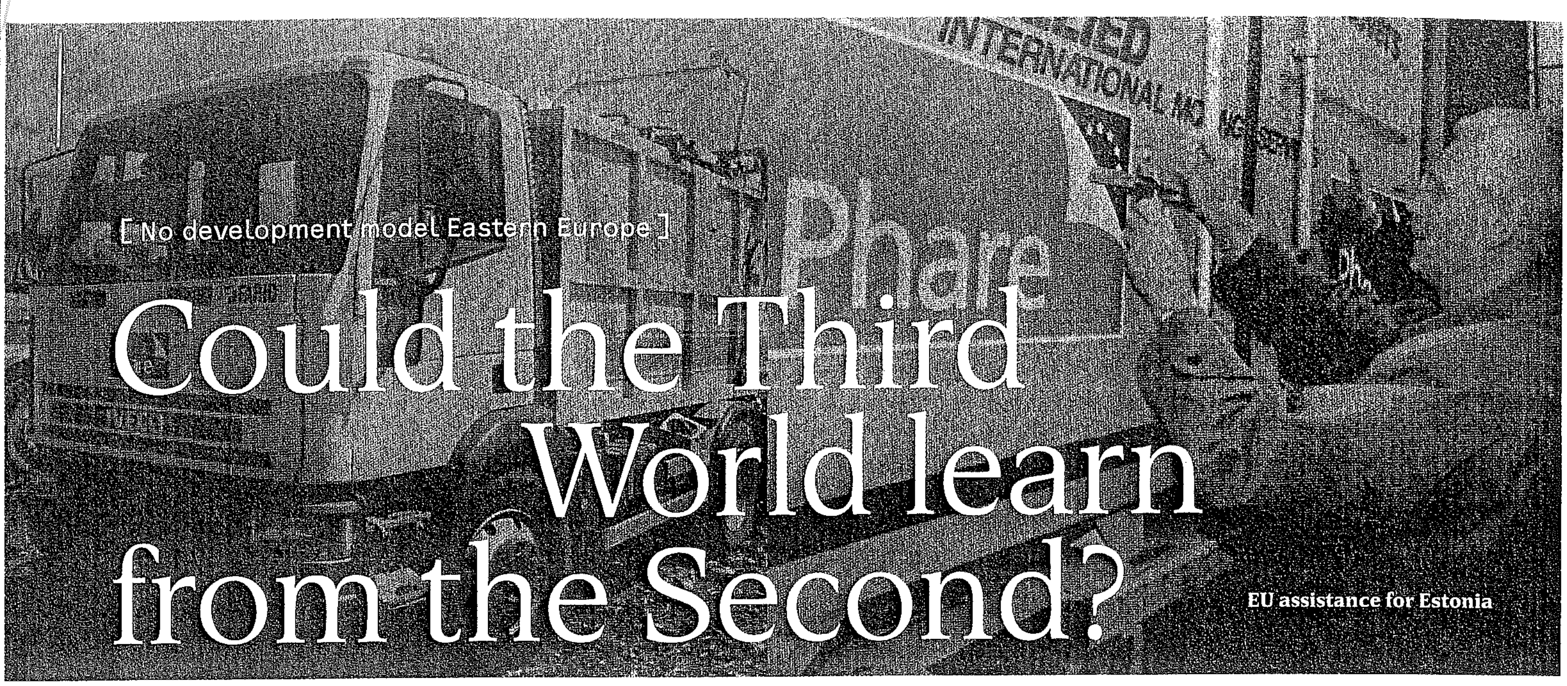
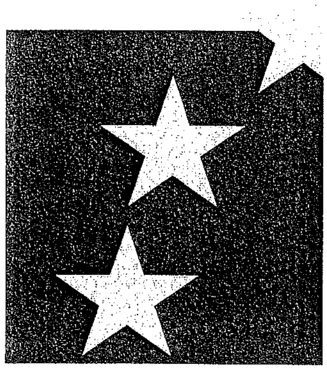
[No development model Eastern Europe]

Could the Third World learn from the Second?



EU assistance for Estonia

[By Michael Dauderstädt] After 1989, political interest in development policy as a policy towards the South declined. One reason for this was the new challenge of transforming the post-communist countries of Eastern Europe – a task which consumed a great deal of money. Even so, the results on the whole are not very satisfactory. They produced no models that might be applied to transition countries of the South.



When the European Union signs the treaty of accession with eight post-communist Central and Eastern European countries in April 2003 in Athens, it will – subject to ratification and endorsement by referendum in most of the aspirant countries – mark the end of a remarkable chapter of development, a chapter which opened with the collapse of the communist regimes and the end of the "Second World" in 1989. At that time, many saw a risk of social and ethnic conflicts and ecological disasters which, through instability, migration and environmental damage, could present a threat even to the security of Western Europe and the "First World" as a whole. They asked for fast and decisive help from the West for the transition countries.

Transition an unprecedented new challenge

The dramatic events surrounding the change of system, the proximity of the crisis region, Central Europe's significance for foreign and security policy – all these factors, at a time when no one could predict the outcome of developments in and around the Soviet Union, combined to produce a readiness to help which had not been shown to Third World countries except in rare instances and major geopolitical conflicts (e.g. Israel, Egypt, Nicaragua). That readiness to help, however, was seldom combined with innovative approaches to the organisation of assistance. The donors were caught off-guard by the collapse of the communist planned economies and had little in the way of experience or concepts for transforming them into market economies. For the promotion of democracy, however, there were comparatively successful models (e.g. in Southern Europe).

The transformation of Eastern Central Europe's planned economies was an unprecedented new challenge indeed. Many of the classic problems of poor countries (seemingly) did not apply: the population was well educated, well nourished and enjoyed good health care; the high savings ratios in the Socialist world meant there was no shortage of capital; the proportion of employment and output generated by industry was too high rather than too low; the state and its administrative and monitoring capacities tended to be too strong rather than too weak. But there were a number of special problems: productivity was low because invested capital and raw materials were misallocated and wasted and the working population was de-motivated ("You pretend to pay us, we pretend to work"); there was no trade or finance sector and no market economy with its legal, political and societal infrastructure, in short: no services sector; foreign trade was relatively weak and not geared to competitive markets.

New challenge, old tools: These new challenges were addressed by the West with tools and concepts that were old or at best re-labelled for Central and Eastern Europe.

In 1990, for example, a new regional bank was created – the European Bank for Reconstruction and Development (EBRD) – which differed from its parent, the World Bank, and regional sisters in Asia, Africa and America only in that it was primarily designed to help the private sector. The World Bank and IMF additionally offered their loans and the 'Washington Consensus'. The bilateral donors stuck to their regional and sectoral priorities, above all the promotion of their own exports and investments. One major exception was the generous debt relief granted to Poland in 1989/90, which lightened the country's burdens by about 10 billion euros (equal to around 15% of Poland's GNP at the time). Otherwise, the commonest assistance by far took the form of loans, which ultimately make debt burdens worse.[1] The principal implementing institutions were the familiar ones used for channelling public development cooperation.

GDP growth rates of the EU, Ireland and selected transition economies (in %)

Year	EU-15	Ireland	Poland	Hungary	Czech Republic	Estonia
1990	3.0	7.6	-11.6	-3.5	-0.4	-8.1
1991	1.7	1.9	-7.0	-11.9	-14.2	-11.0
1992	1.2	3.3	2.6	-3.1	-6.4	-14.2
1993	-0.4	2.7	3.8	-0.6	-0.9	-8.5
1994	2.8	5.8	5.2	2.9	2.2	-2.0
1995	2.4	10.0	7.0	1.5	5.9	4.6
1996	1.6	7.8	6.0	1.3	4.8	4.0
1997	2.5	10.8	6.8	4.6	-1.0	10.4
1998	2.9	8.6	4.8	4.9	-2.2	5.0
1999	2.6	10.8	4.1	4.2	-0.8	-0.7
2000	3.4	11.5	4.0	5.2	3.1	6.9
2001	1.7	6.8	2.0	4.5	3.5	4.5

Source: Eurostat, EBRD "Transition Reports" 1996 and 2001

The European Union was one of the most important donors

The European Union was one of the most important donors in Central and Eastern Europe. Its operations got straight underway in 1989 with the PHARE programme for Poland and Hungary – a programme from which the other transition states outside the Community of Independent States (CIS) also profited before long. Following a patent analysis of the underlying problems, the programme was limited in the first few years to the provision of grants for consultancy services but not for capital investment. The use of that money for costly consulting fees – the value of which was questioned – soon drew criticism (Vaclav Klaus, the then finance Minister and later prime Minister of the Czech Republic, famously spoke of "soft advice for hard currency").

Change through association: The larger – and in the long term more important – framework for relations between the EU and the transition countries of Eastern Central Europe was formed by the Association Agreements with which the EU replaced the trade and cooperation agreements that had been concluded in the last phase of détente (perestroika) from 1985-1989. The policy of association was not a product of strategic forward planning but of pragmatic, often chaotic 'muddling through'. In the early 1990s, the EU actually had other worries (competition with the United States and Japan, the still uncertain success of the Single Market, the new monetary union project in the wake of German reunification, the enlargement by EFTA) and had no desire to expand eastwards. Bowing to pressure from the European public and the Central and Eastern European partners, the EU decided to resort to association, which had not been much of a success as a tool of development and Mediterranean policy. Despite decades of association, neither the ACP states nor the southern Mediterranean states showed any sign of making special progress in terms of development. Normal associate membership encompassed a free trade zone (from which the EU excluded sensitive sectors such as agriculture), financial assistance and a political dialogue. But the Eastern Central European partners managed to get the EU to agree to build the prospect of accession into the preamble ('Europe Agreement'). At the Essen summit, the EU then decided to grant a right of accession to all associated countries (subject to the fulfilment of the appropriate conditions).

As a result Central and Eastern Europe received a lot of loans, which increased its debts and financed Western exports. Yet the primary cause of the region's economic crisis was not lack of capital; it was unproductive use of what was actually a large pot of domestic savings. On the economic policy front, the 'Washington Consensus' dominated the scene, preaching macroeconomic stabilisation, market liberalisation and privatisation without giving thought to the social foundations that were required. There was only one small, low-profile segment of the cooperation system in which efforts directly targeted socio-political change, and that was the segment mainly addressed by the German political foundations and similar organisations (National Endowment for Democracy, political foundations of other European countries). They tried to create a civil society basis for the new capitalism by, among other things, promoting modern, democratic trade unions.

Copenhagen criteria: transfer of institutions

The most effective leverage by far, however, developed from the European Union's enlargement policy and pre-accession strategy for applicant countries. The prospect of EU membership proved a powerful tool for getting aspirant states to fulfil the 'Copenhagen Criteria', which listed everything the West wanted built into the transformation process: democracy, rule of law, human and minority rights, market economy, competitiveness, incorporation of the community acquis (adoption of all Community legislation) and compatibility of integration targets. Fulfilling those criteria meant institutionalising democracy and market economy. But that required standards which even some existing member states failed (and did not need) to meet. Yet the EU insisted, demanding annual progress reports, screening, detailed accounts of the adoption of the EU acquis in the annual accession negotiations, in 31 chapters covering everything from the environment to competition.[2]

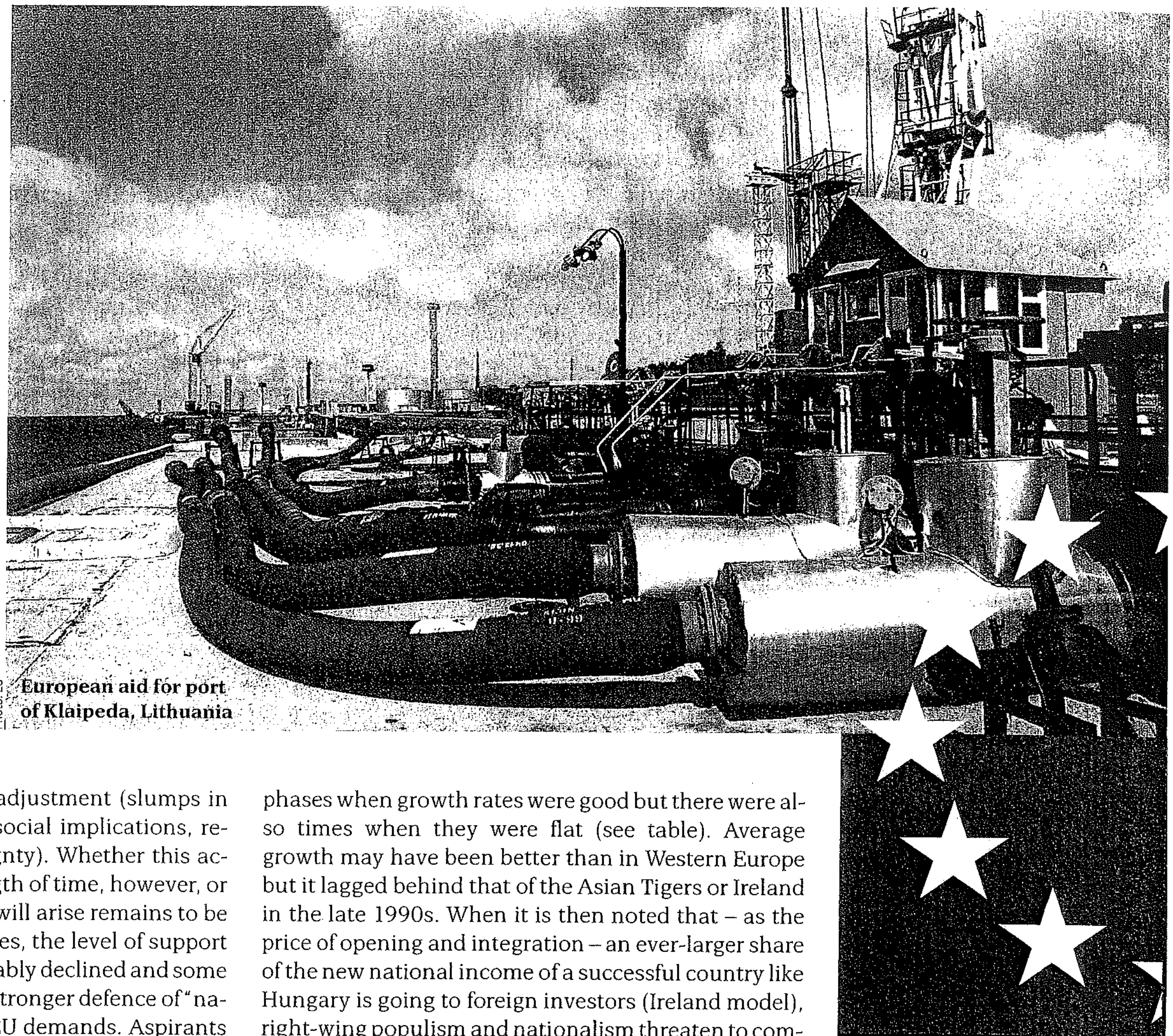


Photo: EU

European aid for port of Klaipeda, Lithuania

This cooperation model worked tolerably well where partner elites had the same objectives as the West and, in their understandable desire for democracy, market economy and integration in the West, were prepared to sacrifice other interests and accept the high social cost of adjustment (slumps in economic output with severe social implications, renunciation of political sovereignty). Whether this acquiescence will last for any length of time, however, or whether a stronger opposition will arise remains to be seen. Even in applicant countries, the level of support for EU membership has appreciably declined and some political forces are calling for a stronger defence of "national" interests in the face of EU demands. Aspirants were late in getting round to seriously evaluating the costs and benefits of EU membership. It is quite plausible to argue that EU membership is not an optimum environment or even a guarantee of catching-up development. The fate of several states and regions within the EU attests clearly to that (Greece, southern Italy, eastern Germany). Successful developing countries, e.g. in the Far East and South East Asia, based their strategies on undervalued currencies, protected export promotion and controlled capital markets – all of which are tools denied to EU members. And for anyone who accepts the 'Washington Consensus' as a philosophy for development, it must seem positively hostile to development when the EU compels a radical convert to the market economy like Estonia to reintroduce duties and agricultural subsidies.

Disappointing pre-accession phase

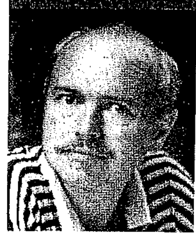
The results of thirteen years of transformation and integration can only be described as mixed. Unemployment, poverty and inequality of income have increased. Some countries in 2000 failed even to match the level of incomes they noted in 1990. There were phases when growth rates were good but there were also times when they were flat (see table). Average growth may have been better than in Western Europe but it lagged behind that of the Asian Tigers or Ireland in the late 1990s. When it is then noted that – as the price of opening and integration – an ever-larger share of the new national income of a successful country like Hungary is going to foreign investors (Ireland model), right-wing populism and nationalism threaten to combine with economic disappointment.

Finally, it should be noted that cause and effect are hard to separate in the case of EU accession and (relatively) successful development. It may be that an applicant country's success is not due to speedy preparations for joining but that its application for membership is accepted because it is relatively successful. In other transition countries (e.g. in former Yugoslavia), an early prospect of EU membership might have been helpful for overcoming conflict and obstacles to reform. In the course of transformation, the post-communist region as a whole has essentially undergone a process of "self-peripheralisation"[3] – a process which puts the most successful applicant countries in the position of forming the semi-periphery of Europe, that might be still-enviable in global terms.

1 Michael Dauderstädt: A Comparison of the Assistance Strategies of Western Donors, in: Transformation. Leipziger Beiträge zu Wirtschaft und Gesellschaft No.3, Dezember 1996

2 Barbara Lippert (Hg.): Osterweiterung der Europäischen Union – Die doppelte Reifeprüfung (Eastern enlargement of the European Union – The double test of maturity), Bonn 2000

3 Katharina Müller: Transformation als Peripherisierung (Transformation as peripheralisation), in: Berliner Debatte Initial 13 (2002) 3, S.17-26



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