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Article — Digitized Version

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Intereconomics

Suggested Citation: Mayer, Otto G. (1992) : EC: Challenge from the East, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 27, Iss. 3, pp. 101-102, <http://dx.doi.org/10.1007/BF02926317>

This Version is available at:

<http://hdl.handle.net/10419/140344>

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EC: Challenge from the East

Both Western and Eastern Europe are in a state of upheaval. A wave of historic events has engendered radical changes in politics, defence and economics. The new order that Europe must achieve in the coming years will also have repercussions on the political and economic structures well beyond its own borders.

The nature of the factors of influence, of the new structures, cannot at present be discerned even in outline. In (Western) Europe the debate on the course to be charted has only just begun. The cogently worded question, "a widening or a deepening of the European Community?", pinpoints the problem: underlying this issue is the suspicion that there is the latent danger in an ongoing policy of closer institutional integration of splitting Europe anew, albeit in a qualitatively different way.

In the incipient discussion, however, it is difficult to avoid the impression that the European Community seems to be having difficulties in relinquishing its "inward" orientation and in viewing the drive of the Central and East European states towards the EC and their high hopes of EC assistance as anything other than a "disruption" of its own integration plans. Institutions, at least economically heterogeneous and hence politically cumbersome ones like the EC, find it hard to adapt, let alone abandon, integration projects conceived under different external conditions, and indeed there is little sign that it intends to do so. Instead of thoroughly re-examining its own external (foreign trade and preferential treatment) policy as well as its internal economic policy – especially structural policy (agricultural policy, for example) – in the face of the forthcoming challenges, the response so far has been marked by a "business as usual" attitude and/or sporadic activism.

In December 1991, the EC signed treaties of association with the CSFR, Poland and Hungary, but this did not entail any definitive shift in EC trade policy: free trade is the goal after ten years at the most; so-called sensitive goods (textiles, coal, steel etc.) are subject to the well-known quota system and there is no need to waste any more time discussing the continuing protection of the EC agricultural markets. Talks are underway with other reform countries such as Bulgaria, Romania or Albania. At present there are no preferential arrangements whatsoever for trade with the CIS states.

If the Central and East European countries were high-output, competitive rivals standing at the trade gates of the EC, this restrictive stance might be understandable for reasons of short-term adjustment, but this is obviously not the case today. For one thing, these countries are still undergoing a process of transformation and restructuring and for another, their current share in EC aggregate imports is some 4%, whereas Western Europe is their biggest export market. In the short run, then, the EC could have opened its doors wider to these countries without incurring any serious adjustment problems.

So it would seem that the European Community wants to safeguard itself against possible adjustment problems in the longer term. Besides, in the association treaties it has not treated the countries concerned in the same way: the arrangements differ, i. e. in trade policy, the EC is discriminating between the Eastern reform countries and hence introducing elements of political rivalry amongst them which will probably also affect their trade relations with one another. Since the EC's policy here will ultimately enable it also in the medium term to influence – in a restrictive sense – the volume and patterns of exports

from these countries and hence their growth, it is exerting additional pressure on these countries to try to become full members of the Community as quickly as possible. By doing so, the EC is also putting itself under greater political pressure in this respect.

Trade policy also has an impact on migration from Eastern to Western Europe. The possible magnitude of such an exodus is a source of grave concern particularly in Germany, not simply in view of the number of ethnic Germans in these countries. The more hermetic the protection of the Western markets the more this will hamper potential growth in the East and worsen the economic outlook, which in turn will raise the chances of increased migration. The usual remedy for migration: "bring capital to people rather than let people migrate to capital", of course presupposes that markets will be open for the resultant additional production. Improved access to the markets should in turn attract more capital, once the general conditions in the reform countries have become better.

Western fears of swelling migration must, however, be seen in perspective. Why should the accepted growth policy argument for national economies, that factors of production should be allocated to those areas where they will be put to the most productive use, hold less for Europe as a whole – even if a more cosmopolitan standpoint seems inconceivable? In the long term, distribution aspects speaking against this will only have an effect if thinking and action are directed away from Europe "as a whole" and towards nation states or enclosed groups of states.

Almost all the standard arguments against more immigration, such as a lack of structural facilities, housing or labour market problems, relate to short-term adjustment issues. The argument here resembles the reasons adduced for protecting a certain sector (agriculture, coal, steel, textiles and the like) which centre solely on the costs of adjustment while ignoring the advantages of liberalization for the consumers and other producers. One need not look far or go a long way back in history to find evidence of the long-term benefits of immigration. In the fifties, some 18 million immigrants came to West Germany over a period of a good ten years, well over a third of the population at that time. Despite all the inevitable adjustment problems it caused, this migration was in the view of most authors a key contributory factor to West Germany's so-called economic miracle.

An argument against more immigrants from Central and Eastern Europe is of course the well-known phenomenon that as a rule it is the best qualified and most mobile workers who opt to leave: there would thus be a shortage of such workers in the reform states, which would then act as a brake on economic recovery. If it is true that labour migration depends on the stability gap (unemployment, inflation etc.) and the per capita income disparity as well as the prospects and expectations with regard to these, then there is a very real "danger" of more migration from East to West in the nineties. We need only think of Russia, whose citizens will be granted freedom of movement as of 1993 and where there are an estimated 10 million unemployed.

Given the time left and the volume of capital required, it would hardly seem realistic to hope to counter the possible imminent migration with capital transfers alone. According to estimates, (efficiently used) capital flows of between US \$ 800 billion and US \$ 1,400 billion would be needed every year for a decade to bring per capita income in Central and Eastern Europe up to the average level in the OECD countries. These sums are simply unrealistic. The aid presently being provided does not even bear any serious comparison with the volume pledged.

Apart then from realistic capital aid, if it is ever forthcoming, and the urgently needed technical assistance, it is ultimately up to the Central and East European countries themselves to rapidly and fully transform and restructure their economies. Crucial support could have been expected to be provided in particular – though not solely – by the EC, in the form of the immediate, untrammelled and unconditional access to Western markets. This would have at least improved prospects and expectations in the reform states.

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