

European Association
for Comparative Economic Studies
Bulgarian Academy of Sciences - Institute of Economics

**Economies in Transition
and the Variety of Capitalisms**

Features, Changes, Convergence

Edited by

**Mitko Dimitrov
Wladimir Andreff
Laszlo Csaba**

**European Association for Comparative Economic Studies
Institute of Economics at the Bulgarian Academy of Sciences**

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**Proceedings of the 5th Biannual Conference of the EACES
Varna, Bulgaria, 1998 September 10-12**

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Preface

This book is a result of the 5th Biannual Conference of the European Association for Comparative Economic Studies "Economies in Transition and the Variety of Capitalisms: Features, Changes, Convergence" held in Varna, Bulgaria, 10-12 September 1998. The host institution of the conference was the Institute of Economics at the Bulgarian Academy of Sciences, Sofia. The conference was organized with the financial support of the East-East Program of the Open Society Foundation. In the conference participated more than 70 representatives from 22 countries from Eastern and Western Europe.

The general purpose of the European Association for Comparative Economic Studies (EACES), founded in 1990, is to initiate and coordinate international collaboration designed to assist the advancement of theoretical and applied knowledge in the field of comparative economic studies in Europe and elsewhere. The general interests of the association are the theoretical analysis in the field and the comparative study of real economic systems. The areas concerned are the economies of East and West, North and South, as well as the economic interaction among systems and among regional areas, such as the EU. The EACES is a broadly based organization in which all schools of analysis are welcomed to exchange views and ideas on current and prospective research. The members are about 450 individuals and several institutions from nearly 40 countries.

The Conference in Varna was opened by the keynote speeches by Prof. Jorge Braga de Macedo from the university of Lisbon and by Prof. Laszlo Csaba, Kopint-Datorg, Budapest. The winner of the EACES Dissertation Award, Dr. Klaus Meyer, has presented his work on FDI in Central and Eastern Europe.

The discussions were organized in 23 panels which compared and generalized the changes in the countries from CEE and CIS as a result of the 10 years transition in the context of the interaction between them as well as with the countries with long-lasting capitalist system by presenting and analysis of wide range of problems concerning the property rights and ownership structure, firms, markets, financial and bank area, investments including the FDI,

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trade, industrial policy, policies for stabilization, for regional cooperation and for joining the European Union.

In the last day of the conference was organized a round table for discussing of the problems connected with the financial crisis in Russia and its possible impact upon the economies of the other East European countries.

The book includes 28 papers from all discussed fields during the conference. The authors are well-known scientists from Western Europe, Central and South-Eastern Europe, Baltic countries. There were also young scientists which ideas and findings bring interest at the discussions.

We hope that the papers will meet the interest of scientists, students, policy-makers and businessmen and will contribute for their better understanding of the complicated processes which run now in Europe.

Mitko Dimitrov
Wladimir Andreff
Laszlo Csaba

Eastern Enlargement of Euro-Atlantic Structures

Laszlo Csaba*

... a major breakthrough in the controversy over the enlargement of the NATO and European Union. Following the Madrid decisions of July 1997 the Czech Republic, Poland and Hungary have been invited to the NATO; Slovenia and Romania received semi-assurances of their standing a good chance to be in the second round. At the cost of giving up the Russia-NATO council the acceptance of Russia has been assured to the enlargement decisions. Moreover, contrary to previous fears, the enlargement process did not prove to be a divisive issue in so far as the largest military power of Europe, which is also the largest new democracy in the post-communist era, has not been excluded from the new pan-European security architecture. This is a particularly encouraging new phenomenon. Already back in November 1990 the pan-European conference of Paris has institutionalised the new vision of security fitting to the new post-bipolar period. Accordingly, instead of divisive and potentially confrontational military alliances, it is a thickly knit multidimensional web of relationships among countries which delivers lasting security. The military component within this is, though by no means negligible, is far from being exclusive. The economic, legal, political, environmental elements, as well as the common answer to such global challenges as drug trafficking or trade in persons, or fighting organised crime as well as enforcing binding international agreements by a variety of means, complemented with diverse fora of conflict management round up the picture.

A major development of the 1990s was that political experience has settled a series of previously hotly debated issues. If in 1990 the possibility of pan-European answers to a variety of challenges seemed appealing, and not only to some of the traditionally pacifist quarters in European politics, but also to influential circles in US decision-making, this initiative proved to be illusory (again). The Conference on European Security and Co-operation proved to be less than instrumental in offering solutions or even partial remedies to the post-Yugoslav or the post-Soviet crises. The European Bank for Reconstruction and Development, which turned out to be financially quite efficient, recently even successful banking enterprise, played a fairly subordinate role in what is called "financing the

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ansition". Though the latter was macroeconomically probably inevitable, the very high vel political engagement surrounding the setting up of EBRD, contrasted to the relatively bordinate role of underdeveloped member-states in the overall lending of the Bank, and early in sharp contrast. "Financing the transition" remained a task of private capital rkets, as well as the institutions traditionally equipped to manage such tasks, as the IMF d the World Bank.

the second phase of transformation, basically following the adoption of the Maastricht eaty turning the EC into EU a security pillar of the union emerged. However, the creation his most ambitious task, involving a partial transfer of core sovereignty, was declared at time Balkan crisis turned into a bloody military conflict. Involvement here implied much re than signing joint declarations of good intent: it could, and eventually did, imply the of lives. Understandably, this was less than popular in most of the Union, and urgences of strategies/assessments of the member-states precluded any clear and definite to emerge, leave alone to enforce.

as particularly the Bosnian crisis which highlighted: there is no other structure or misation but the North Atlantic treaty that is able and willing to make operational sions and enforce them. These developments which emerged on the base of a series of al decision, rather than derived from a long-awaited overall reassessment of NATO egy in the post-cold-war era, has practically addressed most of the previously opened tions. First, practice has confirmed that neither UN, nor OSCE, not even EU fora are ble to substitute the operationality of NATO. Second, NATO was dragged into a ously much contested field, i.e. extraterritorial activity, and not only for weeks or hs. Third, Russia has been convinced by a mixture of practical evidence and skilful macy, that in the post-bipolar world international action is not, by necessary, a zero game, where the gain of one is bound to be the loss of another. Actually, as in case of ational terrorism or environmental catastrophes, it is non-action that may lead to a or even negative sum game. Thus NATO involvement in peacekeeping must not be a sign of expansionary policies conducted at the detriment of Russian interest. On ntrary: Russia has already got thousands of kilometers on its Southern borders where ig operations of regular and irregular troops has been going on for several years, ing thousands of lives. And not only from Afghanistan to Dagestan, but also the ing tensions with the Ukraine pose a more than imaginary threat to Russian security. ntrast, the frequently evoked security vacuum emerged not in Central Europe but in ce of an oppressive and economically corrupt and failed Yugoslav regime. In other it was not a policy miscalculation but a realistic assessment of longer term strategic ts of Russia that prompted a basically cooperative stance with NAATO in the n crisis. In the end of the day Russia grudgingly accepted the previously eivable: extraterritorial employment of NATO troops. More importantly it also d the stationing of US troops on the soil of a former ally, Hungary from 1993, as the peacekeeping operation of UN, long before accession talks of Hungary to NATO : operational. Moreover, neither troops stationing, nor the invitation of Hungary to TO have burdened Hungarian-Russian relations. On the contrary, Hungary is one of post-communist nations not having any major disputes with Russia, the minor points e unfinished repayment with Russian debts originating from the COMECON period, titution of objects of arts unilaterally confiscated in 1945, and customs tration. Measured against the problem of Crimea, Chechnia, or for Hungary,

contrasted to the ecological consequences of building a new Danube Dam in cooperation with Slovakia, these bilateral issues remain truly peanuts.

This short summary of events may explain why in the third phase of transformation, when economic growth recovered and democratic hangover of power took place smoothly, even the Bosnian conflict came to the end, Central European countries felt it appropriate to join NATO. It should be clear that this step is not motivated by a perceived threat of Russia.

Neither is it motivated by 19-century nationalist claims against neighbouring countries. On the contrary, joining NATO is in many ways a prophylactic measure. First, it institutionalised what has been achieved in terms of political and economic pluralism. Second it precludes any potential extremist force to become a major political player, as adherence to the North Atlantic community is one of the few consensus points in the political class. Third, it institutionalises cooperative behavioural norms in all walks of life, against the traditional national single-mindedness. Fourth, it provides guidelines and procedures to reorganise the armed forces along with the needs of a civil society. Fifth, it is obviously less costly to join collective defence than to build up credible deterrence on its own right by any country.

At this point the commonality of interest and the non zero-sum-game character should be restated. Seen either from Washington or from Moscow, the dynamics of the eastward enlargement of NATO contributes to the sustaining of peaceful development, consolidating democracies, thereby enhancing security in the Central European region against the threat of anarchy, infights or political turmoils of various sorts. This is obviously also a least cost operation for both major military powers against any other conceivable alternative, especially in the long run. Given that the real threats for Russia originate not from history textbooks, but from what Huntington called the clash of civilisations, guaranteeing security in its Western frontier without having to contribute to it either militarily or financially is certainly not such a bad deal. On the contrary, experience with the CIS is indicative, that in its present shape Russia alone is usually not in the position to secure the same, even for areas that are strategically much more sensitive to it.

From a Central European perspective joining in the NATO as well as the EU implies a gain rather a loss of sovereignty. As Czechoslovakia in 1938, 1948 and 1968, Poland in 1939, 1945 or 1981, or Hungary in 1920, 1945 and 1956 could experience, nations of the area have always been objects rather than actors of international power decisions. This is the first time in modern history, that Central European nations can join, out of their own will, an international alliance where participation is democratic and they are in a position of articulating their interest. This, of course, is to be understood in the context of global interdependencies, where the scope for unilateral action has dramatically decreased, from environmental to financial issues.

In a way, through its eastward enlargement NATO has thus made a second giant step in the redefinition of its activities besides extraterritoriality. The second aspect underlines the political, preventive and organisational qualities of the alliance, where securing democratic arrangements and institutionalising joint action is not necessarily and not primarily a defence concern. More precisely efficient defence is integrated into a multilayer overall strategy that is rightly called the new architecture of peace.

The NATO decision has certainly helped clarify some contested issues in the context of EU enlargement. In this latter field the controversies about democracy and political maturity have been a bit more general, sometimes subjective and esoteric. Involvement in NATO has had, on the above base, actually clarified how and why can one draw, at the moment, a dividing line among externally akin-looking new democracies in terms of their maturity and commitment to the western system of values. It also helped operationalise progress on the way towards understanding the new strategic philosophy and reality, circumstances above. From this perspective the Slovak referendum, inspired by the Meciar government's ambiguous stance on geopolitical issues has clearly shown a difference from the Hungarian vote of November 1997. In the former case, support for NATO was insufficient, in the latter, it was over 85%, with the number of votes favouring entry exceeding about 50% of the necessary margin - 3,5 mn instead of the needed 2,2 mn.

Enlargement towards the East is a process that follows from the wording of the Treaty of Rome keeping the door open for all European democracies and market economies. However integration in the Union has continuously deepened. Especially as the forthcoming completion of the economic and monetary union implies that new entrants have a much tougher job to tackle than on previous accessions. Looking from the other side, the Union has yet never in its history faced an application *en masse*, i.e. 11 countries wanting to join a community of fifteen. Given the democratic arrangements in the EU - one member one vote in nearly all issues - the sheer potential of a massive enlargement was likely to pose a severe challenge to the operation of traditional decision-making structures. Already the Corfu Council of 1994 indicated, that the EU has reached its limits in terms of decision-making ability. In a curious but telling episode, the Amsterdam council of 1997 that was aimed at finalising reforms of the decision-making structure could not come to a final conclusion, as the exhaustion of the delegation at 4 am, prevented them from approving already basically fine-tuned compromises.

Looking from this angle, subdividing the applicant countries in two large and several groupings, as the Commission document Agenda 2000 did, has been the only feasible way to proceed. No matter how embarrassing diplomatically it may be, incrementalism has been the only way the Union could evolve. This was true for the 1960s with six members and it is understandably even more true for 15 members. The slower the Union proceeds with its internal reforms of decision-making, the slower the accession of new entrants is likely to be.

For the time being limited if any agreement exists among the incumbent members on the ways how common agricultural policy, common spending on structural funds and cohesion funds should be reformed. While there is palpable progress in theoretical literature and also at the level of Commission analyses in formulating viable and financable options, political will in several member-states, esp. in Spain, Austria, Greece and Germany is less than sufficient, at least as far one can judge from published statements of major policy-making figures on concrete - rather than abstract, general - issues. This may create a stalemate that nobody wishes.

From this perspective it is reassuring that the Luxembourg Council of December 1997 has put its seal on the idea of differentiating actual accession, whereas not letting any applicant out in the blue by involving them through the European conference. Also - as one of the few palpable innovations of the Amsterdam Treaty - the regular review of performance is applied not only to those aspiring to become members of the currency union but also to the

applicant. In other words, this gives room for current laggards to improve their competitive position by adopting vigorous and efficient policies that deliver quantifiable results. In terms of inflation, public debts or in terms of fiscal redistribution of GDP, the consolidated tax burden on payroll and the like give a fairly good indication of the economic health of individual countries. For the applicants it is probable that the trend of improvement may be more important than the actual figures. And conversely, the process of accession talks to be started in the second quarter of 1998 themselves may lend additional impetus to necessary, but politically embarrassing reforms. This applies particularly for instance to the Polish pension system, the Czech banking and securities sector, or the Hungarian health care and municipal financing systems.

How realistic is to expect countries with such a lower per capita GDP to become members of the single currency area? The answer to this is several. First anybody familiar with economic would expect the applicants first to make major progress on the disinflation front before membership could be realised. This is, alas, the self-interest of the countries concerned for social and economic reasons alike. On the fiscal front, the three most mature applicants are actually faring better in terms of debt/GDP ratios than many incumbent EU-members, with Poland 60%, Hungary 65% and the Czech Republic only 14% ratio. The real rate of interest is yet to converge but the time required for getting to the range of 4% forecast generally for the Euro is not historic - in Hungary currently it is about 6%. In sum, with continued effort the countries in the first group may well get into a financial shape, where they will have been able to make credible commitments to quality for emu in 5-6 years following their eventual accession.

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