorian football has improved significantly during the 1990s. The national team now has with players with international exposure primarily through the Spanish, Scottish and English professional leagues. Its more prominent player, and secret weapon, is Southampton’s striker Agustín Delgado.

**THE STATE OF THE ECONOMY**

The stabilization brought about by Dollarization in 1999-2000 and strong private investment linked to the construction of a heavy crude oil pipeline (OCP) has contributed to a strong economic recovery in 2001.

In the foreseeable future the OCP project will shape the economic performance of Ecuador as it is expected to generate US\$3.0-3.5bn in FDI and to double oil exports over the next three years.

The true economic challenge for Ecuador is to have the right set of policies in place to avoid this investment boom ending in a “Dutch Disease” bust.

In particular, the financing position of the public sector remains considerably weak and inconsistent with a fixed exchange rate regime. Some loss in external competitiveness is already evident in export performance as well as GSDEEMER, which shows that the real exchange rate 20% overvalued.

In this regard, we believe Ecuador would greatly benefit from securing a new IMF agreement in 2002 that would let the government close the financing gap for 2002. This may also contribute to a more smooth political transition to a new presidential administration in January 2003.

**STATE OF NATION**

Ecuador is a presidential republic composed of 22 provinces. The president and vice-president are elected in one ballot for a four-year term. The legislative branch is composed of a one-chamber Congress (123 Congressman) and the judicial system is based on civil law. Ecuador has a fairly fragmented political system with over ten parties including the Democratic Left, Popular Democracy, Pachakutik and Rodolsist party, just to mention a few.

Former Vice-president Gustavo Noboa was selected president following the coup that deposed Jamil Mahuad during the 1999-2000 crisis. Ecuador will hold first and second rounds elections on October 20 and 24 of 2002 to select a new president.

<b>Previous Appearances</b>
No Previous Appearances
<b>Odds</b>
125 - 1

### THE 2002 WORLD CUP

Injuries dominate last minute preparations, with fears over Dyer and Gerrard as we go to press. The loss of Neville and fears over Beckham have already caused dilemmas. During April, the fitness of David Beckham became a national obsession in the run-up to the World Cup after the Golden Boy of English football was injured by in a recent Champions league match. The England skipper looks likely to be fit for the first match on 7<sup>th</sup> June against Sweden. To make matters worse, Beckham was crocked by an Argentinean defender, England's old adversaries and the team that knocked England out in 1998. To add to the spice England have drawn Argentina in the group stage. Interestingly, England have met Argentina in the World Cup on three occasions (1966, 1986 and 1998), twice the winner went on to lift the trophy (1966 and 1986).

There is a huge amount of irony over the Beckham situation after his last experience in the World Cup. Having been sent off against Argentina in the 1998 quarterfinal, Beckham was subject to endless abuse from the tabloid press and at every UK ground except Old Trafford. Attitudes have certainly changed towards Becks after he seemed to put country before club earlier in the season and scored the winning goal against Greece, which enabled England to qualify for the World Cup. Now everyone is praying he lifts the 2002 World Cup.

England had been going into the World Cup in confident mood under new Coach Sven-Goran Eriksson having qualified by beating rivals Germany 5-1 in Munich, a great moment for any Englishman. They start the tournament as joint fifth favourites with Spain, but behind France, Argentina, Brazil and Italy.

England have been rather unfortunate being drawn in the group of death with favourites Argentina, bogy team Sweden and Nigeria. Furthermore, it is vital that England win the group otherwise they face a daunting task in subsequent rounds. If England finish runners-up in group F, they will face winners of group A (probably France), in the quarterfinal they would most likely meet Brazil, before running into Argentina again in the semi-final. If England win group F, life is much easier with Uruguay or Denmark likely to be the opposition.

### FOOTBALL IN ENGLAND

There is little doubting that football remains the national sport and this is only likely to be enhanced as we move closer to the start of the World Cup. As one of only seven countries that have ever won the World Cup, the competition holds big appeal to the general public.

On the national stage there is little doubt that English football is on the up with the help and leadership of its first foreign coach Sven-Goran Eriksson. The influence of foreign players and coaches in the Premier League has been a growing theme since the Premiership was created and English clubs have been well represented in the final stages of the European Champions league. However, financially at least, the tide is turning for English clubs, as the wage bills grow, now these typically exceed 50% of total turnover club turnover.

### STATE OF THE ECONOMY

British football is often said to lag behind that on continental Europe (though witnesses to a recent performance against Germany may beg to differ). If so, we can be thankful the same is not true their relative economic performances, at least in recent years. Since 1992, UK growth has averaged 2.9% a year, compared to 1.9% in Euroland. Over the same period, unemployment has fallen by 6% of the workforce in the UK, but less than 3% in the rest of Europe. And inflation rates have barely differed (they've both averaged close to 2.5%). The growth gap is unlikely to be as big in future, because there are limits to how far unemployment can fall (on the claimant count measure only 3% of the workforce are currently unemployed). The UK will therefore have to generate stronger productivity growth if recent rates of expansion are to be maintained. But, for the moment, the UK economy is performing relatively well.

Arguably, one reason for the UK's relatively stable growth record in recent years has been its inflation targeting regime for monetary policy. If so, then the government faces something of a dilemma in its push to persuade the British of the merits of European Monetary Union, still the central economic and political question facing the country. The longer the successful track record of an independent monetary policy the harder it is to persuade people of the merit

of adopting someone else's. Harold Wilson, a former Prime Minister, once pointed out that only while a Labour government was in office did England manage to win the World Cup. Perhaps the government should point to the outstanding French team and Spanish League as a reason for joining EMU. If only the German team was doing a little better . . .

### **STATE OF THE NATION**

The rest of the world may have looked on somewhat in bewilderment as the British recently devoted a week's public mourning to the 101-year old mother of Queen Elizabeth. But the public interest in her funeral demonstrated once again the centrality of Britain's history to its sense of identity. Early in its life, the current government made conspicuous attempts to change – to “modernise” – the country's image, stressing its contributions to pop music, and pop art. The contributions may have continued (with the music proving rather more popular than the art); but the government's fixation with the modern has dwindled somewhat since the early days. Visitors to the Millennium Dome may judge this a good thing. Long-suffering railway passengers will not be so pleased.

<b>Previous Appearances: 10</b>
1950, 1954, 1958, 1962, 1966, 1970, 1982, 1986, 1990, 1998
<b>Honours</b>
Winners: 1966
Semifinalists: 1990 (4th)
Hosts: 1966
<b>Odds</b>
9 - 1

### THE 2002 WORLD CUP

France won the World Cup for the first time in 1998, at home. This was the result of a careful and long-planned preparation of a generation of high-talented individuals. Thanks to this momentum, France has accumulated a series of good results since then, the most significant one being a (lucky) golden-goal victory against Italy in the final of the 2000 European Championship.

The loss of England's Player of the Year, Pires to injury was not good news for the French team.

Despite this, it is not surprising to see France as one of the favourites to win the World Cup this year, though there have only been two instances where a country has successfully defended the trophy (Italy 1934, 1938; Brazil 1958, 1962). Anything less than semi-final participation would be disappointing. However, this will prove difficult, as France is part of a very difficult half of the draw including Brazil, Argentina and England.

### FOOTBALL IN FRANCE

As in other countries in Europe, Football is the most popular sport in France. The whole country was behind its team in 1998, and victory was heavily celebrated that summer, with scenes of collective jubilation only comparable to the ones observed at the Liberation of Paris!

The footballing successes were regarded at that time as indirect evidence of the strength of the nation. Economic performance had been improving markedly since 1997, after a dismal first half of the decade due to the many sacrifices necessary to qualify for EMU. After the World Cup, the nation took further confidence in its own capacity to be successful. Household confidence shot up to unprecedented highs and remained in euphoric mood up until very recently, buoyed by the steady and fast decline in unemployment. Both Prime Minister Jospin and President Chirac were very popular thanks to a smooth political "cohabitation". The 1998 victory was also regarded at that time as success of the French integration model for former immigrants, as many of the best players had parents of foreign origins (such as Zidane, Desailly, Thuram etc).

In spite of the 1998 unprecedented victory, France does not stand as a great football nation comparable to Italy, England or Spain. The domestic football league is weak, with no great French clubs able to get consistently good results or to compete in European Leagues. Most of the best French players are playing abroad. French clubs are not rich enough to cope with the wage hyperinflation that has characterised the market for top players in recent years. TV fees, and maybe even radio fees, are the main sources of financing of football in France, but the government has always been reluctant to authorise floatation on the stock market.

### THE STATE OF THE ECONOMY

In the past four years, France has proven to be one of the most dynamic countries in Euroland. GDP growth outpaced growth in the rest of the region, especially Germany and Italy, while French inflation consistently ran below Euroland inflation. This strong performance was made possible by significant progress in structural reforms since the mid-90s. Labour market flexibility and deregulation in product markets were the main ingredients.

Yet, benefits from past reforms have started to fade away. As a matter of fact, French economic policy has gradually frozen during the last twelve months. The prospect of elections looming in spring 2002 has made the Government very cautious with unpopular reform. This was re-enforced by the painful "Cohabitation".

In this context, France's strong performance has gradually lost its shine. As structural reforms lost steam, and the resolve to rein in public spending weakened, the additional boost to French activity has gradually vanished, and fiscal deficit has gone away from the path initially set in successive Stability Programmes. The French economy has not been particularly spared from the recent downturn, as suggested by the 1.4% (annualised) contraction in GDP in the fourth quarter of 2001 and the slow but steady increase in unemployment since the middle of 2001.

As in the rest of Euroland, France will now benefit from the global recovery. Many signs of a robust industrial recovery have accumulated, with business

confidence steadily improving, and early indications that unemployment has started to level off. However, the scope for a spectacular rebound in growth remains limited, as final demand will recover only gradually. GDP growth will ease to 1.2% in 2002, and will not exceed trend in 2003, as fiscal policy may have to turn more restrictive.

### THE STATE OF THE NATION

In contrast with 1998, the World Cup does not appear as the most important event of the year. The shocking exit of former Prime Minister Jospin from the first round of the French Presidential election, and the victory by right wing politician Le Pen shocked the nation almost into a state of emergency. After President Chirac's convincing victory in the second round of the Presidential elections (82%), the focus is now on the National Assembly elections on June 9 and 16. The party (or coalition) which controls the National Assembly effectively runs the government. Assuming a centre-right victory - the now most likely outcome - the new government will have a good opportunity to implement a programme of structural reforms: lower tax and social contributions, privatisation, deregulation of public enterprises and the introduction of private pension funds. However, we continue to see a clear risk that public deficit will remain high.

France is now a more anxious country than in 1998, with difficult reforms ahead (labour market, EU reforms, size of the public sector in the economy, pension reform) and a lot of concerns about the recent increase in crime. This probably puts the World Cup as a less powerful event than four years ago, as France now feels less confident of its own strength. We will see if the exceptional French football team will be able to prolong the successes from the past a bit longer, while the country is now more focused on the difficult road ahead.

<b>Previous Appearances: 10</b>
1930, 1934, 1938, 1954, 1958, 1966, 1978, 1982, 1986, 1998
<b>Honours</b>
Winners: 1998
Semifinalists: 1958 (3rd), 1982 (4th), 1986 (3rd)
Hosts: 1938, 1998
<b>Odds</b>
4 - 1

### THE 2002 WORLD CUP

Since winning the European championship in 1996, the German national team has produced many dismal performances. A low was reached at the 2000 European Football tournament where Germany dropped out in the first round. In the qualification for this year's world championship the national team seemed to have regained some of its previous strength. However, a blowout loss to England showed that the team has still a long way to go. The recent failing of the German team has been, among other things, linked to deficits in tactics. While most of the European competitors have switched to a strategy of 4-4-2 the German national team still prefers a more traditional strategy with a central defender behind a line of 3. Younger players of the team are meanwhile used to the 4-4-2 system, as some clubs in the Bundesliga have started to introduce the new system. However, older players have trouble to adapt, leaving the coach of the national team, Rudi Völler, little choice but to stick to the old way of defence. Compared to its predecessor, the 2002 national team cannot claim to have a world class player within its ranks, with goalkeeper Oliver Kahn being the only exception. Those players that seem to have the potential are still considered to be too young to lead their team into the quarterfinals. Especially, in attack the team has shown considerable weakness. The German team travelling to Japan and Korea will be a team in transition. Even German football officials have remarked that they do not expect great things from this team. For the first time in decades, the German team is not considered to be a serious contender for the world championship. Planning seems to concentrate on 2006, when the tournament will be held in Germany. However, the team won't be an easy pushover either. The team can rely on its physical strength and will show great determination.

### FOOTBALL IN GERMANY

Football is by far the most important sport in Germany, in terms of both players and spectators. German clubs have been quite successful in European competitions, with Bayern Munich winning last years Champions League. Also in this

years' Champions League, two of the quarter finalists came from Germany with Bayer Leverkusen reaching the final. Financial risks for the Bundesliga emerge from the default of the Leo Kirch group who owns the television rights. The bankruptcy of the company endangers the payment of the remaining television fees, threatening to leave the clubs without one of their main sources of income.

### THE STATE OF THE ECONOMY

The German economy fell into recession in the second half of last year. The downturn gained momentum after the September 11 terrorist attacks and real GDP contracted by 0.3% qoq in 2001Q4. Although the weak external environment weighed heavily on the economy, recession was essentially home-made: Total domestic demand fell by 1.0% in 2001 while net exports added 1.6% to GDP growth (thanks to a 4.7% rise in gross exports of goods and services). Gloomy sentiment caused by rising unemployment and uncertainty about the outcome of this year's wage round weighed on private household and business spending in 2002Q1. Hence domestic demand growth was probably be weak in the first quarter.

However, sentiment indicators point to a recovery around the second quarter this year. Firmer growth in the US should help German exports with the result that GDP could edge higher. Assuming a stabilisation of energy prices at lower levels, the fading price effects of the Euro changeover and a normalisation of food price inflation, private consumption and investment growth are likely to strengthen in the course of the year, raising annualised GDP growth to 2.5% - 2.75% during the second half. Growth is likely to average 1.8% next year, close to its potential rate of 1.75%, on the back of 1.5% domestic demand growth and a 0.4% contribution from net exports.

The greatest domestic risk for recovery emanates from this year's wage round. Union membership has declined since German unification mainly due to structural change towards less unionised service industries and discontent of union members about low increases of real take-home pay. Against this background, IGM, Germany's biggest union, pursued a high profile wage campaign, which led to an acceleration of wage growth in 2002 compared to the previous two years.

With the domestic economy weak and the Euro unlikely to depreciate much this year, companies will have difficulties in passing on the wage increases to prices. The resulting squeeze on profit margins is likely to dampen investment growth and lead to further job losses. The weak labour market will weigh on consumption growth.

After a bumpy start to 2002, headline inflation is likely to resume its downward trend and fall below 1% by the middle of this year. Core inflation is likely to remain moderate and ease below 1.5% next year. Apart from transitory shocks due to variations in food prices, the greatest risk to the inflation outlook comes from energy price developments. A renewed rise of the latter could exert upward pressure on inflation while at the same time weakening economic growth, again raising fears of stagflation.

### THE STATE OF THE NATION

There are intriguing parallels between the condition of the German national team and the state of the nation. Both are former heavyweights, apparently on a path of secular decline or before a future comeback. To avoid continuing economic decline relative to its peers, Germany needs comprehensive reforms of the tax, regulatory, social security, and education systems as well as comprehensive labour market deregulation. These reforms will only be successful if they allow market forces to play a much greater role in all areas of the economy. Although both the incumbent Chancellor and his challenger are keenly interested in strengthening the economy through structural reforms, their economic policy track records show a significant leaning towards interventionist industrial policies and a rather conservative approach to social policy and labour market reforms. Hence, progress in reforms will depend more on the composition of a new coalition government and the relative strength of the ruling parties than on the identity of the Chancellor.

<b>Previous Appearances: 14</b>
1934, 1938, 1954, 1958, 1962, 1966, 1970, 1974, 1978, 1982, 1986, 1990, 1994, 1998
<b>Honours</b>
Winners: 1954, 1974, 1990
Runners-Up: 1966, 1982, 1986
Semifinalists: 1934 (3rd), 1958 (4th), 1970 (3rd)
Hosts: 1974
<b>Odds</b>
14 - 1

**THE 2002 WORLD CUP**

Italy won the World Cup in 1934, 1938 and 1982, but in more recent years victory has been elusive. Since 1970 Italy has failed only three times to be among the top four, while in the last three world cups, has lost only one game in regular time and otherwise was defeated in a penalty shoot out after extratime. During the 1990s Italian clubs dominated the European tournaments, but this predominance has faded recently: in 2002 no Italian team reached any of the semifinals, an event which was acrimoniously deplored by the press and the public. Nevertheless the mood of *tifosi* is upbeat as they feel that the time has come to reach the top spot, 20 years after the magic night in Madrid. Indeed the recent victory against England has confirmed that the team is strong and competitive. The “Azzurri” rely on star strikers such as Inter’s Vieri and Rome’s Montella (a player often compared to Paolo Rossi, the hero of Spain 82) and on the best defence in the world led by Lazio’s Nesta and Parma’s Cannavaro. The midfield, traditionally the weakest spot, has found in Rome’s Totti an assertive, skilful and elegant leader. Giovanni Trapattoni, one of the most successful managers in Europe, has taken the responsibility to coach the team: he is at the peak of a remarkable international career during which he has won most major club tournaments in the continent and is among the most popular individuals in the peninsula. The dream of most Italians is a victory over Brazil, against which Italy lost two finals, the last one in 1994 in a penalty shoot out.

**FOOTBALL IN ITALY**

Passion for football in Italy cuts across economic, social and geographical differences. By far the most popular spectator sport it is also widely practised since childhood by virtually any healthy boy in the land (girls are catching up albeit slowly). It is deemed imperative for any self respecting father to insure that as soon as his (male) toddler is able to stand (however precariously) he is also able to kick the ball (however skilfully).

The popularity of football and the emotion that it stirs are also reflected in the endless discussions that

follow the Sunday’s games of Serie A (the top championship) and the star status conferred not only on players but also on coaches, top club managers and sports journalists. For prominent business figures, ownership of a major club represents the ultimate symbol of success. Prime Minister and media magnate Silvio Berlusconi, for example, is the proud owner of AC Milan, while the family of the charismatic President of FIAT, Gianni Agnelli, is the largest shareholder of Juventus. Indifference to football is considered an extravagance and not rooting for a team a despicable snobbery. Football widows (spouses deprived of quality time at week ends by football fanatic husbands) constitute an endemic social problem, which was greatly exacerbated after the decision to broadcast live the Serie A matches on satellite pay-TV.

The public is extremely demanding. The *ultras*, the local version of hooligans, do not tolerate bad performances, so the draconian job protection enshrined in Italian labour laws, does not apply to coaches and players. Bright careers are abruptly put to an end often at the intimation of angry mobs. However harsh, this selection ensures that Serie A is year after year one of the most competitive national championships in the world, attracting a host of top international players: Maradona, Van Basten, Platini, Ronaldo, Bierhoff, Gullit, Falcao and Batistuta, are just a few names that come readily to mind.

The Italian clubs are increasingly turning to financial markets to attract capital and a few of the top teams are listed on the Stock Exchange - Lazio, Juventus and Roma. However the financial burden to maintain a competitive team has substantially increased in the past few years, so despite higher revenues from TV rights many clubs have piled up large debts, which in many cases have become unsustainable, usually as a result of a bad season. The outlook appears increasingly uncertain. Italian Pay TV channels, as in many other European countries, have not recouped the money unwisely spent on football broadcasting rights, because the public is not willing to pay much to watch the games (especially when a florid black market insures an infinite supply of counterfeited smart cards to de-cript any satellite channel). Nevertheless a dream job for any Italian males (at least those not talented enough to aspire to a place in the national team, the Azzurri), would be a position as

football club equity analyst. Although it would involve week-end and late evening work, it would provide a solid justification vis a vis wife, girlfriend, or paramour to watch the games in peace.

### THE STATE OF THE ECONOMY

After a bleak 2001 the country is gradually coming out of the mild recession that has affected most of the G7. As the global economy rebounds Italy, which is one of the most open developed economies, should benefit greatly. Indeed the strength of the economy hinges on an extremely dynamic and flexible export sector whose backbone is constituted by the medium and small size enterprises concentrated in the North of the country. On the contrary large industrial enterprises especially in traditional manufacturing have entered a long-term phase of decline. Participation in EMU has forced the economy into an adjustment process that is purging the system from its most pernicious drawbacks: reliance on government subsidies, periodic devaluations to maintain competitiveness, lifelines thrown to inefficient public enterprises. The process of fiscal consolidation imposed by the Maastricht Treaty and the Stability and Growth Pact has been impressive and despite the pause in 2001 the long march towards a balanced budget should resume in 2002 and be completed by 2004. Participation in EMU has ensured, for the last several years, that inflation and interest rates were close to historical lows and are expected to remain there for the foreseeable future. The newly established stability has not yet fostered higher potential growth due to the parlous state of public services, excessive red tape, labour market rigidity, crumbling infrastructures and bureaucratic inefficiency. However some progress in this area has been achieved by the new government, which has liberalised fixed term labour contracts, streamlined some bureaucratic procedures, eliminated estate and donation taxes and devolved some powers to the regions in the area of health and education. Much remains to be done but the government appears determined to tackle at least some of the most pressing problems at least in the labour market. The Southern regions, which lag behind the North in virtually all economic and social indicators, are slowly picking up after more than a decade of stagnation, but closing the gap will require, in the most optimistic circumstances, the effort of at least another generation.

### THE STATE OF THE NATION

The victory of the House of Freedom, the coalition led by media magnate Berlusconi, in the election last year has profoundly changed the political landscape. For the first time in almost half a century a government enjoys a solid majority in both Houses of Parliament and has a reasonable chance of lasting for the entire 5-year term. The ruling coalition swept the elections on a platform of deregulation, tax cuts and deep reforms in all key areas such as taxation, education, civil and penal codes and new infrastructures. So far the implementation of the plan has been sluggish and further progress is likely to be gradual. For example taxes cannot be cut at once without breaching the Stability and Growth Pact. Deregulation of labour market and the reform of the unviable public pay-as-you-go pension system will not be achieved without a harsh fight with the trade unions and other interest groups such as civil servants, school teachers and pensioners who are benefiting from the status quo. All in all we can say that the nation can be compared to a football team with good midfielders, a weak defence and strikers with much touted skills, but who still have to prove they are able to score the winning goal.

<b>Previous Appearances: 14</b>
1934, 1938, 1950, 1954, 1962, 1966, 1970, 1974, 1978, 1982, 1986, 1990, 1994, 1998
<b>Honours</b>
Winners: 1934, 1938, 1982
Runners-Up: 1970, 1994
Semifinalists: 1978 (4th), 1990 (3rd)
Hosts: 1934, 1990
<b>Odds</b>
6 - 1

**THE 2002 WORLD CUP**

We are civilized football players now! The previous World Cup in France was Japan's debut, and now we are ready (?) to host this grand tournament with Korea. Four years ago, the Japanese football league still very much depended on thorough-bread foreign players; now we proudly "export" Hide Nakata to Palma (Italy), Jun Inamoto to Arsenal (England), and Shinji Ono to Feyenoord (Netherlands). These young starts will undoubtedly play well for the national team in the World Cup.

**FOOTBALL IN JAPAN**

As a host country, Japan has been exempt from the regional qualifying matches, which has been a concern for the team due to the fewer international match opportunities than teams in Europe and other geographical areas. Nonetheless, the recent victory at the international test matches against Ukraine and Poland will give the players renewed hopes and confidence.

As mentioned, the French World Cup was the first-ever appearance for Japan...where Japan couldn't win a single game. BUT!...We have a chance this time! The past record of the host country's performance has been remarkable....out of 16 world cups since 1930, the host country became the champion six times. The host country team has never failed to proceed to at least the second round. What does this mean? Japan will be making history if it fails to proceed further than the first round.

Football has become increasingly popular over the past decade. The professional football league that began in 1993 has no doubt been a major catalyst for the popularity of the sport. There seem to be more youngsters playing football than baseball these days. TV broadcasts of international matches consistently attracts nearly 30% of the audience, even at odd-hours of the night. The enthusiasm for the world cup is heating up.

**THE STATE OF THE ECONOMY**

We are beginning to see scattered signs that deflation is subsiding, but this trend has not yet permeated the entire economy. Prices of goods have come much

more in line with prices in other countries, but service prices still remain high. The economy seems to be bottoming out, especially industrial production, but demand—the driving force behind this rebound—consists largely of export demand, and it will likely be some time yet before there could be a full-scale recovery in the crucial area of domestic demand. Consumers are still cautious to spend, given the ongoing deterioration of the labour market and the uncertainty of the income environment. In this respect, enthusiastic football fans from overseas are expected to bring some cheer to long-battered Japanese retail stores, as well as to football stadiums (and bars near by). Street economists estimate that the World Cup would boost April-June quarter GDP by between +0.1% and +0.3%.

On the corporate restructuring front, businesses' fixed-expense burden is gradually declining, chiefly through reductions in personnel costs, but fixed-cost cuts are not keeping pace with the slowdown in sales. With deflation likely to persist through the year, it will be difficult for corporations to achieve their currently optimistic profit growth outlook, without further aggressive restructuring.

Therefore, despite the windfall from World Cup, GDP growth is likely to remain negative in 2002 in both real and nominal terms. We hope to see real GDP returning to positive growth for the first time in three years in 2003, although this will continue to depend greatly on export recovery.

Besides the boost overseas football fans are expected to bring in May-June, the World Cup has already created public works demand over the past few years. Seven stadiums were newly built for this occasion

	Construction Cost US\$m	Running (annual) US\$m	Revenue (annual) US\$m
Sapporo	325	14	14
Miyagi	192	3	na
Niigata	240	3	0
Kashima	205	2	2
Saitama	274	5	2
Yokohama	464	7	1
Shizuoka	231	3	na
Nagai (Osaka)	308	3	1
Kobe	177	5	na
Oita	193	2	0

(out of 11 to be used in Japan). Around US\$1.6bn was spent in building the new stadiums alone. Taking into account that most of these stadiums were constructed as a part of a huge sports-complex-area which costs two to three times more, total spending was much greater. With the construction demand almost over, local authorities are heavily indebted due to the construction bill, as well as the daily running cost of these huge stadiums – most of which will never host a “sold-out” event once the World Cup is over.

### THE STATE OF THE NATION

The young (by Japanese standards) reformist prime minister Koizumi took office just over a year ago. Initially the support rate for his cabinet was phenomenal...over 80% for more than eight months, a rating never seen in recent Japanese history. It seemed as if the structural problems, the banking sector issues and NPL, would quickly be resolved under this PM who has less sympathy with the old conventional pressure groups in the Japanese economy. However, after a year in office, people are finally learning that Koizumi is also a Japanese politician, moreover, a member of the LDP. The Koizumi cabinet has announced several “grand” reform propositions, but they only affirmed the “direction” of the structural reform, and significantly lack substance.

The government is now working on the tax reform plan for next year. The Council of Economic and Fiscal Policy reconfirmed the basic direction of the tax reform plan: namely, expansion of a taxable income base for income and corporate taxes, as well as easing of progressive tax rates. A shift to these incentive-oriented tax systems is a precondition for equity markets’ sustained recovery. Let’s see if young Koizumi finally proves himself in this game.

<b>Previous Appearances: 1</b>
1998
<b>Odds</b>
66 - 1

### THE 2002 WORLD CUP

Mexico has traditionally been the powerhouse within the CONCACAF qualifying region. However, the “tricolour”, as the team is known, had a tough road getting to the 2002 World Cup, finishing second below Costa Rica in the qualifying round. While not a true contender for the World Cup title, Mexico aspires to go beyond the first round. Qualifying could be quite challenging for the “Tricolour” in this cup because it shares the G group with Italy, Croatia and Ecuador. National coach Javier “Vasco” Aguirre’s best offensive weapons are Cuauhtémoc Blanco and Francisco Palencia (both playing in the Spanish league). Cuauhtémoc is a consistent and experienced goal scorer with excellent shooting ability, who is also known for his peculiar dribbling style “Cuauhtémíña” (where he rests the ball on both feet and skips opponents by jumping). Other important players are: goalkeeper Oscar “El Conejo” (the rabbit) Perez, defenseman Rafael Marquez, midfielder Tomás Campos and striker Joaquín Reyes. Mexico is rated at 100 - 1 to lift the World Cup in 2002.

### FOOTBALL IN MEXICO

There is a long football tradition in Mexico, participating in 11 World Cups and hosting two (1970 and 1986). Expectations among local fans are never below making it to second round but most importantly, they like to see “good football”. According to the most recent FIFA ranking Mexico is 7th place, ranked higher than Germany and England. Mexico has generated great football players, including the memorable Hugo Sanchez, that have gone on to play with the world’s leading professional teams.

### THE STATE OF THE ECONOMY

After five years of strong real GDP growth, the Mexican economy experienced a recession in 2001, along with the US economy. Real GDP contracted 0.2%, reflecting a sharp contraction in the manufacturing export sector which is extensively exposed to the US.

Macroeconomic management has been fairly

prudent since the last World Cup; the government has had relatively low fiscal deficits while the Central Bank has achieved its inflation targets for the last 3 years in a row. The nominal fiscal deficit has declined to 0.8% of GDP in 2001 from 1.3% of GDP in 1998. Furthermore, the broader definition of the fiscal deficit -which include certain “off-balance sheet” expenditure items has also declined to 4% of GDP from 6.3% of GDP in 1998, reflecting the government’s continuous efforts to control fiscal expenditure and allow for a further reduction in real interest rates.

The Central Bank has had a stellar performance in reducing and limiting inflation within its inflation target, gaining a good deal of credibility in the process. Inflation is down from 18.6% in 1998 to 4.4% in 2001.

Strong capital inflows — particularly Foreign Direct Investment — and booming exports strengthened the Peso in recent years. As a result both unit labour costs and the real exchange rate have continued on an appreciating trend, reflecting the pace at which the Mexican economy is converging to the US after the NAFTA arrangement. It is important to emphasize however that convergence towards the US standard in soccer might not be as desirable. The “Super Peso” has allowed Mexican fans to travel all over the world to support the “tricolour”. In fact, we expect an unusually high proportion of Mexican “Sombreros” in the Japanese and Korean stadiums this year.

The main challenge for the current administration is to implement deeper structural reforms to speed up macroeconomic convergence with the United States. Reforms that could provide the right incentives to attract investment in those sectors that could help boost Mexico’s productivity and competitiveness will likely be required in following years. In particular, the government and congress likely will need to approve further reforms in the electricity sector. It will also require significant investment in coming years to boost generating capacity to a level that could satisfy increasing domestic demand, thus avoiding electricity rationing problems that could affect economic activity, and, most importantly, the proper illumination of soccer fields thus reducing Mexico’s football potential.

## STATE OF THE NATION

Mexican politics have undergone a drastic transformation process since Vicente Fox from the PAN was elected president in July 2000. President Fox's victory ended the 71 years of PRI monopoly of power. Mr. Fox's "Alliance for Change" has brought a necessary change to the executive branch that can only improve democratic institutions in Mexico. However, political diversity has also brought new challenges. The official coalition won a simple majority in the lower house of congress while the PRI remained the largest force in the Senate. Without an absolute majority in Congress, President Fox has struggled to convince opposition parties in Congress to support his reform agenda.

In December 2001 Congress passed a disappointed fiscal reform that had little to do with Fox's original proposal. President Fox will have to find ways to negotiate effectively with opposition parties PRI and PRD in order to pass an energy reform that would open up the sector to private investment and boost productivity.

<b>Previous Appearances: 11</b>
1930, 1950, 1954, 1958, 1962, 1966, 1970, 1978, 1986, 1994, 1998
<b>Honours</b>
Hosts: 1970, 1986
<b>Odds</b>
100 - 1

**THE 2002 WORLD CUP**

The 'Super Eagles' have been widely seen as the best World Cup prospects from Africa. They have the experience and flair to progress beyond the initial stages of the tournament. Nigeria came to prominence as winners of the African Nations Cup in 1994 and as Olympic champions in 1996. Qualification proved surprisingly difficult, however, requiring Ghana to beat their closest rivals Liberia. Moreover, Nigeria disappointed in the recent African Nations Cup, losing to Senegal at the semi-final stage. The team is full of stylish skilful players, including Oliseh, Okocha and Kanu, and will be a match for anybody on their day. In particular, Okocha is famous for one of the most amazing goals in the history of the Bundesliga, beating the entire defence single-handedly to score the Goal of the Year in 1993. The team's progress to the second phase will be difficult, as they are in the same draw as Argentina, England and Sweden, probably the toughest of the first round groups.

**FOOTBALL IN NIGERIA**

The Nigerian Football Federation was created in 1945, and a domestic professional league started only just over a decade ago. Nonetheless, with over 200 professional players around the world and drawing from Africa's largest population, Nigeria has built up an impressive result sheet. It will be hoping to progress beyond the second round unlike both of its previous appearances at the World Cup in 1994 and 1998. It will, however, be wary until the last given it missed out on a quarter final berth in 1994 with only 2 minutes to go in its match against Italy.

**STATE OF THE ECONOMY**

While Nigeria's economic potential matches that of its footballers, its actual performance stands in stark contrast. Nigeria has the 6<sup>th</sup> largest oil export quota in OPEC. Always competitive, however, it overproduces significantly and thus edges ahead of Kuwait to have the 5th largest actual exports in OPEC (after Saudi Arabia, Iran, Venezuela, Iraq, and UAE). The macro situation as a whole is, however, thoroughly unimpressive. Fiscal revenues in 2001 were spent in a haphazard fashion rather than set aside for periods of lower oil prices, so there is no cushion for this year. Relatedly, monetary

growth accelerated sharply and so (coupled with the increases in domestic energy prices) inflation is likely to edge higher in 2002. At least reserves have been doing better – they rose from \$5.4bn in 1999 to \$9.4bn in 2000 and \$10.4bn in 2001 on the back of oil exports. If oil prices in 2002 average \$18/bbl, some of these gains in Nigeria's FX reserves are likely to be eroded this year. Even progress on structural reforms has slipped of late. The privatization agency has divested holdings in banks, cement producers, and oil marketing companies, moved relatively quickly in telecoms, and had been making modest progress in reforming the power company NEPA, Nigerian Airways, and the oil sector. Although far from perfect, this was an improvement on past performance. More recently, however, the winning bidder for NITEL was unable to pay up, and an enquiry into the whole bid was opened in Parliament. At least one bottleneck in communications will be removed, however, as FIFA has delivered on its promise of free television coverage to all African countries (except South Africa)!

**STATE OF THE NATION**

Political tensions in Nigeria have increased from an already-worrying base this year, and more than 10,000 are reported to have died in ethnic violence during President Obasanjo's rule. Disputes over the electoral law, the December assassination of Justice Minister Bola Ige, and sharp rises in fuel prices were all sources of discontent. With federal, state and local elections on the horizon, this is, tragically, only likely to worsen. Most recently, 100 died in fighting over fishing rights in central Nigeria in the second week of January. The first week of January had already seen over 50 killed in fighting between Mambilla and Fulani groups in the northeast over land rights. This followed fighting in late December, when similar numbers died. Although the depressing reality is that these groups have been fighting for at least 80 years, the frequency of such violence seems to be on the increase.

<b>Previous Appearances: 2</b>
1994 and 1998
<b>Odds</b>
66 - 1

**THE 2002 WORLD CUP**

Paraguay will face Spain, Slovenia and South Africa in Group B. During the qualifying rounds for the World Cup, Paraguay finished in fourth place behind Brazil. It won 9 games, lost 6 and tied 3. The main weakness of the team is its defence; it allowed in 23 goals — the fifth worst result in the South American qualifying round. Besides improving its defence, the team has another important challenge: play the first two games in the World Cup without its captain and most dominant player, Jose Luis Chivalert. The 35-year old goalkeeper was suspended in August after spitting at Brazil's Roberto Carlos during a qualifier. Even considering Chivalert's absence, Paraguay has a fair chance to qualify for the next round, possibly in second place behind Spain. If Paraguay qualifies, it would face Germany, Cameroon or Ireland in the second round and that would be nothing to spit at. Paraguay is rated at 50-1 to lift the World Cup in 2002.

**STATE OF THE NATION**

President Luis Angel González Macchi, formerly president of the Chamber of Senators, constitutionally succeeded President Raul Cubas Grau in March 1999, who resigned after being impeached soon after the assassination of Vice President Luis Maria Argana. Paraguayans will stage general elections in May 2003.

**Previous Appearances: 5**

1930, 1950, 1958, 1986, 1998

**Odds**

50 - 1

**FOOTBALL IN PARAGUAY**

Paraguay made its first appearance in the World Cup finals in Uruguay in 1930 and won the Copa America in the same year. It has won the "Copa America" tournament in 1953 and 1979. The country has qualified for five past World Cups with its best performance in 1986 when it lost to England after reaching the last 16. In the 1998 World Cup, Paraguay lost in the second round against France 0-1 in a "sudden death". The Paraguayan team is led by Cesare Maldini, former coach of the Italian team during the 1998 World Cup.

**THE STATE OF THE ECONOMY**

Despite the Argentine crisis, the Paraguayan economy grew 2.5% in 2001 after three years of sluggish economic growth. The Government also significantly reduced the fiscal deficit in 2001. Prudent economic policies in recent years have helped the country keep inflation in single digits and maintain a comfortable level of international reserves. The current administration has to continue with the structural reform agenda, in order to improve productivity and boost economic growth.

**THE 2002 WORLD CUP**

If the traditional, strongly negative correlation between economic performance and the success of the Polish national team holds, Poland will do brilliantly in Asia this summer.

Poland has missed every international tournament in the last 16 years, because the population and players seemed more occupied with liberating society from communism and getting rich, than with playing football. But the last 18 months have seen a serious slowdown in growth and unprecedented acceleration in unemployment, sending the youth back to the practice fields, and in the process becoming good enough to qualify for the championship.

**FOOTBALL IN POLAND**

During the dark ages of communism, Polish football flourished. Remember how legendary coach Gorski took his team to Olympic gold in 1972, a third place at the 1974 world championships, and Olympic silver in 1976. Even after he left, Poland did well in the following three world championships, including reaching a third place in 1982.

But later in the 1980s, it was over. Martial law was lifted in 1989, and the Poles set about transforming their economy. Being busy with that left them little time to think about football, and the national team failed to qualify for any of the international tournaments.

**STATE OF THE ECONOMY**

However, with transition came western style institutions, including an independent central bank. Keen on showing that Poland belongs in the low-inflation EU, it began raising interest rates in an unprecedented fashion in the summer of 1999. Not surprisingly, while inflation indeed fell to EU levels, GDP growth plummeted and unemployment skyrocketed. With time on their hands, the youth returned to the football practising grounds, while established players accelerated their move to wealthier foreign clubs. As a result, Poland easily qualified for this year's championship.

Of the expected starting team, only two play in

Poland, while the stars include one of Europe's best goalkeepers, Jerzy Dudek of Liverpool and the Bundesliga's possibly best defender Tomasz Waldoch of Schalke 04. Also, Emmanuel Olisadebe - Nigerian born, Polish married and naturalised - normally plays for Panathinaikos Athens. He is still struggling with the Polish language - but aren't we all?

Poland is in Group D with South Korea, USA and Portugal. On present form, Poland should easily win the group, but in order not to offend Portugal so shortly before the critical conclusion of the EU membership negotiations, we expect the team to volunteer a retreat to a second place, thus saving the Portuguese from a bruising 1/8 clash with one of the true power houses of Croatia, Italy or Mexico.

**STATE OF THE NATION**

If this turns out to be Poland's Waterloo, the prediction power of our leading economic indicator for Polish growth will indeed be vindicated: In recent weeks, we have seen an increasing number of signs that the Polish economy is coming through the trough.

The key topic in Warsaw's economics and business communities is therefore why the Monetary Policy Council has not cut interest rates more aggressively, given the and huge real interest rates. Now, we know: A delayed recovery should increase the national team's chances of success in Asia. Therefore, we recommend that any bet on Poland's football team in Asia be hedged against domestic interest rates.

<b>Previous Appearances: 5</b>
1938, 1974, 1978, 1982, 1986
<b>Honours</b>
Semifinalists: 1974 (3rd), 1982 (3rd)
<b>Odds</b>
80 - 1

**THE 2002 WORLD CUP**

Portugal has reason to be in a good mood this year. Despite difficult times ahead on the economic front, on the football front the outlook is good. The Portuguese “golden team” – ranked 5<sup>th</sup> by FIFA - includes big names such as Luis Figo, the European Footballer of the Year in 2000, and Rui Costa. Together with a number of very good young players, the team is bound to go far in this year’s World Cup.

**FOOTBALL IN PORTUGAL**

Football is Portugal’s most important sport. As such, it even takes a surprisingly large place on the political scene. Portuguese teams didn’t perform very well at the international level between 1986 and 2000. However, the country was thrown into the limelight again, when it reached the semi-final of the European Championship 2000. Furthermore, Portugal has been chosen to host the European Championship in 2004. In the 2002 World Cup, we expect the country will make it at least to the quarterfinals, as the draw seems quite favourable, with Poland the most likely to cause trouble (the others are South Korea, and USA), and the second round is unlikely to be very difficult, unless they are drawn against Italy who are likely to go through from group G.

**THE STATE OF THE ECONOMY**

1986 was a good year for Portugal, it qualified for both the World Cup and EU membership. This was after nearly a decade of unsustainable current account deficits, high inflation and interest rates and a continuing depreciation of the exchange rate. Entry in the EU supported productivity and GDP per capita shot up from 54.4% of the EU average in 1986 to just above 75% in 1999. However, in recent years, real convergence has nearly stalled and imbalances have reappeared. In particular, the current account deficit increased sharply over the past couple of years to just above 10% of GDP in 2000, as the sharp increase in domestic demand outstripped supply. Over the last year, as the slowdown hit the economy, the imbalances have partly subsided. In this context, a good run in the World Cup may help to boost consumer confidence. Still, the main challenge ahead will be to increase productivity growth while keeping

public finances under control, in order to prevent the economy from overheating once the recovery kicks in.

**THE STATE OF THE NATION**

Recent elections have resulted in a shift from the Socialist Party (center-left) to a coalition of the Social Democrat and Popular parties (right-wing). The campaign started with discussions about the economic situation of the country, in particular, the state of the public finances. However, football quickly claimed its place in the attention of the politicians, with a clash between the president of the Oporto Football Club and the Mayor of Porto over the construction of a new stadium, without which the European 2004 Championship in 2004 might not have been awarded to Portugal. Fortunately, by the end of the campaign the problem was nearly solved, thanks to the efforts of the Parties and of the President of the Republic.

<b>Previous Appearances: 2</b>
1966 and 1986
<b>Honours</b>
Semifinalists: 1966 (3rd)
<b>Odds</b>
12 - 1

**THE 2002 WORLD CUP**

When Ireland drew the Netherlands and Portugal in its World Cup qualifying group, few gave it much hope of making it to South Korea/Japan 2002. However, Mick McCarthy’s men managed to secure draws in Amsterdam and Lisbon before eliminating Holland with victory in Dublin. This was despite possessing a squad of varying quality: Roy Keane is amongst the best mid-fielders in the world; Ian Harte, Robbie Keane of Leeds and Damien Duff of Blackburn have ability; Newcastle’s Shay Given is a strong goalkeeper; the remainder, however, are less notable.

Having qualified, Ireland has been drawn in a relatively difficult group with Germany, Cameroon and Saudi Arabia. While they will be confident of victory against the Saudis, neither Germany nor the African Champions will be easily overcome. Qualification for the second round will be no mean achievement but is possible if Ireland maintain their recent form. Thereafter, much will depend on the luck of the draw.

**FOOTBALL IN IRELAND**

“Football” in Ireland is generally understood to mean Gaelic Football. After hurling (a type of aerial hockey), Soccer vies with rugby to be Ireland’s third sport. This makes it all the more remarkable that Ireland punches above its weight in this sport. Ironically, the Irish soccer team first found success on the world stage under the managership of Jack Charlton, a native of the “Auld Enemy” (England). Ireland made it to the Quarterfinals of the 1990 World Cup and the Last-16 in 1994 (amidst scenes of national euphoria on both occasions).

Since then, Ireland has narrowly missed out on qualification for two European Championships and one World Cup. With its qualification for the 2002 World Cup, football fever is set to take over once more.

**THE STATE OF THE ECONOMY**

Between 1991 and 2000, Ireland had the fastest average GDP growth in the world (7.0%). There are various explanations for this success. While it is difficult to proportion exact cause, a number of factors have clearly been important:

- Demographic factors – in contrast to the rest of the EU, Ireland’s labour force is growing rapidly due to a large influx of young labour market entrants and returning emigrants.
- Corporate tax rates – a 10% corporate tax rate has been instrumental in attracting multinational FDI. In using low tax rates rather than grants to attract investment, there has also been a **qualitative** difference in the type of investment made in Ireland. (Low tax rates are of little use if you are not making a profit – this has resulted in more “Intels” and fewer “DeLoreans”)
- Education – Ireland’s young labour force is relatively well educated and computer literate. This has also helped in attracting investment.
- The Jackie Charlton theory as explained on the next page!

Given Ireland’s openness to trade and concentration in high-tech industries, the global slowdown has impacted on the Irish economy more than most. Ireland’s Central Bank forecasts that GDP will grow by 3% in 2002 following an estimated 6¾% in 2001. The slowdown has placed pressure on public finances and there is every possibility this year that Ireland will run its first general budget deficit since 1996. However, with signs that a global recovery is underway, Ireland will also be one of the first countries to benefit. Ireland’s “Celtic Tiger” period may be over, but the economy is still in rude health.

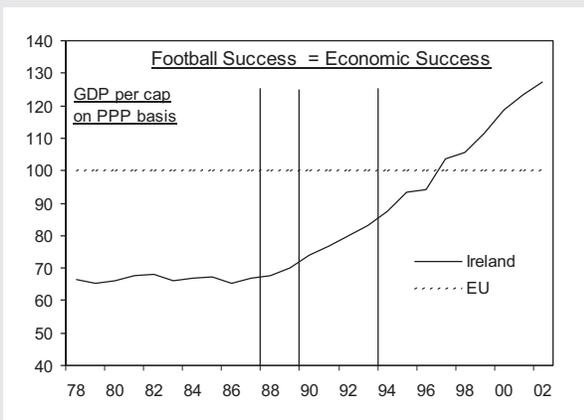
**THE STATE OF THE NATION**

A general election will take place in May. Opinion polls suggest that the Fianna Fail/Progressive Democrat coalition government is likely to win a narrow victory over the Fine Gael/Labour. Note, however, that none of the likely outcomes would result in a significant change to economic policy. The main difference between Ireland’s principal parties - FF and FG – relate to their approach to the situation in Northern Ireland. The economic tone of the government will be dictated more by the identity of the minor coalition party. A FG/Labour coalition would have a more leftist lean than FF/PD, but would not interfere significantly with a low tax regime that is considered a success.

### THE JACKIE CHARLTON THEORY OF ECONOMIC GROWTH

An alternative theory of Ireland’s economic success is that it is attributable to its improved footballing prowess. Ireland first qualified for a major soccer tournament in 1988 (the European Championships in Germany where they beat England 1-0 en route to a thoroughly respectable performance). In that year, Irish GDP per capita on a PPP basis was 67.3% of

the EU average. Thereafter, Ireland reached the quarterfinals of World Cup 1990 and the last-16 of World Cup 1994. Ireland was defeated in the play-offs for the last two major championships but the standard of its performances continued above its pre-1988 level. According to Eurostat, Irish GDP on the same basis in 2002 (the year that Ireland plays its third World Cup) has reached 140.4% of the EU average (see Chart: vertical lines represent qualification for major tournaments).



To explore this point further, we have tested whether there was a structural break in Irish GDP growth in 1988. We have regressed annual Irish GDP growth from 1979 to 2001 on the variable “FOOTIE” (a dummy variable which accounts for the change in Ireland’s footballing fortunes in 1988). One can see that “FOOTIE” is significant at the 1% level. Q.E.D.

C1+C2\*FOOTIE

Sample(adjusted): 1979 2001

	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	2.666667	0.846059	3.151867	0.0048
C(2)	4.22619	1.084428	3.897161	0.0008
R-squared	0.419695	Mean dependent var		5.23913
Adjusted R-squared	0.392061	S.D. dependent var		3.255309
S.E. of regression	2.538178	Akaike info criterion		4.783711
Sum squared resid	135.2893	Schwarz criterion		4.88245
Log likelihood	-53.01268	Durbin-Watson stat		1.276388

**Previous Appearances: 2**

1990 and 1994

**Odds**

50 - 1

**THE 2002 WORLD CUP**

Russia – or the Soviet Union, the empire state it morphed out of – has long seen its football success reflecting its economic and political status. The Soviet team was a real power just at the time that the nation was one of the world’s two undisputed Super Powers. In 1958-1970 they reached the quarterfinals of the World Cup on three occasions and the semis in the other (they finished fourth in 1966 in England). They also won the European Championships in 1960 and finished runner-up a number of times.

**FOOTBALL IN RUSSIA**

As the country’s condition began to decay in the ‘70s and ‘80s their performances slipped too. By the ‘80s – apart from a rally in 1988 when they lost in a memorable European Championship final to a Dutch team led by the AC Milan trio of Rijkaard, Gullit, and Van Basten – they were getting knocked out in the second round, and by the ‘90s the Russian teams were failing to make it past round one. Decay at home; weakness abroad.

But as things strengthen in Russia today the prospects begin to brighten. Though without the talents of the Ukrainians and other former Soviet Republics any more, the Russians are starting to show some signs of strength.

In their qualifying group the team managed by Oleg Romantsev and built around Spartak Moscow, the club side he also manages, came out top, losing just one game, drawing two and winning seven. Key players such as Spartak striker Vladimir Beshastnykh, Spartak captain and play-maker Egor Titov, Celto Vigo’s attacking midfielder Alexandre Mostovoi and Real Oviedo’s defender Viktor Onopko are starting to bring together the qualities of the great Soviet teams – flair and strength combined with discipline. Though they are some way still from getting there (something similar applies to the country and economy – improvement but some ways off “singing”), the increasingly international education they are getting from playing their club football with West European teams or competing for Spartak in the Champions’ League, plus the better

salaries they are now earning as the Russian clubs have more to spend, are leading to improvements.

They really need to win group H (Russia, Japan, Belgium and Tunisia) if they are to progress beyond the second round as the runners-up will likely face Brazil, assuming the Latin giants win group C. Russia’s (or the Soviet team’s) record against the green and golds in the World Cup is a poor. Getting into the quarterfinals would be something of an upset then; a fairer bet is that they make it into the second round.

**STATE OF THE ECONOMY**

Such a performance would be a fair reflection of the state of the country – improving but a good ways from being in full bloom yet. For anyone who missed it, the improvement has been remarkable and rapid. Annual real GDP growth averaged some 7% for the three years 1999-2001, the government ran big fiscal surpluses and built fx reserves up by \$25 billion making another default a very remote possibility.

**STATE OF THE NATION**

In the end then, while the default of August 1998 seemed to mark the terminal decline, with the benefit of hindsight it seems like the crash was a cathartic one, instead marking the end of the troubled systemic interregnum between communism and capitalism that was the 1990s and the beginnings of the true transformation into being a friendly, open, market-based economy and society. It is far from there yet – GDP per capita is only \$2,000, for example – but it is on the way. The Russians are coming!

<b>Previous Appearances: 8</b>
1958, 1962, 1966, 1970, 1982, 1986, 1990, 1994
<b>Honours</b>
Semifinalists: 1966 (4th)
<b>Odds</b>
40 - 1

**THE 2002 WORLD CUP**

Following five consecutive appearances in the final of the Asian Cup since 1984, Saudi Arabia has been the continent's leading team. They are in the same group as hosts Germany, Ireland and Cameroon. Saudi Arabia has only a small chance of progress to the second round. But, it could show a surprising performance. In the latest World Cup warm-up it beat Uruguay 3-2 as the South Americans paid for some defensive errors. The Saudi star player is Sami Al Jaber. He has been the first to play overseas, on loan with English first division side Wolverhampton Wanderers. In France, Al Jaber's goal in the 2-2 draw, against South Africa, made him the first Asian player to score a goal in two consecutive finals.

**FOOTBALL IN SAUDI ARABIA**

The nation's high point was in 1994, when the team qualified for the World Cup finals in the US, becoming the first Asian country to reach the second round since North Korea's performance in 1966. Saudi Arabia is famous for the number of coaches leading its team. Since Eduardo Vingada guided the Saudis to the Asian Cup title in the United Arab Emirates in 1996, there have been no fewer than eight changes of head coach, with Otto Pfister and Nasser Al Johar both holding the position twice.

**THE STATE OF THE ECONOMY**

Oil production represents about 10% of world oil supply. More importantly, Saudi Arabia maintains one of the largest shares of world spare oil production capacity. The country has the unique capacity to quickly replace alone the exports of any small to medium oil producing country. As the world's largest exporter of oil, Saudi Arabia growth and development have been closely related to trends in the international oil market. The recent rise in oil prices represented an improvement in the terms of trade. The key question will be whether OPEC countries will avoid using oil as a foreign policy weapon in the Middle East conflict. If production increase, and oil prices stay at current levels, the current account surplus could show some impressive readings in 2002. While identifiable foreign assets are around \$130 billion, the fiscal burden is also high.

General government spending is about 35% and the total public debt to GDP is close to 100%. External debt remains relatively small at 20% of GDP. Thus, we do not foresee a change in the SAR peg to the USD, at 3.75.

**THE STATE OF THE NATION**

Despite recent effort to diversify the economy, Saudi Arabia near-term prospects remain closely tied to the oil market. Ongoing investment in petrochemicals sector should raise production in the future and spending in infrastructure projects should also boost activity.

Politics will likely be the key topic during the coming months. In the weeks following the September 11<sup>th</sup> attack on the US, the US-Saudi relationship appeared publicly to be under strain. This strain has raised many questions about the future stability of oil markets. The domestic political, and the strength of previously close relations between Saudi Arabia and the US, should be the key to the stability in global oil markets.

<b>Previous Appearances: 3</b>
1978, 1994, 1998
<b>Odds</b>
250 - 1

**THE 2002 WORLD CUP**

This is Senegal’s first World Cup Final; having beaten the favoured Moroccans to top spot in their qualifying group. Their introduction to the Finals could not be more spectacular – they meet the current champions France in the opening Match of the Tournament on May 31<sup>st</sup> in Seoul. Senegal (or the Lions as they are known) are currently ranked 43rd in the FIFA/Coca-Cola World Rankings. Almost all of the national players are based at clubs in Europe, with the majority in France. Their coach Bruno Metsu is also French.

**FOOTBALL IN SENEGAL**

National life in Senegal has been dominated by football since they qualified for the World Cup Final in July last year. The qualification helped propel them to the finals of the African Cup of Nations in January this year, which they lost to Cameroon in a penalty shoot-out. Their previous best performance was a berth in the semi-finals of the same competition in 1990. Senegal has qualified seven times for the African Cup of Nations in 1965, 1986, 1990, 1992, 1994, 2000 and 2002.

**THE STATE OF THE ECONOMY**

Senegal’s economic performance in recent years has been impressive. Average GDP growth from 1997 until 2001 was over 5.0% and inflation fell under 2.0% for most of this period. The current account deficit remains relatively wide at over 6.0% of GDP. The fiscal accounts are well managed, with the budget deficit under 3.0% of GDP. The country’s monetary policy operates within its membership of the West African Economic and Monetary Union, which has an independent central bank responsible for the issuance of the Communaute Financiere Africaine (CFA) Franc, the union’s local currency.

However despite the good headline growth numbers, per capita GDP remains low at \$500. Furthermore, government debt, which is almost all external, is high at 75% of GDP. The government is expected to continue pursuing structural reforms in order to receive debt relief under the Highly Indebted Poor Country (HIPC) initiative. Standard and Poor’s recently affirmed Senegal’s B+ credit rating.

**THE STATE OF THE NATION**

Senegal has long been regarded as a close ally of the west. This has been recently demonstrated by President Abdoulaye Wade’s support for the US’s anti-terrorist crackdown. The country also has a long history of participating in international peacekeeping operations. Internally, the government continues to fight rebels from the Movement of Democratic Forces of Casamance in Southern Senegal. The movement has been conducting a 20-year separatist rebellion in the Casamance province. The program of economic reform, funded by the international community, has produced very favourable results in recent years. The country nevertheless still faces some serious social problems. However, for the next two months at least their participation for the first time in the World Cup Finals will be the focus of attention.

<b>Previous Appearances</b>
No Previous Appearances
<b>Odds</b>
100 - 1

**THE 2002 WORLD CUP**

For the World Cup’s least populous – Slovenia has only 2 million inhabitants – it has only been in existence a decade (it was the first Republic to split from the rest of what was known as Yugoslavia) – country it is the being there that counts. The nation that covers the south east corner of the Alps bordering Austria to the north, Italy to the west, Hungary to the east and Croatia to the south, is playing its first ever World Cup. The same team, managed by the former Yugoslav national star Srečko Katanec – a word that translates as “lucky” – also made it to the 2000 European Championships in Holland and Belgium. In the Low-lands it got knocked out in the first round; any progress out of Korea where its group B matches are held would simply be cause for more celebration.

**FOOTBALL IN SLOVENIA**

Gaining a place in the second round will likely prove tough. Spain, the group’s number 1 seeds and clear favourites look unassailable with their strong national team drawing from what is currently the most competitive national league in Europe. The other two teams – Paraguay and South Africa – offer serious competition but are not impregnable. If they do get through to the second round they will likely face Germany, assuming the European powerhouse win group E – hard to see them going much further.

Ranked 28<sup>th</sup> in the world and with a disciplined, well-organised team with good spirit and the odd star – Zlatko Zahovic, an attacking midfielder with a wild temperament currently playing for Benfica in Portugal, is perhaps the key one – Slovenia could just cause another upset. In the qualifying rounds they finished second behind Russia, so ousting their former co-“Southern Slavs” (the meaning of Yugoslav) of Serbia and Montenegro (still then playing as “Yugoslavia”) into third spot and then qualifying by beating the Balkan’s historically strongest team – Romania – in the play-offs.

**STATE OF THE ECONOMY**

This outstripping of its bigger Balkan brethren – Romania has 22 million people and what is soon to be officially known as Serbia & Montenegro some 10

million – is reflected in Slovenia’s economic and political progress since it gained its independence in 1991. While its southern co-Republics descended into their grim civil wars, and the likes of Romania and Bulgaria suffered near defaults, high inflation and until recently falling output, Slovenia tied itself in with the more northerly central European success stories of Hungary, Czech Republic and Poland.

Maintenance of fiscal discipline, deregulation and privatisations saw the country quickly move to recording consistent 4-5% real annual GDP growth, bringing GDP per capita up to a decent \$10,000 while keeping public debt at less than a quarter of GDP. Further liberalisations and privatisations to foreigners mean that Ljubljana should soon be added to the list of EU capitals as Slovenia is set to join the Union in the first wave of its big eastward enlargement in 2004-2005. NATO membership looks likely soon with an invitation probable by the end of this year.

Thereafter the tolar – the local currency – will likely soon be replaced by the Euro, though with inflation currently in the high single digit range it will take skilful management to make that process smooth. Once that has happened the small country will be subsumed again into a larger grouping as has been its historical fate, be it inside the Austro-Hungarian empire or Yugoslavia. But the difference this time is that the Slovenes will be free and sovereign and, amongst other liberties, their football team can keep on giant-killing. Expect plenty of grins in the cafes and bars nestled in the beautiful wooded mountains this summer.

<b>Previous Appearances</b>
No Previous Appearances
<b>Odds</b>
100 - 1

### THE 2002 WORLD CUP

South Africa's journey to these finals has not been easy. Although they won the preliminary rounds comfortably – winning five of their six games – the team (known as *Bafana Bafana*) has in the last few months been negatively affected by other developments. They performed poorly in the African Cup of Nations in January, being knocked out in the quarterfinals. Conflict between the Portuguese coach Carlos Queiroz and clubs, over the release of players, affected their preparation for the tournament. Since then, Queiroz has parted ways with the South African Football Association to be replaced by the legendary Jomo Sono as coach. Queiroz departure was messy until a large severance package had been negotiated. Sono has adopted a risky strategy as he prepares the squad for the World Cup Finals, overlooking a number of established players for the warm-up fixtures.

### FOOTBALL IN SOUTH AFRICA

This year marks the 10<sup>th</sup> anniversary of South Africa's admittance back into international football. The highlight of South Africa's national football was winning the African Cup of Nations in 1996 at their first attempt. Unfortunately, since then *Bafana Bafana* have not won any major trophies and their performances have deteriorated. South Africa's status as the largest economy in Africa has not always been reflected in success on the football field. In the 1998 African Cup of Nations they lost 2-0 to Egypt in the final (held in Burkina Faso) and in the 2000 tournament (hosted by Nigeria and Ghana) they lost 2-0 to Nigeria in the semi-finals. This year's performance in the African Cup was their worst. The FIFA/Coca-Cola World Ranking now puts South Africa at 36, behind Cameroon at 18, with Tunisia and Nigeria at 29, and the other African World Cup qualifier Senegal at 43. The popularity of the sport nevertheless remains high despite the recent lack of success and despite concerns about the management of the sport in the country. The country is currently preparing a bid to host the 2010 World Cup after narrowly losing out to Germany for the 2006 final.

### THE STATE OF THE ECONOMY

During the last World Cup Finals South Africa was in

the midst of a currency crisis, which the Reserve Bank handled by hiking interest rates by 700bp and intervening in the Rand market. The intervention was done in the forward market resulting in an increase of US\$10bn in the Bank's net open foreign currency position. That year economic growth slowed to 0.8%, the lowest since the recession of 1990-1992. In 1999 Tito Mboweni was appointed Governor of the Bank and made a commitment to eliminate the net open foreign currency position and to not intervene to defend the currency. Up until the end of 2001, the MPC under Mboweni's leadership raised interest rates only once, in October 2000 by 25bp, despite numerous bouts of currency weakness. The weakness in the Rand up until the fourth quarter of last year had not raised significant threats to meeting the inflation target – the Bank's new policy framework since February 2000 - of 3-6% average for 2002 and 2003.

The massive depreciation of the Rand in the final quarter of last year has put this year's inflation target out of reach and also threatens next year's target. This has forced the Reserve Bank to hike interest rates by 200bp in the first quarter and we expect them to hike a further 100bps by June. This will dampen domestic demand somewhat although the tightening in monetary conditions overall will be moderated by the decline in the real trade weighted Rand. Economic activity has to large extent tracked activity in South Africa's major trading partners and so we expect a gradual improvement through the rest of the year. Exports will likely be the main driver of the 2.1% growth in GDP that we expect for this year. Despite the strong slowdown in the global economy last year, South Africa still posted a relatively decent growth rate of 2.2% in 2001. This is testament to the largely good macroeconomic policies that the government has implemented since 1995.

However, the better performance of the economy has still not translated into increasing employment or higher Greenfield FDI inflows. The unemployment rate remains high at almost 30%. The country remains highly dependent on volatile portfolio inflows. There also continues to be a strong pent up demand to diversify out of South Africa by the corporate sector. Exchange controls remain an important feature of the structural environment. In an effort to boost economic growth the government has

now, after many years of consolidating the budget, adopted a more expansionary fiscal stance, through both cuts in taxes and higher capital expenditure. This together with the undervalued Rand should help push GDP growth back above 3.0% in 2003.

### THE STATE OF THE NATION

The performance of the Rand last year would suggest that not much has changed in South Africa since the World Cup Finals in 1998. As with *Bafana Bafana*, the country has faltered in various areas during the last four years. Unemployment has increased, crime remains very high, sentiment towards South Africa and the region has deteriorated and political pressures within the ANC alliance have been increasing. But progress has been made in many areas. The provision of basic services – medical, water, electricity and telecommunications - to poor South Africans have increased significantly. The relationship between the different population groups continues to improve. Income inequalities are being reduced, albeit slowly. Finally, despite the shocks that the economy has had to bear, as reflected in the performance of the Rand, the government remains committed to further liberalising the economy and to opening it up further. This stance has already paid benefits in the form of relatively decent growth last year and will bear more rewards in the coming year as the global recovery intensifies.

The ANC government’s policies will next be put to the test in parliamentary elections in 2004, the 10-year anniversary of their rise to power. Between now and then we would want to see significant progress in a number of areas of reform. First, privatisation needs to be accelerated and largely completed by 2004. The government’s actions this year with Telkom will be particularly important in gauging whether this objective will be met. Second, exchange controls on residents need to be liberalised further. This is unlikely to happen this year but this policy should resume next year. Third, the delivery of public services needs to improve by removing the capacity constraints in government departments. Finally, there needs to be some transformation of the political environment. Government, trade unions and business should either reach agreement on a growth plan for South Africa or the ANC government should unshackle itself from the constraints of its tripartite

alliance with the trade union COSATU and the South African Communist Party.

<b>Previous Appearances: 1</b>
1998
<b>Odds</b>
200 - 1

### THE 2002 WORLD CUP

South Korea, along with its co-host Japan, is the first Asian country to host the World Cup. Given the less than placid history between the two nations, ironing out the logistics stretched to the limit the art of compromise. Korea will kick off by hosting the opening game, while the more coveted closing game will be hosted by Japan. To help even things out, Korea's name appears before Japan's in the 2002 FIFA World Cup logo, reversing the lexicographic ordering.

2002 will mark Korea's sixth appearance in the World Cup, though it has yet to win a match in the finals. Hopes abound that this drought will end this year, especially given some evidence that the home turf may boost the hosting country's performance. In a bid to break the winless streak, Dutchman Guus Hiddink was hired as coach in January 2001, making him the first non-Korean to coach the national team. Key players include Ki Hyeon Seol, forward for the Belgium team Anderlecht and Dong Gook Lee, also known as the "Lion King". Myung Bo Hong, the team's oldest player, will lead the defence line-up.

### FOOTBALL IN KOREA

South Korea is one of the most successful Asian countries in football, with 2002 marking its fifth consecutive appearance in the World Cup finals. Co-hosting the games will be the most important sport event organized by Korea since the Seoul Olympics in 1988. In preparation, 10 brand new stadiums have been built in 10 cities, including the largest football-only stadium in Asia. In the midst of an export collapse in 2001, these construction activities surely must have helped buttress domestic demand, which, next to China, proved the most resilient in Asia.

Efforts were made to persuade North Korea to co-host the games on the peninsula. The reclusive North declined, which is a pity given its colourful history in the sport. The most memorable vignette, reminisced in a recent FT article ("Where have they been?", March 23, 2002), involves the 1966 World Cup hosted by England. The largely unknown North

Korean team, the "Red Mosquitoes" (!), managed to defeat Italy, one of the top three football powerhouses in the World, playing a rather unorthodox running game dubbed "Chollima", or lightning horse.

### THE STATE OF THE ECONOMY

Much has happened in the Korean economy since the last time we published our World Cup book. Just six months before Team Korea headed off to the finals in France, the economy barely escaped a full-fledged balance of payments crisis. A sizeable IMF package notwithstanding, real GDP ended up suffering the sharpest contraction on record in 1998, at -6.7%, as domestic demand collapsed to generate large current account surpluses to pay back external debt. The economy subsequently staged a stunning recovery in 1999-2000, growing 10.9% and 9.3%, respectively, on the back of an export boom, especially in IT products, but only to be buffeted again in 2001 by the most severe collapse in exports in 30 years. Signs of export bottoming began to emerge in late 2001, unleashing one of the strongest equity market rallies in the world.

The cyclical swings in the Korean economy in the past four years leave little wanting in drama. But we see even more significant changes on the structural front that we think will prove a lasting legacy of the 1997-1998 financial crisis. First, the once cosseted domestic financial markets have been fully open to foreign investors. Second, in contrast to the World Cup co-host, Japan, the Korean authorities moved quickly and decisively in recapitalising and consolidating the banking system through injections of public money. Third, the corporate landscape has dramatically changed, with closure or mergers of many chaebol affiliated firms. Finally, fundamental changes in the "rules of the game" governing financial markets have palpably altered the incentive structure of market participants. In a nutshell, there is a greater awareness of business and balance sheet risk, as evident by the greater cautiousness in the corporate sector in embarking on fixed investment through taking on debt.

Korea weathered the recent export collapse well by regional standards on the back of surprisingly resilient domestic demand. Although expansionary cyclical policy played a role, the extent of policy

easing does not appear sufficiently aggressive to explain its resiliency. A more convincing explanation is the structural shift in the flow of funds. As mentioned above, the corporate sector has remained cautious in borrowing, leaving a surfeit of funds available for the personal (household) sector. The resiliency of domestic demand or, more precisely, the non-tradable sector, has been the direct result of the personal sector reducing saving (i.e., consuming more) and investing more by leveraging up its balance sheet. We regard these shifts as a medium term positive, as they will allow Korea to squeeze more growth out of the domestic demand and be held less a hostage to the swings in external demand.

Export collapse and the retrenchment in manufacturing, both of which were strong headwind in 2001, are increasingly turning into a tail wind, re-enforcing the strength in domestic demand. The greater traction in the real economy is translating into rising risk appetite in the financial system, with loan to deposit ratio beginning to recover. These trends point to the risk on the economy being skewed on the upside. While the recent run up in property prices has begun to fuel debate about the risk of overheating, worries about rapid pick up in CPI inflation is still premature. Any policy tightening by the Bank of Korea during the course of this year will therefore likely be moderate, at 50bp to 75bp. We expect some additional policy tightening to be delivered through a strengthening currency.

**STATE OF NATION**

With the non-renewable and fixed 5-year term drawing to a close for Mr. D.J. Kim, Korea will hold its Presidential election in December 2002. It is yet too early to prognosticate with any degree of confidence on the likely winner. But it is worth noting that the basic thrust of economic policy, both structural as well as cyclical, is not expected to hinge critically on who ends up occupying the Blue House. Democracy has considerably matured in Korea. Moreover, after having flung open the Korean market, it would be both difficult and inadvisable to try to put the genie back in the bottle.

As regard to North Korea, home of the erstwhile “Red Mosquitoes”, it remains to be seen whether the next administration will switch tack from D.J. Kim’s

policy of engagement (“sunshine policy”), which earned him a Nobel Peace Prize. At any rate, the lessons from Germany have not been lost to the Koreans, who are now all too aware of the strains of “shock” reunification. Policy toward the North will therefore continue to be guided by the desire to minimize the risk of a sudden regime collapse.

<b>Previous Appearances: 5</b>
1954, 1986, 1990, 1994, 1998
<b>Odds</b>
150 - 1

**THE 2002 WORLD CUP**

There is something encouraging in being called ‘the perennial underachievers’, a sort of implicit acknowledgement that the Spanish side is always a potential winner and that, having always been among the favourites, it is a question of time, or even of justice, for our lads to bring home the elusive trophy. As Don Quixote said in his delightful lectures to Sancho Panza ‘it is impossible for good or evil to last for ever; and hence it follows that the evil having lasted long, the good must be now nigh at hand’.

So, is this the year of Spain? Yes, in fact it’s been always the year of Spain: good players abound and the side has shown, at least in the World Cups in the US and France, order and clarity. What is missing then? Well, the first match, the damned first match. Spain has the habit of going through the pre-tournament play-offs with flying colours and, come the first match of the real thing, look bloated, slow and exasperating. It recovers in the second match, when excellence and will to win reappear - but the second match is usually too late. Were they to show a bit of fury from the very start it’s clear that Spain would take the Cup home. And if we do not, who cares, next time, there are more days than sausages, let the sun dawn on Antequera... We will still be among the best sides in the world (and don’t ask for reasoned arguments, you contemptible scoundrel - it was Don Qixote who also said ‘But why do I argue thus? Does a bold determination stand in need of arguments? Surely not’.)

**FOOTBALL IN SPAIN**

The pang of nostalgia will be unmistakable: from the very start of the tournament we will all remember the hot and humid days of previous World Cups. We were then students, implausibly thin and always hungry, with our loyalties divided between university exams and the national football side. Divided? ‘Yeah, right’: we ended up watching the most uneventful matches with the excuse that one of the sides could play against Spain at the next round, the books in a corner, the breeze of the night coming in through the balcony. Things have not changed: you may not suffer any

longer when your team loses in the Liga and you may deride the single-mindedness that players and fans exhibit; but, on Spanish standards, you are a bit weird if you do not get nervous when Spain is on the verge of getting through or getting knocked out (especially when the whole thing is decided on a penalty shoot-out – how can they do it, I mean, to kick the ball within target under such phenomenal pressure?). If suffering or rejoicing for the same thing is what transforms a group of geezers into a nation then we are a nation, no doubt.

**THE STATE OF THE ECONOMY**

The Spanish economy is doing well, thanks: to know more about it please read the last European Economics Analyst. Macroeconomics is a curious subject: by modelling the aggregate behaviour of agents one gets results that neither the agents nor the economists were aware. Advancements in economics always required two things: a basic insight and a set of simplifying assumptions. So in the benefit of humankind let’s play a bit with a couple of insights and assumptions and see what happens.

If we use the suffering/rejoicing test, it is clear that Euroland is not a nation but, rather, a convenient way of organizing money matters. It is also clear, I think, that the ECB is not a football team. For the sake of the argument, however, let’s imagine that Euroland is a nation and the ECB a football team. Things now become easier to understand. For example, it takes some time for a new team to get their act together and to play like that, like a team. In its early years Frankfurt EZB was a playground team, all its juvenile players, even the goalkeeper, chasing the ball simultaneously. Some time and some goals against later, skipper Duisenberg, a tall Dutchman expert in headers, put down his foot, said ‘I’m the skipper, it’s my ball and I pass it if I want to’ and some order returned to the side. Well done, because the worst thing that can happen to someone with authority is not to use it.

Another advantage in this way of looking at the ECB regards new players and transfers. Solid defender Noyer is leaving at the end of the season and the owners of the club have been busy looking for a replacement. They had a long lunch recently in Barcelona, one with brandy and cigars, and they are

said to have set their eyes on a young Greek player. They are already looking forward to the next lunch in which they'll have to decide who replaces Duisenberg, the skipper and seasoned striker. Frenchman Trichet, who plays as midfielder and has won praised for his no-nonsense approach to football, seems the natural successor. At any rate, it is not easy to find world-class players. Aware of this and of the class and talent of Swedish, Danish and British footballers, the rich owners of EZB Frankfurt have opened doors and rolled down red carpets for them several times, only to get a respectful cough and a 'thank you but not yet'. As a result, it seems the search has shifted eastwards.

### STATE OF THE NATION

Perhaps Spain, as a nation, is not doing as well as it used to but is not doing too bad either. For more on this please refer to the same source quoted above. Because our incursion in basic economics is taking us to unsuspected philosophical depths and it is not time to argue if Spain could be doing better than it is. 'Is it possible a currency without state?' they say the English chopper George, known at home as Steady Eddie, asked EZB Frankfurt Duisenberg. The Dutchman had to bring the ball to the ground and pulled himself together before looking into George's eyes intensely; and he asked 'Is it possible a central bank with four different football teams?'. Steady Eddie lost a bit of his steadiness and went away wondering what that question could mean, a sign he was not aware of the latest research, both theoretical and experimental. Because, unknown to many, we at Goldman Sachs had put theory to the practice and organized a football tournament last spring during a Department retreat near London, in which EZB Frankfurt was put to the test. The synergies among nations proved to be a success and the team won not without difficulties.

<b>Previous Appearances: 10</b>
1934, 1950, 1962, 1966, 1978, 1982, 1986, 1990, 1994, 1998
<b>Honours</b>
Semifinalists: 1950 (4th)
Hosts: 1982
<b>Odds</b>
9 - 1

### THE 2002 WORLD CUP

Surprisingly, Sweden failed to make it to World Cup in 1998 when they were eliminated by Austria and Scotland in the regional preliminaries. But they easily finished top of their qualifying group for 2002, winning eight games and drawing two. Only two goals were conceded in qualifying. Like the country, Sweden's football team is a solid unit with some flair! Built on a strong defence and a tough, competitive midfield, Sweden will be hard to beat but they must compete in probably the toughest group of the first-round. The most keenly watched contest will be the game against England, managed by Swede Sven-Goran Eriksson. Adding to the spice, many of the Swedish team ply their trade in the UK, including Celtic's Henrik Larsson, who won the prestigious Golden Boot last year as Europe's top scorer with more than 50 goals for his Scottish club.

### FOOTBALL IN SWEDEN

Sweden is, despite only having 9 million inhabitants, a very successful nation in international sports. Swedes Bjorn Borg, Mats Wilander and Stefan Edberg are known all over the world thanks to their astonishing achievements on the tennis court.

The nation's performance in the international footballing stage has also been impressive considering that although football arrived in Sweden in the 1870's, the sport took some time to be accepted by the public. Indeed, the first national knockout championship was only played in 1896 and the Swedish football association established nearly ten years later in 1904, the same year that Sweden became founder members of FIFA. The Swedes' first international match came in 1908 and the game's popularity was enhanced with the establishment of a national league in 1925.

The rest as they say is history. Sweden finished fourth at the 1938 FIFA World Cup and, 10 years later, won gold at the Olympics Games in London, beating Yugoslavia 3-1 in the final, with the most renowned players being Gunnar Gren, Gunnar Nordahl and Nils Liedholm. A silver medal was awarded at the 1958 World Championships, and a third place, i.e., Bronze medal, in the World Championship in 1994,

with only Italy and Brazil ahead of the Swedish team. Added to this, the Swedish player Thomas Brodin was voted into the world-team.

So one World Cup final appearance and two third-place finishes is an impressive record for a small European football nation – one that has never had a full-time professional league.

### THE STATE OF THE ECONOMY

Sweden's monetary and fiscal authorities in transforming Swedish economic performance during the 1990s have more than matched the impressive exploits of the Swedes on the football pitch.

Consider the facts. The early 1990s recession in Sweden was the worst since the 1930s. Like the previous recessions of the mid 1970s and early 1980s, it was associated with periods of accelerating wage costs which resulted in a loss of competitiveness, lower output growth, and rising unemployment. Unlike previous recessions, however, the cost crisis of the early 1990s was exacerbated by the commitment of Sweden's central bank, the Riksbank, to maintain a fixed exchange rate policy. Together with the deterioration of consumer confidence - which was probably compounded by Sweden being knocked out in the first round of the 1990 World Cup – and hence private consumption, the slowdown in export growth meant that the recession became deeper and longer than most commentators expected. Industrial production which between 1990 and 1993 fell by around 20% contributed to a contraction of real GDP from 1.1% to -1.8% during the same period. The slump in economic activity led to a significant deterioration in public finances, with the budget balance falling from a surplus in 1990 to a deficit of 12% of GDP in 1993.

That was when the policy authorities showed the resolve and fighting nature of the current defence in the Swedish national football team. On the one hand, the government adopted one of the most restrictive fiscal consolidation programmes of any OECD country, returning the public finances to surplus in 2002. On the other hand, the central bank guided interest rates sharply down during 1996 once it was clear that the inflationary effects from the floating of the Krona in 1992 were abating.

Effective policy management together with the boom in the technology sector meant that Sweden enjoyed significant macroeconomic success in the second half of the 1990s. Indeed, average GDP growth since the last World Cup in 2002 to date has been an above trend 3.2%, compared to a European average of about 2.5%. Moreover, Swedish inflation averaged below 1% for much of the second half of the 1990s.

That said, the Swedish economy, as elsewhere in Europe, slumped last year on the back of the sharp slowdown in the world economy and the collapse in global demand for information and telecommunication equipment which hit Sweden's external sector hard given its extensive exposure to this sector. The recovery during the first half of this year will be sluggish. Indeed, manufacturing production remains weak and orders data and leading indicators suggest this will remain so in the near term. Against this background, we expect private consumption to strengthen as a result of tax cuts, low real interest rates and declining inflation.

### THE STATE OF THE NATION

Swedes tend to work hard, pay high taxes, try to be open minded towards other cultures – and we're not just talking about the football players! Indeed, with regards to the latter, the construction of the bridge over Öresund (the sea between Sjælland and Skåne) to Denmark is a sign that the Swedish population is willing, like other countries in Scandinavia, to establish and enhance international links. That said, the Swedes are also proud of their welfare state and the defence of this aspect of their lives is a key factor behind their general scepticism over membership of EMU. However, by ruling out an EMU referendum until after the general election in September, the Prime Minister has clearly signalled that EMU will not be an election issue. The election campaign will therefore be fought around traditional issues of fiscal policy and the performance of the labour market. The SDP will focus more on maintaining social benefits and services, cutting bureaucracy, and increasing job opportunities through the modernisation of the labour market. Centre-right policies also include tax cuts, but with more focus on the corporate sector, and deregulation of the labour market. But the EMU issue will eventually have to be addressed in the next parliament. Who knows, but Swedish fans could very

well be paying for their tickets to the 2006 World Cup in Germany in Euros!

<b>Previous Appearances: 9</b>
1934, 1938, 1950, 1958, 1970, 1974, 1978, 1990, 1994
<b>Honours</b>
Semifinalists: 1938 (4th), 1950 (3rd), 1994 (3rd)
Runners-up: 1958
Hosts: 1958
<b>Odds</b>
66 - 1

**THE 2002 WORLD CUP**

Tunisia arrive at their third World Cup finals after comfortably coming top of their qualifying group. They went unbeaten in the qualifying rounds winning 6 matches and drawing two. The departure of coach Francesco Scoglio back to Italian football during the campaign was the only upset. The team is currently managed on a temporary basis by two locals – Ammar Souyah and Khemaies Laabidi, after the Tunisian football authorities refused to appoint another foreigner!

The Tunisian team is built around a core group of players first brought together for the Atlanta Olympics in 1996 and many played in the last world cup. Now they are a highly efficient unit bringing together veterans such as goal-keeper captain Chokri El Ouaer and Sirajeddine Chihi and youthful talent with the likes of Hassen Gabsi and Ali Zitouni. Tunisia go in to the Korea/Japan World cup with a bit of history on their side as they were the first African nation to win a world cup match beating Mexico 3-1 in 1978. They will be hoping bring shades of that victory into this World cup during the group matches as they face hosts Japan, Belgium and Russia in group H.

**FOOTBALL IN TUNISIA**

The Tunisians have been a dominant force in African club soccer for several years now and are seeking to establish the same reputation at the national level. They finished runner up to South Africa in the African Nations cup in 1996 and made it to the semi-finals in 2000. However, given that there are very few Tunisians playing outside the country, they may struggle to reach dizzy heights on the world stage. Most football in Tunisia is played at the amateur or semi-professional level and there is no lack of enthusiasm for the game given the amount of children to be seen kicking a ball at every given opportunity.

**STATE OF THE ECONOMY**

Traditionally an agricultural economy, the discovery of oil in 1964 and natural gas a few years later diversified the economy towards mining, energy and manufacturing. More recently, tourism has become increasingly dominant and continues to be Tunisia's

most important foreign exchange earner. Tunisian GDP has grown at an annual rate of 4%+ since 1996 with non-agricultural GDP closer to 6% per year.

This healthy GDP growth is due to reform efforts over the past few years. Although still heavy, governmental control of economic affairs has gradually lessened over the past decade with increasing privatisation, simplification of the tax structure, and a prudent approach to debt. Robust economic activity and trade liberalisation led to a surge in international trade in 2001. The continued removal of trade barriers with the EU post Tunisia's association agreement signed in 1998 has helped foster this growth. However, the current account deficit of 4.3% of GDP is financed by borrowing on international financial markets.

**STATE OF THE NATION**

Proactive social policies accompanying the strong economic performance have fostered cohesion and political stability, and Tunisia continues to provide a good example of a progressive African country. However, Islamic fundamentalism remains a source of possible instability and the government has cracked down on such groups. Consequently civil liberties continue to be limited and the press remains tightly controlled (but not by African standards). The leadership has promised political reforms although Tunisia has not yet become more than a semi-democratic state with opposition parties only allowed to exist when sanctioned by the government. The current President, Ben Ali came to power in 1987 after a bloodless coup and his rule has become increasingly authoritarian. At the beginning of April 2002, the constitution was changed for the second time to allow Ben Ali (and subsequent presidents) to run for president an unlimited number of times as long as they are under 70. Originally the President was only allowed a maximum of 2 terms.

<b>Previous Appearances: 2</b>
1978, 1998
<b>Odds</b>
200 - 1

**THE 2002 WORLD CUP**

Both Galatasaray and the national team have delivered sporadic successes in recent years, much like Turkey's economy, which is probably the most boom-bust story in Europe. Turkey reached their first European Championship finals in 1996 and the quarters four years later, but hasn't been seen in the World Cup for half a century. Turkey left it late to qualify for this year's World Cup, getting through via a play-off against Austria, hardly surprising those accustomed to watching Turkish politicians delay essential reforms until taken to the brink by the IMF or the market. The team's position in the Cup draw helps its chances of advancing to the second stage, and the country's position in a region of intense US focus has helped it obtain enough IMF money to continuing playing in global debt markets.

**FOOTBALL IN TURKEY**

The Turkish team relies on several key players with experience outside their domestic game. The star player is Inter Milan striker Hakan Sukur, whose impressive international career began in 1989/90, just as Turkey was opening up to the world by issuing the historic Decree 32 guaranteeing repatriation of profits from its stock and bond markets. Sukur's career boomed in the mid-1990s, taking Turkey to their first-ever UEFA European Championships in 1996. He then headed to Torino, in Italy's Serie A, where his performance slumped along with that of the Turkish economy. It wasn't until early 2000 that, back with Galatasaray, his form returned and he secured a UEFA Cup winners medal. Then Sukur returned to Italy, joining Inter Milan. Another key international is Aston Villa's Alpay Ozalan, who was the star of Turkey's qualifier against Macedonia with a trio of goals.

**STATE OF THE ECONOMY**

Economic success is also reliant on those with outside experience, including ex World Banker and now Economy Tsar Kemal Dervis. Under his watch, the TRL is stabilizing, inflation is falling but growth remains disappointing. We hope that the national team and the national economy will have more success than two of Turkey's top local teams had with their IPOs earlier this year – Galatasaray has fallen by

more than a third and Besiktas has fallen by more than a half since their listings.

**STATE OF THE NATION**

Manager of Turkey's Cup squad Can Cobanoglu said in March that "financial help was not an issue" but complained of "insufficient public and political backing". These words could just as easily have been heard from the lips of Economy Minister Dervis. The amount of official financial assistance to the government is totally unprecedented, but at times, the program has had little support from members of the ruling coalition. By the time of the next World Cup, the three parties in the coalition are unlikely to be in charge – the next election is due by April 2004 and none of the parties has even reached the minimum threshold for parliamentary representation (let alone victory) in any poll since the devaluation!

Partly to convince the team's sceptics, additional friendlies with South Korea, Netherlands and Hong Kong have been arranged. Turkey's economy has also needed to prove itself - after numerous failed reform programs, Turkey has had to implement difficult fiscal and structural (especially banking) reforms up front to unlock the IMF cash and satisfy markets. Friendly is not, however, the word to use for a match in March between Galatasaray and Roma, which led to a mass brawl and accusations of brutal treatment of the Turks. For the local press, this was a reminder of Western Europe's treatment of Turks in the post-World War I break-up of the Ottoman Empire. It also flared just as Turkish generals were raising doubts about the benefits of Turkey's pro-EU accession strategy. Other recent nasties include the mid-March bribery allegations against Turkish super league coaches and referees for match fixing – a stark reminder of how endemic corruption remains in Turkey.

<b>Previous Appearances: 1</b>
1954
<b>Odds</b>
50 - 1

**THE 2002 WORLD CUP**

Uruguay became the 32nd and final country to qualify after beating Australia in a play-off for the last place in the World Cup finals. This marked the return of the South American nation to the World football stage since Italy 1990, its last appearance. Uruguay is a nation small in size, but big in football. It has won two World Cups, in 1930 and 1950, and holds two fourth places in 9 appearances in the World Cup. In the first round, Uruguay will face the current champion France as well as Denmark and Senegal. While France appears as the favourite to win the group, Uruguay has a chance of obtaining second place and moving to the second round. In the event of reaching the second round, Uruguay would likely face either Argentina or England, who stand as the favourites to qualify for the second round in Group F. The team brings to the Cup the talent of Alvaro Recoba (Internazionale, Italy) as its main asset.

**FOOTBALL IN URUGUAY**

Football is the most popular sport in Uruguay. Along with Brazil and Argentina, Uruguay stands among the most successful South American teams at the international level according to history. Winner of the World Cup in 1930 and 1950, Uruguay has failed to repeat its early conquests recently. In fact, it just managed to qualify to only 2 of the last 6 World Cups. The 2002 Korea/Japan World Cup will then be the opportunity to show a new era for Uruguayan football.

**THE STATE OF THE ECONOMY**

The Uruguayan economy has been affected by successive adverse external shocks resulting in a prolonged recession and a rise in unemployment. The most recent and strongest of these shocks has been the Argentine crisis. GDP is estimated to have declined by 2% in 2001. The economy remains weak at the present, with prospects of growth turning positive only by the end of the year. On average, the Uruguayan economy will likely post further GDP contraction in 2002. On the inflation front, consumer price inflation went down to 3.6% in 2001, the lowest annual inflation rate in decades.

**STATE OF THE NATION**

The recent economic difficulties showed the need for structural reforms in Uruguay. The government has already adopted some measures to deregulate the economy and deepen the reform of the pension system. This is part of an overall strategy to liberalize the economy over the medium-term to allow faster growth of productivity, and hence to boost economic growth. Upcoming steps will require opening up the economy, negotiating new trade agreements, and implementing an ambitious state reform.

<b>Previous Appearances: 9</b>
1930, 1950, 1954, 1962, 1966, 1970, 1974, 1986, 1990
<b>Honours</b>
Winners: 1930, 1950
Semifinalists: 1954 (4th), 1970 (4th)
Hosts: 1930
<b>Odds</b>
50 - 1

**THE 2002 WORLD CUP**

After a very poor showing in the 1998 World Cup (last place) the US team looks to 2002 to make amends. Gone are the days where Claudio Reyna was forced to carry the team on his back. Instead, a slew of young up-and-comers look to join Mr. Reyna and make their presence felt on the world's biggest stage. Landon Donovan, Clint Mathis and Josh Wolff should open the world's eyes to the fact that not only can the US play soccer, but they can do it with style and grace. Add a solid backline and two world-class keepers to choose from and the US looks ready to shed a tough group D draw and move further in the tournament.

**SOCCER IN THE US**

Soccer enthusiasm after the 1994 World Cup was short-lived. With Major League Soccer disappointing in both athletic and financial terms, Americans retreated to the usual suspects, "real" football, basketball, and baseball.

But the fundamental backdrop for soccer is a good one. The sport has long been one of the top disciplines among pre-high-school children, both male and female. In a big and sports-obsessed country, this talent pool should over time help develop a strong national side.

Indeed, largely unnoticed by the public both at home and abroad, the level of play in Major League Soccer has improved markedly, even though fan interest has stayed tepid. This has translated into some success at the international level recently. Last year, for example, the US won the Gold Cup for the second time, beating such formidable foes as Canada, South Korea, and Costa Rica.

**THE STATE OF THE ECONOMY**

The recession proved to be short-lived and mild, and expectations for economic performance in 2002 are high. But some of the imbalances that developed during the long boom of the late 1990s, particularly the large current account deficit, remain and could prove troublesome in the future. The World Cup is more relevant to a resolution of these imbalances than commonly realized. If the team were to distinguish

itself on the international stage, the huge current account deficit could soon get some help from US players supplementing the nation's labour income from abroad.

**THE STATE OF THE NATION**

After the terrorist attacks of September 11, Americans have shown greater resilience than expected by most. President Bush continues to enjoy sky-high approval ratings, and the war in Afghanistan seems to be coming to a successful conclusion. With patriotic zeal higher than at any time in recent memory, Americans seem ready to go back to ignoring all international matters, the World Cup included.

<b>Previous Appearances: 6</b>
1930, 1934, 1950, 1990, 1994, 1998
<b>Honours</b>
Semifinalists: 1930
Hosts: 1994
<b>Odds</b>
150 - 1



## Introducing Sir Alex Ferguson's Dream Team 1958-74



We are absolutely delighted to present you with Sir Alex's team of all time, or least since 1958.

Sir Alex chose his best team from 1958 to 1974, before his management days, and offers a brief explanation for each selection. He then chose his best team since 1974, and finishes with the delicate task of combining them into his all time Dream Team. See if you agree with his choices!

### **YASHIN**

Was such an imposing figure in the 60's that exuded confidence in all around him, lean, tall agile and brave, qualities that earned him the reputation as the greatest goalkeeper of all time.

### **BANKS**

Would indeed run him close and his save in 1970 from Pele's header would reinforce that belief. However, over a long period Yashin proved himself consistent in all areas of his game.

### **SANTOS**

The right back of that great Brazilian team of 1958 and 1962. Was without question the first of the new dimensional full back, a complete footballer who attacked at every opportunity. Blessed with wonderful control and balance he was a typical Brazilian product and there was no one who could come anywhere close to him in that era.

### **WILSON**

A lightening quick left back in the England team of that famous World Cup team of 1966. He was a tenacious defender and although not as celebrated as some of his other team mates. He was without doubt one of the best of his time.

### **FRANCHETTI**

Inter Milan and Italy, a tall elegant left back who played more than 100 times for Italy. Was a serious challenger to Wilson and would probably have had more supporters from outside the British Isles.

### **SCHNELLINGER**

The left back of Germany in that 1966 World Cup Final. Aggressive quick and imposing and one of the first Germans to be transferred to Italy. He played for A C Milan for quite a few years. My preference was for him or Franchetti.

### **CHARLES**

Could play centre forward or centre half, an absolute giant of a man but so nimble and quick. The first British player to go to Italy. He had great courage.

### **BECKENBAUER**

The greatest libero as they called them in Italy. He had wonderful grace, balance and presence. Was always in control and never panicked. His ability to spring attacks from defending positions was a highlight of his game.

### **DIDI**

The Brazilian Captain and inspiration of the 1958 World Cup team and truly beautiful footballer.

### **CHARLTON**

The pivotal player of England's World Cup team of 1966 with great balance and change of pace. Possessed two great feet and was just as strong with either.

### **GARRINCHA**

The little magician of the great Brazilian teams could bend the ball amazingly well.

### **PELE**

To my mind the greatest player ever. Anyone who scores over 1300 goals has to be special. He had pace, courage and speed.

### **DI STEFANO**

The master of the great Real Madrid team of the 50's and 60's wonderful vision balance and control.

### **CRUYFF**

The greatest Dutch player of all time electric pace and great dribbling ability.

**SCHMEICHEL**

I have been very lucky to have had the two best goalkeeper's in the world over the past 12 years, Barthez and Schmeichel. Having to choose one of them is not easy but I have to say at his peak Schmeichel was incredible; A massive frame, a real winner, brave, quick he had it all.

**CAFU**

A quick and positive attacking right back with a good goal scoring record. Typical Brazilian with good balance and dribbling skills.

**HIERO**

The tall commanding centre back of Real Madrid possesses all the attributes for that position. Good in the air, comfortable on the ball, determined.

**BARESI**

What a player, he was pivotal to the great Milan team of the late 80's and 90's, quick tough and uncompromising.

**MALDINI**

What a player. If there were a player I would love to have had at United he would have been one of them. A great athlete, a real winner, quick great in the air he has everything.

**PASSERELLA**

What a tough cookie. Great spring in the air, even though he wasn't the tallest but he won most of his duels. Quick and a good tackler.

**VOGTS**

What a great defender, liked man-to-man marking and enjoyed it! Quick tough and determined.

**FALCAO**

A great dynamo of a midfielder from the Brazilian team of '82 that should have won the World Cup. His surging runs in midfield were a feature of his game.

**PLATINI**

The maestro of the great French team of the 80's with other midfield players such as Giresse, Tigana, Fernandez. Great vision and master of free kicks.

**ROBERTO CARLOS**

A wonderful attacking left back of Real Madrid and Brazil. Plays with great enthusiasm and never misses a game. Powerful free kick taker.

**KROL**

A mobile and versatile player of the Dutch teams of the 70's. Good technique and speed and probably along with Cruyff, the key player in that great team.

**ZIDANE**

A truly great player of the present French team. Scored 2 goals in the 1998 World Cup final. Great balance and use of the body to protect ball are outstanding qualities.

**KEANE**

There is no more influential player in the World today in any team than Roy Keane. His passing accuracy is always 90% plus in every game, he has marvellous engine and is a great competitor.

**ZICO**

A wonderful left footed midfield player of the Brazilian teams of the 70's and 80's, with great control and shooting ability. Brazilian people regard him as one of the all time greats to come from that country.

Ronaldo, Romario and Muller were all fantastic players. But for his injuries, Ronaldo would be very hard to dispose in any team and it is one of those imponderables as to how far he would have gone, particularly with his ability to beat a man. Romario and Muller were of similar physiques both small and low centre of gravity who both came alive in the penalty box.

**VAN BASTEN**

The best predator in modern times. Unfortunately had to finish when he was 28 years old but proved himself the best at a time when Milan were dominating the European scene. His goal in the European Championship Final 1988 in Germany still sticks out as one of the best goals ever.

**MARADONA**

Without question the best player in the world in the 1986 World Cup and from 1982-1990. Small with a low centre of gravity, great courage, and ability to beat opponents in tight areas.

**COMBINING THE TEAMS**

The other great players who have to be considered like Law, Best, Rijkard add only to the debate. I would love to have Denis Law, my own personal hero. When you look at the standard of players then you can see how difficult it is. I have given examples of teams from different Ferguson eras pre-management and post-management. In the pre-management of 1958-1974 there are some great players and the popular debate remains. Could they play in the present day? My opinion is absolutely! Can you imagine players like Beckenbauer, Pele, Di Stefano given the preparation of the modern player? They would be sensational, great players in any time span.

**Schmeichel**

**Santos**

**John Charles**

**Beckenbauer**

**Maldini**

**Cruyff**

**Platini**

**Zidane**

**Maradona**

**Di Stefano**

**Pele**

**ALTERNATIVE SELECTIONS**

Additions to give a better balance would be Keane in centre midfield, pushing Maradona up alongside Pele, with Falcao replacing Platini. One other change could be to play Baresi instead of Charles. No matter how many selections you try, they are all good ones.

**DUDEK**

*(Poland, Liverpool)*

The Liverpool goalkeeper sneaks in after a fantastic season just ahead of others.

**THURAM**

*(France, Juventus)*

The Juventus star of the French World Cup in 1998. Will he move teams this Summer?

**NESTA**

*(Italy, Lazio)*

Some regard him as the best defender in the world today.

**CANNAVARO**

*(Italy, AC Milan)*

Together with his Italian colleague what a central rock!

**CARLOS**

*(Brazil, Real Madrid)*

The only problem with this selection is how you could choose with Beckham about free kicks?

**BECKHAM**

*(England, Manchester United)*

Chosen for his iconic status as well as his free kicks.

**KEANE**

*(Ireland, Manchester United)*

Who can argue with Sir Alex Ferguson?

**ZIDANE**

*(France, Real Madrid)*

Simply the best.

**RIVALDO**

*(Brazil, Juventus)*

Brazil's stylish marauder seems capable of things with his left foot no other human could match.

**HENRY**

*(France, Arsenal)*

You might not be an Arsenal fan but what a truly awesome goal scorer.

**RAUL**

*(Spain, Real Madrid)*

We nearly chose Michael Owen, but 2 Liverpool players in a World Cup Dream Team? No chance!

We were especially sensitive four years ago about predicting an eventual winner, although we did predict the four semi-finalists. Given our 'success' in which we correctly identified three of the four semi-finalists (Brazil, France and the Netherlands, missing Croatia) we have decided to stick to the same strategy!

Starting to frame the choices, as we said in Chapter One, there have only been **seven** winners historically, 4 from Europe - Germany, France, Italy and England, and 3 from Latin America - Argentina, Brazil and Uruguay.

As we also said, there tends to have been a clear regional (and often home county) bias, with the tournament usually won by a team from the continent where the competition is hosted. Given that this is the first World Cup to be hosted in Asia, this almost definitely suggests an element of unpredictability to this year's competition.

With this comment in mind, who are the outsiders to be in the semi-finals in 2002?

What about the hosts? As we have said, often the host countries have done well, indeed 6 of the 16 past hosts have won it. In this regard, the draw has been kinder to South Korea than Japan. Beyond the first round, Japan would face probably Brazil or Turkey depending on their position and the reward for victory in round two would be a quarter final against either France or Argentina. The quarter finals will probably be Japan's maximum limit.

South Korea possibly start with a tougher group than Japan but if they progress, they would find themselves in the less difficult half of the draw with Germany, Spain or Italy the toughest opponents. Nevertheless, it is difficult to see South Korea advancing beyond the second round.

It maybe in the half of the draw that the 'outsiders' have the best chance as Germany and Italy are perhaps not at their strongest compared with history and have been known to make some significant slip-ups. For teams in the other half, a semi-final place would mean overcoming at least one of Argentina, Brazil, England or France and probably two or three of them.

This might suggest that Poland have the best hopes for a semi-final place from the unfancied teams.

Of the African nations, both Cameroon and South Africa find themselves in the 'easier half' of the draw and a quarter final place might not be beyond either with a bit of fortune.

Given the 'toughness' of the draw, there is a strong likelihood that France will meet Argentina or England in the second round, with the winners possibly facing Brazil in the quarter finals. A repeat of the 1998 final will be impossible therefore.

Trying to forecast the two likely countries that survive until the quarter finals from this side of the draw is very difficult, and any of France, Brazil, Argentina or England could make it. On balance, we have little reason to dispute the bookmakers favourites, and plump for Argentina and France.

The other two semi-finalists should come from Germany, Italy, Portugal and Spain, and perhaps due to editorial bias from watching the Spanish La Liga and a succession of Spanish teams beating British ones in the European Champions league, we will go with Italy and Spain.

So according to us the eventual winner will come from Argentina, France, Italy or Spain.

Apologies to fans from other nations for our predictions but console yourselves by realising that you will be able to watch the best midfield players in the world, playing for different teams than their usual weekly habit of performing for Manchester United!

Enjoy the 2002 World Cup.