

THE COMMUNITY AND ITS EASTERN NEIGHBOURS





Eureka Slide

European tradition in Cracow: the market square with the old drapers' hall.

The peaceful revolution that has swept Eastern Europe is probably the most significant event in global terms of the past 45 years. It represents a challenge and an opportunity to which the EC has given an immediate response.

The Community and its Member States, thanks to shared traditions and culture, are uniquely placed to help their Eastern neighbours on the way back to democracy. The EC also serves as a model for bringing market-driven economic policies to the Eastern part of the continent.

The first effects of the revolution have already been felt. Germany has been united. A new set of relationships is being created between the EC and each of its neighbours in Central and Eastern Europe. The Community has been at the centre of combined Western efforts to support the economic liberalization process in Eastern Europe.

These developments are only a beginning. The time when Europe was divided into three distinct regions — the Community, EFTA and Comecon — is now changing. The map is being redrawn with the Community firmly at the heart of the new Europe. This Europe is set to emerge as a new force in the balance of world power.

A COMMON HERITAGE

The emerging democracies in the East are part of the new Europe just as they were part of mainstream Europe until their former communist rulers shut them off from their Western neighbours at the end of World War Two. Traditional contacts were lost, turning Eastern Europe into unknown territory for two generations of EC citizens. Until then, culture and commerce intermingled freely. East Europeans

have played their part in the great cultural, scientific, political and economic movements that have shaped the history of Europe.

Under communism, the desire of the peoples of Eastern Europe to return to fundamental principles of freedom and democracy was always present, rising irrepressibly to the surface at regular intervals. It began with the East Berlin uprising in 1953, followed by dramatic (and often violent) events in Poland, Hungary and Czechoslovakia over the following 30 years and culminating in the almost bloodless revolutions in one East European country after another in 1989.

THE EC AS ROLE MODEL

Immediately after its victory at the polls in April 1990, Hungary's Democratic Forum, which headed the winning coalition, said membership of the European Community was the new government's foreign policy priority. Leaders of other Central and East European countries have made similar statements.



Jean Guynou

European architecture in Budapest: the Parliament buildings beside the Danube.

BASIC INDICATORS FOR EASTERN EUROPEAN COUNTRIES

Indicators	Soviet Union	Bulgaria	Czechoslovakia	Hungary	Poland	Romania	OECD
Population (million, 1988)	286.4	9.0	15.6	10.6	38.0	23.0	824.8
GDP (billion USD, 1988)	1 590.0	50.7	118.6	68.8	207.2	94.7	12 073.0
GDP per capita (USD)	5 552.0	5 633.0	7 603.0	6 491.0	5 453.0	4 117.0	14 637.0
Annual growth of GDP (%) 1981-85	1.7	0.8	1.2	0.7	0.6	-0.1	2.5
1986-88	2.3	1.9	1.5	1.5	1.0	0.1	3.5
Living standards (1987):							
Cars per 1 000 inhabitants	50.0	127.0	182.0	153.0	74.0	11.0	385.0
Telephones per 1 000 inhabitants	124.0	248.0	246.0	152.0	122.0	111.0	542.0
Share of workforce in agriculture (%)	21.7	19.5	12.1	18.4	28.2	28.5	8.0
Gross domestic investment/GDP (%)	33.2	32.7	24.7	28.5	36.5	37.1	20.6
Share of private enterprise in GDP (%)	2.5	8.9	3.1	14.6	14.7	2.5	70-80
Exports of goods as % of GDP (1988)	6.8	23.0	19.7	14.7	6.4	11.2	14.4
Exports of manufactured goods as share of exports to non-socialist countries	63.0	59.3	72.4	79.6	63.4	50.6	81.8

Source: OECD.

PRACTICAL AID AND SUPPORT

The Community has already begun implementing policies to give short-term and medium-term support to the reform process in Eastern Europe and the Soviet Union. It has taken immediate action to grant these countries better access to its market, to provide financial aid, to offer technical assistance and training, to facilitate foreign investment and to help clean up the environment. In some instances (Poland, the Soviet Union, Bulgaria and Romania), it has sent emergency food and medical supplies.

Although the Community recently concluded new trade and cooperation agreements with Poland, Hungary, Czechoslovakia, Bulgaria, Romania and the Soviet Union, these are limited in their scope. Hence the decision to negotiate far-reaching European agreements.

These agreements, on which negotiations have already begun, are to consist of four essential elements:

- (i) free trade with the Community;
- (ii) industrial, technical and scientific cooperation;
- (iii) a long-term programme of financial support;
- (iv) a mechanism for political dialogue.

These agreements would constitute an end in themselves. They are not conceived as a transitional phase on the road to EC membership. But they do not exclude the possibility of an associated country subsequently applying to join the Community.

The EC is a magnet for East European reformers. It is the model to which they aspire in terms of democratic freedom and higher living standards.

The Community is aware of these legitimate aspirations and concerns of its Eastern neighbours. But early membership of the EC will not be possible for a number of reasons, both political and economic.

For one thing, the countries of Eastern Europe need to consolidate their commitment to pluralist democracy and to a market-driven economic system. In strictly technical terms, the economies of the countries of Central and Eastern Europe are in no condition to withstand the shock of free market competition.

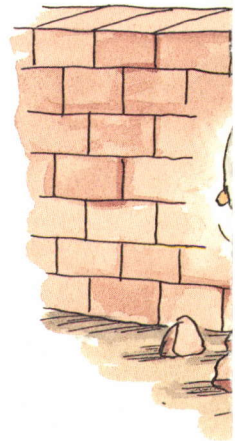
UNKNOWN NEIGHBOURS

Despite geographic proximity, the Community's Eastern neighbours were relatively unknown before the revolutions of 1989.

Their rigid communist political structures and uniformly lower living standards did little to stimulate Western interest. Their lack of hard currency made them poor markets for EC exports, while their own shoddy goods — with the limited exception of bottom-of-the-range cars like Skodas, Wartburgs, Polski Fiats and Ladas — made little inroads on Community markets.

But closer examination shows that far from being two-dimensional copies of each other, individual countries can be markedly different. These differences will affect their capacity to integrate more or less rapidly into the international market economy system.

Poland was the first of the Central and Eastern European countries to embark on its 1989 revolution. The events of



European habits in Sofia: crowds demonstrate for more freedom.



F. Zecchin, Magnum

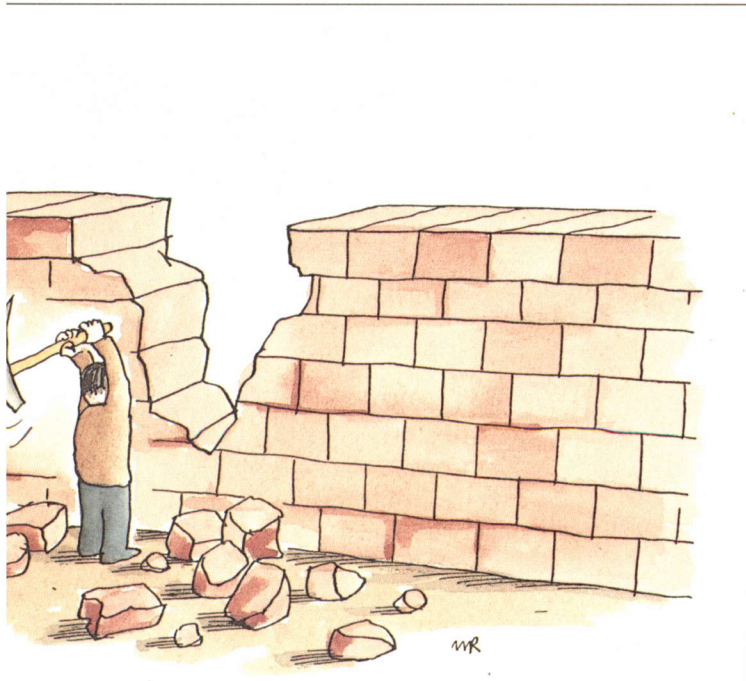
1989 were the follow-on to the concessions won by the Solidarity trade union in 1980 but abruptly suspended by the imposition of martial law. The communist government's manifest incapacity to cope with the

economic and social situation led it to turn to Solidarity in late 1988 to help solve the crisis. In April 1989 agreement was reached to legalize Solidarity again and to hold multi-party elections. The Solidarity leader, Lech Walesa, was elected President of the Republic in December 1990.

Poland has introduced the most radical economic reform programme to date. In the short term, this has caused living standards to fall and unemployment to rise. But since the programme's introduction, food supplies have improved, the external account is in surplus and inflation has fallen significantly.

Hungary has been the most persistent economic reformer of Eastern Europe. The communist government which took over after the brutal suppression of the 1956 uprising made a conscious choice to give priority to improving living standards.

The first effort to open its economy dates from 1968. But this and subsequent efforts were frustrated partly because reform measures were inadequate and partly because of external payments constraints. Hungary has the highest per capita level of foreign debt in Eastern Europe at USD 1 900 for every man, woman and child.



Mario Ramos

Thanks to the earlier liberalization attempts, the post-1989 economic reform process has been less turbulent in Hungary than elsewhere in Eastern Europe. Some significant foreign investment has occurred and privatization of the economy is under way. Budapest has a fledgling stock exchange.

Multi-party elections took place in spring 1990, returning to power a coalition government headed by Democratic Forum, a centre-right party.

Czechoslovakia is industrially the most advanced of the Community's Eastern neighbours. It is also the one which had — in pre-communist days — the strongest democratic tradition. In the 1930s, the standard of living of its citizens was on a par with that of Switzerland.

After the communists handed over power in June 1990, Vaclav Havel, the most prominent figure in the Civic Forum movement and a member of the Charter 77 dissident group, was elected President.

Because of the relatively harmonious way it has carried through democratic reform and because of its industrial traditions, Czechoslovakia is considered one of the countries of Central and Eastern Europe which is best placed to make the leap to a market economy.

Bulgaria is one of the East European countries whose economy was most closely integrated with the Soviet Union and its former Comecon partners. It will therefore need to undertake major efforts to reorient its economy towards free market forces. The reform process is likely to be slower in Bulgaria than in Poland, Hungary and Czechoslovakia.

This could lead to a gap widening in the pace of its integration into the free-market European economy and that of the others. Bulgaria will need actively to woo Western aid and investment. Otherwise Western partners will concentrate their efforts on fast-track candidates.

Events in **Romania** have confirmed predictions that it will be the country of Central and Eastern Europe to experience most difficulty in restoring democratic traditions and political and economic stability. No other country of the region experienced the degree of totalitarianism imposed by the Ceausescu regime.

The rebuilding of political and economic structures will take time and could lead to considerable instability. Because of the totalitarian past, few individuals have the legitimacy or

EFFICIENT HELP FAVOURED

A vast majority of Community citizens favour efficient help and a close cooperation with the countries of Eastern and Central Europe. This is one of the conclusions of a recent opinion poll throughout the Community (Eurobarometer No 33, autumn 1990). The replies to five questions, showing those in favour and those against in percentages, were as follows:

	for (%)	against
Speed up EC integration	72	13
Increase EC budget	63	22
Benefit from EC programmes	69	15
Association & cooperation with EC	64	16
East-membership of EC	66	15

credibility to lead the country forward. The one bright spot is the country's negligible foreign debt. It could therefore have early access to multilateral or bilateral credits to support a reform programme. But the country is short of trained people with the necessary skills to put such a programme in place.

Yugoslavia has traditionally enjoyed privileged relations with the EC among the communist States of Europe. This was largely because of its refusal to join the Soviet economic or military sphere of influence but also because its particular brand of economic self-management was seen at one stage as a potential 'third way' between rigidly-planned communism and the market

economy. Relations go back to 1970 when a first trade agreement was signed.

The Yugoslav system proved just as incapable of bringing well-being to its citizens as centrally-planned communism. In 1989, inflation exceeded 1 000%. An economic reform programme, including the pegging of the dinar to the Deutschmark, was introduced in 1990.

The Community is keen to continue its assistance to Yugoslavia. However, outside help for the Yugoslav political and economic reform process from the EC or anywhere else is handicapped by the internal conflict between the country's six constituent republics.

Albania remained unbowed in the face of the wind of change sweeping Eastern Europe until late 1990. Then it too started a timid reform process. In December 1990, the Albanian Workers' (Communist) Party authorized the creation of other political parties. At the same time, the government took steps to end its international political and economic isolation. It applied for membership of the Conference on Security and Cooperation in Europe (CSCE) and made informal contacts with the Community and other Western governments.

The Soviet Union: As a superpower, albeit a diminished one, the Soviet Union's relations with the Community are developing differently from those of other East European countries. Present economic relations are based on a trade and economic cooperation agreement which came into force in April 1990. This provides for each side to grant the other most-favoured

nation (MFN) status for its exports. In addition, the Community is committed to removing quota restrictions on its imports from the Soviet Union by 1995. The agreement also creates a framework for EC-Soviet economic cooperation in a wide range of areas.

The Rome meeting of the European Council in December 1990 decided, in view of the Soviet Union's economic crisis and supply difficulties, to grant humanitarian assistance, mainly in the form of food aid, credits for the purchase of food, and technical assistance in the fields of management training, financial services, energy, transport and foodstuffs distribution. It also decided on the negotiation of a new and even broader EC-Soviet agreement, including a political dialogue and cultural cooperation.

Unfortunately, following the violence by Soviet armed forces in the Baltic States in January 1991, the Commission had to decide to postpone the EC-Soviet Joint Committee due to be held in that month, and the implementation of the European Council's decisions has been put in doubt. Preparations for the delivery of food aid are going ahead, but other forms of assistance are considerably delayed.



European honour for Hungary's former Foreign Minister, Dr Gyula Horn: Aachen's Charlemagne Prize (1990).



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