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**REFORM PROCESSES AND THEIR DEVELOPMENT  
IN EAST CENTRAL EUROPE:  
THE ROLE OF THE EUROPEAN UNION**

*by Ettore Greco*

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# REFORM PROCESSES AND THEIR DEVELOPMENT IN EAST CENTRAL EUROPE: THE ROLE OF THE EUROPEAN UNION

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This paper is divided into three parts. The first and largest part contains an analysis of some major factors affecting the relations between the EU and the Central-Eastern European countries. The second part is devoted to an assessment of the instruments the EU has established for promoting the integration of the Central-Eastern European countries in its institutional framework with particular regard to the association agreements. The focus of the third part is on the problem of the future EU membership of those countries.

1. Although the problems connected with the transition of the former communist countries towards democracy and market economy had a very disruptive potential, this process has so far developed in a remarkably peaceful and smooth way in all the Central-Eastern European countries. This seems to justify a certain degree of optimism about the future development of the transition in those countries. However, there remains a number of potential factors which could slow or even reverse this process, thus hindering a strengthening of the cooperation links with the EU.

In all countries under consideration (the Czech Republik, the Slovak Republik, Hungary and Poland) a remarkable level of political and institutional stability has been reached, but there are some worrying phenomena which could jeopardize the achieved results or impede further progress in this direction.

In some countries there are evident signs of alienation from the political life and of a decreasing confidence in political institutions.

The political and institutional situation is highly unstable, in particular, in Poland, where the parliament, the government and the president act as three competing centers of power with a pronounced tendency to blocking one another's moves. Poland is a typical case of a country which, notwithstanding the remarkable economic results, presents a highly unpredictable situation because of the uncertainties surrounding the evolution of the political and institutional systems. Hungary has also suffered from a growing fragmentation of the system of the political parties which has eroded the coalition in power until its yesterday's electoral defeat. The winning party, the Hungarian Socialist Party (HSP) owes its popularity mainly to the discontent with the negative impact of the economic reforms on living standards. The HSP has tried to present itself as a truly social-democratic party. However, many observers express doubts on its actual transformation, given the substantial following the populist ideas have within it.

An additional factor is the emergence of nationalistic movements. On the whole, however, they remain far less important and influential in the Central-Eastern European countries than in other Eastern countries like Bulgaria and Romania, not to speak of the former Yugoslav republics. Their expansion has been successfully contained. Indeed, they seem today substantially marginalized.

The difficulties connected with the economic transition have a key importance with regard to the prospect of a full integration in the Western institutions. Poland, Hungary and the Czech Republik show clear signs of recovery after the recession from which they had suffered since 1989.

Beyond enjoying a greater political stability than in the rest of Eastern Europe, the Czech

Republic shows by far the most promising macroeconomic indicators, including the region's lowest inflation rate, a surplus both in the government budget and in the current account, and an unemployment rate which is very low even by international standards.

Poland and Hungary also seem to be on the way to recovery, but the social impact of the economic restructuring has been much more significant. The central source of concern are the growing unemployment rate in both countries. Coupled with the rapidly increasing social differentiation this could threaten not only their social cohesion but also their political stability. Furthermore, there is a high uncertainty concerning the economic policy the new leftist governments in Hungary and Poland will follow. The risk is that they can halt or even reverse the progress made over the past four years.

The economic picture appears much more problematic in Slovakia, which is the only country of the group which has failed to halt the recession while continuing to experience rising inflation and a deterioration of the current account. Clearly, Slovakia is feeling the negative effects of the separation from the Czech republic. In particular, the decline in Czech-Slovak trade has had a tremendous impact on Slovakia's GDP. As a result, the distance between Slovakia and the leading group of the new democracies of Central Europe appear to be growing.

Slovenia, in contrast, has significantly accelerated the pace of its economic transformation. Impressive is, in particular, the extent to which Slovenia has managed to re-orient its trade towards the West. It has also been successful in reducing dramatically the inflation rate. However, the privatization programme is being implemented at a much slower pace than in the other Central European countries. This reduces the attractiveness of Slovenia for foreign investors and hinders the development of its relations with the international financial organizations.

In the field of foreign and security policies there seems to be a rather stable pro-Western orientation in all the countries under examination. Indeed, no credible alternative has so far emerged to this basic orientation. However, the enthusiastic pro-Western integrationism has been losing ground and the mistrust towards the idea of supranational integration seems to be on rise. In all countries the most recent polls have shown, for example, that public opinion is divided over the prospect of NATO membership. The polls have also revealed an increasing dissatisfaction with the EU policies. A growing - albeit still minority - portion of the population sees the link with the West as an unacceptable relinquishment of national interests.

As a matter of fact, in three of the countries under examination - Poland, Slovakia and now Hungary - the most pro-Western parties are in the opposition.

Nevertheless, integration in the West remains the top priority for all the current governments of the Central-Eastern European countries. In particular, the new leftist government in Poland has continued the pro-Western policy of its predecessor. The programme of the Hungarian Socialist Party, also calls for the country's integration in Western Europe and for its membership in both the EU and NATO.

The case of Slovakia is more complex. After achieving independence it sent unclear signals concerning its foreign policy orientation. In August 1993 it signed a five-year military agreement with Russia for closer bilateral defence and security ties including deliveries of Russian military equipment to the Slovak army. Subsequently, the Slovakian government has yet stressed repeatedly that it sees no alternative to the integration in Western institutions. In 1993 it also signed other important bilateral cooperation agreements including one with Hungary. This was part of an effort to demonstrate to Western countries its willingness to cultivate good relations with its neighbours. However, Slovakia has so far failed to meet the Council of Europe's recommendations regarding minority rights. This constitutes a major obstacle to a substantial improvement of its international image. A sort of singularization of Slovakia has thus emerged also in the field of

foreign policy.

A final remark has to be made on subregional cooperation - i.e. the cooperation between the countries under examination - which has so far been centred mainly on the Visegrad group.

The cooperation within the Visegrad group was seen essentially by the participating states as a means to work out a joint approach first to the release from the Soviet block and then to the integration in the European Community. Yet, especially after the separation from Slovakia, the Czech Republic seems to have lost any actual interest in the Visegrad process as instrument of political cooperation. Prague has shown a clear reluctance to accept any proposal aimed at the institutionalization of the Visegrad group. Rather, the Czech government is seeking a loosening of its ties with the other East European countries, under the assumption that the better conditions of its economy and its greater political stability allows it to pursue an independent course of action. Both President Havel and Prime Minister Klaus are convinced that following an individual strategy is a more effective way for obtaining NATO and EU membership.

This attitude has been criticized by the other three members of the group which instead advocate a collective Visegrad approach towards Western institutions. The Hungarian government, in particular, has repeatedly spoken in favour of a stronger regional structure. However, the Czech approach is clearly prevailing. Even during the negotiations leading to the association agreements there were no consultations for a common approach vis-a-vis the European Community. The Czech government was also successful in conferring a mere bilateral character to the meeting held in Prague last January between the Visegrad four countries and the US President Clinton.

The free-trade area the Visegrad countries have decided to establish in December 1992 is also proving a disappointing experience. Indeed, the intra-regional trade has steadily decreased.

The Czech Republic has also refused to create new forms of integration with Slovakia. It turned down, in particular, the proposal to form a defense community with Slovakia, for fear, among other things, to be involved in the disputes - or in possible conflicts - between Slovakia and Hungary. The Czech Republic clearly assigns the greatest priority to relations with the Western countries, especially the neighbouring ones, Austria and Germany.

In sum, while the Visegrad process is encountering growing difficulties, the bilateral approach is likely to gain ever more ground.

2. The picture of the relations between the Central-Eastern European states and the EU is also characterized by remarkable opportunities, but, at the same time, by a number of problems.

The first point to stress is the frustration and disappointment about the slow pace of the process of integration in the European institutions and about the deficiencies shown by the EU during the debate over the ratification of the Maastricht treaty. Probably, this can also be interpreted as a natural reaction to the exaggerated optimism which prevailed in the months following the Maastricht summit. The expectations were certainly too high. Now, we are witnessing a typical reaction of disillusionment. Leaders in the West and in the East have become increasingly aware that the transition in the new democracies will be much longer than originally expected. It is also clear that the beneficial effects of the Western assistance were overestimated. In any case, the perception that the West is not doing enough remains a crucial element which influences both the relations between the Western and the Central-Eastern European countries and the political debate in the latter.

The most delicate issue concerns the access to the EU market. The association agreements foresee a number of restrictions for agricultural and sensitive industrial products. A strong political pressure from agriculture and other lobbies has been repeatedly felt in some EU countries. The

EU has already used several times the safeguards and anti-dumping measures. Furthermore, the association agreements includes only very limited measures concerning the other aspects of the freedom of movement (capital, services and labour).

In the last few years the trade between the Central-Eastern European countries and the EU countries has remarkably increased. The EU's share of the exports from Visegrad countries currently accounts for about 50 per cent. However, most associated countries have high - and growing - trade deficits with the EU.

With the extension of the PHARE programme until 1997, the way was also paved for a continuation of the efforts in the field of financial aid. This is expected to shift gradually towards direct investment. However, it remains unclear how large financial resources the EU will be able to allocate for the economic support of the countries concerned, given the growing amount of money it is likely to use for its structural and cohesion policies.

The association agreements includes also a chapter concerning political dialogue. However, the associated countries were not offered any direct participation in the EU decisionmaking.

In the field of political dialogue two major problems have emerged. First, the objective to supplement and eventually replace the bilateral political dialogue with a more structured multilateral dialogue is hampered by the lack of progress in the cooperation among the associated countries themselves. However, some important initiatives were taken in view of regular multilateral consultations with those countries. A crucial goal of these consultations is the definition of common positions before important meetings of other international institutions such as the CSCE or the UN General Assembly. Second, the Europe agreements do not contain provisions concerning security issues. These will continue to be addressed within other frameworks, such as the North Atlantic Cooperation Council (NACC), the WEU Forum of Consultation and the talks on the Stability Pact in Europe. The associated countries will benefit from several institutional links in the security field. The EU, in turn, has to develop its action in this field within a broader institutional framework. Of particular importance is, in this regard, the role of the Western European Union. An important step forward will certainly be the more or less automatic granting of the association status within the WEU to all associate countries willing to acquire it.

Another crucial element of the association to the EU is its political conditionality. It requires essentially the respect of the rule of law and of human rights, including minority rights. The conditionality principle can be used by the associated countries for justifying unpopular measures before their publics. However, it is important to avoid any arbitrary recourse to it. It should not be used, for example, for promoting specific national interests of individual EU countries.

The EU countries have already agreed on the objective to improve the Europe agreements. The associate countries will be offered not only new concessions - for example, in the field of trade - but also a structural relationship with the EU institutions. The need is also felt for a more systematic and effective control on the implementation of the agreements. A crucial goal is, in particular, the alignment of the legislation of the associate countries regulating their economic systems with the EU model. A review of the agreements is likely to be made before the foreseen five years.

3. Although the Visegrad countries have repeatedly asked for a clearer commitment to eventual membership, the Europe agreements do not foresee an automatic path to membership.

It should not overlooked that the level of development and the living standards of the

Central-Eastern European countries remain far lower than those of the poorest EU countries. Indeed, given the large disparities existing between the economies of the associated countries and those of the EU countries, the entry of the former into the EU in the short term would entail an adjustment process which would be socially too painful. Furthermore, an enlargement of the EU without a substantial change in its composition and its decision-making would jeopardize its internal cohesion, with negative repercussions on both the old and the new members.

It is possible to preserve the dynamics of the Union only by coupling enlargement with deepening, as actually happened with other enlargements. Clearly, if the Union is successful in implementing the provisions of the Maastricht treaty, the requirements the Central-Eastern European countries will have to meet in order to obtain a future membership will become even more demanding. This emphasizes the need for an adaptation of the association agreements which, in their present form, can at a maximum pave the way for the accession to the single market, not a post-Maastricht Union. Therefore, the crucial objective for the time being should be to make the most of the Europe agreements, taking into account also the need for further concessions on the part of the EU. These appear urgent especially for ensuring a greater market access and a more extensive and regular political dialogue.