Towards a New Central Europe

Yuri Tsarik tells how the European Union has betrayed the hopes of people in Eastern Europe, and offers a more optimistic view for the future.

The latest expansion of the European Union, on Jan. 1, 2007, was somewhat eclipsed by the conflict between Belarus and Russia over gas and oil prices, which was taking place at the same time. But it would be a mistake, in view of developments during 2006, to ignore the accession of the latest members from East Central Europe: Bulgaria and Romania. After all, the expansion of the EU into the former Soviet Union and Comecon area was preceded by a period of enormous Euro-pessimism, and the reasons behind the widespread unhappiness with such EU enlargement are weighty ones, which may play a role in aggravating various tensions, including between Belarus and Russia.

The Nov. 8, 2006 press conference of European Commissioner for Enlargement Olli Rehn, in which he expressed doubts about Turkey's ability to join the EU, coming on top of events in Hungary not long before, raised certain issues that had presumably already been settled. What kind of future is there for relations between the nations of Central and Eastern Europe, and the European Union? What objectives should the domestic and foreign policies of those countries pursue? What is the "European perspective" for nations in this region?

The nations of East Central Europe.

The Hungarian unrest, the prolonged government crises in the Czech Republic and Poland, the severe economic troubles in the Baltic countries, and the refusal of Ireland, Great Britain, and Spain to admit workers from Bulgaria and Romania, have forced experts, politicians, and the man in the street to take a new look at the prospects for a "Single Europe."

The scandalous tape-recorded conversations of Hungarian Prime Minister Ferenc Gyurcsany, which precipitated street demonstrations in Budapest, contain the following passage: "We really blew it. Not just a little bit—big time! No other European country was as dumb as we were. It nearly killed me, to have to fake it for a year and a half, pretending we were governing the country. In reality, we were lying all day and all night."

The Economic Failure of the Euro-Strategy

The Hungarian politician's words are the most precise possible description of what happened in Central Europe, just before and soon after these countries joined the EU. In effect, starting in the mid-1990s and continuing until 2004, the majority of governments in East Central Europe were following the same strategy: integration into the economic space of Greater Europe. Their socio-economic and political reforms were determined by a single factor, namely, the demands placed upon them by the Eurobureaucracy, as candidates for EU membership.

As a result of shock deindustrialization, most of the countries in the region have said good-bye to the heavy industry that had been built up under the Soviet economic bloc, the Comecon. Instead, they were to have the service sector and small business. But the transition from an industrial economy to a service economy did not turn out to be the step forward, advertised by the Euro-optimists. The take-down of large plants left thousands of skilled workers unemployed. Now the available work was in unskilled, service-sector jobs. But there were not enough of those: To this day, all of the countries in the region are experiencing high unemployment.

Two factors prompted the destruction of national industrial sectors, and related structural reforms, in the East Central European countries. One was the pull towards the EU, and the other was the absence of alternative projects in the region. The basic industrial production relationships among these

TABLE 1
GDP in East Central Europe

Country	Year-on-Year GDP Growth in 2000 (%)	Index of GDP in 2000 (1989=100)
Belarus	2.0%	82.0
Bulgaria	5.0	82.7
Croatia	2.7	79.9
Czech Republic	2.3	95.7
Estonia	5.0	80.6
Hungary	5.4	104.6
Latvia	4.5	62.1
Lithuania	2.2	63.6
Moldova	–3.0	30.3
Poland	4.1	127.0
Romania	2.2	77.6
Slovakia	2.6	103.0
Slovenia	4.3	113.7
Ukraine	3.0	37.6

Source: Grzegorz Kolodko, *Globalization and the Prospects for Development of the Post-socialist Countries,* Minsk: 2002 (a Russian translation from Polish).

TABLE 2
GDP and Foreign Debt

Country	GDP in 2004-05 ($ Billions)	Foreign Debt in 2004-05 ($ Billions)	Ratio of Foreign Debt to GDP (%)
Belarus	$26.69	$4.662	17.7%
Bulgaria	25.79	15.320	59.4
Croatia	34.94	30.620	87.6
Czech Republic	109.40	49.140	44.9
Estonia	12.3	8.373	68.1
Hungary	106.40	66.220	62.2
Latvia	15.50	7.368	47.5
Lithuania	24.10	10.010	41.5
Moldova	2.416	1.986	82.2
Poland	246.20	101.500	41.2
Romania	72.70	35.680	49.0
Slovakia	43.07	26.940	62.5
Slovenia	35.21	18.970	53.9
Ukraine	71.40	16.370	22.9

Source: *CIA Factbook,* www.cia.gov/cia/publications/factbook/index.html; author's calculations.

countries had already begun to weaken under the Comecon, as East Central Europe began to orient more and more toward relations with Western Europe, beginning in the 1970s. After their final destruction, and the elimination of what had been large markets in the Soviet area, countries in the region had little choice but to go towards the EU. For a short while, at the start of the 1990s, the idea of a Baltic-to-Black Sea community, bringing in Ukraine, Belarus, and the Baltic countries, was in the air, but it failed to materialize. So, most of the countries in the region got in line to join the EU. Belarus oriented towards Russia, and Ukraine was unable to decide upon its strategic orientation, a failure for which it is paying the price today.

There were three reasons that EU membership was attractive to East Central European leaders as an objective for their development. First of all, the ideological element was quite strong at the outset of the 1990s: Independence from Russia, and a return to Europe, was seen by many people as a thing in itself, a goal with intrinsic value. Secondly, the countries of the region hoped for a major influx of financing for their economies from Brussels, both during the reform process before joining the EU, and later, as EU members. It was expected that this would include subsidies for agriculture, and so forth. Thirdly, there were great hopes for an influx of technology and investment from Western European corporations, which would integrate Western Europe and East Central Europe not only as a single market, but also as a single zone of technology and capital.

Were these expectations justified? In the late 1990s and the first few years of the 21st Century, it seemed that the optimistic forecasts were coming to pass. After getting through the period of economic depression, the countries of East Central Europe were beginning to experience GDP growth. GDP in the region as of 2000 is shown in **Table 1.**

The table shows that the countries oriented towards Greater Europe (not counting the Baltic and Southern European countries) reported the best results. As a result, all eight of the region's candidates for EU membership had met the requirements by May 1, 2004.

Such measurements of economic growth, however, though they were the basis for negotiations on the "European perspective" for the nations of East Central Europe, do not reflect the *quality* of that growth, or what was really happening with the region's socio-economic development. For example, one consistent effect of the structural reforms was an increase in the foreign debt of these countries.

Poland, the Czech Republic, and Hungary repeatedly had to borrow abroad, to cover their growing budget deficits. The Czech Republic borrowed at the rate of $4 billion per year. Hungary's budget deficit was 10%. The Polish government coalition collapsed over arguments concerning the planned deficit for 2007: The Law and Justice (PiS) party proposed 3%, while Andrzej Lepper's populist Samooborona insisted on 10%.

Table 2 shows that Belarus was the only country in the region, whose foreign debt was less than 20% of GDP. In all the others, excepting Ukraine, it reached between one-third and three-fourths of GDP.

Analyst Olga Vlasova, writing in *Expert* magazine, Nov. 6, 2006, summarized the impact on these countries, of interac-

TABLE 3
Unemployment, 2004-2005

Country	Unemployment (% of Work Force)
Belarus	1.60%
Bulgaria	13.50
Croatia	18.90
Czech Republic	10.50
Estonia	7.90
Hungary	6.10
Latvia	7.50
Lithuania	10.70
Moldova	8.00
Poland	18.00
Romania	5.90
Slovakia	15.00
Slovenia	11.20
Ukraine	3.10

Source: *CIA Factbook,* www.cia.gov/cia/publications/factbook/index.html; author's calculations.

tion with Western capital: "Hopes for rising foreign investment and an influx of Western capital were also disappointed. Capital did come in, of course, and it bought up everything it wanted, but didn't get into building anything new, or large-scale. Investment primarily took the form of acquisitions of privatized enterprises. The governments used the revenue from such sales chiefly to patch holes in their budgets. Expectations that manufacturing operations would be moved from Western Europe to Eastern Europe turned out to be greatly exaggerated. Many Western companies wanted to do this, but they didn't follow through. In Germany, the trade unions mobilized against such runaway shops. German workers agreed to work longer hours for less pay, in order to keep their plants from fleeing to Eastern Europe. The companies that did move their operations tended to go to China, rather than Eastern Europe. China was cheaper, since wages and prices in Eastern Europe did rise with admission to the EU, and the Chinese market is bigger and is growing faster."

The dimensions of unemployment in the region are shown in **Table 3.**

The flip-side of this situation is the emigration of the economically most active part of the population, as Yaroslav Shimov wrote in the Ukrainian publication *Zagranitsa* in mid-1996: "The deregulation of the European labor market has led to an outflow of workers from East to West. In the space of less than three years, a million Poles, tens of thousands of Latvians and Lithuanians, and so forth, left to take jobs in other EU countries, especially Great Britain and Ireland. There has also been noticeable labor migration within Eastern Europe, where standards of living and income vary from country to country. Slovaks, for example, go in large numbers to take jobs in neighboring Czechia and Slovenia, the most prosperous of the new EU members. Despite this emigration, unemployment is 15-17% in some areas of Slovakia, and as high as 20% in Poland."

The overall situation was summed up by Ukrainian analyst Yuri Romanenko, writing for Prognosis.ru on Oct. 4, 2006, as follows: "First of all, it is becoming apparent that the economic benefits, enjoyed by the countries of East Central Europe because of their semi-peripheral status in the European Union, have reached a practical limit. In 15 years, Central Europe has turned into a large assembly zone for transnational corporations, without managing to crystallize its own big capital. This has resulted in unstable economic development, since the transnational corporations are beginning to move their operations farther eastward, the minute labor becomes too expensive where they are, cutting into profit.

"Secondly, just after the integration of the East Central European countries into the Single Europe, the core of the EU—France, Germany, Italy, and the Netherlands—experienced an acute socio-economic crisis, which requires a fundamental break with the European "social welfare" model of the past 50 years. This is compelling the core to tighten fiscal discipline, reduce social spending, combat illegal migration, etc. As a result, Western Europe has become less willing to pay for the modernization of the countries of East Central Europe, a development that has strengthened the position of Euroskeptics in those countries. A comparison of farm subsidies in France and Poland is a good example: The Polish peasants received subsidies that are smaller by a factor of eight, than their counterparts in the West. Central Europe is essentially being held hostage to the situation in the European core, just as 20 years ago it depended on what the weather was in Moscow."

A Second Factor: EU Reform

The collapse of the European orientation in socio-economic and other policies is only one component of the situation in the region. Equally important is the crisis of the EU itself. The planned reforms, drafted in accordance with the Treaty of Amsterdam, and approved by the European Commission in 2002, involve three important changes.

First, there is the adoption of the Constitution of the European Union. This document is supposed to provide for a single market, a single currency, a single foreign and security policy, a single policy in the area of justice and law enforcement, thus becoming the legal foundation for the existence of the enlarged EU as a whole. This document has been criticized for its excessively detailed regulation of various aspects of economic life, like fisheries. Nonetheless, despite the setbacks in France and Denmark, Brussels continues to promote the same draft of the Constitution.

Second, will be a change in the decision-making procedure within the EU, whereby a simple or qualified majority replaces the previous consensus procedure. When former French President Valéry Giscard d'Estaing, as chairman of the European Convention in 2002-2003, unveiled this idea, the EU's own online publication called it "a small revolution: a de facto abandonment of members' right to veto, which has been an element of building the organization for four decades."

Third, would be the institution of a single EU representative for foreign policy questions, elevating the individual currently known as the EU High Representative for the Common Foreign and Security Policy. He would have an internationally recognized title, such as Secretary of State or Foreign Minister of the EU, and would sit on the European Council, which currently includes only the heads of state or government of the member countries. Thus, relinquishment of the right to veto in this area of policy (as Brussels demands) will be the next step towards their countries' loss of yet another portion of their sovereignty.

Thus, the reform of the EU, to be unleashed full-force after ratification of the European Constitution by all members, will substantially limit the sovereignty of European nations, on top of the limitations already imposed by the legal force of European Commission and European Central Bank decisions.

This factor is an additional, essential element of what is currently happening in Central Europe. On the one hand, there are fewer and fewer real, tangible advantages to be had from joining the EU. The EU not only offers no perspective for solving the acute problems of its new members, but it denies them even such dubious privileges, as the opportunity to make use of a European-wide free labor market to solve their unemployment problems, thus condemning the Central European countries to a futile struggle to obtain financial aid from the Eurobureaucracy, and to the loss of the best, most highly skilled part of their populations in the form of labor migration into Western Europe. On the other hand, Brussels is making increasingly tough demands on candidates for EU membership, while planning in the near future to deprive member nations of important attributes of national sovereignty. Offering nothing, the EU demands more and more in exchange.

The End of the Post-Soviet Epoch

This blind alley is where what was known in Central Europe as the "transitional," or "post-Soviet" period has ended. The rhetoric, the points of reference, the objectives, incentives, and motives of the different actors on the scene became irrelevant, as of around 2004 (when ten countries from this region joined the EU). What happens next will have to involve a new paradigm in politics and government, free of the ideological baggage of the past, and oriented toward the practical solution of a whole array of acute problems, both in the world at large, and in the region.

One of the most evident symptoms of the crisis of the "post-Soviet" way of thinking, is the need for a radical change in how socio-economic results are evaluated. Olga Vlasova, in her Nov. 6, 2006 *Expert* article, headlined "Enough Lying!", described the inadequacy of traditional macroeconomic indicators: "Despite their seemingly tolerable macroeconomic performance, the East Europeans gained no real dividends from joining the EU. Poland remains, as it was before, the country with the highest unemployment and least efficient agriculture in Europe (the 16% of the Polish work force, employed in agriculture, produces 3% of the country's GDP; in France, the 3% of GDP from the agricultural sector is produced by 4% of the work force). Hungary is on the brink of bankruptcy, to avoid which the government raises taxes and cuts spending on social needs. The Hungarians are waking up to a cold reality: the country is already a member of the EU, but its standard of living remains below that of Italy, or even Spain."

Thus, the traditional summary indicators, like GDP, express almost nothing of the real state of affairs in these countries. Continuing to use them as the sole guidelines for economic and political decision-making will only widen the gap between the declared state of society and its real condition. A true assessment has to be based on structural indicators, on the overall level of development of the society's productive forces (as expressed, for example, by potential relative population density, in the science of physical economy), and other indicators of the development of material living standards and culture. Furthermore, the economy as the material basis for the existence of society has to be strictly linked with the quality of that existence; in other words, one set of indicators of social development needs to link the economy with demographics: quality of life, satisfaction with conditions of life, confidence in the future, and so forth.

The need for such changes is apparent in every area of social activity. In sum: the intellectual instrumentarium for social management, in the broadest sense, has to be adequate to the task of solving the new, actually existing problems in social development, which were absent from the political and governance concepts and models of the "post-Soviet" paradigm. This is the methodological nature of the challenge, set by the new social, economic, and political conditions in East Central Europe, and the whole world, after 2004.

Bulgaria and Romania did join the EU on Jan. 1, and other countries in the region continue to seek membership as soon as possible. These tendencies, however, are no longer the only determinants of East Central Europe's future. Coming more and more into play are acute problems of development, such as a demographic crisis, migration, unemployment, degradation of the composition of employment, and the shortage of electric power. EU membership gives the region's nations practically no advantages in addressing these problems. If they are not to abandon their identity as nations and turn into mere passive observers of the destruction of their own societies, they will have to look for a way out of the situation themselves—and some new horizons would open up for analysis and planning on the scale of the region as a whole.

It would only be possible to achieve high rates of development in East Central Europe, as a way of addressing the key problems facing the countries there, if those nations assert their identity as nations. East Central European national leaders who see themselves primarily as EU members, or candidates for membership, are incapable of conceptualizing strategic development goals and organizing the achievement of those goals, because they have abandoned the position from which they might have the overview and independent vision, which are prerequisite for shaping a real picture of how things are, and for setting real, substantial objectives. Only sovereign nations, uniting their efforts on the basis of a principle of equal sovereignty, can set strategic goals and organize their own development. Non-independent development is impossible by definition. Yet, the juridical limitations on sovereignty, imposed by European integration, do not represent an insurmountable obstacle to real sovereign action, since the latter means the ability of a country's leadership to set an overriding goal, and mobilize society to achieve it. There are many ways, under existing national and international laws, to circumvent or overcome the restrictions on cooperation among countries in East Central Europe, which follow from the different status of these various countries in their relations with the EU (ranging from full membership, such as Poland and the Czech Republic have, to being the target of economic and political sanctions, as Belarus is).

Towards a New Central Europe

In order to develop at a faster rate than other areas, the nations of East Central Europe need a common economic program that addresses key regional problems. The list of such problems should be drawn up and agreed upon in international analytical and planning groups, so that the problems be formulated with proper care, taking into account specific regional, national, and local circumstances. Nonetheless, it is already clear what some of the key ones are:

1. Demographics: achieving population growth throughout East Central Europe, raising life expectancy, reducing infant mortality, and so forth.

2. Migration: stemming the outflow of the labor force from East Central European countries.

3. Labor: qualitative and quantitative changes in the structure of employment in the nations of East Central Europe, through the absolute and, and also the relative, increase in the number of skilled jobs.

4. Energy: saturation of the region with generating capacity, creating a surplus of cheap electric power, as the basis for the intensive development of industry and agriculture.

5. Social and cultural: preservation and authentic development of all the peoples of the region, as the basis for preventing inter-ethnic strife (above all, through developing and implementing unique educational approaches).

6, Political and juridical: formation of institutions and practices that provide real sovereignty for the states of East Central Europe, so each nation may be an independent political agent, regardless of membership in international organizations.

7. Ecological, and other problems.

To solve these problems will take a profound type of interaction among the countries of the region and the formation of the basis of a Central European identity, to which Brussels has been an impediment since the beginning of the 1990s. Such an identity, centered on the ideas of rapid development and a decent life for every person, would represent a healthy alternative to the identity of the region as merely "anti-Russian," promoted out of the U.S.A. in the recent period.

The development of programs and projects for solving the region's key problems, listed above, requires the creation of an international network of interdisciplinary analysis and planning groups—call it the New Central Europe network—and very serious work on the content of a New Central Europe integration project. This project cannot be reduced to a recreation of the production and technical ties of the Comecon period, since most of the countries of the region have managed to destroy, in whole or in part, not only the key plants, but the entire material culture of that industrial system. Therefore, the creation of the New Central Europe can be based only on the principle of co-development: the creation of new areas of activity, with attention to the immediate, long-term, and historical requirements and interests of the countries of the region. It is obvious that such a project should include the formation of unified regional transportation infrastructure, the concentrated development of nuclear power, the development of ecologically clean manufacturing (waste reprocessing, scrubbing technologies, etc.), as well as other sectors. In addition, it is clear that the New Central Europe will be oriented to productive cooperation with the leading political powers in the region, such as Germany, Russia, and Turkey, but cooperation will not be limited to them.

Thus, the New Central Europe project can open the pathway to solving a whole array of regional problems (EU-Turkey, EU-Russia, the Balkans), as well as world problems. The concatenation of Western Europe-East Central Europe-Russia-EurAsEc-Shanghai Cooperation Organization defines the space, in which the foundations of a new, just world order should be laid during the next five to ten years, in order to provide all or most of the nations of the world the opportunity to develop. Otherwise, the remains of the old order will be destroyed, leaving behind only the preconditions for a plunge of the whole world into the chaos of a New Dark Age.

Implementation of the New Central Europe project can be a first step on the road to a just world order, based on the principle of development.

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