

dr. Gianni Bonvicini

UNITED NATIONS UNIVERSITY -
HUNGARIAN ACADEMY OF SCIENCES

INTERNATIONAL CONFERENCE

"A NEW EUROPE IN THE CHANGING GLOBAL SYSTEM"

VELENCE, HUNGARY

23-25 SEPTEMBER 1991

MAGYAR
TUDOMÁNYOS AKADÉMIA

A NEW EUROPE IN THE CHANGING GLOBAL SYSTEM

United Nations University
Hungarian Academy of Sciences
Valence, 23-25/IX/1991

- a. "Provisional programme"
- b. "Provisional list of participants"
- 1. "The future of EC institutions"/ Gianni Bonvicini
- 2. "Europe in a world of regions"/ Bjorn Hettne
- 3. "Science and technology in the Eastern and Central Europe"/
Vladislav Kotchetkov
- 4. "The European Communities and Eastern Europe"/ Tibor Palankai
- 5. "Structural issues of global governance: implications for
Europe"/ Robert W. Cox
- 6. "The democratization of Eastern Europe and the relations between
North and South"/ Lal Jayawardena
- 7. "A post-cold war security system: implications for Europe"/
Richard Falk
- 8. "Nationalism and ethnicity in Europe"/ George Schopflin
- 9. "Crash of Communist empire open doors to European civilization"/
Oleg T. Bogomolov
- 10. "Globalism, regionalism, nationalism"/ Mihaly Simai

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"International Conference on "A New Europe in the Changing Global System"

organized by the United Nations University
in collaboration with the Hungarian Academy of Sciences

Velence, Hungary, 23 - 25 September 1991

PROVISIONAL PROGRAMME

23 September 1991

Morning

9:00 - 10:15

Opening Session

Chairman: Prof. Mihaly Simai

Opening address by H.E. Dr. Arpad Goncz,
President of the Hungarian Republic

Address by Dr. Maria de Lourdes Pintasilgo,
Representing the Rector of the United Nations
University

Keynote address by Dr. Domokos Kosary
President of the Hungarian Academy of Sciences

10:15 - 10:30

Coffee break

10:30 - 12:30

Panel 1 "European identity in the changing world"

Chairman: Gyorgy Konrad

Presentation and discussion:

(I) "Nationalism and ethnicity in Europe"
by George Schopflin

12:30 - 14:00

Lunch

Afternoon

14.00 - 16:45 Panel 2 "Regional fortress in a global economy?"

Chairman: Dharam Chai

Presentations and discussions:

- (II) "The new dimensions of European economies after 1992"
by Albert Bressand
- (III) "The democratization of Eastern Europe and the relations
between North and South" by Lal Jayawardena
- (IV) "Europe and the future of USSR" by Oleg Bogomolov

16:45 - 17:00 Coffee break

17:00 - 18:00 Special Session "UNICEF: Goals and Strategies for
the 1990s

Chairman: Mihaly Simai

Speaker : Lisbet Palme

18:30 Departure for Budapest

20:00 Reception by the President of the Hungarian Academy of
Sciences

22:00 Departure for Velence

24 September 1991

Morning

10:00 - 12:00 Panel 3 "Towards a new international order or disorder?"

Chairman: Mircea Malitza

Presentations and discussions:

(V) "A post-cold war security system: implications for Europe" by Richard Falk

(VI) "Nationalism, regionalism and globalism: problems of a new world order" by Mihaly Simai

12:00 - 13:30 Lunch

13:30 - 15:15 Panel 4 "Old institutions and new challenges"

Chairman: Louis Emmerij

Presentations and discussions:

(VII) "Issues and perspectives of global governance: implications for Europe" by Robert Cox

(VIII) "The future of European institutions" by Gianni Bonvicini

(IX) "The European Communities and Eastern Europe" by Tibor Palankai

15:15 - 15:30 Coffee break

15:30 - 17:30 Panel 5 "Science and technology"

Chairman: Erno Pungor

Presentations and discussions:

(X) "Problems in technology transfer: some lessons for international economy by Charles Cooper

(XI) "Science and technology in a changing Europe",
by Vladislav Kotchekov

19:30 - 21:00 Reception by UNU

25 September 1991

10:00 - 12:30 Panel 6 "Europe and the new world"

Chairman: Maria de Lourdes Pintasilgo

Presentations and discussions:

(XII) "Europe in the world of the XXI century"
by Bjorn Hettne

(XIII) "The outside world looking at Europe: a Latin America
perspective" by Carlos Blanco (presented by his
representative)

(XIV) "The outside world looking at Europe: a Third World
perspective" by Samir Amin

12:30 - 13:00 Closing session

13:00 Lunch

Afternoon Departure

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THE UNITED NATIONS UNIVERSITY

THE FUTURE OF EC INSTITUTIONS

by Gianni Bonvicini

FIRST DRAFT

At certain times, debate on institutions, both national and multilateral, becomes ineluctable. Institutions are not simply an architectural exercise, they establish the confines of their surroundings.

Institutions are not neutral with respect to the environment in which they operate; on the contrary, they tend to shape it with their procedures, laws and operating ability. At the same time, the environment determines the suitability of existing institutions and influences the form of new ones, set up to dominate present and future facts and events.

At the beginning of the process of Community integration, the events and the resolution of the actors at that time determined the form and the limits of the EC institutions. Today, after almost forty years of activity, the common institutions and laws constitute an "acquis communautaire" which is subject to its own internal reform dynamics and which conditions future plans; at the same time, the external environment, undergoing radical change, confronts the Community with new problems and demands and influences its role and future form. The past and the future converge in demanding a different institutional arrangement for the Community system.

The Community reform process in the eighties

The reasons for the long period of EC institutional reform vary: some are internal; others, particularly more recently, are external to the EC.

The last ten years have seen a host of projects and plans for reform of the EC. This extraordinary and dynamic decade, institutionally speaking, was ushered in by the Genscher-Colombo Plan drawn up by the two foreign ministers in 1981.

The need was felt at the time to complete the already operating monetary system (EMS) through better Community organization in the fields of foreign policy (European Political Cooperation) and, to some extent, security policy. Institutional procedures, similar to those of the Community, were to be extended to these two sectors -- strictly intergovernmental at the time -- to enhance Europe's global role and to link European Political Cooperation (EPC) more closely to the Community's external economic activities.

Thus, the plan sprang from a need for rationalization -- more the result of the Europeanist attitudes of the two foreign ministers than of any objective international situation: except for a worsening in East-West relations over the Euromissiles -- a particularly embarrassing issue for the Europeans, but, in any case, nothing new in the history of the Cold War -- the world seemed static at the time.

But the Solemn Declaration concluding the Italo-German plan and issued in Stuttgart in June 1983 was a disappointment for all: the essential points of the plan, concerning more binding decision-making procedures within EPC were shelved because of the opposition of France and other partners who wanted to maintain the EPC's intergovernmental character.

Widening vs Deepening: past experience

After the Solemn Declaration of Stuttgart, pressure for reform of the Treaty intensified in view of the imminent enlargement of the Community to Spain and Portugal. All agreed that the errors made in 1973 during the first enlargement of the EC to Great Britain, Ireland and Denmark, when demands for deepening were largely ignored, were not to be repeated.

On that occasion, absolute priority was given to the political aspects of enlargement: opening up to the British was an attempt both to "counterbalance" the Paris-Bonn axis and to make up for the hostile and strongly anti-US attitudes of General de Gaulle who, as is well-known, considered Britain a kind of Trojan horse for the Americans. The predominance given to political considerations sapped the debate on deepening and focussed attention on widening.

Indeed, some important institutional moves were made in the seventies, such as the launching of EPC (1970) and the institution of the European Council (1974); but almost all these measures were strictly intergovernmental and, therefore, in contrast with the supranational character of the original European Community.

Furthermore, no actions were taken during the first enlargement to eliminate the main obstacle to the correct functioning of the Community institutional mechanism, i.e. the voting procedures within the Council resulting from the famous Luxembourg compromise advocated by de Gaulle: the abrogation of the system of qualified majority voting, determined by the prevalence of so-called "vital national interests", turned out to be such a fundamental mistake that it almost thwarted even those reforms apparently in keeping with the supranational spirit, such as the institution of own resources (1975), the

European Parliament's control over them and, finally, the direct election of the Assembly in Strasbourg as of 1979. These reforms all came to light with a flaw, as they were limited by the preponderant intergovernmental mechanisms of the EC.

The positive outcome of the Single European Act

In this state of affairs, the European Parliament decided in 1984, upon the initiative of Altiero Spinelli, to draw up the Draft Treaty establishing the European Union. This document set some fundamental criteria for future debate: unity of the economic, foreign and security policy aspects of the integration process; the principle of subsidiarity as the instrument for division of powers among the Community, national states and regions; re-introduction of majority voting system; democratic legitimization of the system.

Less explicit, in our opinion, was the search for a "government" of the Political Union, the prerequisite for a qualitative jump towards more accentuated forms of supranationality.

As is known, the Draft Treaty was one of the, perhaps the most important element taken into consideration when the European governments undertook partial reform of the Treaty of Rome and approved the Single European Act (SEA) at the end of 1985.

Despite initial perplexities, the SEA fulfilled some expectations and provided a number of fundamental and practical responses to questions that had been accumulating on the functioning of the Community. It indicated some partial solutions for greater rationalization and effectiveness of the European integration process. Nothing exceptional, really: no need was felt to define European Political Union precisely; the urge was simply to bring some order into an arrangement that was tottering after long years of quibbling with Great Britain over budgetary

matters.

There was, however, an awareness of having to right some fundamental flaws in view of the imminent enlargement to two problematic states such as Spain and Portugal, given the difficulties brought on by the entry of Greece in 1981.

Identification of the positive features of the SEA may be useful in view of future reforms.

The very name "Single Act" can be traced back to the need to bring together under one roof the various branches of European activity, from the EMS and the EPC to such bodies as the European Council, relegated for years to an institutional limbo. Thus, it embodied the principle of consistency in the integration process so often called for in past plans, such as that of Belgian Premier Tindemanns in 1976 and the 1981 Genscher-Colombo Plan, to mention only the better known.

This principle, which is still one of the cornerstones of debate on the future of the EC (above all when foreign and security policies are seen as a part of the EC and not as self-standing), was, however, incorporated into the SEA in a very elementary manner. In fact, the new Treaty does no more than register the various activities of the Twelve; it does not Communitarize them, as it should have. This means that the decision-making procedures have not been changed, even though efforts have been made to bring them into the same framework. Consequently, the Community method will apply to all matters provided for by the Treaty of Rome and to those added by the completion of the internal market in 1992; the intergovernmental method will apply to all other matters, in particular EPC.

It is clear that the Communitarization of EC policies, both old and new, remains an open question. An answer will have to be found in order to respond to those three basic principles underlying any reform of the Community: efficiency, effectiveness

and legitimacy of the Community decision-making system of the future and the resulting common policies.

In other words, the principle of consistency must be extended from the policies for which it is foreseen in Art.30 of the SEA (in this case between foreign policy and foreign economic policy) to the field of institutional procedures, putting an end to the limits and the confusion that the alternate adoption of intergovernmental and Community methods continues to create. It is absurd, for example, that a declaration condemning the behaviour of a third country requires unanimity (in the EPC) while application of economic sanctions to the same country requires a qualified majority according to Art.113 of the Treaty.

Experience to date indicates that institutional consistency must become one of the cardinal principles behind the strengthening of Community institutions.

The real novelty of the SEA is the elimination of an old taboo: the return of the qualified majority voting procedure to the Community Council. Although limited, the rehabilitation of this old procedure has made the Community decision-making procedure more efficient; it has greatly speeded up the approval of directives in the matters in which it is applied. Recent studies confirm that this has brought new life and credibility to the Community machine (see table at end).

The central article from this point of view is art. 110a, which deals with the harmonization of national provisions through approximation. It also extends the qualified majority vote to social policy, research and technology, the modification and suspension of customs duties, the free performance of services, etc. Some important areas, such as fiscal provisions and the movement of persons are nevertheless excluded -- the very areas in which the decisions concerning 1992 lag the farthest behind.

Attempts have been made to get around these remaining

obstacles and possible curbs on application of the majority vote by clarifying the decision-making competences of Community bodies: the competences of the Council were specified through modification of the procedural regulations in 1987 and those of the Commission through rationalization of Committees and the conferment of greater executive powers. The purpose of these reforms was to give the Commission a broader mediating role by reintroducing to some extent the majority consensus building function that had been so effective in the initial period of the Community.

In parallel to the reintroduction of the majority vote, the objectives and the methods for the most rapid achievement of legislative harmonization were defined more precisely. Unlike the past, the Commission shall return to the practice of rather broad directives, leaving it up to the individual member states to implement them in detail.

This strategy is in keeping with another fundamental principle: equivalence. If complete harmonization as set down in Art. 8a of the SEA is not achieved by 1992, the criterion of equivalent provisions may be applied according to Art. 100b, in the sense that the provisions judged equivalent by the Commission and the Council shall transitorily be considered valid in all member states and, thus, outside national boundaries.

This is perfectly in line with another of the founding principles of the Treaty of Rome, made famous by its application in some cases before the Court of Justice. The principle is known as mutual recognition. Through its constant application, the harmonization process could be greatly accelerated and simplified. This principle can obviously not be applied automatically, but it nevertheless has great potential if backed by an increasingly active and authoritative role of the Court of Justice, the real federating element on the plane of Community's law.

The last interesting feature of the SEA to have an effect of institutional deepening was the modification of the competences of the European Parliament (EP). Although limited to the so-called "cooperation procedures" provided for in Art. 149, the results have been better than expected. In matters pertaining to the ten new relevant articles of the SEA, most of which are related to the internal market, the EP is now able to influence the legislative process by amending or rejecting the Council's so-called "common position" during second reading. If the Council wishes to disregard the decision of the Parliament, supported by the Commission, a unanimous vote is required, and this is obviously difficult to attain.

It follows that a close alliance between Parliament and the Commission is now again a prerequisite for effectively influencing the orientation of the Council. An extension of cooperation procedures to all areas would give more legitimacy to the role of the EP and the Community decision-making procedure as a whole.

The powers granted the EP in case of association or application for membership in the Community must also be considered (Art. 237 and 238 of the Treaty). The consent of the Parliament is essential in an area which will be of crucial importance for the Community and the rest of Europe in coming years.

In conclusion, the experience gained from the debate leading up to the reform of the Treaty and, subsequently, from implementation of the SEA can provide important guidelines for the current phase of proposal and debate on further reform of the Treaty.

Returning to lessons from the past

Returning to some of the points made above, we would like to

point out several of the "successful" elements that have contributed to bringing new life into the process of European integration, long suffering from stagnation and Europessimism.

The first was the decision taken by European governments to link enlargement of the Community to its deepening. Ratification of the SEA took place at the same time as the entry into the Community of Spain and Portugal, thus avoiding a repetition of the error made in 1973, when widening was undertaken without regard for deepening, that is, contemporaneous reform of decision-making structures.

In fact, the famous motto "completion, deepening and widening" was totally disregarded. The institutional changes undertaken were sporadic, sometimes contradictory and, in any case, not conducive to the efficient functioning of the Community machine. Indeed, the latter became increasingly cumbersome and complex with the addition of uncoordinated organs, competences and policies.

As mentioned, the SEA was actually aimed at bringing some order and rationality into the chaos by putting emphasis on a number of important principles (harmonization, consistency, equivalence, etc.) and mechanisms which had fallen into disuse (majority vote). And this coincided with the formal entry into the Community of the two Iberian countries.

Another element which contributed to the achievement of consensus in Luxembourg in 1985 was the "package deal" strategy: rather than search for agreement on a single policy or institutional change, discussion centered on a set of policies and institutional improvements.

The driving power behind this operation was definitely the Commission, headed by its president, Jacques Delors. After a few years of debate on reforms, the Commission identified consensus on completion of the internal market as the prerequisite for

definitively strengthening the Community's economy and enhancing its international role. On this basis, it received the consent of the English government, long an advocate of the free market; the German government, aware of its opportunity to confirm its economic leadership; and the French government, eager to use the occasion to shock the French economy into coupling with the German one.

But in order to achieve this result -- already set down in the Treaty of Rome but never attained -- by the 1992 deadline, institutional changes improving efficiency were required. In addition to approximately 280 directives on the completion of the internal market, the Commission suggested the introduction of some procedures streamlining decision making, in particular, the majority vote on most of the matters proposed. This mix of policies and procedures turned out to be a very dynamic factor and led to the swift implementation of most of those directives not requiring unanimity.

A third element, perhaps less apparent but no less important, is the fact that this reform sprang more from the "force" and perceptions of European society than from the good will of its political leaders. One important novelty in the debate on the validity of the SEA, is the attention that the fateful 1992 deadline has aroused in the economic and business worlds and, more generally, in the citizens who have made efforts to assess what impact the date will have on various sectors of their economic and social lives.

Not even the launching of the European Monetary System in 1978 generated the same kind of expectations and consensus in European society. Basically, the real supporters of 1992 are people involved in business, in banking, simple citizens, not politicians, who are, on the contrary, fearful of losing further terrain to European sovereignty.

This constituted a radical change with respect to the early

fifties, when the economic world was reluctant to set out on the European adventure, while political leaders were full of enthusiasm and conviction. More generally, a clearer perception of the importance of the large free Community market is one of the most significant achievements of the EC's forty-year history. The economic success of the common market, the simplification of daily life through harmonization of Community laws, the overall improvement in standards of living and the stricter protection and safety standards (to give only a few examples) have contributed to forming the consensus needed to give new impulse to Community integration, in spite of the precautions and second thoughts of governments. Thus, the Community, with its laws, its policies and its institutions, is taking root in European society.

Towards further reform of Community institutions:
the fundamental reasons

One of the most interesting consequences of the implementation of the SEA has been that institutional reform has not slowed down to await completion of the internal market. Although the SEA called for some verification, such as in the EPC after the first five years of functioning, a pause might have been expected after the breakthrough in 1985. Instead, under external and internal pressure, new institutional revision was undertaken with extraordinary rapidity.

The first incentive to further reform after ratification of the SEA was the plan for Economic and Monetary Reform, stubbornly introduced by the President of the Commission, Delors. The Commission's reasoning was simple: it would be difficult to complete the single European market -- void of all barriers -- without flanking the already functioning monetary system with a more structured economic and monetary union, including a central European bank and a common reserve fund.

Ultimately, the implications of this proposal of the Commission went beyond simply setting up some mechanisms for monetary control and management, such as the central bank; they called for a real government of the European economy able to ensure compatibility between national and Community economic policies. In short, implementation and realization of the plan for Economic and Monetary Union required improvement of all Community institutional mechanisms.

While this has constituted an element of continuity in the debate on institutional reform after the SEA, other factors have favoured a widening of the debate. In particular, the upheaval in Eastern Europe in 1989 turned attention to foreign and security policies as central factors in European union. Up to that time, European security had paradoxically been ensured by the East-West confrontation and the ensuing American leadership in the military field. Furthermore, the division of Germany had accentuated the need to link the Western half to the West and the Community. This was the basis of the equilibrium between Paris and Bonn and the foundation of the process of Community integration.

As these conditions have now changed, the bases for the construction of the future Community must also be changed accordingly. Fear of centrifugal tendencies in Germany -- now concentrated on its problems of national unification and later keen on asserting its geostrategic leadership in central Europe -- have spurred France to relaunch European Political Union in addition to the economic union already begun in response to Delors' proposal.

Thus the need for two intergovernmental conferences, rather than the one planned on economic union: to bridle Germany, with the consent of Chancellor Kohl, in common foreign and security policies, seen as guarantees for maintaining stability in Western Europe.

The dissolution of Eastern Europe has complicated the future role of the Community: the rapid disappearance of all forms of cooperation among Eastern countries, both economic and military, has once again urgently raised the general question of the relationship between integration and nationalism.

Furthermore, with the increasing fragmentation of the East and the Soviet Union itself and with the independence of states contiguous to the former empire, the Community will have to decide what guarantees of economic development and security it can offer. And, above all, if and in what way it can act upon the growing instability caused by nationalistic phenomena in the East, while, at the same time, preventing them from impacting negatively on the cohesiveness of the Community. Common European economic, foreign and defence policies must be adopted to provide an effective response to the needs of a disintegrating East.

Partially related to this dilemma is the serious problem of Community enlargement. It is no longer a matter of giving a gradual and acceptable answer to two or three smaller and economically weak states: applications have come from EFTA countries, from Mediterranean countries and from some Eastern countries. This could lead to a doubling of the number of Community members in only a few years.

Moreover, the countries applying for membership differ from one another and are moved by different reasons: the EFTA countries are basically motivated by economic considerations and reject any political or security commitments; the Eastern countries seek not only economic, but also political and security guarantees; beside economic factors, the Mediterranean countries are moved by questions of stability and coupling to Europe in an area of potential conflict.

In this light, enlargement takes on a different dimension and calls for the deepening of a policy of widening which has to date served simplistic and pragmatic ends. From now on it will

assume a strategic character, as it can no longer overlook general political and security (as well as military) considerations.

Reform of the Community must take these basic factors into account. While the problem a few years ago was how to ensure effective government of the European Community; today Community institutions are faced with decisions on how to enhance their roles to be able to cover, at least partially, emerging new needs.

What institutions for the future?

One premise must be made: under present conditions, deepening must have prevalence over any widening. Although priority was once given to widening in the past, in particular in 1973, and widening and deepening were also undertaken together in 1985, in the nineties attention must be focussed on deepening. This does not mean postponing requests for enlargement sine die, but it does mean giving priority to internal institutional improvement.

Thus, the institutional question remains urgent. In recent months, many Community bodies, including the European Parliament, the Commission, the single governments taking their turns at the EC presidency, and specialized institutes and associations have developed a large number of proposals. In addition, personal representatives of the heads of government have been working on preparations for the next European Council in Maastricht.

Lack of space makes it impossible to go into the many proposals floated, but it is hard to believe that the meeting in Maastricht can resolve all questions; the process of institutional reform will continue through the years. It is important, though, that it maintain the dynamism demanded by the exceptional circumstances today and, above all, that it be guided

by a common strategy to be established immediately and not improvised on each occasion.

The institutions required for the future will have to meet the criteria set down by the last European Councils: efficiency, effectiveness and legitimacy.

Moreover, since Community institutions, more than any other multilateral institutions, represent the most significant product of the transition from the old form of national state to a new form of cooperative state, it is clear that the principle of subsidiarity, if possible in the most advanced meaning of the term, must be applied: the Community must be assigned all tasks whose scope and effects go beyond national boundaries. This approach has decentralizing or federative effect, unlike the efficiency-oriented approach, which attributes to the Community those tasks which it can best carry out and consequently leads to centralization.

In addition to fulfilling these criteria which now enjoy broad consensus, Community institutions will have to possess the characteristics needed to respond credibly to present and future commitments. That is, they must be capable of playing an influential role in various internal and external fields.

It has already been pointed out that internal dynamics are also pressing for institutional adaptations. The stability of the internal market and monetary accords could be jeopardized if these measures are not accompanied by other steps towards economic union. And in the future, the stability of that union could also require some effective social policy measures.

It is doubtful whether the future cohesion of the union can be maintained with the present budget and the limited redistributive policies adopted to date. In a more advanced stage of economic union, a common fiscal policy and a much larger budget are likely to be required to allow for the functions of

allocation of resources and monetary stabilization. If these are to be the objectives of the EMU, then Community legislation will inevitably have to progressively limit the room for manoeuvre and the autonomous decision-making power of member states.

As a result, the Community will become increasingly responsible to its citizens. The President of the Commission, Delors, has repeatedly stated that almost eighty percent of economic and social legislation will be passed by the EC. This raises two main problems: the first concerns the governing capacity of the EC, with the extension of the qualified majority voting procedure to all social and economic legislation to streamline the decision-making procedure; the second concerns the democratic deficit, that is, the low level of legitimacy of the present Community decision-making process. Thus, the powers of control and co-legislation of the European Parliament must also be increased.

However, the strengthening of the economic and social roles of the EC does not only have internal implications: it is obvious that the establishment of an area of economic and monetary stability and autonomy will have external consequences both globally (the Group of Seven, GATT, etc.) and regionally.

Above all, the development of economic cooperation policies and association with areas neighbouring to the East and to the South lay the basis for growth of a foreign policy supporting the ever increasing economic activity of the Community.

Coordinated and uniform responses must become normal routine, not sporadic events. The concept of consistency must no longer refer to policies; it is required upstream at the decision-making level. The Communitarization of the EPC -- meaning application of qualified majority voting procedures, definition of an executive role going beyond the present precarious troika system, and lastly association with the EP, extending to the field of foreign policy the competences that

the latter is presently taking over in the economic field -- must be included among the aims of institutional reform.

Finally, the Community cannot get around defining its position in the security field. Undoubtedly, the current geostrategic situation has formed a security void on the edges of the Community.

The irreversible demise of bipolarism in the field of defence and the evident American withdrawal from Europe demand new responsibilities of the EC and a redefinition of that concept of "civilian power" which it built up under the United States' protective wing. How can Europe escape occupying itself with local crises in Europe or the Mediterranean? It would be absurd not to keep a close check on questions pertaining to nuclear and chemical proliferation, not to respond to the needs for stability and security emerging in Eastern European countries.

What must be avoided at all costs is the renationalization of the defence policies of EC countries in solving these problems. That would pave the way for the irreversible destabilization of all of Europe. Thus, a consistent response from the Community is needed here as well.

The problem is not only one of adopting policies, but above all one of creating binding competences and procedures in the field of security and defence. It is clear that the EPC's currently limited role in the field of security is inadequate. Security policy is an important and specific aspect of Community activity; as such, it must be brought on a par with other Community policies and cannot be kept as a sub-product of the EPC.

The principle of consistency with other Community policies must be respected here, too, but what is really of central importance is consistency among institutions. Security policy can be assigned to the WEU in the future, as long as it is handled

according to rules comparable to those in force in the Community and with effective functional and procedural links to the EC. An EC security policy dissociated from the foreign and economic policies of the EC could become an element of instability within and outside of the Community.

This once again brings us to the questions of a governing body, appropriate voting procedures and parliamentary controls, questions that obviously cannot be left up to the present WEU Assembly and must be answered by a democratically legitimized Parliament.

Deepening first

These prerequisites for the reform and partial renovation of European institutions are valid even for a Community limited to twelve members: they respond to the internal and external requirements of the nineties. The question of enlargement merely underlines the urgency and the importance of these prerequisites, which are aimed at maintaining a high and efficient level of EC integration.

It is evident that enlargement to Eastern European countries would only raise pressure for redistribution policies and as a consequence for budget increases; in the same way, requests for security guarantees would inevitably lead to greater EC responsibility and competences in this field. The same reasoning holds true for enlargement to other countries, such as those of EFTA or the Mediterranean.

In the present geostrategic situation, the Community cannot but give absolute priority to political and institutional deepening. This must not be seen as an egoistical closure to pressing requests for membership, but as a sine qua non for the EC's continued presence as a credible element of stability in Europe and a pole for broader aggregation in the future.

More precisely, the Community must strengthen the basic qualities that have contributed to its success throughout the years: a stable and peaceful system; an area in which member states have found the instruments and policies with which to solve their problems of economic well-being and collective security; a system of cooperation that has allowed for a painless transition from national to cooperative state.

From a strictly institutional point of view, the priorities to be set follow from the logic of our reasoning. The central question is the identification of a form of effective and unitary government of all present and future activities. The extension of the majority vote in the Council is one of the main instruments, but not the only one. One body (the Council, for the foreseeable future) must handle all matters and must gradually adopt Community procedures in all sectors (Communitarization of common activities).

The Commission must have complete executive powers in all matters dealt with by the Council and must maintain its right of initiative and extend it to all Community competences.

The European Council should essentially deal with the application of the principle of subsidiarity, deciding which matters to include in the Union; it should not, however, be given government tasks in the strict sense of the word.

Finally, the European Parliament must strengthen its powers of cooperation and, later, of co-legislation as a direct consequence and response to the acquisition of new competences to the Community and to an ever wider application of effective forms of government, starting with the qualified majority voting procedure in the Council.

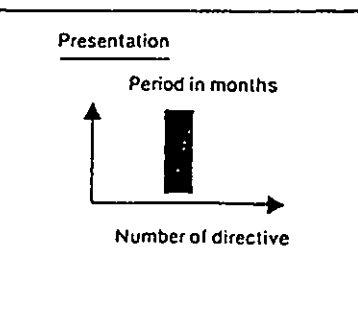
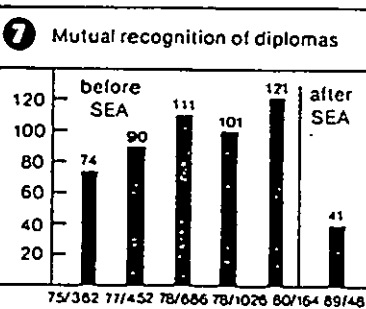
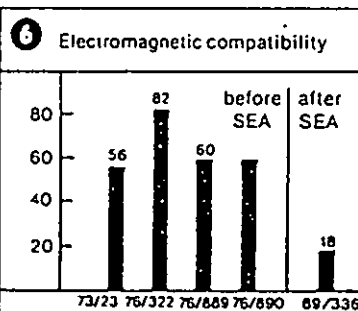
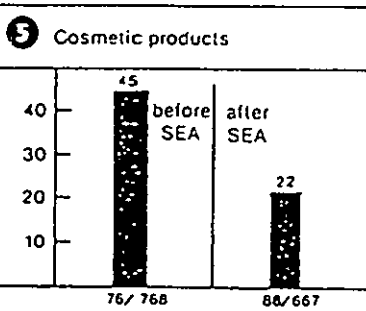
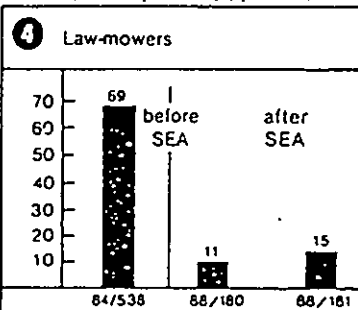
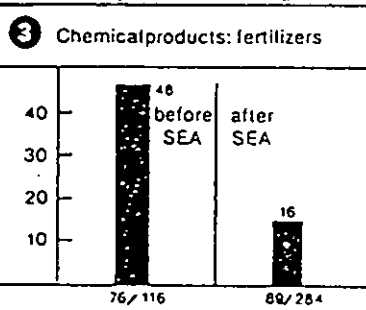
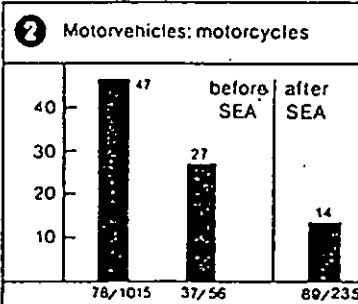
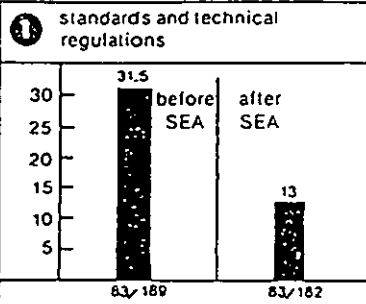
Any number of practical formulas of constitutional engineering are possible: the important thing is that they

respond to the criteria illustrated here and satisfy the basic requirements of a rapid strengthening of Community integration.

As recent history has demonstrated, the Community is the only real nucleus of stability in a changing Europe and a changing world. To dissipate this asset would be to throw all of Europe into chaos.

Rome, August 1991

TIME ELAPSED BETWEEN THE TRANSMISSION TO THE COUNCIL
OF A DIRECTIVE AND ITS ADOPTION.
BEFORE AND AFTER THE COMING INTO FORCE
OF THE SINGLE EUROPEAN ACT.



Source: Claus Dieter Ehlermann, Commission Lacks Power in 1992 Process, in: European Affairs 1/1990, p. 67

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EUROPE IN A WORLD OF REGIONS

Bjorn Hettne

EUROPE IN A WORLD OF REGIONS

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(Draft paper for the *UNITED NATIONS UNIVERSITY/HUNGARIAN ACADEMY OF SCIENCES* conference on "A new Europe in the Changing Global System", Budapest 23-35 Sept 1991)

1. Introduction

Despite the current US military dominance, there are indications that with the ending of the Cold War, a more multipolar world is taking shape, facilitating the development of a new kind of regionalism as one possible structural pattern of a new world order. It is my argument that this process has been triggered by the European integration process, and that Europe both serves as a positive example for offensive regionalism and as a threat leading to a defensive regionalism in other regions.

The principal argument is not new. In 1945 Karl Polanyi developed a regionalist scenario against what he feared was to become a fruitless attempt to reshape a liberal world order. In the post-war world there were, as he saw it, two options: The utopian line of recreating liberal capitalism on a world scale, and the realistic line of regionalism and planning. It was the policy of the US to follow the first line. Polanyi instead asserted that the new permanent pattern of world affairs was one of regional systems co-existing side by side (Polanyi, 1945, p. 87). The current world order changes makes it relevant to consider Polanyi's proposition afresh (Hettne, 1991a)

More recently Dudley Seers in a posthumous work argued in favour of a more introverted Europe in a more regionalized world. His "eurocentric scenario" should be beneficial to the Third World as well:

It would not be hard to improve on past performance. Our contribution to overseas development may well have been on balance negative, even since decolonization...There is a growing demand for 'self-reliance' in the Third World. Our correct response is to respect this, and -so far as we can- reduce, not increase, our contacts (Seers, 1983:181 and 182).

This is basically a 'dependentista' argument, applied to the regions rather than the nation states, and Seers also refers to it as 'extended nationalism'. I shall use the term 'the new regionalism' which implies a multidimensional regionalism going far beyond the common market concept. Seers believed that Europe may prove to be the first of a new series of regional blocs with a degree of cultural cohesion - in terms of common ethnic origins, customs, and historical experience, quite different from the existing regional systems of trade.

This is essentially what has been called the 'benign' view of mercantilism:

The benign view sees a mercantilist system of large, inward-looking blocs, where protectionism is predominantly motivated by considerations of domestic welfare and internal political stability. Such a system potentially avoids many of the organizational problems of trying to run a global or quasi-global liberal economy in the absence of political institutions on a similar scale (Buzan 1984, p. 608).

The purpose of this paper is to continue the discourse on regionalism initiated by Polanyi and revived by Seers, using an international political economy approach. My approach is, furthermore, rather eurocentric as the process of 'europeanization' is my point of departure, and the other world regions will be discussed mainly from a European perspective.

The New Regionalism

The New Europe, emerging after 1989, is the model of the new regionalism. In the Third World as well, regionalism seems to be on the rise, although very unevenly and rather embryonically in comparison with Europe. However, there is in the post cold war order a new freedom to act and no really important external constraints for 'the new regionalism'. The

problems are rather internal to each region: economic problems, regional hegemonism, national conflicts, and ethnic rebellions influencing the regional security systems. The regions of the world have not become more peaceful in the post-cold war era, rather some old problems frozen in the cold war complex are emerging. One example is the problem of 'balkanization'.

On the other hand 'the new regionalism' may in fact provide solutions to many of these problems:

(1) Selfreliance was never viable on the national level (for most countries) but may be a feasible development strategy on the regional (collective selfreliance).

(2) Collective bargaining on the level of the region could improve the economic position of Third World countries in the world system.

(3) Collective strength could make it easier to resist political and strategic pressures from the North.

(4) Certain conflicts between states could be more easily solved within an appropriate regional framework without being distorted by the old cold-war considerations.

(5) Ethnic conflicts often spill over into neighbouring countries and are perceived as threats to national security. The way states commonly deal with these issues is normally the most certain way of permanentizing them. Therefore a regional solution is often the only realistic option.

But are there existing or emerging world regions to fill an emerging vacuum of power, or will an eventual trend towards multipolarism lead to an intensification of anarchic conditions? A political transformation of dormant world regions into acting subjects also implies substantial change within the regions.

The Preconditions

One essential precondition for the process of regionalism from below to gain momentum is increased political and economic homogenization among the countries of a particular region. In the formation of regions, the security imperative, both in its negative and positive impact, is of great importance. In a 'regional security complex' the national securities of the involved states are interweaved (Buzan, 1983) for good or for bad, mostly the latter,

This is the negative imperative. To the conventional dimensions of security should be added ecological regional security complexes, for instance hydrological complexes (Ohlsson, 1991).

In a 'regional security community' (Deutsch, 1957), on the other hand, the institutional development by definition has eliminated even the thought of using force as a means of conflict resolution. Also the threat perceptions are being homogenized and externalized. Thus, in order to be a peace factor, the regional organization should coincide with the security complex as a whole, not only a particular subcomplex which may even need the interregional conflict to maintain its own coherence. Furthermore, the regional organization should provide some balance to the local great power so that it does not become an instrument of exploitation and control.

The positive and negative aspects of the security imperative are thus simultaneously in operation, in the sense that integration within a region can both be positively related to cohesive factors within the region, as well as negatively related to threat factors outside the region. If integration is defined by its predominantly voluntary character (Haas, 1970), it can not be caused by coercive factors within the region, since this would imply empire building rather than regional integration. This again underlines the need for a certain balance of power and a reduction of threat factors within the region.

The history of regional integration in the various areas of the world after World War II shows the working of many disparate and conflicting impulses. In the first wave, regional cooperation was largely a hegemonically superimposed phenomenon in the context of the Cold War. Gradually regionalism became a force propelled mainly by internal factors (Väyrynen, 1984). This is the most important precondition. However regional formations necessarily operate in the context of a global system and, thus, the one cannot be understood without the other.

1. Hegemonic Succession in the Capitalist World

In order to function, a market, whether national or global, presupposes some kind of political order. The crucial issue in the case of a transnational market is how economic exchange and even economic cooperation can take place under conditions of anarchy, or, differently put, how the 'anarchy' becomes orderly enough to permit economic transactions of different types. Recent debates in international political economy have focussed on the role of hegemonic stability for the functioning of the international economy as well as the implications of hegemonic decline for its smooth functioning (Keohane, 1984, Huntington, 1988).

The meaning of hegemony

Hegemony must be distinguished from dominance based on force and can be seen as a kind of power, based on several different but mutually supportive dimensions and fulfils important functions in a larger system lacking formal authority structure. Consequently, hegemony is more or less voluntarily accepted by other actors. This also implies that hegemony can decline simply as a consequence of a legitimacy deficit, even if the power resources should remain intact. In this case hegemony is replaced by dominance. It also implies that a reduction in power resources is compatible with a continuous hegemonic position—to the extent that the leadership role of the hegemon continues to be accepted.

The theory of hegemonic stability purports to explain the creation, functioning and disintegration of a liberal world economy—nothing more and nothing less. It is obvious that a powerful state with socialist inclinations would not support a liberal world economy. In fact the concept of hegemony would lose its established meaning in this hypothetical situation.

Even with such a limitation of the concept to cover hegemony in liberal systems, the approaches are widely differing even among the adherents of the theory.

The theory assumes a free trade orientation of the hegemon as well as a willingness to pay the necessary costs for keeping the world economy open.

This gives a flavour of circularity to the theory: The hegemon guarantees the liberal world economy, and if there is free trade, there must consequently be a hegemon behaving according to the definition. Deviation from the required hegemonic behaviour implied in the definition (i.e. exploiting its position for short run benefits) already by itself indicates decline of the hegemon in question.

Increased rivalry and conflict among capitalist countries also concern the problem of succession, i.e. the question of the potential new hegemon. In a historical perspective this problem has been resolved through wars (Modelski, 1978; Gilpin, 1981; Kennedy, 1987). The current situation seems different. The likelihood of a 'succession war' is reduced for reasons of military technology—war is simply too destructive. The new battleground is rather economic competition, which most likely will take place between the trading blocs of the Triad. There is, furthermore, no obvious candidate for the role as new hegemon, but Japan and the new Europe are two potential candidates. Their weakness lies in their low military profile, as was clearly illustrated during the Gulf war.

The crucial question is if hegemonic decline automatically leads to a disintegration of the liberal international economy. This concern with the liberal order and the preconditions for its smooth functioning explains the focus on the issue of US hegemony and the consequences of its alleged decline.

The US in decline?

Based on its more multidimensional hegemonic power, the US has provided the general rules for the world economy. These rules are summed up in what usually is referred to as the Bretton Woods system, which has constituted the framework for economic interdependence in the last couple of decades. Consequently a decline in US hegemonic power seems to imply a world governance crisis, for instance in the form of nationalist and protectionist policies, challenging the existing rules of the game and making the world economy more fragmented. There is one debate on the theory of he-

gemonic stability as such, and another dealing with the issue whether a case for US decline really can be made.

Here we are primarily concerned with the second debate. The theory of hegemonic stability implies that hegemonic power is temporary and subject to what Paul Kennedy in an often quoted phrase called "imperial overstretch". Is this what now ails the US? Before we enter this debate it should be stressed that even "the myth of hegemonic decline" is real in its consequences, as it forms part of a political climate conducive to the development of a strategy to cope with hegemonic decline.

Turning to the empirical issue, the question of decline is of course depending of our definition of hegemonic power. The more multidimensionally the hegemonic power is defined, the more difficult it is to answer the question about rise or decline in precise quantitative terms. Decline may characterize one dimension and revitalization another. A stable hegemony would, however, necessitate a convergence of power dimensions: military strength, industrial capacity, financial solvency, political and social stability etc. On many of these dimensions the USA is getting weaker. We must therefore distinguish the phase of multidimensional hegemonism (the 1950s and 1960s) from the recent phase of unidimensional hegemonism.

The thesis of US decline has been questioned by quite a few observers from different perspectives. The Gulf crisis in 1990 and the subsequent war in 1991 certainly demonstrated that the US is the only state with a global military reach, but also the financial problem in sustaining such exercise of power, raising the problem of 'imperial overstretch'. A hegemonic power should be able to move militarily without 'passing the hat' (Hormats, 1991)

The cracks in the alliance behind the UN military action in the Gulf and particularly in the messy aftermath of the war illustrate the limitations of US ideological leadership. Neither Japan nor Germany felt the military action to be really necessary and had reasons to suspect that US dominance in the Middle East also implied dominance over them, in view of their oil dependence. France at times acted against the US strategy but remained isolated in the European context. A lot of rethinking is going on in Europe regarding a common security policy, ultimately leading to European military cooperation. The Grand Alliance with The USA as undisputed leader is thus explained by rather unique political circumstances, not likely to be repeated.

The opinion in the USA is, as has happened before, split between isolationists and globalists: The latter argue in favour of a uniopolar world with the USA unilaterally imposing its solution to various regional conflicts, solutions which are consistent with 'the national interest' (Krauthammer, 1991). For the isolationists the prospect of a North American region, consisting of the USA, Canada, and possibly Mexico (NAFTA) would be a proper response to a European fortress.

The European candidacy

I shall assume that hegemonic decline in the post-Cold War period will result in a more autonomous Europe as a whole. The future security system will reflect this broader integration pattern, often referred to as the 'Europeanization' of Europe. The essential meaning of this concept is the process toward increasing political homogeneity (Hettne, 1991b). The more recent process of homogenization has gone through three phases: in the South, the disappearance of fascist regimes in the mid-1970s; in the West, the self-assertion of the Atlantic partners in the early 1980s; and in the East, the downfall of the communist regimes in the late 1980s. Fascism and communism (some countries have tried both) can be seen as nationalist 'catching up' ideologies in a historical context of Western technological superiority over Eastern and Southern Europe. The elimination of the Mediterranean dictatorships removed some anomalies from the European scene and put the continent on the road towards political homogeneity, a basic precondition for substantial economic integration. As far as Eastern Europe is concerned, the system simply had exhausted its potential, not least as a model of development.

The process of homogenization has led to a state of liberal hegemony in Europe. Thus, democracy and market will provide the basis for future European interaction. This political homogenization of Europe is and will be expressed in the enlargement of the EC, unless the twelve present members take a protectionist attitude to the rest of Europe, which would be an untenable position. In the course of the 1990s, the number of members can

thus be expected to reach twenty. This raises the question of a viable security order for Europe.

There is already a certain competition between existing institutions regarding their respective roles in the new security order. We expect that its birth will take place in the context of crisis rather than orderly planning. The Gulf war was one such crisis, another may be the breakdown of the Yugoslav federation or the Soviet internal empire, a third the desperate pressure for immigration from Eastern Europe or across the Mediterranean. Thus, due to this pressing time factor, the actual organizational solutions may be suboptimal (Hettne, 1991b).

So far three organizational possibilities have emerged:

(1) NATO with a strengthened European leg. This is basically a continuation of the old Atlantic partnership, but with a stronger role for Europe. This option would facilitate continued US control over Europe and the conservation of the essentially economic character of the EC.

(2) The EC takes on a politico-military role, perhaps through the cooptation of the WEU sometime after 1996. In a more cautious version WEU remains outside EC to provide a bridge between NATO and EC. At present only nine of the 12 are members of the WEU, and some of the current candidates for EC membership are sensitive about security cooperation.

(3) The Conference on Security and Cooperation in Europe (CSCE) becomes more institutionalised and provides a collective security system for Europe, a kind of European UN. In a longer perspective, it may also be provided with some military powers. This all-European security structure would guarantee the continued presence of both the ex-superpowers.

CSCE will operate only in a peace order, which is more or less distant, depending on the nature of crisis management in the short run. My assumption is that NATO will fade away and instead the EC will take upon itself a stronger political and military role. The divisions surfacing in connection with the Gulf war reveal the problems involved in but also the need for a European political (and consequently military) front.

Regional conflict resolution: the case of Yugoslavia

Without doubt, successful regional conflict resolution is the great test for an autonomous regional actor. EC crisis management shows a significant impro-

vement between the Gulf and the Yugoslavian crises, not only because the latter was an 'internal' European crisis, but also due to a real political change in preparation for the controversial but unavoidable political and military union.

It should not escape our attention that it was the EC troika of foreign ministers, neither NATO nor the CSCE, which did the acting in the case of Yugoslavia, as powerful as one could imagine without the backing of weapons. The process was not without internal differences, however. Austria and Italy were more understanding toward the secessionist republics, whereas other countries were more anxious to retain the Yugoslav federation. The important point was not to encourage secessionism, while at the same time not to let the federal government or the military establishment believe that a violent solution was acceptable.

The crisis underlined the power vacuum in a Europe still searching for a viable security order. An uncontrolled and violent dissolution of the federation would have far-reaching consequences for the Balkan, the most turbulent of the European subregions. A failure does not necessarily imply an impotence on the part of the EC, since it should be recognized that no easy resolution to the conflict exists. Whatever the outcome, the crisis will be a milestone on the road to a European political and military union.

The external impact of Europeanization

What will the future European role in other regions be? A new aggressive hegemonic superpower or a Fortress Europe closing its doors to the Third World? Or will it become a responsible actor organizing massive transfers of resources, as argued in the Brandt commission reports?

Looking back, one must conclude that, on the whole, the role of Europe in promoting regional cooperation in the Third world so far leaves much to be desired.

- In Asia regional groupings tend to reflect the East West division. ASEAN is a case where the EC regional dialogue has played a role, and it is even quoted as a 'success story'.

- In Africa the division along the lines of allegiances to one superpower or another has been a major obstacle to continental unity.

- In the Middle East Europe has failed to take a distinct, constructive role. The EC-Arab dialogue has so far led to little.

- In Latin America the European presence increased substantially through the 1970s, which raised Latin American expectations about a diversification of the external relationship of the continent away from dependence on the United States. This was particularly evident in the case of Latin America. However, Europe (i.e. Western Europe) has so far failed to develop a political strategy in its relationship with Latin America (as far as Eastern Europe is concerned, there is no longer any Third-World policy).

Looking into the future the external effect of the process of Europeanization differs depending on alternative 'domestic' developments. Below follows some scenarios:

• *The Orwellian scenario*, or 'Fortress Europe' perceives Europe as a regional security state, inspired by autarchic mercantilism and in latent or manifest conflict with other regional systems. A European fortress will build fences against a possible 'great march' from a marginalized Third world. From the poor parts of the Third World there will thus be an increasing migration pressure, further enforcing the trend towards Fortress Europe (in the worst sense of the word). I call this rather dreadful scenario Orwellian, because of its similarity to the way Orwell described a future world in his '1984'.

• *The 'European Superstate' scenario* views Europe as an extroverted region state, which is inspired by a mixture of liberalism and some elements of mercantilism, as well as the so called social dimension nurtured by the moderate left. Internally, it will be organized in the form of concentric circles with a core, semiperiphery and periphery. Externally, the new superstate centred on the core will aspire to a hegemonic position, or at least a shared, trilateral, hegemony. It will cultivate selective relations with the more dynamic parts of the Third World, for instance, the emerging regional powers. It will also continue to provide some development assistance within the Lomé framework.

• *The Thatcher scenario* perceives Europe as a more open trading bloc, competing with other emerging trading blocs, such as North America and East Asia. The inspiration for this scenario comes from neoliberalism, the dominant development ideology of the 1980s. This Europe will create an

unstable situation, which sooner or later will transform itself into one of the other scenarios, depending on which social forces emerge.

•The *'European Home'* scenario views Europe as an introverted regional state in a world of regional blocs, a neomercantilist state but inspired largely by the values of the social democratic and euro-communist welfare ideology. It thus includes an element of interventionism, as well as supportive links to the poor Third World regions. Such links would primarily promote collective selfreliance, such as the so called Nordic initiative towards SADCC.

•The *'Greening of Europe'* scenario envisions Europe as a loose, undefined informal structure of regions and local communities within a world order of similar decentralized structures, which would be characterized by 'third system politics'. The role of the state would be drastically reduced in this rather anarchistic scenario which, judging from some recent elections and polls, has lost some of its attraction.

A North-South structure is now emerging within Europe. This undoubtedly means that the importance of the Third World will diminish in economic as well as in political terms, to some extent depending on social and political forces within Europe.

3. Soviet Decline and the Formation of a Post Communist World

The US and Soviet hegemonies are altogether different species: liberal v. imperial. Soviet hegemony has rested on the ideological primacy of the Communist Party of the Soviet Union within the socialist world system but this ideological primacy has been backed by the militarized Soviet state. This situation is in fact more akin to the old type of imperial dominance, and in fact there was a striking continuity between the tsarist empire and the bolshevik state. Although described as a socialist federation which included

the right to secession, there was no procedure for how this should be realized.

Thus, compared to Pax Americana, Soviet hegemony has been more coercive and less related to technological superiority and economic strength. For that reason the rules of the capitalist world economy also applied to the socialist world system, insofar as its external relations were concerned. As long as the socialist system was relatively closed, however, the Soviet dominance reigned supreme.

From hegemonic power to 'chaos power'

The sources of Soviet ideological hegemony are several:

First, Russia experienced an authentic revolution, and therefore enjoyed ideological supremacy among subsequent revolutionary societies. The culmination of this prestige was the Great Patriotic War against fascism.

Secondly, the existence of Soviet Russia provided a revolutionary space to be utilized by revolutionary movements all over the world. Successful movements, which subsequently were transformed into state power, naturally felt gratitude to the leader of world revolution.

Thirdly, by its sheer size, the Soviet Union stood out as the dominant power 'on the other side' and therefore constituted a natural political alternative. This 'side', however, never was a symmetric counterpart in structural terms, but a rather heterogeneous constellation of rebels, which under the conceptual umbrella of 'socialism' tried to catch up with advanced capitalism — or escape dependence: the Soviet empire, a sandwiched Eastern Europe, and a revolutionary periphery. At present the socialist world system, with some important Asian exceptions, is dissolving itself, a process obviously related to the withdrawal of the Soviet Union from its traditional geopolitical spheres of interest. Many of the 'revolutionary societies' were clearly surviving mainly through external support.

The erosion of Soviet ideological hegemony started at the same time as its consummation, i.e. during the years after the Second World War. First to question it was Tito's Yugoslavia. More widespread East European dis-

turbances followed after the death of Stalin and in the late 50s China embarked upon its own road to socialism (or wherever this road will lead). The open break in 1964 put an end to the illusion of a unified socialist world system under Soviet hegemony. Ten years later the Soviet Union, after a long defensive struggle, grudgingly gave up its ideological monopoly. This was also the birth of Eurocommunism (Marzani, 1980). The Western Communist parties became irreversibly autonomous. Again, after a little more than a decade, the Soviet Union unilaterally lifted the "overlay" over Eastern Europe and the socialist countries were turned loose, free to abandon socialism. Is the next step the dissolvment of the Soviet empire?

The erosion of Soviet hegemony of course also had its material causes, or what has been termed 'imperial overstretch': The military build-up, started in the 1960s, reached an economic ceiling ten years later, when an economic stagnation, which probably will last into the next century, set in. Add to this the growing discontent among national minorities throughout the Soviet empire, and the picture of an irreversible hegemonic decline is fairly complete. Gorbachevism can in fact be seen as a 'diplomacy of decline' (Sestanovich, 1988). Since a military threat to the external world would be suicidal, what remains of Soviet power is 'chaos power', the power to make havoc to the rest of the world. The problem is that this power cannot be used repeatedly, it is quickly exhausted. The G7 meeting in London (July 1991) restricted the Western support for Gorbachev's reforms to association with and advice from the IMF and the World Bank, not necessarily very stabilizing judging from other countries' experiences. The negative reaction is based on the external judgement of the viability of the Soviet federation, and the realization that it is time to deal directly with the emerging republics (nations?) This will of course reinforce the process of dissolution.

The Soviet region: an Eastern EC?

The 'Soviet citizen' is a disappearing species. Instead there are emerging nations which, in order to avoid economic fragmentization and political tensions, will have to sort out their relations within some kind of regional framework. Like in Europe, there need to be some kind of balance between

one major regional power and smaller subregional groupings. Therefore, in the future we will, perhaps, look upon the Soviet Union as 'an Eastern EC'. Devolving substantial authority from the center to the republics and regions seems to be the only way to save some kind of federation or confederation (Kux, 1990). This method may not necessarily succeed, but then there is no solution apart from civil war.

There is thus a great likelihood that what already has happened to the external empire now will happen to the internal. Some countries of the external empire will presumably escape the region by 'deeasternization' and consequently join the more wealthy 'Western EC', but for most countries in the internal empire, perhaps with the exclusion of the Baltics, a poorer Eastern version of the EC is the best that they can hope for. Economic nationalism on the level of the fifteen republics would be a catastrophe. Russia produces 63% of the unions electricity, 91% of its oil, 75% of its natural gas, 50% of its meat, 85% of its paper, etc. Direct trade relations among individual republics would therefore be a corner stone in the structural reform and a 'renewal' of the federation.

A loose economic commonwealth based on political decentralization would be an obvious solution. EC is as a matter of fact explicitly used in the internal reform debate as a model to copy. Obviously the Eastern EC will, like an expanded Western EC, become more introverted, and in the long run the two will probably form part of a larger more or less spontaneous integration process. Europe will ultimately become a 'House', if not a 'Fortress', but either way a solution must be found to the increasing instability within the 'Soviet Region'. Moscow may learn to prefer friendly neighbours to restive republics and the smaller countries must somehow come to terms with geopolitical realities and the highly interdependent Soviet economy. There are strong reasons to find a better balance between function and territory but provincial autarki is no option. The somewhat utopian project is to build a new union, based on new foundations, one of them being a functioning civil society. Valery Tishkov, director of the Institute of Ethnology makes this analysis: :

In developed, democratic societies where the individual citizen is presented with opportunities to achieve social status and a satisfactory standard of living, ethnicity, economics and politics represent three weakly interrelated and

largely independent systems. In such societies the members of cultural, linguistic, and religious groups typically protect their interests and ensure their groups' autonomy on the basis of individual rights and general democratic principles. Nationalism and exclusive ethnic loyalty arise in the absence of these safeguards, in societies that lack effective political mechanisms for the articulation and achievement of collective aspirations and interests, and where ethnicity, economics and politics interpenetrate in one poorly functioning system. Clearly the Soviet Union still belongs to this second category (Tishkov, 1991:21 f.).

As far as the new union is concerned ten of the fifteen republics have agreed on the basic principles, while five (apart from the Baltic republics they are Georgia and Moldavia) refuse to participate in any negotiations which do not concern full independence.

3. Third World regionalism : the European factor

Regional integration outside Europe has not been a great success so far. Two reasons are evident:

- *The structure of the world economy*, which has tended towards interdependence rather than regionalization
- *The common-market concept of regional cooperation*, which has reintroduced the global hierarchy of dependency relations in the region

It is true that the EC, or rather its Commission, is spreading the gospel of regional integration over the globe, but Europe's role will have to change substantially, if a new, better, and more symmetric interregional exchange pattern shall take form. Not only must the content of the interregional relations (Europe, or subregions within Europe, on the one hand, various Third World regions, on the other) change, but Europe must also take a more active part in promoting regional cooperation and integration in the Third World. The regional dialogue carried out by the EC is explicitly intended to stimulate regionalism in the Third World. However, as long as the world order remained hegemonic, the whole exercise was rather symbolic.

In a posthegemonic world order, on the other hand, the cold-war pattern of cultivating friendly regimes, intensifying and creating divisions with-

in different regions, could be replaced with a more forceful policy of promoting resolution of indigenous and region-specific conflicts on the regional level, and stimulating regional cooperation through region-based development programmes.

In this context I am referring to the EC and EFTA. Former Eastern Europe is disappearing as an actor, as far as the Third World is concerned, the only substantive remaining link being between the Soviet Union and Cuba.

Evidently, the EC will take note of the human rights record in its dealings with individual developing countries (the 68 ACP countries). Environmental concerns will play an increasing role. Further obstacles are created by EC's anti-dumping policies. Reciprocity will be a key issue in the EC trade policy (*South*, Nov. 1990 - Jan 1991). In the immediate future, at least, poor Third-World countries will have to rely more on their own resources. EFTA contains a core of likeminded countries with a tradition of more generous assistance, but EFTA is rapidly harmonizing the Euro-South relations to EC standards. One obvious response to this emerging situation is Third-World regionalism; South-South cooperation and collective self-reliance.

Let's look at some current trends in the main regions of the world, and to identify the European factor, if any.

Latin America and the Caribbean

At present Latin America is becoming marginalized or, as some would say, 'Africanized' in the world economy. Its crisis is both a debt and development crisis (Griffith-Jones - Sunkel, 1985). The disappearance of the socialist alternative means that Latin America will become even more dependent on the US and even more arrogantly treated. Not only the Soviet but also the European counterweight evaporates (Castaneda, 1990). As shown by the recent Panama intervention the end of the Cold War will not change the pattern of dominance, but merely the pretexts for intervention.

Some even argue for a 'Fortress America' as the best Latin America can hope for. Mexico, which had some potential of becoming a regional power (Hettne-Sterner, 1988), now seems to draw the conclusion that joining North America is the only possible way out of stagnation. Thus Central

America is tilting towards the north. The smaller Central American states will, to the extent that they are not already part of North America, have little choice but to follow Mexico's example.

Central America has for reasons of size strong incentives for regional cooperation and the change of regime in Nicaragua has increased the political homogeneity of the region. The crucial issue is whether the small countries can develop a common approach to the US-Canada-Mexico bloc which seems to be emerging, or whether they will join this bloc as individual client states. In the Caribbean the privileged treatment of some countries in position to play the geopolitical card will, similarly, disappear, and the region will have to cooperate regionally at the same time as they compete internationally. Regionalism can of course not be the sole approach.

The economic and geopolitical change in the north of Latin America puts a certain pressure on the Southern Cone. The treaty signed by Argentina and Brazil in 1986 seems to have put fresh life into the integration process in the region. Next year a free-trade agreement is expected and at least Uruguay, perhaps also Chile (at present vacillating between north and south), may join. In Latin America the Argentina-Brazil rapprochement is thus one of the factors stimulating the discussion on a new concept of regional security: *Seguridad Democratica Regional*. It is significant that Brazil, the alleged regional bully, is taking a rather low profile, thus preventing the traditional concern with regional hegemonism to be raised.

The *Caribbean region* has a 500 years' relationship with Europe, a relationship which has formed it, and continues to form it as a region (Sutton, 1991, Thomas, 1988). Also the earlier attempts at regional cooperation occurred in a colonial context, which is one reason for their failure. The CARIFTA arrangement, from 1968, was a minimal form of integration, since its principal integration mechanism was the phased freeing of interregional trade. CARIFTA was in 1973 replaced by more ambitious CARICOM. It had from the start an explicit political element, namely coordination of foreign policy. This idea seems to have grown out of experiences of negotiating with the EC (Thomas, 1988:317). There were statements condemning destabilization and criticism of CBI, but after the invasion of Grenada controversial foreign policy issues have been avoided.

The 13 member regional organization CARICOM contains less than 6 million people. The European single market provides the incentive both for

a deepening towards a more integrated market (1993) and for an enlargement. There are 32 million people in greater Caribbean. Still, this remains a case of 'microregionalism', and there are great fears that the Caribbean risks being marginalized in a world of large trading blocs (*Caribbean Insight*, vol.14, no.1.).

Asia

In *South Asia*, the world powers, the USA, the Soviet Union and China, are promoting their interests by forging alliances with local states, while Europe in spite of its historical role takes a rather low profile. The region is internally dominated by one 'regional power', although Pakistan and India had a kind of competitive relationship before the splitting up of Pakistan in 1971. The problem of regional hegemonism is thus present.

Size is not always a source of power, however. The process of modernization in India creates more problems than it solves. The resulting conflicts are a great strain on India as a centralized nation state, in contradistinction to India as a decentralized civilization. In the former sense, India may not survive in its present form, since the internal forces of disintegration now are tremendous and the dominant political trend now is hindu chauvinism. The domestic situations in Pakistan and Sri Lanka also reveal similar weaknesses in terms of national integration, while the ethnically more homogenous Bangladesh suffers from a general economic and political decay. These ominous trends are bound to have security implications both for regional security and for the political systems concerned (Hettne, 1988).

Thus the security situation in South Asia cannot be understood unless the ethnic, regional and religious conflicts within the states—and the way these affect interstate relations—are carefully considered. In a situation of geopolitical dominance by India, ethnic strife, secession and disintegration could be the main vehicles for changes in the interstate system. Over the years the security situation has grown more and more complicated (Buzan & Rizvi, 1986). India is strengthening her position in relative terms due to the growing regional disorder, but this also means a high risk of external penetration. Regional cooperation would mean a change for the better, at

least as far as economic security is concerned. The economic rationale is not overwhelming at present, rather it has to be created (Adiseshiah, 1987).

The traumatic India-Pakistan conflict until recently prevented all efforts towards regionalism. Furthermore, after the assassination of Sheik Mujibur Rahman in 1975, Bangladesh's relation with India was characterized by distrust and hostility (Rahman, 1985). However, in 1985 South Asian cooperation after five years of preparations at last got its own organization: South Asian Association for Regional Cooperation (SAARC). The initiative originated from Bangladesh. India was rather lukewarm, while the smaller countries strongly felt the need for it (Mishra, 1984; Muni, 1985). Thus regional cooperation has been initiated as a counterforce to regional hegemonism.

It is both a strength and a weakness that SAARC contains all the South Asian states (India, Pakistan, Bangladesh, Sri Lanka, Bhutan, Nepal and the Maldives). It is a weakness because the conflicts in the region will paralyse SAARC for a long time to come, confining its scope to non-controversial marginal issues like tourism and meteorology. It is a strength precisely because controversial problems can be handled within one organization and that at least a framework for regional conflict resolution has been created. Put differently, the regional organization coincides with the regional security complex and can be seen as an embryo to a security community.

If the internal power structure becomes more balanced by a weakening of Delhi and a greater political autonomy for the regions of India, there is also a trend of political homogenization in the form of democratic openings in Pakistan, Bangladesh and Nepal. India may also opt for a more open economy due to pressures from the IMF, thus reducing the gap in economic policies between the regional power with its tradition of import substitution and the smaller, more extroverted states.

Southeast Asia, like Europe, has been divided in two economic and political blocs: ASEAN (Indonesia, Thailand, Singapore, Malaysia, the Philippines and—since 1984—Brunei) and the Indochinese area (Vietnam, Kampuchea and Laos). The latter subregion is under communist rule with Vietnam exercising subregional hegemony. Vietnam is also an actor in the East Asian region and can thus be seen as a bridge between two regional complexes.

Vietnam, and behind it the Soviet Union, has been seen as a threat by the ASEAN countries, which is precisely the reason why ASEAN as a regional organization has worked rather well. The source of common cause and identity is thus negative, a threat. Thus, it is a case of negative rather than positive peace. Like in Europe, the dismantling of the Cold War system will change the pattern of conflict rather than eliminate conflicts. We can expect more relaxation between the two subregions and more conflicts within them.

The countries in ASEAN could be described as capitalist in economic terms and conservative in political terms. The organization has existed since 1967, but assumed importance as a regional organization only after 1975, reflecting increasing political uncertainties in the region. The economic integration that has taken place so far is rather modest, and the figure for intraregion trade is only about 20 per cent. The external dependence on Japan is felt to be problematic.

The national economies are outward-oriented, and the political systems are formally democratic but in practice more or less authoritarian. Problems on the international market usually reinforces domestic authoritarianism due to the strong two-way causal relationship between economic growth and political stability. Economic growth and redistribution is a precondition for ethnic peace, political stability a precondition for the economic confidence expressed by international capital towards the region.

Peace in the larger region, which now seems to be under way, would however change the basic parameters for the way ASEAN operates at present. As the superpowers pull out, old rivalries are emerging, at the same time as the objective preconditions for a cooperation encompassing the whole region in the longer run are improving.

The rationale behind regional dialogue initiated by the EC comes out clearly in the following statement by Roy Jenkins:

From the formation of ASEAN we in the Community have always sought to treat with ASEAN as a region since we from our own experience have learnt that an external stimulus can often support internal cooperation. (Edwards-Regelsberger, 1990:151)

East Asia is the most dynamic of the world regions, containing a hegemonic contender (Japan), an enormous 'domestic' market (China), three NICs (South Korea, Taiwan and Hongkong) and a socialist autarky (North

Korea), preparing itself for major changes which may alter the pattern of cooperation within the region. A reunification of Korea, a democratization of China, and a more independent Japanese role would release an enormous potential. These changes are admittedly not immediate, but on the other hand quite feasible.

Korean unification is, of course, the key to regional cooperation. Considering the economic superiority of South Korea and the political lag in North Korea, it will probably be a spontaneous process of the German type, an 'Anschluss'. South Korea, together with the other NICs, are facing changes in those objective conditions which originally made them into NICs and their strategy in the 1990s will probably be betting on the domestic market, preferably a regional market. The regional framework is still, however, in a flux. South Korea and Taiwan are traditionally dependent on Japan but may have more to gain by orienting themselves towards Southeast Asia. The ending of the cold war opened up new possibilities for inter-subregional contacts, widening the potential regional cooperation.

China will continue the long road towards a more open economy in spite of the isolation followed in the wake of the Tiananmen Square killings, an isolation that seems to be temporary. In the West the image of China is quickly improving due to China's stand in the Gulf crisis, and its preparedness to find a peaceful solution to the Cambodian political quagmire. As far as Japan is concerned, the separation of politics from economics has been national policy. Japan therefore took a rather understanding position vis-à-vis Peking.

Perhaps the most complex issue in the region is the future international role of Japan: will it remain number two in Pax Americana or take a more independent role? The latter and perhaps more likely option would imply the accumulation of military strength and a break with the introvert Japanese worldview. Recently, Malaysia invited Japan to act as a leader of an East Asian Economic Grouping (EAEG) which would create an East Asian and South East Asian super bloc with a Sino-Japanese core. Japan has rejected the idea, but it is still discussed as an insurance policy, should the European and North American fortresses take shape.

Africa

In Africa there has been little regional integration, simply because there is so little to integrate. The need is rather for 'integrated economic development' on the regional level (Thisen, 1989). Regionalism, however, has been a highly politicized issue, which tends to create suspicion in the national centres of decision-making in Africa. Of Nkrumah's pan-Africanism little remains today, but what was then a dream has now, nevertheless, become a necessity. The ethnic conflicts, for instance, cannot be resolved within the nation-state framework, particularly as the nation-building project in fact is the main cause behind these conflicts.

The most important experience so far is SADCC (Southern Africa Development Cooperation Conference). The main function of SADCC was originally to reduce the dependence on South Africa, the regional power with evident designs of regional control. Thus, it is a fairly clear example of 'the new regionalism', not simply based on the common market concept, but having wider political objectives. With the elimination of apartheid in South Africa, the agenda for regional cooperation in southern Africa will change fundamentally—and the incentives will perhaps become positive rather than negative. Much depends on the character of a post-apartheid regime.

The prospects for regional cooperation begin to look brighter, partly as a result of the weakening of the nation states. Even in the case of troubled ECOWAS there are now, when the organization has passed its fifteenth anniversary, positive signs of a political homogenization and a somewhat more active regionalism. National repressive regimes, such as the one in Liberia, are crumbling, and even old autocracies such as Côte d'Ivoire are slowly democratizing. This may lead to a strengthening of the regional as well as the local level.

For lack of resources, the West African regional organization is still more or less paralysed. In the summer of 1990, in the shadow of the Kuwait crisis, ECOWAS, nevertheless, intervened in the disintegrating state of Liberia with the explicit purpose of preventing a general massacre on the population. Although not fully backed by the whole region and, furthermore, not a highly successful operation in terms of conflict resolution, it was un-

precedented in the history of African regional cooperation. With the prospect of further national disintegration, the more stable regimes within a specific region may feel obliged to interfere through regional frameworks.

Also in the Maghreb region harsh realities lead to new attempts at stimulating regional integration. In February 1989 the Arab Maghreb Union was created in order to tackle both peace (the Western Sahara conflict) and development (the debt crisis) issues. There is great fear that the traditional European markets will close after 1992. The aim is to stimulate trade between member states, increasing non-traditional exports, and cutting imports (*South*, May 1989).

The Middle East

The Middle East region is in many ways the most complex. It covers territories in two geographical continents, Asia and Africa, and is extremely diverse in ethnic terms, at the same time as it is largely dominated by one religion and one linguistic culture. Therefore it is no coincidence that great ambitions towards regional unity coexist with constant conflicts between states and ethnic groups. Of great importance is the frustrated but yet surviving idea of an Arab Nation. The present political boundaries are quite recent. They were externally imposed by the European colonial powers, and they also lack emotional significance since they so often have been changed in the past. Centres such as Cairo, Damascus, Baghdad and Istanbul thus all have possessed a regional significance far beyond their present national roles. It is the region of 'realist thinking' par préférence. The artificial boundaries and the lack of democratic tradition make the power play between heavily armed states as close to Machiavelli's world as one can come.

The problem of regional hegemonism has a long historical tradition and there are several competing major states with a potential for regional leadership or hegemony, but also with decisive handicaps in performing that particular role. Iraq was the strongest candidate before the war that crippled it, Syria and Egypt, the remaining Arab contenders, have become too much involved with the West to be credible, Turkey is an outsider, having

ambitions to become a European state, Iran is feared throughout the region as non-Arabic and Shiite.

For obvious economic and strategic reasons, the superpower involvement in the region has been deep-going. In the most recent political crisis in the region triggered by Iraq's occupation of Kuwait in August 1990, attempts at finding a regional solution not very realistic anyway, were halted by US intervention, leading to a polarization within the region between conservative and radical currents. As the Soviet Union opted out, the USA with the help of frustrated potential regional influentials established itself in the region - nobody knows for how long, since the threatening breakup of Iraq could be the beginning of a long struggle for regional power, in which external interests headed by the USA will play a major role. The Gulf crisis was a moment of truth for Europe (the EC) as far as its external posture was concerned, and an embarrassing lack of unity was actually revealed. To restore its image and counter US influence the strategy now involves a major role for Iran (*ME*, July, 1991). Similarly the intervention of regional influentials such as Egypt, Turkey and Syria was not necessarily popular among the people of these regions, which opens the door for unexpected domestic repercussions. The regional alliance is already cracking up and the Gulf countries seem to define their security as the presence of the USA.

It is thus very difficult to foresee what a new security system in the Middle East may look like. Ironically, Saddam Hussein is still needed since no alternative military government is coming forward to guarantee the fragile balance of power. The problems to be solved are many: first of all to contain the power and influence of Iran, to find a solution to the Palestine question, and to reduce the gap between the rich Gulf states and the poor Arab masses. Then there is a host of minority and human rights problems of which the most urgent is the Kurd question.

4. The Promise of Benign Mercantilism

Taking the continuation of the trend towards multipolarity as its point of departure, this paper has explored the potentials of a world order beyond hegemonism. Such a perspective is different from the 'new world order' presently in vogue for the reason that long run economic trends are seen as more important than the show of force based on military dominance. There is also a theoretical possibility of a multilateral order based on interstate cooperation, but it seems more likely that some kind of fragmentization of the world economy will take place. The military dimension is the ultimate and now unchallenged pillar of US dominance, but the political costs of making use of military means to solve political problems will increase. The contradiction between global military power and domestic poverty eroding the domestic social fabric will in a democratic setting work towards continued decline.

The Soviet decline is not in dispute. But is it hegemonic decline? We have underlined the difference between the Soviet hegemony over the socialist subsystem and the global hegemony of the USA. Yet, as long as there were local bridge heads and communist ideals had some appeal, the socialist system was not simply a coercive dominance system. Soviet domination had hegemonic intentions but suffered from the contradictions of an imperial system. The new *détente* is no longer based on peaceful coexistence but a liberal transnational hegemony.

To sum up the argument: the trend towards multipolarism will not be arrested by a European bid for hegemony. Rather the emergence of the European regional state and the essentially introvert orientation of this state, together with the negative threat of 'Fortress Europe' and the positive policy of 'group to group dialogue' of the EC, will stimulate a global process of regionalization. A question mark must, however, be added as far as the post-communist world is concerned. Here, in the wake of hegemonic decline, balkanization rather than regionalization is the predominant trend.

One rather obvious and already visible pattern of fragmentization is the development of a few major trading blocs: the EC, North America/Mexico, and the East Asian Economic Group (EAEG), proposed by the Malaysian prime minister Mahathir Mohamad. This paper has dealt more with a possibly less conflictive regionalized world order: The New Regionalism.

The New Regionalism may be conceived as an 'extended nationalism' (Seers, 1983). It could be compared to traditional nation building with the difference that the coercive political/administrative centre is lacking. Rather its emergence is related to imperatives in the international political economy, including ecological concerns. This process evolves by its own internal logic, unevenly in different regions. Far in advance is Europe, where the trend now is toward a regional state.

Other regions may want, or become forced, to follow the European example of internalizing the sources of growth and make use of a 'domestic' regional market, although there may be a long step to security cooperation. Our survey shows a very uneven picture.

- Latin America has traditionally been characterized by its 'open veins'. Import substitution in the 50s and 60s was generally carried out as a national strategy in spite of futile efforts to create a regional framework for industrialization. A new inward orientation, this time on the regional level, in combination with a diversification of dependence, is an alternative to a 'Fortress America' with a subordinate Latin-American role. However, different Latin American states will probably chose different routes.

- The most inward-looking world region is South Asia, where geopolitical changes at present increase the leverage of India, which leads to an intensification of the conflict with Pakistan and suspicions among the smaller countries. The regional great power has in this case traditionally emphasized self-reliance, while the small countries for the same security reasons encourage external links. However, there is also a potential homogenization, reflecting the shared indic civilization.

- In Southeast Asia, ASEAN has, because of the strong export-orientation of the individual countries, a high stake in interdependence. However, the new situation in the world economy makes it necessary to develop regional complementarities and also to expand the region.

- Japan and the East Asian NICs also have a strong commitment to interdependence. The Pacific 'region' is in fact becoming a centre for a new pattern of global interdependence, whereas the regional identity, i.e. the new regionalism, is rather weak.

- The Middle East has, in spite of numerous subnational identities, a strong regional identity, but is too much a part of the world economy to be left to itself. More economic differentiation within the region and less West-

ern dependence on oil are thus necessary prerequisites for Middle East regionalism.

- Africa is special, since the issue rather is to initiate a process of regionally integrated development.

Although the preconditions for 'extended nationalism' thus differ substantially between regions, I would nevertheless bet on this 'neomercantilist' scenario as the best world order the world can hope for. Many probably feel uneasy about this concept. Mercantilism is the ideological expression of the nation-state logic, operating on the economic arena and violating the liberal principle that free trade in the long run is for the benefit of all. Neomercantilism retains the same suspicion which the old mercantilists harboured against free trade. It transcends the nation-state logic in arguing for a segmented world system, consisting of self-sufficient blocs large enough to provide 'domestic' markets and make use of economies of scale and specialization in production, on the one hand, without falling prey to the anarchy of the world market, on the other.

Such a regionalized world system would evidently be more stable and peaceful than a liberal world order, which historically has revealed an inherent tendency towards collapse. Most regions in a regionalized world system would be large enough to have a reasonable degree of economic efficiency, in accordance with the principles of comparative costs, economies of scale and other conventional economic efficiency arguments. On the other hand, perversions generated by excessive specialization and an overly elaborated division of labour could be avoided. Interregional trade will of course continue to take place, but subordinated to the 'territorial' principle of regionalism, rather than the 'functional' principle of the world market.

There is a difference between this new form of protectionism and the traditional mercantilist concern with state-building and national power. What we could call 'neomercantilism' is a transnational phenomenon. Its spokesmen do not believe in the viability of closed national economies in the present stage of the development of the world economy. On the other hand they do not believe in the viability of an unregulated world economy either. Nor do they—in contrast with the Trilateralists and the Interdependentists—put much faith in the possibility of managing such a world economy. Rather the neomercantilists argue in favour of the regionalization of the world into

more or less self-sufficient blocs. These blocs would be introverted and maintain symmetric relations between themselves.

The 'benign view' of mercantilism coincides with what I call 'the new regionalism'. It must be emphasized that such a 'neomercantilist' vision faces serious problems of acceptance due to the strong historical association of mercantilist thinking with extremist nationalism, and because of its periodical revivals (in the form of protectionism) in connection with economic crises. This 'guilt by association' argument can, however, be rejected, since no real efforts have in fact been done to construct a world order on the basis of neomercantilist ideas. The established view that such ideas tend to reemerge in the context of world depressions and collapsing world orders could not be held against them. Constructive propositions must be distinguished from desperate responses in a situation of crisis. They should be judged on their own merit in a situation of normalcy.

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3

SCIENCE AND TECHNOLOGY IN THE
EASTERN AND CENTRAL EUROPE

By Vladislav KOTCHETKOV / UNESCO /

We are all the witnesses of the climacteric changes in political and economic spheres which countries of the Eastern and Central Europe, have been experiencing during past several years since the policy of perestroyka began to pave its way. If I would have been a journalist, I would described this period in a solemn manner : "The strong winds of change and freedom are sweeping accross the old continent as each nation belonging to it prepares itself to work hard through the remaining decade of our century before that great leap into the third millenium." Having said this, I, however, wish to invite you to ponder upon the impact which these political and economic changes produce on science and technology systems of the Eastern and Central European countries. Indeed, it is not only science and technology policy of these countries that have to be changed following the shift in the national priorities but also the structures of R&D organizations, their modes of operating, financing and management are obliged to follow new rules of the game imposed by new economic situation.

Let us analyse the principal changes occured during the past two-three years in R&D systems of East European countries. But before doing this, I would try to describe briefly the major common features of science and technology systems in the Eastern European countries which exist till mid-80s and give some statistical data, describing the situation.

In our analysis, we could not overlook, in spite of the common reappraisal of values in the newly democratic countries of the Eastern Europe and criticism of the totalitarian period of their development that, because of various reasons : national prestige, ideological competition, military confrontation, etc., considerable stream of resources, both financial and human, has been pulled by the States in their science and higher education systems. This led to the creation of a remarkable S&T potential, in particular in such relatively under-developed countries like Bulgaria, Romania and Yougoslavia. In the late seventies and the early eighties, European former CMEA countries employed well over half the world population of scientists and engineers engaged in R&D.

Table 1

Number of R-D personnel in East Europe (1989)

Country	Scientists and engineers	Technicians	
Bulgaria *	50,585 *	11,662 *	* 1987
Czecho-Slovakia	65,475	42,876	
Hungary	20,431	14,113	
Poland	32,500	54,000 **	** 1985
Romania	59,670	42,931	
Yugoslavia	34,770	18,780	
USSR	1.694,400	xxx...	

If, however, we look at the data in dynamics, we will see that, for example, the superiority of the USSR over USA in absolute numbers of specialists engaged in R&d that existed in the end of 1980, was replaced by mid-80s by the parity. Furthermore, the rapid rate of increase of those specialists in USA has resulted by 1988 in the increase of a number of such specialists in USA by 1, 2 times in comparison with the USSR. (Table 2)

Table 2

Number of specialists engaged in R&D in the USSR and USA
(thousand people)

Country \ Year	1981	1986	1989
USSR	1434,2	1599,4	1694,400
USA	1258,7	1725,5	2026,9

The situation with R&D personnel was even worse in other East European countries. In Poland, for example, employment in R-D sector diminished by 33 % in the period from 1975 to 1985. The absolute number of scientists and engineers engaged in R&D decreased in Hungary during 1984-1989. The states spent a lot of money for science and technology.

The data on R-D expenditures are in table 3.

Table 3

R-D expenditure of East European countries
(million US\$)

Country year	1980	1985	1989
Bulgaria	479.7	716.4	-
Czecho-Slovakia	1 460.5	1633.1	1 468.4
Hungary	560.0	414.6	497.9
Poland	845.7	569.7	852.5
Romania	-	-	1 238.2
Yugoslavia			
USSR	21.300 roubles	28.600 roubles	32.000 roubles

The analysis of the soviet expenditures shows that the share of science expenditures in the state budget was within 3,4 - 4,5 % during 1970-1989 while in USA this figure was 7,9 % of the total federal budget and in 1991, it is planned to increase this share to 8,6 %.

The cost of military-oriented R&D accounts for a considerable part of the total science expenditures. We do not have exact data concerning military R&D in Czecho-Slovakia or Poland, but the soviet data is now available. In 1989 in the USSR, 15,3 Bln roubles were spent for these purposes while in USA, \$ 37,5 bln or, respectively 71 % and 62 % of the state allocations for science.

Until recently, the USSR has been spending for the civilian science 4-5 times less than Americans.

As for the equipment and machinery utilized in R&D, the available data of the latest survey carried out in the USSR demonstrate that the majority of scientific institutions of the USSR accumulate a large number of physically and morally obsolete equipment. 20,8 % of this machinery and equipment are more than 10 years old including one fourth of them older than 20 years. According to the same estimates, the overall demand for the scientific instruments in the USSR is satisfied for only 20-25 %.

The combination of these and other factors, has led to the steadily declining in the efficiency of scientific work in the USSR. If we look at the number of Nobel Prizes awarded to Soviet scientists from 1946 to 1985 and their percentage of total Nobel Prizes we will agree with this statement.

Table 4

Number of Nobel Prizes awarded to Soviet Scientists

Time period	Number of Nobel Prizes	Percentage of Total Nobel Prizes
1946-1960	4	11 %
1961-1975	3	7 %
1976-1985	1	2,5 %

Let us try to formulate those common features of the East European Science and technology systems which exerted negative impact on the development of science in those countries and did not allow, after all, to keep their place among the most advanced nations.

The first and foremost common characteristic was serious democratic deficits, excessive state involvement in all aspects of scientific life, strong politicization of science which extended to the substitution of science by ideology. The "prestige" considerations for the development of science and technology were more important than the requirement of economy. To generalize the situation, it is possible to say that science in those countries was separated from economy and society.

The second important feature that stemmed from the centrally planned type of economic activity and the rigid administrative and financial control was the organization of R&D. R&D system of East European countries was directly determined by the existing economic system. It followed the organization of economy with its "Branchdom" syndrome. As a socio-economic phenomenon Branchdom means the stratification of the economy into rather isolated sectors operating in the monopoly mode and being managed and controlled by highest party-government management levels (Ministries and committees).

The similar branches existed in the R&D organizational structures.

Basic research was a responsibility of the Academies of Sciences created after a Soviet model. Academy was organized by the type of Ministry of Science, ruled by the Presidium responsible to the plenary meeting of academicians. The organizational principles, decision-making process, financing and resource allocation procedures were similar to those in industrial ministries. However, the important difference from industry was that the same people (academicians) that occupied the posts in the major governing bodies (Presidium) were at the same time the directors of Research institutions. Therefore, the whole power (financial, organizational and executive) was concentrated in the hands of the small group of academicians. This led to a situation in which science, being a specific sphere of social activity, turned increasingly into a closed system of its own - with all the attendant negative consequences such as scientific monopolism, promotion of group interests, personal stagnation and poor management. This situation was typical for the Soviet Academy of Sciences and the Republican Academies, but I believe that similar syndroms might be traced in the academic societies in other East European countries.

Applied or industrial research is performed by the Branch research institutions affiliated to the Ministries. These institutions were big (500-1000 employees in the East European countries and 2000 - 4000 in USSR). The major part of their financing came from the State budget through corresponding ministries. Being the monopoly in their branches, these institutions were interested neither in gaining the market where they were the only suppliers nor in the profit maximization. In order to maintain technological level of their products and in particular in the field of military-related industries, these R&D establishments, however, received funds, human resources and modern equipment at the expense of civil or non-prestigious industries. This led to the deep polarization between the prestigious and non-prestigious sciences - another common feature of East European science.

Universities of the East European countries play a much smaller role in R&D than they usually play in other parts of the world. Until recently, R&D was a side activity of high school establishments in Eastern Europe. Their main task was teaching.

Another important feature of centrally planned system is strong inter-branch and inter-organizational barriers. Basic and applied sciences are separated from each other by organizational autarchy of Ministries and the Academie(s) of science. The coordinating role of the central bodies - State Committees for S&T which worked under control of the Central Committees of the ruling parties was strong on the paper but rather weak and poor in reality.

The organizational barriers between industries, High School and Academy the artificially high level of restrictions and secrecy in their work splitted scientific community into different groups. The economic mechanisms of innovation diffusion have not worked in those conditions. Introduction of innovations, distribution of financial and human resources, equipment - everything was determined by the priorities set by the central authorities.

The only exclusion was military science and industries, so-called military-industrial complex (MIC). This sector that concentrated the most talented scientists, the best equipment and most skilled engineers and qualified workers, received in 1980 about three quarters of total State budget's allocations for R&D. This sector in the USSR had and still has the educational institutions of considerably higher level than the average High School institutions, its own communication systems, construction systems, etc.. Various economic and non-economic measures were used to provide stable reproduction of skilled personnel: competition, higher wages, direct allocation of social benefits). Ministries and enterprises of MIC, contrary to civil industries were interested in innovations. There existed a competition inside MIC between various firms to get government orders for R&D.

The next distinguishing feature of science and technology system in the former socialist countries was the overwhelming centralization of all types of funding. The State Budget was the major source of financing of all types of R&D institutions. The contract system of financing played insufficient role.

The structure of scientific personnel in the majority of East European countries did not satisfy the requirements of technological change. Contrary to the world-wide trends, share of specialists in mathematics, computer sciences and physics during 1976-1986 has decreased in the USSR while in USA during the same period the number of scientists in the fields of mathematics and computer sciences have increased respectively in 2,7 and 4,7 times. The age structure of R&D staff was also worsening. The proportion of persons in the age of less than 40 years among the USA Ph.D's in 1985 was higher than among Soviet's. It was a result that the number of postgraduate students in the USSR during 1970-88 has decreased by 4.1% while in the USA in 1980-88 it has increased by 16,9%.

The most important lag is noted in the information services. According to some estimates there exist over 3 thousand public data and knowledge bases in the USA while, say in the USSR, one can counted around ten of such databases.

The library of Harvard University is known to receive 106 thousand periodicals, while the best Soviet library on natural sciences which serves to 250 research academic institutions

receives only 4 thousand of periodics. The situation continues to deteriorate in all East European countries.

All of the above-mentioned characteristics explain, to some extent, why the mechanism of technological change in centrally planned economies is of an imitative character. The innovations introduced in industries including those in Military-Industrial Complex mainly replicate those produced by so called "potential enemy", but substantially lagging behind the "enemy".

Attempts to remedy the situation have been repeatedly made in all East European countries.

In Hungary, for example, the economic reforms of 1968 abolished the institutional influence of central planning and the market mechanisms have been introduced in economy. As result new conditions were created for R&D institutions. Science Policy of 1969 stated that the scientific activity should serve the economy by contributing to its efficiency. New financing mechanisms were introduced. The amount of central subsidies for research institutes was frozen at the existing level and a system of contracts with outsider companies was introduced.

However, the reform failed to evolve as originally expected. The enterprises and firms operating in the "economy of shortage" have not been interested in gaining the market, since everything can be sold because the demand can never be saturated. They did not have to fight for the buyers by improving the quality of product, by reducing its price or by introducing new products. According to some studies the proportion of new products in the state owned sector of Hungary in 1981-1986 had been very low, only 1,5 % approximately yearly and over 90% of all products turned out to have been unchanged for many years. Taking this 1,5% into account, it would take some 67 years to achieve complete replacement, while the same cycle for the electronic industry of OECD was 6 to 10 years in the same period.

Even two decades after these economic reforms, Hungarian R&D institutions and enterprises are still not operating in a genuinely competitive environment which is aggravated by frequent changes in the system of economic regulations, problems of budget deficit and hard currency dept.

The similar attempts have been made by all countries of East Europe, but they unfortunately failed. The recent political changes in those countries have paved the way

towards radical dismantling of overcentralized economies and corresponding changes in managing scientific and technological resources.

Poland for example made a very radical and rapid move towards market-economy since January 1990. The short and long term economic programmes aimed at stabilizing and transforming Polish economical system were adopted. The changes were also introduced into R&D sector: Abolition of fiscal incentives for R&D, abolition of the central R&D Fund, introduction of direct system of financing from the State budget under the authority of Scientific Research Committee, reduction of the share of government in financing of R&D, liquidation of major national R&D programmes. Only several strategic governmental programmes and a number of small research projects remain. Competition and peer-review system for project selection was also introduced.

In Bulgaria, where the real financing of R&D from the state budget scaled down by 50% in real term, the governmental Decree of March 1991 announced the strict policy measures:

- reduction of research staff by 10%
- introduction of self-financing for research units
- structural and thematic changes in R&D programmes.

As a result Bulgarian Academy of Sciences cut down its staff by 1.300 researchers, two laboratories were closed.

The management system of Romanian science is under reorganization since 1990. The former National Council for Science and Technology was abolished and the debate are going on about the future of the Romanian Academy of Sciences. A consultative Board for R&D was created for debating the major issues of S&T policy and allocation of funds. The Special Fund for R&D created by levying a tax of 1% on profits of state economic units is much below the maintenance cost of the existing research units. Some of them are on the edge of being dissolved.

The long-standing Yugoslav self-management experiment has also failed. In 1986, the Federal Assembly of Yugoslavia accepted a resolution on strategy for technological development. It called for the year 2000. By 1990 it was to reach 1,5% of GNP.

System of self-managed communities of interest for science is now being replaced by ministries for science. Statistics indicate that while in the late 60's Yugoslavia was in the

same group with Austria, Hungary and Spain, now it is at the bottom of Europe, together with Romania and Albania. There is a large brain-drain, students are leaving a country even before graduating.

The perestroika in the USSR began from the attempts to overcome the steadily increasing technological gap between soviet and market countries economies.

According to some assments the technological gap in major industries increased from 10-15 years in the middle 50s to 20-30 years in the middle 80's. It certainly have been increasing in high-technic sector. This was inspite of the fact that the number of research institutions (units) increased in the USSR by more than a thousand units (from 4,196 to 5,307) over a period from 1960 to 1972.

Starting from 1987 a radical stage in the transformation of societ science has been initiated. The central control over R&D institutions was considerably relaxed. Scientists and engineers have received the right to set up research groups, to unite themselves into associations, unions, R&D cooperatives. A series of legislative acts, which made legal grounds for enterpreneurship in the USSR have been adopted. This led to the beginning of new sector in R&D - the cooperative and public one, which has never existed before.

By October 1, 1990, 12,2 thousand science-technological cooperatives were established with 284.1 thousand employees working for these cooperatives. To them might be added around 750 centres of R&D activity of youth and 1274 joint ventures of Soviet and foreign partner-firms. Thus, the total number of small innovation firms in the interpreneurial sector of the USSR was around 13 thousands by the end of 1990. Their sales in 1990 made up 0,4% of GNP (about 4 billion rubles).

While this semi-privat sector of R&D is flourishing, the academic and industrial sectors of R&D however experiences very hard time. The collapse of State Budget, non well grounded legislative measures produced heavy blow on R&D sector. The State Budget revenues at the first quarter 1991 were 70% smaller than planned. Most of the Republics did not payed their contribution to the State Budget. The tax revenues were also lower than planned because of decrease in production.

At the system of the highly centalized financing of R&D like the Soviet system is, the above-mentioned budget deficit could not but only resulted in sharp decrease of R&D financing. The military R&D were the major victim since the cut off in military expenditure was effected mainly at the expense of R&D carried out in this sector. In fact, expentidure on

R&D in MIC decreased by 33% in real term at the period from 1989 to 1990. This year many research institutions in MIC do not have enough money to maintain wages of their research staff at sufficient level.

To prevent mass bankruptcy of industrial research institutions, the Government has recently decided to set up in each industry special non-budget funds for R&D financing.

Unemployment in science is becoming a reality in the East European countries, starting with the former GDR and expanding to all former CMEA countries. The "Brain-drain" process is gaining its strength, while the influx of young researchers has been considerably reduced.

Generally speaking, East European science is a unique cultural system with its inherent mode of thinking and specific approaches to the solution of scientific problems. The system was formed as the natural product of centrally-planned economy combined with a specific ideology. Both are now in ruins and veritable calls for the safeguarding of this cultural system are coming from the intellectuals of those countries. The role of international scientific community in this cultural rescue should not be underestimated.

What could international scientific community and its international organizations do in order to assist the Eastern European countries to transform their science and technology systems with the least possible losses in terms of human resources, time and money ? I would propose the following directions of the rescue work based on the results of analysis made:

1. R&D in the East Europe is in a deep crisis. World experience shows that the way out of the crisis is in mastering of innovation stream. However, the sharp drop in resources for innovations will not permit quick remedy of the situation. Currently anti-innovation economic and social climate is dominating. Time is needed to introduce the economically-sound management in R&D system. This should be done on the basis of the deep theoretical understanding of the processes which go on in the society.

Assistance in better and deeper apprehension of the most important factors influencing the development of modern scientific and technological systems, interplay of those factors, the role of State versus the Market. The subject of such apprehension should be the far-reaching changes in the nature of science and technology policy. The shift from science policy towards innovation policy is the most important trend that should be studied and realized by the scientists and

policy-makers of the East European countries. The new methods and instruments of such policy including social assessment of science and technology, public adjustment of clashes of interest among the producers and users of innovations, political unification of interests on the part of scientists, engineers, businessmen and the general public should be developed. In other words, science should restore its broken links with economy and society.

It is not a secret that due to imposed restrictions and the short-sided policy, scientists of the East European countries were not only be able to participate in the intellectual debates on all the above-mentioned subjects of science and technology policy, but also to be aware and to follow these debates due to lack of information available to them. The national science and technology policy of the East European countries was based rather on ideological slogans than sound theories and results of research.

To improve the situation as soon as possible is a first and foremost task of international organizations. With this purpose in mind, UNESCO, in cooperation with the International Council of Science Policy Studies, has recently started a project on "Transformation of Science Management Systems of East European countries during their transition to Market-Oriented Economies". The project should analyze the major problems and formulate concrete recommendations addressed to scientists and policy-makers of those countries. The first meeting was held in Budapest last June.

International Institute of Applied Systems Analysis (IIASA) launched a project on "R&D Management in the USSR in transition to market economy". Two conferences took place in 1990 and 1991 in Laxemburg (Austria) and Moscow (USSR).

2. The transformation of the existing systems are to be made by people. The most important drawback is the lack of professionals duly prepared to perform this task. The ignorance of scientists and engineers in business and management areas is the major obstacle in the way of developing the enterpreneursial spirit in R&D sector.

Long domination of the command - and administrative system - led to the formation of the specific economic culture (I would better say "anti-culture") in the East European countries.

The task of developing true economic culture by means of training, exchange of specialists, organizing of courses in marketing, and staff management, and like,

organizing the visits of East European specialists to study and to have practise in foreign firms, companies, banks, business schools, is a task of the primary urgency. Personnel training is to become an inseparable element of each technological project and programme to be carried out in East Europe.

The Commission of European Communities, in cooperation with UNESCO, might play an organizing role in such massive training of the specialists from Eastern Europe.

3. The High School in East European countries should be substantially reorganized. The close University - Industry ties are the distinguished trend in the industrialized countries experience. University departments there carry out not only research activities in Basic Sciences but also are undertaking research for firms on much larger scale. In many universities, new firms have been proliferating in high-tech sectors and these firms are often set up by researchers working in universities. Recent survey in France listed 145 firms, launched mainly in 1984-87 which had developed out of university laboratories. Such development is still rare in the East European Universities and the duty of UNESCO and other intergovernmental organization is to assist in the reorganization of the higher education sector.
4. The ongoing international efforts in the process of converting the military industrial complex to the much needed civilian uses requires an attention on the part of policy-makers of certain countries of the Eastern Europe. We can expect increasing pressure from politicians, scientific communities and the public at large for military industries. A rational conversion of the military sector should be also regarded as an efficient way of preserving scientific and technological potential from beeing lost.

This potential should be better used for the foundation of S&T intensive R&D in non-military sectors of economy. The highest monopolization of the military industrial complex gives chances to concentrate big resources for the technological break-through. Joint efforts to realize conversion is a perspective line of pan-European co-operation. In 1995, 45,8 % of the R&D resources of the military complex of USSR are supposed to be focused on the implementation of the civil-oriented R&D (against 29,6 % in 1989). This represents promising opportunities for international cooperation.

UNESCO, in cooperation with the UN Center for Science and Technology for Development, will organize the series of the international conferences, involving the

participation of scientists, and decision-makers from industry and government. The first of them will be held in Dortmund, Germany, in February 1992 and be devoted to "Conversion opportunities for Development and Environment".

5. The problem of "Brain Drain" requires special attention on the part of international community. UNESCO, through its Regional Office for S&T in Europe, is working on this problem. A better utilization of the scientific resources through the government support systems of international co-operation, different from individual emigration and employment, is one of the possible solution of the problem of Brain Drain in Europe.

My last remark:

The policy-makers from the East European countries should entrust neither to the market nor to foreign investors, responsibilities for deciding which of their industries would prosper and which would fail. After euphoria about political and economic emancipation is over long-term strategy of scientific and technological development of those countries as a base for change-over from centrally-planned to market-driven economic system has to be adopted.

The formulation of this strategy requires the combining of wide national efforts with the experience and assistance from outside world.

UNESCO, like other intergovernmental organizations, is ready to play important role in this process of economical revival of Eastern Europe.

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A NEW EUROPE IN THE CHANGING GLOBAL SYSTEM

International Conference

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Velence, Hungary, September 23-25, 1991

THE EUROPEAN COMMUNITIES AND EASTERN EUROPE

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Reintegration into the world economy

During the past few decades, a new world economic system based on interdependence and integration has emerged. The process of internationalization and the growth of intensive economic cooperation contributed tremendously to the increase of efficiency and welfare in the participating countries. The present high level of economic development in the industrial countries is without exception based on intensive international economic cooperation, enabling complex exploitation of the advantages of the international division of labour. High levels of development and full and organic integration into the world economy are inseparable processes. This thesis is mostly true, inspite the fact, that the interdependence in present world economy is highly asymmetric, there are substantial negative processes hitting basically the developing countries, some regions and countries are at the loosing end of international division of labour and get more and more into a peripheral position. The autarkic experiments in the past decades, however, have all failed, and only those developing countries have been able to close up, which entered into intensive international cooperation and more or less successfully integrated into the global economy.

As a result of maintaining closed systems of bureaucratic planning and management, Central and East European countries widely deprived themselves from the tremendous advantages¹. The present state of East European economies, their lower efficiency and level of development, therefore, can be attributed basically to the lack or improper integration into the world economy. In other words, the world economic isolation of CMEA countries is one of the basic reasons for their backwardness. Lasting economic progress for the reforming countries of Central and Eastern Europe is unthinkable without more intensive links to world trade². According to World Bank estimates, "over the last four decades, had the East European countries pursued economic policies similar to those of Western countries, their per-capita income would be one-third higher"³. Therefore, the world economic integration is of utmost importance for these countries, should be emphasized no less than domestic issues, and is not an option for Central and Eastern Europe (ideas about the "Third Road"), but an absolute necessity.

Transformation strategies concentrating on marketization, privatization and democratization have to be implemented under the circumstances of serious economic crisis in Eastern and Central Europe. Most of the countries are heavily indebted and the debt servicing is possible only at decreasing investments and living standards already for many years. These countries mostly missed the technological revolution since 1970s and their economic structure have

become more and more outdated. The infrastructure and the service sectors have been traditionally neglected by the "planned" development policies, and the environment has been polluted beyond the assumed proportions. Due to several special factors (collapse of COMECON-trade, effects of Gulf war, internal political and ethnic instabilities, etc) these countries are in deep recession, and now they have to cope with drop of production, rapidly growing unemployment, high inflation, budgetary and external deficits.

Central and East European countries therefore now face the broad and complex tasks of transforming, consolidating and modernizing their economies and societies, which have to be solved parallelly in historically short time. The process is basically a question of domestic and political reforms, but externally it is mainly a function of integrating these countries into the world economy.

Close cooperation with highly developed regions is of special importance. Experience over the past few decades has more or less proved that less developed countries can achieve satisfactory development only by cooperating and interacting with developed region and partners. The policies of selfreliance have produced limited and highly questionable results, and the regional integration efforts of some less developed countries so far have not disproved the above assertions. Of course, there are no such mechanisms, which guarantee, that integration with the developed countries brings only benefits and the catching up is automatically

secured. On the contrary, the global market mechanisms basically tend to increase gaps between more and less developed and some countries suffered great losses due to world market developments. On the other hand, it is recognized, that the modern technologies, management and marketing technics, capital resources and gains from intern-company cooperations can only be obtained in cooperation with developed regions.

Through regional integration, the EC countries have established themselves as centers of the world economy with high levels of development, and implementation of the internal market program in 1992, could further increase the attractiveness of the region. The EC integration has widely exploited the advantages offered by close economic relations, particularly the "static" comparative advantages (cost differences) in the framework of a common market. Since the 1970s, however, the emphasis has shifted to dynamic comparative advantages (innovation and increasing efficiency), and as result of the technological revolution, the structural advantages (product innovation, technological sophistication), gained increased importance. Creating an internal market in 1992 is a complex answer to that challenge; the EC can be a model for eliminating or reducing structural protectionism (such as specific standards, technical or environmental prescriptions, etc.) on a wider basis in world trade.

For the Central and East European countries, the development of close and complex relations with the EC is of

strategic importance. The EC is not only the most attractive partner geographically, culturally and economically, but also serves as the gateway to the world economy. It is not by chance, therefore, that the East and Central European countries are seeking association with the EC and most of them declared that they are perspectivevely hope to be accepted as full members in the Community.

Helping the reforms

Due to emerging political changes, particularly in Hungary and Poland, the OECD countries (Group of 24) committed themselves to help promoting the processes of transformation, and leaders of the Group of Seven asked and authorized the Commission of the EC to coordinate a specific support program for Hungary and Poland at their July 1989 meeting.

This was an extremely important development in terms of political prestige and in recognition of the special role the EC plays in the recontruction of Central and Eastern Europe.

The special action plan of the EC (PHARE-Poland and Hungary: Aid for Reforming Economies) to help Hungary and Poland was announced on September 26, 1989. PHARE envisioned financial support to the two countries in the form of food aid (to Poland only), joint investment, and assistance in the fields of environmental protection and management training. The European Investment Bank offered ECU 1 billion of credit, which is guaranteed by the EC budget as well. Contingent on

IMF approval of an economic policy package, Hungary will receive a \$1 billion bridging loan from the EC to deal with the structural balance of payment problems for five years. In fact, in order to ensure broad coordination of policy by the Group of 24 members, the conditions for financial support are that the two countries must come to terms with and meet the requirements of both the IMF and the World Bank. The assistance of individual countries of the Group of 24 is varying (the main contributors are Germany, Japan, the US, Finland, etc.), and it includes financing for certain projects, support for foreign investments, export credit guarantees, education and training, investment in protecting the environment and in the energy sector, etc.

The PHARE program offered several trade policy concessions to the two countries. On January 1, 1990, the EC eliminated all quantitative restrictions, five years earlier than had been designated by the Hungarian-EC trade and cooperation agreement signed in 1988. The quantitative restrictions remain in force only in the fields of voluntary export restraint (steel, textiles, mutton, etc.), but the quotas there were also increased (by 13 % and 23 % in Hungary and Poland, respectively, for textiles in 1990). These measures affected 1,700 products, amounting to about 4 % of Hungarian exports to the EC. In addition, the Generalized System of Preferences (GSP) status was extended to these countries, and for a broad range of products they now enjoy free access or preferential treatment. The 1988 agreement, which applied the

principle of MFN treatment by mutual consent, put Hungary on an equal basis with developed market economies such as the US or Japan. Now this status has changed, and Hungary and Poland are categorized as developing countries. The tariffs on some Hungarian agricultural products (goose liver, onions, cherries, ect.), were also reduced. In 1989, Hungarian imports from the EC amounted to \$2,55 billion (25 % of all imports), while Hungarian exports to the EC amounted to \$2,41 billion (23 % of total exports). Due to these preferences and also to collapse of CMEA relations, Hungary was able to increase its trade with EC rapidly, and to the middle of 1991 the EC share has already exceeded 40 per cent in the Hungarian import and export as well. Later, PHARE was extended to all East and Central European countries except USSR.

In June 1991, the creation of the European Bank for Reconstruction and Development (EBRD), an organization designed to expedite the transformation and economic consolidation of Central and Eastern Europe, was inaugurated. The initial capital is about ECU 10 billion, and after approval and settling the technical-operational problems, the EBRD is scheduled to begin loan operations in 1991. The Bank's financial supporters include the Group of 24, six Central and East European countries, the Soviet Union and some other countries (a total of 42 countries, including some developing countries, expressed interest in the bank). The primary objectives of the EBRD are financial revitalization

and expansion of the private sector in these countries, support the creation of joint ventures with the participation of Western capital, and contribute to infrastructure development.

Road to Association

The idea of more closely connecting Central and East European countries to previously established European organizations (particularly the EC, but also EFTA), was raised already in the second half of 1980s. As a way of "returning to Europe," the possibility of full membership in the EC has been discussed broadly in some intellectual and political circles in most of the East and Central European countries already in 1989. On the EC side, the idea of association was raised in the autumn of 1989 by several leading EC politicians (Helmut Kohl, Jacques Delors, Hans-Dietrich Genscher); and the most specific proposal was offered by former British Prime minister Margaret Thatcher, who in a statement in the House of Commons on November 14, 1989 proposed a "Turkish type" of association for the interested Central and East European countries.

Officially, the idea of offering association to these countries was raised in early 1990, but it was stressed that the implementation of the more pressing EC integration plans should receive absolute priority (the "deepening" processes - internal market, monetary union and political integration).

The official decision on the issue that opened the way for concrete and practical preparation was made at the Dublin summit meeting of EC leaders on April 29, 1990: "Discussions will start forthwith in the (EC) Council, on the basis of the (EC) Commission's communication, on Association Agreements with each of these countries of central and eastern Europe which include an institutional framework for political dialogue."⁴

In general, trade liberalization should be the centerpiece of any association of Central and Eastern Europe with the EC. Such association agreement can follow the patterns of treaties signed with Mediterranean countries (clause 238 of the Treaty of Rome), which recognize the differences in levels of development. Therefore, asymmetric liberalization measures may be implemented during the transition period, eventually establishing a full free trade area between the affected regions. On the long run, however, the free trade arrangements should be symmetrical, albeit implemented gradually, with full liberalization of the Central and East European economies as the final goal. Otherwise, these countries would deprive themselves of market benefits and impulses, which are essential for reconstructing and modernizing the economies. The association agreements would also leave relatively broad freedom for the exploitation of alternative external arrangements (with EFTA or other regions).

The negotiations about association of Czechoslovakia,

Hungary and Poland started in the autumn of 1990 and they may be completed after one year of hard bargaining. Meantime, due to economic, political and ethnic problems, Eastern Europe was splited, and for several reasons the possibility of association of others (Romania, Bulgaria and Yugoslavia) was postponed. On the other hand, the row for association has broadened with Albania, Estonia, Latvia and Lituania, and the Baltic states have fairly good chances for early association. As far as the problems of transformation, consolidation, restructuring and adjustment to the requirements of integration should be paralelly solved, the transition to the full association will be long for the region.

Politically, Hungary has made it clear several times that the country strives for full EC membership, and this aspiration is broadly supported by all major political parties. The new, democratically elected government stated on May 22, 1990 that Hungary "is committed to the idea of European integration" and it aims at gaining "membership in the European communities" in the next decade. The concrete economic benefits of an association notwithstanding, the EC appeals to other European countries for several reasons. Hungary has strong tradicional cultural devotion to, and relations with, France, Italy and Germany. The EC is considered a realization of traditional European political and moral values. There are major expectations for economic improvement and for the stabilization of the democratization processes once a country has joined the EC, and inspite their

difficulties, the examples of Greece, Spain and Portugal are considered as success. There is deep conviction, particularly among Hungarian intellectuals, that the country traditionally and historically belongs to Europe, and a stable and prosperous Europe can be achieved only through unification. Similar aspirations for full membership have been spelled out in all of the other Central and East European countries.

Costs and Benefits of EC Association

The benefits of association with the EC (which also apply to similar arrangements with EFTA) can be compared to those that have arisen in different forms of market integration (free trade areas, customs unions or common markets). They can be further extended by several additional measures. The contractual frameworks and ongoing coordination between the partners could stabilize and balance Central and East European economies in a mutually beneficial way.

As a result of the closed character of the East European economies both structurally and institutionally, there are large potential "static" gains (latent comparative advantages). A free trade association may enable them to be exploited on a large scale, making it possible for producers and consumers to optimize the cheapest import sources both for production inputs and final consumption. This could lead to "trade creation" in both directions (replacement of

inefficient and expensive domestic production by cheaper imports), and these "static" efficiency gains could be substantial. In the areas where Hungary has a comparative advantage, export possibilities can be opened, and a conscious exploitation of them (proper marketing strategies, flexible adjustment to market changes) could secure a satisfactory external balance for the country. Parallel free trade arrangements with other organizations (members of the former CMEA or the EFTA) would assure that the diversion of trade from former partners would be minimal.

By opening domestic markets, extremely monopolistic market structures can be broken up, and real competitive market conditions can be created. This development would be extremely important: thus far, the reforms geared toward marketization have often failed to produce the anticipated benefits, because the monopolistic market positions have not been eliminated. Under these circumstances, profit was a function of market position rather than of increasing efficiency. Market competition could lead to cutting monopolistic prices^{and} costs, eliminating shortages, improving the quality of goods and improving efficiency overall. So far Hungary has implemented some one-sided import liberalization measures; the opening can become mutual through free trade association.

Market competition and direct company contacts with Western partners would introduce technological progress and transfer modern technology and structural change.

Bureaucratic central planning and the monopolistic position of state-owned enterprises were accompanied by unreasonably slow technological development, a lack of interest in innovation, and the general structural rigidity of the economy. Revolutions in technology have made drastic cost reductions possible (for example, computerized systems of organization, new management structures, organization of cooperating partners outside the company). They have also led to radical transformations of services and infrastructures (new information techniques and communication systems). The Central and East European countries have missed much of this development, and the gap in favor of Western countries has increased. As a region, Central and Eastern Europe is no longer competitive, and the region has squandered market opportunities (to the benefit of NICs, especially in Asia); this was one of the important factors leading to the external and internal difficulties (including external debt). There is no doubt that renewed emphasis on technology is of utmost importance; technological and structural modernization could help reap tremendous benefits once the market is adjusted.

The so-called dynamic effects of market integration can be exploited through association. Large open markets can give scope for utilizing economies of scale and reducing costs in different fields of production. Technological progress, productive cooperation, and specialization in supplying components and certain services lead to dynamic comparative

advantages. Extensive participation in transnational company relations can increase microeconomic efficiency and ensure better access to global markets. These advantages can be extended by eliminating barriers to trade and cooperation (as will be done within the EC in 1992).

The larger markets can attract joint ventures and private capital investments. In the framework of market integration, capital resources can be mobilized and better allocated (particularly in common markets). The trade and flow of technology, and related capital movements, are interconnected. With larger markets, national economies are better placed to overcome structural and institutional bottlenecks in capital supplies. In this respect, Hungary's participation in the 1992 measures would improve opportunities and competitiveness.

An association may also improve the macroeconomic performance of the country in many respects. It is generally assumed that the dynamic effects of market integration increase growth rates. The growth process can be stabilized beyond ~~the~~ market impulses by proper economic policies, and in some fields by coordination of policies. The structural change can help the nation better utilize its labor resources (thus overcoming unemployment). Monetary cooperation (some sort of connection to the EMS or a monetary union) is, as the experience of some members and outsiders clearly proves, indispensable for stabilizing exchange rates, allowing for the convertibility of national currency, and it is necessary

from the beginning to check accelerating domestic inflation. An association can improve the chances of avoiding serious external imbalances due to integration into the world economy (through trade preferences and other support mechanisms).

It must be stressed, that Central and East European countries (including Hungary) are not yet prepared at all in any respect for integration with Western Europe. The above advantages, therefore, are highly hypothetical and they may be exploited only after long and conscious preparation and tough adjustment. It must be clearly seen, that association involves several dangers, and we must be fully aware of them. It can raise substantial costs, sometimes in close relation to benefits. Dangers include:

1. Structural change based on and induced by market integration could lead to uncontrollable and undesirable economic and social consequences and tensions. The rapid elimination of inefficient enterprises and subsequent bankruptcies could result in relatively high unemployment, which could be aggravated by institutional and infrastructural rigidities (immobility of labor, because of housing shortages, ect.). The process can be moderated by the asymmetric and gradual liberalization measures of association, though, and also by proper and comprehensive domestic employment and social policies.

2. Structural change based on market integration may be subordinated to an undesirable extent by the short-term commercial interests of foreign companies, which may even

reproduce the structural distortions on a new scale. The growing foreign company involvement may concentrate simply on the region's cheaper labor, while the high-tech capacities are not introduced. Foreign concerns might mostly invest into conjunctureally vulnerable fields, leaving the country in trouble during a recession. These investments may be limited to certain fields, leading to structural dependence of the country on the world markets. Or they could strengthen the existing monopolistic structures instead of creating competitive environments.

The association, therefore, must be accompanied by comprehensive national structural policies based on carefully constructed preferences and incentives that consider the interests of both the foreign companies and the country. Recent experiences prove that these types of structural policies are absolutely necessary in order to compromise with the foreign companies. The same idea applies to the necessity to avoid regional distortions due to market integration.

3. Servicing the accumulating debt would require a surplus in the balance of trade and payments over a long period of time. Experience over the past few decades proves, however, that market integration often leads to deterioration of the trade and payment balance, particularly in the case of a less developed country. This situation is certainly applicable in the case of a Hungarian association because of the structural weaknesses and inherited rigidities of the economy. However, that can also be counterbalanced by unilateral liberalization

(by the EC) in certain fields, such as by directly supporting debt servicing or by accelerating structural change with direct measures. The present level of indebtedness is the most crippling weakness and hindrance to entering into any association, and removing the debt will not be overcome easily in the short run.

4. Market integration can also (depending on the economic policy) cause deterioration in the macroeconomic performance of the affected country. This is particularly true with the macrobalances, and not only the external balance. The country may suffer serious terms of trade losses through liberalization, and the continuous external imbalances may force a permanent devaluation of the national currency, which could result in uncontrollable inflation. Inflation and unemployment could force economic policy makers to set a course that is counterproductive from the point of view of consolidation and structural change. On the other hand, of course, the country may be compensated for these losses, and need for monetary cooperation beyond simple free trade association must also be stressed in this context.

To sum up, an association raises both dangers and costs, but neither is totally unavoidable nor unmanageable. Some costs must be simply accepted, but they are counterbalanced by the overall benefits of association. Others (e.g., unemployment) can be treated by appropriate economic policy measures, and the negative consequences can be reduced to a tolerable level. It is, however, very important to stress that an

association is not automatically beneficial, and comprehensive integration strategies and measures must be developed both at the EC and domestic policy levels.

EC Interests in Association with the East

West European countries are less enthusiastic about association with Eastern Europe than the other way around. In the short run, Western interests are particularly weak and vague in many fields, and there are spheres where interests conflict.

First of all, the political interests of EC in accepting East European countries even as associated members are fairly contradictory. The reforms and revolutionary changes in Eastern Europe were received enthusiastically by the West from the beginning, it was hoped that the division by hostility and confrontation can be replaced by cooperation and friendly relations. Under these circumstances, the tremendous costs and burdens of military confrontation can be saved, which in addition can be multiplied by the benefits of cooperation in every possible field. It is also broadly accepted that the East European countries by transforming into democratic societies must be integrated into the European unification process as full partners. At the same time it seems that the feeling of urgency of taking these countries into the democratic club of Western countries is far not so strong as it was in case of accession of Greece,

Portugal and Spain. While under the conditions of block confrontation in Europe, the fairly balanced economic pros and contras on both sides were unambiguously overridden by the political considerations in favour of letting these countries into the EC, by disappearance of block division, the same interests concerning Eastern Europe seem to have weakened.

The changes in Central and Eastern Europe have also renewed the discussions about the EC's priority of "deepening" or "enlargement". There are anxieties and fears that any form of closer relations (association or membership) with the East may endanger the political integration and the plans for 1992 internal market and monetary union. The region is afflicted by serious social, political, national and ethnic conflicts, and the EC is clearly reluctant to take full commitment for the security and the stability of these countries.

It is, however, stressed, that the goals of deepening and the integration with Central and Eastern Europe, are not necessarily contradictory and incompatible. Though these countries are behind in marketization and privatization, most of them are roughly at the same level of development as the Mediterranean members. As Portuguese or Greek membership have not wrecked the EC, why should it be supposed that for example Hungary will. It must be also emphasised, that these countries are equally interested in European unification and they have no reason to torpedo the integration process.

The developments of the last more than one year also indicate that the Central and East European changes do not

hinder the process of European integration, on the contrary they gave new impetus for accelerating the implementation of plans for monetary union and political integration in the EC. Community officials point out that the revolutionary changes in the East have highlighted the need and urgency to continue the process toward a single market, and toward monetary and political union as well. ^T5^T The EC's role in the world affairs has been greatly upgraded by East European events either concerning coordination of aid or recently in settling the Yugoslav crisis. The later one may contribute to the formulation of a security policy and role in the Community.

✱ In economic terms, Central and Eastern Europe is still a marginal partner for the EC, and this situation will not change overnight. The former CMEA countries' trade with the EC was about 7 % of the EC's total trade, which equaled that of Sweden or Switzerland alone. Excluding the Soviet Union (more than half of that trade), the role of the other countries was even more minimal. The six Central and East European countries have about 130 million people, and their combined trade accounts for roughly 4 % of world trade; the share for the 12 countries of the EC is more than 33 %. There are also asymmetries concerning trading relations among different member countries. About two-thirds of the EC's trade with Hungary takes place with Germany and Italy (55 % and 14 % of Hungary's EC imports, respectively). Taking into account the heavy indebtedness of these countries, the chances of rapidly dynamizing this trade are rather bleak,

particularly in terms of Western supplies. It must be stressed, however, that in the long run these disproportions have to be considered potential assets rather than liabilities.

The structural weaknesses of Central and East European economies create limits and counter-interests in trade and cooperation. Their exports are composed mainly of such materials and goods, in which the expansion of trade is limited by static demand, and also by inflexible export capacities. Due to fluctuating demand, these sectors are particularly vulnerable to cyclical changes. In the short run, Hungary's export potential is mostly concentrated in such fields as textiles, steel and chemicals, which are considered "sensitive" products, and thus are subject to protection in most countries. As "crisis industries", these products often face fierce competition both from West European producers and from other developing countries.

One of the neurargic points of any East and Central European future membership is agriculture. Most of the countries of the region have agricultural surpluses (potentially the same applies to Romania or Bulgaria, which for a while still have shortages) and many have comparative cost advantages. Therefore, Central and Eastern Europe is a serious threat to CAP both as a competitor and a candidate for budgetary support.

Agricultural goods formerly accounted for more than half of Hungarian exports to EC countries, but now as a result of

otherwise desirable structural changes (as well as the protectionist effects of the Common Agricultural Policy), this share is only a little more than 15 %. Because of substantial and influential farm interests in many EC countries, this situation cannot be altered significantly; the agrarian and "crisis industry" lobbies of less developed members will exert the greatest resistance not merely to organization membership, but even to any association of Central and East European countries. This was well demonstrated by the rigidity of France toward these countries concerning beef or goose liver export, which proved that the EC is reluctant to give even minor and marginal concessions for these countries in the "sensitive" fields. There are particularly strong sectoral counter-interests (textiles, furnitures, glass wares etc.) and fears against those concessions in the less developed member countries.

Of course, the interests and views of EC countries and people are far from unanimous on these issues. Some are in favour of the overall development of relations, and they see further Central and East European integration pushing through long overdue reform and structural changes in the EC. "Hungarian agricultural products have to find ways to EC markets," according to Professor Victor Halberstadt of Leiden University, "and the East European developments will force the common market countries to reform their agricultural system more quickly than otherwise." ⁶ Despite the wide-ranging reforms, these countries were until recently considered

as "state-trading" countries, and there are still fears about possible unfair competition and the hidden protectionism inherent in their system.

According to Berendt Von Staden, 40 years of communist mismanagement have ruined the economies of Central and Eastern European states to such an extent, and tempered the desire of a wide section of the population for achievement and risk-taking, that it will take decades rather than years to make the Eastern countries capable of economic integration. Helping these countries will undoubtedly be the Community's most important European policy task for many years to come. It will be able to fulfill this task satisfactorily, however, only if it faces the countries concerned as a friend, able not only to act generously, but also determine the terms under which assistance stands the best chances of success. Due to radical reform steps and political changes, however, now Hungary and Poland could be characterized more or less as market economies, similar to many Western countries. Though most other Central and East European countries are still behind in marketization, some (the CSFR and, of course, the former GDR) are rapidly catching up.

The disappointing experiences of the past with respect to debt, as well as continuing political uncertainty in Central and Eastern Europe, have made many in the West reluctant to give more extensive help. On the other hand, EC Commission President Jacques Delors stressed in a television

interview already in October 1989 that the EC feels obliged to help Central and East European countries, and it has the resources to do so. "It is in our interest, because if we do not help them, the political reforms in Poland and Hungary can easily fail, they can fall back into the cold night of totalitarianism with all of its consequences, including the danger of a conflict." In a speech at the economic gathering of the CSCE conference in Bonn in March 1990, Italian Minister of Foreign Affairs Gianni de Michelis proposed that the EC allocate \$15 billion a year in aid to Central and Eastern Europe, which would mean setting aside 0,25 % of Western countries' GNP for such help. He also argued that "this relationship does not depend simply on generosity and political solidarity, but on our self-interest."

Though the aid to Central and Eastern Europe is seen less and less as a simple financial burden or a politically and economically uncertain venture, the resources needed are substantial and the EC could easily be financially committed beyond its current capacities. According to Delors, if the six new democracies of the East get the same help under the same criteria as the EC's own less-developed regions, it would require an extra ECU 14 billion a year in new EC resources, plus an additional ECU 5 billion a year from the European Investment Bank. Altogether, that would mean an amount of ECU 100 billion-200 billion for the EC rechanneled to the Central and East European countries over a period of

five to ten years. The present annual budget of the Community is less than ECU 50 billion. According to financial experts at Morgan Stanley in London, "in the next 10 to 20 years the rebuilding of Central and Eastern Europe could divert as much as 5 % of Europe's national income." The Deutsche Bank estimates these costs at 500 billion-800 billion marks over 10 to 20 years.¹¹

No doubt that if the EC is committed to helping Central and Eastern Europe then the necessity of financial and budgetary reform can be hardly neglected. Delors has acknowledged the "inevitability" of reviewing the EC's financial perspective,¹² and similar views are expressed by member countries. The reforms are particularly urgent; under the present arrangements, there is a constant danger of budgetary overspending due mainly to common agricultural policies. In fact, the EC faced budgetary constraints in 1988; these have been eased because of an increase in agricultural world market prices and the improved export possibilities of those products, formerly kept in large stocks. Helping Central and Eastern Europe on a larger scale may adversely affect certain sectoral and regional interests concerning trade policy concessions. The present system of agricultural financing may change very rapidly, and the necessary unpleasant reform may provoke strong protest and resistance from the agricultural sector. Less developed EC nations such as Spain, Portugal and Greece are concerned that some of the economic aid they expected to gain from newly integrated Community may go

instead to Central and Eastern Europe. There are also financial commitments to less developed countries outside of Europe, particularly regarding the Lome Conventions. Though each five years there are traditionally tough bargainings between the EC and the African, Caribbean and Pacific (ACP) countries over the volume of aid Central and Eastern Europe may be blamed for the reductions this time.

There are also still fears about possible misuse and inefficient utilization of resources transferred to Central and Eastern Europe. A report by the secretariat of the United Nations Economic Commission for Europe concluded that a program comparable to the Marshall Plan would cost about \$16.7 billion a year for four years for the Soviet Union, Central Europe and the Balkans. As reported in the Financial Times, however, the ECE secretariat doubts the capacity of the eastern economies to absorb aid efficiently on this scale.

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Therefore, the study puts emphasis on technical instead of financial assistance, which would first help to create the necessary legal, financial and institutional frameworks (for example, a Central European Payments union) to improve the infrastructure, and to develop needed market skills and conditions.

Despite dramatic political changes and efforts to develop attractive legislation, the countries of Central and Eastern Europe still do not offer encouraging and convincing investment and business opportunities for Western companies.

There is no need to stress that foreign private investment and joint ventures would be of utmost importance for the technological and structural transformation and modernization of these countries. According to Hungarian government estimates, a minimum of \$1.5 billion-\$2 billion in capital is needed annually to create a viable investment environment, besides the \$3 billion-\$4 billion debt service in 1990-92. (about \$1500 million had been invested in Hungary up to the middle of 1991).

Though the emergence of democratically elected governments in Central and Eastern Europe may have represented an important change in investment atmosphere, several restrictive legal, institutional and economic policy factors still remain. The attractiveness of Central and Eastern Europe is still limited because of persistent economic difficulties and some discouraging social and political developments (e.g., accelerating inflation, balance of payments and budgetary problems, reemerging ethnic and nationalist antagonisms). It must be noted that as a function of changes and improvements, interest on the part of some of foreign companies is growing, but caution still remains. This has been particularly strengthened by the Yugoslav and in some respect by the Soviet political events.

Conversely, there are some fears and reservations that Central and Eastern Europe might be "too successful" in its adjustment and "too attractive" for foreign capital, particularly in the long run. Some industries are afraid the

region may prove to be a cheap supplier and a major competitor in a variety of products (labor-intensive products based on cheap skilled labor, mass consumer durables, etc.). The less developed EC countries in particular see the Eastern countries as a direct threat because they will attract large transnationals, thus diverting capital resources.

As has already been mentioned, such fears of less developed members are not unfounded. Spain, for example, has attracted \$45 billion in investment since 1986 and now fears that some of the private investment previously directed toward developing Mediterranean nations also might be rechanneled to Central and East European countries, which offer in some products dynamic internal sales and through association also access to the West European markets.

Benefits for the West

It must be stressed, however, that an association with Central and Eastern Europe could provide great benefits and extensive business and market opportunities for EC countries (and, of course, for EFTA also). For example, Central and Eastern Europe can offer broad markets for the West, and the huge West European market now could be extended to include the hungry consumers of Eastern Europe. As Frans Andriessen said, "Eastern Europe, with its 136 million

inhabitants with a high level of education and great material needs, will become an important trading partner to our mutual benefits." ¹⁶ The realization now exists that these opportunities are potentially substantial, and that as functions of marketization they can grow dramatically. According to Ralph Land, East European activities manager for Rank-Xerox, "The recent trend toward market economies is inexorable. The need to update their economies and fill store shelves with goods is so enormous that there are many ¹⁷ opportunities to do bussiness." In some fields the opportunities to sell are immediate because of large hidden effective demand on acute supply shortages on the one hand, and inconvertible money incomes on the other. Because of heavy indebtedness, these countries primarily want to export to the Western markets rather than buy Western products. But the hidden demand can be activated, and there are several ways of making the incomes convertible, even in the short run.

The potential markets are really enormous in the long run. The number of cars per 1,000 people is 145 in Hungary, while in the US it is 572, in Western Germany 446, and in Japan 235. The same data for telephones are 134 in Hungary, 650 in the US, 641 in Western Germany and 535 in Japan; for television sets, it is 275 in Hungary, 621 in the US, 377 in ¹⁸ western Germany and 250 in Japan. The Hungarian level of comparative living standards in durables, as listed above, is a little lower than those in Eastern Germany and the CSFR.

and higher than in other Central and East European countries. The consumption of durables in general is about one-fourth to one-third of that in highly industrialized countries, and the housing situation is even worse. According to Louis Lataif, president of Ford of Europe, car sales might double over the next decade.... Total sales in Eastern Europe could rise to seven million cars a year if car population densities reached Western levels.... The gaps between east and west in terms of per capita buying power were not as big as many might suppose." ¹⁹ A report by the Economist Intelligence Units in London comes to the same conclusion, stating that "Eastern Europe's demand for cars will exceed supply for at least another decade, even if current price restrictions and the general shortage of goods come to an end... Eastern Europe's production capacity could double to 4.8 million cars by 2000," still leaving substantial possibilities for Western sales. ²⁰

The demand in many fields can be activated and increased by eliminating bureaucratic controls and irrationally high prices due to internal monopolistic market structures and the closed character of the economy. By smashing the high monopolistic prices through market competition, the effective demand could be substantially increased in durable goods, particularly in the construction sector. The potential demand may grow even more rapidly if the accelerated replacement of many durables due to poor quality, energy waste and environmental pollution beyond Western standards is taken

into account. The aggregate impact can be even much broader if connected service sectors and the enormous possibilities in the housing sphere are included.

The advantages of market integration exist not only for Central and Eastern Europe, but also for the EC countries. This applies to both "static" and "dynamic" gains, and the region may offer great opportunities for exploitation of economies of scale. As a cheap supplier, Central and Eastern Europe may be considered a welcome partner as well as an undesired competitor. The Eastern countries have comparative advantages concerning their labor force particularly, and they can be easily transformed to high-quality manufacturing bases for Western companies.

The restructuring of outdated industrial structures and technologies offers immense investment and business opportunities. The long-neglected service sector and infrastructure are not only bottlenecks, but they also offer opportunities for investment and expansion; Western experience and technologies have proved that investment in this sector can bring attractive returns for investors. Companies from EC countries as well as the US or Japan could take advantage of the low wage rates and educated labor force in Central and Eastern Europe to build factories there and ship products to the West.

It is not too farfetched to suppose that in Central and Eastern Europe, as a result of structural modernization and market expansion, there are good prospects for rapid economic

growth. The closing of the gap in productivity and consumption in various sections of the economy (motorization, housing, infrastructure, services, protection of the environment, etc.) can secure dynamism within the whole economy for many years. An EC Commission report suggests that if a proposed free market reform package were implemented, then the Central and East European region could move from the present zero or negative growth to an annual rate of development of 5%-6% after 1992-93.²² The measures of 1992, coupled with association with a growth region, could mean powerful potential dynamizing effects for West European economies, unparalleled in any other region of the world except perhaps Southeast Asia.

According to the Deutsche Bank's chief economist, Norbert A. Walter, "the changes in 1992 and the East European reforms have created the perception around the globe that Europe is on the move, that there is a renaissance in Europe."²³ Most experts predict higher growth rates in the 1990s than in the 1980s for EC countries, partly because of rapid expansion of trade with Central and Eastern Europe, and partly because of the positive effects of the single European market. "The goal of Europe 1992 is to promote a renaissance of the Continent crippled by so-called Eurosclerosis that Europe suffered a decade ago," according to a report in US News and World Report, and "the architects of 1992 hope that by dropping barriers that impede the growth of globally comparative industries,... by cooperating on research and development,

accelerating the establishment of Pan-European companies and taking other expansionary steps... Europe could catch up with the US and Japan in five to ten years." ²⁴ The mutually strengthening processes between the two parts of the European continent can help to overcome the present crises in the East more quickly than has been assumed. Though, there may be serious doubts and reservations, these optimistic scenarios are not totally out of question.

Western Assistance and Less Developed Countries

It is beyond the limits of this paper to analyze all the global economic connections that may result from a possible association of Central and Eastern European countries with the EC. However, the EC's extensive commitments towards less developed countries (LDCs) are crucial and thus inevitably need special attention.

There is broad agreement that the consequences of change in Central and Eastern Europe on LDCs will be far-reaching, but opinions are deeply divided concerning their character and direction. There are growing fears among LDCs that, as a result of the suddenly increased interest in Central and Eastern Europe on the part of the West, resources may be diverted, and many worry that the EC governments may eventually rechannel aid earmarked for ²⁵ developing countries to Central and Eastern Europe. The disappearance of the East-West rivalry, which formerly played

an important role in aid determination, now may reduce the motivation and interest in helping LDCs. The East may be more attractive than LDCs for Western private capital because of historical, geographical and sentimental ties. There are mixed feelings about the recent revision of Central and Eastern Europe's status concerning the GSP; many developing countries see this as being directly disadvantageous to their export competitiveness. For many years, LDCs have resented the granting of World Bank loans to Central and Eastern Europe because, on the basis of per capita income calculations it seemed to them unjustified.

Furthermore, the East may now enjoy substantial competitive advantages in free trade agreements, and some of the newly industrialized countries may be particularly affected, despite the official statement released by the heads of the world's leading industrial countries at their 1990 Group of Seven Houston summit that their focus on developing nations would not be undermined by the support they give to the reforms in Central and Eastern Europe.

Of course, there are some, both in the West and East, who feel that because of an inadequate aid distribution to developing countries (only a fraction of all aid reaches those in need), there is no justification for a priority to help the Third World, particularly after its high social and economic diversity is taken into account. No doubt, that some of the newly industrialized countries are even in better shape than Central and East European countries because many

have large competitive export sectors, established market institutions, strong and viable middle classes, and developed infrastructures. At the same time, some of the Central and East European countries, as well as the Soviet Union (certain regions, in particular), not totally without foundation claim to have similar problems to the developing countries, with such adverse conditions as hunger, severe poverty and resource underutilization, among others.

It must be, however, strongly stressed, that the solutions to the problems of poor developing countries is of utmost importance, the priority of their support must be maintained and therefore any "cutting of aid to them" must be avoided.

It is very important that both the lenders and receivers of loans make it clear that reductions of aid will not happen in the future. Central and East European countries should be supported in their efforts to integrate themselves into the international economy, including, as appropriate, their adhesion to international institutions. This will benefit their own people and the rest of the world; it must not detract from the high priority placed on international development and cooperation with developing countries. Their integration will strengthen the role of Central and Eastern Europe as a dynamic trade partner and as
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a market and source of technology. Also, although the World Bank's global mandate "requires us to take an active role in Eastern Europe, our human and financial resources will not be reduced in continuing the fight against poverty

wherever it exists", according to Barber Conable, then
27
president of the World Bank.

It has also been pointed out that, although the elimination of East-West confrontation may reduce some forms of aid to LDCs, demilitarization and the reduced importance of ideology, even at times of less aid, may be more beneficial for developing countries. In the long run, the reduction of the East-West military rivalry and arms race may release resources for civilian use, and though there are difficulties inherent in the conversion process, the potential capacities for helping developing countries may increase. There are indications of growing cooperation between the East and West in assisting developing countries, particularly in international institutions that could increase both the volume and efficiency of the aid.

Most of these converted resources are aimed at the East, both in their character and structure, and are thus simply not transferable to the needs of developing countries, political considerations notwithstanding. This applies particularly to private investments, where direct business interests and political circumstances play crucial roles.

The consolidation of Central and East European economies and the management of their debt problems are also in the interests of developing countries. The default or bankruptcy of any Central or East European country may have broad and undesirable consequences on LDCs, not to mention

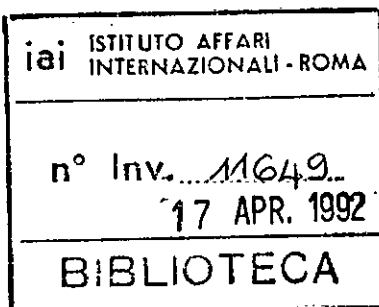
the fact that some of the Central and East European debt was formerly earmarked to the transfer of resources to developing countries. A consolidated and prosperous Central and Eastern Europe will have more resources and capacities for helping LDCs; the region represents a major addition to the world market, and the countries themselves will be sources of capital and technology export. It is in the interest of developing countries that Central and Eastern Europe develops and grows.²⁸ Some of the NICs have already recognized the tremendous business potential of the region, and they are ready to take part in the consolidation of the region both as private investors (taking into account the access to broad European markets) and as financial contributors (as participants in the EBRD). Though the worries can hardly be discounted, the consequences of Central and East European change on LDCs and the world economy seem to be positive on the whole.

Notes

- 1 "Central Europe" refers to Poland, Hungary and the Czech and Slovak Federal Republic. "Central and Eastern Europe" refers to these three countries plus Yugoslavia, Bulgaria, Romania, Albania and the Soviet Union. "Eastern countries" and "the East" are used as opposed to "the West," and they refer to all the nations listed above, or combinations thereof.

- 2 Financial Times, March 14, 1990.
- 3 The New York Times, January 2, 1990.
- 4 Financial Times, April 30, 1990.
- 5 Business Week, November 13, 1989, p. 43.
- 6 Vilaggazdasag, February 13, 1990.
- 7 Berdt von Staden, "Nothing Less Than the Whole of Europe
Will Do...", Aussenpolitik 41, no. 1 (1990), p. 31.
- 8 Magyar Nemzet, October 24, 1989.
- 9 Financial Times, March 20, 1990.
- 10 Financial Times, January 18, 1990.
- 11 The New York Times, February 16, 1990.
- 12 Financial Times, January 18, 1990.
- 13 The Washington Post, February 24, 1990.
- 14 Financial Times, April 18, 1990.
- 15 US News and World Report, November 27, 1989, p. 40.
- 16 The Washington Post, February 24, 1990.
- 17 The New York Times, December 18, 1989.
- 18 Financial Times, April 9, 1990.
- 19 Financial Times, March 6, 1990.
- 20 The Economist, December 2, 1989.
- 21 The Washington Post, February 24, 1990.
- 22 Financial Times, May 15, 1990.
- 23 The New York Times, January 15, 1990.
- 24 US News and World Report, November 27, 1989, p. 43.
- 25 The Wall Street Journal, February 23, 1990.

- 26 Declaration on International Economic Cooperation, in
Particular the Revitalization of Economic Growth and
Development of Developing Countries. General Assembly of
the UN, 1990, Paragraph 35.
- 27 International Herald Tribune, May 7, 1990.
- 28 The New York Times, January 2, 1990.





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STRUCTURAL ISSUES OF GLOBAL GOVERNANCE:
IMPLICATIONS FOR EUROPE

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Structural Issues of Global Governance:

Implications for Europe

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In a period of fundamental changes in global and national structures, the conventional separations of politics, economics, and society become inadequate for the understanding of change. These are aspects that in relatively stable times can conveniently be selected out for particular examination on an assumption of ceteris paribus. Fundamental changes have to be grasped as a whole. This whole is the configuration of social forces, its economic basis, its ideological expression, and its form of political authority as an interactive whole. Antonio Gramsci called this the blocco storico or historic bloc.¹ We can think of the historic bloc, as Gramsci did, at the level of a particular country. We can also think of it at the level of Europe, and at the world level insofar as there is evidence of the existence of a global social structure and global processes of structural change.

This paper will focus on three broad issues of global governance in the transition from the twentieth to the twenty-first centuries: (1) the globalization of the world economy and the reactions it may provoke; (2) the transformation of the inter-state system as it has been known since the Westphalian era; and (3) the problematic of a post-hegemonic world order. In

discussing these issues, three levels of human organization have to be considered in their interrelationships: the level of social forces, the level of states and national societies, and the level of world order and global society. The aim of the paper, adopting the perspective of historic blocs, is to sketch out a framework for understanding the problem of global governance, using these three issues and three levels, and then to consider its implications for Europe, and for Europe's choices in relation to the world.

Globalization

The two principal aspects of globalization are (1) global organizations of production (complex transnational networks of production which source the various components of the product in places offering the most cost advantage and also the advantages of political security and predictability); and (2) global finance (a very largely unregulated system of transactions in money, credit, and equities). These developments together constitute a global economy, i.e. an economic space transcending all country borders, which coexists still with an international economy based on transactions across country borders and which is regulated by inter-state agreements and practices.² The growth of the global economy and the progressive subordination to it of the international economy are widely seen among liberal economists and politicians as the wave of the future -- on the whole a "good thing" to which everyone sooner or later must adapt through the pressure of global competition.

Globalization has certain consequences, which are less often pointed out, but which have serious implications for the future structure of world order.

One of these consequences is a process that can be called the internationalization of the state. If you think back to the inter-war period and especially the depression years of the 1930s, the role of states was primarily to protect national economic space from disturbances coming from outside. The Bretton Woods system moved towards a different balance. It sought to achieve a compromise: states still had a primary responsibility to safeguard domestic welfare and levels of employment and economic activity; but they were to do this within rules that precluded economic aggression against others and aimed at a harmonisation of different national economic policies. Since the mid-1970s, with the demise of Bretton Woods, a new doctrine has achieved preeminence: states must become the instruments for adjusting national economic activities to the exigencies of the global economy -- states are becoming transmission belts from the global into the national economic spheres. Adjustment to global competitiveness is the new categorical imperative.

The effect of this tendency is differentiated by the relative power of states. Indebted Third World states are in the weakest position. Here states that are weak in relation to external pressures must become strong enough internally to enforce punitive adjustment measures on vulnerable social groups. States in "developed" countries discover that sensitivity to

foreign bond markets, fiscal crisis, and the transnational mobility of capital have effectively diminished their autonomy in making national policy. Only the United States, despite being the world's biggest debtor, retains a relative autonomy in determining national economic policy. Other states must adjust their economic policies to situations very largely determined by the United States.

Another consequence of globalization is the restructuring of national societies and the emergence of a global social structure. Globalization is led by a transnational managerial class that consists of distinct fractions (American, European, Japanese) but which as a whole constitutes the heart of what Susan Strange has called the "business civilization."³ The restructuring of production is changing the pattern of organization of production from what has been called "Fordism" to "post-Fordism".⁴ That is to say, the age of the large integrated mass-production factory is passing; the new model is a core/periphery structure of production with a relatively small control-centre core and numerous subsidiary component-producing and servicing units linked as required to the core. Economies of scale have given place to economies of flexibility. More flexibly decentralized production facilitates border-crossing relationships in organizing production systems; it also segments the labour force into groups segregated by nationality, ethnicity, religion, gender, etc. such that this labour force lacks the natural cohesion of the large concentrated workforces

of the old mass production industries. Power has shifted dramatically from labour to capital in the process of restructuring production.

The geographical distinction of First and Third Worlds is becoming somewhat blurred. Third World conditions are being reproduced within "developed" countries. Mass migrations from South to North combine with the reemergence of "putting out" production, sometimes of a "sweatshop" variety, and the expansion of low-wage employment in services in the "developed" countries of the North, to produce a phenomenon called the "peripheralization of the core". The terms "core" and "periphery" are losing their earlier exclusively geographical meaning to acquire gradually the meaning of social differentiation within a globalizing society -- a differentiation produced in large measure by the restructuring of production.

Karl Polanyi's analysis of nineteenth-century Britain suggests a paradigm for present-day global changes.⁵ Polanyi wrote of a "double movement". The first phase of this movement was the imposition upon society of the concept of the self-regulating market. To Polanyi, as economic historian and anthropologist, the notion of an economic process disembedded from society and set over and above society was an historical aberration, a utopian idea that could not endure. The disintegrating effects that the attempt to impose the self-regulating market had upon society generated during the later nineteenth century the second phase of the double movement: a

self-protective response from society through the political system reasserting the primacy of the social. This second phase took form with the legalizing of trade unions and collective bargaining, the construction of social security systems, the introduction of factory legislation, and ultimately recognition of government's responsibility to maintain satisfactory levels of employment and welfare.

One can well hypothesize today that the present trend of neo-liberal deregulation and privatization which appears to carry all before it in global economics will encounter a global response. This response will endeavour once again to bring economic process under social control, to reembed the economy, now at the global level, in society and to subordinate enhanced economic capacities to globally-endorsed social purposes.

Transformation of the state system?

As mentioned, economic globalization has placed constraints upon the autonomy of states. More and more, national debts are foreign debts, so that states have to be attentive to external bond markets and to externally-influenced interest rates in determining their own economic policies. The level of national economic activity also depends upon access to foreign markets. Participation in various international "regimes" regulates the activities of states in developed capitalist countries into conformity with global economy processes, tending toward a stabilization of the world capitalist economy.⁶

Apart from these constraints inherent in the existing global

economic order, there are new tendencies within this order producing two new levels of participation, one above and one below the level of existing states. These new levels can be named macro- and micro-regionalism.

As counterweights to the dominance of the U.S. economy and its prolongation into a North American economic sphere, two other macro-regional economic spheres are emerging, one in Europe and the other in the western Pacific centred on Japan. Europe and Japan confront separately the challenge of enlarging their autonomy in the global economy in relation to the dominance of U.S. economic power.

At the same time, the opening of larger economic spaces, both global and macro-regional, coupled with the weakening autonomy of existing states, has given scope for sub-state entities to aspire to greater autonomy or independence, to seek direct relationship to the larger economic spaces, escaping subordination to a weakened existing state. Catalan and Lombard micro-regionalists aspire to a more affluent future in the Europe of post-1992, free from Spanish or Italian central governmental controls and redistributive policies. Quebec independentistes are the most enthusiastic supporters of a North American economic space. The Soviet empire and Yugoslavia are collapsing into a multiplicity of political entities most of which can hardly hope to control their own destinies but all of which will seek some form of relationship with the large economic spaces now in formation.

Globalization is generating a more complex multi-level world political system, which implicitly challenges the old Westphalian assumption that a state is a state is a state. Structures of authority comprise not one but at at least three levels: the macro-regional level, the old nation-state (or Westphalian) level, and the micro-regional level. All three levels are constrained by a global economy which has means of exerting its pressures without formally authoritative political structures.

There is an increasingly marked duality and tension between the principles of interdependence and territorially-based power. Interdependence (most often a euphemism for relationships of dominance and dependence) is manifested in the economic sphere. Territorial power is ultimately military. The United States is at the heart of the tension between the two principles. Global economic interdependence requires an enforcer of the rules--just as the self-regulating market of the nineteenth century acquired as enforcers at the local and global levels Robert Peel's police force and British sea power. Today the United States plays the role of global enforcer; but at the same time the U.S. economy is losing its lead in productivity.

The gap in trade deficit and in budget deficit in the United States has been bridged by foreign borrowing, mainly in recent years from Japan. The internal reforms that would be necessary to reverse this process by reducing the deficits are blocked by the rigidity of the U.S. political system and the unwillingness of politicians to confront the public with unpleasant choices. For

the time being, foreign finance sustains in the United States a level of military and civilian consumption that U.S. production would otherwise not allow.

The Gulf war underlined on the military side (as Germany, Japan, Saudi Arabia and Kuwait were obliged to pay for a war decided and directed by the United States) what has quietly become the case on the civilian side for some years. The United States does not pay its way in the world, while its structural power, resting increasingly on its military strength, continues to bias the global system in its favour. This is a far cry from the post-World-War-II world in which the United States provided the resources for recovery and the model of productivity for the rest of the world.⁷ What was a system of hegemonic leadership has become a tributary system.

Hegemony and After⁸

There is an active debate about whether or not the hegemony of Pax Americana is in decline.⁹ What remains unclear in this debate is a failure to distinguish between two meanings of "hegemony". One meaning, which is conventional in international relations literature, is the dominance of one state over others, the ability of the dominant state to determine the conditions in which inter-state relations are conducted and to determine the outcomes in these relations. The other meaning, informed by the thought of Antonio Gramsci, is a special case of dominance: it defines the condition of a world society and state system in which the dominant state and dominant social forces sustain their

position through adherence to universalized principles which are accepted or acquiesced in by a sufficient proportion of subordinate states and social forces.¹⁰ This second meaning of hegemony implies intellectual and moral leadership. The strong make certain concessions to obtain the consent of the weaker.

The Pax Americana of the post-World-War-II era had the characteristics of this Gramscian meaning of hegemony. The United States was the dominant power and its dominance was expressed in leadership enshrined in certain principles of conduct that became broadly acceptable. The economic "regimes" established under U.S. aegis during this period had the appearance of consensual arrangements. They did not look either like the crude exploitation of a power position or like a hard bargain arrived at among rival interests. Moreover, the founding power behaved more or less according to the rules it established.

The recourse of U.S. policy during the 1980s to unilateralism and the more manifest divergencies of interest among the United States, Europe, and Japan, together with the subordination of Third World countries to western economic and military pressures have changed the nature of global relationships. U.S. power may not have declined either absolutely or relatively, but the nature of the world system can no longer be described as hegemonic in the earlier sense.

Past hegemonies -- the Pax Britannica of the mid-nineteenth century and the Pax Americana of the mid-twentieth -- have been based on universal principles projected from one form of western

civilization. A civilization is an intersubjective order, that is to say, people understand the entities and principles upon which it is based in roughly the same way. By understanding their world in the same way, they reproduce it by their actions. Intersubjective meanings create the objective world of the state system and the economy.¹¹ The fashionable prediction that we have arrived at the "end of history"¹² (a notion stimulated by the collapse of Soviet power and the end of the Cold War) celebrates the apotheosis of a late western capitalism. It is, however, in the nature of history not to have an end, but to move ahead in zig zag manner by action and reaction. If the consensual basis of Pax Americana is no longer so firm as it was in the 1950s and 60s, then we must ask what intersubjective basis there could be for a future world order.

A post-hegemonic era would be one in which different traditions of civilization could coexist, each based on a different intersubjectivity defining a distinct set of values and a distinct path towards development. This is a difficult challenge to common ways of thinking. It would imply building a mental picture of a future world order through a mutual recognition and mutual understanding of different images of world order deriving from distinct cultural and historical roots, as a first step. Then, as a second step, working out the basis for the coexistence of these images -- creating a supra-intersubjectivity that would connect or reconcile these culturally distinct intersubjectivities.

Europe's Choices: Forms of State and Society

How do these global tendencies and issues appear in the European context? How will Europeans respond in shaping their society and their form or forms of state?

It has become a commonplace on both left and right of the political spectrum that the capitalist state has both to support capital in its drive to accumulate and to legitimate this accumulation in the minds of the public by moderating the negative effects of accumulation on welfare and employment. During the post-war years, a neo-liberal form of state took shape in countries of advanced capitalism based on a negotiated consensus among the major industrial interests, organized labour, and government -- the neoliberal historic bloc. It was "neo" in the sense that classical liberalism was modified by Keynesian practice to make market behaviour consistent with social protection of the more disadvantaged groups.¹³

As growth stagnated in advanced capitalist countries during the 1970s, governments in effect denounced the social contract worked out with capital and labour during the post-war economic boom. Governments had to balance the fear of political unrest from rising unemployment and exhaustion of welfare reserves against the fear that business would refrain from leading a recovery that would both revive employment and enlarge the tax base. In this circumstance they bent before the interests of

capital.

In the neo-liberal consensus it had become accepted wisdom that society would not tolerate high unemployment or any dismantling of the welfare state. If these things were to occur, it would, it was said, cost the state the loss of its legitimacy. The truth of this statement has not been demonstrated uniformly. Indeed, it would more generally seem to be the case that the legitimacy of state welfare and of labour movements has been undermined in public opinion, not the legitimacy of the state. Large-scale unemployment has produced fear and concern for personal survival rather than collective protest. The unions are in strategic retreat, losing members, and unable, in general, to appeal to public opinion for support.

The disintegration of the neo-liberal historic bloc was prepared by a collective effort of ideological revision undertaken through various unofficial agencies -- the Trilateral Commission, the Bilderberg conferences, the Club of Rome, the Mont Pelerin Society and other less prestigious forums -- and then endorsed through more official consensus-making agencies like the OECD. A new doctrine defined the tasks of states in relaunching capitalist development out of the depression of the 1970s. There was, in the words of a blue-ribbon OECD committee, a "narrow path to growth," bounded on one side by the need to encourage private investment by increasing profit margins, and bounded on the other by the need to avoid rekindling inflation.¹⁴

The government-business alliance formed to advance along

this narrow path ruled out corporative-type solutions like negotiated wage and price policies and also the extension of public investment. It placed primary emphasis on restoring the confidence of business in government and in practice acknowledged that welfare and employment commitments made in the framework of the post-war social contract would have to take second place.

The restructuring of production has accentuated segmentation and divisions within the working class, but this tendency has not been uniform. In many western European countries, a long history of ideological education has maintained a sense of solidarity. In both Italy and France there have been instances where unions have maintained solidarity of action between migrant workers and local established workers, but xenophobic agitation has also found resonance among workers and unemployed. Segmentation has been the underlying trend that explains the weakness of labour in opposing the disintegration of the neoliberal social consensus and the programme put in its place by the government-business alliance.¹⁵

If the strains tending toward a disintegration of the neo-liberal historic bloc have been visible since the mid-1970s, it would be premature to define the outlines of a new historic bloc likely to achieve a certain durability as the foundation of a new form of state. Two principal directions of movement in political structures are visible in the erstwhile neo-liberal states of western Europe: one is exemplified by the confrontational tactics of Thatcherism in Britain (and by Reaganism in the United States) toward removing internal

obstacles to economic liberalism; the other by a more consensus-based adjustment process as in West Germany and some of the smaller European countries.

Hyperliberalism

The Thatcher-Reagan model can be treated ideologically as the anticipation of a hyper-liberal form of state -- in the sense that it seems to envisage a return to 19th-century economic liberalism and a rejection of the neo-liberal attempt to adapt economic liberalism to the sociopolitical reactions that classical liberalism produced. It takes the "neo" out of neoliberalism. The whole paraphernalia of Keynesian demand-support and redistributionist tools of policy are regarded with the deepest suspicion in the hyper-liberal approach. Government-imposed regulations to protect the public with respect to industrial activities (antipollution, safety and health controls, etc.) are also to be weakened or dismantled. The market is to determine how much protection the public really wants.

The hyper-liberal tendency actively facilitates a restructuring, not only of the labour force, but also of the social relations of production. It renounces tripartite corporatism. It also weakens bipartism by its attack on unions in the state sector and its support and encouragement to employers to resist union demands in the oligopolistic sector. Indirectly, the state encourages the consolidation of enterprise corporatist relations for the scientific-technical-managerial workers in the oligopolistic sector, a practice for which the state itself

provides a model in its treatment of its own permanent cadres. Finally, state policies are geared to an expansion of employment in short-term, low-skill, high-turnover jobs that contribute to further labour-market segmentation.

The political implications are a complete reversal of the coalition that sustained the neo-liberal state. That state rested on its relationship with trade unions in the oligopolistic sector (the social contract), an expanding and increasingly unionized state sector, readiness to support major businesses in difficulty (from agricultural price supports to bailouts of industrial giants), and transfer payments and services for a range of disadvantaged groups. The neo-liberal state played a hegemonic role by making capital accumulation on a world scale appear to be compatible with a wide range of interests of subordinate groups. It founded its legitimacy on consensual politics. The would-be hyper-liberal state confronts all those groups and interests with which the neo-liberal state came to terms. It does not shrink from open opposition to state-sector employees, welfare recipients, and trade unions.

The government-business alliance that presides over the transformation of the neo-liberal into a would-be hyper-liberal form of state generates an imposing list of disadvantaged and excluded groups. State-sector employees made great gains as regards their collective bargaining status and their wages during the years of expansion and have now become front-line targets for budgetary restraint. Welfare recipients and non-established

workers, socially contiguous categories, are hit by reduced state expenditure and unemployment. Farmers and small businessmen are angry with banks and with governments as affordable finance becomes unavailable to them. Established workers in industries confronting severe problems in a changing international division of labour -- textiles, automobiles, steel, shipbuilding, for example -- face unemployment or reduced real wages.

So long as the excluded groups lack strong organization and political cohesion, ideological mystification and an instinctive focus on personal survival rather than collective action suffice to maintain the momentum of the new policy orthodoxy. If at least a small majority of the population remains relatively satisfied, or even an articulate minority, it can be politically mobilized as necessary to maintain these policies in place against the dissatisfaction of an even very large minority or slim majority that is divided and incoherent.

State Capitalism

While the hyper-liberal model reasserts the separation of state and economy, the alternative state form that contends for relaunching capitalist development promotes a fusion of state and economy. This state-capitalist path may take several forms differentiated by national positions within the world economy and by institutional structures and ideologies.

The substance common to these differentiated forms lies in a recognition of the indispensable guiding role of the state (or of macro-regional political authority) in the development of the

productive forces of the state or region concerned and the advancement of their position in the world economy. The visible hand of state capitalism operates through a conscious industrial policy. Such a policy can be achieved only through a negotiated understanding among the principal social forces mediated by the state in a corporative process. This process produces agreement on the strategic goals of the economy and also on the sharing of burdens and benefits in the effort to reach those goals.

The state-capitalist approach is grounded in an acceptance of the world market as the ultimate determinant of development. No single national economy can control the world market or determine its orientation. Furthermore, unlike the neo-liberal approach, the state-capitalist approach does not posit any consensual regulation of the world market as regards multilateral trade and financial practices. "Regimes" may survive from the neo-liberal era, but state capitalism is not the most fertile ground for their formation. States are assumed to intervene not only to enhance the competitiveness of their nations' industries but also to negotiate or dictate advantages for their nations' exporters. The world market is the state of nature from which state-capitalist theory deduces specific policy.

The broad lines of this policy consist of, in the first place, development of the leading sectors of national production so as to give them a competitive edge in world markets, and in the second place, protection of the principal social groups so that their welfare can be perceived as linked to the success of

the national productive effort.

The first aspect of this policy -- industrial competitiveness -- is to be achieved by a combination of opening these industrial sectors to the stimulus of world competition, together with state subsidization and orientation of innovation. Critical to the capacity for innovation is the condition of the knowledge industry; the state will have a major responsibility for funding technological research and development.

The second policy aspect -- balancing the welfare of social groups -- has to be linked to the pursuit of competitiveness. Protection of disadvantaged groups and sectors (industries or regions) would be envisaged as transitional assistance for their transfer to more profitable economic activities. Thus training, skill upgrading, and relocation assistance would have a preeminent place in social policy. The state would not indefinitely protect declining or inefficient industries but would provide incentives for the people concerned to become more efficient according to market criteria. The state would, however, intervene between the market pressures and the groups concerned so that the latter did not bear the full burden of adjustment. (By contrast, the hyper-liberal model would evacuate the state from this cushioning and incentive-creating function, letting the market impose the full costs of adjustment upon the less fit.)

Where internally generated savings were deemed to be essential to enhanced competitiveness, both investors and workers would have to be persuaded to accept an equitable sharing of

sacrifice, in anticipation of a future equitable sharing of benefits. Thus incomes policy would become an indispensable counterpart to industrial policy. Similarly, the managerial initiative required to facilitate innovation and quick response to market changes might be balanced by forms of worker participation in the process of introducing technological changes. The effectiveness of such a state-capitalist approach would, accordingly, depend on the existence of corporative institutions and processes, not only at the level of enterprises and industries, but also of a more centralized kind capable of organizing interindustry, intersectoral and interregional shifts of resources for production and welfare.

The state-capitalist form involves a dualism between, on the one hand, a competitively efficient world-market-oriented sector, and, on the other, a protected welfare sector. The success of the former must provide the resources for the latter; the sense of solidarity implicit in the latter would provide the drive and legitimacy for the former. State capitalism thus proposes a means of reconciling the accumulation and legitimation functions brought into conflict by the economic and fiscal crises of the 1970s and by hyperliberal politics.

In its most radical form, state capitalism beckons toward the prospect of an internal socialism sustained by capitalist success in world-market competition. This would be a socialism dependent on capitalist development, i.e. on success in the production of exchange values. But, so its proponents argue, it

would be less vulnerable to external destabilization than were socialist strategies in economically weak countries (Allende's Chile or post-carnation-revolution Portugal). The more radical form of state-capitalist strategy presents itself as an alternative to defensive, quasi-autarkic prescriptions for the construction of socialism which aim to reduce dependency on the world economy and to emphasize the production of use values for internal consumption.¹⁶

Different countries are more or less well equipped by their historical experience for the adoption of the state-capitalist developmental path with or without the socialist colouration.¹⁷ Those best equipped are countries in which the state (as in France) or a centralized but autonomous financial system (as in Germany) has played a major role in mobilizing capital for industrial development. Institutions and ideology in these countries have facilitated a close coordination of state and private capital in the pursuit of common goals. Those least well equipped are the erstwhile industrial leaders, Britain and the United States, countries in which hegemonic institutions and ideology kept the state by and large out of specific economic initiatives, confining its role to guaranteeing and enforcing market rules and to macroeconomic management of market conditions. The lagging effects of past hegemonic leadership may thus be a deterrent to the adoption of state-capitalist strategies.

The corporatist process underpinning state-capitalist

development, which would include business and labour in the world-market-oriented sector and workers in the tertiary welfare-services sector, would at the same time exclude certain marginal groups. These groups have a frequently passive relationship to the welfare services and lack influence in the making of policy. They are disproportionately to be found among the young, women, immigrant or minority groups, and the unemployed. The number of the marginalised tends to increase with the restructuring of production. Since these groups are fragmented and relatively powerless, their exclusion has generally passed unchallenged. It does, however, contain a latent threat to corporatist processes. Part of this threat is the risk of anomic explosions of violence, particularly on the part of the young male unemployed element. Such explosions often, however, strengthen by reaction the established authority. They reinforce the demand for law and order.

The other part of the threat is the risk of political mobilization of the marginals, which would pit democratic legitimacy against corporatist economic efficiency. These dangers are foreshadowed in the writings of neoliberal ideologues about the "ungovernability" problem of modern democracies.¹⁸ The implication is that the corporatist processes required to make state-capitalist development succeed may have to be insulated from democratic pressures. To the extent this becomes true, the prospects of internal socialism sustained by world-market state capitalism would be an illusion.

In short, the state-capitalist alternative has some potential for reconstructing national hegemonies and overcoming the impasse that hyperliberalism tends to rigidify. The narrowing basis of corporatism (particularly as regards its labour component) on which state capitalism must rest does, however, contain a latent contradiction to democratic legitimacy. Its historic bloc would be thin. The excluded groups available for mobilization into a counterhegemony would be considerable, though the fragmentation and powerlessness of these groups would make the task formidable. In the medium term, state-capitalist structures of some kind seem a feasible alternative to the hyperliberal impasse. The long-term viability of these forms is a more open question.

Western Europe has, in its different national antecedents, propensities tending toward each of these forms of state and society. It might be said that in its present power structure, the dominance of capital in the opening of the Europe of 1992 favours hyperliberalism. However, the social corporativist tradition is strong, especially in continental Europe, and may compensate in politics for the dominance of hyperliberalism in economic power. The concept of "social Europe", anathema to Thatcherism and more covertly rejected by some elements of continental capital, is sustained by a social democracy more deeply rooted than in other major world regions. The issue between hyperliberalism and state capitalism will be tested first in Europe, and Europe's answer will serve as a model or at least

as an alternative for North America, Japan, and perhaps other regions in a future world.

Social forces counteracting globalization

Hyperliberalism is the ideology of the globalization thrust in its most extreme form. State capitalism is an adaptation to globalization that responds at least in part to society's reaction to the negative effects of globalization. We must ask ourselves whether there are longer-term prospects that might come to fruition following a medium-term experiment with state capitalism. This is best approached by enquiring how the conditions created by the globalizing thrust could generate a prise de conscience among those elements of societies that are made more vulnerable by it.

If the state-capitalist solution were to be but an interim stage, the prospect of turning around the segmenting, socially disintegrating, and polarizing effects of the globalization thrust rests upon the possibility of the emergence of an alternative political culture that would give greater scope to collective action and place a greater value on collective goods. For this to come about, whole segments of societies would have to become attached, through active participation and developed loyalties, to social institutions engaged in collective activities. They would have to be prepared to defend these institutions in times of adversity.

The condition for a restructuring of society and polity in this sense would be to build a new historic bloc capable of

sustaining a long war of position until it is strong enough to become an alternative basis of polity. This effort would have to be grounded in the popular strata. The activities that comprise it will not likely initially be directed to the state because of the degree of depoliticization and alienation from the state among these strata. They will more likely be directed to local authorities and to collective self-help. They will in many cases be local responses to global problems -- to problems of the environment, of organizing production, of providing welfare, of migration. If they are ultimately to result in new kinds of state, these forms of state will arise from the practice of non-state popular collective action rather than from extensions of existing types of administrative control.

Europe's social history has known such movements. They have marginally influenced the shaping of society and state, though they have never fulfilled their aims. These aims could in any event hardly be achieved in one national society alone; movements of this kind would have to grow simultaneously in several countries. The merging of European political processes inherent in the project of 1992 could provide a broad arena in which this could happen. Economic globalization, however, suggests that such a movement could not succeed in one macro-region alone. It would have to draw sufficient support in the world system to protect its regional base, or face the consequences of a relative military and economic weakening if competing macro-regions did not experience comparable developments. The existing globalization

thrust grounded in the economic logic of markets would have to be countered by a new globalization reembedding the economy in global society.

The sequel to "real socialism"¹⁹

If the options for the Europe of western capitalism can be expressed in relatively clear terms, the situation of the countries of "real socialism" approaching the threshold of the twenty-first century is more complex. Yet the long-term future of Europe implies an accommodation between these two regions. It is easy in the early 1990s to proclaim real socialism a failure. It is more difficult to envisage the effacing of the history of two generations through which social structures have been formed. Eastern Europe is not a tabula rasa on which western capitalism may be simply inscribed. The options for that region, whether for that part that may anticipate total integration within the west (the former GDR), close association with the European Communities (Poland, Hungary, and Czechoslovakia), or an autonomous evolution with a degree of integration into the world economy (the USSR), have realistically to take account of existing social structures.

Both capitalist and socialist societies have grown by extracting a surplus from the producers. In market-driven capitalist societies, this surplus is invested in whatever individual capitalists think is likely to produce a further profit. In socialist societies, investment decisions have been

politically determined according to whatever criteria are salient at the time for the decision-makers, e.g. welfare or state power. The social structure of accumulation is the particular configuration of social power through which the accumulation process takes place. This configuration delineates a relationship among social groups in the production process through which surplus is extracted. This power relationship underpins the institutional arrangements through which the process works.²⁰ It also shapes the real form of political authority.

To grasp the nature of the social structure of accumulation at the moment of the crisis of existing socialism in the late 1980s, one must go back to the transformation in the working class that began some three decades earlier. The new working class composed largely of ex-peasants that carried through the industrialization drive of the 1930s in the Soviet Union and the war effort of the 1940s worked under an iron discipline of strict regulation and tough task masters recruited from the shop floor. During the 1950s a new mentality reshaped industrial practices. Regulations were relaxed and their modes of application gave more scope for the protection of individual workers' interests. Managerial cadres began to be recruited mainly from professional schools and were more disposed to the methods of manipulation and persuasion than to coercion. The factory regime passed from the despotic to the hegemonic type.²¹

The historic compromise worked out by the Party leadership included a de facto social contract in which workers were

implicitly guaranteed job security, stable consumer prices, and control over the pace of work, in return for their passive acquiescence in the rule of the political leadership. Workers had considerable structural power, i.e. their interests had to be anticipated and taken into account by the leadership, though they had little instrumental power through direct representation. This arrangement of passive acquiescence in time generated the cynicism expressed as: "You pretend to pay us. We pretend to work."

The working class comprised an established and a non-established segment. One group of workers, the established worker segment, were more permanent in their jobs, had skills more directly applied in their work, were more involved in the enterprise as a social institution and in other political and civic activities. The other group, the non-established worker segment, changed jobs more frequently, experienced no career development in their employment, and were non-participant in enterprise or other social and political activities. The modalities of this segmentation varied among the different socialist countries.

Hungarian sociologists discerned a more complex categorization of non-established workers; "workhorses" willing to exploit themselves for private accumulation (newly marrieds for instance); "hedonists" or single workers interested only in the wage as the means of having a good time; and "internal guest workers" mainly women, or part-time peasant workers, or members

of ethnic minorities allocated to the dirty work.²² In practice, labour segmentation under "real socialism" bore a striking similarity to labour segmentation under capitalism.

This differentiation within the working class had a particular importance in the framework of central planning. Central planning can be thought of in abstract terms as a system comprising (a) redistributors in central agencies of the state who plan according to some decision-making rationality, i.e. maximizing certain defined goals and allocating resources accordingly; and (b) direct producers who carry out the plans with the resources provided them. In practice, central planning developed an internal dynamic that defied the rationality of planners. It became a complex bargaining process from enterprise to central levels in which different groups have different levels of power. One of the more significant theoretical efforts of recent years has been to analyse the real nature of central planning so as to discern its inherent laws or regularities.²³

Capital is understood in Marxist terms as a form of alienation: people through their labour create something that becomes a power over themselves and their work. Central planning also became a form of alienation: instead of being a system of rational human control over economic processes, it too became a system that no one controlled but which came to control planners and producers alike.

A salient characteristic of central planning as it had evolved in the decades just prior to the changes that began to be

introduced during the late 1980s was a tendency to overinvest. Enterprises sought to get new projects included in the plan and thus to increase their sources of supply through allocations within it. Increased supplies made it easier to fulfil existing obligations but at the same time raised future obligations. The centrally planned economy was an economy of shortages; it was supply constrained, in contrast to the capitalist economy which was demand constrained. The economy of shortages generated uncertainties of supply, and these uncertainties were transmitted from enterprise to enterprise along the chain of inputs and outputs.

Enterprise managers became highly dependent upon core workers to cope with uncertainties. The core workers, familiar with the installed equipment, were the only ones able to improvise when bottlenecks occurred. They could, if necessary, improvise to cope with absence of replacement parts, repair obsolescent equipment, or make use of substitute materials. Managers also had an incentive to hoard workers, to maintain an internal enterprise labour reserve that could be mobilized for "storming" at the end of a plan period. Managers also came to rely on their relations with local Party officials to secure needed inputs when shortages impeded the enterprise's ability to meet its plan target.

These factors combined to make the key structure at the heart of the system one of management dependence on local Party cadres together with a close interrelationship between management

and core workers in a form of enterprise corporatism. From this point, there were downward linkages with subordinate groups of non-established workers, with rural coöperatives, and with household production. There were upward linkages with the ministries of industries and the state plan. And there was a parallel relationship with the "second economy" which, together with political connections, helped to bypass some of the bottlenecks inherent in the formal economy.

Several things can be inferred from this social structure of accumulation. One is that those constituting its core--management, established workers, and local Party officials--were well entrenched in the production system. They knew how to make it work and they were likely to be apprehensive about changes that would introduce further uncertainties beyond those that they had learned to cope with. Motivation for change was most likely to come from those at the top who were aware that production was less efficient than it might have been, and who wanted to eliminate excess labour and to introduce more productive technology. (Those at the core of the system had a vested interest in existing obsolescent technology because their particular skills made it work.) Motivation for change might also arise among the general population in the form of dissatisfaction with declining standards of public services and consumer goods; and among a portion of the growing "middle class" of white collar service workers. The more peripheral of the non-established workers -- those most alienated within the system -- were

unlikely to be highly motivated for change. There was, in fact, no coherent social basis for change but rather a diffuse dissatisfaction with the way the system was performing. There was, however, likely to be a coherent social basis at the heart of the system that could be mobilized to resist change.

Economic reform and democratization

Socialist systems, beginning with the Soviet Union, have been preoccupied with reform of the economic mechanism since the 1960s. The problem was posed in terms of a transition from the extensive pattern of growth that was producing diminishing returns from the mid-1960s onward, to a pattern of growth that would be more intensive in the use of capital and technology. Perception of the problem came from the top of the political-economic hierarchy and was expressed through a sequence of on-again off-again experiments. Piece-meal reform proved difficult because of the very coherence of the system of power that constituted central planning. Movement in one direction, e.g. granting more decision-making powers to managers, ran up against obstacles in other parts of the system, e.g. in the powers of central ministries and in the acquired job rights of workers.

Frustrations with piece-meal reforms encouraged espousal of more radical reform; and radical reform was associated with giving much broader scope to the market mechanism. The market was an attractive concept insofar as it promised a more effective and less cumbersome means of allocating material inputs to enterprises and of distributing consumer goods. It was consistent

with decentralization of management to enterprises and with a stimulus to consumer-goods production. The market, however, was also suspect insofar as it would create prices (and thus inflation in an economy of shortages), bring about greater disparities in incomes, and undermine the power of the centre to direct the overall development of the economy. Some combination of markets with central direction of the economy seemed to be the optimum solution, if it could be done.

Following in the tracks of the reform movement came pressures for democratization. These came from a variety of sources: a series of movements sequentially repressed but cumulatively infectious in East Germany, Poland, Hungary, and Czechoslovakia; the rejection of Stalinism and the ultimate weakening of the repressive apparatus installed by Stalinism; and the consequences of the rebirth of civil society and of the recognition by the ruling cadres that the intelligentsia was entitled to greater autonomy. The two movements -- perestroika and glasnost in their Soviet form -- encountered and interacted in the late 1980s. Would they reinforce each other or work against each other? We do not yet know the answer.

Some economic reformers saw democratization as a means of loosening up society which could strengthen decentralization. Some of these same people also saw worker self-management as supporting enterprise autonomy and the liberalising of markets. Humanist intellectuals tended to see economic reform as limiting the state's coercive apparatus and as encouraging a more

pluralist society. For these groups, economic reform and democratisation went together.

Other economic reformers recognised that reform measures would place new burdens on people before the reforms showed any benefits. There would be inflation, shortages, and unemployment. The social contract of mature real socialism would be discarded in the process of introducing flexibility into the labour market and the management of enterprises. The skills of existing managers would be rendered obsolete, together with those of many state and Party officials engaged in the central planning process. Anticipating the backlash from all these groups, the "realist" reformers recognised that an authoritarian power would be needed to implement reform successfully. Without it, they reasoned, reform would just be compromised and rendered ineffective, disrupting the present system without being able to replace it.²⁴ The economic Thatcherites of real socialism were prepared to become its political Pinochets.

The initial effects of both economic reform and democratization have produced some troublesome consequences. Relaxing economic controls towards encouraging a shift to market mechanisms has resulted in a breakdown of the distribution system with a channelling of goods into free markets and black markets, rampant gangsterism, and a dramatic polarization of new rich and poor. This is hardly surprising, since the model of free enterprise previously existing in socialist countries was the often shady activities of the second economy. The relaxing of

political controls gave vent to conflicts long suppressed, mobilizing people around ethnic nationalisms, various forms of populism, and, at the extreme, right-wing fascist movements. Furthermore, the outburst of public debate, while it has severely shaken the legitimacy of the Soviet state and its sustaining myths, has also demonstrated its inability to come to grips with the practical reorganization of economy and society. The reform process has itself made things worse, not better. (One Soviet journalist in the United States summed this up by observing that while the radical-leaning municipal council in Leningrad debated for months whether or not to change the city's name back to St. Petersburg, the shops became more and more empty.)

The legitimacy of real socialism was destroyed by Stalinism and the anti-Stalinist backlash. Civil society is reemergent but its component groups have not achieved any articulate organized expression. This is a condition Gramsci called an organic crisis; and the solution to an organic crisis is the reconstitution of a hegemony around a social group which is capable of leading and acquiring the support or acquiescence of other groups. What does our analysis of the social structure of real socialism tell us about the prospects of this happening?

There are three distinct meanings that can be given to "democracy" in the context of the collapse of real socialism. One is the conventional "bourgeois" meaning of liberal pluralism. It has a strong demonstration effect in eastern Europe. Liberal pluralism has a history and many examples. Two other meanings

arise out of socialist aspirations.

One is producer self-management. It has been expressed in spontaneous action by workers in many different revolutionary situations -- in the original Russian soviets, in the Ordine nuovo movement of northern Italy in 1919, in workers' control of factories during the Algerian revolution, in the works councils set up in Poland following the events of 1956, and in factory movements in Hungary during the 1956 revolution and Czechoslovakia in 1968. These experiences were all short-lived. The only long experience with worker self-management is the Yugoslav one and, despite continuing debate, it cannot be considered persuasive. There is a strong point about producers being able to determine their own conditions; but there is also evidence of a tendency for such experiences, assuming they survive repression by a higher political authority, to turn in the direction of self-serving corporatism.

The other socialist meaning is popular participation in central planning. No historical experience can be cited; it would have to be invented. And yet it is perhaps the most attractive prospect in the spirit of socialism. Alec Nove suggested a form of compromise between democratic planning and producer self-government: consumers would decide what to produce; producers would decide how.²⁵

Georg Lukács wrote a text that was posthumously published in Hungary as Demokratisierung Heute und Morgen.²⁶ Rejecting both the Stalinist past and the liberal concept of democracy, he

speculated about the conditions in which a democratization of socialism might be possible.

A first condition, for Lukács, was a reduction in socially necessary labour time that would shift the balance in human activity from the realm of necessity to the realm of freedom. Society would have to be able to produce sufficient to satisfy the necessities of material existence without absorbing all the time and effort of its people. This condition is recognised also by others who have thought about the problem. Kornai posited that sufficient slack in production would be necessary to undertake reform in an economy of shortage.²⁷ Bahro argued that a state of "surplus consciousness", i.e. the existence of a margin of time and effort over and above the satisfaction of basic wants, was requisite for the pursuit of "emancipatory interests" as an alternative to the "compensatory interests" of consumerism.²⁸

The next condition would be a coalition of social forces upon which the structure of democratic socialism might be based. At this point, Lukács' prescription becomes obscure. Like Bahro and like Gorz in the west, he did not, in this last phase of his thought, look to the workers as the leading social class around which democratic socialism could take form. He spoke rather of liberating the "underground tendencies" hitherto repressed. The Party could, he hoped, reconstitute itself to achieve this.

This was a hope inspired by the reform movement led by the intelligentsia in Czechoslovakia in 1968. It had a brief revival again in the GDR during the time Neues Forum and similar groups

were building the popular movement that overturned the Honecker regime. The project lives on for now in the Soviet Union, though its plausibility is diminished. The Party is an object of cynicism and the idea of socialism no longer has a secure basis of legitimacy.

Two other routes towards democratization in recent eastern European experience have been, first, a movement from outside a moribund Party led by an independent workers' movement to which an intelligentsia attached itself (Poland); and second, an enlargement of scope for independent decision-making in the economy through a strategic withdrawal by the Party from direct control over certain aspects of civil society (Hungary). Both of these routes now in retrospect seem to be leading towards a restoration of capitalism. The former GDR shows a third route to capitalism: total collapse of the political structures of real socialism and full incorporation of its economy into West German capitalism.

For the remaining European countries of real socialism, options for the future can be grouped broadly into three scenarios. Each of these should be examined in terms of the relationship of the projected form of state and economy with the existing social structure of accumulation.

The first scenario is a combination of political authoritarianism with economic liberalization leading towards market capitalism and the integration of the national economy into the global capitalist economy. In its most extreme form,

this is a project favoured by some segments of the intelligentsia who recognise that a "shock therapy" in the Polish mode will be necessary to carry through privatization and the freeing of market forces; and that dictatorial powers will be needed to prevent elements of existing civil society, notably workers and segments of the bureaucracies, from political protest and obstruction in response to the bankruptcies of enterprises, unemployment, inflation, and polarization of rich and poor that would occur as the inevitable accompaniment to this kind of restructuring. This is the option encouraged, wittingly or unwittingly, by the western consultants pullulating through the world of real socialism as the whiz-kid offspring of private consulting firms and agencies of the world economy. It is encouraged paradoxically by the revival of von Hayek's ideas in eastern Europe and by the mythology of capitalism and of a pre-environmentalist fascination with western consumerism.

More moderate and mature political leadership might hesitate before enforcing the full measure of market-driven adjustments upon the more resistant and the more vulnerable elements of civil society. The compromise envisaged by this leadership would likely be a form of corporatism that would aim at co-opting core workers into the transition to capitalism, separating the more articulate and more strategically placed segments of the working class from the less articulate and less powerful majority. The enterprise-corporatist core of real socialism's social structure of accumulation would thus lend itself to facilitating the

transition to capitalism -- to something like the state-capitalist option for western Europe discussed above with a more authoritarian political aspect.

Some intellectuals have entertained the possibility of a transition to capitalism combined with a liberal pluralist political system. This vision most probably underestimates the level of conflict that would arise in formerly socialist societies undergoing the economic stresses of a transition to capitalism in the absence of a corporatist compromise. The choice then would become which to sacrifice, democracy or the free market? The historical record, as Karl Polanyi presented it in his analysis of central Europe in the 1930s²⁹, suggests that democracy is first sacrificed but the market is not ultimately saved! This setting was, for Polanyi, the opening of the path towards fascism; and some observers from eastern Europe raise again this spectre as a not unlikely outcome of the social convulsions following the breakdown of real socialism.³⁰

The second scenario is political authoritarianism together with a command-administrative economic centre incorporating some subordinate market features and some bureaucratic reform. This would leave basically intact the enterprise-corporatist heart of the existing planning system, which would also constitute its main political roots in civil society and its continuing source of legitimation in the "working class". The "conservatives" of the Soviet Union (with the backing of some influentials in the military and the KGB) may be counted among its supporters. The

long-term problem for this course would be in the continuing exclusion of the more peripheral segments of the labour force from any participation in the system, though these elements might be calmed in the short run if the revival of authority in central planning were to lift the economy out of the chaos resulting from the collapse of authority in both economic planning and political structures. The short-term problem would be the unleashed cacophony of the liberal intelligentsia with its international audience.

The third scenario is the possibility of democratization plus socialist reform. As suggested above, this could take the form either of producer self-management, or of a democratization of the central planning process, or conceivably of some combination of the two. Of the three scenarios, this one, with its two variants, is the least clearly spelled out. One reason for this may be, as David Mandell has suggested, that the power of the media in the Soviet Union has been monopolised by the adherents of the first two and especially by the radical market reformers.³¹

Self-management has been claimed by both economic liberals and socialists. It has lost ground among the liberals without noticeably gaining conviction among socialists. Some of those economic reformers who once thought of self-management as a support to economic liberalization, now appear to have drawn back from this option.³² Nevertheless, from a socialist perspective, the possibility must remain that self-management, in the absence

of some larger socialist economic framework, is likely to evolve towards a form of enterprise corporatism within a capitalist market, i.e. the moderate variant of the first scenario.

The position of workers in relation to these three scenarios remains ambiguous and fragmented. In this there is a striking resemblance to the position of workers under capitalism since the economic crisis of the 1970s. The same question is to be raised in each case: does the unqualified term "working class" still correspond to a coherent identifiable social force? The potential for an autonomous workers' movement was demonstrated in Poland by Solidarnosc; but in the hour of its triumph that movement fragmented. The Soviet miners' strike of July 1989 revived the credibility of a workers' movement; but it has not definitively answered the question.

Projects for managing and reorienting the working class that emanate from members of the intelligentsia are more readily to be found than clear evidence of autonomous working-class choice. David Mandell reports that the Soviet government tried to channel the miners' strike towards demands for enterprise autonomy, only subsequently to abandon self-management as part of market reform.³³ Academician Zaslavskaya, in a now famous internal Party document, advocated a policy of manipulating worker attitudes "in an oblique fashion" through incentives.³⁴ Some economic liberal reformers, no longer interested in self-management, entertain the notion of collective bargaining by independent trade unions as a counterpart to a capitalist economy.

Workers, it seems, may not have very much of an active, initiating voice in the reform process. They may continue as previously to be an important passive structural force that reforming intelligentsia will have to take into account. Their attitudes might be remoulded over time as Zaslavskaya and others would envisage. For the present many of them are, as a structural force, likely to remain committed to some of the basic ideas of socialism: egalitarianism in opportunities and incomes, the responsibility of the state to produce basic services of health and education, price stability and availability of basic wage goods. (In this respect, they would have to be classified, in the new vocabulary with which perestroika is discussed, as "conservatives".) Workers like other groups are critical of bureaucracy and irritating instances of privilege. These are the basic sentiments that future options for socialism could most feasibly be built upon.

Europe and the world

The future of Europe has been considered here above in terms of the options for form of state and society as they are conditioned by existing social forces within Europe -- forces which are the European manifestation of global tendencies discussed in the first part of the paper. Europe's relationship to the rest of the world will depend upon how Europeans define their own social and political identity by making their choice

among these options; but at the same time external influences from the world system are affecting the internal European balance of social forces in the making of these choices.

The emerging European macro-region will have a formal political structure different from the more informal authority structure of the other two macro-regions, the U.S. and Japanese spheres. Whereas the United States and Japan are economically and politically dominant in their spheres, the European core area in economic terms is a corridor running from Turin and Milan in the south through Stuttgart in the east and Lyon in the west up to the low countries and the southeast of England, spanning seven states. In political terms authority rests in a consultative confederalism in which participant states have often differing policy preferences and micro-regions are asserting their autonomy. This makes it less likely that Europe can speak in a unified way, especially on foreign policy matters -- witness the divergences over the Gulf War -- although pressure from the other macro-regions could become a recurrently unifying force.

The central issue in defining the future European identity will be the extent to which it is based on a separation of the economy from politics. Strong forces urge that this separation become the basic ontology of the new European order; and that a European-level political system be constructed that would limit popular pressures, for political and social control of economic processes left to a combination of the market and a Brussels-based technocracy. These forces have the initiative within

Europe, and they have the external backing of the United States as the enforcer of global economic liberalism. Europe has, however, a deeply-rooted tradition of political and social control over economic processes, both in western social democracy and in eastern real socialism. This is why the transformation of eastern European societies can be so important; despite their current weakness, in the overall balance of social forces shaping the future. East and West are no longer isolated compartments. Political processes will flow from one to the other; and although now the dominant flow is from west to east, a counterflow may be anticipated in migration and in political movements. Despair generating right-wing extremism in the east could merge with right-wing extremism in the west. The emergence of a firmly based and clearly articulated democratic socialism from the transformation of real socialism in the east could likewise strengthen western social democracy.

Europe's relation with the United States will in the long run be redefined as Europeans recreate their own identity. The Gulf War and President Bush's "new world order" placed Europe in an ambiguous position. Britain and France followed the U.S. lead, intent on regaining a position near the centre of global politics as might have been envisaged in the 1940s. Neither appears to have gained status or other rewards as a consequence. Germany held back, conscious of a divided domestic opinion and of the overwhelming need to give priority to absorbing the impact of the collapse of real socialism to the east. Italy, in a certain

manner, followed both courses.

Will Europe continue to accept the role of the United States as enforcer of global-economy liberalism? Will Japanese continue to subscribe to the U.S. deficit? The United States, despite its unquestioned economic and political power is moving into the same kind of difficulties as beset the Soviet economy -- declining rates of productivity, high military costs, and an intractable budgetary deficit. The role of enforcer is not sustainable by the United States alone; and there is a real question whether Europeans and Japanese would want to perpetuate and to subsidize this role for long.

Reconsidering Europe's relationship to the United States links directly to Europe's relationship to the Third World. The Gulf War was, in one of its aspects, an object lesson to the Third World that the global political economy was capable of mustering sufficient military force to discipline and punish Third World deviants from acceptable behaviour. The subsequent decision by NATO to establish a rapid deployment force under British command can be read as a reaffirmation of Gulf War strategy.

This is consistent with a view that sees the Third World from the perspective of the dominant forces in the global economy: some segments of the Third World become integrated into the globalization process; other segments which remain outside must be handled by a combination of global poor relief and riot control. Poor relief is designed to avoid conditions of

desperation arising from impoverishment which could threaten political destabilization of the integrated segments. Riot control takes the form of military-political support for regimes that will abide by and enforce global economy practices, and, in the last instance, of the rapid deployment force to discipline those that will not.

Europe, in historical and in geopolitical terms, has a particular relationship to the Third World: the relationship of Islamic to Christian civilizations. Europe's vocation for unity can be traced to the medieval Respublica Christiana, a concept of unity that had no corresponding political authority. Islam's vocation for unity looks to an equally distant past and the ephemeral political authority of the caliphate. Its unity also transcends states. Islam is for Christendom the great "Other". In contemporary terms, Islam also appears as a metaphor for the rejection of western capitalism as a developmental mode.

The bridging of the schism between East and West in Christendom leaves unresolved the confrontation with Islam. Whereas the the global economy perspective sees the Third World as a residual, marginal factor, a non-identity, the historical perspective of Europe confronts Islam as a different civilization. This confrontation is not only external, across borders and the Mediterranean sea. It is also becoming internalized within European societies, e.g. in political phenomena such as the Front national in France. A challenge to the new Europe is to free itself from the residual, marginalized

view of the Third World and to confront directly the cultural as well as economic and political issues in a recognised coexistence of two different civilizations.³⁵

Europe, in sum, can be a proving ground for a new form of world order: post-hegemonic in its recognition of coexisting universalistic civilizations; post-Westphalian in its restructuring of political authority into a multi-level system; and post-globalization in its acceptance of the legitimacy of different paths towards the satisfaction of human needs.

Endnotes

1. Antonio Gramsci, Selections from the Prison Notebooks ed. by Quintin Hoare and Geoffrey Nowell Smith (New York: International Publishers, 1971).
2. On this distinction between international and global economies, see Bernadette Madeuf and Charles-Albert Michalet, "A new approach to international economics", International Social Science Journal 30 (2) 1978.
3. Her essay in Sea Changes (New York: Council on Foreign Relations, 1990).
4. These terms have been used by the French régulation school of economists, e.g. Robert Boyer, The Theory of Regulation: A Critical Analysis (New York: Columbia University Press, 1990). A similar approach to the transformation of industrial organization has been taken by some U.S. economists, e.g. Michael Piore and Charles Sabel, The Second Industrial Divide (New York: Basic Books, 1984).
5. Karl Polanyi, The Great Transformation (Boston: Beacon Press, 1957).

6. On the role of "regimes", see especially, Robert O. Keohane, After Hegemony (Princeton, N.J.: Princeton University Press, 1984).

7. See in this regard the perceptive essay by Charles Maier, "The politics of productivity: Foundations of American international economic policy after World War II", International Organization 31 (4) 1977.

8. I am borrowing from the titles of two very different books, each of which have nevertheless something relevant to say: E.H. Carr's essay Nationalism and After (London: Macmillan, 1945) and Robert O. Keohane's After Hegemony (Princeton: Princeton University Press, 1984).

9. In addition to Keohane, op. cit., see Paul Kennedy, The Rise and Decline of the Great Powers (New York: Random House, 1987); Joseph S. Nye, Jr., Bound to Lead. The Changing Nature of American Power (New York: Basic Books, 1990); Susan Strange, "The persistent myth of lost hegemony", International Organization 41 1987; Stephen Gill, American Hegemony and the Trilateral Commission (Cambridge: Cambridge University Press, 1990).

10. R.W. Cox, "Gramsci, hegemony and international relations. An essay in method", Millennium 12 (2) 1983.

11. On intersubjective meanings in politics, see Charles Taylor, "Hermeneutics and politics" in Paul Connerton, ed. Critical Sociology (Harmondsworth, Middlesex: Penguin, 1976).

12. Francis Fukuyama, in The National Interest (U.S.), summer 1989.
13. This section is based on chapter 8 of Robert W. Cox, Production, Power, and World Order: Social Forces in the Making of History (New York: Columbia University Press, 1987); and also Robert W. Cox, "The Global Political Economy and Social Choice" in Daniel Drache and Meric S. Gertler, eds. The New Era of Global Competition (Montreal: McGill Queen's University Press, 1991).
14. The McCracken Report, Towards Full Employment and Price Stability. 1977.
15. On the segmentation trend, inter alia: Frank Wilkinson, ed. The Dynamics of Labour Market Segmentation. London: Academic Press, 1981.
16. Some French writers have probed these questions, e.g. Christian Stoffaes, La grande menace industrielle. (Paris: Calmann-Levy, 1978) and Serge-Christophe Kolm, La transition socialiste. La politique économique de gauche. (Paris: Editions du cerf, 1977).
17. Some recent U.S. studies that have compared the institutional characteristics of leading capitalist countries include Peter Katzenstein, ed. Between Power and Plenty: Foreign Economic Policies of Advanced Industrial States. (Madison: University of Wisconsin Press, 1978) and John Zysman, Governments, Markets, and Growth. (Ithaca: Cornell University Press, 1983).

18. Michel Crozier, Samuel P. Huntington, and Joji Watanuki, The Crisis of Democracy. Report on the Governability of Democracies to the Trilateral Commission. (New York: New York University Press, 1975).

19. "Real socialism" is a direct translation of realsocialismus which is used here in place of the cumbersome and now anachronistic term "actually existing socialism" that became current in English-language discourse about Communist Party regimes following the publication of the English translation of Rudolph Bahro's The Alternative in Eastern Europe (London: NLB, 1978). This section is largely based on Robert W. Cox, "'Real Socialism' in Historical Perspective", in Ralph Miliband and Leo Panitch, eds. The Socialist Register 1991 (London: The Merlin Press, 1991).

20. I have taken the concept of social structure of accumulation from David Gordon, "Stages of accumulation and long economic cycles" in Terence K. Hopkins and Immanuel Wallerstein, eds. Processes of the World System (Beverly Hills, Calif.: Sage, 1980) pp. 9-45. My use of it focusses more specifically on the relationship of social forces, whereas Gordon uses it more broadly to encompass e.g. the institutions of the world economy. I have applied the concept to the capitalist world economy in Cox, Production, Power, and World Order, chap. 9.

21. The terms are taken from Michael Burawoy's use of Gramsci's concept of hegemony. See Burawoy, The Politics of Production (London: Verso, 1985).

22. See Hungarian Academy of Sciences, Institute of Economics, 1984, Studies, 23 & 24, Wage Bargaining in Hungarian Firms.

23. Prominent among those who have opened up this line of theoretical enquiry are Wlodzimierz Brus, The Economics and Politics of Socialism (London: Routledge and Kegan Paul, 1973); János Kornai, Economics of Shortage (Amsterdam: North-Holland, 1980) and Growth, Shortage and Efficiency: A Macrodynamic Model of the Socialist Economy (Berkeley: 1982).

24. The positions of various groups in Soviet society with regard to reforms are reviewed in R.W. Davies, "Gorbachev's socialism in historical perspective", New Left Review 179, January-February 1990.

25. Alec Nove, The Economics of Feasible Socialism (London: George Allen & Unwin, 1983) p. 199.

26. Budapest: Akadémiai Kiadó, 1985. I am indebted to Dr. A. Bródy, Institute of Economics, Hungarian Academy of Sciences, for drawing this text to my attention.

27. János Kornai, Anti-Equilibrium. On Economic Systems Theory and the Tasks of Research. (Amsterdam: North Holland, 1971).

28. Rudolph Bahro, The Alternative in Eastern Europe (London: NLB, 1978).

29. In The Great Transformation op. cit.

30. E.g. Milan Vojinovic, "Will there be a palingenesis of extreme rightist movements" Paper prepared for the conference "After the Crisis", University of Amsterdam, 18-20 April 1990. Ralf Dahrendorf, while arguing the possibility of capitalism with liberal pluralism, is also concerned by the possibility of a fascist revival in Reflections on the Revolution in Europe (New York: Random House, 1990) pp. 115-116.

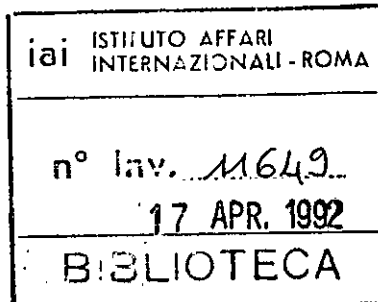
31. David Mandell, "'A market without thorns': the ideological struggle for the Soviet working class", Studies in Political Economy, 33 Autumn 1990: 7-38.

32. R.W. Davies op. cit. p. 23 reports this of e.g. the economist Aganbegyan.

33. Op. cit. p. 18.

34. Novosibirsk Report, 1984. Trans. published in Survey 128 (1): 88-108. This point is made on pp. 95-96.

35. A thoughtful introduction to such a perspective can be found in Yves Lacoste, Ibn Khaldun. The Birth of History and the Past of the Third World (London: Verso, 1984). First published in French by Maspero, Paris, 1966.



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**THE DEMOCRATIZATION OF EASTERN EUROPE AND
THE RELATIONS BETWEEN NORTH AND SOUTH**
by
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WIDER



1. The Transition to a Market Economy

(This paper is concerned essentially with the impact of the ongoing economic reforms in Eastern Europe and the Soviet Union on the position and prospects for development of Third World Countries. The process of political democratization is an essential precondition for successful economic reform since the transition from a command economy to a market-oriented system must have wider popular support, in view of the accompanying hardships involved. Here, it is assumed that democratization is sufficiently developed to give adequate support to the necessary economic reforms.)

While all the countries of Eastern Europe have now committed themselves to some type of market-oriented economic reform, they vary greatly in the rate at which they are moving towards a market economy, as well as in the sequence and timing of the policies adopted to achieve this objective. These differences are particularly evident in a comparison of developments in the former German Democratic Republic, Poland and Yugoslavia - which have been subject to the 'shock treatment' of sudden and comprehensive liberalization of both domestic and foreign trade - and in Czechoslovakia and Hungary, where the reform process has been spread over a period of years. The Soviet Union, as well as Bulgaria and Romania, are in a separate category, since though the 'command system' has broken down effective market-oriented institutions are not yet in place.

The pace of reform, and the length of the transition to a reasonably efficient market system, must therefore be expected to vary considerably among the former CMEA countries. Moreover, it seems certain that the transition will take a substantially longer time and that the dislocations suffered will be substantially greater than had generally been anticipated even a year ago. In 1990 the economic situation worsened sharply in all the East European countries, with particularly large declines in industrial output - by 20% or more, compared with 1989 - in the former GDR, Poland and Romania. For Eastern Europe as a whole, excluding the Soviet Union, the contraction in industrial output in 1990 is estimated at 17.5%, while a further sharp decline was recorded for the first quarter of 1991 (Table 1). In the Soviet Union industrial production fell by 5% in the first quarter of 1991, with widespread shortages being reported at the consumer level.

The economic dislocation affected the agricultural sector also, while gross investment in both Eastern Europe and the Soviet Union was cut back substantially. Much of the difficulties in Eastern Europe arose from the collapse of the CMEA trading system and, more particularly, from the sharp contraction in Soviet demand for their exports, while their terms of trade substantially deteriorated. In the Soviet Union, major factors at work were the breakdown of the old 'command system' while a new market-oriented institutional framework was not yet in place, accompanied by sharp falls in output and exports of energy and raw materials, and consequently in export revenue, resulting in large cuts in essential imports.

TABLE 1

Output and Investment in Eastern Europe and the Soviet Union:
1981-91

	1981-85 (average)	1986-88 (average.) (annual % growth rates)	1989	1990	1991(a) (1st qtr.)
Eastern Europe:					
Industrial output	2.7	3.3	0.2	-17.5	-13.0
Agricultural output	1.1	0.3	-	-3.5	-
Gross Investment	-0.7	3.4	-1.5	-13.3	-
Soviet Union:					
Industrial output	3.6	4.0	1.9	-1.2	-5.0
Agricultural output	1.1	2.1	0.8	-2.3	-
Gross investment	3.5	6.7	4.7	-4.3	-16.0

sources: *Economic Survey of Europe in 1990-91* (Table 2.2.1) and *The ECE Economies in mid-1991* (Table 3), UN Economic Commission for Europe, Geneva.

(a) - Compared with first quarter 1990

The magnitude of the economic dislocation in the Soviet Union is extremely large while, as mentioned, progress in establishing a new market-oriented framework has so far been slow and largely ineffective. Even though the economic reform process is expected to gain momentum, following the failure of last month's coup attempt, the transitional period seems certain to be prolonged - at least to the latter part of the 1990s. Though some of the transitional economies of Eastern Europe may well become fully integrated into the international economic system before then, it would seem prudent to assume that the early and middle years of the 1990s will be, to a large extent, one of transitional difficulties in the former CMEA area, accompanied by significant unemployment, restricted levels of imports and slow growth - if any - in output of goods and services.

Once the transitional period is over, and the former CMEA countries are fully integrated with the international economy, perhaps towards the end of the 1990s, these countries should be able once again to achieve sustained domestic growth and expanding foreign trade, including trade with developing countries. However, the relatively gloomy outlook for the short- and medium-term is likely to have adverse repercussions on the export earnings and inflows of financial resources of Third World countries.

2. Trade Effects on Developing Countries

The impact of the economic reform process in Eastern Europe on the exports of developing countries will be both direct, as regards East European countries as markets, and indirect, as regards consequential changes in western markets.

Western markets are by far the most important outlets for developing country exports,¹ so that the indirect effects of economic reforms in Eastern Europe may well outweigh the direct effects in Eastern Europe itself. There are several indirect mechanisms which could affect the outcome. First, the extension of trade preferences, or the lifting of discriminatory import restrictions, by western countries on their imports from Eastern Europe would involve an erosion of the preferential trade margins currently enjoyed by developing countries under the UNCTAD Generalized System of Preferences (GSP), and under the current Lomé Convention between the European Community and the associated African, Caribbean and Pacific (ACP) countries.

With the recognition by the European Community of the political independence of the three former Soviet Baltic States, consideration is now likely to be given to the negotiation of Association Agreements of these States with the Community. Agreements of this type between the Community and North African countries, for example, provide for preferential entry of goods from these countries into the Community market. Similarly, trade preferences are likely to be negotiated for the Baltic States, and probably for other East European countries also. In any case, western countries have already considerably relaxed their discriminatory quantitative restrictions against imports from some East European countries, though it must be noted that import quotas for these countries were not always fully taken up because of supply difficulties.

With closer trading links between Eastern Europe and western countries, East European exports of a range of foods and of labour-intensive manufactures - the two areas in which these countries have some comparative advantage - can be expected to expand, and to displace, at least to some degree, competitive exports, from developing countries. Moreover, these two product groups are also those in which the Southern European countries - Portugal, Spain and (Southern) Italy - have major export interests, particularly in the Community market and political pressure from these countries may well be exerted to limit their own loss of market share, consequent upon a reduction in barriers to imports from Eastern Europe, by seeking some offset in the form of a reduction in competitive imports from developing countries. In any event, it seems likely that some significant trade diversion in these two product groups will occur at the expense of developing country suppliers.

¹ In 1989, Eastern Europe took only 4% of developing countries' exports (excluding exports from OPEC countries).

The process of trade diversion appears already to have begun in 1990, when those East European countries most advanced in the transition to market economies - Poland, Hungary and, to a lesser extent, Czechoslovakia - achieved a substantial expansion in exports to western markets (in total, a rise of over 25%, compared with 1989, a major part of the increase being in food and manufactured consumer goods).² This contrasts sharply with the large contraction in 1990 in trade among the former CMEA countries, and the decline in exports to developing countries (Table 2). The impact of European trade diversion - which is likely to be accentuated by the inauguration of the Single Market at the end of 1992 - will, however, be attenuated to the extent that the degree of protection enjoyed by domestic producers in Europe is reduced as a result of the Uruguay Round negotiations. During the 1960s and 1970s the trade diversion effects arising from the continuing process of integration among the economies of Western Europe were to some extent offset by successive rounds of trade liberalization (though there were many exceptions as regards commodity exports from developing countries). A substantial reduction in trade barriers affecting developing country exports, particularly of agricultural products and of labour-intensive manufactures, would seem essential to prevent a major loss of market share by developing countries during the 1990s.

Second, it seems unlikely that the East European transition will adversely affect the exports of capital- or skill-intensive manufactures from the Newly Industrialising Countries (NICs) of East Asia to western markets. The NICs are now extremely competitive in world markets for a wide range of 'high-tech' manufactures, such as electronic apparatus, computers, automobiles, etc., in which East European industry is notoriously backward. Even in labour-intensive manufactures, the market shares of the NICs are unlikely to be seriously threatened.

Third, a small number of developing countries have for many years been heavily dependent on the Soviet and East European markets for the bulk of their export earnings. Under various bilateral trade and co-operation agreements, some developing countries enjoyed stable prices for their exports well above world market levels (Cuba's sugar exports to the Soviet Union being the most important example). These countries now face severe financial difficulties as a result of the foreign trade crisis of the East European countries reflecting, *inter alia*, the change to trading at world prices as from the beginning of 1991, and the severe dislocations in the Soviet economy.

² ECE Economic Survey, *op.cit.*, Table 3.3.6 and Appendix Table C.9.

TABLE 2

Foreign Trade of Eastern Europe and the Soviet Union: 1988 to First Quarter of 1991

	Eastern Europe				Soviet Union			
	1988	1989	1990	1991(a) (1st qtr.) (annual % change)	1988	1989	1990	1991(a) (1st qtr.)
Exports to:								
Former CMEA (b)	5.0	-1.4	-5.9	-25.5	-3.0	-1.5	-16.8	-13.2
Developed market economies (c)	10.7	6.5	11.6	14.8	7.8	7.8	12.3	-8.0
Developing countries (c)	1.8	-12.5	-14.3	-6.7	2.2	2.0	-9.5	-40.8
Total (c)	7.5	-3.5	-9.2	-10.7	2.7	-1.3	-4.8	-15.3
(volume)	(3.7)	(-2.1)	(-10.0)	-	(4.8)	-	(-12.9)	-
Imports from:								
Former CMEA (b)	-1.4	-2.3	-8.7	27.4	3.0	3.0	-1.7	-36.4
Developed market economies (c)	10.9	4.8	24.2	17.2	22.6	21.1	5.6	-47.7
Developing countries (c)	0.5	5.5	-	1.0	17.4	26.0	3.8	-47.2
Total (c)	3.0	-2.7	-1.7	0.4	11.6	6.9	5.6	-44.7
(volume)	(3.3)	(0.9)	(-0.5)	-	(4.0)	(9.3)	(-1.8)	-

note: The 1991 figures are subject to serious statistical collection and definitional problems and must be treated with caution (see *The ECE Economies in mid-1991*, op. cit. pp. 9-10).

(a) - Compared with first quarter 1990. For both periods, the figures exclude the former German Democratic Republic from 'Eastern Europe' and 'Former CMEA'.

(b) - In terms of transferable roubles.

(c) - In terms of US dollars.

sources: *Economic Survey of Europe in 1990-91* (Tables 2.2.1 and 2.2.17), and *The ECE Economies in mid-1991* (Tables 3 and 7), UN Economic Commission for Europe, Geneva.

Apart, however, from the relatively few developing countries which were CMEA members, and the NICs, the majority of developing countries stand to suffer loss of market share as a result of the economic integration of Eastern Europe with western markets. Market share loss could be attenuated, possibly to a substantial extent, by a large reduction - or phasing out - of import barriers of western countries which obstruct exports from developing countries. Equally, a significant rise in the GDP growth rate in western markets, particularly in the European Community, would offset, to a greater or lesser extent, a loss of market share by developing countries. But, at the present time, neither of these offsets would seem highly likely to arise.

In addition to the indirect effects of trade diversion, there are likely to be adverse terms of trade effects also, especially for the minerals and metals exported by developing countries. The Soviet Union is itself the world's leading producer of many important minerals (iron ore, lead, nickel, manganese and potash), while changes in its exports of many others (copper, zinc, gold, diamonds and platinum group metals) can influence the world market substantially. Over the past year or two, the combination of acute shortage of convertible currency and falling industrial production has provided a powerful incentive for increasing Soviet exports of these minerals and metals to western markets.

Soviet nickel exports to western markets account for about 15% of western supply. Eastern Europe together with the Soviet Union, supply between 1-3% of western consumption of copper and aluminium, enough to have a significant effect on prices if supplies become plentiful. Soviet exports of both aluminium and copper rose substantially in 1990 and a further rise is anticipated for 1991. For both lead and zinc, the Soviet Union became a net exporter in 1990 having previously been a net importer.

This general rise in Soviet supplies is already adding to existing depressive forces on world minerals and metals markets. It has recently been estimated that the additional Soviet supplies will result in an average fall of 20% in the prices of metals traded on the London Metal Exchange in 1991 taking them close to their historic low points reached in 1986³. Price falls of this magnitude will involve serious foreign exchange losses for developing countries dependent on these minerals and metals for their export income.

Turning now to the direct effects of the economic reforms on developing country exports, it seems clear that the main initial impact so far of the reforms on imports into Eastern Europe (other than the Soviet Union) have been (i) a sharp rise in the cost of imports from the Soviet Union from the beginning of 1991 as a result of the change to trade at world prices, and (ii) a substantial rise in imports from western countries - mainly those in Western Europe - beginning in 1990 and continuing in 1991. Imports from

³ *Financial Times*, London 11 September 1991.

developing countries into Eastern Europe, however, were stagnant while those into the Soviet Union were sharply reduced in the early months of 1991 (see Table 2). The contraction in Soviet imports in 1991, which affected all sources of supply, reflected that country's acute shortage of convertible currency, as well as the underlying dislocation of the domestic economy.

The experience so far thus indicates a marked switch in the sources of imports into the reforming economies of Eastern Europe in favour of western suppliers. Within the total trade flows, however, there may be some commodities such as tropical fruits (*e.g.* bananas), coffee and cocoa, consumption of which has been severely repressed for decades in Eastern Europe and the Soviet Union, and developing countries exporting such commodities could gain with the liberalization of the foreign trade regimes in Eastern Europe.

The continuing severe shortage of convertible currency, both in Eastern Europe and the Soviet Union, and in the majority of developing countries remains a major limiting factor, however, in efforts to expand East-South trade. Consideration needs to be given to possible innovative financial arrangements or mechanisms which would minimize the adverse effects of the convertible currency shortage on this flow of trade. One mechanism which has been in use by many developing countries, so far confined to their trade with market-economy countries, has been countertrade (even though this has disadvantages similar to pure barter trade), and an extension of countertrade deals would be one way of avoiding the limitation to trade resulting from the scarcity of convertible currencies. Another possibility might arise if the various countries of Eastern Europe entered into a 'common payments union' for clearance of trade imbalances, which could at a later date be extended to those developing countries with which they have substantial trade flows.

A further approach recently suggested⁴ is that the European Bank for Reconstruction and Development should 'take over' commercial bank claims on developing countries (presumably by purchasing them on the secondary market). The Bank could then use these claims as credits to East European governments, thus providing the latter with an incentive to increase their purchases from developing countries. However, such schemes, even if successful, are unlikely by themselves to achieve a substantial and sustained growth in East-South trade. Of more fundamental importance in the transitional period would be greatly expanded flows of financial resources to both Eastern Europe and to developing countries.

⁴ A. P. Müller, 'The Credit-worthiness and International Payments Ability of Sovereign States', *Intereconomics*, March/April 1991.

3. Financial Flows

(a) Official Development Assistance (ODA)

Though western governments have stated that aid to Eastern Europe will not be at the expense of aid to developing countries,⁵ many Third World representatives have expressed concern at the possibility of 'aid diversion' in favour of Eastern Europe. This concern reflects primarily the fact that 'aid fatigue' on the part of the main donor countries (DAC-ODA for developing countries has stagnated at about 0.35% of GNP for several years) has coincided with the strongly expressed desire of western governments to launch large new aid programmes for Eastern Europe. Moreover, as a consequence of the end of the Cold War, the strategic value of many developing countries to the West has been sharply reduced, and this is likely to reinforce the 'aid fatigue' syndrome.

International financial commitments in support of economic reform in Eastern Europe have risen substantially since 1989, when such financial support was focussed on Hungary and Poland. By early 1991, total commitments for the area (excluding the former GDR) amounted to some US\$24 billion, to be disbursed over several years. This includes US\$8 billion agreed or under negotiation with the IMF, about US\$6 billion in bilateral aid and nearly US\$4 billion in facilities established by the Group of 24 Western Countries.⁶ It is too early to document annual flows under the various programmes covered, but if, for example, disbursements were spread over three years, the annual financial transfer (US\$8 billion) would represent over 15% of the DAC-ODA total of US\$48 billion.

The likelihood of aid diversion will also depend heavily on financial disbursements by Western governments to the Soviet Union. At the Rome summit of European Community leaders in December 1990, a programme of 1.15 billion ECU (approx. US\$1.3 billion) of aid for the Soviet Union was approved.⁷ However, a much larger financial support from the West will be required to support reconstruction and reform in the three Baltic States (which are now seeking up to US\$3 billion from the West),⁸ and to support accelerated economic reform in the rest of the Soviet Union.

By early 1991, total bilateral credit commitments to the Soviet Union amounted to some US\$22 billion, including bilateral soft loans for restructuring and emergency relief, and trade credits.⁹ Most of this is likely to be used in 1991 and 1992 to settle outstanding debts and to finance

⁵ Declaration of DAC member governments at their meeting in late 1989.

⁶ *Economic Survey of Europe*, op. cit. (Table 3.3.13).

⁷ The programme includes food aid, credit guarantees for exports of agricultural products and technical assistance.

⁸ *Financial Times*, 29 August 1991.

⁹ *Economic Survey of Europe*, op.cit. (Table 3.3.16)

essential imports. The medium-term outlook will depend on whether a credible reconstruction and reform plan can be devised in view of the uncertainties regarding the division of political power in the country, and the degree of social consensus on the proposed reforms. The earlier 'Grand Bargain' proposed in the Yavlinsky Plan of last June envisaged western aid of US\$20-35 billion a year, and while such amounts seem unlikely to materialise in the near future, a reform programme of even half that size could, together with aid to Eastern Europe, represent a significant threat to the overall western aid commitment to developing countries.

There is also the possibility of diversion of food aid from the European Community to Eastern Europe (Poland being the largest recipient of such food aid in 1989-90), while Eastern Europe is also likely to be a competitor for scarce technical, financial and management skills vital to institutional reform.¹⁰

Apart from aid diversion from western countries, the economic dislocation and foreign exchange crisis confronting East European countries and the Soviet Union has inevitably resulted in the collapse of their own aid flows to developing countries. These were never large (in relation to aid flows from the West), some US\$4-5 billion a year, most of which came from the Soviet Union, and were heavily concentrated in relatively few countries (particularly Cuba, Mongolia and Vietnam). The latter now have to adjust to the cessation of this aid, as well as to the loss of trade and related preferences, mentioned earlier.

Given present levels of aid commitments, the risk of aid diversion from Western countries cannot be discounted. However, there may be a change of aid scenario in favour of the developing countries, if the needs for new aid commitments are recognised and sufficient political will could be mobilised to bring this about. The magnitudes involved under this scenario are set out in Table 3. The Preparatory Committee for the United Nations Conference on Environment and Development has endorsed this as a concept of partnership in additionality, which would be based on a developing country's clear articulation of policies and strategies and a programme of action for their implementation. Resource transfers could take place in the framework of an agreement between donors and recipients based on development contracts enabling countries to implement long term programmes for sustained development.

To summarize, the net capital inflows required for sustainable development in developing countries need to rise during the 1990s from US\$60 billion to US\$140 billion, a substantial portion of which, by helping slow down population growth, serves the goals of both socially necessary growth and environmental protection. To place these figures in a policy context, it is necessary to relate them to the 1990 total of Official Development Assistance (ODA), which is about US\$55 billion. The additional

¹⁰ *Eastern Europe and the Developing Countries*, Briefing Paper, June 1991, Overseas Development Institute, London.

net capital inflow requirement of US\$60 billion for 1990 thus would have implied roughly a doubling of official aid flows. For Japan, to take one important example, whose ODA stands at around US\$9 billion or 0.32% of GNP, a doubling would imply very nearly reaching the accepted UN target of 0.7% of GNP. Japan's tax rates have already been increased to provide an additional US\$9 billion to help pay for the costs of the Gulf War, and Dr. Saburo Okita, the Chairman of the WIDER Board and a former Foreign Minister of Japan, has urged that Japan should subsequently "institutionalize this increase" in order to divert the increment in revenue to development assistance.¹¹ A political decision by Japan along these lines, namely to reach the 0.7% ODA target in 1992/3, would constitute a very positive response to the South Commission's call for "doubling the volume of transfers of concessional resources to developing countries by 1995"¹² and would set a powerful example to other donors. The need to go even beyond this and increase the 0.7% target to 1% in the specific case of Japan has also been argued by Dr. Okita.¹³ Indeed, this increase to 1% has been recommended as the revised target appropriate in the 1990s for *all* developed countries in the Report on the Stockholm Initiative presented recently to the Secretary-General of the United Nations by Herr Willy Brandt.¹⁴ The WIDER estimates of net capital flows needed for sustainable development during the 1990s, presented in Table 3, suggest the need to achieve the 1% target sooner rather than later.

In addition to the net capital requirements of developing countries, allowance must also be made for the foreign exchange support that is likely to be needed to sustain the reform process in Eastern Europe and the Soviet Union. Recent research in WIDER by Professor Jeffrey Sachs of Harvard University and Dr. David Lipton¹⁵ suggests that for Eastern Europe *excluding* the Soviet Union, total additional foreign exchange requirements could amount to some US\$30 billion a year over the years 1991 and 1992. A similar magnitude is anticipated for the Soviet Union over the coming five years so that the annual foreign exchange cost of supporting the economic reform process in the former Council for Mutual Economic Assistance (CMEA) area can be estimated at US\$60 billion for the early 1990s. For the second half of the 1990s, however, the need for similar external assistance should diminish appreciably as the economies of Eastern Europe become more efficient and closely integrated with the international economy.

¹¹ Saburo Okita, "Japan: Better to Spend These Billions on Aid than on Arms", *International Herald Tribune*, 17 April 1991.

¹² South Commission, *op. cit.*, p. 269.

¹³ Saburo Okita, *op. cit.*

¹⁴ Willy Brandt et al., *Common Responsibility in the 1990s: The Stockholm Initiative on Global Security and Governance*, Stockholm, 1991.

¹⁵ Lal Jayawardena, *op. cit.*

Table 3

**Additional Demand for, and Supply of, Foreign Savings
In Developing Countries and Eastern Europe: 1990-2000**

(US\$ billion)

	Early 1990s	1995	2000
Demand for foreign savings			
Developing Countries			
- Socially necessary growth	40	50	60
- Environmental protection	20	65	80
Total for Sustainable Development	60	115	140
Eastern Europe and Soviet Union (borrowings in support of economic reform)	60	50	25
Total demand	120	165	165
Supply of foreign Savings			
Increase in ODA of DAC countries (a)			
from 0.35% to 0.7% of GNP	55 (b)	60	70
from 0.7% to 1.0% of GNP	-	50	60
Surpluses released by reducing US deficit, etc.	65	55	35
Total Supply	120	165	165

notes: (a) Assuming a 3.5% p.a. average growth rate in real GNP from 1990 to 2000.
(b) Relates to 1992-94 average.

source: Lal Jayawardena, *The Macroeconomics of Sustainable Development*, paper prepared for the WIDER Conference on 'The Environment and Emerging Development Issues', 3-7 September 1990, Table 7; forthcoming in (eds.) Partha Dasgupta and Karl-Göran Mäler, *The Environment and Emerging Development Issues*; WIDER Studies in Development Economics, Clarendon Press, Oxford.

As summarized in Table 3, the various considerations discussed above indicate an additional capital requirement for socially necessary growth and environmental protection in developing countries, plus the cost of supporting economic reform in Eastern Europe, of some US\$120 billion a year in the early 1990s rising to some US\$165 billion in the second half of the decade. Some reduction in these levels of foreign savings requirements could be envisaged, to the extent that many countries -- both in the developing world and in Eastern Europe -- which have had relatively high military expenditures in recent years, are able to reduce their imports of military and related equipment and materials. Imports of major weapons by developing countries in the closing years of the 1980s totalled some US\$20 billion a year, about 40% of which went to the Middle East countries.¹⁶ International efforts to achieve a stable peace in that region, and to encourage the ending of civil wars elsewhere, should enable developing countries to reduce their imports of military equipment significantly, at least by mid-decade. For example, a recent report by an Expert Group on Africa's Commodity Problems appointed by the Secretary-General of the United Nations recommends *inter alia* that African governments "move quickly to reduce military expenditures from the current average of 10% of government expenditure to a maximum of 5%."¹⁷ Reduced levels of military spending in developing countries would both make it easier for them to meet targets for sustainable development and enhance their moral claim to transfers of foreign savings. How far reduced military expenditures will be translated into a reduced demand for foreign savings in comparison to the picture presented in Table 3 remains problematic.

Turning now to the potential supply of additional foreign savings, it would seem that the additional capital requirements could be met essentially by a combination of two measures, viz. a significant rise in the current level of Official Development Assistance (ODA) from OECD countries and, given the ending of the Cold War, a phasing out of the US commitment to NATO which currently costs half the US defence budget of US\$300 billion, or some US\$150 billion a year. This second measure would allow Japan and other surplus countries to switch to the developing countries an equivalent amount of savings hitherto absorbed in financing the twin deficits of the United States (in its budget and balance of payments) which amounted to US\$150 billion each in the late 1980s.¹⁸ The growth slowdown followed by recession in the United States in the early 1990s has been a major factor in the recent reduction of the US external deficit, and also a reduction in the external surpluses of Japan and several other countries. However, the slack in the economies of the latter countries, which represents in effect the counterpart to the fall in their surpluses, indicates that there exists industrial potential to restore the previous level of surplus given the

¹⁶ SIPRI Yearbook 1989, *World Armaments and Disarmament*, Oxford University Press, 1989, Table 6A.2.

¹⁷ United Nations, *Africa's Commodity Problems: Towards a Solution*, New York, June 1990, p. 72.

¹⁸ Olivier Blanchard et al., *Global Imbalances: WIDER World Economy Group 1989 Report*, Helsinki, 1989, Preface by Lal Jayawardena.

adoption of appropriately expansionist domestic policies. To make this potential effective, however, the developing countries for their part would need to implement effective domestic policy reforms so as to attract the potential savings of the surplus countries.

Table 3 indicates possible combinations of higher ODA levels and surplus switching, both of which depend on relevant policy decisions by the OECD countries. Clearly, the non-attainment of the long-standing aid objective of 0.7% of GNP by mid-decade would make all the more important the implementation at an early date of policies directed to switching the surpluses of Japan and other countries towards developing countries. In that event, mechanisms will have to be found for tapping these surpluses which are mostly in private markets. This can be done under the guarantee of interested countries, and might possibly involve new institution building along the lines of the European Bank for Reconstruction and Development (EBRD). Alternatively, resources could be raised by a tax on environmentally damaging activity, e.g. carbon emissions.

What Table 3 also suggests is that there may well be a division of labour, as it were, between the developing countries on the one hand, and Eastern Europe and the Soviet Union on the other, as regards the apportionment of the additional supply of foreign savings. The proposed increments to ODA would suffice, by and large, to look after the requirements of the developing countries, leaving Eastern Europe and the Soviet Union to tap the surpluses released by US adjustment and available in private capital markets on more nearly market-related terms. What this amounts to is that the peace dividend from the ending of the Cold War could accrue in part as resource transfers to Eastern Europe and the Soviet Union on market-related terms, while the balance could accrue as ODA to the developing countries on concessional terms.

4. Private Capital Flows

The economic reforms in Eastern Europe and the Soviet Union include legislation designed to encourage foreign direct investment, particularly through joint ventures. At the end of 1989 about 3,000 such joint ventures had been approved, while by a year later the number had risen to over 13,000. By end-March, 1991 there had been a further increase to about 19,000,¹⁹ at which date the total foreign capital committed can be estimated at about US\$10 billion, though only a relatively few had actually commenced operations. There remain major obstacles to expanding the inflow of private investment capital, reflecting the inadequacy of existing legal systems in protecting the interests of foreign investors, weak economic infrastructure and shortages of intermediate inputs. In view of the vast size of global foreign direct investment flows, the relatively marginal flows to Eastern Europe are unlikely to involve any significant diversion of private investment funds away from developing countries.

¹⁹ *East-West Joint Ventures News*, No. 8, July 1991, UN Economic Commission for Europe, Geneva.

There has, in any case, been a shift in the distribution of global direct investment flows away from developing countries over the past decade. Developing countries took an average of 25% of the global total in the first half of the 1980s, their share falling to 18-19% in the second half, the average for 1988 and 1989 being even lower at 17%.²⁰ This decline reflects, in part, the difficulties of debt-burdened countries in attracting foreign private investment but, in part also, a large expansion in cross-border investment by TNCs within the industrialized areas, particularly the influence of the build-up to the Single Market in the European Community in stimulating the inflow of private capital into Community countries.

Of considerably more importance than the above as a possible influence on investment-diversion are the very large sums being invested in the former GDR by private firms in West Germany. As this country has been a major source of private investment flows to developing countries, German economic unity could have the incidental result of reducing private flows to the Third World.

5. Interest Rates

The costs of German unity, in terms of public sector transfer payments from West Germany to the GDR budget, have been much larger than originally anticipated as a result of the rapid deterioration in the economic situation in the Eastern part of the country. For 1990, the public sector deficit is estimated at about DM72 billion (2.7% of German GDP), and is forecast to rise to about DM120 billion (4% of GDP) in 1991.²¹ The higher government deficit will tend to raise interest rates and, as already mentioned, reduce German investment abroad, while attracting foreign investment to Germany. Moreover, the sharp rise in demand in East Germany for West German products will tend to reduce German net exports of goods and services, and thus reduce that country's net capital outflow.

Though at this stage it is not possible to quantify with any precision the impact of German reunification on world interest rates, it would seem highly likely that the result could be a substantial addition for the highly-indebted developing countries in the cost of servicing their foreign debt.

²⁰ *The triad in foreign direct investment*, Report of the Secretary-General to the UN Commission on Transnational Corporations, 18 March 1991 (EC/10/1991/2).

²¹ *Economic Bulletin for Europe*, Vol. 42/90, UN Economic Commission for Europe, United Nations, New York, 1991 (p. 105).

6. Debt Service and Debt Overhang

In spite of the increase in the inflow of financial resources from Western governments and the international financial agencies, the gross debt of all the countries of Eastern Europe has continued to rise, from US\$81 billion in 1989 to US\$90 billion in 1990, while for the Soviet Union the rise was from US\$59 to US\$63 billion.²² The Polish government has for some time been seeking forgiveness of 80% of its foreign debt, and in January 1991 it was reported that the G-7 industrial countries had approved the writing-off of one-third of Poland's official debt - the same reduction as for the poorest African countries under the Toronto Accord - to be conditional upon the successful conclusion of an agreement between Poland and the IMF.²³

The special treatment of Poland, in terms of debt re-scheduling and postponement of interest payments, as well as debt forgiveness, raises once again the question as to whether priority should also now be given to reducing the debt service burden of heavily-indebted countries in addition to those covered by the Toronto Accord.

7. An Overall View

The above discussion has indicated that the economic difficulties of the transition to market-oriented systems in Eastern Europe and the Soviet Union may well involve a number of adverse effects for developing countries: a trade-diversion effect resulting from a substantial reduction in trade barriers against imports from Eastern Europe into western markets; a terms of trade effect resulting from increased Soviet exports of many important minerals and metals to western markets; and an aid-diversion effect resulting from a sharp expansion in aid flows to the former CMEA area.

These likely effects imply the need for policy changes designed to reduce or offset them. In the trade field, if the Uruguay Round negotiations were to result in a substantial reduction in trade barriers, including income support for agriculture in developed countries, this could minimise any loss in market share resulting from increased competition from East European suppliers. New mechanisms may also be required to underpin an expansion in East-South trade in the transitional period in which a severe shortage of convertible currency remains a major limiting factor. There is room here for some new international initiative to finance a substantial expansion in the volume of East-South trade.

The potential aid-diversion effect could also be reduced, or even eliminated, given the necessary political will on the part of western governments, for example, by increasing the resources available to the various international financial institutions by appropriate amounts, so as to

²² *Economic Survey of Europe, op.cit.* (Table 3.3.12).

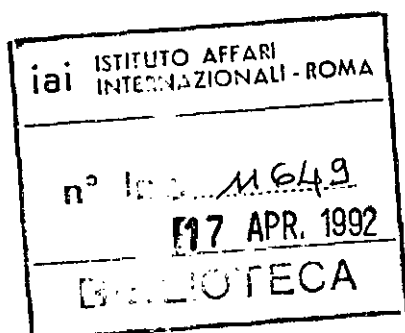
²³ *Ibid* (p. 107).

ensure that concessional flows to developing countries are maintained or preferably increased.

Finally, the demise of the Cold War opens new opportunities for policy change to support both the transition to market economies in Eastern Europe and the development process in the Third World. This applies particularly to the conversion of the 'military-industrial complex' to civilian purposes, and to the creation of new institutional mechanisms to ensure that an agreed proportion of the resources released from the reduction in military expenditure is earmarked for development purposes. This now appears all the more urgent in view of the probable adverse trade and aid effects on developing countries of the integration of the reforming countries of Eastern Europe into the Western economic system.

The terms of trade loss for developing countries exporting minerals and metals cannot easily be offset, though an expansion in aid flows to these countries should become an urgent issue for international policy. A prolonged period of depressed prices for minerals and metals might also stimulate the main producing countries to give serious consideration to supply management arrangements designed to achieve more remunerative prices while steps are taken to diversify their economies.

Lal Jayawardena
Helsinki, September 1991



A Post-Cold War Security System:

Implications for Europe

Richard Falk
Princeton University

Summary outline for International Conference on
"A New Europe in the Changing Global System,"
23-25 September 1991, Velence, Hungary,
organized jointly by the United Nations University
in collaboration with the Hungarian Academy of Sciences

A Post-Cold War Security System:
Implications for Europe

Richard Falk

1. The case for humility and disclosure:

--failure of anticipation (emancipation of E. Europe, Gulf War, collapse of Soviet empire).

--observational subjectivity (during the Cold War the geopolitical landscape clear; post-Cold War divergencies: unipolarity or multipolarity; Gulf War as model or unique instance).

--globalization of world economy is a vehicle for visions of "a new world order," but a vision without community or purpose; the importance of counter-visions at this point in history.

2. Geopolitical Myopia. From a global perspective the Cold War has not ended, especially in relation to Asia (the Pacific reality of ideological division persists, and paradoxically may be intensifying). But we use the rhetoric of post-Cold War world because we remain conceptually entrapped in a Eurocentric worldview. The Cold War has ended in Europe, but not in the Pacific (and was always as much pretext as text) in the Third World. The Asian agenda persists: reunification of Korea; self-determination for Tibet; future of Taiwan, Hong Kong; resolution of Filipino internal war; democratization of China; unresolved Japanese territorial claims vis-a-vis "Soviet Union"--or Russia). War is still a live possibility on the Korean peninsula; the NDF and New People's Army is pursuing a guerrilla war strategy in the Philippines, with new phase around the struggle over US bases. Is the Cold War really over? Are we entitled to globalize the European changes by speaking about "a post-Cold War world."

3. The shifting European circumstance

--before '89, Europe was seeking to regain global stature by consolidating; since '89 this process is more, not less, complicated and problematic (incorporating Eastern Europe; coping with Yugoslavia).

--before the breakdown of Soviet power in the aftermath of the coup (August 1991), Europe remained the most militarized region of the world, and throughout the Cold War, represented the most strategically sensitive area--an intrusion East or West was generally regarded as the spark that would ignite WW III; the

centrality of Europe (and intra-European history) was a feature of the modern world, given tangible expression via "discovery" and "colonialism" and the world capitalist system. The failures of "balance" within Europe produced two world wars in this century and "the long peace" ("imaginary war") of the Cold War. Europe was the eye of the potential geopolitical storm--all else was peripheral (even China's shifts of orientation).

--a tension between Europe's attempt to recover central role (via Euro-federalist, Delors) and the displacement of Europe by way of "Pacific Shift" (Helsinki 1975 stabilization and the dynamic of the Pacific Basin trading bloc)--the complex circumstance: European "security" improved by stabilization but its significance reduced.

--as long as Cold War persisted Europe's place in the world system was central, if for no other reason than the perpetual mobilization for WW III (only 2 days notice...the deterrent challenge was focused on Europe; role of NW, etc.) (Snyder; Mearsheimer).

--the ending of the Cold War eroded this centrality to a degree, but the Soviet collapse and the nationalist challenge to Soviet centralism in the aftermath of the August coup was decisive--Europe, for the time being, is unthreatened from without or within (WW I, WW II generated by "German problem"; Cold War by Soviet "threat"); the major European states are moderate in outlook and emphasize cooperative aspects, and there exists for Europe no large dangers from Russia or the United States.

4. Implications for European security

--the internal regional challenge (peacekeeping in relation to ethnic conflict--Yugoslavia). The choice: insulation or "management"; (capital investment in East Europe--stance on development). The choice: Western European supremacy or full-regional integration.

--the wider global challenge located in Third World, especially Middle East (the Gulf War as text or lesson? i.e. Europe as passive echo of US or as moving toward geopolitical independence).

--choices

- A: internal regional emphasis
- B: enhanced geopolitical independence
- C: A + B
- D: neither A, nor B

5. A digression on "New World Order"

--Wilson, Lenin, Hitler provide antecedents; only Lenin had a truly global conception based on revolutionary struggle of exploited

classes; Wilson's conception--Eurocentric, naive, inherently unworkable.

--Bush's claim more ambiguous (with Soviet surrender, European and Japanese passivity, there is a hegemonic opening for the US, but who will pay...and can it last given the competitive weakness of the US and its internal deterioration).

--since the Gulf War there is little reference to "the new world order," especially not from the White House...from geopolitics back to geoeconomics: either G-7 or tripolarity.

--can the new world order (i.e. a post-Cold War world) be introduced effectively in Asia (China's anti-democracy; Korean split; Japan's territorial claims against the Soviet Union; still simmering civil war in the Philippines; unresolved futures of Tibet, Taiwan, Hong Kong).

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The 1990s have clearly seen a major shift in the functions, perceptions and effects of nationalism in Europe.¹ Whereas in the immediate postwar years, nationalism was for all practical purposes a kind of political pariah, a phenomenon that was regarded with maximum disfavour, and the emphasis was all on integration, federalism and the long vision of a United States of Europe, the last two or three years have seen a seemingly sudden and a not altogether welcome change in the eyes of those who have never sought to understand the nature and functions of nationhood.

The suddenness is, in part, an optical illusion. In reality, under the surface of events, ethnicity and nationhood not only remained in being, but contributed significantly to the pattern of politics, though it was seldom understood in this way.² The argument that will be developed in this paper is, in simple terms, that nationhood became an inescapable fact of political life in Europe in the 19th century, that far from disappearing or even weakening, it retained its key functions in the 20th and that for the foreseeable future it will have a considerable saliency, whether it is conceived of in these terms or not. Hence as far as policy-making is concerned, it is important that the true nature of nationhood, and the political doctrine built on it - nationalism - be understood rather than dismissed.

A number of assumptions will be made in what follows without any attempt to argue them in detail. Nationalism is a political ideology that claims that the world is divided into nations and only into nations; and that each individual belongs to a nation and only to one nation; nations may be defined by various characteristics, but crucial among them is their relationship to a particular territory and their claim to exercise political control over that territory in the name of the nation. In other words, nationalism is inextricably involved with the political process and must be interpreted in the same way as other facets of politics are.

Nationhood: the ethnic factor

The definition of nation used in this paper is connected with, but conceptually separate from nationalism.³ Nations are a modern development, dating by and large from the late 18th century, and can be located at the moment when loyalty to nation became the primary cohesive force to cement the relationship between rulers and ruled. Prior to this, various ethnic phenomena with political consequences did, in fact, exist and influence political actors, but they were secondary to religion or dynasticism or late

¹ Some of the arguments in this paper appear in George Schöpflin, 'Nacionalizmus a posztkommunista rendszerekben', *Világosság*, Vol.33, No.7-8 (July-August 1991), pp.481-491.

² Joseph Rothschild, *Ethnopolitics*, (New York: Columbia University Press, 1981).

³ John Armstrong, *Nations before Nationalism*, (Chapel Hill, NC: U. of North Carolina Press, 1982).

feudal bonds of loyalty. It is only with the modern period that nationhood emerged as the most important legitimating principle and has remained that way.

The emphasis in this definition, therefore, is on the legitimating functions of nationhood. From the end of the 18th century in Europe, states could only claim to be authentic states if they were the expression of the aspirations of a particular nation. Previously, states were legitimated by reference to loyalty to a secular ruler or by religion. The rise of nationhood as the primary agent of legitimation was not confined to international politics, but was central to the newly reformulated relationship between rulers and ruled. Under dynastic or religious legitimation, that relationship, while involving elements of reciprocity, was one-sided and non-secular. Ultimately dynastic legitimation was grounded in the divine right of kings to rule and with religion the proposition is self-evident.

The 18th century, however, saw an altogether different pattern emerging, which was derived from secular propositions, namely the idea of popular sovereignty, that legitimacy was a two-way relationship, giving both rulers and ruled rights and duties towards each other. The bond between the two, then, had also to be reformulated, because the nature of community was something qualitatively different. This switch from religious to secular legitimation was not as sudden as it might appear with hindsight; secular aspects in the definition of kingship had been intensifying steadily since the Middle Ages.

This was where nationhood came in. Nationhood became the tissue that was to connect the entire population of the state with its political institutions and claim to exercise power or control over it in the name of popular sovereignty. This process is the civic core of nationhood, its channel into politics. Nationhood, then, should be conceptualised as simultaneously having a political (civic) and a cultural (ethnic) dimension. Of course, the role of ethnicity in politics had been present and understood previously. Various pre-modern references to the idea of a single ethnic group existing in one territory and the significance of this can be found in history, but this misses the point. Ethnicity was at best only one and not the most important source of legitimacy, whereas with the reception of nationalism, the nation is the single overarching basis of political community, one that has never been superseded.

Nationhood: the new legitimation of states

This is not intended to diminish the continuing significance of ethnicity in the construction of nations, on the contrary. It is evident that modern nations benefit enormously from an ethnic base, but that ethnic base was not sufficient on its own to constitute the political community. It is one argument to say that ethnicity is significant

in the constitution of states; it is something radically new that ethnicity should be the single most important factor in the equation, yet it is this transformation that took place with the end of the 18th century - the French revolution is a suitably symbolic marker.

The explanation for the sea-change lay in the unintended consequences of various historical processes and their particular conjuncture in time. The growing perception of the insufficiency of the neo-feudal bonds of rule, with their particularisms and exceptions cutting across new commercial patterns, the awareness that outdated principles of legitimacy could not satisfy the demands of the newly conscious strata, especially the emerging bourgeoisie, for more access to power and the consequent quest for alternative links all played their role. Perhaps the cry of the American colonists against George III, "no taxation without representation" illustrates this most vividly. It constituted a demand for the construction of politics on a new civic (ie "rational") basis. In effect, the new demands were cutting across old loyalties and eroding them rapidly. The Napoleonic wars, which temporarily destroyed old-established verities and undermined their claim to traditional legitimation in the Weberian sense, carried this process through the length and breadth of Europe.

In this situation, the states with a well established centralised power, which had not undergone major territorial adjustments, profited most clearly. The so-called core states (England, France, Holland, Sweden), where territory, political power and community had largely coincided for several centuries and where there were no major ethnic discontinuities, like ethnic minorities, were best placed to benefit from the new dispensation.⁴

For the last two centuries in Europe, politics have subsisted on a mixture of civic and ethnic elements, sometimes in competition, sometimes overlapping, as a continuous process, with the relationship between the two being constantly defined and redefined.⁵ It is important to understand that both these factors have been present, for there is a strong tendency in Western Europe, where democracies have been established and functioning for a considerable period of time, to ignore, if not indeed, to decry the ethnic aspects of nationalism and deny them any function. Yet the argument that central constitutive element of any political community is the set of affective bonds derived from a shared a culture, the basis of nationhood, is difficult to refute.

Democracy, therefore, rests on the strongly cohesive identities provided by nationhood - there is no democratic state that is without this, Switzerland included (see below). On its own, democracy is not capable of sustaining the vision of past and

⁴ (ed.) Charles Tilly, *The Formation of National States in Western Europe*, (Princeton, NJ: Princeton University Press, 1975); Andrew Orridge, 'Varieties of Nationalism', in (ed.) Leonard Tivey, *The Nation-State: the Formation of Modern Politics*, (Oxford: Martin Robertson, 1981), pp.39-58.

⁵ Anthony D. Smith, *National Identity*, (London: Penguin, 1991).

future that holds polities together, because it does little or nothing to generate the affective, symbolic and ritually reaffirmed ties upon which community rests. The collection of individuals, the supposed actors in the liberal theory of democracy, who share interests and are supposedly in a contractual relationship with each other and the state, is insufficient for this purpose.⁶

What has happened in Western Europe is, as suggested already, that nationhood was pushed out of sight and effectively ignored in the post-1945 period, in what should be regarded as an epic battle between liberalism and Marxism. Now that this conflict is over, with the defeat of the latter, the constraints on nationalism have loosened and there are many signs that nationalism has not only reemerged into the daylight, but may in fact be an ideology with a future.

Nationhood: the historical aspects in Western Europe

The reasons why this displacement from consciousness should have taken place lie in a particular coincidence of events. In the first place, the dominant problem in Western Europe, indeed in Europe as a whole, for well over a century, from 1848 say, was popular participation. How could the newly urbanised middle and working classes be given access to political decision-making without destroying the existing edifice of power, which did provide for a degree of stability and predictability in politics? The French revolution was a terrible warning as to what would happen when this process was accelerated or when extremists gained control of politics. Indeed, the negative legacy of the French revolution for the spread of democracy could hardly be exaggerated, not least because it legitimated revolution as a desirable agent of change, rather than seeing it as a consequence of the failure of the political system.⁷

For much of the subsequent century-and-a-half, the problem of integrating the working class into democratic politics was fought out along two broad axes - the liberal and the socialist. Both liberalism and socialism should be seen as answers to the challenge of modernity - the involvement of the mass of the population in dynamic and continuous change, growing complexity and widening choice, and implications of this for the redistribution of political power. Conservatism failed to produce a coherent philosophy to tackle these issues head on, rather it tended to sweep the problem to one side and, at best, concerned itself with the consolidation of the status quo ante or sought to ally itself with organic, at times nationalist, theories of community. The

⁶ Maurice Keens-Soper, 'The Liberal State and Nationalism in Post-war Europe', *History of European Ideas*, Vol.10, No.6 (1989), pp.698-703.

⁷ István Bibó, 'Reflections on the Social Development of Europe', *Democracy, Revolution, Self-Determination: Selected Writings*, (Boulder, CO.: Atlantic Research, 1991), pp.421-526.

dominant innovative lines of thought were the liberal and socialist, however. What these share is a difficulty in the understanding of nationalism, because they both derive their first principles from economic rationality, rather than cultural. Consequently as long as the discourse in Europe was dominated by these two currents, nationalism was marginalised and political conflicts tended to be seen primarily in the terms defined by these two. Of course, nationalism remained on stage and numerous conflicts had their nationalist aspects, predictably so given the importance of nationalism in legitimisation, but in these contexts nationalism was embedded in other conflicts and was perceived as only the first level of explanation (eg. the Franco-Prussian War).

The period after the First World War saw a massive loss of faith in building on the existing European tradition, understandably so in the light of the terrible devastation that Europe had undergone. The problem of broadening popular participation remained, coupled with a weakening of the self-legitimation of the ruling élites. This inevitably produced a gap in the fabric of thought and through this gap, there emerged two broad radical alternatives - the fascist and the communist. Both these radical currents denied the viability of incrementalism and meliorism and demanded sudden, radical transformation. Fascism failed first, with the defeat of 1945, but this exacted a terrible price. It left Europe more exhausted than ever before and under the hegemony of the two extra-European super-powers, which had their own agendas for the future. At the same time, by having linked itself closely to the organic-nationalistic currents of the right, fascism did much to discredit nationhood as well as nationalism. For a period after 1945, reference to either was of little use in legitimating ideas. It was not until the success of Gaullism, in the 1960s rather than the 1950s, that any change could be discerned.

The division of Europe also had far-reaching implications for the new European identity that began to emerge under the transformed circumstances. Europe was now essentially redefined as Western Europe. As long as the countries of Central and Eastern Europe remained under Soviet overlordship, there was little point in considering the countries east of the Elbe as parts of Europe and the construction of the new Europe went ahead without them. Besides, the onset of the Cold War constrained the Western Europeans to redefine their identities in terms of integration rather than rivalries, a process which was enormously aided by the memories of the devastation of the Second World War. The Cold War, the fear of and rivalry with the Soviet Union had far-reaching ramifications for the new European identity. It meant that Europe would be defined against communism and by the criteria of liberalism, Christian Democracy and a degree of étatism. But the commitment to pluralistic democracy and

market economics was firm and grew firmer with success - political stability and economic prosperity.

The process of Western European integration, from the Schuman plan, Messina, the Rome treaty to the effective functioning of the Common Market, must be regarded not only as a major success story in its own right, but also as a significant redefinition of the European identity. From that time on, the identity and agendas of Europe were inextricably intertwined with the EC and the entry of six new (Western European) members confirmed this. There was no Europe other than the one centred on Brussels. This, however, had a marked impact on nationhood and nationalism. Political integration was perceived primarily as an economic, administrative and technological process, from which the national-cultural element could be omitted. It was assumed that once the new structures were in place, nationhood would simply lose its relevance or at any rate its political saliency. This attempt to divorce political community from its cultural-affective elements had a certain political attractiveness in the immediate circumstances of the post-1945 period, when reconstruction and redefinition were the order of the day, but once that task was accomplished and the outlines of the civic elements of a new Europe were in place, the ethnic elements were bound to resurface.

The new European identity received support and nurturing from another source, from the international order as a whole. In part, this was derived from the overriding need for stability under conditions of the super-power rivalry, which could not tolerate minor conflicts with their origins in nationalism. Memories of the futility of the League of Nations, and its endless debates on frontier questions and irredenta, also played a role here, given that the inter-war period was the dominant experience of the ruling generation of politicians until the 1970s. The new order, as encapsulated in the United Nations, was deeply antagonistic to the emergence of new states by secession.⁸ Indeed, until the recognition of the independence of the Baltic States in 1991, only Bangla Desh was successful in gaining recognition of its independent status. And even at that, great care was taken by the West in according recognition to the Baltic States to define them as a special case, because these countries had already enjoyed independence between the wars, and to distinguish them from other republics of the Soviet Union, for which recognition would not be immediately forthcoming. Biafra was an earlier example of an ~~attempted~~ ^{ATTEMPTED} secession that was not recognised. The Helsinki process was as strict on this as the UN.

Decolonisation was another matter; new states could and did come into being by this route, but this was hardly applicable to Europe, where only Malta and Cyprus were

⁸ James Mayall, *Nationalism and International Society*, (Cambridge: Cambridge University Press, 1990).

decolonised states. On the other hand, until the completion of decolonisation it is also true that the Western European colonial powers were deeply involved with ridding themselves of empire, a process that ended with the collapse of the Portuguese empire in the 1970s. The abandonment of territory is always a traumatic experience for a state; the loss of empire and the proliferation of new states in the Third World probably helped to strengthen the general presumption that as far as Western Europe was concerned, nationalism, irredenta, frontier revision and the like were unacceptable.

Mention must be made here of the role of the United States and its values. The United States was consistently hostile to Europe's overseas empires (eg. Suez) and was, equally, supportive of the Western European integration process, seeing in it a kind of embryo United States of Europe. On the other hand, Washington has never been particularly sensitive to questions of ethnicity in international politics, tending to regard them as a tiresome distraction. As long as European agendas were heavily determined by United States influence, the role of nationhood in European politics would be strictly circumscribed. The West Europeans accepted this willingly and happily or reluctantly and with reservations, like General de Gaulle, who, in contrast to his contemporaries, fully understood the meaning of nationhood, at any rate as far as France was concerned.

Finally, mention must be made here of the ethnic revival of the 1960s and after. The causes of this resurgence can be located in a variety of factors - dissatisfaction with the increasing remoteness of the state, particularly in its technological-technocratic manifestation in France and Britain, the renewed self-confidence of greater prosperity, the narrowing of horizons with the end^{OF} of empire and the demand for greater democratic control based on the cultural community rather than the state where these two did not coincide. It is worth adding that no European state is ethnically homogeneous except Iceland, so that there is no complete congruence between ethnic and civic elements anywhere in Western Europe. Solutions to this question were, therefore, important.

Nevertheless, the new ethnic movements were characterised by one crucial difference from previous nationalist upsurges - they did not call the integrity of the state into question. This was true even when the political rhetoric of some neo-nationalist movements, like the Scottish National Party, did demand independence. In reality, these movements were looking primarily for access to power within the confines of the existing state frameworks and they tended to limit their demands to local, cultural or regional issues, which could be solved through devolution or better provisions for minority languages and so on. With one or two exceptions, the democratic systems were able to cope with these movements fairly successfully - Northern Ireland and the Basque country represent the main failures. Elsewhere a variety of techniques were

employed to integrate these new demands for power - new in that they based their demands for power on existing cleavages but ones which had not previously been used to legitimate claims to political power - and thereby absorbed any possible shock to stability that might have arisen. This is not to suggest that this process took place entirely without some political conflict, but major upheavals were avoided.

Crucially, Western political systems and societies had become highly complex and were becoming increasingly so. This meant that ethnic identities, while salient, were only seldom allowed to dominate agendas; both groups and individuals found themselves caught up in a network of competing interests and identities, which tended to downgrade the impact of ethnic mobilisation and permitted the operation of compromise mechanisms. Above all, where remedies for ethnically based grievances are feasible within the existing political framework, reductionist mobilisation does not take place. Reductionist mobilisation is the state of affairs where all questions, problems, arguments, demands etc are interpreted exclusively in ethno-national terms and political articulation is reduced to this one cleavage. Evidently in a situation of this kind, the normal arrangements, compromises and deals that democratic systems bring into being do not take place, for when deep-level cultural issues come to the foreground, they cannot be bargained away and material concessions or incentives will be useless. Northern Ireland illustrates a case where reductionism of this kind, along an ethno-religious cleavage, has taken place.

Consociationalism

The most significant of the techniques used to integrate multi-ethnic populations is consociationalism.⁹ Consociationalism is a way of governing deeply segmented polities. In states where there are major and strongly persistent cleavages (ethno-national, religious, racial, linguistic), majoritarian politics will clearly be a recipe for disruption, as each group looks to maximise its advantage to the disbenefit of others. Indeed, if relations between two ethno-national communities deteriorate and reductionist mobilisation takes place, separation and possibly territorial realignment will be the only solution. But short of that, the techniques of consociationalism are worth discussing, especially as they have been fairly successful in several multi-national states in sustaining a democratic order.

⁹ There are others, like assimilation and integration, cantonisation, federalism and arbitration. See Brendan O'Leary, 'Nine Grand Methods for Dealing with Ethnic Conflicts', Conference Paper, Bálványosfürdő, July 1991; in Hungarian, 'Erdély = Észak-Irország?', *Világ*, Vol.2, No.37, (11 September 1991), pp.41-43.

The key aspect of consociationalism is that it is anti-majoritarian and thus completely alien to the Anglo-Saxon tradition of political organisation. Notably, it recognises the collective rights of groups, both as against other groups and as against their members.¹⁰ They may certainly derogate from individual rights and seem contrary to the principle of the equality of all before the law, but is nevertheless desirable if the alternative is disruption or low-level civil war (viz. Northern Ireland, where the consociational solution was attempted too late, after reductionist mobilisation made its chances of success futile). In fact, of course, European political systems recognise that combinations - group rights - are a part of modern social and political life and extending these to ethnic or religious groups, subject to certain safeguards, can hardly be termed undemocratic.

The adoption of consociationalism, however, imposes a major burden on the majority. By and large nation-states are regulated by the moral-cultural codes of the majority and it is precisely this that makes the position of the minority so difficult - it has to compromise its own codes in too many respects. When this happens, the minority will look to alternative ways to put its aspirations into effect, conceivably to separation. Consequently, the majority must accept that its own codes will have to be compromised for the sake of maintaining the state. This is very much what has been put into effect in Switzerland, the ultimate consociational success.

Consociational systems seek to draw all the different segments into the decision-making process through élite representation, a kind of grand coalition, although other institutional forms can also be envisaged, like regular consultation with all groups by the president. The basic elements of consociational system include consultation with all groups in order to build support for constitutional change; a veto by all groups over major issues affecting them; a proportionate sharing of state expenditure and patronage; and substantial autonomy for each group to regulate and control its supporters. The bureaucracy should develop an ethos of ensuring that policies are implemented accordingly, the government should keep much of its negotiation behind closed doors in order to prevent popular mobilisation around a particular issue which can be related to group identity and a set of tacit rules of the game should be adopted.¹¹

¹⁰ Consociationalism has nothing whatever to do with the minority treaties of the interwar period, which sought to guarantee certain protection to national minorities, and generally failed, because the state - dominated by the majority nation - rejected these attempts. Consociationalism deals with a situation where the majority accepts that the minority must play an active role in the political life of the state and should do so on the same terms as itself.

¹¹ The classic exposition of consociationalism is Arend Lijphart, *Democracy in Plural Societies: a Comparative Explanation*, (New Haven, CT: Yale UP, 1977). See also G. Bingham Powell Jr., *Contemporary Democracies: Participation, Stability and Violence*, (Cambridge, MA: Harvard UP, 1982), pp.212-218.

Consociationalism, however, imposes two essential conditions in order for it to work. In the first place, all the groups concerned must be willing to work towards accommodation and be ready to bargain and that, in turn, means the creative use of both substantive and procedural solutions that will help all the parties. In other words, all groups must work to avoid zero-sum game situations, even at the risk of ambiguity. Above all, there must be no major winners or losers. Second, the leaders of a group must be able to secure the support of their followers, otherwise the consociational bargains will fall apart; the success of this will depend on the confidence of the members of group in the system as a whole - a recognition that their interests will be taken into consideration in the bargaining. Thus the leadership of the group must be able to sell solutions to the membership. Society, as well as leaderships, must be sophisticated for consociational solutions to work well.

Other factors important to the success of consociationalism include a readiness to delegate as much as possible to the groups themselves, ie extensive self-government. This is complicated in modern societies by the erosion of the territorial principle; on the whole, in dynamic societies, members of different segments will tend to be dispersed throughout the entire area of the state and it would be fatal to consociationalism to base devolution of power solely on territory. Next, the principle of proportionality should be observed rigorously, with if anything an overrepresentation of smaller groups; the minority veto is, of course, the ultimate resource for the protection of small segments. Overrepresentation, however, should not be confused with affirmative action strategies, which have the different objective of promoting the equality, not the stability, of minorities.

There are various helpful though not essential preconditions for the success of consociationalism. These include the relative equality in the size of the segments and the absence of a group with a majority; a relatively small total population, for this means a smallish élite, in which there is a strong chance that members of that élite will share values through similar or identical educational and other experiences. There should be an overarching loyalty to a legitimating ideology of the state and a corresponding moral-cultural outward boundary towards other states. In addition, a tradition of political accommodation can be very useful indeed. It should be noted that these preconditions are neither necessary nor sufficient for the success of consociationalism, but they are useful.

The Central and Eastern European pattern

In Central and Eastern Europe the pattern was in many respects substantially different. This had both historical and contemporary political aspects. Historically the

single most important factor in this context was backwardness and its consequences. Whereas, as argued, in Western Europe the state developed more or less coextensively with the cultural community and indeed was important in forming it, in the East, the state and polity, together with the economy, were subordinated to external rule. The fact of foreign overlordship was crucial, in as much as it separated the civic and the ethnic elements from one another and precluded the continuous interrelationship between the two that proved to be so significant in the evolution of nations in the West.

The weakness of the civic elements of nationhood and the corresponding emphasis on ethnicity had a number of results with further consequences of their own. In the first place, at the threshold of the modern period the Central and Eastern European countries had singularly lopsided social-political structures when contrasted with Western Europe. The politically conscious sub-élites were small, certainly well under 10 percent of the population, and they were not politically masters of their own fate, because of alien, imperial rule. By and large these sub-élites were divided in their attitude to empire. Some accepted the benefits, whether personal or communal, to be derived from service, other did not; loyalty to the dynasty was in some cases given willingly, in others only grudgingly or with resentment. What was shared throughout the area was that some awareness of the community's previous political autonomy survived and was used as a reference point by those looking to greater freedom from the imperium. In some instances, the legacy of the past may have involved legal provisions (eg. the rights of the Bohemian crown),¹² in others it might only have been a memory of past statehood or it could have been statehood combined with religious separateness.

This was the background against which nationalism was received at the beginning of the 19th century. The new imperative of political legitimacy, that ethnic and civic elements of nationhood coincide, ran up against the obstacle of the ruling empires, which rejected any thought of redistributing power. The Holy Alliance was, in effect, devised specifically with the aim of preventing the reception of nationalism from being pursued to its logical conclusion, the creation of new states legitimated by nationhood and not by dynasty. The system devised at the Congress of Vienna held together for a century, with only the Ottoman Empire crumbling in the Balkans and permitting the emergence of a series of new states. The decline of Ottoman power from within and the sense that it was not wholly appropriate for Moslem rulers to govern Christian subjects, which informed repeated Western interventions in favour of granting independence to new Balkan states, accelerated this process.

¹² Walter Kolarz, *Myths and Realities in Eastern Europe*. (London: Drummond, 1946).

In Central Europe and Russia, on the other hand, the existing empires' control was broken only by defeat in war and the determination of the victors to redraw the political map along ethno-national lines - this was the essence of President Wilson's Fourteen Points. The belt of new states that came into being, however, proved to be weak in both ethnic and civic terms. They were unable to integrate their deeply segmented polities and lacked the cultural and economic bases necessary to create effective civil societies. In fact, they were caught in a near classic vicious circle, in as much as they sought to use the instruments of the state to bring civil society into being, found that this ran into various impediments deriving from backwardness, intensified state control and made it even more difficult for civil society to come into being. The ethno-national cleavages were among the most intractable. These ethno-cultural communities, different from the majority, found the attempts to integrate them into what they perceived as an alien polity, ^{UNWELCOME AND,} responded with resentment and hostility. The terms of the integration were, inevitably, loaded against the minority, in that no distinction was made between loyalty to the state as citizen (and taxpayer) and loyalty to the cultural community. Ultimately this meant that members of ethnic minorities were eo ipso suspect and that the terms of loyalty demanded of them amounted to the complete abandonment of their own moral-cultural codes, something that communities as a whole would seldom do, though individuals might.

The state of affairs in Central and Eastern Europe after the Second World War was felt to be deeply unsatisfactory by all participants. This was exacerbated by the introduction of collective principle in dealing with non-majority ethnic communities, in an attempt to bring about ethnic purification. This intensified anxieties and did little to contribute to the integration of the population.

The backwardness of Central and Eastern Europe gave rise to a further feature which characterises the area. In Western Europe, the protagonists of the new doctrine of nationalism, the intellectuals, defined and proclaimed their ideas in relatively complex societies, in which the contest for power took place among various social groups, like the declining representatives of the old order, the rising entrepreneurs and the emerging working class, with the result that power was diffused and the intellectuals could not establish a preeminent position for themselves. Indeed, much of the 19th century was characterised by an ever more desperate critique of the bourgeois order on the part of intellectuals.¹³ In Central and Eastern Europe, however, the older order was stronger and societies were far weaker, so that intellectuals came to dominate the scene and acquired an authority which they deployed in the definition of nationhood.

¹³ George Steiner, *In Bluebeard's Castle*, (London: Faber, 1971).

At the same time, because the political challenge to intellectuals was weaker, their claims were not contested and, indeed, to an extent they could define their terms independently of society, imposing a concept of nationhood on it. The drive for intellectual purity was thus added to the various nationalist ideologies that were formulated and, as a result, nationalism in Central and Eastern Europe acquired an exclusive, messianistic quality that it did not have in the West.¹⁴ This high profile role of intellectuals and the particular expression of nationalism have proved to be an enduring part of Central and East European politics. In this respect, the nations that came into being in the area can be termed "nations by design" and many of their characteristics differ from those of the West. In particular, there is a long tradition of using or rather abusing nationalism for political purposes not connected with the definition of nationhood, like delegitimizing political opponents by calling them "alien" or resisting the redistribution of power on similar grounds.¹⁵

The coming of communism

The arrival of communism transformed the situation in many respects. At the level of theory, communism and nationalism are incompatible. Communism insists that an individual's fundamental identity is derived from class positions; nationalism that it derives from culture. In practice, however, the relationship between the two doctrines, both of which, as argued in the foregoing, were partial responses to the challenge of modernity, was much more ambiguous. Initially, communist rulers, sought to expunge existing national identities and to replace them with what was termed "socialist internationalism", a crude cover-name for Sovietisation. Gradually, and especially after the second de-Stalinisation of 1961, they found themselves impelled to come to terms with the national identities of their subjects and made a variety of compromises with it, regardless of the fact that this diluted and undermined the authenticity of their communist credentials. There are countless examples of communist parties using nationalism in this way.

For societies, communist parties could never be authentic agents of the nation, given the parties' anti-national ideology, but this did not preclude their taking advantage of the new post-1961 political dispensation and to express national aspirations in the space provided. It was this meeting of the two agendas, that of the rulers and ruled, that

¹⁴ Zygmunt Bauman, 'Intellectuals in East-Central Europe: Continuity and Change', *Eastern European Politics and Society*, Vol.1, No.2 (Spring 1987), pp.162-186.

¹⁵ My own views are set out in George Schöpflin, 'Nationalism, Politics and the European Experience', *Survey*, Vol.28, No.4 (123), (1974), pp.67-86.

helped to explain the initial success of, say, the Ceausescu's régime's mobilisation in the 1960s and 1970s, when there was a coincidence between the aims of communists and societies.

Where there was no direct overlap, nationalism could be the expression of social autonomy, ie a demand for strengthening the civic elements of nationhood and of the hope that society would gain greater access to power. This raised a problem, however. Nationalism may be an excellent way of determining identity, but it has little or nothing to say about political participation (the functions of nationalism are discussed below). In this sense, the demands for autonomy expressed through nationalism - "we should have the right to decide for ourselves because we are members of the Ruritania nation" - were another illustration of the confusion of codes to which this area is subject. Theoretically the demand for, say, freedom of the press or assembly cannot be derived from the ethnic aspects of nationhood, although in practice this may not be anything like as clear. In this respect, nationalism came to be entrusted with a function that it could not really discharge and tended to point societies towards confusion and frustration, as well as expectations that could not be met.

The communist period had further implications of major relevance to the current period. By sweeping away all other competing ideas, programmes and values, which the communists insisted on in order to sustain their monopoly, they made it much easier for an undiluted nationalism referring solely to ethnicity to survive more or less intact, more or less conserved in its original state. This meant that some, though not all, of the national disputes and problems of the pre-communist period were simply pushed under the carpet, so that with the end of communism these have automatically reappeared.

In addition, the reflexivity of modernity, that "social practices are constantly examined and reformed in the light of incoming information about those very practices, thus constitutively altering their character,"¹⁶ has been much impeded by communism, which claimed to be guided by absolute standards. Thus the kind of relativisation that has made nationalism a manageable problem in Western Europe, where the demands for power on the basis of nationhood compete for demands based on other identities (class, economic interests, gender, religion, status etc.) has not really taken place or is only now beginning to emerge. The propensity to see all matters as involving ethnic nationhood, whether properly related to nationhood or not, is one of the key characteristics of the contemporary Central and East European scene and will not change until nationalism is "desacralised" and subject to other influences, thereby reaching an equilibrium with the civic elements. In effect, what is essential is that post-

¹⁶ Anthony Giddens, *The Consequences of Modernity*, (Cambridge: Polity Press, 1990), p.38.

communist polities develop cross-cutting identities, rather than cumulative ones.¹⁷
This will take time.

One-sided modernisation

Communist rule forced these countries through a one-sided modernising revolution, which has had a considerable impact on two areas directly affecting nationalism. In the first place, the particular virulence of nationalism in the pre-communist period can be attributed at least partly to the fact that large sections of the population were backward and were subjected to the initial impact of modernisation, whether through the market or the state, in being brought into a new kind of community. This is always a traumatic process as traditional communities are swept away, and Central and Eastern Europe was no exception. The communist transformation effectively liquidated the traditional peasantry of the area, of the type bound by the village, illiterate and suspicious of the city and urban life. This applies with minor modifications to Poland (and Yugoslavia), for despite the absence of collectivisation, the agricultural population was as closely enmeshed in the control system of the state as elsewhere.

Inevitably, those who were forced to leave the land looked for answers to their new-found existential problems and generally discerned these in ethnic nationalism, although for some sections of society the communist answer of utopia, hierarchy and authoritarianism was quite acceptable. The failure of the communist system to integrate these societies meant that nationalism continued to provide answers, especially after communism was manifestly seen to have failed. However, this factor is not entirely negative. If the extremes of nationalism are to be associated with the trauma of modernisation, the gradual assimilation of the Central and East European peasantry into urban ways should see the long-term abatement of the kind of nationalistic excesses that are so feared.

Second, even though the communist revolution was a partial one, it did very effectively extend the power of the state over society and constructed a modern communications network that has allowed the state to reach virtually the whole of the population, in a way that was not true of the pre-war era. The use of television to spread a message, whether this is communist or nationalist, is far more effective than what was available before electrification. In this respect, Central and Eastern Europe has been globalised and makes the reception of ^{THE} global message of material aspirations easier to transmit, though its reception will be slow. The absolute claims of nationalism will only be relativised when the processes of reflexivity and globalisation are

¹⁷ See the argument in Patrick Dunlavy and Brendan O'Leary, *Theories of the State: the Politics of Liberal Democracy*, (London: Macmillan, 1987).

advanced. No national community can be secure in its nationalistic claims if these are constantly examined and redefined under the impact of ever more information.

The functions of nationalism

At this point, it will be useful to look at the functions of nationalism, both as a means of explaining its persistence and to offer perspectives on the future. The historical antecedents of nationalism in Central and Eastern Europe help to explain some of its more intractable features in the contemporary period, but what this sketch of the antecedent processes does not answer is the question of why nationalism survives at all. Its Marxist and liberal opponents have written it off countless times, yet it lives on, despite having been dismissed as "irrational". This implies that nationalism must have a function that no other body of ideas has been able to supplant and, contrary to the claims of its detractors, it remains a living and authentic experience, unlike, say, feudalism, and operates by rules of its own that are rational in its own context.

These functions must be sought in the cultural origins of nationalism, rather than in its political expression.¹⁸ The proposition in this connection is that every community looks for its moral precepts - the definitions of right and wrong, pure and impure - in its storehouse of cultural values and seeks to defend these from challenges, whether real or perceived. In this way, communities construct the rules of a moral-cultural universe, which then defines them. If this were to disintegrate, the community itself would be threatened. Crucially, it is by the moral-cultural universe that communities define the bonds of loyalty and cohesiveness that hold it together. These bonds, in turn, create the bases of identity which is at the centre of a community. Reference is made to these whenever questions of communal existence and belonging are on the agenda. Furthermore, communities also use this moral-cultural resource to articulate the affective dimension of politics. This is not in itself a pathology; all groups possess emotional as well as rational expression in their collective activities. Finally, it is through these cultural traits that the boundaries of a community are constructed, whether these are external boundaries or internal ones. External boundaries define the community in question against other communities. Internal boundaries refer to the acceptability or unacceptability of certain patterns of action or thought.¹⁹

The problems raised by nationalism in the political realm can be derived from the foregoing. Thus although in politics, nationalism has universalistic claims, in reality

¹⁸ I have explored some of these themes in greater detail in George Schöpflin, "Nationalism and National Minorities in Central and Eastern Europe", *Journal of International Affairs* Vol.45, No.1 (Summer 1991), pp.51-66.

¹⁹ On boundaries, see (ed.) Fredrik Barth, *Ethnic Groups and Boundaries: the Social Organization of Culture Difference*. (London: Allen & Unwin, 1969).

these are not true. In broad terms, nationalism is excellent in defining the identities of members against non-members of collectivities, but it says nothing about the distribution of power within a community or the allocation of resources.²⁰ But because nationhood taps into the emotions underlying collective existence, it is easy enough to confuse the codes relating to political power and those governing political identity, something that has happened repeatedly in the last two hundred years.

In this sense, nationalism can be used as an instrument to legitimate political demands that are entirely unconnected with, say, the distribution of power, but this lack of a logical and causal nexus is muddled by the reference to the affective dimension that nationhood conjures up. Thus in concrete terms, Slobodan Milosevic has (for the time being) successfully convinced the Serbs that the reason for their economic plight is not that the Serbian economy is run badly, but because various aliens (the Kosovo Albanians, the Croats etc) are threatening the integrity of the Serbian nation, although in fact the two factors have nothing to do with each other.

Perspectives on the future

There is every indication that nationhood and nationalism will play a growing role in the internal and international politics of Europe, though with different implications for the different halves of the continent. Whereas in Western Europe, the strength of the civic elements of nationhood, as expressed in the multiple and cross-cutting identities and interests of individuals and groups, coupled with the attractiveness of the integration process, are likely to be substantial enough to offset occasional upsurges of ethnic or even ethno-national mobilisation. This does not mean to say that it will be easy, but the traditions of compromise and bargaining over resource allocation, the commitment to democracy and the perception by these societies that they have a direct interest, political as well as economic, in the maintenance of democracy, should be sufficient to ensure that nationalist conflicts do not seriously destabilise any state.

The particular trouble spots of Northern Ireland and the Basque Country are likely to fester on for a while, but in both these instances, the status quo is, in effect, a kind of solution, in as much as any alteration would - at this stage - be likely to intensify difficulties rather than alleviate them. Elsewhere regular adjustments in the distribution of power should be sufficient to absorb ethno-national demands.

However, the end of communism in the Soviet Union as well as in Central and Eastern Europe has resulted in two major changes. In the first place, the (re)unification

²⁰ In many national ideologies, there are elements of self-perception that claim particular democratic virtue for the nation in question; however, these are contingent and are in no way necessarily connected with the definition of nationhood.

of Germany has legitimated the national principle in Europe for the first time since 1945. Essentially, there were no civic grounds for German unity, only ethnic ones. There was no particular reason for Germans to unite in one state other than the fact that they were Germans, in other words it was the ethnic factor that fuelled this move. A democratised East German state could, presumably, have continued in being, in much the same way as a democratised Hungarian or Polish state has done, if it had had the ethnic underpinnings, but despite the best efforts of the Honecker régime to construct a separate East German ethnicity, this never acquired much authenticity and the application of the ethnic principle has unequivocally pushed it into a single German state.

The broader significance of this has not escaped others. If Germans can claim to eliminate state boundaries by reference to nationhood, there is no reason why this is not applicable elsewhere and, indeed, German unification has become an offstage reference point for those seeking independence in other parts of Europe. At the same time, there is more than a suggestion that the sympathy entertained by German opinion towards Croatian and Slovenian independence derives at least ^{IN} part from Germany's own experience.

The knock-on effect of both German unification and the recognition of the Baltic States is felt elsewhere, obviously in Yugoslavia, but also in Spain, where the difference in status and powers between Catalonia and the Basque country on the one hand and the other provinces on the other poses a growing problem.²¹ The Yugoslav question requires more detailed discussion than can be attempted here, but it is worth noting that the central reason why the state collapsed as a single entity is that after 1945, it was reconstituted by Tito as a communist federation with an explicitly communist legitimation. The collapse of that communist legitimation has brought about the decay of the state as such and the corresponding reversion to the much stronger nationalist legitimations of Serbian and Croatian etc. nationhood. It appears unlikely in the extreme that attempts to put Yugoslavia together again can be successful, provided that those looking to keep it as a single state are committed to consensuality. A non-consensual Yugoslavia, however, would be rather unstable, because it would fly in the face of both the civic and the ethnic elements of national legitimation.

The end of communism is likely to have other fall-out in the area of identity. For the last four-and-a-half decades, Europe has tacitly or sometimes expressly defined itself against communism, insisting that what is European is not communist and to some extent vice-versa (only to some extent, because commitment to democracy involves offering some political house-room to anti-democrats like communists). In this respect,

²¹ *Financial Times*, 16 September 1991.

the end of communism will require a reappraisal of what Europe stands for, what its identity is. This will also include a redefinition of the socialist agenda, seeing that the defeat of communism will have reverberations for democratic socialism as well.

Post-communism and ethno-national questions

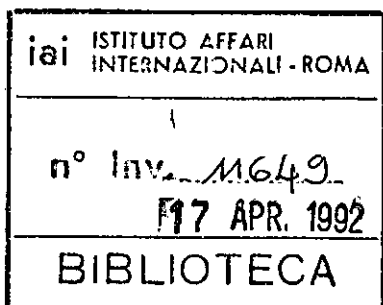
In the post-communist countries of Central and Eastern Europe, the construction of democracy inevitably means coming to terms with the resurgence of nationalism and, equally, finding the necessary instruments for integrating ethnic elements into the new systems. This poses a number of problems, some of which can only be touched on this paper. The states of Central and Eastern Europe are all to a greater or lesser extent ethnically heterogeneous and will, if they intend to maintain their commitment to democracy, have to make provision for the well-being of minorities. Centrally, this will oblige them to accept and practise democratic self-limitation, something that will require considerable restraint on the part of the new governments. There is little evidence to date that consociational solutions, clearly the most effective in making provision for consensus across segmented societies, have been taken on board. However, the record of the Central European states - Poland, Czecho-Slovakia and Hungary - suggests that there is, in fact, some readiness to avoid the worst excesses of majoritarian policies.²²

Furthermore, self-limitation will also involve an understanding of the proposition that in a democracy the state is not the instrument of the ruling majority for the implementation of certain ideals and utopias, but the agent of governance for the whole of society, regardless of ethnicity. By the same token, the sacralising of territory, the belief that the particular frontiers that have come into being are in some way above politics, is harmful, because it can lead the majority into the dubious perspective of regarding all minority claims as an infringement of the sacred territory. There is more than a hint that attitudes of this kind inform Rumanian and Serbian thinking, concerning Transylvania and the Kosovo. Any attempt to insist that civic rights should be denied to those who claim different ethnic rights leads directly to major violations of human rights.

Finally, there is the broad problem of integration. In order for democracy to operate effectively, the great majority of the population must feel committed to it and must have an active interest in sustaining it. Without this, democracy will become the affair of the

²² My own views of the problems of post-communism are set out in George Schöpflin, 'Central and Eastern Europe over the Last Year: New Trends, Old Structures', *Report on Eastern Europe*, (Munich: RFE/RL Research Institute), Vol.2, No.7 (15 February 1991), pp.26-28 and 'Post-communism: Constructing New Democracies in Central Europe', *International Affairs*, Vol.67, No.2 (April 1991), pp.235-250.

élites and thus be vulnerable to popular upsurges of an anti-democratic nature. Various scenarios illustrating this can be written, notably the rise of an authoritarian leader using nationalist slogans to divert the attention of the population from economic privation. The Milosevic model or "Latin-Americanisation" comes very close to being a paradigmatic case, but the model is potentially applicable throughout the area, even with the relatively favourable international environment. Any such a development, overemphasising the ethnic elements of nationalism against the civic ones, is liable to result in growing instability and friction between ethnic groups and undermine the best chance of building democracy that Central and Eastern Europe has ever had.





THE UNITED NATIONS UNIVERSITY

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(USSR)

CRASH OF COMMUNIST EMPIRE OPENS DOORS
TO EUROPEAN CIVILIZATION

The transition from totalitarianism to democracy and from the command-administrative system to the market is effected in the Soviet Union painfully and inconsistently. The resistance on the part of obsolete structures, psychological inertia, disbelief in central authorities, a low level of political culture and morals - all these factors make the final results of the initiated changes still indefinite and give rise to appearance of distorted forms of democracy and market relations.

Profound Historical Changes

Only partial changes took place until recently. The fundamental principles remained substantially unchanged - the leading role of the party, domination of the state form of ownership, imposition of Marxism-Leninism in ideology, fear as a tool of political power. The first attempt of perestroika made by Gorbachev has not satisfied the society, nor brought it out of the crisis, but rather aggravated it. Nevertheless it pushed up the development of free-thinking, substantially eliminated military confrontation of the two blocks.

In the light of the developments in Eastern Europe it has become perfectly clear that the existing system cannot be improved by partial perestroika, that it has completely discredited itself. The society has realized the necessity of creation of a qualitatively new social organization ensuring a true social and economic progress. This necessitates dis-

missal of the command-administrative system and unitarian empire, formation of a novel community of republics, liberation from dogmatism and utopianism, prevalence of the law, ensuring human rights and freedoms, integration into the world economy.

Unfortunately, M.Gorbachev prior to the take-over did not dare to recognize the non-viability of the existing system, used any pretext to demonstrate his commitment to the socialist idea and communist perspective. He accused both radicals and democrats of extremism and intentions to destroy the union state.

The failure of the coup d'etat has accelerated the decomposition of the union Centre and such its pillars as communist party, KGB, military-industrial establishment. At last, Gorbachev has recognized the viciousness of the Soviet model of socialism, but did not lose his faith in the socialist idea. In Moscow, Saint-Petersburg, many other major cities of Russia, Kirgizstan democratic anticommunist revolutions occurred. The empire collapsed within a few days. The republics incorporated in the Soviet Union substantially ceased to be subordinated to the Centre, proclaimed their state independence and desire to effect their relations on a principally different basis.

In the territory of the former USSR there formed a motley mosaic of states with different political regimes: anti-communist, neocommunist, communist-feudal. Lithuania, Latvia, Estonia, Georgia, Moldova want a full separation. Others, not without hesitation, debate the possibility of the forma-

tion of a Union of a confederation type with unified strategic armed forces and some common institutions for coordination of policies and joint actions in the development of economy, science, technology, environment protection, controlling terrorism and crime, etc.

In suppression of the putsch the decisive role was played by democratic forces of Russia headed by B.Eltsin against whom the plot of the reaction was directed in the first place. The victory has sky-rocketed the authority of Russia and its leader. At the same time, the growth of its political influence and a clearly pronounced anticommunist character of the processes ongoing in it has frightened communist elites in some other republics, the more so that the weakened Centre ceased to be a kind of counterweight in respect of Russia. This revived nationalistic moods and desire to acquire independence in Ukraine, Kazakhstan, Byelorussia, Uzbekistan.

All these developments are ongoing against the background of a true landslide in the economy. While in 1990 the GNP reduced by about 5 percent, in 1991 its expected drop is by 15-20 percent. Due to a low harvest which, in addition, is not fully gathered, traditional losses in transportation and storage of grain, potatoes and other products, reluctance of producers to supply agricultural produce to cities for devaluated money there comes the threat of hunger.

The former Union Centre proved to become a full financial bankrupt. Not only Union, but republican budgets have a huge deficit. The "hole" in the budgets is estimated as 15 percent of the GNP. The attempt of Pavlov's government to

save the situation by increasing, by 2-3 times, prices for basic consumer goods and administrative lifting of prices for fuels, raw materials, many kinds of chemicals and machinery resulted in growing inflation which threatens to become uncontrollable. The living standards since the moment of introduction of new prices in April 1991 fell by at least 1/3, more than half of the population found themselves below the poverty level, their incomes being below the living minimum.

Despite a drastic limitation of the purchasing power of the population, the shelves of shops remain empty. The hoard of foodstuffs stocked in anticipation of the price growth will be exhausted, money reserves will fade away and the discontent with the beggarly life might splash out into the streets. Equally dangerous is growth of speculation, corruption, crime also associated with destruction of the consumer market and the system of distribution.

In view of the coming winter the reduction in petroleum and coal output causes a great concern. The wear of industrial and transport equipment results in troubles in their operation and heavy accidents.

Dramatic reduction is observed in foreign trade - by half with countries of Eastern Europe. The external debt in hard currency exceeded \$60 bln.

The collapse in the economy is most frequently explained officially as the result of disintegration of the administrative system before energizing market mechanisms, as well as by ethnic conflicts and separatism of the republics. In fact the administrative system was shaken, weakened, but far from

being destroyed. It is the consumer market that still could not be regarded as fully developed which has been destroyed. It played an important role even within the framework of the command economy and owing to this market material incentives for labour were preserved. Their failure resulted in lowered productivity and discipline of labour.

Of course, many economic difficulties were accumulated over decades, e.g. chronical lagging-behind of agriculture and manufacture of consumer goods, rendering the economy lifeless by the enormous military-industrial complex. However, the main reason of the disorder resides in the unsound economic policy of the Centre during perestroika, first of all in the money-credit and budget spheres, in agriculture. Enterprises do not want to sell their products for money which can buy nothing, they prefer barter deals. This results in rupture of contract relations between enterprises to the detriment of production on the whole.

Lack of hard currency for import of numerous materials and components causes reduction or halting of the manufacture of many goods, since such import the share of which in the cost of the products can be minimal has no substitutes.

Despite the impressive victory of democratic forces in Russia, the resistance of conservative forces, party apparatus, military-industrial establishment has not been suppressed yet. The attempts of a partial revenge in the centre and periphery of Russia cannot be overruled. One cannot underestimate the discontent of considerable masses of the population with hardships of their life. Their political indiffe-

rence during the putsch or even a silent approval of it can turn into aggressiveness against new democratic authorities from which a rapid turn to a better life cannot be expected. It is difficult to foresee negative consequences of growing nationalism in policies of both communist and anticommunist regimes in some republics. This should be added with the danger of rebirth of if not totalitarianism then authoritarian-different, ism but on already /for example nationalistic basis, rather than on the communist one. In short, instability remains in both political and economic development and it is not time to speak about any turn for the better:

Prospects for Rebirth

The Soviet Union ceased its existence as unitarian stat and entered the period of dismounting obsolete central power structures, formation of new independent states, shaping of a new economic and political community which apparently would not incorporate all the republics - constituents of the former Soviet Union. It is difficult to estimate now the duration of this transition period. Most probably it will take more than one year. Certain optimism is inspired by President of the USSR and leaders of the republics who understand the necessity of not permitting a spontaneous disintegration of the Union and of transforming former power and economic structures smoothly and legitimately under a joint control.

The Congress of people's deputies of September 1991 adopted a constitutional law establishing temporary mechanisms of the central power over the transition period up to signing of the new Union Treaty. By so doing, the Congress

has substantially dismissed itself and delegated its competence to the transformed Supreme Soviet and to the State Council newly composed of President of the USSR and leaders of the republics. Now the most important laws and decisions made by these bodies will be defined by the position of the republican leaders and authorities, by their consent. President Gorbachev has noticeably lost his former power.

As regards reorganization of the economy, common budget division of the Union property, gold and currency reserves, debts and regulation of the inter-republican exchanges, during the transition period all this will be the function of the Inter-Republican Economic Committee, wherein the last seat is with the republics, not the Centre. The Committee has to elaborate a treaty on an economic alliance which will regulate considerable part of the matters mentioned above.

Such are the new starting positions which mark still unclear perspective of political and economic stabilization in that geopolitical space which has been hitherto named the Soviet Union. Many will depend on what is the basis of the new Union Treaty and the Treaty on Economic Alliance, what republics sign it and on what terms. Up to now it has been defined by the decision of the Congress of People's Deputies of the USSR that in the Treaty on the Union of Sovereign States each of them can independently specify the form of its participation, that the new Union should be based on principles of independence and territorial integrity of the states, respect of human and national rights, social justice and democracy.

It is intended to reach an agreement on a collective security and defence, while retaining unified armed forces, common command of nuclear and other arms of mass destruction. Furthermore, a strict observance of all international agreements and obligations taken by the USSR, including those on arms reduction and control, human rights protection, as well as external economic obligations should be steadfastly obeyed.

In addition to defence matters, the competence of the intended supra-national centre will cover some other functions delegated by the Treaty participants, e.g. in foreign policy, settlement of disputes, control of crime and terrorism, etc. It is likely that political and economic institutions of the would-be Union will resemble common authorities of the European Community.

The interest in the formation of an economic community (or alliance) is revealed on the part of even those republics which will not sign the Treaty on the Union of Sovereign States. It is clear that the community will have a character of being open for accession and various forms of association are allowable. In other aspects, however, the concept of the community still remains rather vague. If Russia is its centre of crystallization, the community's stand will be defined to a great extent by Russia. The notion of a single economic and legal space which the republics want to have should be more clearly specified. Does it envisage, for example, a common currency, customs union removing any customs and administrative barriers between the participants, common budget and reserve funds, common external economic policy? It seems as yes. But within the short run it is more realistically to

expect that many republics will want to have their own currency. It will be hardly possible to stabilize the rouble and to turn it into a sound monetary unit on the scale of the entire Union with great differences in the economic situation in various republics, their disbelief in the Union centre and its money-credit policies. It is possible to balance the money and commodity masses either by lifting every control over prices and recognizing hyperinflation, or by placing into the market turnover enormous new values which hitherto have never been regarded as commodities, namely: land, flats and houses, shares of enterprises. But this very property located on the territory of the republics each of them declares its own. Is it possible to reach an agreement that a part of it be assigned to the centre to ensure purchasing power of money?

The use of a sound and then a convertible common money unit will necessitate observance of other very important accords regarding the permissible limits of deficits of republican budgets and growth of their internal debts, unification of taxation, customs, price and social policies, strict keeping of the unified rules of banking activities and granting credits. The inevitable problem of a common regulation of the foreign indebtedness and currency contributions of the republics for its servicing and repayment will also arise. It seems to be difficult to come to an accord in all these matters, though refusal from a single currency will engender great complications and considerably hamper inter-republican trade.

In my opinion, it would be expedient to make attempts to establish a banking and payment union with a common currency and joint regulation of the money and credit emission. Several republics might agree for such experiment. If within the Union framework it is impossible to stabilize the money unit and carry out coordinated policies in areas decisive for its existence, there still be hope that Russia will be able to recover its monetary system and make its national currency (the rouble or chervonetz) the currency for inter-republican settlements.

The departure from the former system of arranging the Union budget and inter-republican trade based on rather arbitrary prices is inevitable, since it is dictated by the desire of the republics to restore the violated equivalence of mutual exchanges and use of the GNP produced by their joint efforts. As a result, one may expect an increase of the active balance of Russia in its exchange with goods and services with other republics. Accordingly, the interests of Ukraine, Byelorussia, Baltic and Central-Asian republics will suffer. To weaken the shock, it would be very important to reach an accord on a gradual transition from one situation into the other and, probably, not to hurry with the decomposition of the single monetary system.

Now the republics are more resolute in taking their destiny in their own hands and in finding the way out of the economic difficulties without relying any more on "wisdom" and possibilities of the Union centre. Russia, for example, is ready to take vigorous and radical measures for economic

stabilization and use of market mechanisms within the framework of the economic community or, if the formation of the latter is complicated, independently.

The first indispensable step is healing of the monetary system and creation of real, sound money. A great money overhang with its continuing rapid growth is the result of an excessive money and credit emission intended mainly for covering the budget deficit. Under prices controlled by the state the market was devastated by the unsatisfied demand for goods and services. Normal trade was replaced with barter deals; material incentives turned to be undermined; labour discipline lowered. The economy found itself in the state of a free fall.

It can start to recover on the basis of a changing attitude of people to their labour and, hence, growing output and productivity of labour. To do so, it is necessary to introduce real material incentives, ensure motivation by means of real money and changed relations of ownership, in agriculture in the first place.

What is to be done to make the rouble a real hard currency with its subsequent transformation into a convertible currency? Can this be achieved in the short run? In my opinion, there is such a chance, at least in Russia.

It has become clear today that the money system reform cannot be delayed. However, the measures taken up to now by central authorities proved to be unsuccessful. Doubling and tripling of prices by way of administrative decisions with a purported gradual liberalization of prices turned out to be

hopeless. Contrary to calculations, a strong impetus to inflation spiral untwisting, further stagnation and reduction of output took place which resulted eventually in a growing social tension.

Fiscal measures lowering real incomes of the population are insufficient. Many other things are required, in addition to them, for stabilization of the monetary system, first of all, expansion of supply of goods to the market and a resolute reduction of the budget expenditures and the budget deficit. The state can offer a part of its property - land plots, houses and apartments, shares of enterprises - for sale in the market. This property assessed by Western experts in market prices and hard currency could become an anchor ensuring stability of our monetary and credit systems, provided that, of course, a considerable part of this property would be tradable in the market.

At the same time, one should not underestimate the related difficulties. The population whose incomes have been intentionally restrained by the government at such level as to prevent big money accumulation, is incapable to buy out even an insignificant portion of the state property. Besides the population is puzzled by the proposal to buy out the property from the state, since it has been always declared that this property is a whole-national wealth and each citizen theoretically is its co-owner.

For this reason, in Russia and some other republics the idea of granting to every adult member of the society a certificate (voucher) or opening a bank account for a certain

sum equal to about 30-40 percent of his portion in the common property obtains a growing support. This voucher can be used for buying a land plot, house or a flat, shares of enterprises or can be deposited in a bank with the right to use the money after 2-3 years. A considerable portion of the state property could be subjected to distribution by means of such certificates, while the remaining amount could be at the disposal of authorities of different levels and be sold by them in the market.

This mode of privatization theoretically can strengthen the market and the monetary system owing to expanded supply of goods and assigning property to a large stratum of owners i.e. owing to the creation of a middle class which would be interested in the progress of market relations and a further accumulation of property. A part of incomes from sales of such property should be withdrawn from circulation or frozen for 3-4 years.

The restoration of money and credit systems, of course, would necessitate other measures: strict rules regulating bank credits and loans, an antimonopoly law creating a competitive atmosphere, liberalization of prices and import and introduction of market rates of exchange for a foreign currency. It is very likely that a money reform would be needed with exchange of old money for new one with the view to limiting the solvent demand.

But one of the main prerequisites, of course, is liquidation of the enormous budget deficit and bringing state expenditures in consistence with its incomes. Demilitarization of

the economy and reduction of military spendings have become an urgent economic and political imperative. However, the military-industrial complex is strongly resistant against it. At the same time, the country cannot already bear the burden of excessive military expenditures and large-scale investment programs financed out of the budget. After failure of the putsch major cuts in expenses for military purposes have become quite real. It is also clear that one cannot any longer postpone strict budget restrictions on subsidies to loss-making enterprises.

A relatively fast improvement of the situation could be reached in agriculture if a more radical, than up to now, reform of agrarian relations and elimination of the feudal system of obligatory deliveries of agricultural products are performed. It is about time to recognize the private ownership of land and allow trade with it (even for some categories such as plots for country houses, lodging facilities) and to permit to agricultural producers after paying taxes (probably in a physical form - with grain, meat, milk) to sell the remaining products. The land allocated to collective and state farms for eternal and free use must be returned into ownership of state authorities, whereafter it can be bought out or rented by former or new owners. Artificial barriers in the development of private farms should be removed and state support should be rendered to such farms, including manufacture of necessary machinery, fertilizers and material for them.

Such are, in my opinion, the primary measures which are capable of catalyzing the turn for the better in the economy.

inspiring people with the hope for a possible rebirth. But it will take many years to create a normally functioning market economy.

Overcoming Isolation from the World Economy. Western Support

The revolutionary changes in Russia which are also spreading over other republics facilitate overcoming of isolation from the world economy and open new promising markets for international trade. This is evidenced by the removal of the state monopoly for foreign trade, new laws promoting foreign investments, creation of joint ventures, etc. However, there are still numerous obstacles hindering business cooperation with the West. This relates to the order of obtaining export and import licences, customs duties and rules, provision of joint enterprises with raw materials and components, taxation and banking regulations. But the main point is in that both in Russia and in other republics the required market environment with convertible currency is lacking. And this is now still the most serious obstacle for integration into the world economy.

Actuation of market mechanisms will make it possible to find additional opportunities for increasing exports and, hence, for buying goods abroad. Such opportunities are available at small-business enterprises, municipal authorities. But restructuring of big industries is also required in the interests of the formation of a powerful and competitive export sector of the economy.

Conversion of the defence industry opens an access to the high technology of the military-industrial complex. Its

commercialization will enable export of principally new goods possible. This is one of the most promising areas for joint ventures with Western companies.

We cannot set great hopes for expansion of import of machinery and equipment from the West on a credit basis. At the present time the price of such credits is very high. Taking into consideration the inefficiency of exploitation of the imported equipment (which, unfortunately, is characteristic for us), it is clear that a further growth of foreign indebtedness will be a heavy burden for the economy. For this reason, it is likely that preference will be given to other forms of collaboration such as industrial cooperation, joint enterprises, direct foreign investments and free economic zones for joint ventures established in the territory of Russia. Unfortunately, a poor state of the economy forces the republican government to find new credits.

While regarding prospects for a deeper involvement of Russia into the world economy, one should have in mind the role that is played by transnational corporations in the integration processes ongoing in the world. Despite the contradictory character of their activities from the perspective of national interests of the countries where they have their affiliates, these corporations do contribute to acceleration of technological advance and a greater interdependence of different countries. They exert a growing influence on the dynamism and geographical flows of the world trade. Among developed countries of the world only Soviet Union did not have its own large-scale transnational companies with affili-

ates all over the world. Neither has it affiliates of Western companies in its territory yet. But it is quite clear that Russia, Ukraine and other republics will have to create favourable economic environment for the activity of foreign companies. On the other hand, with time it is possible to expect investments of Russian, Ukrainian, Kazakh capital in Western countries.

The basic means and resources for economic recovery that the initiated anticommunist revolution is intended to release are inside this country, not outside. They are concealed both in socio-political and economic spheres. Democratization of society, emancipation of public consciousness, awakening of talents, moral and cultural upsurge of the population are the decisive factors of our rebirth. The main obstacles in this road - insufficient maturity of the civil society, lack of experience and professionalism in new structures of power.

The West can substantially speed up the renovation of the Soviet society by showing its readiness to reach a compromise on the issues of reduction of conventional and nuclear weapons, by continuing political dialogue with central and republican leaders and widening contacts and cooperation in all spheres. The difficult process of demolition of totalitarianism and transition towards democracy and market needs not only moral and diplomatic support of the leading industrialized states, but their technological assistance, participation of Western capital in modernization of industrial and agricultural enterprises, managerial expertise. An essential help can be effected by elimination of restrictions

on transfer of technology, granting most-favoured-nation treatment, accession of the new Union or its individual members to international economic organizations.

The troubles in provision of urban population with food stuffs and pauperization of numerous strata of population in Russia and other republics have raised the problem of humanitarian help by the West. Of course, it will be accepted with thanks irrespective of its painfulness for dignity of those who take it. Our people got in troubles due to the filthy social system and its leaders. The food supplies and other assistance will make it possible to a certain extent to relieve the dangerous tension and facilitate the transition to the market economy. But if efficient mechanisms of distribution of this aid with participation of the West are not found, it might not reach those who need it, but fall into hands of speculators and bureaucratic structures.

The greatest contribution to the recovery of our economy can be made by direct investments into the industries which define the improvement of human life, better quality of products, reduced losses, liquidation of acute shortages of goods, propagation of high technologies. To encourage the inflow of such investments it is necessary to have guarantees either on the part of governments or banking institutions. Governments of Western countries could do much to give such guarantees and form appropriate banking mechanisms.

Of course, until political instability and non-settlement of inter-republican relations are preserved, a certain restraint on the part of Western business partners will take place.

At the same time, during this very period of the development of democracy and market in this country the West is capable of rendering a very substantial support to this process by showing the required broad-minded approach. The aid in various forms including free one is needed for the new sector of entrepreneurs, family farmers, enterprises of market infrastructure, democratically elected authorities. However, it will be also requested by those who would like to prevent the dismantling of obsolete structures.

In other words, the West faces a difficult problem of elaboration and coordination of its policy of rendering economic assistance to new democracies originating in the ruins of the former Soviet Union. It is desirable that the West could exert a productive effect on the development of these difficult transformations.

New Realities in European Policy

The crash of the last world empire and origination of a new international formation in the territory of the USSR will bring about essential changes at the political map of Europe. This will have serious consequences for the global system of international relations. At the moment it is impossible to foresee all effects of this process. But it is clear that the victory of democratic forces in Russia, removal of the communist party from power, market reforms will clean the road for incorporation of the republics gaining their state independence into the global civilization, the prospects for international cooperation will be much better. However, the processes of decommunization, market and democratic trans-

formations have not yet acquired an all-round character, they are going inconsistently and non-uniformly. The political instability in the decomposing Soviet Union bears a threat for international security and puts forward a number of new problems facing foreign policies of Western states. How to make a better use of the historical chance for improving international climate formed by radical changes in the Soviet Union and Eastern Europe? What should be done to avoid destabilization of the international situation, especially in the European continent, as a result of acute contradictions and economic difficulties of the transition period? There are only most general answers to these questions so far.

The enormous military potential of the Soviet Union to a lessening extent can be regarded as a threat for the West. The republics on whose territory nuclear arms are deployed - Ukraine, Byelorussia, Kazakhstan - intend to become nuclear-free zones and to give their nuclear arms to Russia. This will make the Russian leadership actively strive for reduction of strategic nuclear and conventional arms, liquidation of tactic nuclear weapons. The location of the most dangerous arms on the Russian territory and, apparently, under control of the democratic anticommunist presidential power minimizes the risk of any incidents. In the first place Russia can become a guarantor of a strict observance of all hitherto taken, on behalf of the Soviet Union, international obligations within the CSCE framework for control and reduction of armaments, in the human rights area, etc.

The ideologization of international relations with its

"class approach" that so noticeably hindered achieving compromises in the past and maintained "cold war" has ceased. It is possible to forecast with assurance that the coordinated foreign-policy course of the new Union which will appear instead of the USSR, that of Russia and Ukraine in the first place, will be aimed at joining the European civilization, integrating into European and global political and economic structures. As it seems, this fully meets the interests of the West. Today, like never before, the integrity of European security is felt. Prospering Western Europe cannot successfully develop further being fenced-off from Eastern Europe, from newly appearing states in the USSR territory, from their problems and tragedies. The split of Europe into poor and rich one might become a source of an equal tension as its separation into two systems with the opposite ideological orientation. It is important to concert efforts, to agree to render the required assistance in order to avoid all this.

Stabilization of the situation in the East-European region will depend to a great extent on the manner of resolving ethnic and territorial problems which came to the forefront as a result of crash of totalitarian systems. Taking into consideration weakness, inexperience and immaturity of the emerging democracies such ethnic disputes might turn into armed conflicts like, for example, in Transcaucasus and Yugoslavia. The European community now faces a very difficult task to contribute to settlement of these conflicts. Effective international mechanisms, go-between procedures are

required to ensure resolving of inter-ethnic conflicts both inside states and between them only by peaceful, political measures.

It is obvious that peace in Europe should rest not only on recognition of the right of nations for self-determination and inviolability of the existing borders. To maintain it, all states have to take sound obligations to respect human rights, as well as rights of ethnic minorities, not to resort to force in solution of domestic ethnic problems.

The decomposition of the Warsaw Treaty and COMECON has created a certain vacuum in the European political situation. The Soviet Union has lost its interest in Eastern Europe, while the West is not in a hurry to occupy there its former positions. There are, however, signs that this vacuum will soon be filled with new forms of political and economic interaction. Russia shows initiatives in resuming, on a new basis, relations with Czechoslovakia, Poland, Hungary. At the same time, the latter countries make attempts for a "tripartite" cooperation in the military-political area. They have very much in common. In particular, they are more advanced in carrying out market reforms than other countries. Their relations are not clouded by political or territorial disputes. All this creates prerequisites for a sub-regional integration which can be joined by other states, e.g. Lithuania, Latvia, Estonia. Similar tendencies towards alliances and associations of states on a subregional basis can play a positive role in the pan-European process.

The situation in Eastern part of the European continent does not give a great optimism so far in respect of const-

struction of common European home. It seems that more or less stable international system is set into motion. New political realities have appeared: unified Germany, independent Baltic states, collapse of the Soviet empire and of the Yugoslav federation. All this means an entirely new geopolitical situation which necessitates new approaches to solution of the problems of security, economic cooperation.

The post-war bipolar arrangement of the world suggested availability of a counterweight to the USSR in the face of the USA whose presence in Europe guaranteed its allies against the Soviet threat. The disappearance of such threat puts the question of the US role in Europe. Whom should they defer now - the disintegrated USSR which in the short run will be busy with its own problems, or Germany? What transformations in this respect the NATO should undergo? A number of East-European states shows interest in joining the EC and NATO. This idea is being debated in Baltic states as well. The absence of clarity in respect of the system of collective security and economic unification of the Soviet republics declared their sovereignty and independence still more complicates the architecture of the common European home. Nevertheless, peaceful future of our continent can be associated only with the process initiated by the Helsinki Act.

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GLOBALISM, REGIONALISM, NATIONALISM.

(End Century Dilemmas about Opportunities and Roadblocks for a New World Order and the Future of Europe.)

"Every age has had its burden of misfortunes and dangers and has nurtured its hopes"

(Aurelio Peccei, the founder of the Club of Rome).

From among the many ideas and movements which emerged, faded away or survived several "isms" claimed the 20-th Century so far. The agenda of national and world politics has also been very rich in misfortunes, concerns and false or real hopes in this turbulent century.

Ideas and concepts about a "new order" which will bring peace and happiness to humankind or at least for some groups of it appeared also in the vocabulary of different political movements and political figures since the beginning of the Century. Sometimes those concepts and demands became the motive forces of different costly actions which rather often failed to achieve their goals but at the same time they became the sources of human suffering.

At the early 1990-s from among the many new or older "isms" which are still with us nationalism, regionalism and globalism as _____ ideologies or guiding principles of actions seem to be especially pertinent ones. Will they together or any of them separately be the final "tag" on the 20-th Century or the "catchword" for the future historians trying to understand and explain our century will be something else, like "The End of Great Empires" "The Era of the Great Global Changes" "The Beginning of a New Global Peace Order" or the prelude to the era predicted in doomsday prophecies: to Megaproblems and Megacrisis". Will it be possible at all to characterize our century with one catchword or it is more feasible to label shorter period within it? The answer of the "prophecies" to those questions would have been certainly different in the different periods of this turbulent Century and by the various actors of socio-political life on our Globe. It is and it will be difficult for the future historians (not only for

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the prophets) to give a universally acceptable catchword even to the shorter eras within the century. It is also well known, that such ideas as globalism, regionalism and nationalism appeared also in one way or another in various political movements and ideologies in many concrete forms and served many, often diverging goals.

The answers may also differ today if the above three categories are considered from the point of view of those fighting for self determination for national identity or from the point of view of international political, economic or ecological governance.

The interests and values behind nationalism, regionalism or globalism were of course far from identical either. They were interwoven with many other problems, and they represented a "burden of misfortune" and "dangers" for some but "hopes" for others as the history moved from the era of the great empires to the world of about 170 states (and their number is still on the increase) and their system of international organizations, from the realities of 1,6 billion people to the concerns of more than 6 billion, from the promises of the electric power automotive vehicle and large scale mass production to the challenges of the information age, biotechnology and ecological catastrophies, from the promises of oil as a new and extremely efficient fossil fuel to the nuclear energy and the dangers of a nuclear holocaust.

All those changes represented new challenges and hopes, brought about new conflicts and offered new possibilities in building new "peace regimes" and paved the way for their collapse.

From the point of view of the future it is a fundamental question to what extent the global changes at the late 1980-s, early 1990-s represent a real turning point in history not only in concerns and hopes but also in the role of globalism, regionalism and nationalism. The answer to that question cannot be given in abstract, theoretical terms. While the theories of international relations may well be influenced by the changes the concrete analysis of their implications is a fundamental task even from the point of view of the theories. In this paper I have to confine the investigations to the interrelationship of the changes with those factors and trends which are behind the contemporary problems of globalism regionalism and nationalism as they appear on the flag of different contemporary political actors which may have a given sometimes decisive influence on the changes.

The transformation in the Soviet Union and in Central and Eastern Europe which resulted the collapse of the post Second World War political status quo in Europe marked the end of the

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Cold War period with important global consequences. The causes and the consequences of the changes cannot be understood in a one dimensional way and cannot be defined only in short term perspectives.

The short term perspectives represent only one, and for certain political actors undoubtedly very important dimension for the evaluation of the changes. The global system of the late 20-the Century however is an extremely complex formation as old and new macro and micro actors and issues are simultaneously present and new interrelationship has developed not only between states but also between political and economic factors. There are important changes in the factors and conditions determining the shifts in the global power structure due to the new and pervasive role of new technology and the changing technological foundations of the society, the increasing importance of transnational capital movements, the globalization and integration of markets, the new forms of competition and cooperation on global level.

Beyond the more than 170 states of different political economic and technological capabilities interests and values, there are important transnational actors: transnational corporations, banks, about 30 regional economic organizations. Intergovernmental organizations of global character are functioning in almost every important field where the interaction of the states is strong and where more global cooperation and common rules of actions are required. and many "nongovernmental" international organizations exists with wide international networks.

There are many new problems in the global system which are the consequences of the changes and the solution or even mitigation of which demands global political thinking and a much higher level of international cooperation. The needs however have to be translated into global actions and this process require not only noble ideas and declarations but mechanisms for the harmonization of interests and goals of countries. The more the global processes influence differently (favourably or adversely) the countries (technology for example has been a major polarising factor) the more difficult this harmonization will be on global level. The new actions require changes in national thinking and in the speed and efficiency of national decision making which upgraded the importance of the functioning of national political regimes from global point of view since flexibility, adaptability and the capabilities for the efficient use of resources especially human resources became fundamental factors in international performance of countries. Rigid dictatorial regimes with their hierarchical structures are less and less able to live with the new challenges.

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The changes which have been taking place in the global system made highly probable that the 1990-s will be a far more turbulent and difficult decade than the one we passed, at the same time new possibilities emerged to deal with the causes and consequences of the problems and thus reducing the inherent confrontation between globalism, regionalism and nationalism. The process however will not be easy and smooth.

The transformation in the Soviet Union, the revolutionary changes in Central and Eastern Europe gave birth to new ideas and hopes about a new era of peace, disarmament and international cooperation. Almost thirty years after the famous book of Daniel Bell about "The end of ideology" was published and became the starting point in the debates of global dimension about the role of ideologies in general in the modern societies, about the capabilities of fading ideologies to adjust, change and come back again and in general about such issues how ideologies end, some political analysts started talking about the disappearance of the basic conflict and systemic confrontation and about its implications. One of them went as far as the belief, that the changes represented the "final act" of the human drama, the fulfillment of the famous Hegelian prophecy concerning "the end of human history".

The essay of Francis Fukuyama inspired by the sudden changes in Central and Eastern Europe and in the U.S.S.R. by the collapse of the communist regimes brought the idea of Hegel into the turbulent world of the late 20-th Century. It was however not Fukuyama and his essay which resulted the more recent discussion about the "new global order" but the victory of the "grand coalition" in the deserts of Iraq and the famous statement of President Bush. Fukuyama's ideas about the last word of history were discussed and questioned in details in the dialogue on the pages of "The National Interest" from different aspects. Aristotle views were quoted, that all forms of government democracy, oligarchy, aristocracy, monarchy, tyranny— were inherently transitional and that the "stability of all regimes is corrupted by the corrosive power of time". The history of the world so far was a convincing proof for the correctness of Aristotle.

The issues which were raised by Fukuyama and by the different participants of the debate were however not completely irrelevant from the point of view of the discussion concerning the new global order which has been anticipated by President Bush.

It is a fundamental question how the post Cold War global system could be characterised and how it will function? Did the collapse of the Yalta system bring about changes which may result a politically, ideologically more homogenous global order in the framework of which the interests of the nations could be harmonised more easily or the "bipolar stability" will be

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replaced by multipolar instability? Is it justified to state that from now on the central theoretical and practical problems of international relations will be connected with the collective management of the new order or all those and other favourable changes represent only a part of the picture maybe a parenthesis in the turbulence?

1. / POST COLD WAR PERSPECTIVES IN EUROPE.

Europe which has been the main "theatre" of post war confrontation between the two global powers witnessed of course the most fundamental changes. The cold war situation which dominated the post war era and determined the relations between the countries in is over. The political and economic changes, the transformation in Central and Eastern Europe, the dissolution of the Warsaw pact and the CMEA, the withdrawal of the Soviet troops from the region represented a strategic contraction and setback for the Soviet Union but not a Cold War type strategic gain for the United States as the Soviet Union has given up global contest with the leading power of the Western world and the multipolar character of international relations and not the era of new American hegemony is replacing the post war bipolar system. This multipolarity is however still more of hierarchical nature. The United States is still the largest power in the world. The size of her national economy is at least twice as large as that of Japan and more than three times larger than of the unified Germany. She is still the strongest country in the field of R&D, especially in the most modern technology. She gained a stronger strategic position in her competition and rivalry with the Soviet Union. The Gulf war proved that in the global hierarchy the only major power which is able (and ready) for massive military actions basically anywhere in the world is still the United States. Those theories of international relations however which were based on the "balance of power" or the "balance of terror" in explaining events and recommending strategies will have to change some of their paradigms.

The outcome of the changes in the Soviet Union at this stage is highly uncertain and there are many alternative "scenarios" possible. It will take a long time even under optimal domestic and external conditions to move out from the serious economic political, ideological, moral and ecological crisis of that country. The changes will be for a long time hampered by internal political power struggles, religious and ethnic conflicts. The historical changes in Imperial Russia or in the Soviet Union had never been smooth and surprise-free events due to size of the country the multiplicity of the "built in" problems and conflicts and the inertia of bureaucratic rigidity resisting reforms and modernization efforts.

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The Soviet Union (and its central power the Russian Republic, whatever form the Union will take in the future a looser economic space, a confederation or a mixture of different relations) will remain a power of major importance and the changes in that country will have a strong influence on the stability of global affairs but especially in Europe and in Asia.

As an important consequence of the changes in her structure, she will have to redefine her strategic position and interests on the basis of the new realities. The dilemmas for her former adversaries are not too simple either in their relations with the Soviet Union. The alternatives for the United States are still the subjects of important debates within the groups of decision-makers on strategic issues. On one hand the U.S. needs her cooperation in many areas of global relations, as it has been proven during the Gulf war and its consequences in the Middle East. On the other hand she must be prepared to different alternative scenarios in the domestic development of the region and also in the international relations of the Union or Russia. (Including the dangers of civil wars, ethnic and social conflicts) The major policy adjustments which are still ahead for the United States in her relations with the new European concentration of economic power, (which will become a formidable economic force if all the measures resulting the single market, the monetary union with a common currency will be successfully implemented) will also be influenced by the future U.S.-Soviet relations.

For the united Germany which in itself represents an important new challenge for the U.S and Japan the changes in the Soviet Union and in Central and Eastern Europe offer new opportunities in global competition. Japan which is actively promoting the establishment of an economic zone in the Pacific region has been influenced by the changes in the Soviet Union in different ways. As the cold war factor is gradually disappearing from the Asian politics she is modifying her relations with the USSR and the content of her strategic alliance with the United States is also in the process of re-definition. As Japan is becoming an even more important factor and stronger force, the "second" superpower in global politics and economics she will have to elaborate a new global strategy.

The former allies of the Soviet Union, in Central and Eastern Europe will have to find also some form of accommodation with her not only because of its political importance but also because of the economic relations developed during the past 40 years.

The dramatic political changes in Central and Eastern Europe were to a great extent the results of the transformation in the Soviet Union which had to agree in the German reunification

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and to give up her "strategic defence" and political influence zone in Central and Eastern Europe. The German reunification affected not only European but also global politics and will have an important and multidimensional (political, economic,) influence on the future international system. In spite of the fact that the former East German part of the united Germany will suffer for some time from different social and economic problems connected with the transition to a modern western type market system, (indicating also the dimension of the transition problems in other, less developed Central and Eastern European countries) and that the Western part will have to pay a high price (in terms of transfer of funds, pressure on wages etc) for reunification, Germany as a country gained a substantial strength not only in relation to the U.K. and France within the Communities but also to Japan and to certain extent to the United States and the Soviet Union. While it has been generally recognized that the new unified Germany is a strong democratic state, it is not the "second" or the "third" Reich, still the fact that Germany carried the main responsibility for two world wars in this Century caused concern to some countries about the future path of development of the united country. (Some political groups in Europe formulated a delicate question: will the country be the Germany of Europe or will the united continent be the Europe of Germany?).

The reunification certainly contributed to the efforts for the acceleration of the integration process by some forces within the Communities.

It has stimulated many experts to think about the establishment of a new security arrangement which would control also the military and political role of Germany in a regional structure.

The reunification of Germany and the strong German state will have a major influence on the future international political and economic relations of the Central and Eastern European countries. Their future however will be determined by the complex interplay of different international and domestic factors, forces and problems. The rapid and often unexpected changes in the political system in that region took place in the environment of deep economic crisis caused by the inefficient, rigid system which could not adjust and modernise their society and economy according to the requirements of the global economy of the late 20th Century, by the outdated and one sided nature of their external economic relations and by different other external factors. There is no hope for fast improvement in the economic situation which may be resulting in frustration and threatening the stability of the new regimes. Under any circumstances the Central and Eastern European countries will have to face a long

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and painful process of domestic socio-economic and institutional adjustment in their transition to the market system. The problems are aggravated by other factors. The political and ethnic frontiers which were established in this region after the first and basically restored after the second world war created built in sources of conflicts and tensions. The dominating regimes during the past 40 years were not able (and ready) to solve those problems. The rigid economic and political frontiers even aggravated the situation. All of a sudden many old and certain new problems came into the surface, fueling nationalism, confrontation and resulting violence: ethnic clashes, national minority issues, border disputes. (There are six potentially explosive border conflicts and 14 major minority issues in the region without counting the problems of the Soviet Union.) The civil war in Yugoslavia is a tragic example for the nature and size of the problems in the region.

Conflicts connected with the revival or strengthening of nationalism which could become potentially dangerous for the future and may be resulting in disintegration and fragmentation are of course not confined to Central and Eastern Europe.

According to one of the well known experts of the multi-ethnic states, there are more than 5000 different ethnic groups in the world and many of them with their own territorial base. (Rodolfo Stavenhagen: Problems and Prospects of Multi-ethnic States. The U.N. University, 1986.) Most of those groups could claim nationhood and nation-state.

In Europe, there are ethnic problems in the U.K. in France, Spain Belgium etc. besides those in the Eastern part of the Continent. The recent events in India witnessed the importance of ethnic problems in that country. The Middle East is of course an other example for regions where the ethnic problems-together with other issues are sources of conflicts and violence.

Those issues connected with nationalism, frontier disputes minorities and ethnic groups in Central and Eastern Europe are receiving however greater global attention, because of their special nature: resulting also international confrontation simultaneously. Those conflicts were playing the role of the spark in the two world wars of our century. The mass murder of many minorities during the second world war, especially of Jews and Gypsies became a part of the "historical memory" of the globe about this region. The hatredness among certain nations of the region has also traditional roots. Central and Eastern Europe has been historically a buffer zone in which the confronting great powers could utilize the efforts of the different nationalities to establish their own state or to oppress others. That region of the world has weak or no democratic

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and liberal traditions. The search for national identity and the restoration of national continuity has been considered of course as a legitim goal of the people in the region by many experts and observers. Unfortunately, due to historical reasons which include such important factors as past policy errors, traditional efforts for forced assimilation, denial of minority rights, the consequences of the two peace regimes which followed the two world wars in this region of the world the frontiers between what could be considered as legitim search for national identity and the outbreak of "violent" nationalism, are in certain cases very thin and there is a danger that in the process of restoring national identity policies may be resulting in chauvinism, xenophobia, the search for scapegoats for the past difficulties. These would jeopardise the future of democracy in the region and would be the source of important danger for political stability of the whole continent but of course especially for the respective countries where the economic and social problems in general and in connection with the transition are extremely severe.

Under those circumstances the success of the changes in Central and Eastern Europe depend not only on the wisdom and capabilities of the new regimes to establish a national consensus but to a great extent also on the external support what the Western countries can provide. They need not only moral, political and massive material support but the readiness of the countries and institutions of Western Europe to accept them as real partners on an equitable basis. Without that support the Central and Eastern European countries will not be able to utilize the historical opportunity for modernization offered by the changes. There are many politicians and Experts in the West who understand very well the options and the alternatives and see very well the dangers that the national euphoria connected with the revolutionary changes in Central and Eastern Europe is not going to be long lived. The uphill tasks in the economy and the social challenges are already eroding the political coalitions which were struggling together against the communist-etatist regimes. It is also better understood, that the political support of the people to their government depends not only on its democratic election but also on the effectiveness of those governments to satisfy public expectations. Concerted national and international efforts are needed during the 1990 in order to avoid the emergence of a new zone of conflicts and instability in the international system.

2./REGIONALISM AND GLOBALISM IN A MULTIPOLAR WORLD.

Meaningful regional cooperation as an answer to the dangers of re-emerging national confrontation, potential tensions and violent conflicts emerged in the international system

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at the very first time in Western Europe as the result of a unique coincidence of interest of the United States and the countries of Western Europe in certain issues.

It was also an important fact, that from among the continents divided by systemic conflicts and living with the tensions and other grim realities of the Cold War confrontation, only Europe had been able to develop a regional system of security and cooperation in which United States and Canada were also participating. This system in a way was a result of understanding, that in the increasingly complex political and economic environment, even in the "old" structure the stability in Europe could not be based any more on the traditional "balance" of mutual deterrence and the danger of mutual annihilation. New institutional structures were needed in the European region corresponding to the realities and which could manage future problems in a constructive way. The changes in Central and Eastern Europe and in the Soviet Union necessitated further progress in the construction of the system. In November 1990 at the meeting in Paris, the CSCE process was institutionalised. Beyond the regular meetings of the heads of governments, foreign ministers (annually) and of their senior officials (twice a year), full review meeting will be held in every second year. A permanent secretariat was set up in Prague, a conflict prevention center started working in Vienna. The events in Yugoslavia already proved not only the importance of such institution but also the fact that in order to be more efficient it requires greater power and support from all the countries.

The continuity and further institutionalization of the process which was based on the Helsinki Final Act and which has been playing a very important /and not always fully appreciated/ role in helping the changes in Central and Eastern Europe could become the most important all-European-North Atlantic structure in the post cold-war Europe.

This system may become the political-strategic side of a new European order with a new military balance. The system however does not correspond to the economic side of a new future order.

Can the much advertised European Economic Space become the "economic foundation" of a new order in Europe?

This -according to the plans of Jacques Delors, which is shared by the majority of the experts in the Communities- could be functioning in the 1990-s in a peculiar way. The European Communities with its current 12 members will be the "core" around which concentric circles will be formed. The first circle will be

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the EFTA countries, than the three "new democracies of Central and Eastern Europe, together with Turkey, Cyprus and Malta, than other circles will follow. Countries in the inner circles would get closer to the Communities with potential membership towards the end of the Century. It is evident that not only the content of the relationships between the countries in the different circles will have to be elaborated but also the question how such a system will function in an economically rational and efficient way in the changing global economy.

The issues with which a new security system in Europe will have to deal may include ethnic conflicts, debates and conflicts which may emerge from the disintegration of certain multinational countries and from efforts to redraw frontiers in the Continent. Domestic problems in certain countries may also result in civil war which could jeopardise European security. While it is highly improbable that in the coming decade(s) major military conflicts will break out in Europe, conflicts in the developing world with global and (within this) European implications may create important problems for European security requiring common policies and actions. There could also be non-military challenges for the security of Europe: mass migration, environmental disasters, massive violation of human rights, major social problems in the East, etc. The further progress in the institutionalization of European System of Security and Cooperation will most probably develop towards the establishment of an European Political Council (which would be both a permanent negotiating body and an European Security Council) seems to be highly desirable after the dissolution of the Warsaw Pact and taking into account the changing functions of NATO. This institution could initiate and supervise the different European disarmament measures and monitor their implementation. It is a very important requirement however, that the European Regional Security System should not undermine the global security system of the United Nations. Just the opposite, it should be conceived that way in Europe (and maybe later in other continents) that it should strengthen the efficiency of the U.N. in peace keeping as well as in other areas of global security.

Regionalization, as it has been reflected also by the changes in Europe, including the reunification of Germany but also in other parts of the world is an important sign and consequence of the disintegration of the old world order.

The increasing importance of regionalism may be reflected by different trends and the process has several dimensions. In economic terms it is a concentration of trade, direct investments

and other forms of capital flows, technological relations and migration within a region in comparison to interregional relations. It may mean the institutionalization of regional cooperation by the establishment of regional political and economic organizations, development banks, supranational regional decision-making centers. The process may take place as a result of efforts of a political and economic power with decisive role in major areas of international relations, like Japan in the Pacific region or the U.S. in the American continent, or as the result of the integration process which is the European pattern.

The regionalization process may take different forms in the international system as different interests may be attached to one or another dimension of the process.

Social sciences—in any case will have to devote much greater attention to the process in which new economic and geo-strategic regions are formed and to such questions how they function in a system where at the same time other forces are present which promote fragmentation or globalization. Are there differences between regions which developed into an interdependent structure through long historical processes and between those which came into existence as the result of a deliberate process in the framework of which a group of countries within a specific area established some form of cooperation for the achievement of certain goals or for performing some functions.

The ideas about the establishment of deliberate regional cooperation appeared of course not only recently but many times in human history and they were serving a great variety of goals also in the 20th century. Several factors and forces are supporting the process at this stage in the global political and economic system.

The growing importance of regionalism is a consequence of the multipolarization process and the increasing diversity of problems, interests and values. Under those circumstances more intensive functional cooperation is evolving within the regions and it is easier to coordinate policies and actions. The international problems which may result in disputes, confrontations and armed conflicts are almost exclusively of regional nature. It is a very important requirement, that those conflicts should be settled within the region and that they should not escalate into global hostilities.

Regionalization may also be reflecting the efforts of certain more important and strong regional (and global) powers to strengthen their global competitive position by stimulating the

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formation of different spheres and blocks within the framework of which they have strong position and influence. The United States is designing a free trade zone in North America. The Asian-Pacific region is also in the process of adjustment which may result new cooperation structure during the 1990-s. While developing countries are also stepping up efforts towards regional cooperation in the later part of the 1990-s most probably three regional economic "growth and cooperation centers", the North American, the European and the Asian-Pacific, will play a key role in the global economy. Those economic groupings will not be able to function as mutually exclusive and self sufficient "fortresses" in an interdependent world, connected with global flows of capital, goods, technology and people and with such global institutions as the transnational corporations without causing substantial damages to each other. In the world of interdependence and transnational institutions where the principles of reciprocity are extremely important in both positive and negative sense, only liberal structures can facilitate and promote the smooth functioning of the system. There are of course important dangers, that as the results of intensified global competition (which will not be mitigated in the future by the cold war block discipline) the regional economic zones will serve more as an instrument of common protectionism and that as the result of competition new coalitions may be formed at least in certain issues, (- a U.S.-Japanese coalition against Europe or a U.S.-European coalition against Japan etc) if proper global institutional structures will not be able to cope with the harmonization of the regional groups in an interdependent global system.

Several other important issues could be raised in connection with the future of regionalization. The homogeneity of the above mentioned three regions is far from being the same. In the Asian-Pacific region for example, countries are extremely diverse in terms of economic development level and economic potentials, there are important systemic differences between them which makes multilateral cooperation in security, in political field and even in economic areas difficult and complicated to organise. The European space is also more diverse than its core, the European Communities (which became also more heterogeneous by its extension and by the German reunification).

The heterogeneity of interests within the regions requires great flexibility and sophisticated mechanism to facilitate the functioning even in those cases when the common institutions are of supranational character. It is also a crucial question from the point of view of the functioning of the international system whether the relationship between the main groupings and the countries which are outside of the blocks could be established

on the basis of equality or the stronger bargaining position of the economic groupings will increase further global inequalities.

Europe, where the modern nation state was born, is serving as an important and interesting example for the simultaneous presence of forces and interests of national fragmentation and regionalization.

In that period of the European history, when the nation-states were formed, nationalism was associated with individual liberties and independence expressing the interests of the victorious bourgeoisie and basically all the other social groups which were liberated by the changes. National interests were defined more in a systemic way, against the "old regime." Even then, in that era much blood was shed in Europe for the rights and possibilities to use officially the name of the nation the language the flag, citizenship and other symbols of national identity and sovereignty. Later when nationalism became more organic and exclusionary, national interests were increasingly defined against other nations. The expansionary, racist, militant, bellicose and totalitarian nationalism of the first half of the 20th Century was the peak of that process and represented the last stage in the history of great modern empires. In the contemporary world of increasing interdependence and transnationalization the strongest economic interests are attached to structures beyond the traditional nation state in the Western part of Europe which is an integral part of the global market system. In that system ownership patterns, production, markets, sourcing are increasingly international, the definition of national interests cannot be made in the traditional ways.

Even competition is not any longer a zero sum game between nations. National policies which disregard the interests of other countries and which want to force unilateral solutions to the global system are more harmful today in the era of globalization. This reality was not only recognized in Europe since the Second World War, but increasingly strong common "regional" interests were present in the integration process beyond the often mentioned interests in "common protectionism" against the main competitors. But there has been an even more important factor involved. The Communities were able to develop common policies and such instruments as price mechanisms, special funds etc. for the balancing of gains and losses and thus building more on the harmonised structure of diverse interests. Regional interests in an integrated international community imply shared values reciprocity and mutual responsiveness not only from states (macro-structures) but also from the majority of the micro-actors of the region. This does not exclude the fact, that there are still important groups in the member states interested in maintaining political and economic frontiers, protecting some of

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the basic political and economic pillars of national sovereignty. This is more than the efforts for the protection of cultural identity in an integrating continent. This diversity of interests is reflected in the two main trends, in the two contrasting models of the European political integration. One important group wants to strengthen the central institutions of the European Communities and faster progress towards a unitary state of Europe. The other group is advocating increased European cooperation in a wide range of issues together with decentralised institutional structures which are sufficiently flexible to accommodate differences between the relative economic strength and domestic interests of the member states including the role of their diverse democratic procedures. This latter group has been emphasizing the necessity of benefiting simultaneously from the economic and monetary union and from allowing nations the freedom and opportunity to express their identities. "...the architects of Europe-writes a columnist in the magazin "European"-should learn from the collapse of the Soviet Union and Yugoslavia, two federations masquerading as countries. Their recent history has shown that while nationalism can be suppressed for a time, it cannot be destroyed. Any attempt to impose a rigid central government system will be resented and cause a revolt"(The European, 13-15 Sep. 1991, p. 8.)

There is an other important lesson of the European Experience. The existence of common, regional intersts in the global system does not mean and does not require homogeneity within the area. It demands however strong transnational forces the interests of which correspond to the given pattern of regionalization.

The protection of the national identity and sovereignty is naturally stronger in the developing countries which lived under colonial rule for centuries and they are still in a highly assymetrical position in an interdependent global system. For them national aspirations represent a strong factor in their domestic politics and for the population national identity and sovereignty is also an emotional issue.

3./THE DISAPPEARING "THIRD WORLD" AND THE NEW NORTH-SOUTH DIVIDE.

Any approach to a new global order when analysing the problems and implications of nationalism, regionalism or globalization has to take into account the special problems, interests and socio-political actors of the part of the world which is identified as the South. This is the world of the greatest number of people and countries: large structures like India and China and mini and micro-states the number of which is still growing.

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It is (and will be for some time) a highly debated issue, how the new global situation has been and will be influencing the developing countries. The future path of those countries will have a major impact on global politics, economics and ecology since the majority of humankind is living in Africa, Asia and Latin America in more than 130 countries.

In the second half of the 20-th Century, the decolonization and rise of the "Third World" had profound historical significance in the global political and economic system. Such important problems of those countries as commodity prices, terms of trade, the condition of availability and the volume of external financial resources, technology imports and dependence, increasing global inequalities, international polarization, famine, poverty etc. became fundamental questions for the whole international community.

National self determination and the formation of nations within the multi-ethnic states established in the process of political decolonization will be a crucial issue of the political future.

The 1980-s as a decade for the vast majority of the developing countries was the era of stagnation. Many disasters hit the countries and there had been a rapid marginalization with more than one billion people living in poverty.

It is too early to judge of consequences of the global political changes for the developing countries and it is highly probable that the different parts of the South will feel the impact of the changes at a varying way. Most of the discussions in the framework of the international organizations were speculations or economic calculations which wanted to "measure" the economic consequences of the changes in Central and Eastern Europe for the developing countries. According to those investigations on the level of the global political and economic system there will be certainly adverse and favourable consequences of the changes for those countries.

One of the first consequences of the changes may be the in the global system since the end of the late 1980-s, the "disappearance" of the "Third World" as a category from the vocabulary of international relations as the "East" in Europe wants to become increasingly a part of the "North" and in other parts of the world/ the Asian Socialist Countries for example/ had more common problems with the South. The diversification of the developing countries during the past decades questioned the relevance of the concept of a homogenous and unified "Third World" anyway. The gradual calming and elimination of certain crisis centers through political solution has been the

other, more meaningful consequence of the fading cold war period for the developing world. Namibia gained independence, the war between Iraq and Iran ended, there has been a political settlement in Nicaragua, the Soviet troops left Afghanistan, the independence of Kuwait has been restored, important steps have been taken towards a political settlement in Cambodia and in Angola.

The developing world however is still far from being tranquil and it is full of old and new sources of instability. Political tension and armed conflicts in the developing world will have greater significance in the post Cold War world from the point of view of global stability. The role of superpowers in instigating or cooling down those conflicts will become

more limited. The Gulf war has been considered by many observers as a pattern for typical future conflict in the South.

The settlement of those conflicts will require the full and active cooperation most probably of the countries in the given region. The proliferation of weapons for mass destruction will represent a much greater danger in this circumstances.

To prevent the proliferation of nuclear, chemical, biological and conventional weapons will become an important task demanding regional and global agreements and institutional arrangements.

After the decades of political decolonization which took place in different forms, from the fighting for national liberation to various agreements and compromise, North-South relations were influenced mainly by economic problems and conflicting economic interests. In the new global environment of the 1990-s, in the post Cold War period characterised by multipolarization, regionalization and global interdependence political and ecological issues will become increasingly significant beyond and together with the economic problems.

One of the very concrete political and at the same time economic issues has been formulated by many developing countries about the changes in Central and Eastern Europe: will those changes and their implications for the international demand of capital and better access to the markets of the West than before adversely influence the position of the developing countries or not? There is no unanimity in judging the consequences.

The U.N. Committee for Development Planning in its 1991 report emphasised opportunities as well as problems. The opportunities for more trade, international assistance etc. will be materialised in the future if the reforms and changes will be successful. The difficulties as a result of the changes in Central and Eastern Europe and in the USSR were the greatest for those countries which depended very heavily from them: Cuba, North Korea, Ethiopia, Mongolia, Vietnam etc. The slowdown and decline in the economic growth in Central and Eastern Europe resulted not only decline

in development assistance from those countries but also in the purchases of raw materials, industrial consumer goods. For certain developing countries stiffer competition for capital and for markets will also be a "tangible" result of the changes. The diminishing Cold War factor from international relations and the future of the disarmament process and its consequences for the military sector in the developing countries will reduce the "Third World dimension" of the global power games. The future of the disarmament process in the developing world is very much an open issue at this stage. The Japanese government has been contemplating an important anti-arms trade move: the condition of "demilitarization" in connection with its international assistance program. This approach may become a new element in the relations of the post Cold War system.

The economic changes and the political maturity of the developing countries will result in searching new regional and global agreements with the developed countries in the main issues of the global economy. The developing countries in their efforts for achieving compromises gave up some of the unrealistic demands of the 1970-s for the establishment of a new international economic order and made important adjustment in their domestic economy. This however was only partially matched by measures in the developed countries. High interest rates on the growing international debt, declining foreign investments and development finance, the net outflow of financial resources, deteriorating terms of trade and protectionism aggravated their problems and made the 1980-s "the lost decade" for the majority of the developing countries. The disparity between the developed and developing world will increase further during the 1990-s in the environment of sharpening global competition in which science and technology will play an increasing, often determining role.

As the deteriorating economic conditions in the developing countries are undermining not only their own political and social stability but pose threats for the whole world, it is a universal interest to achieve progress in some of the major, pressing issues of debt, trade and development finance. It is the United Nations system which should take the initiative and provide a comprehensive framework for a new round of global negotiations. The globalization process and the improvement in the efficiency of global cooperation is therefore an issue of fundamental interests for the developing countries. There are of course regional cooperation organizations which exist and function in every continent and almost all developing country belong into at least one of them. Regionalism however did not and could not result so far meaningful and efficient cooperation between them. This does not mean of course that in the coming decades regional cooperation will not become a very useful factor of economic growth in the developing countries. This may take several forms including the establishment of more structured cooperation than the Lome agreements with Europe, with North America or Japan.

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4./WILL THERE BE A DIVIDEND OF PEACE AND FOR WHOM?

Any approach to the establishment of a new global order must give priorities to the problems of the global militarization as many fundamental issues of the future global order and global cooperation are connected with the perspectives of the disarmament process.

The issues which are discussed in this paper about nationalism, regionalism and globalism are also closely connected with the future approaches to security on the above three level. If the main actors of international life will be continuing the concentration on the military instruments of national security and in the developing world the armies will still be as important symbols of national independence and instrument of policies as in the past it will be impossible to establish the new global order. As the matter of the fact, the key issue from the point of view of the character of the changes will be the attitude of the world, of the regions and of the nations to the use of force in international issues and hence the future of the arms race.

There are important, promising signs of the changes: the U.S.-Soviet agreement on START, the declaration of China about the adherence to the non-proliferation treaty, the shrinking defense expenditures in the main industrial countries, etc.

In spite of the fact, that important agreements have been concluded between the United States and the Soviet Union in arms control and disarmament and that those agreements represent progress unprecedented in their relations since 1945, the nuclear arsenal of the two powers still a global danger and the number of potential nuclear powers is still increasing. The arms race in the world is still going on. The Gulf war was an important showcase for the qualitative aspects of the arms race in high technology conventional weapons and for its spread in the developing world and the dangers of potential nuclear capabilities in the world. The establishment of a new peaceful world cannot be achieved without liberating humankind from the threats of the mass accumulation of weapons, from the powerful arms lobbies, military-industrial complexes and gigantic armies. A new multipolar world without major steps in global disarmament could become increasingly dangerous in the future. The economic dimension of the disarmament is also a very important issue and a fundamental condition for the solution of many social and economic problems in both the developed and developing world. The economic dimension of disarmament includes the limitation, control and prohibition of the international

trade in arms, the de-militarization of the national economies and the national and international redistribution of the "peace dividend". De-militarization of the national economies implies not only demobilization, the conversion of the defense industries and research institutions for non-military use but in a way it changes the functioning of the whole economy in countries with large military sectors and machinery. It has a certain effect on income distribution and redistribution both between different groups of the population and regions in the countries. The conversion process does not and cannot result automatically peace dividends but it may cause important temporary economic and social problems if it is not properly planned and managed.

It is even more indispensable to reach international agreements between the countries to ensure, that a part of the the potential peace dividend should be available for development financing. All the countries which spent a large part of their resources for military purposes have many domestic problems to solve which may be more important for the political leaders of the countries than the international redistribution even a part of the actual peace dividend.

5./GOVERNANCE, SECURITY AND PEACE.

The search for a new world order of peace and justice, the one which advances human rights and provides the condition of economic progress for the vast majority on the globe has never been more hopeful in the past half a century as it is today at the same time the problems, difficulties and roadblocks are clearly indicating the necessity of much greater concerted efforts by all countries and especially by those which have a major influence on the disarmament process, world trade, capital markets and which have the largest concentration of human and material resources. The road towards a new world order will be hard and long even in an optimal global environment.

The capacity of the international organizations in the past to develop efficient cooperation for the solution of the major problems of humankind was seriously limited and many efforts were blocked by the Cold War factor. The North-South dimension of conflicting interests made the gap between the needs and the possibilities larger during the decades.

The world of the 1990-s and beyond is and will be an extremely complex structure. New problems, unprecedented in human history

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will have to be dealt with as a consequence of demographic changes. The most direct implications of the increasing population and global economic development will be on the ecological system. The global crisis of the ecosystem demands fast and far reaching changes in the functioning of the global economy.

Multipolarity means new concentrations of power and interests. The changes in the relations between the global and regional powers may become the sources of new, conflicting or cooperating structures.

More than 170 countries, old and new forces of ethnic conflicts, nationalism, diversity and fragmentation, regional and subregional groups of different strength, increasing globalization of science, technology, capital, transnational firms and other institutions on micro and macro level, new actors and relationships will have to coexist on the finite planet. New global problems will have to be managed and solved. There cannot be any new order in this global environment without a system of greater security which requires common institutional guarantees for the peaceful solution of international debates, against aggressors, against the massive violation of human rights. Such a system implies new obligations for greater reliability, predictability and accountability in the world of increasing uncertainty and unpredictability. Any new political thinking about measures required in the coming years must give priority to the actions for strengthening global security and the institutional capacity for global risk management.

As we have seen the global changes did not result so far new global structure of interests so that the traditional national interests are still very strong and in certain areas they became the sources of conflicts and civil war. In some areas they have been reformulated, supplemented or supersided by regional or global interest and values which are strong enough to stimulate changes in the attitude of the countries and in the functioning of the international system. The international system became more complex with important new sources of uncertainties. There are a few issues the answer to which will be very important in shaping the future:

- what are the best(optimal) national policies and behaviours which may result greater security and which policies and behaviours are resulting confrontation, hostility and increasing problems and tensions,
- how responsibility and accountability could be increased in the future international system,

-is it possible to reform the present system of international organizations for the governance of the evolving world or fundamental changes are required to combine and coordinate global and regional structures,

-what should be the priority areas for those changes around which an action oriented global consensus could be achieved,

-how should the evolving global institutional system function in order to cope with the realities and become more relevant from the point of view of the problems.

While it is easier to define of and to give concrete expression to national and even to regional interests in the policies of governments and in cases of their regional cooperation institutions, global interests represent a category which is much more difficult to identify and translate into national or international actions. It is of course true, that at the last stage of the 20-th Century, major changes took place in the hierarchy of interests and values as the result of the dangers of nuclear war and global ecological catastrophe, the drug problem and other global dangers and concerns which go much beyond the concerns formulated in the earlier part of this Century.

The very survival of humankind became endangered. In the more recent history one could find examples for cooperation in a multilateral framework between different countries of the world (beyond the military alliances) at a scale required by the issue, when the interests were strong, the problems were global and endangered the majority of the population. This for example was the common struggle against the major epidemics which decimated the world population in the earlier parts of history.

On the basis of the different global problems of the late 20-th Century, general human interests could be identified in survival, in the protection of the ecological system and in avoiding military, economic and ecological crises which could jeopardise the future of humankind. It has become also increasingly evident, that the major powers bear special responsibilities since their actions influence more the functioning of the world political and economic system and their role is also greater in the progress of the international organizations. At the early part of the 1990-s in the post Cold War system, the major global powers have been taking some very important steps towards the strengthening of global cooperation and common security. There is less international discord and tension in the system. The progress in disarmament and the fast decrease of military confrontation in all continents but especially in Europe has given a strong impetus to the further improvement of international relations.

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There has been a major advancement in human rights as the result of the changes in the Soviet Union, Central and Eastern Europe and in other parts of the world, including South Africa.

The global summit for children in September 1990 represented a new approach to global social issues. There are good chances, that the global summit on environment in 1992 will bring meaningful results in the protection of the global eco-system. Those and other changes will not pave the road automatically for the mitigation of the deep socio-economic inequalities. The eradication of poverty, hunger, illiteracy, the improvement of the health condition, housing and other global "diseases" requires further concerted actions and stronger, more efficient framework for international cooperation. This is a high time to address the issues of the system of international cooperation because both the new needs and the new possibilities are there in spite of major roadblocks in the diversity of interests, values and attitudes on national and regional level.

6./TOWARDS A NEW GLOBAL POLITICAL CONSENSUS IN THE WORLD OF DISORDER.

The political consensus which may be emerging between the main actors of international life, that the system of the United Nations should be the main global institutional structure of the new order. The system however will have to be harmonised with the realities and needs of the late 20-th Century and beyond: with the increasing globalization, interdependence, multipolarization, regionalization and heterogeneity of the international society. Such important economic powers as Japan, Germany will have to share greater responsibilities by institutionalizing their greater role in the system. Other important regional powers will have to be recognized also as major actors.

The reform of the United Nations system cannot be confined to technicalities, such as better coordination or the role and composition of the secretariats. Such lofty ideas as democracy, human rights, freedom, self determination of people, national independence, peace, prosperity and social well being, which were the ideal manifestation of the post 1945 world order will have to receive new guarantees and will have to be translated into new policy measures. Such issues for example as full employment or the "freedom from fear or want" formulated by President Roosevelt in 1941 require qualitatively new approach internationally and within the countries in a world where within a decade several

hundred million new jobs have to be found for those young people who enter into the working age, in an era when the new technology has an unprecedented labour saving potential. The eradication of poverty cannot be undertaken only by internal policy measures in an interdependent world economy, which is increasingly polarising the countries. It is necessary to find greater convergence between the universally shared values, policies and the means for their achievement. All those and other tasks require a better conceptualization of the present and future international life and its implications for the functioning of the international system. The internationalization of the states and the relationship between national and international policy instruments, the consequences of the greater mobility of people as students, workers, scholars, economic refugees etc must be for example better understood among other, equally important issues. The institutional reforms will have to deal with the relations between the World Bank, IMF and the different U.N. specialized agencies (the system of which will have to be reformed). All the global agencies dealing with economic and social problems could exist and work together under a new ECOSOC which may become - as it has been advocated by some experts - a global economic and social security council, coordinating also regional and global institutions. The global hierarchical multipolar system resulted in certain centers of decision making with the participation of the major economic powers which also play a fundamental role in the global political system. The "Group of Seven", the summits of the major powers are functioning outside the system of the United Nations, their decisions at the same time influence the policies of the major countries within the United Nations system and the functioning of the World Organization. This form of "global governance" is often criticised by other countries, as unacceptable and ineffective. (See for example the document "Common Responsibility", the Stockholm Initiative on Global Security and Governance, April 22, 1991. The Prime Ministers Office, Stockholm, 1991.) It is however an important reality.

The necessity of acting on the basis of global norms in a system which clearly defines rights and obligations of nations is also emphasised by the authors of the above document. "The norms must gradually acquire the status of law. The world therefore also needs a system of sanctions to deal with those situations when a country, for whatever reasons chooses not to comply with the order it has agreed upon." /p.36./

All those changes require a new concept of sovereignty. The political transition to such a new order seems to be not only difficult for the greater powers but also for the small countries in the global system. The larger countries which could directly influence their international environment by their military

political or economic power, will have to understand the importance of giving up "unilateralism" as policy instrument. For the smaller countries for whom sovereignty beyond its symbolic importance was an instrument of protection important international safeguards are needed. At the same time they have to become more flexible and capable of faster adjustments.

In the global system of international organizations: it will be necessary to recognize the fact, that the scope and propensity of cooperation may greatly differ in the various regimes on global and also on regional level in many issues. A design for the organizational structure in the global system must be extremely flexible at the same time sufficiently coordinated and harmonised in all its major functions.

A leading American expert of global intergovernmental cooperation defined those functions of international governance in the following overlapping categories:

information creation and exchange; formulation and promulgation of principles and promoting consensual knowledge affecting the general international order, regional orders and particular issues on the international agenda;

good offices, conciliation, mediation and compulsory resolution of disputes;

regime formation, tending and execution;

adoption of codes and regulations; allocation of material and program resources; provision of technical assistance

and development programs; relief, humanitarian, emergency and disaster activities; peace and order maintenance. "Finkelstein: What is International Governance". Paper, presented at the annual convention of ISA, Vancouver, 21 March, 1991.

One could of course expand the above areas and add a couple of task, but I think, that the essence of global governance were included in the above definition.

The cultural, ethnic, political and economic diversity of the world together with strong forces and factors of globalization indicate, that a strait-jacket of uniformity under the direction of a powerful "world authority" cannot be the essence of global governance in the emerging new order. This would contradict to the global realities and would be condemned to failure from the very beginning. The whole system must be however modernised, its structure updated, its operational, managerial efficiency improved. The mandate of certain bodies, like the Security Council must be broadened taking into account the potential role of the World Organization in the future conflicts and their resolution. Relationship between intergovernmental organizations and the "non state" actors of international life will have to become

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more organic as the role of the new actors is increasing and their international interconnectedness represent an important factor especially in such issues as human rights, environment, the position of women, science and technology.

The world of the 1990-s and beyond needs more efficient international organizations of global, regional or subregional nature. Their succesful functioning is a major precondition of a more harmonious and equitable global order.

It would be a historical mistake not to live with the present opportunity, unprecedented since the Second World War for the restructuring and strengthening the system of international organizations by implementing major reforms and changes. This could be done in the framework of a global "package deal" connected with the 50-th anniversary of San Francisco. Gradual "incrementalism" may be more attractive to others since it is easier to agree in limited issues and on that basis secure further progress.

A special issue of the journal "International Organization" on the occasion of the 20-th anniversary of the U.N. (Summer 1965) in its concluding article stated "We cannot be unconditionally certain that the United Nations has a future. We can only assert that there is a clear need for the Organization...that appears to be generally recognized." Since then the U.N. lived through 27 difficult years. Today it seems to be safer to project the the future of global governance into the 1990-s and the next Century and within its framework the future of the United Nations. The new global consensus is much stronger in accepting the new needs and the main directions of future actions towards a more secure world than it was 25-30 years ago. It is also evident that the tasks are not easier and the world is still far from being able to harmonise the diverging interests and goals of the nations and other important actors for the level of cooperation which would permit the creation of a real global community of nations sharing the universal values and interests of humankind.

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