

# East European Economies Post-Helsinki

von László Csaba, Budapest

Nearly a quarter of a century ago the Library of Congress of the United States of America published a volume under this title. This has been one of the most influential among the „green elephant“ series, highlighting the economic weaknesses of the countries of the Soviet Bloc, just shortly after the western community subscribed formally to the Russian conquest of the central and eastern part of the old continent by the Helsinki Accords of 1975. This volume contained, *inter alia*, the insightful analysis of Michael Keren on the decay of the GDR economy, one of the very early accounts by an external observer. Similarly, Zbigniew Fallenbuchl, analysing the hit of the 1970s, the Polish growth miracle, highlighted the unsustainable features of this development and forecasted the crisis – which indeed materialised in 1980.

Now Helsinki is a code name again: a catchword for the new policies of the European Union towards eastward enlargement. Reacting to the Kosovo crisis on the one hand, and to the visible progress achieved by the Central European reform states in transforming their economies and solidifying their democratic structures on the other, the Helsinki Council of December, 1999 adopted a new enlargement strategy.

What are the major components of the new strategy? First and foremost, following the deliberations of the Cologne Council of June, 1999 enlargement is put in a wider perspective of *Ostpolitik*. The latter focuses on the crisis-ridden areas of the former Soviet Union, primarily Russia, the war-torn and still unsettled Balkan peninsula, and on stabilising Turkey as the forward bastion of the western alliance in a most unstable Middle East and Transcaucasus.

This geopolitical reorientation has transformed into a widening of the scope of the candidate countries for EU-accession. Aside from the first round of six applicants, having entered into concrete preparatory talks on the modalities of taking over the *acquis*, seven more countries were invited: Latvia, Lithuania, Bulgaria, Romania, Turkey, Malta and Slovakia. The comparative country opinions of

the Commission, published in October 1999, have made major progress both in terms of political criteria and in terms of systematic transformation in the second round of countries.

The Commission, however, also highlighted the ongoing importance of not softening up the Copenhagen accession criteria. Members of the Commission, as well as the wordings of the document underscore the often limited progress made even by first-round countries in such areas as administrative reform, enforcement of formally already adopted EU legislation, financial sector reform, environmental legislation and even in terms of macro-economic stability.

This critical note implies therefore a double strategy. On the more general, political level, the EU has opened the door to several countries, offering them a long term perspective that may motivate local leaderships to commit themselves more seriously to necessary, though mostly unpopular and costly, reform projects than they would probably do without such a perspective out of their own deliberation. On the other hand, there is an openly declared intention to exert pressure on countries not to relax reform endeavours. In this context, the criticism of the slowdown in the reform process of the Czech Republic and Slovenia, or the critical evaluation of the miniscule progress made by Poland in implementing already formally adopted legislation in many areas, including the environment, deserve mentioning.

The Helsinki Council, having approved the Commission evaluation, has not given a mandate to the Commission to start immediate and unconditional accession negotiations with any candidate country. On the contrary, Turkey has only been elevated to a status where preparatory talks can be launched. Despite the democratic changes in Croatia, that country has still to normalize its relations to the EU, revitalize the co-operation agreement of 1993 and apply for membership. As it seems today, the former Yugoslav Republic of Macedonia is the only post-

Yugoslav country – except for Slovenia, already figuring in the first round – that may sign a Europe Agreement with the EU in the foreseeable near future, as the Commission received no mandate to enter into talks with anybody over and above the 13 candidates already on the list. It is worth noting, that accession negotiations are a comprehensive process. Following the EU-invitation (which has taken place in 1997 for the first round countries of Poland, Estonia, Hungary, Slovenia, the Czech Republic and Cyprus) four stages are likely to follow. First the Commission sends a questionnaire checking the progress made by individual applicants in the implementation of their respective national programmes for adopting the *acquis*. Such programmes are often non-existent: for one, Malta has been called upon by the Commission to elaborate such a programme in spring 1999. The point in this programme is that the speed, scope and other modalities of taking over EU legislation are not domestic matters any longer. It is not up to the wishes of the respective governments to be content, or not, but the EU has to be convinced as well. The questionnaire is a checklist, based on the White Book of 1995, to survey progress in concrete areas.

This step is followed by the so-called *acquis* screening phase, when yet another checking of practical progress is made. Having concluded that phase, the stage of chief negotiators' talk follows. In this phase the EU and the applicant country progress one by one in the 31 main chapters of the *acquis*, from small business promotion to ways of applying the Schengen Accords, when action programmes, transitory periods and schedules are jointly elaborated.

Following this stage the „accession bargain“ becomes proper, when the exact terms and timing of the applicant's joining the single market and the entire EU framework is put in a contractual form. Finally, the deal has to be approved by a series of democratic procedures. On the EU side not only the EU Council, i.e. the executive branch of power (representing the 15 member-states) need to be in agreement. Each of the national parliaments of incumbent states has to be convinced, i.e. adopted by majority vote. These procedures take normally about two years. In many of the applicant countries, for instance in Hungary a referendum has to be held, before the accession treaty can be ratified by parliament.

This sketchy summary of the sequence of steps leading to actual membership already cautions against such overoptimistic tones, as that of the new Croatian president Mesic, expecting his country to be an EU member by 2005 (as reported in: *Financial Times*, 21. Feb. 2000). There is no way any country could skip any of the above listed stages. Moreover, even for frontrunner countries, like Hungary, the substantive phase of negotiation has yet to begin; several chapters in the phase of chief negotiators' talks are still far from being concluded. For instance, due to the Austrian position, neither on energy, nor on

environment and labour issues could Hungary find a conclusive solution in the last pre-negotiation phase as yet.

To make things worse: the EU didn't manage to master its homework during the first intergovernmental conference (IGC) of Turin (1995–97), while aiming at improving intra-EU decisionmaking structures. In Helsinki the Council called upon a new IGC, started in mid-February, to settle „the leftover from Amsterdam“, i.e. the extension of majority voting, streamlining the Commission, and allotting new weights to votes in the Council.

These seemingly simple and minor issues are, however, unlikely to be settled, given the 14 EU-members' suspension of formal bilateral relations with the new right-wing government in Vienna. This step is likely to have at least two ramifications:

a) the Austrian position is likely to become even more rigid on traditionally sensitive issues like labour market, energy and environment, thus the phase of chief negotiators' talks can not be concluded, due to a lack of unified EU position;

b) Austria is unlikely to support any extension of a majority voting in an atmosphere of mutual animosity and marginalisation, since small countries are likely to lose out on internal reforms anyway. The Britains but also Scandinavians are traditionally much less convinced of the uses of the federalist plans than the German, Dutch or French specialists. The footdragging on internal reforms may act as an additional delaying factor to actual enlargement.

In theory, the latter could proceed in two basic ways. Either the EU adopts the traditional step-by-step approach. Then solution of internal problems can fully be separated from taking on one or two new members on board. This is the position advocated most forcefully by the Czech. Alternatively, the EU may want first an algorithm by which enlargement to 25 or 30 new members can be mastered. This is the view adopted by the Three Wise Men, the Commission and the Italian President (in: *Frankfurter Allgemeine Zeitung*, 8. Feb. 2000).

Should the latter view prevail, it is unlikely that the IGC can be ready by the original deadline of December 2000. Furthermore, any amendment of the EU Treaty requires referenda in a number of member-states, e.g. in Denmark. Should a more ambitious agenda of the IGC emerge, like the adoption of the European Human Rights Charter and many others, the process is likely to become even more protracted. Ratification of the new EU Treaty is then likely to precede any accession, the latter thus further delayed.

Mentioned should be the fact that adoption of the financial guidelines for the period of 2000–2006 (in Berlin in March 1999) has taken place under the assumption of an enlargement with a maximum of six candidates. By the same token, financing the needs of preaccession by the new invitees, primarily of Turkey, has not been secured. Nor is the coverage of the Kosovo involvement of the

EU financially secured. Political initiatives to solve this problem at the cost of the farming budget has already produced outcries. The European Security and Defense Initiative, formalised in Helsinki, also does not seem to have any coverage in the common financing guidelines, whereas the ongoing decline in defense budgets of West European countries is a point of constant criticism by the Americans.

To cut a long story short, the message of Helsinki is ambiguous at best. On the one hand the door has been opened wide, in front of a large number of diverse countries. On the other hand, financing of neither large-scale enlargement nor of ambitious other projects has been secured. The reform of internal EU institutions and procedures has become even more controversial and may become hostage to the change of government in Austria. Thus the likelihood of foot-dragging in phases when the EU examines only the performance of the applicants, but is not all involved in any kind of give-and-take deal, has been considerably increased. The horizon thus indeed has become wider, but the stars on the horizon are even harder to attain, even for the best astronauts and spaceships.

This underscores the importance of a fundamental insight: the major need of self-initiative to be undertaken by the candidates. Both in terms of finances and of the radicality of institutional change, progress should not be made conditional upon receiving or not receiving EU funds and transfers and technical assistance. The former, rather than EU involvement, has been shaping the countries performances in the past decade, and it is likely to remain so in the coming years as well. Competitiveness is a value on its own right, and thus should be taken seriously.

*László Csaba is senior economist at Kopint-Datorg Economic Research, professor of economics at the Budapest University of Economics and Universitas Debrecen and President of the European Association for Comparative Economic Studies. He is a member of the Task Force on European Integration at the Prime Minister's Office in Hungary.*