

The EC and Eastern Europe: The Light Is Fading in the Lighthouse

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Summary

1. Since Eastern Europe's revolutions of 1989, the region's relations with the EC have deepened. The European Community, with its PHARE Program (PHARE is French for lighthouse), has offered support to the reform states in their „return to Europe.“ The European Community has concluded with the three Visegrad countries Poland, Hungary and Czechoslovakia „Europe agreements“ that foresee EC association with the prospect of membership, better market access and political dialogue. Trade and direct investment have increased markedly, to the point that the EC — and above all Germany — is now Eastern Europe's main economic partner.

2. The opening to the East took place during a period of growing integration in the West through the Southern Enlargement to include Portugal and Spain, the Single Market, the Economic and Monetary Union, and the European Economic Area. Since then, the integra-

tion process has bogged down. The purpose and extent of European integration are again contested. Widening the EC to include the EFTA and Visegrad countries would so impact the institutions and decision making of the EC as to threaten its current disposition, not to speak of the problems this would pose for an even „deeper“ Community.

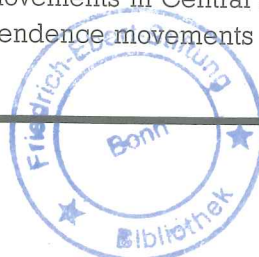
3. Western integration had contributed to bringing about the great change in the East, but now the disappearance of the Soviet threat has itself strengthened centrifugal forces in the West. Western Europe's weakness, in turn, is unsettling Eastern Europe during a critical phase of its transformation, a phase where it is in dire need of orientation.

4. The collapse of communism was the work of diverse forces: democratic opposition movements in Central Europe; national independence movements in the federations of

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Yugoslavia and the Soviet Union. Now, during the continuing transformation crisis, national values are gaining ground. Inadequate support from the Community is frustrating the liberal, pro-European forces in Eastern Europe.

5. Aspirations for national independence quickly fractured the existing regional integration and cooperation structures in Central and Eastern Europe. The decline of intra-East European trade has in turn led to production cut-backs. Western proposals for resuscitating trade by way of a currency union or a free-trade zone have met with little enthusiasm. EC associate-member status does facilitate cooperation among the Visegrad states, but it could not prevent the split of the CSFR. The CIS as a Eurasian area of integration is likely to disintegrate further.

6. Full EC membership certainly does not come into question for every East European state; nor is immediate membership likely for even a few. Other models such as accession to EFTA, affiliate membership, Lome-type association for the Central Asian countries, or sectoral and functional approaches are thus more realistic and in line with the immediate interests of both sides.

1. Central and Eastern Europe are Returning to Europe

a) The European Community's Construction of the Lighthouse

During the heyday of Perestroika, **on 25 June 1988, the EC and the COMECON (Council on Mutual Economic Assistance) issued a common declaration** ending decades of communist rejection and disregard. Both communities established diplomatic relations; bilateral negotiations — i.e. between the EC and individual COMECON countries — began on trade and cooperation agreements.

It was no accident that on 26 September 1988 the EC concluded its first agreement with Hungary, at the time the forerunner of reform.

Agreements with the other eastern countries were all concluded during the dramatic events of 1989-90. Poland signed its agreement in September, 1989, after the electoral victory of Solidarity; the CSFR signed in December of the same year, immediately after the „Velvet Revolution.“ Bulgaria followed in March, 1991; Albania in May, 1992. The European Community opened missions in the East European capitals.

In form, these agreements reflected the old East-West structures. In substance — above all because of the concessions made by the EC — they indicated the **EC's new wish to support the transformation processes in Eastern Europe.** Imports from Eastern Europe received most-favored nation status or even preferential access under the General System of Preferences. Quotas were reduced.

For many West Europeans, the support provided by greater market access did not go far enough. As such, **in 1989, the EC started the PHARE Program** (PHARE = Poland, Hungary, Assistance for the Reconstruction of the Economy). „PHARE,“ the French word for **lighthouse**, was intended to signal that the aim was to mark „the way back to Europe“ for Eastern Europe. The EC thereby offered technical assistance in agriculture, industry, financial services, privatization, investment promotion, environmental protection and training. The program amounted to 500 million ECU in 1990, 785 million ECU in 1991, 1000 million ECU in 1992. As of 1990, East European countries other than Poland and Hungary are also taking part. Additionally, the EC is participating in multilateral assistance programs and has opened a line of credit with the European Investment Bank (EIB) and the European Community for Coal and Steel.

Relations developed with the USSR and then the CIS (Commonwealth of Independent States) in a similar direction, though more slowly. The Soviet Union signed a trade and cooperation agreement in December, 1989. With the collapse of the USSR, this agreement lost much of its relevance and needs to be replaced by new agreements with the individual republics.

Parallel to the PHARE Program, the EC is offering the CIS assistance through the **TACIS Program** (Technical Assistance to the Commonwealth of Independent States).

With all these steps, relations between the EC and Eastern Europe improved dramatically compared with the period of East-West confrontation. But considering the historic dimension of the changes taking place, and the significant risks and opportunities of the transformation process in Eastern Europe, assistance seemed still too limited to many politicians in Western and Eastern Europe. They underlined that a „**Return to Europe**“ should be the third central building block of change in Eastern Europe – along with democratization and the transformation of their economic systems.

The **Central European opposition movements** and the governments they initially established hoped for **stability through closer EC ties**. In view of how decades of communist rule had deformed their economy, society and government, an external anchor obviously seemed particularly attractive to them. On this point, they resembled the young democracies of Southern Europe, which, in view of decades of totalitarian rule, had also sought in EC membership reassurance against the reemergence of authoritarian tendencies in their countries.

Particularly **Germany** – standing to suffer most directly from destabilization in Central Europe, but also to profit most from successful transformation – soon put its weight behind a more solid anchoring of the reform states to the EC. Considering the tradition of EC external foreign relations, the appropriate instrument for such a more solid anchoring was that of „association,“ preferably with the prospect of membership.

Other EC states supported this policy for various reasons. The big West European countries shared the German interest in special relations to Central Europe. France did have misgivings about whether an offer to widen the Community would endanger the deepening so valued by Paris as a means of anchoring a unified Germany. Great Britain, on the other

hand, saw in the debate over widening the possibility of distracting from the deepening (Maastricht), over which it had such misgivings. The states of the EC's periphery were willing to support this policy under the condition of additional assistance and managed market access. Overall, the negotiating process took place without drawing much public interest, which left interest groups and their lobbyists more room for influence.

b) Relations Deepen Between Western and Central Europe

As a consequence, in the fall of 1991, the Community concluded after prolonged negotiations with Poland, Hungary and the CSFR the so-called „**Europe agreements**.“ These association agreements recognize in their preambles the goal of an eventual full membership. In addition to the step-by-step creation of a free-trade zone, a political dialogue was agreed to by means of respective association institutions. The EC did not commit itself to any concrete financial assistance.

On **trade policy**, both sides struggled to find a compromise. The EC agriculture lobby, for example, fought tenaciously against every additional kilogram of beef imports. But numerous protectionist hurdles also remained in sensitive sectors like coal, steel and textiles. In contrast, the East European countries demanded protection for their firms during the difficult transformation to market economies, as well the possibility of intervention in case of balance-of-payments crises. The result was a temporally and sectorally structured liberalization time-table, which asymmetrically opened the EC markets more rapidly for Eastern Europe's exporters than vice versa.

The subject of **political dialogue** underlines the importance of Eastern Europe in the network of EC external relations. An association council and summits are also supposed to discuss – in addition to the standard issues of trade policy and economic relations – foreign policy questions and the progress of transformation in the reform states. This opens the

possibility for the Visegrad states (Poland, Hungary, CSFR, see 4. below) of affecting the EC position vis-a-vis other East European countries. Conversely, the EC can deal with possible conflicts among the Central European associates. Security and defense policy in the narrow sense, however, remain excluded.

Parallel to the deepening of political and treaty relations, **economic interaction** increased. Before the change of 1989, the entire EC trade with the East (less than 3% of EC foreign trade) did not even reach the volume of EC trade with Switzerland. The high growth rates since 1989 thus should be seen in the context of very low initial figures. EC exports to Poland almost trebled between 1988 and 1991. The share of CSFR imports from the EC went from almost 18 percent in 1989 to almost 29 percent in 1991. EC exports to Hungary have risen continuously for some time. Between 1988 and 1991 they expanded by some 40 percent. EC imports have also risen: from Poland they have doubled between 1987 and 1991; from Hungary they grew by 75 percent during the same period. The portion of the CSFR's exports going to the EC rose from a good 18 percent in 1989 to 40 percent in 1991. Germany is by far the most important trading partner within the EC with around 40 to 50 percent of the EC imports and exports. Sensitive products, however, only make up a small portion of the EC imports. This is more a reflection of the EC protectionism than shoddy East European products.

Direct investment has also increased dramatically, though only from the EC into Eastern Europe. Hungary received the lion's share of foreign investment, compared to the CSFR and to Poland, which received very little investment in relation to its size. Private sources of credit, such as banks, have held back because of the high level of debt. Public funds have been pledged in large sums, but their disbursement is proceeding slowly (except for debt relief). The Central Europeans are shying away from increasing their indebtedness and have made clear from the beginning that they want trade rather than aid. While the

EC's relations with the three Central European states have experienced a downright boom, they are developing much more slowly with the other states of Eastern Europe. This modest progress reflects the sluggish tempo of reform in the Balkans and in the countries of the former Soviet Union. The collapse of the USSR and Yugoslavia and the ensuing conflicts, above all the war in former Yugoslavia, have retarded the development of more intensive relations. In the case of Yugoslavia, there has been a definite reversal.

Meanwhile, the EC has signed **association agreements with Bulgaria and Rumania**. It is also involved in concluding such agreements with the three Baltic states and Albania. In the case of the Baltic states, the unresolved relationship with the Russian minority stands in the way of deepening relations.

2. The Integration Process in the West Between Deepening, Widening and Stagnation

a) From Euro-Optimism After 1985 to Euro-Skepticism in 1992

The revolutions in Eastern Europe struck the EC during the most dynamic period in its history. The Southern Enlargement to Spain and Portugal has been in a transition phase since their formal entry on 1 January 1986, a phase that has been characterized by EC assistance and the progressive reduction of trade barriers. Even more important was the enormous economic upturn in the Iberian countries, an upturn in marked contrast to the permanent crisis in Greece.

In 1985 the EC set in motion the project of a **Single European Market**; the respective agreement entered into force on 1 July 1987. The Commission and the member states have since then passed hundreds of measures in order to remove all remaining fiscal, technical and administrative barriers. Even if all the necessary regulations were not yet in force in every member state by the end of 1992, 1993

has brought the EC very close to its goal of a single market. The weaker members of the EC's periphery supported this project because the EC simultaneously made available additional resources for the economic and social development of its poorer regions. The Commission took advantage of this momentum back in 1988/89 — long before the Single Market project was completed — to move towards the next stage of deepening: **the Economic and Monetary Union (EMU)**. Delors issued a three-stage plan, which found support among almost the members except for Great Britain. At the summit in Maastricht in December, 1991, the Union was agreed to. England, however, was granted the option of opting out of the final phase of the currency union, the adoption of a single European currency.

Many observers are convinced that this **enormous integration dynamic** (southern enlargement, single market, EMU) contributed much to the revolutions in Eastern Europe. With the end of Euro-pessimism, which dominated the first half of the 1980s, the Soviet leadership must have become particularly and painfully aware of the relative decline of their own system. After 1989, nothing seemed more fitting than rapidly seeking attachment to the ascending EC.

The end of the East-West confrontation for its part raised the **attractiveness of the EC for the EFTA countries**. They had previously distanced themselves from membership, in part for reasons of security and neutrality. The Single Market project had already made for uneasiness among the EFTA (European Free Trade Association) countries. Since 1973, EFTA and the EC have been joined in a free trade area; the EC is EFTA's most important trading partner. They therefore have a strong interest in avoiding exclusion from the new Single Market.

After prolonged negotiations, the **EC and EFTA** thus agreed to the **creation of a European Economic Area (EEA)**. In practical terms, this will result in an extension of the Single Market to the EFTA. Only agriculture and foreign policy are not included. The EFTA

countries, however, must have been disappointed by their exclusion from EC decision-making, which for all means and purposes makes them EC members without decision-making rights. The EC hoped that the EEA would offer an attractive interim solution. It would allow deepening to proceed without a debate on widening being brought about by membership applications from the EFTA countries.

This calculation proved erroneous. With the **EFTA countries** no longer interested in neutrality, the weak EEA solution is not sufficient to prevent application for **full EC membership**. Austria and Sweden applied for admission in 1989 and 1991, Finland and Norway followed in 1992. It remains questionable whether Switzerland will continue to pursue membership after the negative outcome of its referendum on joining the EEA. In the Mediterranean area, Malta, Cyprus and Turkey are all on the waiting list. Membership for the East European states must await at least that of the EFTA countries, if not that of Cyprus and Malta as well.

With Denmark's rejection of the Maastricht agreements in 1992, the momentum of integration was at least temporarily brought to a halt. It made clear to the Brussels institutions and the national governments how far the unification process had proceeded without taking into account the feelings and opinions of the European public. The narrow majority in France only confirmed this. The traditional motor of European unity, the Franco-German tandem, had gotten out of cadence since German unification. Compounding this was the crisis of the European Monetary System (EMS) and the general downturn of the European economies. All this makes for **a new wave of Euro-skepticism**, which has not, however, dampened the desire of the EC's neighbors to join the Community — although the Swiss referendum on the EEA did show a certain reluctance.

b) Institutional Problems of a Future EC Widening

At the same time, no one can imagine **how EC institutions could contend with a widening**, even if limited to only the EFTA members. Five new members (three Nordic, two Alpine) would bring little in the way of economic problems; indeed, they would result in much needed revenue growth for the EC. But Parliament, Commission and Council would be bloated to a such a degree – if the currently valid proportionality rules were maintained – that their efficiency and democratic representativeness would be endangered. As the number of languages grows, more might soon be spent on translations than on many policy areas.

If one were to go so far as to assume an **EC of 22 (EC 12 + 7 EFTA + 3 or 4 Visegrad)**, troublesome **institutional consequences** would result. If the current system were maintained, the European Parliament would grow to 744 seats. If each country were to receive mandates in proportion to their population and size, small countries like Luxembourg or Ireland would only be poorly represented. The problems the older members would have with a change in the relative number of seats became obvious when east Germany was to be represented by 18 additional deputies. Initially they only received observer status. It was not until the 1992 Edinburgh Summit that the Council decided to raise the number of German mandates in 1994, whereby in compensation, Italy, France and Great Britain each received six, and Spain four additional seats. Poland would have to have about as many seats as Spain, Hungary and the Czech Republic as many as Portugal, and Slovakia about half that. In the Council of Ministers, the number of weighted votes would rise from 76 to 117, whereby Poland would receive 8 (as Spain), Hungary 5 (as Belgium) and the CSFR 6 (4 Czech and 2 Slovak). The EC Presidency would be held by each of the 22 members only every 11 years, if the current system were maintained. An alternative would be the election of a president, a group presidency or a purely representative presidency that would de facto hollow out this

function. The European Parliament as Europe's upper house also could be completely freed of national quotas, whereby the responsibility for regional balance in the slating of candidates would fall on the parties – which would operate Europe-wide.

Federalists tend to either reject widening so as not to endanger deepening, or to use widening as a justification for a radical reform of the decision-making process. Delors also called for institutional reforms in spring 1992, in view of the prospective EFTA widening. A European president with a multi-year term, more rights for the Parliament, majority voting in the Council and a Commission without national loyalties would make for a stronger federal Community. Such an EC would still be capable of effective action despite widening, if – and this is by no means certain – the publics would go along with such a super-federalism. Deepening without widening would lead to a Europe of concentric circles, where the degree of integration would decline with distance from the core.

Older, Euro-skeptical members like Great Britain and Denmark, who are anyway distrustful of the evermore comprehensive deepening, thus see widening as a welcome reason to curb deepening. They can easily imagine 17 or members in a big EC functioning as a customs union with a minimal core of Community policies. Denmark's rejection of the Maastricht Treaties was also motivated by Delors' federalist reform proposals. Many Southern Europeans want Maastricht only in conjunction with the Delors-II package for more cohesion through more redistribution in the Community. Such additional financial transfers would be a truly exacting burden for a larger EC with 20 or more members. Whereas the EFTA countries would be net payers after their membership, the Central and East European countries would receive significant transfers from the common agriculture policy (CAP) and the structural funds (Cohesion), due to their large agricultural sectors and their low per capita income. This is clearly seen in the following table.

Table: The economic development of EFTA and Central and Eastern European countries and its potential effect on the EC budget

Country	Percentage of Work Force Employed in Agriculture	Per Capita Income (in 1000 US\$)	Prospective Net Contribution to EC budget (in million ECUs)
Austria	9%	21	0,7
Finland	10%	28	0,3
Norway	7%	25	0,7
Sweden	4%	26	1,1
Switzerland	6%	34	0,9
EC Average	8%	18	--
Poland	26%	1,9	-5,2
CSFR	11%	3,4	-1,3
Hungary	20%	2,6	-1,4
Bulgaria	19%	2,3	-1,4
Rumania	28%	1,4	-3,6

c) The Light Is Fading in the Lighthouse

Now, however, the EC seems to lack the strength to decide between the various alternative paths of development. With the onset of **recession, national egotism** is on the rise among the member states, protectionism is spreading and the money necessary to finance compromise is lacking. More and more, EC commissioners are acting on behalf of their governments, though the EC treaty prohibits them from doing so. Decisions of historical dimension on issues like GATT or relations to Eastern Europe are imperiled by petty and particularist interests. Most governments are bogged down at home in deep crises of confidence and dare not make potentially unpopular decisions.

With the collapse of communism, an important external motive for European unification has fallen away. Dialectically, the dying empire is striking back. **After the dynamic of western integration had changed the East, disintegration in the East is now slowing this Western dynamic:**

- The unification of Germany (a primary consequence of the communist collapse) has

led to a crisis in the European Monetary System. The monetary and fiscal policies Bonn has chosen to finance reconstruction of the former German Democratic Republic have brought this about.

- The flood of asylum seekers from Yugoslavia, Rumania and other countries has slowed and endangered „Schengenland," the project of a Europe without border controls.
- The break-up of the federal states in the East has called into question the state borders in the West and has emboldened regionalists in Italy (Lega), France, Belgium and Spain.

The slacking off of integration and the resurgence of national egotism in the West is conversely not without effect: **If the light fades in the EC lighthouse,** the tendency towards disintegration in the East will only increase.

Europe can hardly adopt a **wait-and-see attitude** regarding the East. Even if one discounts the risks of authoritarian regimes, environmental catastrophes and massive migration, the economic transition in Central and Eastern Europe in itself poses an extraordinary chal-

lenge with enormous chances and dangers. The United States must reduce its European engagement due to domestic demands. Western Europe, however, will continue to be directly affected by developments to its East, both as Eastern Europe's main creditor and its main trading partner. A permanent devaluation of East European currencies, for example, would burden Western Europe's labor markets with cheap imports, labor migration and the relocation of investment and businesses to more attractive East European countries. Eastern Germany is already suffering the consequences of Bohemia's attractiveness in the competition for foreign investment.

In the economic realm, we are now witnessing nothing less than **a new international division of labor in Europe**. During this period, the EC stands to both lose and gain a great deal. It must be prepared to sacrifice some of its less competitive economic sectors, but it could thereby become the East's high-tech supplier. If the EC is not willing to adapt, Japan, South-East Asia or the United States will take over this role. Making such decisions during a recession will not be easy. But to evade them would be even more harmful for Western Europe, even if weak politicians were thereby to survive another legislative period.

Nor is it only the need to compete on the global market that could move the EC to **renew its efforts at integration**. The political classes of the member states and broad segments of the public would not sit by passively if stagnation or even reversal began to endanger important and still valid objectives of European integration: that a larger Germany remains embedded in Europe and the devastating nationalism of Europe's past not reawaken. If this is not possible in an „EC of the 12 plus,“ then a deepening initiative of a core group of members states could attempt to achieve a European Union as the „finalité politique“ of the Community.

3. Eastern Europe Between Nationalism and EC Orientation

a) Nationalism Returns to Central and Eastern Europe

The Eastern European states have one thing in common above all else: 40 years of communist rule. With its end, **all the differences arising out of history and culture have resurfaced**. The toppling of communism itself was the work of very different forces in the various countries. In Poland, Solidarity had already been fighting for freedom and human rights since 1980. In the CSFR, as elsewhere, small opposition groups existed, but the large movements like Civic Forum and Public Against Violence in Slovakia arose almost overnight in November, 1989. In Hungary, a reformist communist party had in 1989 already allowed the creation of opposition parties, to which it lost power in the first elections. In Bulgaria, Albania and Rumania, opposition to the communist successor parties could make gains only very slowly.

In the **former communist federations** USSR and Yugoslavia things look completely different. The opposition movements have been less concerned with democracy, human rights and market economies than national self-determination and independence. Those who have engaged themselves most convincingly for these goals have acquired power in these countries. The result spans the spectrum from old representatives of the nomenklatura like Kravchuk in the Ukraine to authoritarian right-wing nationalists like Tudjman in Croatia. These new states often tend to subordinate democratic rights to national rights. In Estonia, for example, Russian inhabitants are not allowed to vote, even though they make up 40 percent of the population.

National values dominate not only the legal systems and democratization processes of the successor states, but also their economic policies. Without concern for the resulting decline in prosperity, these new states have cut trade with traditional partners, introduced new currencies and subordinated the labor market

to ethnic criteria. Protectionism and fear of foreign investors („selling out the national economy“) often leave their mark on economic relations with other countries. The Central European countries are also often plagued by these tendencies. The political culture of Slovakia has become increasingly dominated by the national question, whereas the civil rights movement has all but vanished. In Poland, deputies from the nationalist Confederation for an Independent Poland (KPN) voted against the ratification of the Europe association agreements. In many of the other countries, **nationalist parties and groups** also can be found. While they have not gained majorities, and are even less likely to build governments, they do exhibit authoritarian and anti-western tendencies. As of yet, there are no European movements to speak of in the countries of Central Europe. They could promote the idea of European integration – as they have often successfully done in Western Europe.

Economic fears have only strengthened nationalist sentiment. In Poland, it is the farmers and the food-processing industry that are wary of competition from the EC's subsidized agriculture. As a large portion of the economies of these countries remains under state ownership, many economic policy issues have nationalist ramifications, particularly the question of privatization. It is not the property of a „capitalist“ that is changing hands, but the „property of the people.“ Concerns voiced in the West about national airlines are heard in the East about „normal“ economic sectors.

b) EC Ties and the Stabilization of Reform

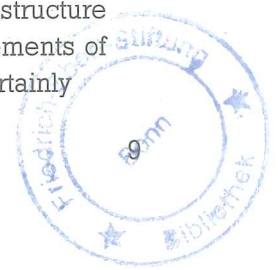
The Central European **opposition elites** were expressly pro-European. They saw democracy, market economies and western orientation as an indivisible liberal core, and the fundamental alternative to communist dictatorship, command economies, and autarchy or centrally-planned international specialization. In turn, they expected their „return to Europe“ to be openly accepted. Their publics shared this sentiment. A poll commissioned by the EC in

October, 1991, showed strong support in almost every East European country for EC membership (ca. 80 percent; Russia 69 percent) and EC association (ca. 75 percent; Russia 66%).

Initially, the West largely met this expectation. But to the degree that Western interests have been directly affected, behavior has changed. Since at least the association negotiations, „Europhoria“ has been replaced by **frustration**. In the area of trade, Eastern Europe began to encounter protectionism. Assistance was increasingly given a bad name by selfish and conceited western advisors; political dialogue more and more seemed to imply meddling in domestic affairs.* Though aware of the fundamental differences, Central and East Europeans have no desire to replace Moscow's intervention with that of Brussels and Strasbourg.

The emerging frustration with Europe goes hand-in-hand with the growing uncertainty about the entire direction of the transformation process. The „market fundamentalism“ predominant in the initial phase is increasingly having to make way for a **realism and pragmatism** that recognizes the necessity of an active role for the state in economic policy, particularly during the transformation phase. Still, as of yet, the transformation crisis has reached its peak in only a few of these countries. Developments in eastern Germany suggest that company closings and unemployment still have to rise markedly in Central Europe, though Central European economies are better protected through their ability to devalue their currencies. The ensuing social crisis is likely to weaken the consensus behind market economy if no compensatory action is taken.

The degree to which association or even **EC membership could take the edge off the transformation crisis and stabilize the situation** must be carefully considered in view of the experience with the Southern Enlargement. The Iberian countries also had to build simultaneously new democracies and restructure their economies, made rigid by elements of central planning. The result has certainly



been a success. But trade deficits with the rest of the EC grew enormously after membership; these could only be financed thanks to large transfers from the EC Structural Funds, dramatic increases in private direct investment and favorable world economic trends. Ultimately, however, it was the political stability of Spain and Portugal that was central to creating confidence. Without it — as is the case with Greece — even full membership and generous financial assistance can accomplish little.

Unfortunately, in Central and Eastern Europe, enthusiasm for democracy is on the decline.

Since the overwhelming votes for democracy during 1989 and 1990, voter participation has dropped drastically (e.g., to 43% in Poland 1991) and confidence in political parties is weak. The EC poll cited above found that a majority was satisfied with the development of democracy in only one country: Lithuania (barely 52 %). Remarkably, the lowest values were from the Central European countries: Poland 27%; CSFR 28%; Hungary 30%.

The EC cannot be unconcerned about this trend. **Guarding against the potential threats of Eastern Europe** (civil war, resurgence of authoritarian or military regimes, environmental catastrophes, migration) demands decisive action. Securing the great opportunities for the EC that a thriving, and eventually prosperous Eastern Europe would bring also demands such action. Past and current programs (PHARE, TACIS), and their extensions like the PHARE Democracy Program, are a step in the right direction, even if many East Europeans are already complaining about too many advisors. But they are not enough.

The case of Yugoslavia shows that both years of cooperation and the prospect of EC association were not able to prevent civil war. The CSFR partitioned itself despite the EC association it had just concluded. Greece became an associate with the prospect for membership in 1961, but it still experienced the Colonel's Putsch in 1967. Outside of Europe, **association with the Community is neither a democratic seal-of-approval nor a guaranty against dictatorship**, as many ACP countries (Africa, Caribbean, Pacific) have shown. In Europe, this task

is best done by the Council of Europe, though it serves more as an indicator than a guarantor. Membership in the Council of Europe should be a necessary precondition for EC membership.

4. Do EC Ties Promote, Substitute for or Impede Regional Cooperation in Central and Eastern Europe?

a) From Revolution to Disintegration in Central and Eastern Europe

Nationalism was one of the decisive forces behind the East European revolutions, though the implications for each country were different. It was directed primarily against Soviet dominance, but also against the regional power centers of the multi-national states: Moscow, Belgrade and Prague. With political independence from these power centers also came the desire for economic independence. All the East European organizations that had compelled cooperation were dissolved. The victorious opposition movements took aim not only at the Council on Mutual Economic Assistance (COMECON), but also the Warsaw Pact.

In the short run at least, **the economic consequences have been disastrous**. The East European states began to trade on the basis of world market prices and convertible currencies. To the extent transportation structures made it possible, this switch diverted trade to western buyers and suppliers. More often, trade simply came to a stop. Purchasers either lacked the necessary convertible currency, or demand declined as the shock of transformation sent the East European economies into recession. The disappearance of the East German market after unification was also a severe blow to many East Europeans. Because COMECON trade had made up such a large share of the East Europeans' foreign trade, exports have declined between 40 percent (Hungary, CIS) and 75 percent (Poland). This collapse of foreign trade is primarily responsible for the massive drop in output — IMF esti-

mates see it as contributing to over 50 percent of the drop. Today, trade among the Visegrad countries comprises only about 4-7 percent of their respective trade volumes. Despite this, there are no significant efforts in Eastern Europe to resuscitate regional trade.

This stance has met with little understanding in the West. Experts have recommended wide-ranging measures for **reconstituting East European trade**. They have suggested an East European payments union (Brabant), customs unions, free-trade areas and the creation of national or bilateral instruments for financing, insuring and facilitating trade. Liberal economists prefer a rapid transition to currency convertibility, from which they expect market-driven solutions. What is certain is that all the proposals will require enormous efforts, particularly in the development of sound administrative practices in banking and economic policy, and above all in combating inflation. The main obstacle, however, is the lack of political will in Eastern Europe, leading western observers to speak of integration in the West and disintegration in the East. With the waning of enthusiasm for integration in the West, the first part of the above assertion may no longer apply. In the East, however, disintegration continues unabated. Estonia and the Ukraine are introducing their own new currencies. In the Russian Federation, smaller republics like Checheno-Ingushetia and Tartarstan are themselves clamoring for sovereignty. On 1 January 1993, the Czechs and Slovaks each established their own republics.

The **dissolution of the CSFR** shows how strongly national values are affecting developments in Eastern Europe and how little ties to the EC are able to change this. Although the CSFR had already signed an association agreement, the separation process continued slowly but surely. It is true that various arrangements regarding the two republics' future relations came about because of their desire to remain associated with the EC — for example, the common free-trade zone. In every important area, however, the separation is being guided by national imperatives, to the point that the Slovaks introduced their own

currency in the 1993. Were not the prospects for the EMU so uncertain, this could lead to an absurd situation: In the case of EC membership in the year 2000, the separate Czech and the Slovak crowns would have existed only seven years before being replaced by a common single currency, the ECU.

b) Fragile Cooperation and Integration Efforts

The Czechoslovak split has also thrown the **Visegrad Group** off track, up to now the most advanced cooperative undertaking in Central and Eastern Europe. This threesome must now transform itself into a foursome and Slovakia already has problems with two of its three partners. Conflict with Hungary stems from the dam on the Danube near Gabčíkovo and the status of the Hungarian minority. Troubles will continue with the Czech Republic over the division of federal holdings and questions over monetary policy. It remains to be seen how well the Group will contend with these problems. The association agreements with the Czech and Slovak Republics need to be renegotiated anyway as a result of the termination of the legal entity CSFR. The new agreements are likely to place on both successor republics even higher demands in areas such as environmental protection, arms exports and minority issues.

This comes despite the promising beginnings of the **Visegrad cooperation**. The heads of state of Poland, Hungary and the CSFR agreed to intensify their cooperation in February, 1991, in Visegrad, Hungary. It was the common integration process with the EC, in particular, that moved them to take this step. There had been a tradition of cooperation among the Central European dissident groups, but it would have hardly sufficed to support a longer term cooperation among their countries. Close regional cooperation was, to a large part, also intended to build and demonstrate the Visegrad countries' capacity for integration and eventual EC membership. The Europe agreements, for their part, also support regional cooperation. The rules-of-origin contained in the treaty view the Visegrad countries as a unity.

mates see it as contributing to over 50 percent of the drop. Today, trade among the Visegrad countries comprises only about 4-7 percent of their respective trade volumes. Despite this, there are no significant efforts in Eastern Europe to resuscitate regional trade.

This stance has met with little understanding in the West. Experts have recommended wide-ranging measures for **reconstituting East European trade**. They have suggested an East European payments union (Brabant), customs unions, free-trade areas and the creation of national or bilateral instruments for financing, insuring and facilitating trade. Liberal economists prefer a rapid transition to currency convertibility, from which they expect market-driven solutions. What is certain is that all the proposals will require enormous efforts, particularly in the development of sound administrative practices in banking and economic policy, and above all in combating inflation. The main obstacle, however, is the lack of political will in Eastern Europe, leading western observers to speak of integration in the West and disintegration in the East. With the waning of enthusiasm for integration in the West, the first part of the above assertion may no longer apply. In the East, however, disintegration continues unabated. Estonia and the Ukraine are introducing their own new currencies. In the Russian Federation, smaller republics like Checheno-Ingushetia and Tartarstan are themselves clamoring for sovereignty. On 1 January 1993, the Czechs and Slovaks each established their own republics.

The **dissolution of the CSFR** shows how strongly national values are affecting developments in Eastern Europe and how little ties to the EC are able to change this. Although the CSFR had already signed an association agreement, the separation process continued slowly but surely. It is true that various arrangements regarding the two republics' future relations came about because of their desire to remain associated with the EC — for example, the common free-trade zone. In every important area, however, the separation is being guided by national imperatives, to the point that the Slovaks introduced their own

currency in the 1993. Were not the prospects for the EMU so uncertain, this could lead to an absurd situation: In the case of EC membership in the year 2000, the separate Czech and the Slovak crowns would have existed only seven years before being replaced by a common single currency, the ECU.

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Europe. The EC also requires that the applicant be democratic. Depending on the narrowness of the interpretation and the future course of certain countries, this would mean that not counting the Visegrad Group there are around 14 potential applicants (Lithuania, Latvia, Estonia, Belarus, the Ukraine, Moldova, Rumania, Bulgaria, Albania, Slovenia, Croatia, Bosnia, Serbia and Macedonia), assuming Russia and the countries of the Caucasus were excluded. Central Asia is outside Europe.

The EC Commission laid out the following **criteria for membership** in a report to the Council at the Edinburgh Summit:

- ability of the candidate to meet the requirements of the *acquis communautaire*;
- a stable democracy (human rights; rule of law, etc.);
- a functioning market economy;
- agreement with the goals of the Political, Economic and Monetary Union;
- competitiveness within the European Union;
- ability of the Community to admit the member without endangering its own integration dynamic.

This list eliminates most candidates in their current condition. Only a half dozen have somewhat functioning democracies. Economically, practically all the East European countries are far from even attaining the level of reform and economic efficiency of the Visegrad countries. Many observers wonder whether these countries are historically and socio-culturally suited to follow the West European pattern of development, and to integrate themselves accordingly. Even if one overlooks the decades of communist control and planned economy, many of them lived for centuries under Turkish or Mongolian rule and have hardly any experience with autonomous civil society.

Deliberations about where Europe ends only deal with ostensible problems and do not get to the heart of the question: **How should the EC's future relations with Eastern Europe be structured?** It will be a long time before full

membership for these countries will be seriously considered. Bulgaria and Rumania arrived at agreements similar to those of the Visegrad countries, with several additional points being added to the agenda on political dialogue, in particular concerning human rights. It will be difficult to handle relations with Albania and Slovenia, and beyond them, the Baltic and ex-Yugoslavian states, in any other manner. In the Baltics and the former Yugoslavia, minority and human rights questions must first be cleared up, which could take some time.

The future **new members and association partners** will have a strong say on structuring EC relations with the East. The Scandinavians will lobby for the Baltic states, Austria for its former imperial provinces Bohemia, Slovakia, Hungary, Slovenia, Croatia and Bosnia. The Visegrad countries have the right, in the context of the political dialogue, to participate in the EC's deliberations on relations with the East European states. Their engagement on behalf of limited relations in order to avoid sharing markets and assistance funds, is as likely as their support for expanded EC relations in order to stabilize crisis areas in their immediate proximity.

The **CIS** countries, above all **Russia**, on the contrary, view the EC ties to the Visegrad countries with disfavor. If a security component were to emerge in the form of NATO or WEU membership, Russian opposition would be very likely. The urban population of the CIS is particularly interested in better ties to the EC; it sees the EC as able to help in times of crisis. The eastern republics and regions are looking in the opposite direction, towards closer ties with Japan or Korea.

States of both the **Baltic** and the **Balkans** fear being isolated between the EC, or the EC + Visegrad, and the CIS. Already today, Lithuania places great importance on its relations with Poland. Of the 2000 joint ventures in Lithuania, 500 have Polish partners, 300 German. Bulgaria is wary of Turkish economic influence or even hegemony. These worries about powerful (though by world standards

still relatively weak) neighbors shows the predominance of political concerns over economic ones.

b) Regionally and Sectorally Structured Relations

Even if one is not fixated on EC membership, which is neither quickly achievable nor particularly wise, **many other types of ties can be forged between the East European countries and the EC.** For a start, the East Europeans are, or could be members in many European organizations that have much less demanding membership requirements, while offering advice, assistance and the possibility of dialogue in their respective areas. These include the CSCE (Conference on Security and Cooperation in Europe), NATO's Cooperation Council, the UN's ECE (Economic Commission for Europe), the OECD (Organisation for Economic Cooperation and Development) and the Council of Europe. Several observers (Richard Baldwin) recommend that Eastern Europe initially join the EFTA. EC Commissioner for External Relations, Andriessen, has publicly pondered the idea of offering an „affiliate membership," though this is not expressly foreseen in the EC Treaty. This also could entail an EEA arrangement for Eastern Europe. Already in 1990, Mitterrand had suggested a pan-European Confederation, though enthusiasm for it was limited. Even without association or treaty ties to the EC, no country need be locked out.

The growing problems in Eastern Europe and Western Europe's corresponding vulnerability make it sensible to seek ways of **deepening the relations** that have developed with the East. Sectoral integration offers one such way. West European integration following World War II also began with the establishment of international organizations in particularly conflict-ridden sectors: coal, steel and nuclear power. The EC was created out of the union of the three communities, the ECSC (European Community for Steel and Coal), Euratom and the EEC. These areas are still relevant today in Eastern Europe. Above all in the nuclear sector, Western Europe has an interest in control over, involvement in and support for safety

measures and modernization. More generally, a pan-European Organization for Energy and the Environment, as is already foreseen in the European Energy Charter, would be constructive step. Another suitable area would migration and the labor market. Such a sectorally structured integration is more in line with existing interests and needs, yet it does not create expectations that will inevitably be disappointed.

In the Caucasus and even more so in Central Asia, **elements of the EC's cooperation with developing countries** could come into play, for example, along the lines of the Lome Convention. Questions regarding manufactures are of less importance in the relationship with these countries than are issues revolving around raw materials. Certainly the continued high level of dependence on the export of raw materials found among the ACP states calls into question wisdom of emulating the approach embodied in STABEX and SYSMIN. Instruments aiming at a greater diversification, perhaps with the participation of other important raw materials purchasers like Japan or Korea, could, however, be developed. These could help the Central and Eastern Europeans integrate themselves into the global market.

Finally, one also must hope that the current trend towards national, unilateralist policies in Eastern Europe will be followed by a phase of greater regional cooperation. Frustrating expectations of rapid EC membership among the western CIS republics could motivate them to come closer together. The precedent for cooperation thereby established might lead in the long-term to improved prospects for EC association.

Instead of pursuing grand visions, the EC can **expand its relations in a manner distinguished by sectoral and regional differentiation** and the ability to meet practical needs for cooperation based on concrete interests. Anymore, the West European public hardly shares such visions as expounded by its political leaders anyhow. Should the European public continue to reject deepening, then relations throughout Europe will have to be put on a different foot-

ing. The focus could then become the resolution of the West's own disintegration problems. Dissatisfaction with politics-as-usual is on the rise throughout Europe after a decade without a significant change of power in any of the major EC states. This combined with the onset of recession and the accompanying increase in unemployment and government deficits has robbed the EC of the strength necessary to give the East orientation and market access.

The **Edinburgh Summit** once again papered over deeper differences within the EC with a compromise, which did, however, opt for widening at the expense of deepening. Negotiations with EFTA are to begin even before the Maastricht Treaties have been ratified, even if membership itself will have to await ratifica-

tion. This tendency also could renew the hopes of the Central and East European states seeking membership. West Europeans who see a more federal Political Union as the goal of the Community, on the contrary, will have to answer difficult questions. Specifically, what is the maximum number of members (and who they should be) that will still allow for the achievement of consensus on such an undertaking.

With the PHARE Program, the EC proclaimed in 1989 its intention to be a **lighthouse for Eastern Europe's return to Europe**, and thereby to democracy and market economy. Since then, the sea has become rougher and the visibility poorer. In 1993, the light in the lighthouse is flickering and fading perilously. No one should be surprised if Eastern Europe strays off-course.

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