

Central and Eastern European Countries and the EU: Obstacles and Opportunitities

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*The greatest problem of Europe
today may not be its
unemployment but its
complacency.*

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The idea of a "common European house" was already present in the minds of the founding fathers of the EU. Thus, already in 1947, Jean Monnet said to Walt Rostow, a noted American economist: "First we have to modernise France. Without a vital France there can be no Europe. Then we must unite Western Europe. When Western Europe unites and gathers its strength, it will draw in Eastern Europe. And this great East-West Europe will be of consequence and a force of peace in the world". France is now a modern and rich country. With the full membership of Austria, Finland and Sweden coming into effect on January 1, 1995, the first two items of Monnet's visionary agenda have become reality. The third one, that of drawing in Central and Eastern Europe, now lies ahead. The question consequently arises - what has to be done to make this final point come true as well.

The experience of past enlargements of the EC demonstrates that such a process is neither simple nor easy. Some of them, such as the accession of Britain, Denmark and Ireland as well as that of Greece, Spain and Portugal in 1986 required additional arrangements to accommodate the specific needs of new entrants. Given the present economic and political situation in Central and Eastern Europe, the obstacles and opportunities for the accession of these countries to the EU seem much more complex than the preceding cases. They are, therefore, well worth a closer examination. In this we shall proceed at two levels - looking at the economics first, and then at the politics of Central and East European relations with the EU.

The economics of Central and East European relations with the EU

After the collapse of communism in 1989, the first thing that the democratically elected governments of Central and East European countries did was to declare EC membership as their most important economic and

political goal. They did so with good reason: as their nearest neighbour, the EC was to them not only their natural (and, for its sheer size, also its most important) trading partner, but also as a group of developed market economies the most convenient source of capital and technical expertise as well as a suitable model for the transformation of their legal and institutional systems.

However, the establishment and development of the relations between the Central and East European countries and the EC (now EU) was from the beginning beset by a fundamental misunderstanding. The EC countries considered their overtures to the ex-communist countries in the East as a genuine offer of help and friendship. The new democracies of Central and Eastern Europe considered them rather as an expression of selfishness and arrogance. In 1990, the EC launched the PHARE program through which it disbursed 4.28 billion ECU (5.3 billion \$). Moreover, it signed trade and co-operation agreements with Poland, Czechoslovakia, Hungary, Romania and Bulgaria. These gave the signatories access to the EC General System of Preferences as well as the benefit of exemption from a number of EC import quotas. Already in 1991 and 1992 the EU signed with these countries so-called "Europe Agreements", which accorded them the status of associated members. These agreements provide for free trade in industrial goods from 1995 on, in iron and steel from 1996, and in textiles from 1997 onwards.

So far so good. From the viewpoint of Central and East European countries all that looked somewhat differently. The funds of the PHARE program as well as other capital inflows were well below both their needs and their expectations. Moreover, both trade and co-operation agreements as well as the "European" ones restricted the access of the ex-communist Six to the EC market just in those industries where their comparative advantage was the greatest (textiles, iron and steel, chemicals, farm products). According to an analysis by two British economists, J. Rollo and A. Smith, these sectors accounted for 40 percent of these countries' exports. Moreover, anti-dumping duties imposed on iron pipes from Hungary and Poland and bans on imports of beef on allegation of foot-and-mouth disease were taken as evidence of the insistence of the EU on protecting its uncompetitive sectors. Finally, the changes in the balance of trade between the EU and the countries with "Europe Agreements" suggest that the EU has been the bigger

beneficiary. In 1989 the EC had a deficit of 600 million ECU (744 million \$) in trade with its poor eastern neighbours; by the end of 1993 this deficit turned into a surplus of 5.6 billion ECU (6.9 billion \$) - including 433 million ECU (537 million \$) of subsidies exports of farm products.

No wonder that the ex-communist Six reacted angrily to such a state of affairs. This became apparent at the Copenhagen summit of the Council of Europe in June 1993. To redress things, all these countries pressed for a rapid accession to full EU membership. Instead, the Council decided that "the EU will start a program designed to prepare the accession of all European countries with which it has signed European Agreements". This initiative has been pushed further on at the Council's summit in Essen in December 1994, which called on the European Commission to prepare a White Paper on the unified communitarian market which has to be discussed at this year's summit to be held in Cannes in June. The Paper, which is expected to be accepted by the associated members, will contain guidelines on the "structuring of relationships" between the EU and the associated members as on the preparation for their full membership.

The discrepancy is evident: the six associated countries insist on a rapid accession to full EU membership; Poland and Hungary have already filed their official requests. The EU, on the contrary, favours a gradual approach, being prepared to consider any further enlargement only after the Intergovernmental Conference due to discuss the implementation of the Maastricht Treaty in 1996. Why do they differ so sharply? The most concise explanation was offered by the Financial Times, which in January 1993 commented: "The non-EFTA applicants see the EC above all as a means of bolstering their economies and encouraging financial transfers from the wealthier countries of Europe. The EC, however, views membership chiefly as a reward for economic achievement, rather than as a precondition to it". Now the good question is - who is right after all?

It seem to us that, first, the economies of the six countries in question are too weak to withstand the shock of a rapid accession to the EU. The poorest present members of the Union - Greece, Spain and Portugal - already complain about the difficulties in bearing the burden of communitarian discipline. Indeed, a poor boy's life in a rich men's club is not an easy one. As to the "Višegrad Four" - an American economist, R. Baldwin, has calculated that their 64 million inhabitants are only 30 per cent as rich as the EU average and far more reliant on agriculture. They will, moreover, probably remain the poorest of the EU for at least two decades. The same applies roughly to Bulgaria and Romania, too.

Second, the difficulties of transition from a command economy to an entrepreneurial one are generally underestimated. Witness Eastern Germany: despite a fully developed institutional and legal framework taken over from the western part of the country and transfers on a scale of 120 to 150 billion Deutschmarks a year, its economy is not yet on its feet all improvements notwithstanding. And the recent elections in Brandenburg

and SachsenAnhalt show that the electorate is not amused by the current state of affairs.

Third, some may argue that the cost of the crushing competition from the West in the case of rapid accession may nevertheless be compensated by transfers in the form of subsidies to farmers and aid to depressed regions. Economists have been arguing for quite some time over estimates of how much the new entrants may cost the Union. An estimate published in *The Economist* in 1993 puts the costs of transfers from the EU regional fund and of agricultural subsidies at 6 to 10 billion \$ a year, which means an increase of the current EC budget of 14 to 20 per cent. Mr. Baldwin estimates that only the accession of the "Višegrad Four" would require an increase in contributions to the EU budget of around 60 per cent, or a severe cut in spending. The Centre d'Etudes Prospectives et d'Informations Internationales (CEPII) puts the cost of increases in subsidies to farmers from new entrants at 15 to 30 per cent of the current budget. Whatever the exact figure, one thing can be taken for granted: any accession of Central and East European countries is bound to threaten the present beneficiaries - notably farmers throughout the Union as well as the four big recipients of development funds: Spain, Ireland, Portugal and Greece. They would object strongly to any newcomers threatening to grab a slice of the cake at their expense. Since the EU can take in new members only by unanimous vote, the question arises - do the newly associated states have any chance of full membership?

This point invites yet another question: why have any initiatives for the enlargement of the EU taken place at all? The first answer may be that up to the present the Union has developed relations with the ex-communist countries mainly to its advantage. The second is that these initiatives might be motivated by second thoughts: Germany may wish to shift the Union's point of gravity eastwards, and to cease being on the very first frontline to a turbulent East; the British are said to use the widening of the Union as an impediment to its deepening, which they do not want. And so we come to the realm of politics.

The politics of Central and East European relations with the EU

The scope and momentum of the collapse of communism in Central and Eastern Europe has taken Western diplomats and politicians by complete surprise. This has become obvious especially in the EC, where the objective of a common foreign and security policy "which might lead to a common defence", set out in the Maastricht Treaty, was at the very beginnings of its implementation. To make matters worse, Europe's foreign policy was immediately put to the severe test of Yugoslavia's bloodstained disintegration. The consequence was what Jacques Delors aptly described as "Europe's humiliation". Unfortunately, it seems that it was not only this initial confusion that resulted in the debacle of European foreign policy. At the time of the signature of the Maastricht Treaty, the prevailing mood was in favour of an expanding, federalist Europe, for which the national governments and

electorates had to be prepared. In the framework of these preparations the number of decisions subject to majority vote was augmented: moreover, a reform of the system of voting rights was undertaken - which, as we all know, resulted in an ugly row.

The outcome of this is a weird arithmetic about who needs whom to push through a desired decision. Big countries have more votes in the Council of Ministers, so that they cannot be outvoted by a coalition of small states. In turn, small countries are protected by a system of weighted voting. In 1994, of the Council's 76 votes, 54 were needed to form a qualified majority, while 23 were needed to block any decision. So the "Big Five" could achieve a qualified majority only if they got the support of at least two small states. Similarly, the small states needed the backing of at least three big states to get a majority vote. Conversely, two big states could form a blocking majority if they got the support of any small country but Luxembourg. Now, with any further enlargement - who has to support whom for what becomes anybody's guess.

Does all this exercise matter? Unfortunately it does, because the EU is a club of members with conflicting interests and rival cultures. Some members, such as Germany, Holland, Denmark and Britain, say they believe in free trade and open markets; others, such as France and Spain, mistrust market forces which they would like to control; some, as Germany and Britain, contribute to the communitarian budget more than they get out of it, while Greece, Ireland, Spain and Portugal are net recipients. There are, in sum, many of those which John Major once described as "fault lines". Now, with the enlargement, especially with the ex-communist countries, these fault lines would most probably multiply. So, the decision-making process may be brought to a complete halt - or, conversely, some countries may be constantly overruled.

It seems that just these difficulties as well as a lack of consensus on a common purpose have, during the last year or so, brought about a change in attitude. Instead of federalism, the new buzzword in the EU today is "intergovernmentalism" - i.e. the practice to solve difficult questions by argument among individual member countries. The first consequence of this was a creeping return to decision-making by unanimity - i.e. to inefficiency. The second, and most disastrous one, was - since Germany's reunification - the return to the logic of the "European concert" as in the times before World War I; in order to counterbalance the power by sheer size of united Germany, Mrs. Thatcher declared (and Mr. Major's government accepted subsequently) that this power could be counterbalanced only by a military and political engagement of the United States in Europe as well as by close relations between the other two strongest sovereign states - Britain and France.

Why was this development so disastrous? The answer is obvious: Europe's foreign policy was pushed into a direction which proved to be against its own best interests. This can be easily demonstrated by the case of Europe's policy in the Balkans.

As we all know - Germany insisted, rightly, on the recognition of the former Yugoslav republics. Consequently, Britain and France were against it. True, both countries sent their troops on a "peacekeeping mission" - but at the same time did everything to prevent any serious action against the Serb aggressors. True, they dispensed humanitarian aid, but did precious little to protect innocent civilians from Serb terrorism. It was they who ushered the Russians into the process, whose main goal is to protect Serbian interests. The result of all this are at least 300 thousand casualties and about a million of displaced persons. In the end, the Russians managed, with the connivance of the British and the French, to make both the United Nations and NATO look silly and helpless. How good European foreign policy has become in solving crucial problems has clearly been demonstrated by the negotiations on the so-called "Pact of Stability" in March - which left all the open questions open.

As in the case of the tragedy in the Balkans, where a policy of appeasement only encouraged Serb barbaric expansionism, both the American and the European policies misfired in the case of security arrangements with Central and East European countries. All of them were hoping for NATO membership, as the only plausible protection against the Russians. This is so because if any member country is attacked, NATO considers this as an attack on NATO as a whole. Instead, Central and East European countries were offered a woolly arrangement in the form of P4P, under which NATO would only "consult" an attacked country - and, judging by the Bosnian experience, do nothing. Small wonder that the Russians have become ever more assertive. Not only have they issued a growing number of threatening statements concerning the enlargement of NATO, but have also started to harass even non-ex-communist countries, such as Austria. More can be expected to come: now that the Russians are rather firmly entrenched in Serbia (witness Russia's treaty with Serbia on military co-operation) it becomes rather probable that they will exert strong pressure on the Ukraine and Romania (Bulgaria not excluded) to ensure a land-based corridor to the ports of Tivat and Bar in Montenegro. All this calls for a thorough rethinking and a radical turnaround in Europe's security policy.

Some of this seems to be already under way. At the beginning of the nineties, it was widely believed that, with the collapse of communism, the "clash of ideologies" on which the cold war was based had come to an end and thus every reason for serious international conflict. Hence the prospect of a world dominated by democratic states and market-oriented economies. It was also a prospect of peace, if not harmony, since democratic states do not go to war with each other. Consequently, all the existing political and defence structures - notably NATO - seemed outdated and without a proper role. Hence the idea that the best strategy for the West in Central and Eastern Europe was - not to irritate the Russians.

However, these ideas - probably borrowed from F. Fukuyama's "The End of History" - have not stood the test of time. Instead of a prospect of peace, today's world

looks as if set on a rather tumultuous period characterised by manoeuvrings in the framework of a multi-power system. The source of new conflict may become what S. Huntington, an American political scientist, called a "clash of cultures". In the case of Europe (with or without America) that would mean the confrontation with two alien forces - Islamic fundamentalism to the South and militant Orthodox Slavdom to the East. The breakup of ex-Yugoslavia, notably the war in Bosnia, may serve as a prime example to confirm this thesis. Unfortunately, such Huntingtonian logic appears only too plausible; moreover, the world may, in the immediate future, become a much more dangerous place. First, because modern technology may enable the protagonists of any conflict to inflict much more damage than before. Second, with the cold war over, all the problems which up to the present have been papered over for fear of an all-out war, are coming to the fore again. Last not least, many countries with problems on the domestic plane may try to divert the attention of its public by an aggressive stance in foreign policy. Boris Yeltsin's Russia may be an apt example to the point. To counter the coming challenges, the EU will be forced to formulate its objectives and muster the necessary political will to realise and protect them.

Conclusion

What does all this mean to the ultimate goal of Central and East European countries - accession to full membership of the EU and of NATO? As we have tried to demonstrate, there are a number of serious obstacles to this which will not be easy to overcome. However, there are some reasons for moderate optimism.

First, it seems as if the EU remains committed to a policy of future widening. It does so for food reason - to ensure prosperity and political stability on its eastern rim and thus to avoid a number of problems - from unwanted immigrants to threats of political turmoil. So, at the end of 1994, negotiations with the Baltic states for association have started, and respective agreements are scheduled to be signed by the end of June. Negotiations to the same end have also started with Slovenia - a worthy candidate - while both Croatia and Bosnia will have to wait for an end of their war with Serbia. A possible accession of the Ukraine, Moldova and Belarus will, however, depend on how hard the Russians insist on the control of their "near abroad". The same applies, unfortunately, to Romania and Bulgaria as well.

As to the policy of Central and East European countries towards full membership in the EU, it seems that they had better change tactics. Instead of pressing for early membership, they should rather try to extract further concessions from the EU (besides those already scheduled for the following years) and promote mutual co-operation instead. Something in this direction is already under way: in April 1994 the "Višegrad Four" have decided to speed up the lowering of trade barriers, and a spate of studies on the promotion of mutual trade, sponsored i.a. by the TRADELINK Project, have been published. The recommendations that they have put

forward, which range from the strengthening of the banking system, education of the new entrepreneurial class, the setup of a viable system of business information, to the completion of the institutional and legal system as well as further lowering of internal trade barriers, show how much has to be done and how justified a postponement of their accession to the EU really is.

A better stimulus to the development of these countries would be to use the CEFTA of the "Višegrad Four" as a "halfway house" to prepare themselves for the rigours of EU membership, and extending it to the other countries of the region. The Central European Initiative could be used as an adequate means to that end, through which these countries have already developed mutual co-operation in various fields.

The obstacle of potential ungovernability must be solved for the sake of the Union itself. Unless the Intergovernmental Conference on the implementation of the Maastricht Treaty in 1996 succeeds to define a common purpose and find a solution for the management of the EU as such, the Union will drown in variable geometry, multi-track, multi-speed, two-tier, hard-core, concentric-circle or *à la carte* anarchy. The debate on the relevant topics has already started, and it will, no doubt, be lively to the end; so, let us hope for the best.

Even the problem of subsidies to farmers may, with luck, in the future be less formidable than at present. The GATT Agreement of the Uruguay Round, coming this year into force, is bound to lower the EU's external tariffs and require cuts in subsidies to the EU's farm exports by 21 per cent in volume and by 36 per cent in value. This may also lower the EU's barriers to Eastern European exports of farm products and reduce the opposition to EU membership - notably for small countries less dependent on agriculture such as the Czech Republic or Slovenia. Others may follow later. In the meantime, the best thing the countries waiting for accession can do is to speed up their development: the more developed they become the less development aid they may need and the more acceptable they may become to other members of the Union. "Help thyself and God will help you" - is a known capitalist that we in the ex-socialist countries have to learn.

As to the political aspect - let us only mention that, on the economic side the problem of monetary union, employment policies and the further deepening of the Union are the most pressing problems, on the political side the most urgent one is the consolidation of NATO and a firm commitment to include the Central and East European countries. In that sense the recent American announcement of a plan to enlarge NATO deserves full support. A firm stance in the defence of its positions is also indispensable. John F. Kennedy once said that he would never fear to negotiate, but that he would never negotiate out of fear. In the case of the EU, the latter has happened only too often recently and what the basis of Europe's relations to the rest of the world should be is already well established in the UN Charter and the Helsinki Agreement. Punishment of armed aggression, settlement of disputes through negotiations, security of existing borders, freedom of any country to choose its

political system, protection of human rights - should be always defended in any case and at any cost. Is this sterile moralism? Among the many paradoxes of politics, consequent moralism is sometimes ultimate pragmatism.

If Europe's politicians achieve this, at least in Europe the stature of international law may be upheld; and only thus Monnet's vision of "a great East-West Europe will be of consequence and a force of peace in the world". ■

Financial System in Croatia

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