

**EUROPEAN COMMUNITY'S APPROACH TO THE POLITICAL
CHANGE AND ECONOMIC RESTRUCTURING IN POLAND,
HUNGARY AND CZECHOSLOVAKIA**

**Dissertation submitted to the Jawaharlal Nehru University
in partial fulfilment of the requirements
for the award of the Degree of
MASTER OF PHILOSOPHY**

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.1992**



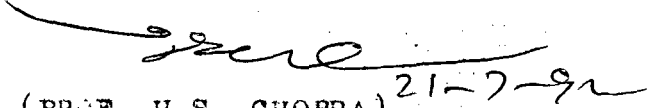
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C E R T I F I C A T E

This is to certify that the Dissertation
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CHANGE AND ECONOMIC RESTRUCTURING IN POLAND, HUNGARY
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We recommend that this Dissertation may be placed
before the examiners for evaluation.


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Dedicated To
Amma and Achan

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P R E F A C E

The most spectacular turn of events that has been witnessed, since the end of the last decade, was the dramatic systemic transformation in the USSR and Central-Eastern Europe pulling down the shackles of dogmatic totalitarianism, and moving towards democratic pluralism. The initiative taken by Gorbachev to reform Soviet economy and his 'New Thinking' acted as a catalyst for the process of change in Central-Eastern Europe. There was a tremendous feeling of relief all over Eastern Europe on their newly-acquired political status and the hope of attaining economic development comparable to that of their neighbours in Western Europe. The newly elected popular governments in Poland, Hungary and Czechoslovakia declared their intention of shifting quickly from their moribund statism to free market economy. But once the euphoria was over, the aftermath of the events proved that the road from 'Marx to the market' is fraught with more hurdles than one had thought about.

Of all the struggling economies of Eastern Europe, the former East Germany seemed to have better luck in the sense that its economy became a part of the thriving West German economy. Even with all its advantages, its transition to capitalism is proving to be mind-boggling. Output has slumped and unemployment has been rising, giving rise to large scale social unrest in the eastern part of Germany. In Poland, Hungary and Czechoslovakia - the most eager countries to

initiate reforms - the transition is proving to be much more difficult than it was expected. After more than fortyfive years of central planning Western advisers counselled privatization and freeing of prices, and the East European countries were quick to comply, thereby abandoning the most visible sign of communist central planning. Private enterprise was desirable but there could be no instant systemic change. East Europeans also did not want to follow a 'middle way' between communism and capitalism. They set about transforming the economies into genuine free-market economies. Privatization got top priority. In these countries with no capital market and where savings are tiny compared to the state assets, privatization and marketization are more complicated and difficult. In spite of the obstacles, these countries are experimenting with bold economic initiatives. With the on-going implementation of reforms and the half-way so-called free play of market forces, the economic activity has slumped. In Poland, which has undertaken the boldest reforms in the region, consumer spending fell last year by nearly 30 percent in real terms. With the closure of inefficient firms unemployment is reaching alarming proportions. The pace of reform in Hungary and Czechoslovakia has been slower. With economic restructuring barely underway, the country is showing negative trends. In these countries inflation is running at upwards of 40 percent a year.

The foregoing bespeak of the reality of the economic and political situation in these countries. What are the attempts

of the West especially the European Community to nurture the political democracies of Eastern Europe and to modernize their obsolete economies? During the last six years the EC has been engaged in a process of economic integration designed to remove the barriers among the member states. They aim at creating a "Europe without frontiers". Now, with the end of the cold-war and the return of the East European countries to free-market economy the process of European integration should be expanded to include the East European countries in its fold as well.

This study aims at understanding EC's approach towards economic and political change in three Central-East European countries, such as Poland, Hungary and Czechoslovakia. The reason for limiting our study to Poland, Hungary and Czechoslovakia is that these countries have been the quickest to shift to democratic pluralism and free enterprise, and showed enthusiasm to gain admittance as members to the EC at the earliest. In response to their demand, they have since been accorded associate membership of the EC since late 1991.

Our first task is to see the historical process of evolution of Europe since the end of the Second World War. Division of Europe into two rival blocs, different modes of integration in the two regions, and similarities and dissimilarities between them, form a major part of the first chapter. The attitude of the major member states of the EC towards their rivals in Eastern Europe, is examined in the last part of this chapter.

The second chapter trace, how systemic changes took shape in the USSR and Eastern Europe. There could be many reasons for the downfall of Communism. But the credit for this historic change goes to Gorbachev's three-pronged strategy of Glasnost, Perestroika and Democratization. Equally important is the fact that socialist economies had reached dead-end and there was impelling need to find a way out. Already it was late in the day. However, Gorbachev could not foresee the extent of hurdles that the systemic change was expected to cross. Once the initiative was taken, and cold-war was declared to be dead, the process of change became irreversible.

The third chapter deal with relations between the EEC and COMECON countries and then goes on to examine the EC's cooperation with the East European countries after the dissolution of COMECON in various forms, such as PHARE, and financial and other types of assistance to these countries. In the final chapter, conclusions have been incorporated.

Acknowledgements

I am extremely grateful to my Supervisor, Prof.H.S.Chopra, who has always been a tremendous source of inspiration to us during the course of our study. His valuable suggestions and criticisms have guided us properly and thoroughly towards the fruitful completion of our course. He has patiently put up with all my irregularities and shortcomings. More than a guide, he has been a friend and philosopher to us.

Words cannot express my sincere gratitude towards my teachers who stimulated and shaped my interest in the subject.

I am also grateful to all the JNU Library staff for their help and cooperation. Ashok Puran of the EC Delegation was of immense help with the EC material.

My special thanks to Avila Pigeon for introducing me to the field of International Relations. I owe my thanks to Chandra and Bhaskaran for coming to my rescue whenever I groped for facts, figures and history.

Rekha Natarajan

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C H A P T E R 1

EEC-COMECON RELATIONS : HISTORICAL SETTING

I. REGIONAL INTEGRATION PROCESS TO PEACE AND DEVELOPMENT IN THE TWO RIVAL HALVES OF EUROPE

The Second World War brought about considerable changes in power relations within the European system. The war time alliance between the East and West was formed with the sole objective of defeating Hitler. Once the war was over, differences between the two blocs reappeared.¹ The United States and Soviet Union emerged as two Super Powers. America and Britain had defined their aims in the Atlantic Charter in August 1941 "as granting freedom to the restored nations of Europe and self-government to their own colonies"². By contrast, Soviet Union looked to its security in Asia and Europe.³ The most fateful outcome of the war was the seizure of power by Communist parties and the subsequent change of the economic and social regimes in Yugoslavia, Poland, Czechoslovakia, Bulgaria, Albania, Hungary, Romania and East Germany.

The success of the Red Army during the war and the defeat of Germany made it very clear even before the end of the war that the Soviet Union would seek to dominate over Eastern Europe.⁴

1. C.D.M. Ketelby, A History of Modern Times From 1789 (Calcutta, 1987), p.502.

2. *ibid.*, p.502.

3. *ibid.*, p.503.

4. Charlotte Waterlow And Archibald Evans, Europe:1945 to 1970 (London, 1973), p.30.

Stalin argued vehemently with the Western Allies that it was very important for the security of the USSR to have 'friendly' governments in the region between the Soviet Union and Germany. Two invasions on Russia by Germany within 50 years makes Stalin's concept of a buffer zone in the area understandable. The post-war Communist parties in Eastern Europe emerged from underground. Most of the leaders of these communist parties were either underground or in the Soviet Union during the war. The latter called 'Muscovites' were content to be Stalin's stooges.⁵ These Muscovites were brought to lead the reconstituted Communist parties in East Europe. "Stalin's aim was to bring these parties to power and thus create an empire of satellite states, Sovietized as well as Communized."⁶

Germany remained an unsettled problem between the East and the West. But it was not the only post-war problem. Europe had been completely devastated by the war. Total economic disintegration in Europe was a painful reality. In spite of the reconstruction efforts initiated by the United Nations Refugee Relief Association (UNRRA)⁷, the situation was critical. At this critical moment, the US was the only country in the world capable of helping Europe recover from the havoc caused by the war. In March 1947 the Big-Four Foreign Ministers met in Moscow

5. *ibid.*, p.31.

6. *ibid.*, p.31.

7. *ibid.*, p.22.

for another of the series of post-war conferences. George Marshall, representing America after conferring privately with Prime Minister Josef Stalin, was convinced that USSR was far from ready to cooperate in any reasonable scheme for lessening distress and tension in Europe.⁸ It convinced the Western powers of the urgent necessity of striking out a new course independent of the Soviet Union. On 5 June 1947, General George Marshall, the American Secretary of State, proposed that the US should "help set Europe on its way to recovery".⁹ The offer was made to all European countries - communist as well as non-communist. This policy better known as the Marshall Plan, emphasised upon the European initiative in developing a collective approach to the common problems.

The Soviet Union was thus confronted with a critical challenge. Acceptance of the much-needed American help would mean co-operating with western democratic countries, whose capitalist economies, it so was believed, were to be doomed.¹⁰ Secondly, it was not enthusiastic about promoting ties of its satellites with any other western power. So it rejected the western offer. In fact it ordered Czechoslovak and Polish governments to retreat immediately, when they applied for Marshall Aid. The Soviet Union further boycotted the Marshall Plan by organising a rival recovery programme for East European nations, to be known as 'the Molotov Plan'.

8. Alfred M. de Zayas, Nemesis At Potsdam, (London, 1977), p.136.

9. Waterlow, n.4, p.22.

10. *ibid.*, p.22.

The refusal of the communist countries to accept Marshall Aid in 1947 led to the arrangement of the European countries in the East and the West into hostile economic groups, one linked to the US, and the other to the Soviet Union. Thus the division of Europe into two sub-systems, with Socialist and Capitalist economies became a near permanent characteristic feature since the end of the Second World War. These sub-systems constituted compact geographical sub-regions.¹¹ The process of integration among the states in the two rival halves of Europe ranged from military and economic to politically organized cooperation.

As such, the most important outcome of the cold-war was the division of Europe into two Security sub-systems.¹² The North Atlantic Treaty Organization(NATO) was signed by the Western countries in April 1949. Reacting to this, the East European countries took adequate security measures. But they were provoked to create a similar military organization only in 1955, when West Germany was admitted as a full member into the NATO. In May 1955, the Warsaw Treaty was signed by the East European countries led by the USSR.

The process of integration of Western Europe was initiated with the strong encouragement and support of the US in the form of Marshall Aid. Marshall Plan emphasised on a

11. James A Kuhlman et al, ed., Changes In European Relations (Leydon, 1976), p.41.

12. ibid., p.41.

European initiative and a joint approach which could be the harbinger of a new solidarity within the old continent. It was an effort to break a trend of decades of European economic barriers and initiating healthy regional cooperation. Marshall had said in his 5 June 1947 speech that

"it would be neither fitting nor efficacious for this government to undertake to draw up unilaterally a programme designed to place Europe on its feet economically. This is the business of the Europeans. The initiative, I think, must come from Europe." 13

The response in Europe was prompt and positive. In April 1948 the Convention for European Economic Cooperation (CEEC) was signed in Paris by 16 countries which had responded to the American initiative.

Between 1948 and 1960, eight major organizations were founded in Western Europe. Three of these, viz., European Coal and Steel Community (ECSC), European Economic Community (EEC), and European Atomic Energy Community (EURATOM), which by July 1968 had been merged into the "European Community" were supranational. The other five - West European Union (WEU), Organisation of European Economic Cooperation (OEEC), North Atlantic Treaty Organisation (NATO), the Council of Europe, and European Free Trade Association (EFTA) were inter-governmental arrangement for cooperation in various specified fields.

13. Harry Bayard Price, The Marshall Plan and Its Meaning (New York, 1955), p.

OEEC was the first positive successful step on the road to practical cooperation. It led to growth of mutual economic assistance within Europe. It was established in 1948 to plan and administer Marshall Aid. But by 1950, the concept of an 'Atlantic partnership' was gaining strength in the US. So in 1959 when it was transformed into Organization for Economic Cooperation and Development (OECD), the US and Canada became its members.

Cooperation and integration among the western countries in the military field was covered by the signing of the North Atlantic Alliance Treaty in 1949 by twelve countries, including the US and Canada. The next step in the process of integration of West Europe was the Council of Europe, which was established in 1949 by ten West European states. It is a federal body with no supranational powers and has been mainly concerned with legal, social, educational and cultural matters!¹⁴

In 1950 the Schuman Plan (actually the ~~brain~~-child of M. Jean Monnet) was launched which proposed pooling up of the entire French and German production of coal and steel in a common market. It called for a substantial transfer of national sovereignty and it was open to other European countries as well. France, West Germany, Italy and Benelux countries joined it and in July 1951 the Treaty establishing European Coal and Steel Community came into existence. It set the ball rolling

14. Waterlow, *ibid.*, n.4, pp.194-5

towards the inception of the European Economic Community. When the Foreign Ministers of the six (ECSC) member states met at Messina in June 1955, their communique said, "The next phase in the building of a United Europe must lie in the economic field".¹⁵ In 1957, the countries which formed the ECSC signed the famous Treaties of Rome - one creating the EURATOM and the other EEC. Economic integration was soon to be followed by political integration. Britain refused to join the EEC in 1958 because of its supranational character. But it faced tough competition from this economic bloc. So in 1959, it called upon the anti-federalist countries - Austria, Denmark, Norway, Sweden, Switzerland and Portugal - to join in establishing the European Free Trade Association (EFTA). Later in the early 1970s, Britain joined the EEC, making the process of integration in Western Europe more complete.

In the East, the process of integration did not progress in 'terms of institutional development'.¹⁶ In the period following the end of the war, the Communist parties in Eastern Europe, helped unify the USSR and East European countries under the umbrella of socialism. Stalin wanted the East European states to be linked only through the common subservience to Moscow.¹⁷ This was expressed through a series of bilateral, military and trade agreements, supplemented by the Council for Mutual Economic Assistance (CMEA or COMECON) set up in 1949 and the East European Mutual Assistance Treaty - the Warsaw Pact -

15. George Lichtheim, Europe And America (London, 1963), p.18.

16. Karl W. Deutsch, The Analysis of International Relations (New Delhi, 1969), p.257.

17. Waterlow, n.4.,p.213.

signed in 1955. The Warsaw Pact was a military alliance under which each member state agreed to assist its other allies in the event of aggression against any of them. COMECON was more successful than the Warsaw Pact as a means of uniting the Soviet bloc. With Central Planning, the process of integration depended on political agreements and cooperation. In summary, the integration of the Soviet bloc remained less complete than the Western bloc.

II. SIMILARITIES AND DISSIMILARITIES IN THE FUNCTIONAL APPARATUS OF THE TWO COLLECTIVITIES

At the end of the Second World War, Europe stood divided into two opposing sub-systems with socialist and capitalist economic and social regimes.¹⁸ West European countries followed liberal capitalism, while East European countries, as allies of the Soviet Union, opted for Socialism.

In East Europe, communist parties played the key unifying role. Politically, the network of pliant communist parties imposed by the Red Army during Josef Stalin's time was intended to assure Moscow of friendly regimes in East Europe. Soviet rule was to be institutionalised in Eastern Europe by installing leaders who lacked support and loyalty in their own countries and so were ever ready to comply with Soviet wishes to remain in power. This also ensured that the East European states would follow policies - military and economic - which were in keeping with the Soviet Plan and policy. In fact,

18. Kuhlman, n.11, pp. 40-5.

Stalin insisted that East European party leaders must adopt his policies, namely forced-collectivization and rapid development of heavy industries.¹⁹

In both halves of Europe, integration process was initiated after the War, but with a difference. West European countries under the aegis of U.S.Aid (Marshall Plan) came together voluntarily to start reconstruction of their economies. They insisted on collective appraisal of economic problems and collective proposals for dealing with them. Thus a new solidarity within Western Europe was formed. The relations between the members of the Western Alliance was based on equality, whereas the Soviet-East European relations constituted a heirarchically-structured regional system.²⁰ USSR wanted a buffer zone of satellite states to ward off any future invasion from Germany. Its dominance over Eastern Europe was indisputably complete. The success of the Red Army against the fascist forces during the war and the communization of Eastern Europe helped Soviet Union to achieve its goal of creating a Socialist bloc.

In the economic field, rival regional organization were the Council for Mutual Economic Assistance (CMEA) and the European Economic Community (EEC). The COMECON was an Inter-State organization of East European countries which aimed at promoting socialist solidarity through participation in common economic ventures. It neither developed into a supranational

19. Christopher D.Jones, Soviet Influence In Eastern Europe (New York, 1981), p.vii.

20. Morris Bornstein et al, e., East-West Relations And the Future of Eastern Europe, (London, 1981), p.2.

organization like the EEC, nor did it have control over a common market. Its members coordinated their national economic policies through bilateral agreements, whereas the West European countries practiced working out joint policies. In the West, multilateral diplomacy replaced bilateral diplomacy. There were essential differences between the processes of economic integration in the West and East.

With the inception of the EEC in 1957, immediate attention was paid to the erstwhile colonies of the major member states of the EC. As a result, Yaounde Convention I was concluded in 1964, and renewed in 1969. With Britain's membership of the EC in 1972-73, the Yaounde associate framework was further widened to include small-sized member states of the British Commonwealth, thereby increasing the number of partners under the Lome Convention I to 46, which, under the Convention IV has now grown to 68. Furthermore, from among the industrial giants and collectivities, EC was the first to have extended in 1991 GSP facility (based upon the principle of non-reciprocity) to a large number of third world countries. The number of present beneficiaries exceeds 120 developing countries in all the world regions.

EEC was originally designed so as to eventually evolve itself into European Political union. But then, at the initial stage this idea failed. CMEA may not have pronounced its aim at political integration, but under centrally planned economies East European integration depended more on political agreements.

between governments than on the operation of economic mechanisms. The concept of economic integration in CMEA was much narrower than in EEC. In the EEC, integration involved the elimination of tariffs, quotas and other restrictions on trade among member countries, establishment of common trade restrictions against non-member countries, liberalisation of factor movements among member countries and harmonisation of national economic policies. In contrast thereto, CMEA integration was to be accomplished by intense coordination of member countries' national economic plans so as to respond to the challenging security needs of the Soviet bloc. COMECON comprised of the East European member states in the first instance, and there also a few countries from outside of Europe, which were ideologically committed to following the Soviet brand of communism. Furthermore, the COMECON member states fostered economic cooperation among themselves in accord with the division of labour, primarily to subserve the security interest of the USSR. More than that, there evolved the Brezhnev doctrine, which meant "limited sovereignty". In other words, COMECON was a regional economic device to be used in furtherance of the Soviet dominated military bloc.

In the immediate post-war period, the West was preoccupied with the fear that Soviet Union would attack Western Europe. This fear led to the signing in 1949 of the North Atlantic Treaty Alliance (NATO), the powerful military coalition of Western countries headed by the US. It was in response to the

threat posed by the NATO countries that the Warsaw Treaty was signed by the East European countries in 1955.

The formation of these military blocs was a product of the cold war between the East and the West. The prime purpose of both these military organizations was the same - to provide security and stability in their respective spheres. Both were defensive organizations, even though the Soviet analysts of international relations never acquiesced into equation of the Warsaw Pact with NATO. They claimed that the Warsaw Pact was an alliance for peace and security whereas NATO was following a policy of aggression and war against the Soviet Union and its allies.²¹ There were allegations and counter allegations by both the blocs. According to Western analysts, NATO was only a military organization to safeguard the allies from armed attack by the USSR. The Soviet experts also believed that the Warsaw Pact promoted integrity and solidarity of the socialist community. No member country could break off from the Warsaw Pact. They were forced to continue in the alliance through joint efforts of the Warsaw Treaty signatories. There was "limited sovereignty" under the Warsaw Pact. NATO was more open and democratic and had no power to compel any member state to adhere to its policies. For example, France withdrew its troops from NATO IN 1966 but continues to be a member of the alliance.

To conclude it can be said that the differences if any

21. Novosti Press Agency, The Warsaw Treaty Organization: Alliance for Peace (Moscow, 1984), pp.33-49.

between the two military blocs were few and unimportant. Essentially both were defensive organizations that provided for collective action against the aggressor.

III. EEC's MAJOR MEMBER STATES : THEIR SELECTIVE APPROACH IN EASTERN EUROPE

The years 1945-50 were crucial in fixing the pattern of world affairs in the post-war period. The immediate post-war period witnessed a series of peace talks between the Allies, but Stalin, Roosevelt and Churchill failed to establish a new global order.²² The new pattern was gradually forged in the confusion of conflicting interests, aims, fears and hopes. But this process was a contest of wills between the two super powers, the USA and the USSR.

In 1947 the Americans took the great plunge and decided to save East Europe from Soviet domination, first through Truman doctrine of aid to Greece and Turkey and then by the Marshall Plan. The Soviet Union vigorously resisted any dependence on the West in the late 1940s and even forced Czechoslovakia to renounce the Marshall Plan aid and to isolate itself along with the newly formed socialist countries. The Soviet posture was matched by the American notion of 'containment', so that mutual isolation seemed to be desired by both East and West.²³

The dilemma of most of the West European states has been how to foster East-West trade while safeguarding national

22. Elisabeth Barker, The British Between the Superpowers - 1945-50 (London, 1983), p.ix.

23. Bornstein, n.21, p.3.

security. International economic relations constitute, undoubtedly the infrastructure of all international relations. And trade constitutes the very core of economic cooperation. "A major problem of East-West economic and technological relations involve the transfer of militarily relevant goods and technology to the East which might adversely affect Western security interest. These security concerns have been voiced most vociferously by the US and have led to both domestic and multilateral control initiatives."²⁴ Most of the West European states are full members of a Western alliance in which US is obviously dominant and has a prevailing voice. So the dilemma of the Western countries was how to improve East-West trade and at the same time maintain good relations with the US. The major West European countries have tried not to give in to the control-oriented US view, but at the same time have been convinced of the need for embargo on the transfer of militarily critical goods and technology to the Soviet bloc.

The regimes of Eastern Europe, in varying degrees have wished to benefit from the economic and technological strength of Western Europe. Many in USA, Europe and Japan were also interested in expanding commercial, technological and scientific relations with the member states of the Soviet bloc while keeping under check any trade and technology transfer that might have the effect of strengthening Warsaw Pact military capabilities.²⁵

24. Hans-Dieter Jacobsen, "The West German Perspective", In Gary K. Bertsch, ed., Controlling East-West Trade And Technology Transfer (Durhan, 1988), p.163

25. *ibid.*, p.vii.

In Britain, France and Germany, there has been virtually no opposition to improving economic ties with the East. In fact, statesmen like Ernst Bevin, de Gaulle and Willy Brandt were very much in favour of good economic relations with the East European countries and they tried to improve relations between their respective states and communist countries of Eastern Europe.

Great Britain, as a trading nation, has always been fostering its international economic relations and has been hesitant in restricting it.²⁶ This view has influenced its approach in controlling East-West trade in the post-war period. Because of the identity of strategic security interests, UK fostered special relationship with the US, and this made UK more prone to agree to tighten controls against the Warsaw Pact. "The British trade policy with the East is also, to a considerable extent, a function of Britain's involvement in, and attempt to contribute to what Michael Clarke calls a "Western World Order". This Western World Order involves Britain's attempt to uphold the Atlantic Alliance, stabilize East-West relations and contribute to European Community affair."²⁷

Despite the disruption in East-West relations after the Second World War, Anglo-Soviet trade survived however, but only negligibly. In 1947 a trade agreement was signed according to which Britain was to import grains from Soviet Union in return

26. Gary Bertsch and Steven Elliot, n.30, p.204

27. *ibid.*, p.205.

for the export of locomotives, generators, heavy machinery, precision, scientific and laboratory instruments. Britain had earlier that year sold gas turbines and aircrafts to the Soviet Union. In fact, Ernst Bevin, the British Foreign Secretary had tried to bring in the Russians and East Europeans into the Marshall Plan aid and in a personal message sent to Marshall, said: "I have done my best to bridge the difference with the Russians - but it seems to be fundamental and irreconcilable"²⁸.

The fear of rapidly expanding West European trade with the Soviet Union and the other East European countries made US seek and obtain allied participation in a multilateral system of strategic trade controls. COCOM was established in 1949 as a means to harmonise national controls of its members (NATO countries less Iceland plus Japan) on exports to the USSR and its Warsaw Pact allies and to the People's Republic of China. Even though the allies supported the US policy of economic warfare against the Soviet Union and the East European countries, it was with hesitation and reluctance.

Whatever the pressures of the cold war, Ernst Bevin and the British Foreign Office maintained trade with the Soviet Union and its East European allies, so that a window was kept open for limited interaction with the USSR and its allies, and the two adversarial blocs were not completely closed to each other.²⁹ Between 1955 and 1972 Britain signed a number of trade agreements with the CMEA countries (TABLE I), of which the 1959

28. Elisabeth Barker, *ibid.*, n.22, p.88.

29. *ibid.*, p.181.

Anglo-Soviet long term Trade Agreement was historically the most significant because this was the first long term agreement the Soviet Union had signed with any western nation. In 1964, a more favourable trade-inducing policy was replaced by abolishing Britain's severe quota system to encourage East European imports. Under the "Open General Licence" all quantitative restrictions were lifted on all imports from Poland, Czechoslovakia, Romania, Hungary and Bulgaria. Between 1967 and 1974 a series of agreements were signed for cooperation in the fields of applied science and technology. But since 1973 onwards, Britain's bilateral trade policies with the Soviet Bloc countries changed because of its membership in the EEC. Tariffs and quotas could not be altered by the member countries unilaterally. Nevertheless Britain continued to renew expired bilateral trade agreements with the CMEA countries.³⁰ Britain's support was lukewarm, when President Carter imposed economic sanctions against the USSR to protest against its invasion of Afghanistan. The American proposal to expand COCOM mandate to control Western 'process know-how' going to Soviet defence related industries was also opposed by Britain.³¹ But this did not mean that Britain had not recognized the need for strategic controls. It had supported US calls to strengthen COCOM and close existing loopholes and it had also regulated the flow of technical information. Britain was willing to work within the COCOM framework. But there was a control threshold beyond which

30. Bertsch, n.24, p.209.

31. *ibid.*, p.213.

Britain would react to and resist what it considered to be excessive controls. Little, if any, debate, that has taken place in the parliament, has been in opposition to the pro-control and anti-trade attitude that the US attempted to force on the allied governments. Extra-territorial impositions of the US had been resisted.³²

In short, it can be said that the British Government, has played a role of facilitator and has occupied the 'middle ground' in COCOM. "As early as in 1955 one Foreign Office official described Britain's position as being 'between the cynicism of the continentals and the desire for outright economic warfare on the part of the Americans...'"³³

Like Britain, France and Germany also faced the dilemma of fostering East-West trade while maintaining good relations with the US and safeguarding their national interest. Among western statesmen it was Charles de Gaulle who first expressed the necessity and utility of detente and cooperation between Western and Eastern Europe and heralded re-unification of Europe in one system "from the Atlantic to the Urals". He expressed this idea in 1959. But he started to give it a practical shape only since 1964, when he tried to engage France in dialogue with the Socialist countries.³⁴ President de Gaulle used East-West trade as means to achieve one of his key foreign policy goals - to maintain independence from the two super powers. His motto was "detente, understanding, cooperation"³⁵. To

32. Barker, n.22, pp. 84-181.

33. Bertsch, n.24, p.220.

34. Kuhlman, n.11, p.57.

35. Marie-Helene Labbe, n.24, p.185.

him, East-West trade was very important and he was committed to improve it. In the 1950s there was relatively little trade between France and the CMEA countries. It was only in 1964 that the first Five Year trade agreement was signed by France and Soviet Union. In 1966, during de Gaulle's state visit to Moscow, the first general agreement on scientific, technical and economic cooperation was signed.³⁶ In a further effort to expand its East-West trade, France lifted import restrictions on about 960 CMEA items in the same year.

French President Valery Giscard d'Estang and his adviser, Amuel Pizar, saw trade as a "weapon of peace". Prime Minister, Raymond Barre professed similar views of East-West trade, once publicly quoted J.S.Mills belief that "it is trade that makes war obsolete".³⁷ COCOM restrictions were often bypassed by France. And so it was not surprising that France gained a reputation for being soft on the export controls during the second half of the 1970s. Most of the western countries' reaction to sanctions imposed by the US on USSR for its invasion of Afghanistan was lukewarm. But France went one step ahead and signed a new general credit agreement with the USSR at interest rates below those established by the 1978 OECD export credit arrangements, just 2 1/2 months after the Afghanistan invasion.³⁸

Franco-Soviet relations changed with Socialist Francois Mitterrand's coming to power in 1981. In the 1980s French

36. *ibid.*, p.186.

37. *ibid.*, p.186.

38. *ibid.*, p.187.

export control policy changed from being lax to being more security conscious. France tried to establish greater balance between the economic and security interest. A toughening of policy towards the Soviet Union was evident in the French Government's support of the deployment of Euromissiles and the expulsion of 47 Soviets from France on suspicion of espionage in April 1983. The inclusion of communists in Mitterrand's government made him feel obliged to demonstrate his commitment to the Western Alliance.³⁹ After 1981 France shifted to a more security conscious approach.

France's East-West Trade Policy has been pro-trade. De Gaulle used it to promote his foreign policy objectives. As an economist, Giscard d'Estang promoted trade for economic reasons. Mitterrand changed the East-West Trade policies of France to prove his commitment to the Western Alliance but at the same time resisted American overlordship by rejecting US attempts to forge a Western embargo on trade with the Soviet Union. But in spite of its pro-trade policies, France has recognized the need for some controls on strategic exports to the Communist East.

The East-West trade policies of FRG were not very different from the other West European perspective. However, one of the roadblocks to peaceful cooperation in Europe

39. *ibid.*, pp.183-202.

constituted the attitude of West Germany, towards Eastern Europe characterised by the non-recognition of the GDR and of the Polish frontier on the Oder-Nessie river. 40

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Due to the economic relations with Eastern Europe before the war, industry and its political representatives had an interest in maintaining these markets and sources of raw materials. Industry and the banking community in West Germany favoured improved trade relations and cooperation with the East Europeans. In 1952 a CDU Government of Chancellor Adenauer concluded a trade agreement with the USSR. The left-of-the-centre coalition between the Social and Free Democrats started Ostpolitik in 1969, which involved improving economic ties with the East as a means of stabilizing the overall East-West relationship. The government of Willy Brandt, that came to power in 1969, proclaimed a "New Eastern Policy" which resulted in the normalisation of relations with all East European countries during the years 1970-1973. The SDP/FDP coalition of Schmidt and Genscher and their successors, the CDU-CSU/FDP coalition under Kohl and Genscher, followed the policies of their predecessors. The Kohl government was never prepared to follow the restrictive US policies. 41

During the late 1950s and early 1960s West Germany expanded its trade with the East while US attempted to restrict it. In 1962-63 West Germany complied with US wishes

40. *ibid*, pp.183-202.

41. Hans-Dieter Jacobsen, n.24, p.168.



in NATO and broke delivery contracts of large-diameter pipes for a Soviet Oil pipeline. Britain and Italy ignored the NATO resolution and delivered their pipes to the Soviets.⁴² West Germany, inspite of great internal resistance followed American policy directives and suffered economic and political damage. After this incident, West Germany resolved to resist further US demands. It became obvious that American and West German perceptions of the Soviet Union began to diverge. West Germans, attended more to their own economic and political interests in East-West relations, believing that improved relations would tend to stabilize long-term relations with the East as a whole.

All West European countries condemned the Soviet invasion of Afghanistan in 1979, but West Germany was the only country which participated in the US led boycott of the Moscow Olympics in 1980.

FRG participated in COCOM with the conviction that the transfer of militarily critical goods and technologies to the East should not be allowed.

In conclusion it can be said that the relations between the Western countries and the USSR, its East European allies continued to swing between distrust and hesitant moves to establish contact. The East-West policies of the West European countries have been influenced by both the

42. *ibid.*, p.170.

super powers in different ways. The need for strategic control provided the basis for a strong Western Alliance. Although agreeing to control militarily significant trade and technology transfer, the Western Allies were reluctant and mostly unwilling to consider policy changes that they interpreted as an expansion of the COCOM embargo.⁴³ Over the past 40 years, US unilateralism repeatedly strained the multilateral cooperation needed for effective security export controls. Many a time, West European countries bypassed the COCOM restrictions. The US and Western Europe differed in their interpretations of political objectives and economic interests. Whereas US policy towards East Europe was anti-trade and pro-control, West European perspective was somewhat different, i.e., pro-trade, but flexible on control. West European countries like Britain, France and West Germany were willing to cooperate with Soviet Union and East European countries, even though only to a cautious and limited extent. Economic interest important as they are, were not the only factors that influenced the foreign policy of West European countries. National security played a major role in the foreign policy activities of the West European countries.

43. *ibid.*, p.237.

TABLE I

INTER-GOVERNMENTAL TRADE AGREEMENTS BETWEEN
BRITAIN AND CMEA COUNTRIES 1955-1972

CMEA COUNTRY	TRADE AGREEMENT	LONG-TERM
Bulgaria	1955, 1959, 1963, 1965	1970
Czechoslovakia	1956, 1960, 1962, 1964, 1967	1972
Hungary	1956, 1960, 1963, 1964, 1968	1972
Poland	1957, 1960, 1963, 1964	1971
Romania	1960, 1963, 1968, 1969	1972
USSR	1960, 1963, 1968, 1969	1959, 1964-1969

C H A P T E R 2

SYSTEMIC CHANGE IN THE USSR AND EASTERN EUROPE

I. GORBACHEV'S THREE PRONGED ROAD TO THE SYSTEMIC CHANGE - PERESTROIKA, GLASNOST AND DEMOCRATIZATION

With Mikhail Gorbachev's elevation to the post of General Secretary of the Central Committee of CPSU in March 1985 began an era of change in the Soviet political scenario. "Soviet leadership assumed a style considerably different from that under Gorbachev's predecessors".¹ Immediately after his election as Party Chief, in the April 1985 Plenary Meeting, Gorbachev initiated a process of change by formulating the basic principles of his "New Thinking". This meeting put forward and substantiated the concept of accelerated socio-economic development for the USSR. The June 1985 CPSU Central Committee discussed the specific and effective ways and means of switching over to intensive economies and during the same year substantial comprehensive programmes were worked out in major areas of science and technology to achieve world standard by the end of the century. The 27th Congress of the CPSU held in February-March 1986 formulated Party Policy and endorsed the new leadership's aims and goals. Gorbachev restated the major themes of his economic thinking: the need to switch over to intensive economic methods, to modernize

1. M.Humayun Kabir, "Glasnost and Perestroika in USSR: Adjustment of the System or Systemic Change?" Bliss Journal (Dhaka), vol.3, July 1987, p.261.

industry and improve its efficiency, speed up the pace of scientific and technological progress, improve the quality of goods, increase the investment, give priority to machine-building, experiment in self-financing and reorganize the price systems.

In short, Mikhail Gorbachev was "making a serious and long overdue effort to modernize Soviet society".² Growth of powerful vested coteries, mismanagement, corruption and the apparent weakness of the system had begun to undermine the strength of the USSR as a global power. "Against this backdrop Gorbachev embarked on a new policy of Perestroika and Glasnost."³ Perestroika and Glasnost are two Russian terms "subsuming two vital, comprehensive and inter-linked processes of transformation of socialism in the Soviet Union, namely, overall socio-economic and political change in an atmosphere of openness of debate, discussion, and decision-making."⁴ Even before the rise of Gorbachev, the need for change from the "old Stalinist methods of the 1930s" was felt. At the 20th and 22nd Congress of CPSU the Party severely condemned the Stalin cult. Political purges and repressive measures against people who expressed their views as different from the party views, were criticised. "In the mid-fifties when Nikita Khrushchev assumed power, he started blatantly criticising the personality cult of Stalin and its consequences and reestablished socialist "legality". The old stereotypes in

2. Iain Elliot, "How open is 'Openness'?", Survey (London) vol.30, Oct.1988, p.57.

3. Kabir, n.1, p.261.

4. Rasheeduddin Khan, "Perestroika: An Overview", World Focus (New Delhi) vol.9, Oct-Nov-Dec. 1988, p.3.

domestic and foreign policy began to crumble. Attempts were made to break down the command bureaucratic methods of administration established in the 1930s and 1940s, to make socialism more dynamic, to emphasise humanitarian ideals and values." 5

The Plenary meetings of CPSU in September 1953 and July 1955 decided to change the priorities of economic development. To satisfy human needs more attention was devoted to development of agriculture, housing, light industry, sphere of consumption, etc., and incentives to stimulate work-results were introduced. In 1964, Leonid Brezhnev replaced Nikita Khrushchev as the First Secretary of CPSU Central Committee. Decisions were framed which initiated economic reforms aimed at positive changes in the economy. Though these reforms produced temporary results, stagnation and retardation soon crept into the system.

"The stagnation in the economy did produce an impulse for change in the mind of Soviet leadership before Gorbachev. It became noticeable during the short period of Andropov. Under him a new law on work collectives was adopted and a limited economic reform experiment was launched in five industrial ministries." 6

But it was only under the leadership of Gorbachev that restructuring the economy and democratization has been initiated fully and programmes evolved to carry them out.

5. Vladimir Mezhenkov, ed., Perestroika In Action (Moscow, 1988) p.25.

6. Devendra Kaushik, "Political Reforms-A Balance-Sheet", World Focus (New Delhi), vol.9, Oct-Nov-Dec. 1988, p.13.

Perestroika, which means restructuring, was "largely stimulated by the dissatisfaction with the way things have been going on in the USSR in recent years" and "was an urgent necessity arising from the profound process of development in this socialist society".⁷ The immediate reason was the acuteness of the economic problem. Soviet Union's development in the past two decades was unsatisfactory. Negative trends had appeared. There had been hardly any rise in the peoples' standard of living. The per capita income had not shown any increase for two decades.⁸ Net product growth rate according to the Five-Year Plans increased by 41 percent between 1966 and 1970, by 28 percent from 1971 to 1975, by 21 percent between 1976 and 1980 and only by 16.5 percent between 1981 and 1985.⁹ Elements of stagnation appeared.

"A kind of 'breaking mechanism' affecting . . . social and economic development formed... Declining rates of growth and economic stagnation were bound to affect other aspects of the life of Soviet society. Negative trends seriously affected the social sphere." 10

Economic slowdown was the immediate reason for the restructuring. But that was not the only reason. The negative trends in economic development appeared because of the conflict between an obsolete form of economic organization and new conditions for development.¹¹ Even though the basic needs

7 . Mikhail Gorbachev, Perestroika-New Thinking For Our Country And The World (London, 1988) pp.11-17.

8. Rasheeduddin Khan, *ibid.*, n.4, p.85.

9. Abel Aganbegyan, "The Economics of Perestroika", International Affairs (London), vol.64, Spring 1988, p.177.

10. Gorbachev, n.7, pp.19-20.

11. Aganbegyan, n.9, p.178.

of the people were satisfied, the social demands which increased sharply were neglected. There was a need to change the social policy but this was not done. For the socio-economic development, new conditions and reorganization of the political and economic system were necessary.

Gorbachev played the role of an initiator of reforms. With his 'Perestroika and Glasnost' he started the process of overall socio-economic and political change in an atmosphere of openness of debate and discussion. The new policies of 'Glasnost and Perestroika' were meant to speed up the country's sluggish economic growth and modernize its ageing institutions.

"Perestroika means overcoming the stagnation process, breaking down the breaking mechanism, creating a dependable and effective mechanism for the acceleration of social and economic progress and giving it greater dynamism. It means mass initiative... development of democracy, socialist self-government, improved order and discipline... a shift to scientific methods... development of the social sphere... the consistent implementation of the principles of social justice."¹²

Perestroika was the strategy for development and proposed the basic trends for the reorganization of the society as a whole above all in economic matters. For this an atmosphere of open democratic debate, discussion, etc., was necessary. The policy of 'glasnost' played a central role in Gorbachev's efforts to push through his revolutionary Perestroika. The aim of openness was to make Soviet people better informed, more erudite, more convinced and more confident of the rightness of

12. Gorbachev, n.7, pp. 34-35.

their cause.

"Glasnost is a vivid example of a normal and favourable spiritual and moral atmosphere in society, which makes it possible for people to understand better what happened to us in the past, what is taking place now, what we are striving for and what our plans are, and, on the basis of this understanding, to participate in the restructuring effort consciously." 13

Several bills were introduced which guaranteed Glasnost. These bills were aimed at bringing utmost openness in the work of government and mass organizations and ensure that working people have the freedom to express their opinion on the social issues and activities of government without fear.

With the restructuring set in motion, the mass media began reflecting its effects. Gradually newspapers, magazines, radio, and television started uncovering and handling new topics. Interviews with workers, party functionaries, professionals, cultural personalities were published, broadcasted or televised. "It follows that 'glasnost' today is a highly important expression of our society's democratization, a new feature of the socialist way of life... Glasnost is needed as a means of enlisting the peoples' active participation in the advancement of the country... in the absence of Glasnost there can be no democracy and hence no real participation of the people in government or policy making. Glasnost is a vehicle of interaction between the leaders and the people."¹⁴

13. Gorbachev, n.7, p.75.

14. Ivan Laptev, "Glasnost - A Reliable Instrument of Perestroika", International Affairs (Moscow), 6 June 1988, pp.21-22.

In his January 1987 Plenum speech Gorbachev put forth some proposals for democratization. One important proposal was that there be more than one candidate for Party Secretaryships at all levels from the district upto the Union Republics and that the elections be by secret ballot at meetings of the respective party committees. He also proposed modernization of the existing electoral system by ensuring unlimited nomination of candidates. To guarantee the rights and freedom of Soviet citizens, various legislative laws were enacted by the Presidium of the Supreme Soviet in the process of restructuring. Suppression of criticism became punishable by law, provision of compensation for victims of unlawful government actions. In June 1987 USSR Supreme Soviet adopted a law which would put important questions of political life to nation-wide discussion. Through Glasnost, Perestroika got under way and democracy developed. The impetus was provided for the overall socio-economic and political development of the Soviet society.

Profound structural reorganization of the economy was the principal priority. In the USSR, the emphasis of development had been quantitative rather than qualitative. The Conference of the CPSU Central Committee in June 1985 discussed ways and means of going over to intensive economies, to a new quality of economic growth. Emphasis was to be on the acceleration of scientific and technological progress. "Technology lagged behind because of incorrect investment policy. Capital investment was poured into new construction, but the old

equipment was becoming older and was not being replaced. Nor was production being modernized."¹⁵ New investment, scientific and technological policies were announced and programmes worked out. By the time of the 27th Party Congress in February 1986, Gorbachev had outlined new programmes which included anti-alcohol campaign, the reform of housing construction, the restructuring of wages to favour more productive workers, granting to individual enterprises the right to engage in foreign trade, and increased emphasis on research and development and quality control. For these programmes to filter through, there was the need to create more favourable economic, organizational and social conditions. Radical reforms of the management were to be undertaken. As Gorbachev said,

"We need wholesome, full-blooded functioning by all public organizations, all production teams and creative unions, new forums of activity by citizens and the revival of those which have been forgotten. In short, we need broad democratization of all aspects of society... Perestroika itself can only come through democracy." 16

and this included reform of the economic mechanism and management. For decades Soviet economy had been suffering from over-centralization in economic management. Gorbachev was in favour of reducing central control and increasing the role of enterprises and firms in the management of their units. Reforms were designed to simply intermediary control - one of the defects of Soviet economic administration was the intervention of ministries. Gorbachev emphasised on the role of the workers

15. Agarbegyan, n.9, p.183.

16. Gorbachev, n.4, pp.31-32.

and the use of economic incentives to increase labour productivity. He stressed on the application of economic methods of management and enhancement of autonomy and responsibility of enterprises. "Industrial firms will certainly gain more room to manoeuvre by a reduction in the influence of the state's financial policy and bureaucratic regulation of prices. Prices will become an instrument for steering economic policies and will cease to be 'political' prices which cause inefficiency and support waste."¹⁷ Banks were to become self-financing and the role of credit was expanded. All this will replace a centralized system, with a system of commerce. For the first time a market will be created for the means of production as well as for consumer goods.

Partial figures published for the first quarter of 1986 showed the economy apparently responding to Gorbachev's calls for improved growth and efficiency but still plagued by sluggishness in some sectors. The economy grew by 6.7 percent in the first quarters compared with the first three months of the previous year. Labour productivity was also strongly up by 6.3 percent over January-March 1985. Industrial production was 2 percent above plan levels for the first quarter of the year.

In December 1986, a series of major economic reforms were announced. Mr. Leonid Abalkin, one of the Soviet experts described a programme of changes that would affect pricing policy, central planning and allow more limited private

17. Klaus von Beyne, "Economics and Politics In a Socialist Country: Gorbachev's New Concepts." Government and Opposition (London) vol.23, Spring 1988, p.172.

enterprise. Reforms of the banking system and tax laws were also to be undertaken. But he stressed that the changes, would not depart from certain basic principles of socialism.

The Soviet economist Mr. Abel Aganbegyan who played a central role in shaping the new economic policies of his country, stressed the need for state enterprises to be given greater independence from central planning. According to him Soviet production needs to be aligned with demand and future enterprises should be self-administering and self-supporting. He also advocated increased capital investment in manufacturing equipment during the 12th Plan period. Mr. Aganbegyan was for price reforms which would take into account world price levels and would lead to making the Rouble fully convertible. Demand for quality goods, stimulation of production through bonuses, and a trimming of 30 percent to 50 percent of government administrators were suggested by him. One planned change for the economy was decentralizing and dismantling "the historic system of command that has been a break on social and economic development".¹⁸

In October 1989, the Soviet Premier, Mr. Nikolai Ryzhkov, presented to the Supreme Soviet 5 legislative bills to launch a new phase of economic reforms: the overriding aim being to establish a mixed economy. The package included laws on property, on a single taxation system and on socialist enterprises. He gave importance to the bill on property which

18. International Herald Tribune, 10 December 1987.

emphasised on destatisation of the economy. Another key element was to promote social justice.

In December 1989, Mr. Ryzhkov, presented the blue print of the 13th Five-Year Plan to the Congress of Peoples' Deputies. There he promised to meet consumer demand by switching investment from capital to consumer goods. He placed more emphasis on prices, taxation, credit and investment. According to him, it was a comprehensive plan for an orderly transition to market-oriented relations.¹⁹ It postponed price reforms, and turned its back on private property ownership, on the decentralization of the state sector, on monetary reforms and on the devolution of decision-making to regions and to industries. Some earlier reforms, such as the election by workers of the managers of state enterprises, were rolled back in the name of 'discipline'. Mr. Ryzhkov's proposal was a two-stage economic reform plan. The first stage, until 1992 was to combine rigid directive measures and increasing economic levels, and it was to be marked by a set of urgent measures to overcome the budget deficit. The second stage from 1993-95 was to be based on a variety of property ownership as well as development of market-oriented relations. The emergency measures aimed to increase the consumer goods production. Mr. Ryzhkov called for major changes in the country's credit system. The government proposed creating a new financial system with wider powers to combat the "shadow" economy.

19. Times (London), 16 December 1989.

1990 saw Gorbachev opting for radical economic reforms. His personal adviser Stanislav Shatalin drafted a reform plan, which aimed at making the Soviet Union a market-oriented economy within 500 days. A rival programme for slower economic transition was drafted by the Premier Nikolai Ryzhkov. On 12 September 1990 the Shatalin Plan was adopted in its entirety by the parliament of the Russian Federation, which was headed by Boris Yeltsin. The "500 days" draft proposed the largest bankruptcy sale in history and the denationalisation of 80 percent of the Soviet economy by the end of the decade. "The plan makes the effective abandonment of Mr. Gorbachev's 5 Year attempt to renew communism under the slogan Perestroika."²⁰ The operation of the plan was divided into 4 stages, each of which was precisely dated. The first stage of 100 days was to be preparatory and was to be a kind of 'stock-taking' for no one in the country, not even the government knew precisely the value of state assets, strategic stocks, volumes of construction in progress and even deposits in foreign banks. Subsidies for loss-making enterprises were to be stopped and a tax reform to be carried out. The deficit was to be reduced and foreign aid was hacked by 75 percent. The second stage of "100 to 250" days was to be 'destatisation of property'. State properties were to be sold off. Establishment of a stock exchange, a sharp reduction in the printing of excess money, commercialization of banks were the other key aspects. The third stage of "250 to 400" days were to set the market mechanism in

20. International Herald Tribune, 15 September 1990.

motion. Prices were to be decontrolled but was not to be total and in case of supply disruption, a rationing system was to be introduced. The fourth stage of "400 to 500" days was for stabilization. According to the authors this stage was to show some positive results.

The Shatalin plan emphasised a federal centre which had no fiscal powers and had to subsist on doles from the republics or rather on a prescribed share of the revenues they earn.

Gorbachev's reform programme of October 1990 was not the Shatalin plan in its entirety. It incorporated many features of the radical free market reform plan advanced by Shatalin but dodged the key point. The old power structure was to be retained.

In July 1991 Gorbachev announced his decision to transform the CPSU into a Social Democratic Party. Some leading architects of Perestroika, like Eduard Shevardnadze resigned the same month. In August 1991 the Russian Communist Party split, making it more difficult for Gorbachev to carry out his plans for reform. After 6 years, Perestroika was running into serious trouble. Economic reforms were not only failing, but an economic mess was created. Acute shortage of essential goods, escalating prices and high-rate of unemployment tore into the depth of the Soviet society. The much-talked-about Western aid was not forthcoming. Orthodox communists in the CPSU were hardening their posture towards the economic liberalisations. Ethnic and nationalist passions were running amock. Declaration

of independence by the Baltic states was seriously threatening the unity of USSR. Forced to the wall, Gorbachev put forward a draft Union Treaty of sovereign states. On August 1991, a day before the Union Treaty was to be signed, Gorbachev was ousted from Kremlin by a coup led by the Communist hardliner, Vice-President Gennady Yanayev and an 8 member committee assumed power. But the hardliners could not withstand the massive country-wide protests and the internal dissention nullified their survival. On 21 August the Soviet Parliament reinstated Gorbachev to power and the 72-hour coup came to an end.

But the crisis facing the country had not ended. The ^{coup} / brought all the vital issues facing the nation back to public focus. In the worst moment of the political crisis Gorbachev banned the CPSU, which for 74 years had remained the ultimate power structure of USSR. Now it was only matter of time before the Union disintegrated. Last minute efforts to put up a loose federation of Commonwealth of Independent States failed and on the Christmasday of 1991, Gorbachev resigned. Ironically, the policy of Perestroika and Glasnost had succeeded in USSR only to the extent of making the people politically conscious.

II. POLITICAL CHANGES IN EAST-CENTRAL EUROPE : QUALITATIVE DIFFERENCE WITH THE USSR

"The year 1989 marked an important transition in the history of socialism. The world system that claimed inspiration from Marxian Socialism and had been in existence since 1917 was either wiped out or changed beyond recognition." 21

In the Soviet Union the change was initiated by Gorbachev in the form of Perestroika, and Glasnost aiming at more democratization. The breathtaking events on 1989 in Eastern and Central Europe appeared sudden but when analysed, the changes seem far less sudden. In Eastern Europe the period from 1945 to 1975 is seen "as a period of extra-ordinary stability - Soviet dominated and Soviet controlled stability." 22 There was not only economic integration under CMEA but also political, military, ideological and foreign policy. In spite of the Soviet led campaign for cohesion, there was "Dissent in Eastern Europe" 23 since 1945. In fact, 'dissent' has been a major factor of change in Eastern Europe.

"After the late 1940s East Europe's Marxist-Leninist regimes had lost political legitimacy they enjoyed... and were propped up by a combination of their own use of coercion and the implied threat of Soviet intervention." 24

Dissent became strong and open in countries of Central-Eastern Europe, eg., in Czechoslovakia, Poland and Hungary. In

21. Azizur Rahman Khan, "The Collapse of Actually Prevailing Socialism: Some Lessons." Social Scientist (New Delhi) vol.19, July 1991, p.3

22. Robert R. King, Eastern Europe's Uncertain Future (New York, 1977) p.10.

23. Jane Leftwich Curry, Dissent in East Europe (New York, 1983)

24. Zvi Gitelman, "Roots of Eastern Europe's Revolution", Problems of Communism (Washington) vol.39, May-June 1990, p.89.

Czechoslovakia, the problems began with the failure of the Third Five Year Plan, which was adopted in January 1961 and had to be abandoned. There was economic strain and it provoked widespread discussion of economic problems and soon there followed criticism of Party and State Officials. With these began the Czech reform movement. Changes were begun with the introduction of reforms in the educational system. In 1965 and 1966, the economy was reformed. Greater attention was paid to costs of production, material incentives, wage rates, worker participation in management, foreign trade, satisfaction of the consumer wants and to make trade agreements with the West. Even a new labour code was adopted. At the meetings of the Central Committee of the Party in 1967, there were criticism, charges and counter-charges between Antonin Novotny (Head of the Party) and Alexander Dubcek. At last in January 1968, Novotny resigned as the Party leader and Dubcek took his place. With the change in leadership started political reforms. Communist Party was obliged to justify its right to lead. In other words, it was not to impose its leadership by command. Censorship was relaxed. The major change was electoral reforms which allowed some choice. This weakened the idea of the one-party state. Economic reforms encouraged individual enterprises, and Government interference was reduced. These developments in Czechoslovakia were not entertained by the Soviet Union.

"They were afraid that a particular Czechoslovak way to Socialism threatened Socialism, as they conceived it. The USSR's concept of power did not accommodate a notion of a Communist state without a Communist Party which commanded." 25

The Soviet Invasion of Czechoslovakia in August 1968 restored the Party to absolute power. Warsaw Pact troops marched in, Dubcek had to go and Gustav Husak took over the leadership of the Party. There were political purges in 1971 and 1972. Economic recentralization began as a response to the profound economic change which was caused by Dubcek's preoccupation with the political crisis.

In Poland and Hungary revolution had started with destalinisation, even though not at once. In Hungary, a reform programme was initiated by Jonas Kadar in 1968 that allowed free enterprise and brought amazing success but floundered as a consequence of the 'oil shortage'. Production and foreign trade went down and the country's debts grew, and by the beginning of the 1980s the economy was stagnating. In the 1980s further reforms were introduced, e.g. a new legislation increased the scope for private enterprises. In 1984 and 1985, worker self-management and elected enterprise councils were introduced. Liberalising measures were introduced in the sphere of foreign trade. The Government attempted to accelerate growth rate in 1985 but failed. The country's convertible currency debt between 1985 and 1987 increased from \$ 8.8 billion to \$ 17.7 billion.²⁶ That is when in June 1987 Karoly Grosz became the Prime Minister. He initiated programmes which were aimed at a "socialist market economy" and "socialist pluralism". Even though he advocated a market economy and cooperation with Western countries, he did not intend to break with socialism in favour of Western-style democracy. He too retained central planning.

26. Judy Batt, "The End of Communist Rule In East-Central Europe:A Four Country Comparison", Government and Opposition (London) vol.26, Summer 1991, p.372.

Western countries, he did not intend to break with socialism in favour of Western-style democracy. He too retained central planning.

In Poland, reforms and dissent were not new. With the rise of the trade union movement, Solidarity led by Lech Walesa, Poland had witnessed resistance to Communist rule. Wojciech Jaruzelski who took over as the Prime Minister in 1984 introduced reforms in Poland which were aimed at giving more freedom and responsibility to the enterprise. Solidarity was banned and martial law imposed but these were accompanied by economic reforms in 1982 known as the '3-S' programme of self-direction, self-financing and self-management.²⁷ These were only partially implemented because the party and bureaucracy blocked it.

In 1987, a more radical proposal for reform was put to a referendum. The package of economic and political reforms proposed by the Government failed to win the requisite public support. Solidarity and various other opposition groups called for a boycott of the referendum. This proved that even though the Communist Government was in control of the country, it had to make up with political opposition. People wanted change, but were not unanimous about its direction.²⁸

"In both countries (Poland & Hungary), the party's 'leading role' underwent a process of irreversible decay in the course of the 1980s under the combined impact of economic reform and economic crisis."²⁹

27. *ibid.*, p.371.

28. National Herald (New Delhi) 3 December 1987.

29. *Batt*, n.6, p.373.

By the end of 1987, the necessity for a new 'social compromise' had become obvious to both the regimes and the opposition in Poland and Hungary. There were round-table talks between the ruling communists and the opposition. In Poland, the Round Table opposition negotiated for the legalization of Solidarity and free elections. Solidarity was relegalized in 1989 and won the January 1989 election, which was the first democratic election since World War II. General Wojciech Jaruzelski was the President, But Mr.T. Mazowiecki, the adviser of Lech Walesa was nominated as the Prime Minister. The first non-communist government in Eastern Europe was formed in Poland in 1990. In Hungary, Round Table negotiations started only in June 1989 and agreement reached in September included the provision for direct election of the Presidency in advance of the parliamentary elections. But the radicals in the opposition who wanted parliamentary elections first, put this to a referendum of the people and won. General elections were thus held first. By the time of the elections, there were divisions within the Communist Party and the Opposition. So a relatively divided party-system, resembling West European models had already begun by the time of elections in March 1990. Here too the communists were defeated and a non-communist government formed.

Czechoslovakia did not go the Polish and Hungarian way. It managed the revolution peacefully. Non-communist Mr.Vaclav Havel of the main opposition grouping, the Civic Forum was

unanimously elected as President in December 1989. Student unrest on 17 November 1989, demanding elections resulted in police assault. But the nation did not respond with violence. There were mass demonstrations and the opposition which had been previously small was buttressed by the mass support of the people. The communist leaders were forced to resign in ten days after the student unrest. And on 10 December a new Government, comprising a majority of non-communist ministers was formed. But this was not through democratic means. There had been no elections. So the first priority of the Havel Government was to hold free elections. Free elections were held in June 1990 and in July 1990 Vaclav Havel was elected as President.

Changes in Eastern Europe were too rapid unlike in the USSR. In USSR, the reforms were introduced by Gorbachev in phases.

"Soviet Union has not had a political revolution but only limited political reform; East European countries had a political revolution and the new governments have enjoyed strong support from the people." 30

The extent of economic reforms that can be undertaken at a particular time depends upon the capacity of the political system to design, implement and carry out such reforms. In the USSR, economic reforms were introduced but Gorbachev kept on stressing the importance of a communist or socialist economy.

30. Roger L. Adkins, "East European Economic Reforms: Are New Institutions Emerging? ", Journal of Economic Issues, Vol. 25, June 1991, p. 591.

Poland, Czechoslovakia and Hungary rejected the administrative command system in any form and supported a free market economy. They rejected even a socialist market economy and wanted a full fledged market economy, based on private property.

Even though many of the ideas encompassed by Perestroika and Glasnost were already advocated by reformists and dissidents in Eastern Europe, the efforts had failed because of Soviet intervention. Now these same reforms succeeded because of the Soviet-Eastern Europe relations. The Soviet leadership was not only supportive of the reforms but have redefined the relationship between Moscow and East Europe, removing the threat of Soviet intervention. The Brezhnev doctrine of 'limited sovereignty' and "Socialist Internationalism' have ended.

III. MAJOR OBSTACLES TO THE MARKET ECONOMY IN EASTERN EUROPE

After more than 40 years, when the "iron curtain" collapsed with dizzying speed in 1989 and 1990, there was euphoria in East Europe. The post-communist era politicians in Poland, Czechoslovakia and Hungary, who were now heading the first non-communist governments in these countries, rapidly dropped the 'command economy' and were intent on moving full steam into a market economy, based on private property.

In January 1990, Polish Finance Minister Leszek Balcerowicz introduced his radical economic plan which

eliminated subsidies, froze wages, established a stable rate of exchange for the Zloty, sharply raised interest rates and promised privatization of the state sector. In Czechoslovakia, Finance Minister Vaclav Klaus advocated a 'cold turkey' approach. Hungarian Government had already liberalised ownership and the banking system. Legislation to transform the economies was under preparation in all the countries by 1991. They desired a rapid transition to a market economy with a heavy emphasis on economic integration with West Europe through free trade, active participation of foreign firms in the domestic economy and closer political ties. The profound difficulties in creating a market economy was comprehended in East-Central Europe only later, when the euphoria was over and reform-related problems surfaced.

"East Europe has to work hard to create the common core of market institutions found in all of West Europe: Private ownership, protected by a commercial law, a corporate structure for industry, an independent financial system and so forth."³¹

The changes have to be carried out in the context of a deep and worsening economic crisis, inexperience in managing a market economy, fragile political institutions, the residual pressures of the communist power structure throughout society and an economic fall-out in CMEA trade because of the economic crisis in the Soviet Union. The economic reforms underway have

31. David Lipton, "Creating a Market Economy In East Europe", Brookings Papers on Economic Activity (Washington) vol.1, 1990, p.75.

limitations and constraints because of the industrial structure in Central and Eastern Europe:-

- There is a high percentage of obsolete capital goods, hence very high levels of energy consumption and pollution.
- An inadequate and ill-adapted infrastructure.
- A structural mismatch between supply and demand for most basic necessities and consumer demands.
- A wage structure which does not reflect real productivity.
- Management poorly equipped to work in a decentralized business environment and lacking appropriate management tools.
- Isolation from the world market.
- Lack of knowledge of international market, of statistics, and information on trade.

A transition to capitalism consists of two major points: stabilization of the economy, and secondly privatization and marketization including capital and labour markets. According to Stanley Fischer, the first step had to be macro-economic stabilization and during this phase it is necessary for the government to reduce the budget deficit, mainly by cutting subsidies and for the Central Bank to plug gaps in the credit system, to devalue currency to provide incentive for export and to leave room for the upward wage and price adjustments that are bound to take place.³² This can be achieved by raising interest rates, instituting strict policies on the national

32. *ibid.*, p.134.

bank's lending and curtailing the budget deficit by increasing taxes and reducing government expenditure.

Stabilization packages have been adopted in all the countries of East-Central Europe. The result of these policies will be shortages disappear, rate of inflation drops, output falls, consumption decreases, demand of agricultural goods drops.

"One of the major problems with Soviet-type economies has to do with the price system or one might say the lack of such a system. Price neither effectively ration or guide production." 33

In such countries the need for fiscal austerity requires the elimination or reduction of subsidies on basic necessities. Such radical economic changes mean dislocation of society. In communist ruled countries, the workers have enjoyed privileges which will be affected by these structural changes.

Marketization of an economy is politically very complicated. It involves establishing effective product market, labour market, and capital market. It necessitates privatization of existing state enterprises, setting up of commercial banks, investment banks, stock exchanges and other institutions of financial intermediation. Problems of corporate governance also arise. Legislation for organised privatization is another major problem.

"Not surprisingly, ruling in post-communist East-Central Europe proved much more difficult than taking power and by the summer of 1990 the euphoria of late 1989"³⁴was over.

Economic reforms should be introduced at a steady pace and market forces should be unleashed with caution in specific problem areas. Market has invaded the communist system. The test of how these new free market economies will survive depends on the individual national response and also on the accompanying political changes which are needed to see through the market transition period.

The systemic change in the USSR and Central-Eastern Europe owes to the initiative taken by President Mikhail Gorbachev.

"But while the change has been swift and smooth in Central-Eastern Europe, in the Soviet Union, it has not only been disruptive of the whole range of state activity, but has also proven to be perilous to its survival as a compact political entity." ³⁵

The transformation of East-Central European countries from socialist, centrally planned economies to market-oriented systems are fraught with obstacles and limitations, but are also marked by success of the reform policies that have been implemented. Any major reform will take time to produce results. But if the regimes have the legitimacy, it makes their task easier as the survival of these regimes have come to rest

34. Deborah Milenkovitch, "The Politics of Economic Transformation", Journal of International Affairs (Moscow), 1991, p.158.

35. H.S.Chopra, "Systemic Changes in Europe:Global Effects", in Alokesh Barua ed., "Global Order:Recent Changes and Responses" (New Delhi, 1992), p.99.

on socio-economic performance. Democratization is a remedy for this dilemma and all the Central-East European countries have embarked on democratic pluralism.

CHAPTER 3

EC's RESPONSE TO THE SYSTEMIC CHANGE IN CENTRAL-EASTERN EUROPE

I. EC's ACCORD WITH THE COMECON AND BILATERAL RELATIONS WITH ITS MEMBER STATES

The peaceful revolution which swept East Europe in 1989 was welcomed by the entire international community. The revolution in East Europe and the EC's programme to complete its single market by 1993, is changing the political and economic scenario in Europe. In spite of the geographic proximity, the relations between EC and its Eastern neighbours was insignificant before 1986. One of the major reasons for the lack of interaction between the two regions was the rigid communist political structures of the East European countries and the low standard of living which did not stimulate any interest in the EC. Lack of hard currency made it difficult for the EC to export their goods and the inferior quality of goods produced in the East European countries made it impossible for them to compete in the Community markets. Some basic indicators for the COMECON countries of Eastern Europe show that those countries lagged behind their Western counterparts (TABLE 3.1). The figures also show that there was considerable differences in the situation of the individual countries. This is also evident from the Table on their debt position. (TABLE 3.2)

For most part of the last decade the Hungarian economy has been characterised by stagflation and periodic steep increase in the volume of debt. The budget deficit has not been extremely high (2.5 percent to 4 percent of GDP), but the domestic savings were so low that even this deficit and the demand for funds by the enterprise could not be met. The high level of taxes and wide range of free state services (education, health-care, various social welfare services) as well as the compulsory state-operated scheme of pensions were the reasons for the relatively low level of domestic savings. The budgetary deficit had been financed from foreign credit and consequently the country's net amount of debts totalled 14.5 billion dollars in 1989. More than 60 percent of GDP was redistributed as incomes through the state budget. The level of taxation was extremely high because of the budgetary reallocations in the form of subsidies and tax allowances for the enterprisal sector. Trade on the rouble-account had played a stabilizing role but with the change in USSR, malfunctions grew in CMEA and it contributed to the worsening economic situation. A sizeable part of Hungary's industry which had geared itself to sales on rouble-account market, slid into a crisis. All these factors led to the steady decline of the economic growth and living standards of the people.

The totalitarian political system in Czechoslovakia, affected all spheres of life. The system of administrative

command management caused deep disequilibrium in the national economy. The Czechoslovak industry was afflicted by low efficiency due to the relatively outdated technological base and lack of modern know-how. The emphasis had been on the branches representing inputs in the national economy (raw materials, fuels, heavy industries, etc.). Economic output - particularly technology, consumer goods and the tertiary sector - was neglected. This imbalance reflected in the deficit in the output of the means of production, disorders in the internal market and the growth of unmarketable products. Development of the service sector and the infrastructure lagged behind, eg. informatics, data processing and long-distance transmission, transport, communications, tourism, etc. The uneven development of the economy reflected in the structure of employment also. There was no unemployment in Czechoslovakia, but a considerable part of the labour force was tied up in inefficient operations. There was overstaffing and excessive employment in the industry and manufacturing sectors and in administrative jobs. On the other hand, trade and services suffered from labour shortages.

With the advent of market-oriented economies and the inception of political democracy in Poland, Hungary and Czechoslovakia, these countries aspired for membership of international financial organizations. (TABLE 3.3) Membership of International Organizations has been recommended by the Western countries extending financial support to the Central-

East European countries, to ensure the soundness of restructuring measures and to give the macro-economic strategy to be followed.

EC's contact with the East European countries started in the 1970s. Bilateral agreements between EC and East European countries were difficult owing to COMECON's insistence that it itself would deal with the Community on behalf of its members. So, whatever little contact was established between the EC and East European countries was channelled through COMECON. In 1974, EC made its first offer to conclude trade agreements with industrial COMECON countries. Except Romania, no other country responded. The main obstacle was COMECON's influence. It was only after 1986, when Mikhail Gorbachev was in power that COMECON signalled its readiness to accept the Community's double approach, agreeing to the principle of a framework agreement with the Community but leaving trade matters to be negotiated by its individual members. As a result trade between the Community and East European countries began. (TABLE 3.4) On 25 June 1988, a Joint Declaration was signed at Luxemborg between EC and the CMEA, establishing official relations between the two, to develop cooperation in areas of common interest. This became a forerunner for the following bilateral agreements between EC and individual countries of East-Central Europe.

After the changes which swept East Europe in 1989, the leaders of Central and East European countries expressed their desire to join EC.

"But early membership of the Community is excluded for a number of reasons - both political and economic. For one thing the countries of East Europe need to consolidate their committment to pluralist democracy and to a market driven economic system."1

In the light of these constraints the Community has focussed on supporting the reform processes which are underway. It has concluded trade and cooperation agreements with the Central-East European countries. Before 1986, only sectoral trade agreements existed between the EC and the East European countries. Only after the Joint Declaration was signed between EC and CMEA, did the EC conclude bilateral agreements for trade, commercial and economic cooperation with Hungary, Poland, Czechoslovakia, USSR, Bulgaria and Romania. In September 1988 a 10-year trade, commercial and economic cooperation agreement was signed by Hungary and EC. The agreement's trade provisions are far reaching. They cover both industrial and agricultural products. The agreement provides for the elimination, in three stages, of discriminatory quantitative restrictions applied to imports of a range of Hungarian products. Restrictions on a number of non-sensitive items were to be ended within a year following the entry into force of the Agreement; on products considered fairly sensitive these restriction will be lifted by the end of 1992. The remaining quantitative restrictions, covering the more sensitive products, will be eliminated by December 1995 at the latest. The Agreement contains a safeguard clause, with a

1. European Community, The EC and It's Eastern Neighbours (Brussels, 1990), Periodical 8/1990, p. 10.

special procedure applicable in the case of the more sensitive products. Under the Agreement's trade provisions Hungary undertakes to improve access to its market for Community export and other businesses. It will implement its import licence system and overall consumer goods quota on a non-discriminatory basis, and ensure that Community firms are not discriminated against when contracts are awarded. Community business will also be accorded non-discriminatory treatment with such practical matters as office rental, staff recruitment, etc. The Agreement's provisions for economic cooperation are aimed at opening up new sources of supply and new markets' encouraging cooperation between economic operators, in order to promote joint-ventures; licencing agreements and other forms of industrial cooperation; and to encourage scientific and technological progress. The sectors covered include industry, mining, agriculture, scientific research, energy, transport, tourism and environmental protection.

An agreement between Czechoslovakia and the Community on trade of industrial products was signed in December 1989. Although it was negotiated at roughly the same time as the EC-Hungarian agreement, the agreement with Czechoslovakia was much more limited in its scope, as it only covers trade in manufactured products. The Community will remove a certain number of quantitative restrictions applied by individual

member states on imports from Czechoslovakia and suspend certain others. Czechoslovakia, on the other hand, will take a number of steps to encourage imports from the Community. It will provide information on its economic development plans, its intentions as regards imports and investments in industrial sectors likely to be of interest to exporters in the Community. The Czech authorities will also encourage trade promotion activities. Later a 5-Year Trade and Economic cooperation agreement was signed in May 1990 between the EC and Czechoslovakia. A similar 5-Year Trade and Economic cooperation agreement was signed in September 1989, between the EC and Poland. All these are non-preferential agreements of reciprocal MFN treatment. They aim at the gradual liberalisation by 1994 of quantitative restrictions applied by the Community on imports originating from these countries. These agreements provided for development and diversification of two-way trade, between the EC and the respective countries. They are based on principles of equality, non-discrimination and reciprocity. These agreements will help develop normal commercial and economic relations between the EC and the Central and East European countries. The rapid economic transition in Central and East European countries and the desire of these countries to have a special relationship with EC prompted the Community to respond positively. Thus the Community started in December 1990 formal negotiations with Poland, Hungary and Czechoslovakia, to conclude association or

Europe agreements. The trade and cooperation agreements lift quotas and other quantitative restrictions on exports from the EC to its East European neighbours. But they do not contain any element of tariff preference to facilitate their access to the Community market. The Euro agreements go beyond the free-trade accords.

Content of European Agreements²

- Europe agreements will provide an institutional framework for political dialogue on bilateral and multilateral issues.
- They will provide for the gradual shift towards reciprocal free trade in industrial products but the Community's concessions will be introduced sooner than those of the associated countries. Agriculture and fisheries products will be subject to special provisions. Gradual shift towards free trade means that the associated countries have to implement far-reaching reforms concerning pricing, subsidies, taxation, monetary policy and external trade system, thereby exposing their economies to international competition.
- They will enable for the movement of workers, services and capital.
- For the integration of these countries into the Community, the associated countries will gradually approximate their economic legislation to that of the Community.

2. European Community, Sessions Document (Brussels, 1991), Periodical 10 October, 1991, p.13.

- Economic, scientific, and technical links will be developed and intensified. This cooperation is intended to back up structural changes and help integrate them into the international trade system. Areas of cooperation will include among others; agriculture, industry, and technical standards training, research and science, energy, mining, transport, telecommunications, environment, etc.
- In order to support the reforms, financial support will be extended.
- It provides for cultural cooperation programmes.

Their implementation is conditional on internal progress by the partner countries in the fields of political and economic liberalisation.

Within two years after the Joint Declaration was signed, EC had concluded ^{agreements} /with individual East European countries. But the rapid pace of events in Eastern Europe forced the EC to develop additional response.

II. OPERATIONS OF EBRD

The December 1989 EC Summit in Strasbourg agreed to create a European Bank for Reconstruction and Development (EBRD) for extending loans to Eastern Europe. It was first proposed by the French President Francois Mitterrand and later

endorsed by the EC. It is the Community's main multilateral initiative for Central and Eastern Europe. EBRD was "West-Europe's attempt to throw a lifeline to the struggling new democracies in Eastern Europe"³. It was to help East European countries establish free market economies. The Bank's role was promoting investment in countries of Central and Eastern Europe, reducing financial risks, facilitating the transition towards a market economy and accelerating structural changes. According to the first article of the EBRD's statute;

"the purpose of the Bank shall be to foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiative in the Central and East European countries committed to and applying the principles of multi-party democracy, pluralism and market economies."⁴

East-Central European countries which adopted Western Style market economies in the post-communist period, need not only financial support from the Western countries, but also technical help and know-how in establishing the infrastructure needed for the transformation from a collective to a free enterprise system. Financial sector reforms, tight monetary and fiscal policies, introduction of sophisticated institutions and banking system were essential. EBRD will help the East-Central European countries in these spheres of transformation. The model which the East-Central European countries aspired for was that of the West European countries and EBRD is one of the programme by which the West is helping the East-Central European countries in their efforts at economic liberalisation

3. The Times (London) , 12 January 1990.

4. European Community, n.1, p.18.

process but the Bank has an apolitical stance. "It will not be the Bank's role to impose political decisions."⁵ The Bank will play an important role in supporting productive investment in the private sector and in related infrastructure. Its major task is to finance structural improvement in the economies. Since it will apply market conditions so as not to contribute to any increase in the debt burden of the beneficiary countries, the intention is that it should accord priority to private initiatives. Finance is also to be made available for major infrastructure projects. The Bank's aim will be to assist in the restructuring process by means of loans to private sector and for infrastructure. It is also possible that while not directly financing the research, the EBRD could provide finance for this activity as part of a larger investment.

The EBRD under the G-24 aegis, was officially opened on 15 April 1991. The seat of the Bank is London. Its President is Jacques Attali, former adviser to President, Francois Mitterrand. The EC provides principal support to EBRD. In a press conference on 30 March 1992, EBRD President reported that "the EBRD had funded 20 projects in Central and East Europe for a total of 621 MECU, since it was created."⁶ He also expressed the hope to increase lending volume to one billion ECU, in 1992 and increasing the role of the Bank when the climate for foreign investment in the region improved .

5. The Daily Telegraph, (Calcutta), 16 January, 1990.

6. European Community, G-24 update (Brussels, 1992), p.2.

III. NEW INSTITUTIONAL LINKAGES WITH CENTRAL-EASTERN EUROPE : THE PHARE ACCORD

The old international system which came into being after two World Wars is being replaced by a new one. Profound systemic changes in Europe has changed not only the set-up of the two rival blocs in North but has also changed the relations within Europe. The European Community has been engaged in a process of economic integration and completing the internal market by 1993. The Central-East European countries are engaged in the process of substituting communism by political democracy.

"The substantive revolutionary effect of the above-said changes would indeed be to reduce to almost irrelevance the established doctrines, which till now have been determining the functioning of the political, economic and security-strategy institutions in both the rival halves of Europe." ⁷

The USSR initiated the process of change by removing the threat of Soviet invasion on it's East-European allies. The Central-East European countries were freed from the shackles of totalitarian regimes. The systemic changes initiated by Gorbachev brought down the structures of a bi-polar world. The Warsaw Pact and COMECON have been wound up. The only alliance remaining is NATO, that too with reduced military role. The reorientation of East-West relations has thrown up new institutional linkages. With the breakdown of the COMECON, there has appeared another regional cooperation scheme known as

7. H.S.Chopra, "Systemic Change in Europe: Global Effects", in Alokesh Barua, ed., Global Order: Recent Changes and Responses (New Delhi, 1992), p.99.

Pentagonale - comprising of Austria, Czechoslovakia, Hungary, Italy and Yugoslavia - and with Poland's addition, it became Hexagonal. The group called the Pentagonale was working to foster regional cooperation on environmental management and data system, waste management, nuclear safety and international parks. But this organization has not been functioning vigorously, especially with the break up of Yugoslavia. It has remained in name only without making any progress.

The EC supports the process of political and economic reforms in Central-East European countries by way of improving market access, by making available aid programmes and by extending its loan facility. Aid for the process of reform and economic reconstruction in the countries of Central and Eastern Europe is widespread and takes many forms. It stretches from standby credits of the IMF centred on the achievement of the macro-economic stability, World Bank loans for projects and structural adjustments, to a variety of bilateral aid schemes from individual donor countries which have become known as the "Group of 24" (G-24). The EC plays a major part in these assistance efforts. The member states form part of the concerted G-24 assistance efforts, which the Commission coordinates. PHARE is the EC's particular effort to support the ongoing process of economic reconstruction in the countries of East-Central Europe by providing financial and technical support in key areas to the respective government's actions for creating the conditions for a market-oriented economy based on

private ownership and initiative. The PHARE programme was set up by the Group of Seven (G-7) Summit in Paris in July 1989. The PHARE (Poland and Hungary Action for Restructuring of the Economy) Programme was initially set up for Poland and Hungary only, but was extended in mid 1990 to include Bulgaria, Czechoslovakia, Yugoslavia and Romania. The initial aims of PHARE were to sustain the political and economic reform in Poland and Hungary and in particular to strengthen the private sector. Discussion with Poland and Hungary in the course of the PHARE operation led to the identification of a need for assistance with industrial and trade reform with a strong aspect of technology cooperation. Community assistance for Poland and Hungary was based on an action programme centred on five priorities most of which were of special interest for industrial cooperation:

- improved access to the Community market of Polish and Hungarian products by scrapping quantitative restrictions and granting GSP treatment;
- promotion of vocation training (notably under the aegis of the European Training Foundation and the TEMPUS programme);
- measures in support of economic reform and investment promotion;
- food supply for Poland and restructuring of agriculture in this country;
- cooperation on environmental protection, including for projects in the energy field.

The budget set aside by the Commission for this purpose was ECU 300 million for 1990, A further ECU 200 million was set aside for the other beneficiary countries. For 1991, budget allocations amounted to ECU 785 million and for 1992 a figure of ECU 1000 million was envisaged.⁸ The break-up by country and field of assistance is given in TABLE 3.5. These funds are non-reimbursable grants to finance reconstruction programme and not loans for commercial activities. PHARE provides assistance in creating the administrative, financial and commercial environment without which a market could not function and private investment could not be attracted. The immediate priority of the economic reforms in Central and Eastern Europe centres on macro-economic stabilization, but PHARE grants are not intended to support the economies of the beneficiary countries as a whole nor to cover their general financing or investment needs. The aid must be used in financing of projects aimed at economic restructuring in certain priority areas. The priority areas were identified by the Commission, in consultation with the IMF, the World Bank, and the OECD. These areas are: agriculture, industry, investment, energy, training, environmental protection, trade and services. This implies the transformation of the production and distribution system with an emphasis on private ownership and investment. Thus the core areas of this process are:⁹

- abolition of states monopolies;

8. European Community, The Community and the Countries of Central and Eastern Europe (Brussels, 1991), Periodical 10 October 1991, p.2.

9, European Community, PHARE-An Operation Guide (Luxembourg, 1992), Periodical, 92-826, p.7.

- restructuring and privatization of public enterprises;
- modernization of financial services, covering restructuring of the Banking system to operate on a commercial basis, development of the securities market, insurance systems and reformed credit, accounting and taxation system including development of rural financial networks;
- promotion of the private sector, particularly small and medium sized enterprises, together with the appropriate support services, including vocational training;
- development of the labour market and social sector including the reform of social security and welfare policies.

Other priorities identified are - improved access to stabilizing and improving food supply, professional training and environmental protection. The Community provided financial safety nets for Poland and Hungary in the form of the Polish Stabilization Fund and the Community's medium-term loan of USD 1 billion to Hungary. The stabilization fund has helped underpin Poland's radical reform programmes which might have otherwise proved too risky. This programme has reduced inflation, strengthened the Zloty and improved the balance of payments. The medium-term loan has helped maintain Hungary's access to international capital markets and encourage other institutions to provide finance for economic restructuring.¹⁰ In May 1990 the Commission announced a set of projects for Poland and Hungary worth ECU 86.5 million as part of its

10. European Community, n.1, p.16.

contribution to PHARE projects. More than half the amount will go on environmental protection, a sector where the Community has taken the lead in supporting major control efforts. The list of projects includes:¹¹

1. Poland: Environmental protection programme
2. Hungary: Environmental protection programme
3. Poland/Hungary: Participation in Budapest Regional Environment Centre
4. Poland: Basic technical assistance for privatization programme
5. Hungary: Support for modernizing the financial system
6. Poland/Hungary: Cooperation in the field of economics
7. Poland: Sectoral import programme for animal feed and feed-additives
8. Poland/Hungary: Technical assistance for implementing the Trans-European mobility programme for university studies (TEMPUS).

Of the schemes financed, projects with a more direct impact on industry had taken a larger share in 1991. This was particularly so with restructuring programmes, programmes to promote small business and environmental programmes. Programmes to support industrial restructuring and privatization include company restructuring studies, assistance

11. *ibid.*, p.16,

to the ministries and agencies responsible and credit facilities. Measures to promote small business include loan facilities and guarantees, funds for acquiring holdings, training schemes and technical assistance particularly in management. Technological cooperation and assistance projects are under development which aim at providing the countries of East-Central Europe with the knowledge and the resources they need in order to devise, establish, and develop their national standardisation, certification, metrology quality assurance system.¹² Among the other programmes, a major one has been the TEMPUS programme. This was launched in May 1990 for student exchanges. With a funding of ECU 117 million, it is a three year programme aimed at financing academic exchanges to enable students and teachers from East-Central Europe to spend upto a year at an EC University or in a company or administration. A smaller number of teachers and students from EC universities would spend equivalent time in Eastern Europe. TEMPUS also promotes exchanges between Eastern Universities and universities or private businesses in the EC.

Specific areas of emphasis vary from country to country. In May 1990 when the PHARE programme was extended to other East European countries, the Commission's initial assessment of Czechoslovakia's priorities were as follows:

- industrial restructuring,

12. European Community, PHARE-Economic Situation and Economic Reform in Central and Eastern Europe (Brussels, 1991), Periodical DG II-A-6, P.15.

- the environment (pollution control, industrial waste,
- nuclear safety) ,
- training and youth exchange,
- investment (transport and telecommunications),
- scientific.. and technical cooperation,
- improved access to markets.

It has been clearly stated by the EC that it is the responsibility of governments of the recipient countries to define the respective policies and priorities. The Commission responds to the recipient country's request for providing financial supports, supplies technological assistance, training and studies for particular programmes of reform in key sectors as appropriate. It follows therefore that PHARE programme have to be initiated by the respective national authorities. Preference is given to programmes which support policy reforms. The programmes are agreed on a bilateral basis. In 1991 a number of cross-national or regional programmes were introduced on a pilot basis, involving PHARE beneficiary countries where common interest could best be served by joint programmes.

The economic services of the Commission has complemented the assistance efforts by conducting relevant economic analysis of the Central-East European countries. They have assessed the economic situation, the progress of reform process and the recent developments. The statistical apparatus of these countries are not equipped to provide even the basic macro-

economic indicators and so makes it difficult to have a comparative study.

Fundamental economic reforms in Czechoslovakia started in January 1991. In the beginning they concentrated on political restructuring and preparations for transition to a market economy. The abolishing of centrally planned economy, created uncertainties and this had adverse effects on economic performance. This was aggravated by shortages in supply of energy and raw materials from the Soviet Union and lack of export possibilities due to the break down of the CMEA trading system. Czechoslovakia's economic performance deteriorated in 1990 (TABLE 3.6).¹³ Industrial production fell and consumer price index rose (GRAPH). Unemployment was still low but rising rapidly. The trade balances moved from surplus to deficit. In January 1991 wideranging liberalization measures were affected which worsened the industrial output: it fell by 15 percent compared to last year. Export volume had fallen substantially and import prices rose steeply.

The Hungarian economy embarked on stabilization efforts on medium-term adjustment process. This and other reform efforts contributed to a decline in economic activity. Recession was accelerated because of the breakdown of CMEA trade. Figures for 1990 and 1991 showed contraction of economic activity.(TABLE 3.7)¹⁴ Real GDP declined by 5 percent compared to previous year and industrial production declined by more

13. European Community, European Economy (Brussels, 1991), Periodical 8/9-Aug/Sep. 1991, p.2.

14. *ibid.*,p.3.

than 10 percent. Tight fiscal policy led to a reduction in the state budget deficit. In spite of a restricted monetary policy, inflation increased, the consumer price index rose by 30 percent. In 1991 too industrial production declined and unemployment was increasing. The performance of the external sector was positive in 1991. A surplus of \$ 127 million was recorded in convertible currency trade.

In Poland, the declining trends in the economy which were evident in 1989 were aggravated by the radical stabilization measure introduced in January 1990.¹⁵ (TABLE 3.8) However, it helped to reduce the hyperinflation from a monthly rate of 78.9 percent in January 1990 to 1.8 percent in August. During 1990 inflation stabilized at around 250 percent for the whole year. Prices rose steeply in January 1991 but declined gradually. Stabilization has resulted in reducing economic activity. GDP decreased by 12 percent in 1990, industrial production in the state sector fell by 23 percent but increased by 8.5 percent in private sector. Gross agricultural production increased by 2.5 percent over 1989. the decline in economic activity resulted in a growing deficit. Unemployment rose to 1.5 million in June 1991. In 1990 Poland achieved a trade surplus of \$ 2.2 billion. Exports rose by 43 percent over the previous year and inputs increased by 18 percent.

The results of the reforms in Central-Eastern Europe has been mixed. Negative figures and declining economic activity gives a gloomy picture. The financial aid from EC and other

15. *ibid.*, p.4.

international lending institutions has kept the economies of Eastern Europe from total chaos. The challenging job of transformation of these economies has been taken up by the EC through its various aid programmes. This has given rise to apprehensions in the Third World that these commitments to Eastern Europe will marginalize them. According to Prof.Dr.Hartmut Elsenhans, the marginalization of the Third World will not be "because of any drain of resources to the benefit of East Europe... there is really no reason to expect the financial transfers to the Third World limited because of new commitments to Eastern Europe." 16

16. Dr.Hartmut Elsenhans, "Global Change and Implications for India", SIS,JNU,Occasional Papers (New Delhi, 1992), No.1/1992,

TABLE 3.1

BASIC INDICATORS FOR EASTERN EUROPEAN COUNTRIES

Indicators	Soviet Union	Bulgaria	Czecho-slovakia	German Democratic Republic	Hungary	Poland	Romania	OECD
Population (million, 1988)	286.4	9.0	15.6	16.6	10.6	38.0	23.0	824.8
GDP (billion USD, 1988)	1 590.0	50.7	118.6	155.4	68.8	207.2	94.7	12 073.0
GDP per capita (USD)	5 552.0	5 633.0	7 603.0	9 361.0	6 491.0	5 453.0	4 117.0	14 637.0
Annual growth of GDP (%):								
1981-85	1.7	0.8	1.2	1.9	0.7	0.6	- 0.1	2.5
1986-88	2.3	1.9	1.5	1.7	1.5	1.0	0.1	3.5
Living standards (1987):								
Cars per 1 000 inhabitants	50.0	127.0	182.0	206.0	153.0	74.0	11.0	385.0
Telephones per 1 000 inhabitants	124.0	248.0	246.0	233.0	152.0	122.0	111.0	542.0
Share of workforce in agriculture (%)	21.7	19.5	12.1	10.2	18.4	28.2	28.5	8.0
Gross domestic investment/GDP (%)	33.2	32.7	24.7	29.2	28.5	36.5	37.1	20.6
Share of private enterprise in GDP (%)	2.5	8.9	3.1	3.5	14.6	14.7	2.5	70-80
Workers with secondary education (%)	27.3	n.a.	29.4	n.a.	33.8	28.9	n.a.	61.0
Exports of goods as % of GDP (1988)	6.8	23.0	19.7	13.7	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	77.3	79.6	63.4	50.6	81.8
Change of share of OECD markets (% , 1978-89)	- 26.0	- 18.5	- 44.0	- 25.2	- 7.8	- 32.3	- 46.3	-

Source: OECD.

n.a. = not available.

: 75 : -

TABLE 3.2

	Foreign debt	
	Total (billion USD)	Per capita (USD)
Poland	40.4	1 078
Hungary	19.7	1 873
Czechoslovakia	6.9	431
Bulgaria	9.5	1 056
Romania	1.0	44
Yugoslavia	17.6	733
Sources: World Bank, IMF.		

TABLE 3.3
EASTERN EUROPE'S MEMBERSHIP
OF INTERNATIONAL FINANCIAL ORGANIZATIONS

	IMF	IBRD	GATT
Poland	Member	Member	Member
Hungary	Member	Member	Member
Czechoslovakia	Applied	Applied	Member
Bulgaria	Applied	Applied	Applied

TABLE 3.4

COMMUNITY (EUR 12) TRADE WITH EAST EUROPEAN COUNTRIES, 1986-88

(million ECU)

	Imports			Exports			Trade balance		
	1986	1987	1988	1986	1987	1988	1986	1987	1988
USSR	13 158	13 128	12 988	9 874	9 189	10 113	-3 284	-3 939	-2 875
GDR	1 626	1 390	1 400	1 072	1 086	1 264	-554	-304	-136
Poland	2 947	2 907	3 359	2 388	2 332	2 755	-559	-575	-604
Czechoslovakia	2 108	2 055	2 211	1 944	2 078	2 170	-164	23	-41
Hungary	1 888	1 996	2 158	2 450	2 372	2 354	562	376	196
Romania	2 483	2 429	2 234	987	651	614	-1 496	-1 778	-1 620
Bulgaria	549	517	461	1 472	1 453	1 406	923	936	945
Albania	125	56	72	65	56	67	-60	0	-5
Total	24 884	24 478	24 883	20 252	19 217	20 743	-4 632	-5 261	-4 140

Source: Eurostat.

1988

The breakdown by country and field of assistance granted to date is as follows:

<u>Economic restructuring</u>	<u>1990</u>	<u>1991</u> (Jan-May)
Poland	MECU 195	7,5
Hungary	97	4
GDR (1)	35	-
Czechoslovakia	34	20
Bulgaria	25	23
Yugoslavia	35	-
Total MECU	MECU 421	
<u>Humanitarian aid</u>		
Hungary & Poland	MECU 51	-
Romania	15	-
Bulgaria	-	10
Total	MECU 66	
<u>Multidisciplinary aid</u>		
For programme studies, Infrastructure, etc.	13	8
Overall total	MECU 500	72,5

(1) Eligible until reunification

TABLE 3.6

CZECHOSLOVAKIA - Main economic indicators

	1989	1990	1991 Q1
Net Material Product constant prices (a)	3.1	2.3	-1.7
Industrial production (a)	1.0	-3.7	-9.2
Agricultural production(a)	1.3	-3.9	-
Consumer price index (a)	1.4	10.0	54.7
Unemployment rate, % of labour force	0.0	1.0	2.3
Trade balance, \$ bn	0.2	-1.3	-0.4
Current account balance, \$ bn	1.0	-0.4	-
Gross foreign debt, \$ bn	7.9	8.1	8.3

(a) Percentage change over (same period of) previous year

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TABLE 3.7

HUNGARY - Main economic indicators

	1989	1990	1991 Q1
GDP at constant prices (a)	-2.8	-5.0	-4.3
Industrial Production (a)	-0.5	-10.5	-12.3
Agricultural production (a)	1.2	-4.0	2.8
Consumer price index (a)	17.0	28.9	34.2
Unemployment rate, %	0.0	0.2	0.3
Trade balance, \$ bn	1.0	0.3	0.5
Current Account, \$ bn	-1.4	0.1	0.2
Gross foreign debt, \$ bn	20.6	21.8	-

(a) percentage change over (same period of) previous year.

TABLE 3.8

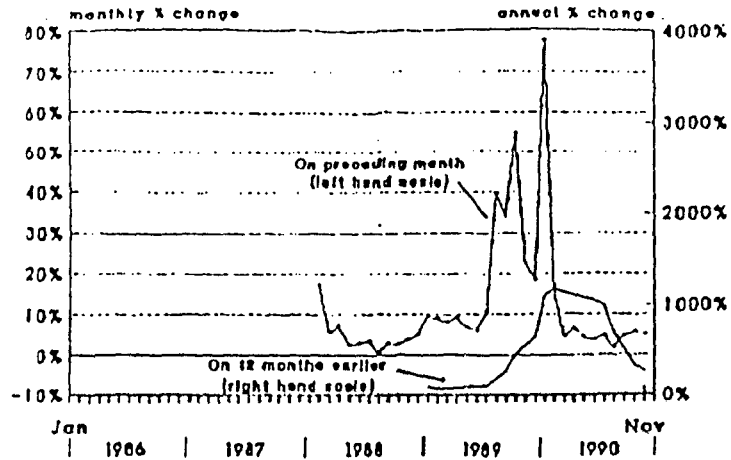
POLAND - Main economic indicators

	1989	1990	1991 Q1
Net Material Product constant prices ^(a)	0.2	-13.0	-
Industrial production (a)	-2.9	-23.0	-9.3
Agricultural production	2.0	-	-
Consumer price index ^(a)	640.0	250.0	88.2
Unemployment rate, % of labour force	0.1	6.1	8.4
Trade balance, \$ bn	0.2	2.2	-0.3
Current account balance, \$ bn	-1.8	0.7	-
Gross foreign debt, \$ bn	43.3	46.5	48.5

(a) Percentage change over (same period of) previous year.

INFLATION IN POLAND

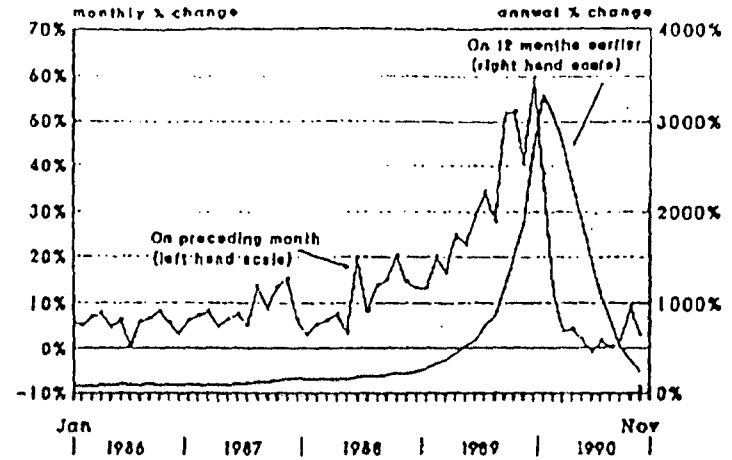
Consumer price index



Source: IMF

INFLATION IN YUGOSLAVIA

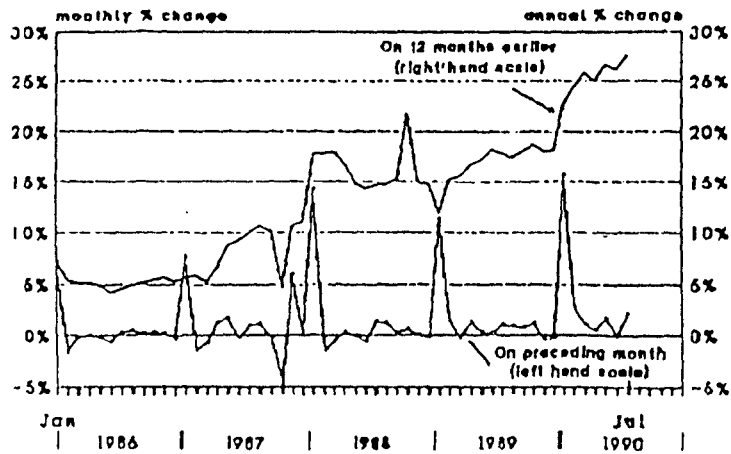
Consumer price index



Source: IMF

INFLATION IN HUNGARY

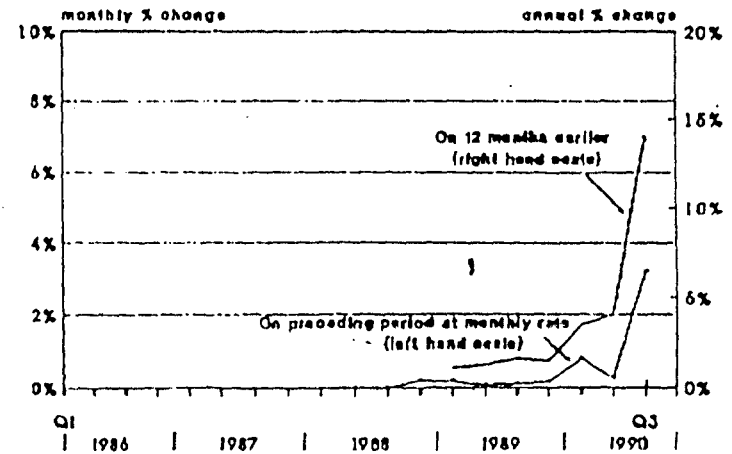
Consumer price index



Source: IMF

INFLATION IN CZECHOSLOVAKIA

Consumer price index



Source: IMF

C H A P T E R 4

C O N C L U S I O N S

The newly formed political democracies of Eastern Europe are witnessing a process of painful transition from socialist to free market economies. The task of shifting from the centrally planned economies to free market enterprise is one without historical precedent. For successful transition, not only reforms but complete transformation in the political and economic domain is needed. The lack of necessary infrastructure makes the task much more difficult. The old structures are crumbling down fast but are not being replaced at the same speed with new ones. Here the highly developed "first world" countries play an important role. International and regional organizations are well placed in a position to help the embryonic democracies of Central-Eastern Europe.

The West has not been indifferent to the changes taking place in Eastern-Central Europe. The European Community has extended massive support programmes in this region. The European Bank for Reconstruction and Development was set up in 1991, and the PHARE programme was drawn up at the EC initiative to help East-Central Europe out of the crisis. The EC stabilization fund and medium term loans to Poland and Hungary have helped to sustain their economies during the early phase of the reform programme. Giving a directive to the reform process, EC has made financial support conditional on the

progress made in the economic and political situation in these countries. The dichotomy of East-West exist inspite of the end of ideological conflict. This is reflected in the differences in the standard of living in the two regions. The difference between the better-off West and and worse-off East can adversely affect peace and security in Europe. The assistance made available till now amounts to very little. More than the financial support the East European countries need to be integrated into the international community. The association agreements between the EC and the individual countries and the membership of international organizations may help democracy to find roots in these states.

The Eastern counterpart of the EC - the CMEA, which was established eight years before the establishment of EC - was dismantled after the cataclysmic changes in East Europe which reflected dissatisfaction of the CMEA member states with it. But the abolition of COMECON broke down the only available international economic foundation of intra-bloc trade, which then affected adversely economies of its member states. Other similar cold-war structures have been wound up leading to the break-down of old linkages and formation of new ones.

In Eastern Europe the systemic change had to be less cumbersome than in the Soviet Union because of the earlier liberalisation efforts and reform processes having been initiated earlier in some of the countries in that region.

Political change was not a very sudden and impulsive action. In the countries under study, in particular, contradictions grew between the centralized political power and its various components: between the organization and management of the economy and economic development and the improvement of the standard of living; between Party leadership and the party cadre and between the Party and the people. These contradictions were heightened by the abuse of power and the existing privileges and corruption of the state power elite, became steadily worse and led to an inevitable breakdown, to an extraordinary instability and to uncontrolled social and political developments. Dissent had been growing in the region over the years and the ruling regimes in the concerned states started reform processes to gain legitimacy. The three components of Gorbachev's "New Thinking" - Perestroika, Glasnost and Democratization were overwhelmingly welcomed in the East European states while in the Soviet Union, Perestroika and Democratization had to face rough weather. But 'glasnost' proved to be a great success. Most of the reforming governments in Eastern Europe, unlike their counterparts in the Soviet Union, did not follow the "middle way" between communism and capitalism. Their ambition has been to create market economies on the western model as quickly as possible. That is why privatization has become their top priority.

Economic reforms need time and caution to be carried out. But economic transformation is politically complicated. The

success of the reform process depends on political change. Gorbachev's most important achievement was his willingness to link economic reforms with political change. The EC has been reinforcing the importance of political change. The PHARE schemes are to be implemented only after periodical assessment of the progress of democracy in the Central-East European countries.

Poland, Hungary and Czechoslovakia, which are considered to be the most 'self-consciously' western countries, have been rigorously following the task of changing over to democracy. These countries are members of or have applied for membership of the IMF, the IBRD (World Bank) and the GATT. The membership of these organizations will help them to integrate their markets in the international economic mainstream.

The association agreements signed by the EC with three East European countries, viz., Poland, Hungary and Czechoslovakia have been viewed as a positive step towards the widening of the European Community along democratic lines. Before the end of the cold-war, EC had already begun to further deepen its process of integration and of its metamorphosis into European Union. The two moves at widening and deepening of European integration have to proceed simultaneously so as to bring to an end the cold-war, and help strengthen political stability and peace all over Europe.

After the end of the Second World War, Europe was divided into two ideologically opposing blocs, pursuing their own modes of economic management. As a result, there began two varying processes of regional integration in both the blocs, since the late 1940s onwards. However, in the late 1970s, there appeared symptoms of dissatisfaction among the member states of the COMECON. But in Western Europe, the intensification of the cold war and also the growing perception of Euro-sclerosis provided a new stimulus to them to further strengthen their organic unity. The EC Commission finalized its white paper on transformation of the EC into European Union by 31 December 1992. It is expected that with the adoption of 279 measures by the member states, there may emerge European Single Market by the end of this year. However, European Union (in different forms, political, economic and social) has been rescheduled to shape phase-wise by 1999.

In contradiction to the deepening and expansion of European integration in the West, the communist oriented COMECON and the Warsaw Pact have since been wound up. As a result, there is now power vacuum in the former Soviet bloc. Despite the increasing (but not enough to help tide over the economic crisis) financial and technological assistance extended by the EC, the new political democracies in Central and Eastern Europe are faced with the uphill task of

froctifying their shift from statism to free enterprise mode of economy. There is a high quotient of impatience with the politically conscious populace in this region. Instead of finding greater satisfaction with the change, there have appeared symptoms of disappointment and frustration. In consequence, there seem to be re-emerging the reactionary forces, such as those of ethnicity, religion, and degenerate forms of nationalism, which in the past have been responsible for the outbreak of the two cataclysmic wars in this century. Yugoslavia and the USSR have been torn into pieces. Now, Czechoslovakia has also been divided into two independent republics, viz., Czech and Slovak. At this stage, it is too early to prognosticate whether the Central and East European countries would reach a stage of political stability in the near future. In any case, Western Europe is fully seized of the situation in the erstwhile Eastern bloc, and could only refrain, with a great difficulty, of course, from being pessimistic and attempt to understand the enormous complexities involved in the historic change in the region in question. Here, however, one is reminded of what Lenin had remarked after the Revolution in 1917, which ironically bear validity even today in the aftermath of the reversal of the same Revolution:

"History know moments when the most important thing for the success of the revolution is to clear up as large a quantity of the fragments as possible, ie., to blow up as many of the old structures as possible;

moments arise when enough has been blown up and the next task is to perform the "prosaic" task of clearing away the fragments; and moments arise when the careful nursing of the rudiments of the new system, which are growing amidst the wreckage on a soil which as yet has been badly cleared by rubble, is the most important thing."

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