

SEPTEMBER 1, 2008

U.S. Election: Obama's Moment

TIME

IRELAND (incl. Vat) €4.70 UNITED KINGDOM £2.80



www.time.com

Just six months ago, to be young, educated and Chinese was to be in the global economy's sweet spot

BILL POWELL ON CHINA'S TIGHTENING JOB MARKET

Global Business

FINANCE ■ MANUFACTURING ■ TECHNOLOGY ■ TRADE ■ MANAGEMENT ■ MARKETS

Re-berth Yachts will moor where Tivat's hulks now rot



MONTENEGRO

The Next Monaco. A mining billionaire bets that a neglected port on Montenegro's coast can be a playground for the rich

BY ANDREW PURVIS/TIVAT

THE OLD YUGOSLAV NAVAL BASE AT TIVAT on the coast of Montenegro is a derelict place. Colossal jetties stretch out from an abandoned work yard piled with crumbling concrete, twisted metal rods and broken glass. In one corner, a Cold War-era submarine, its giant propeller exposed to the summer winds, is being slowly dismantled by a local crew in flip-

flops. The berths are fouled with paint chips and rusted metal, and until a recent scavenging operation, explosives lay on the seabed.

The naval base may be ugly and unglamorous, but thanks to a group of high-profile foreign investors, Tivat is about to be reborn. Next month, construction begins on a new marina for megayachts that its backers say will help turn this lowly industrial town into a glistening new

Monaco. Its current appearance notwithstanding, Tivat is fortuitously situated on the so-called Venice-Corfu leg, the fastest-growing cruise destination in the Mediterranean and a pleasure ground for some of the world's wealthiest people. Montenegro's roads are crumbling, its power supply sporadic and its sewage system inadequate, but its coastline is one of the most spectacular on the Mediterranean.

For Peter Munk, 80, the Hungarian-

born Canadian who heads the mining giant Barrick Gold, that potential makes Montenegro a prime candidate for development. Relaxing in shorts and bare feet on his chartered 162-ft. (49 m) yacht on the deep blue waters near Tivat, Munk says Monaco was also a relatively backward town before it transformed itself—and swaths of the French Riviera with it—into the playground it is today. Tivat, or Porto Montenegro as the marina area is being renamed, will have a similar effect, Munk declares: “The whole Adriatic is going to be lifted up by this new Adriatic Monaco.”

Munk, who built Barrick from nothing into the world's biggest gold-mining company, invested his own money to start the Montenegro project. But in recent months he has brought in an A list of fellow investors, including former banker Lord Jacob Rothschild and his son Nathan, French luxury-goods magnate Bernard Arnault and Russian mining billionaire Oleg Deripaska.

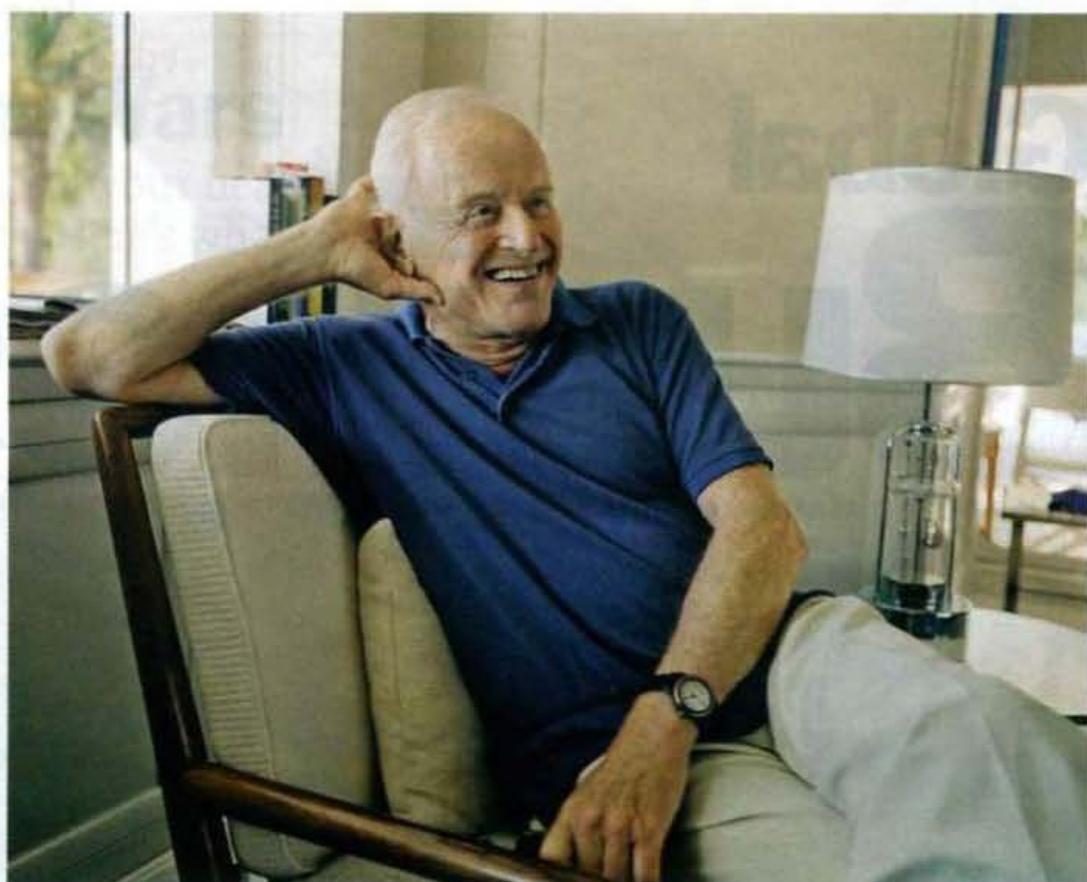
Munk's project is one of the biggest in a region long riven by wars and political turmoil. Montenegro was sealed off from the outside world by the violent breakup of Yugoslavia in the 1990s, and later by its political alliance with Serbia. But since winning independence from Belgrade in 2006, it has seen a rush to develop its pristine coastline, sparking worries among some locals that their patrimony may be sold off in unsustainable ways. “Montenegrins have good reason to be incredulous,” says Prime Minister Milo Djukanovic, during an interview in the just-completed Hotel

‘We have no space for mass tourism. We want to use every inch to attract the highest-paying guests.’

—MILO DJUKANOVIC, PRIME MINISTER OF MONTENEGRO

Splendid in the bustling resort town of Becici. “We have a long history of wars and conflict, not peace and development. But our mission is to break with that past.”

The country's high mountains and valleys are still largely undeveloped; its Tara River canyon has the deepest gorges in Europe, and ancient cities and monasteries dot the rugged coastline. The old, walled trading city of Kotor, a few miles down the coast from Tivat, was founded by the Romans and ruled for nearly four centuries by the Venetians, who left their architectural mark. There have been more recent periods of glory, too. Back in the 1970s, the red-tiled resort island of Sveti



All that glitters Gold magnate Munk has lured a high-profile group of investors to Tivat

Stefan was a summer retreat for the likes of Sophia Loren, Kirk Douglas and Doris Day. But Montenegro slipped into obscurity in the 1990s. Djukanovic and others unwisely sided with Serbian strongman Slobodan Milosevic and sent troops into Bosnia and Croatia. It wasn't until 1997 that Djukanovic broke with Milosevic, a divorce completed nine years later with the declaration of independence.

Munk recalls his first meeting with Djukanovic in 2004 when Montenegro was still joined to Serbia. “He said to me: ‘I am going to get independence and I want to raise the standard of living of my people. The way I can do this is turn this into another Monaco.’ I told him, ‘If you mean what you say, then you've got one of the only men in the world who can make it happen.’”

Explaining his vision today, Djukanovic says: “We are a small country. We have no space for mass tourism. We want to use every inch of territory that we have to attract the highest-paying guests. We have the frame; now we want to fill it with a beautiful picture.” The development at Tivat is the centerpiece of these ambitions. The plan includes an 800-berth marina, a golf course, a resort village and several hotels. Where an old corrugated-iron warehouse stood, the Four Seasons is building its first resort on the Mediterranean, to open in 2010.

The idea for the development,

says Munk, came to him while on holiday. For the past 20 years his family has chartered a yacht on the Mediterranean. In that time, he couldn't help noticing how the old marinas at Monaco, St. Tropez, Antibes and elsewhere had no easy way to expand even as more and more huge yachts came off the production lines. As a result, berth rental prices shot up. At Antibes, for example, they've risen nearly 30% in five years.

So when the government of what was then Serbia and Montenegro approached him in 2004 with an idea to privatize an old Austro-Hungarian-era arsenal not far from Kotor, Munk met Djukanovic and says he “fell in love” with him. Djukanovic lent him a government helicopter to look at the site: “It was mind-blowing,” Munk recalls. “I saw these frigates and warships and submarines and thought that here a superyacht would feel right at home.”

Some eyebrows were raised in Montenegro when the government agreed to a \$5 million sale price for about 62 acres (25 ha) of land and a half-mile (0.8 km) stretch of palm-shaded shoreline facing a wide bay backed by mountains. But, contends Djukanovic, “you either sell the land or buy a project. We bought a project.” In addition to creating an estimated 5,000 jobs when finished, the investors agreed to clean up the waters around the site, buy out about 480 workers who lost their jobs when the shipyard shut down, and upgrade Tivat's sewage and



water-supply systems. Munk is even offering local students scholarships to Canadian universities. Initial hostility from opposition politicians who accused him of planning to auction off the land for a quick buck has abated. "This is just the kind of project that Montenegro needs," says Rade Ratkovic, a professor at the Faculty for Tourism, Hospitality and Trade Management in the port city of Bar. "We should award him a title: Count Munk of Tivat."

Munk isn't the only one smitten by the charms of Montenegro. The luxury hotel chain Amanresorts is renovating two of the finest sites on the coast. And an influx of Russians is already making it the fastest-growing tourist destination in the world. Billboards promising "choice properties" in Russian Cyrillic script line the avenues of coastal towns like Becici. Property prices have shot up, rising as much as fivefold in Tivat over the past five years. A building boom, meanwhile, is gobbling up green space. Pavle Jurlina, a pharmacist in Tivat, says his cousin just sold off land that had been in the family for more than 150 years, ever since his great-great-grandfather bought it with profits from prospecting for gold in California. Ratkovic, the tourism professor, says Montenegro's government needs to put a brake on the "construction frenzy" of apartments and houses, and should instead provide more incentives for hotel developments that generate more long-term revenue. The country still suffers from a yawning income gap between rich and poor, and closing it is going to take more than a few luxury "oases" like Porto Montenegro, says Mirjana Kuljak, an economics professor at the University of Montenegro.

Montenegro has a long way to go in other respects, too. Crumbling roads make it difficult to reach some of the more attractive destinations. Raw sewage flows from Kotor and Tivat into the Bay of Kotor, and there are daily power outages. Still, the tiny country has achieved a good deal in a short time. Less than a decade ago, NATO warplanes were bombing targets in Montenegro in the campaign to drive Milosevic out of Kosovo. And now? Budva's "Jaz" beach hosted the Rolling Stones last summer and in September will stage part of Madonna's 50th birthday tour.

Djukanovic has played a leading role in most of his country's turbulent events over the past 20 years. With offhand pride, he says that his European colleagues now confide in him that Montenegro has become "boring." For diplomats, that is probably true. But for Peter Munk and the well-heeled visitors who may one day flock to the marina, hotels and cafés of Porto Montenegro, the thrill is yet to come. ■

EMPLOYMENT

Not-So-Great Expectations. China's college grads are going jobless as the country's labor market begins to tighten

BY BILL POWELL/SHANGHAI

HUANG LU KNEW IT WOULDN'T BE EASY TO find a job when she graduated from college in July. But when the 21-year-old from Anhui province in southeastern China started going to employment fairs and sending out résumés seven months ago, she didn't expect the job market would be quite so inhospitable. "I've had eight interviews so far," says Huang, an international-trade graduate of Anhui University of Finance & Economics, "but I still don't have a decent offer. And I just had an export-import company in Shanghai cancel an interview. They told me, 'We're not hiring anymore, our business is down and we think it's going to get worse.'"

For China's class of 2008, it wasn't supposed to be like this. Throughout their college days, they have watched their nation's economy make double-digit annual growth seem routine. China has added nearly 11 million new jobs a year since 2004 (in contrast, the U.S. added about 1 million jobs last year), and in a culture

has been shelved. "Now," she says, idly text-messaging a friend from a Shanghai coffee shop, "I sometimes wonder whether I'll be able to get a job at all."

Huang and her fellow graduates are facing China's surprisingly grim economic realities—some new, some chronic. Generating enough jobs for the masses of newly minted capitalists who emerge from China's university system has for years been a challenge. Last year, about one-third of college grads went jobless for at least six months after graduation, according to government estimates. This year's crop of 5.6 million grads—740,000 more than last year—is the largest ever, and the tsunami of able bodies is washing into the market just as China's economy is faltering.

Due in part to a falloff in demand from the ailing U.S., China's export growth is slowing sharply. Manufacturing contracted in July for the first time since at least 2005, according to China's Purchasing Managers' Index, resulting in reduced hiring by the sector. Meanwhile, a 50%



Commence hiring Nanjing students celebrate escape from the frying pan before they enter the fire

Scads of Grads

As student bodies grow larger, China's economy is hard-pressed to generate work for all

2006
3.9 million

2007
4.86 million

2008
5.6 million

Source: Ministry of Labor and Social Security

in which the only thing revered more than education is making money, the former is supposed to lead directly to the latter. Just six months ago, to be young, educated and Chinese was to be in the global economy's sweet spot. But even though China is celebrating its international coming-out party this year by hosting the Olympics, for Huang and many of her classmates, any "I'm going to inherit the earth" optimism

drop in China's stock markets from their peak last October is creating a reverse wealth effect, some economists believe, leading both consumers and companies to be more cautious about their outlays. Tao Wang, an economist with Bank of America in Beijing, says China's GDP growth will slow to 10% this year, down from 11.4% in 2007, and could drop to 8.8% in 2009.

While those numbers may seem high