

Trends and strategies in the East-West integration in Europe

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Summary

When the post-communist transition began in Central and Eastern Europe, the Western governments and their representatives (multilateral agencies, academic experts etc.) oriented the former socialist countries (FSCs) into the world of globalized capitalism. The pattern of government that emerged from this transformation proved highly inadequate to face the challenges of the external environment and to satisfy the needs of the societies in the region. Destabilisation and disintegration were the logical outcome of the misguided reforms. For the progressive governments in the FSCs, joining the European Union (EU) emerged as the only possible strategy to escape the chaos and the further degradation. However, the efforts to comply with EU norms and standards had to be made predominantly without external assistance, and the trends of convergence were accompanied with those of divergence. The prevention of further degeneration is largely up to the EU and other multilateral bodies involved in the reform process. For the countries involved in the accession talks with the EU, an amendment to the so-called Copenhagen criteria would help rectifying the prevailing tendencies. In addition to the economic and political criteria, the social criteria of joining the EU should be defined. The EU should provide assistance not only for convergence to the political and economic criteria but for the social ones as well. Second, in order to create a greater level of stability beyond her Eastern borders and better foundations for future enlargements, the EU should qualitatively improve her external policies. Those should not only focus on a narrow spectrum of security affairs, but stretch to wide areas of social and economic development in the countries of Eastern Europe and the Mediterranean.

1. Introduction

Enlargement to the east may be the greatest challenge for the European Union (EU) in the first decade of the new millennium. In 1997, the EU nominated five former state socialist countries (FSCs) as potential candidates for accession, and at the end of 1999 another five governments were invited to start entry negotiations. At the same time, however, the coherence of the EU enlargement policy started to disintegrate. The fall of Helmut Kohl, the war over Kosovo, and the rise of Jörg Haider helped destabilising European Union policy and the course of enlargement. Until about 1999, the year 2002 was widely considered as a date for the first

Eastern enlargement round which would concern at least three FSCs. Since then, it is not only the date of entry that became uncertain but also the way an agreement would be reached on the terms of accession at the negotiating tables and in the parliaments that will have to ratify the accession treaties.

In this paper, we discuss why joining the EU became such a strong priority for most of the FSCs in Central and Eastern Europe. We will also investigate the consequences of the delay that the enlargement has suffered so far, and also the potential dangers of further uncertainty. Finally, we will draw some policy conclusions that we believe are inevitable for creating a more progressive framework for East-West integration, stability and development in Europe.

We are trying to highlight the general trends in the region, while most of our examples will refer to Hungary, which is considered to be one of the most advanced emerging economy among the FSCs. From the perspective of the West, Hungary has usually been considered a likely nominee for the first round of eastward enlargement, since it is one of the best pupils, perhaps even the best, in market reforms and capitalist restoration. This approach, however, obscures the tendencies of social decline and political degeneration that accompanied the transition from state socialism.

2. EU: the One and Only

When the post-communist transition began in Central and Eastern Europe, the Western governments and their representatives (multilateral agencies, academic experts etc.) oriented the FSCs into the world of globalized capitalism. Economic policy makers of the time derived the course of reforms from monetarism and free market ideologies. During the ten years that followed, the pattern of government that emerged from this transformation proved highly inadequate to face the challenges of the external environment and to satisfy the needs of the societies in the region. Destabilisation and disintegration were the logical outcome of the misguided reforms.

According to the neoliberal discourse that determined the course of the transformation in the 1990s, market reform and transition to representative democracy were supposed to be the road to economic and social revival. The success stories that fill much of the liberal media today focus on the progress in institutional transformation, such as the number of private firms, the capitalization of stock markets, the share of the private sector in production, and the share of the multinational corporations in exports, instead of actual economic performance or data on living standards. Once we pay attention to the latter, we find that in the experience of the people of Central and Eastern Europe, the last decade has been a period of constant decline, if not collapse, with little likelihood of recovery any time soon. Where economic recovery enfolded in the second half of the 1990s, social recovery did not necessarily follow. Obviously, this was a regional trend with roots in the pre-1989 era.

Joseph Schumpeter would have been surprised to see how uncreative the destruction of the state socialist system was in Central and Eastern Europe. The Council of Mutual Economic Assistance (better known as the Comecon) was abolished in 1991 because Central European reformers believed it had no advan-

tages for their economics. However, the disruption of trade relations left many local companies without effective demand, and the lack of alternative export markets brought large productive sectors to bankruptcy. In most FSCs, price liberalisation took place when monopolistic state companies were still largely intact, which was a major source of inflation. The impact was similar when entire industries were sold to a single foreign owner, as in the case of the Hungarian sugar and seed oil industries. Privatization¹ was supposed to be the magic policy to help revive the ailing post-socialist economies, but most of the profitability advantages of the new private sector derived from layoffs and tax breaks for new entrepreneurs and multinational investors.

The early phase of transition theory and practice was dominated by the idea of globalized markets. The policies of liberalisation and deregulation were presented by the IMF – which got the task to guide the transition in the region from the G7 – as the move towards the fair and rational norms of the global civilisation. In the free market euphoria of 1989-1990, dissident voices were not welcomed. Innovative thinkers who proposed alternatives to this madness were silenced and stigmatised, including even the very influential George Soros, who in the 1989-1990 period advocated idea of a regional payment union and large-scale debt relief. In general, regionalism was off the agenda. The federal states of Central and Eastern Europe were abolished, and the new regional organisations remained weak and inefficient.

The misguided reforms had dire consequences on the societies of Central and Eastern Europe. Even the Hungarians – one of the less unfortunate nations in the region – felt so. Despite the economic recovery that started after 1996, most Hungarian people felt themselves to be on the losing side of the transition. At the core was the unemployed, a group that just marginally existed before 1989. The official average unemployment rate reached its peak in 1993 at 13 percent, and remained just below 10 percent afterward. Since, however, almost the same percentage of people withdrew from the active labor force – taking early retirement or permanent disability leave, or returning to the household – the official figure hides the fact that the fully employed part of the potentially active population fell to an extremely low level, just above 52 percent by the mid-1990s.

The collapse of employment and incomes in working-class families gave rise to a new poverty. According to the late sociologist Rudolf Andorka, about 15 percent of the Hungarian population lived below the poverty line in 1991, rising to 35-40 percent after 1995 (Andorka 1997). The transition showed in the death toll, too, though not so drastically as in Russia, for example. In the early 1990s, life expectancy hit bottom at 64 years for men and 74 years for women, with only negligible improvement in subsequent years.

At various times in various countries, it became a general opinion in Central and Eastern Europe that belonging to the global markets does not provide a sufficient framework for development and stability. Though it was far from clear in the early 1990s that EU membership should and could materialise for FSCs, by the middle of that decade the ambition to join the EU became manifest and widespread. For the governments in the FSCs, joining the European Union (EU) emerged as the only possible strategy to escape the chaos and the further degradation. This became the new common sense.

3. Assistance and Ignorance

During the Cold War, the Western ideology suggested that the division of Europe was artificial and predominantly a consequence of Soviet imperialism. East European dissidents and emigrants received support from Western governments, non-governmental organisations, and even from individuals. In 1989, the entire region became dissident suddenly, and this created a much more complex problem for the West European and North American governments.

In the 1990s, the Western community, including the EU, was seemingly supportive towards the countries in transition, and the moments of generosity received a good deal of attention and media coverage. Indeed, the European Community launched the so-called Phare program for the assistance of democratisation and economic reforms in Poland and Hungary in 1989, before the fall of the Berlin Wall. Association agreements were then made with ten FSCs. A thorough screening of these potential EU member states followed, and eventually talks on accession began in 1998 with Hungary, Estonia, the Czech Republic, Poland, Slovenia, and Cyprus.

However, assistance and inspiration on one side were coupled with ignorance and exploitation on the other. Even some leading neo-liberal experts of the region, like Timothy Garton Ash and Jeffrey Sachs, have been criticising Western ignorance in relation to Central and Eastern European countries (see, for example, Sachs 1999). The Western governments were more keen on opening up the new frontiers for their transnational companies than on raising the standards of living and culture in the countries of transition. Phare aid has been largely used to prepare and assist the inward march of Western investment, without an assessment of the social needs of the target countries.

This two-faced Western attitude applied to the European Union as well as other organisations. The EU established free trade agreements with the FSCs in the 1991-1993 period, when the supply side of their economics had just collapsed due to IMF austerity and World Bank structural adjustment. So the EU managed to dump all sorts of consumer goods and financial services on the former Comecon countries, while protecting itself against so-called sensitive products and the potential inflow of labor. Thus, EU countries built up a massive trade surplus vis-à-vis Central and Eastern Europe², including Hungary (Inotai 1995), whose chronic current account deficit has only been compensated by the inflow of foreign capital.³

The destruction of Hungarian agriculture in the early 1990s was a typical case of mindless ignorance, and the apparent losses were expected to be compensated soon by the forthcoming EU integration.⁴ Being optimistic about the possibilities of accession, the government thought that the sacrifice of a successful sector would be a price worth paying for the friendship of the West. Thus the right-wing Hungarian government of the time did not have to feel the shame in implementing its disastrous rural policy that disrupted the collective and state farm system and eliminated a third of the agricultural production of the country, just as the Eastern trade problems hit the hardest.

In 1994, FSCs started to submit their applications for membership in the EU, without knowing exactly when this aim could materialise. While much of the

adjustment was justified by references to EU requirements, the date of future EU membership was postponed again and again. For instance, in 1990, it was expected to occur in 1996 by the prime minister of Hungary. When the application was submitted in 1994 by another prime minister, 1998 was the target year. Following the Essen summit of December 1994, a third prime minister established 2002 as the likely year of entry. At the end of 1999, however, even a delayed target of 2002 was quietly abandoned by a fourth prime minister.

4. Convergence and Divergence

As compared to the tasks and burden of the transition, the assistance provided by the Western community to the reforming FSCs proved small and often dysfunctional. The efforts to comply with EU norms and standards had to be made within a race against time. As a result of this situation, the trends of convergence were accompanied with those of divergence.

Convergence is undeniable in institutional and legal aspects. Also, trade relations have been intensified, even if that is more important for the FSCs than for the Western side. Furthermore, in the recent years, most of the Central and East European FSCs – and not only those selected for the first enlargement round – have produced steady convergence on monetary criteria as well.

On the other hand, trends of divergence must be highlighted too. First of all, the income gap between FSCs and the EU countries has widened instead of narrowing. This was particularly due to the dramatic loss of incomes – 20 to 50 per cent – in the first half of the 1990s. The disintegration and the loss of jobs and incomes aggravated the social misery in the region, and this became another factor that separates the FSCs from the EU (particularly because of the unmitigated rise of inequality). Despite regulation efforts, Central and Eastern Europe fell behind in environmental terms too. Finally, and most interestingly, ten years after the transition began, the political situation needs to be evaluated in critical terms too.

Ten years after the so-called transition began, even the leading politicians and advisors of the early 1990s have admitted that the optimism of the new political elite was largely unfounded in Hungary and in the rest of the region as well. Instead of reaching West European income levels and living standards, the region experienced an accelerated relative decline after 1989. Gross domestic product dropped by some 20 percent even in the most successful former socialist countries, only Poland managed to surpass its 1989 GDP level ten years after the transition began, while Hungary, like Slovenia and Slovakia, came very close to the level of 1989 at the end of the 1990s. However slowly, the EU economies did grow in the meantime, and the income difference between the EU and the FSCs increased.

The political degeneration has at least three dimensions. First, the public opinion in some FSCs, and even in first rounders like Poland and the Czech Republic, started to turn away from EU accession. The withering trust in the EU is a direct consequence of the lack of apparent results of the integration and the repeated and systematic postponement of accession. Secondly, in countries where crime became a major sector of the economy, the state bureaucracy has become corrupt too. The expectation that adversities in this area would fade with the end of transition proved wrong, and to varying extent the new mafias became embedded in the

organisation of the state. Thirdly, the rise of nationalism – and not only in violent forms – is a factor that weakens the chances of a smooth integration.

By betting on EU entry – or the co-called Euro-Atlantic integration – only, the internationalist forces of Central Europe and the Balkans manoeuvred themselves into a dangerous corner. When the transition began, internationalism had more opportunities, like maintaining good relations with the Soviet Union and later the CIS, creating new forms of integration within the region, or even building bridges of co-operation to the developing world. Liberal internationalism, however, claimed that »none of these would be a substitute for the EU«, and created a situation where every negative development in the EU integration process provides encouragement for the nationalists.

Nationalism is partly a repercussion of the failure of the transition and of the single minded internationalism. This is, however, also a factor that allows the EU to change the balance of positive and negative factors in a manipulative way. Consider the case of Slovakia, which was not invited into the first negotiating round in 1997 due to the political misbehaviour of prime minister Vladimir Meciar. Since, however, other nations may produce Meciar-like figures or attitudes, the temptation will increase for the EU to shift their critique of the applicants towards the political area from the issues of economic harmonisation and convergence.⁵

5. Delaying and Derailing

The Socialist-Liberal government of Hungary, that treated EU integration as the prime national interest of the country, was replaced in 1998 by a right-wing coalition. The long-term benefits of EU integration were not convincing enough for the electorate as compared to the »short-term« costs. Despite the fact that the apparent social misery gave rise to a nationalist electoral outburst, however, it did not severely undermine the general respect for the EU and the West in Hungary. As compared to the Czech Republic, where membership in the EU has never been very popular, and Poland, where the popularity of EU accession started to decline sharply in 1999, more than two-thirds of Hungarians are clearly in favour of joining the EU. Despite all the disappointment, the EU still represents a promise of higher living standards to the Hungarian people. Most Hungarians hope to live as part of a federal European state in the next millennium.

The right wing government of Viktor Orbán has to take this into consideration. Though they see the harmonisation and convergence to the EU as restraint on their political freedom, they did not take EU accession off the agenda. Orbán, as chairman of the European integration committee of the Hungarian parliament in 1994-1998, proved to be the only one among the major party leaders to criticise the EU, pledging that his government would represent the Hungarian interest in accession talks (implying that the Socialist-Liberal coalition did not do that). In fact they did not have to do anything for the slow down of enlargement, since the EU did that (see the consequences of the fall of Helmut Kohl, the inefficiency of the talks on reforming the voting system in the EU, and the Helsinki decisions of 1999 December). What they want to secure is that the EU should not function as a vehicle of progressive reform in Hungary.

For such a policy, Orbán has found some new allies in a new, cross-border, anti-Brussels coalition. The emergence of such a new formation is largely due to the rise of Jörg Haider. The far right leader whose party became a junior partner in the Austrian government of Wolfgang Schüssel has made it clear several times that he opposes the prevailing course of European integration as well as the forthcoming enlargement of the EU to the east. Haider's Freedom Party managed to be the second largest force in the 1999 general elections because of the general anti-immigrant mood in Austria, despite the country's relative freedom from economic crisis or substantial joblessness in European terms. When the right-wing government was formed, Haider claimed that it would not oppose the enlargement of the EU but would seek to require that would-be members increase their real wages to the EU average. If we take into account that in recent years most of the international European discourse has taken it for granted that the first enlargement round would take place some time 2002-2004, and that Hungary would be in that first round, Haider's message is identical with a straight rejection of eastward enlargement.

Meanwhile, Hungary's own right-wing government under the leadership of Orbán appeared as one of the least critical governments in Europe toward the new administration of Austria. Taking into account that the electorate of Switzerland had already made a shift toward the far right, and that Bavaria has had a solid rightwing government, we are now witnessing the emergence of a new Alpine populism. A Stoiber-Schüssel-Orbán Axis (Tamás 2000) is emerging, one that could well evolve into an alternative power centre to the internationalist Brussels core.⁶ Such a formation may powerfully express xenophobic and anti-enlargement voices within the EU and demonstrate at the same time that Central Europe is not in line with the political criteria of EU accession, so that the latter should be taken off the agenda.

Thus, the costs of delay in eastward EU enlargement are now apparent on two fronts, economic and political. The economic repercussions are such that applicant countries may not be able to sustain their hoped-for convergence with Western levels without the substantial external assistance they have sought. The degree of economic convergence of the last five years has been achieved on the ruins of the state socialist economy and society, and the short-term results were produced in the late 1990s at the cost of substantial social and environmental damage. It is often proposed that if the applicants cannot demonstrate full readiness for EU membership, they should spend some more time preparing. This is, however, a mistaken logic. Further delay of enlargement would not facilitate better preparation but the exhaustion of the self-produced convergence instead. The EU may turn out to be a »bridge too far«, and the reform process can implode due to the lack of sufficient social and moral foundations. And the impossibility of economic and social consolidation would serve as a case for abandoning enlargement.

Equally threatening are the political costs of further delay. If the EU does not make decisive steps towards enlargement in the foreseeable future, the end result will be the further weakening in the domestic positions of internationalist forces and finally the exclusion of the FSCs behind a new Iron Curtain à la Schengen. In this case, a new division of Europe would emerge for the following decades, and this time the responsibility of the West for that could not be displaced onto the Georgian man with the big moustache.

When Hungary, Poland and the Czech Republic were invited to join NATO in the Summer of 1997, the advocates of NATO accession argued that membership in the military organisation could accelerate, or even guarantee, membership in the European Union. In reality, however, NATO membership has also contributed to a significant slowdown of the enlargement of the EU. First, the countries of the region are not considered to be helpless any longer. Once NATO is here to provide stability, EU officials in Brussels do not feel a great urgency to expand the union for the same function. Second, NATO membership for FSCs means that military expenditures must be increased in a steady way, out of the same funds that could otherwise be used to accelerate the structural reform necessary for EU accession. Third, the enlargement of NATO has appreciated the Atlantic military alliance and the geostrategic role of the United States in Central Europe. This encouraged the U.S. government to impose a violent solution to the Kosovo crisis, as a result of which Central Europe became a war zone with the threat of further cross-border hostilities. The Yugoslav situation affects all the surrounding countries, including Hungary, in many ways.

The mismanagement of the Yugoslav crisis was largely the responsibility of West European powers. Though this crisis has been localised and tamed, the means of that cannot be accepted. This and other crises of Eastern Europe and the Balkans demand the West European governments to develop more progressive external policies that could not only secure hegemonic stability but also facilitate social and economic development. The prevention of further degeneration in Central and Eastern Europe is largely up to the EU and other multilateral bodies involved in the reform process.

6. Conclusions

Two main conclusions can be drawn from the analysis we presented above. First, we believe that the so-called Copenhagen criteria, set by the EU in 1993, need to be amended. In addition to the economic and political criteria, the social criteria of joining the EU should be defined. The EU should provide assistance not only for convergence to the political and economic criteria but for the social ones as well. Second, in order to create a greater level of stability beyond her Eastern borders and better foundations for future enlargements, the EU should qualitatively improve her external policies. Those should not only focus on a narrow spectrum of security affairs (à la Solana), but stretch to wide areas of social and economic development in the countries of Eastern Europe and the Mediterranean. To start a movement towards these new policies, the discourse of the EU *vis-à-vis* the FSCs should change. Instead of referring to the *criteria* on a daily basis, the *objectives* of the enlargement should be clarified and supported by new instruments in a progressive way.

Appendix

- 1 Privatization is a concept that can be understood in a narrow and a broad sense. In a narrow sense, privatization applies only to cases where publicly owned assets are transferred to private owners. In a broad sense, privatization is a shift that increases the share of the private sector in the economy and makes the public sector smaller. In this paper, we use the phrase in the first meaning.
- 2 In the second half of the 1990, the pattern of the trade balance between the EU and the CEE countries became more diverse.
- 3 Hungary has been the leading recipient of foreign capital flows to Central and Eastern Europe in absolute numbers until the mid-1990s and in cumulative value per capita ever since. Since the beginning of transition, close to \$20 billion in foreign capital investment arrived in Hungary, a country of ten million people.
- 4 The disastrous agricultural policy was inspired partly by the European Community. Anecdotal evidence suggests that representatives of the French agricultural producers told the Hungarian government that they would not support Hungary's accession into the EU so long as they see the country as a potential rival in food and agriculture exports.
- 5 In the case of Hungary, for example, the EU started to emphasise the conditions of the Roma in 1999. It should be noted, that among the victims of the transition, the first and foremost single group was the Roma, or gypsies, an ethnic minority amounting to some 6 percent of the population who live in large families in mainly rural or de-industrialised regions. The Roma have suffered from the devaluation of social benefits in addition to the loss of jobs and the rise of anti-gypsy prejudice, discrimination, and atrocities. Today the EU uses the Roma situation to demonstrate Hungary's lack of maturity for EU membership, forgetting that the policies that pushed the Roma into such conditions had been supported by the Western governments themselves.
- 6 This formation would be further strengthened by the return of Silvio Berlusconi as leader of Italy.

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