

**THE EUROPEAN COMMUNITY AND CENTRAL EUROPE :
TOWARDS A REASSESSMENT**

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Summary: The accelerated pace of historical change have rendered obsolete the major components of EC-Central European relationships as reflected in the Association or European Agreements between EC and the Visegrád Countries. A series of more differentiated approaches, partly more down-to-earth, partly with more vision beyond the configuration of the day may bring about better and more promising outcomes for both sides.

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State of Art

The pace of historic changes in Central and Eastern Europe since 1988 have accelerated dramatically. These processes of historical rearrangement have neither started nor ended with the collapse of state socialism and of the external and later the internal Soviet empire. Economic transformation is only one of the components in which the entire European setting conceived by the Versailles and Yalta treaties have become obsolete. This change is multidimensional, multipolar and certainly not driven by economic considerations alone. Their complexity have rendered much of the arsenal of social sciences, employing such simplistic categories as the homo oeconomicus or the dichotomy of pluralistic versus totalit-

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arian systems fairly irrelevant for the policymakers' perspective. Though international economic and political theory have been built for about two decades on the multipolarity of the world, the bipolar military antagonism has had shaped the mentality of decisionmakers to such an overwhelming degree that operationalisation of the above concepts was rarely successful. Any divergence from the established patterns could or tended to be seen as a perversion, and an obsession to preserve the status quo ex ante rather than creative rethinking of events prevails. This was exemplified by the rather absurd preoccupation of certain circles to keep the Soviet empire together, likewise to keep the broken pottery of ex-Yugoslavia in its old shape. Later, as an overreaction to this one-sidedness hasty full recognition of non-existent nations and incorporating Central Asian countries into the process of European cooperation further aggravated disorientation. In sum, it would be hard to find any independent analyst who could and would attempt to sell the Ostpolitik of the EC as an unqualified success story.

But there is a fair degree of simple-mindedness also on the Eastern side. After decades of externally enforced, and historically, culturally perverse antagonism with the mainstream of civilisation and economic development, a kind of incredible naivety molded the expectations of decisionmakers as well as of wide segments of the population. With open disregard of the small world economic share and decade-long marginalisation of Central and Eastern Europe it was believed that our concerns, aspirations and feeling for justice makes the world go round. Indeed, the talk in moralising terms, about the policies, duties and strategies of "the West" has become an accepted, established rather than absurd piece of the political ritual all across the one-time socialist camp, Russia included.

This fairly widespread if not general attitude was reflected in the following wave of undercurrent strategy interpretation of EC and US policies vis-a-vis the region. In 1989-90 the belief and indeed the pressure for major financial involvement in Eastern reconstruction tended to be portrayed as a kind of moral obligation of the West. Its two main versions were toying

with the idea of a new Marshall Plan, and the strategy of debt reduction/i.e requiring major inflows of official money at a time of renouncing part of the obligations due, on grounds of burden sharing for mistaken ^{lending} (policies/. The latter approach was brought to the extreme by the propositions of the Grand Bargain at the eve of the collapse of Gorbachev's power.

Since these grandiose but institutionally poorly founded ideas foundered, there was a phase of feeling abandoned. Indeed, during and following the Gulf war there was a belief that Eastern Europe has been relegated to the background even more than its economic "might" and military potential as well as its population/geographical and cultural proximity/ would have justified. This feeling of the not-so-benign neglect has actually fuelled atavistic feelings and indeed concepts /e.g. ethnic cleansing, or declaring a state independent in the geographical middle of another etc/. Disregard for the multi-dimensional interdependences of the modern world have already resulted in serious threats of - nuclear and conventional - proliferation, flood of people in masses /e.g. Albanians/ perpetuation of military clashes - in Armenia, in Caucasus, and last but not least on the Balkans. "The outside world does not care"- is an important ingredient in the feeling.

Finally in 1992 - despite the internal controversies - the European Communities emerge as a saviour, a jack of all trades able and also meant to address all issues at all levels. The Hungarian-Slovak controversy over the Danube dam is a nice example of the belief of the region: what we can not sort out among ourselves, the Brussels people are bound to solve quickly and efficiently. Many other examples could be cited, and the flood of would-be members to the EC is a sufficient substantiation to this point.

What is the lesson of the above said? If there is anything to be said at the bottom line it is the fact that decision-making organs are clearly overburdened. For a large number of reasons - which may and indeed do differ on the Eastern and EC sides - the pace of changes is faster and the nature of these is thorougher than established decisionmaking patterns are able to absorb. The obvious weakness in all the policies -

even at this very general level - is their reactive, retro-active and belated nature, which is a sign of lack of vision as well as of insufficient absorption and processing ability of new facts and situations. This general assessment applies to the European Agreements as well.

The European Agreements

The contents and evaluation of the agreements proper is available from a sizable and growing literature produced on both sides.⁺ Over and above the details described fairly unanimously by the literature quoted above two underlying factors seem to have shaped their construct: a/ integration in the EC will follow the political vision embodied in the Maastricht Treaty which was already in the making at that time; b/ Contrary to established historical, geographical and cultural pattern Central Europe was interpreted restrictively, as a code word for frontrunner reform states thus excluding the Baltic Slovenia and Croatia. Though demonstrably an initiative - expectation and recommendation - of the EC rather than the countries themselves, the Visegrád countries were able and willing to form a kind of loose cooperation. This was very much in their own interest as it was the first opportunity to dissociate themselves from the larger and qualitatively different conflict-ridden areas/countries of the one-time peace camp. Both their advances in terms of systemic transition and in terms of establishing firm Western-type democracies through free elections received external recognition only via Visegrád and first and foremost through the European Agreements. They did get something - if not under very lavish terms - which was demonstrably different from the fate of others. Though the EAs do not vouch warranty for full membership and fall short of establishing a free trade zone as well, they are institutionally different. Moreover they were signed at a time when the EC has become fairly explicit about its unwillingness to treat

⁺ Cf. Kuschel/1992/, Juhász/1992/, Stankovsky/1992/, Winters/1992/

post-Soviet states under the same terms in any foreseeable time/Fraser, 1992, Chapters 5 and 6/. Moreover the war on the Balkans and the continued instability in Albania, Bulgaria and Romania makes it improbable, that the erosion of the special status of the Visegrád countries - which was well under way in the extension of the PHARE programme by the inclusion of the then-USSR into the EBRD and by the "integration" of all post-Soviet states to the CESC process - could come to a halt at some point.

In fact, during 1992 both pillars of the EAs, i.e. Maastrich and Visegrád proved to be built on rather shaky foundations. As far as Maastricht is concerned, the political controversies - the Danish referendum, French rejection of the GATT compromise and the MacSharry reforms, British opt-outs in a variety of areas, the pound's and the lira's leaving EMS - seem to me only the tip of the iceberg. On the institutional plane, the foreseeable accession of the Nordic countries and Austria will surely overstretch the decisionmaking structure which was originally tailored to a Community of Six. The structural problems of the Community budget and its intimate relationship to the only slightly reformed CAP needs no elaboration, though it is probably the single most important factor in final decisions over admitting or not admitting new members from Central Europe in any foreseeable future. Meanwhile in economic analysis serious doubts have been raised in the entire feasibility of the Maastricht concept of decreer integration from above among the European market economies. In such truly fundamental components of the integration project as monetary policy/Thieme, 1991/, fiscal and tax policy/Persson and Tabellini, 1992/, extreme convergence targets and their practicability and/or costs in terms of output, employment and monetary sovereignty/Masson and Taylor, 1992/. In fact, with 16 easily conceivable members, with more accessions in sight, it is quite hard to visualise for a practical economist ^{a state} (where similar fiscal policies are conducted, same VAT rates, same closing hours, same participation schemes for employees and even a same currency would function - unless full political union is within easy reach.

These issues are quite relevant from the Central European accession perspective as well. In fact, as Winters/p.24/ and other commentators of the EAs note, Central Europeans subscribed to a very loose concept of the aquis communautaire, compelling themselves to follow principles which may well be disputed by current member states, which are yet unknown, and whose formation is surely beyond the influence of these current non-members.

Looking at the other side of the coin, Visegrád has not proved to be a terribly soundly established category. In economic terms the share of Poland and Czechoslovakia was in the range of 4 per cent of total Hungarian trade in 1990-92. Second the irreconcilable differences in economic conditions and concepts has had a lion's share⁺ in the Czechoslovak disunion which has become an accomplished fact by the time the EA could be ratified. Important decisionmaking segments in Hungary and the Czech Lands have constantly been opposing that concept of the Visegrád cooperation, which - emanating from some Polish historian circles - was about to give an anti-German, third road flavour to this scheme. By the same token the dirigiste economic policies of Slovakia, having made currency union with Bohemia an illusion in only a month, but also the nationality and energy policies seem to be less congruous with Czech and Hungarian practices than that of Slovenia. The parallel functioning of the Central European Initiative, with the Ukraine as a prospective partner, is clearly indicative of the rather arbitrary nature of subgrouping countries into "Visegrád" category. The small Baltic nations and possibly Croatia will further complicate this issue, but this is outside the scope of the present paper.

It is interesting to note, that not only the regrouping and limited widening, but also the narrowing of the Visegrád group is actively being considered by influential analysts. This has to do with the - in my view grossly inflated - financial needs of the Eastern European countries. Excluding East Germany, CIS, ex-Yugoslavia and Albania, figures requiring

⁺ Cf. Kosta/1992/ and Adam/1993/.

capital injections between 800 and 1400 bn dollars float around/Mayer, 1992, p.102/. These might be seen both as frightening and conservative, if one thinks about the 150 bn DM annual transfers to the ex-GDR which is expected by most German experts to last till the end of the milleneum.

From the Community perspective even smaller sums seem impossible to be financed. In a first calculation of the costs of possible accession of the Eastern Five to a 16 member Community, the Centre for Economic Policy Research/1992,p.72/ estimated agricultural transfers accruing to these in the range of 13-14 bn écu annually. Since 9-10 bn of these would go to Poland and Romania, the above quoted analysis suggests that Foles might disqualify as the EC will be unable to finance them. Others draw attention to Poland's strained relationship to her creditors: due to the debt strategy, to the actual horsetrading around the deals to be struck with the Paris and London Clubs, and last but not least the protracted recession and instability has been constraining severely the inflow of any fresh money to Poland for quite some time to come /Schröder, 1992, esp. p.81. and 83/. This is in line with the limited inflow of FDI as well as ^{the} stagnant large privatisation plans.

I would qualify the above consideration as too narrowly economic, overseeing signs of progress and recovery in Poland as well as the geostrategic role of that country. Still, as a variant of forecast the exclusion of Poland has to be considered seriously - with all of its immediate repercussions.

Turning to the letter of the EAs most observers would agree that these are more important in strategic than in immediate business terms: what they promise is more lucrative than what they actually secure. Since the Visegrád countries enjoyed GSP treatment before EAs, the EC provided an important help for their reorienting trade, at a time of collapsing Comecon. Still, EAs constitute an improvement over MFN and not the previously enjoyed GSP status in all except legal terms.

Most observers stress that the EC took upon new new financial obligations. This might be understandable from the short term budgetary perspective, however it is less evident if one looks into the severly restrictive arrangements in terms of

labour mobility. Moreover in case of Hungary half of our exports fall into the "sensitive" category, which is very difficult to reconcile with the theory of comparative advantage and free trade. One of the most innovative clauses in the EAs is that not only actual market disruption, but also the threat of it serves as an entitlement of protective measures. No cause, measure, precedent or procedure is given of the size or macroeconomic significance of the disruption which justifies the safeguard clause. There is a very lavish possibility for initiating antidumping procedures, though - as it is frequently stated - there is little economics and a lot of politicking in these practices in the EC /Tharakan, ed., 1991/. It is important to note, that Hungarian market share is 0.3 per cent of the EC market, 0.9 in the most sensitive markets of some countries, thus the potential for market disruption is rather abstract eventuality. Furthermore in the last 15 years less than a handful cases have been lost by Hungarian firms on antidumping processes. These considerations have not very closely been applied by those formulating the EA for Hungary.

Interestingly, both Hungarian industry and agriculture look at the association agreement primarily as a source of extra funds and market access hardly plays a role in their assessments /Meisel et, al. 1992, Varga, 1992 p.61/. In turn, sufficient - or insufficient - protection of their respective domestic markets is a point they emphasize. From this perspective, I think both in case of Hungary and of Poland and the Czech Lands the EA play a useful role in their binding the hands of those responsible in their emulating protectionist practices elsewhere. As it is known, liberalisation is a virtue to be followed out of selfish interest of the country concerned. Moreover, as it is demonstrable /Csaba, 1993/ foreign economic liberalisation is an absolute cornerstone of the entire transition strategy: as competition from abroad is the only efficient means of counteracting institutional and behavioural imperfections of a not yet fully fledged market economy. Recent experience with the Gaidar team in Russia may provide an indirect proof of this point.

It seems necessary to underline that both fundamental ex-

pectations voiced by Hungarian industry and agriculture seem to be mispercieved. For one, trimming the transfers of various sorts is a must and the budgetary reform of the EC is only a matter of time. Not very short time, but by the time Hungary may realistically aspire to become a full member, it will surely have been accomplished thus this particular lure will definitely have gone. Second, any idea of market protection seems to run contrary to the spirit of the Single Market. Even if it is implemented in a much more modest form than envisaged in Maastricht, there will definitely be a movement towards free factor movements, thus aspirations incongruous with this overall trend are in need of a thorough revision - the sooner the better.

It is often noted with a critical tone/Kuschel, 1992,p.99/ that the Visegrád countries fail to provide the right of free acquisition of arable land and forests/sic!/ for non-residents, moreover their public sector is oversize. I do not wish to defend existing restrictions, but the actual economic significance of this issue needs to be kept in mind when considering the merit of this argument. At a very general level of course any restriction on private proprietary rights is wrong. On the more concrete level according to the information of the Ministry of Agriculture about one fifth of the lands of the co-ops were only reclaimed under the restitution laws. This has to do with the fact that under prevailing conditions buying arable land is - and will be - one of the worst investment choices anyone can make. The macroeconomic significance of FDI in forestry is normally not overwhelming in other market economies. Finally many other factors than ownership grosso modo determine the character of a given economy. In India e.g. nationalised banking suffices for state controls certainly exceeding Visegrád measures despite much more widespread private ownership for other means of production. Thus a fair degree of circumspection is required before sweeping judgements are made. In practical terms, it is anything but insurmountable a difficulty for a strategic investor to find a Hungarian partner willing to put 1 mn Fts - ten thousand écu - into a joint venture which can own - without licensing - any immobility/fixed asset.

And - in the end of the day - should capital account convertibility really figure on the agenda of prerequisites for any prospective member when such prestigious members as Spain are no slow in reintroducing capital controls at times of difficulty?

In fact, constraints on foreign ownership in the banking sector is the sole weighty limitation - but it is known to be too much to be a prime political/strategic issue in all countries of the globe. Though liberalisation is more than commendable for the countries concerned, making it a precondition rather than tackling it under the transitory arrangements of accession seems to be overambitious at best.

Realistic Future Options

It is hard to reject out of hand the contention that EAs are so coined as to minimise adjustment pressures emanating from 1989 onto the EC /Winters, 1992, p.18/. On the other hand not only and not primarily Central Europe pressurizes EC to do something about CAP and the Budget, but the US, developing nations, and last but not least its own taxpayers and consumers. Thus not out of our own significance, but the current rigidity in terms of market access to commodities and labour should not be taken as given for eternity on the side of the EC. Availability or lack of political will and strategic vision has always been more important than technical or narrow business concerns in shaping EC policies. The same should apply to Central Europe - an issue we shall discuss below.

The fundamental issue to be addressed is certainly the one: whether or not there is any alternative to EC association and/or accession for Central European countries[†] and conversely, whether the EC can and should afford a "fortress Europe" attitude and the resultant not-so-benign neglect of Central Europe?

Looking from Budapest there is very little reason to subscribe to the view that due to its level of development,

[†]For background cf Dezséri/1990/, for current controversies Andreff/1995/, Martonyi/1991/.

structural and transition crisis as well as in view of the financing needs of reconstructing the "East"/possibly from the Elbe to Vladivostok/ the idea should be rejected out of hand. As we have seen, there is nothing as the "East" any more, there are two dozens of countries with their respective problems, which is a fact of life even if it is inconvenient from the bureaucratic perspective. Thus there is no single answer, and our attempt is to formulate a strategy from the perspective of 3-4 Central European states, which are small, which have established stable democratic institutions, and according to statistical evidence in 1993 recession will even out and the end of the tunnel is in sight.

From the point of the loosely redefined Visegrád group the option of self-reliance is out of question due to their size and level of development. An option of an Eastern Community has already been tried with limited success in 1949-89. Since then - as richly documented in the Rollo-Flemming/ed., 1992/ volume - mostly outsiders, experts of international organisations, Russians, Americans etc. offer Eastward looking cooperative solutions, whereas there seems to be a close-to unanimous rejection of this idea by those living in the region.

What about the EFTA option? Those familiar with the history of this proposal know, that it was a kind of second-best option improvised by Hungarian commercial policy at a time, when martial law in Poland reinforced geopolitical constraints over economic rationality. The backdoor option proved to be unviable, since geopolitical constellation has changed and the door itself proved to be unwilling to take up its assigned role: most of its members even decided to apply for EC membership. Meanwhile in commercial policy terms some of them -like Austria - prove to be even more "cautious" than the EC.

Finally, some atavistic suggestions should briefly be mentioned. Those unfamiliar with the fact that EC countries have already conferred a considerable part of their sovereignty to the EC - in policy terms even more than legally - still think of playing the "German card" the "French card" etc. The problem with this is the lack of a card per se, as unrelated to the other card. Still others rehash the good old Khrush-

chevian and Brezhnevian idea of all-European cooperation, be that in the form of a continental common market, or the economic forum of the CESC. The problem with these is that they can not be operationalised, insofar they criticise the shortcomings of the existing arrangements without proposing institutional alternatives to them. For a country like Hungary a pan-European forum of whatever sort would certainly offer much less both in static and dynamic terms than the current - meagre - EA, which has at least a potential to be explored. As far as free and multilateral trade is concerned, one may hardly want a better set of rules than GATT offers; it is implementation, waivers and safeguard clauses and many other excuses which compromise its basic idea. In other words, the ^{wheel} does not need to be invented, rather it is to be made use of.

Experience with the EBRD amply demonstrate this point. EBRD is a typical product of a political compromise, a neither fish nor flesh construct. Due to its obligation to lend on private sector terms 60 per cent of its funds it can't really operate as a development institution, as for good private sector projects more than enough money is available in the previously existed framework of international capital markets and private banks. Meanwhile what most members would expect is certainly an investment into banking and human infrastructure - a task for which the 40 per cent funding is clearly inadequate.

Let us turn the coin again and look it from the EC angle! One may approach the issue from two sides. On the one hand, Central Asian countries but also those behind the Caucasian Mountains can safely excluded from the present context on any grounds one cares to mention. Russia and the two other Slavic republics deserve special treatment due to their size, military potential and intertwinning. For the time being the question of ^{their} borders e.g. is anything but finalised.

Unfortunately for Hungary, there is very little indication which would allow for a hope of a foreseeable recovery rather than a protracted crisis scenario as the most probable variant in the future development of the Southeast European countries.

If we are very optimistic and expect a better time to come on the Balkans than the period of 1878-1922 was, and as part of it we are optimistic about a lasting truce between Serbs and Croats, Croatia may well be hesitantly included into the Central European group. For the other group, conditions which hampered Turkey to get accession from association may well apply in the foreseeable future.

Can and indeed should the EC then afford neglecting the Central Europeans in their entirety? One can not exclude an affirmative answer, since short timism is anything but alien to democratic policymaking. However one wonders whether noone has ever thought of a buffer zone between Western Europe and the Russian and Southeast European crisis regions. This is much less than the current practice of sending conscripts to die for nonexistent nations or sending food aid to countries with a potential of regaining their role as a breadbasket of Europe.

It is odd if integrating countries from Finland to Greece were a non-issue whereas establishing special relationships with countries in the same geographical span would sound a blasphemy. It seems to me that exaggerated fears and ignorance may often produce false impressions in certain quarters. True, the Hungarian economy is nothing like the Swiss. But e.g. in terms of inflation rates the difference is only a fourfold edge of the Swiss, whereas the Hungarians have a tenfold edge over the Romanians. The Polish economy with 50 per cent of private ownership is certainly more akin to the Greek than to the Ukrainian or to the Serbian.

Similarly, Central European countries do have their differences. But nobody in his right mind would visualise the Slovaks and the Hungarians waging armed conflicts over the Gabcikovo dam. Association of Central Europeans would thus not internalise armed and nationality conflicts over and above the previous levels.

The issue of mass migration is often invoked with fear. Here again the Russian/Serbian problem and the Czech/Hungarian problem is qualitatively different/in Slovenia this is a problem of the past/. According to the calculations of CEFR/1992, p.86/ in the period of 1970-90 4 per cent of