Spring 1990

Return to Europe: Integrating Eastern European Economies into the European Market Through Alliance with the European Community

Amy Deen
Washburn University School of Law

David A. Westbrook
University at Buffalo School of Law

RETURN TO EUROPE: Integrating Eastern European Economies into the European Market Through Alliance with the European Community

As of April 1990, Poland, Czechoslovakia, Hungary, Yugoslavia, and Bulgaria had negotiated bilateral trade accords with the European Community (EC).[1] By mid-summer, these accords are expected to give rise to more formal association agreements that will provide stronger and more permanent economic ties between the EC and East Europe.[2] EC association will assist these five states in transforming their command economies into market structures by extending the trade liberalization begun by the accords, encouraging systemic change, and providing for political dialogue.

In seeking Western economic alliance, the five East European states could have pursued their economic transformation along at least three different diplomatic paths.[3] As a group, they might have negotiated integration into the European market on a multilateral basis, perhaps revamping their existing trade association, the Council for Mutual Economic Assistance (Comecon).[4] Alternately, individual East Euro-

1. This Recent Development does not consider East Germany, Romania, or the Soviet Union. East Germany has already begun the process of reunification with West Germany and presents a unique situation. The turbulence of the Romanian situation interrupted diplomatic relations with the EC and delayed any agreement. The Soviet Union, although it has been attentive to the processes of East European integration and recently signed an accord with the EC, is simply too large and powerful for unfettered entry into the European market. We refer to the five states considered as "East Europe." Questions of nomenclature and identity are considered in depth in *Eastern Europe . . . Central Europe . . . Europe*, 119 DAEDALUS—J. AM. ACADEMY ARTS & SCI. (1990).

The European Economic Community was established by the Treaty of Rome in 1957. It is currently composed of twelve states: Belgium, Denmark, France, West Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, and the United Kingdom. *See* Treaty Establishing the European Economic Community, Mar. 25, 1957, 298 U.N.T.S. 11; *see also* Treaty Establishing the European Atomic Energy Community, Mar. 25, 1957, 298 U.N.T.S. 169; Treaty Instituting the European Coal and Steel Community, Apr. 18, 1951, 261 U.N.T.S. 143.

2. LaFranchi, *Events in Eastern Europe Force EC to Consider Stronger Executive*, Christ. Sci. Mon., Mar. 9, 1990 (LEXIS, Nexis library, Omni file); Auerbach, *EC Seeks to Improve Ties With Eastern Europe: Continent Wide Free Trade Zone May Be Goal*, Wash. Post, Feb. 24, 1990 (LEXIS, Nexis library, Omni file).

3. We do not discuss a fourth possible model, bilateral negotiations between individual states, because such negotiations have played a relatively minor role. Where such negotiations have existed, for example Romania and Spain, the agreements are intended to be a step toward closer association with the EC. *Romanian Prime Minister Asks for Help From Spain*, UPI, Apr. 17, 1990 (LEXIS, Nexis library, Omni file).

4. Created by Stalin in 1949, Comecon was designed to coordinate economic relations between the planned economies and has "always been hopelessly inefficient." *Comecon: An Idea Whose Time Is Gone*, ECONOMIST, Jan. 13, 1990, at 46. With the Joint Declaration of June 22, 1988, Comecon and the EC first recognized each other. 31 O.J. EUR. COMM. (No. L 157) 34 (1988). Nevertheless, Comecon has played a relatively minor role in the economic integeration of East Europe and many members now seek reforms to reflect their new beliefs about the conduct of economic and political life.

pean states might have concentrated on bilateral arrangements with the European Free Trade Association (EFTA).[5] Instead, they have chosen separate, but virtually identical, bilateral negotiations with the EC as the surest path to economic stability. The choice of bilateral agreements with the EC and the similarity of the accords negotiated have powerful implications for the future East Europe.

Multilateral models of East European economic integration into the European market involve three discrete blocs: the EC, EFTA, and East Europe. European planners arrange these blocs in several ways. For example, EC Commission President Jacques Delors promotes a concentric model of Europe with a highly integrated EC at the center, surrounded by a less integrated free trade ring including the EFTA states, with the East European states on the periphery.[6] Soviet Foreign Minister Eduard Shevardnadze rejects the hierarchy and Western focus of the concentric model and envisions the three blocs at the corners of a triangle.[7] Both models may overstate the potential relationship between the East European and EFTA blocs; a strong central EC orbited by separate EFTA and East European blocs might better describe the growing centrality of the EC in the European economy.

The recent bilateral agreements reached by five East European states, however, cannot be understood within the confines of a model of Europe as a configuration of blocs. Blocs imply relatively established patterns of diplomatic association, an inadequate way of understanding contemporary European dynamism. The increasing integration of the EC, accelerated by the Single European Act, has resulted in some factionalization of the Community.[8] In addition, the prospect of the

---

5. EFTA is currently composed of Austria, Finland, Iceland, Norway, Sweden, and Switzerland. It was established in 1960 as a free trade zone. Founded as an alternative to the EC, EFTA allows Member States full retention of their decision-making powers. Convention Establishing the European Free Trade Association, Jan. 4, 1960, 370 U.N.T.S. 3.

6. *See* Muehring, *Europe's New Order*, INST. INVESTOR, Dec. 1989 (LEXIS, Nexis library, Omni file). In a concentric model, also known as a model of "variable geometry," states in all circles trade with one another. But this model assumes that few states will change circles. The EC's freeze on new membership until after 1992 might support that vision of stability. Austria, Turkey, and Malta have had applications postponed. EFTA, too, has shown little eagerness to extend membership to developing East European states. EFTA's position may be a product of its admission system, which requires a unanimous vote to induct new members, effectively giving each state a veto power. Convention Establishing the European Free Trade Association, Jan. 4, 1960, arts. 32, 41, 370 U.N.T.S. 3.

7. Wash. Post, Dec. 19, 1989 (LEXIS, Nexis library, Omni file).

8. Single European Act, 30 O.J. EUR. COMM. (No. L 169) 1, art. 13 (1987). Since its foundation, the EC has become increasingly integrated. This process is controversial. EC Commission President Jacques Delors advocates a federal system similar to the United States while British Prime Minister Margaret Thatcher urges a future EC in which Member States would retain a great deal of autonomy, but enjoy an absolutely free internal market. *See generally* Muehring, *supra* note 6. Both visions imply a great change from the present situation in Europe. *See generally* Krugman, *EFTA and 1992* (EFTA Occasional Paper No. 23, June 1988).

removal of all trade barriers among EC states has led EFTA to strengthen ties with the EC.[9]

A description of East Europe as a bloc also ignores the deep differences among the East European states. The pervasive influence of the Soviets and the dramatic transformations of 1989 have obscured the underlying diversity among East European states. Yugoslavia, for instance, has been trying to move toward capitalism for over a decade. In contrast, Czechoslovakia only began real efforts at reform in November 1989. Currently run by a hurriedly formed coalition of students, intellectuals, and others under the charismatic leadership of president and playwright Vaclev Havel, Czechoslovakia is preparing for elections in June.[10] Poland is different still. As it enters its second decade, Solidarity represents a level of political experience, organization, and cohesion not generally found in the new East European governments.[11] As a result of this diversity, the five East European states differ in both their present stages of development as well as their degree of commitment to and understanding of the changes they want.[12]

The extent of present macroeconomic disequilibrium also differentiates the five East European states. The lack of market structures, such as pricing and currency convertibility, makes the accurate comparison of East European economies very difficult. Nevertheless, some differences are apparent. The debt burdens of individual states vary, with the $40 billion Polish debt roughly twice that of any other

---

9. In reaction to the process of integration, the EFTA states must move closer to the EC to avoid substantial damage to their own economies. EFTA fears that the removal of all trade barriers among EC states will result in *de facto* tariffs on products from outside the EC, including EFTA products. *See generally* Wallace & Wessels, *Towards a New Partnership: The EC and EFTA in the Wider Western Europe* (EFTA Occasional Paper No. 28, Mar. 1989); *see also* Krugman, *supra* note 8. Since the EFTA states depend on trade with the EC, they are currently negotiating for a European Economic Space (EES), which would guarantee continued free trade with the EC. Such a "structured partnership," *EFTA Ministers Conclude Meeting and Call for a "Structured Partnership" With the EC*, 6 Int'l Trade Rep. (BNA) at 1629 (Dec. 13, 1989), would "assure the free circulation of goods, people, services and capital between the two blocs." *EC, EFTA Foreign Ministers Agree to Launch Negotiations on Closer Economic Integration*, 7 Int'l Trade Rep. (BNA), at 22 (Jan. 3, 1990).

10. *See* Ash, *The Revolution of the Magic Lantern*, N.Y. Rev. Books, Jan. 18, 1990, at 42.

11. Despite rumors of the splintering of Solidarity, and Solidarity leader Lech Walesa's recent flirtation with presidential candidacy (a direct challenge to General Jaruzelski), Solidarity continues to be the strongest political force in Poland. N.Y. Times, Apr. 12, 1990, at A4, col. 1; N.Y. Times, Apr. 11, 1990, at 1, col. 6. *Contra Solidarity: A Good Thing While It Lasted*, ECONOMIST, Mar. 24, 1990, at 53 (describing increasing differences between Solidarity leader Lech Walesa and Solidarity Prime Minister Tadeusz Mazowiecki).

12. S. Fischer, Address at the Conference on Economic Transition in Eastern Europe, Brandeis University (May 4, 1990) (available from Brandeis University) (Dr. Fischer is Vice President for Economics at the World Bank).

state.[13] In addition, some states are experiencing severe inflationary crises while others, at least in relative terms, have managed to escape the crippling effects of currency devaluation. For example, Yugoslavia has adopted severe austerity measures in order to bring hyperinflation under control.[14] Hungary, on the other hand, averages a mere fifteen to twenty percent annual inflation rate.[15] Openness to foreign investment also differentiates the states. Hungary has the most advantageous foreign investment laws, allowing 100% foreign ownership and a five year tax holiday for joint ventures in select industries.[16]

Even the common need for Western aid separates the East European states from one another. Because reconstruction and the creation of market economies requires extensive financial support, states must vie for limited Western assistance.[17] Recently, the President of the Hungarian National Bank, Ferenc Bartha, requested aid with the preface, "We are not Poland."[18] Czechoslovakia sees a break with its former Comecon trading partners as an important step toward establishing functioning market economies while Hungary's relationship with Comecon remains uncertain.[19] The many differences between the five

13. Androsch, *Go Long on Poland*, 4 INT'L ECON. 30. The Paris Club has agreed to suspend payments on $9.4 billion of Poland's current debt and to give Poland financial assistance to begin restructuring. *Rich Nations Give Hope to East Bloc Aid-Seekers*, Reuters, Feb. 16, 1990 (LEXIS, Nexis library, Omni file). But although the Polish debt is the largest in absolute terms, it is less than Hungary's debt on a per capita basis and approximately equal to Hungary's debt in terms of GNP. Hungary, which has not rescheduled its loan payments, is considered to be in the best shape of the five East European states in terms of foreign debt. S. Wellisz Address at Conference on Economic Transition in Eastern Europe, Brandeis University (May 4, 1990) (available from Brandeis University).

14. "Bankruptcy procedures are under way at 122 firms as a result of the reforms. Yugoslav economists have predicted that mass factory closures will lay off 1.2 million people, or about one-fifth of all workers, doubling the unemployment rate." Heritage, *Yugoslavia has Problems Making Capitalists Out of Communists*, Reuters, Mar. 16, 1990 (LEXIS, Nexis library, Omni file).

15. Parker, *Eastern Europe's Insiders Outline Their Strategies*, 4 INT'L ECON. 35, 36.

16. *Cowboy Capitalism Goes East*, U.S. NEWS & WORLD REP., Jan. 22, 1990, at 34.

17. The allocation of foreign capital presents problems of horizontal equity, as Western lenders have yet to develop an organized set of performance criteria for aid. C. Cooper, Address at the Conference on Economic Transition in Eastern Europe, Brandeis University (May 4, 1990) (available from Brandeis University) (Dr. Cooper is former Executive Director of the World Bank.).

18. Parker, *supra* note 15, at 36. Bartha distinguished Hungary from Poland in terms of debt burden, infrastructure, market equilibrium, and agricultural and industrial production.

19. Czechoslovakia has officially notified Comecon that it will withdraw from three multilateral agreements designed to regulate currency rates in trade relations. Peel & Buchan, *Prague Quits Comecon Agreements*, Fin. Times, Apr. 5, 1990 (LEXIS, Nexis library, Omni file). In January 1990, Hungary suspended its ruble-denominated exports to the Soviet-led bloc in order to control inflation resulting from the drain of goods from the country. Nevertheless, Hungary continues to value its Eastern trade ties and seems unlikely to secede from Comecon. *Hungary Sees Gains in Comecon Trade Ties, Deputy Minister Says*, Reuters, Jan. 26, 1990 (LEXIS, Nexis library, Omni file). Indeed, not all East European states plan to leave Comecon behind. Polish economist Witold Trzeciakowski points out that the Soviet Union still supplies two-thirds of Polish raw materials and a great deal of their machinery, in addition to being a major creditor. Consequently, at least in Poland's case, withdrawal from Comecon is unlikely. Parker, *supra* note 15, at 37.

East European states led to bilateral trade agreements with the EC rather than a more integrated multilateral approach.

In seeking bilateral arrangements as a wedge into Western markets, several East European states considered but decided not to emphasize trade agreements with EFTA.[20] EFTA has a loose, decentralized structure that could accommodate the differences among East European states, particularly the different rates at which they create functional markets. The East European states have an abundance of skilled labor and are short of capital. The EFTA states, in contrast, are capital rich and have high labor costs. At least in principle, these complementary advantages could foster close economic cooperation.

Political and security considerations might also induce East European states to negotiate primarily with EFTA. At this time, the East European states remain in the Warsaw Pact. Because the EC is developing a foreign policy and is dominated by NATO states, an infusion of Warsaw Pact states might pose a problem for both European and Soviet security.[21] Unlike the EC, joining EFTA entails no political commitments.[22]

Perhaps encouraged by these structural and political considerations, several East European states entered negotiations with EFTA. Yugoslavia has long cooperated with EFTA and recently expressed interest in membership.[23] Hungary has agreed in principle to seek a relationship with EFTA similar to that currently enjoyed by Yugoslavia.[24] Poland has filed a draft declaration of cooperation with EFTA.[25]

Despite their theoretical appeal, strong trade agreements between EFTA and individual East European states have not been pursued. Most East European states regard alliance with EFTA as a supplement to negotiation with the EC.[26] For example, Yugoslavia sees EFTA

---

20. "EFTA is in a special position to provide Eastern Europe with an economic, though not necessarily a political, opening to Western Europe: EFTA's per capita trade with Eastern Europe is three times that of the EC's." Wallace, *Europe's Economic Groups to Meet*, Christ. Sci. Mon., Dec. 18, 1989 (LEXIS, Nexis library, Omni file).

21. Rashish, *A Club for East Europe to Join*, N.Y. Times, Feb. 20, 1990, at 21, col. 1.

22. EFTA was in large degree founded to provide the economic benefits of free trade without undue interference in matters of national policy. In contrast, one of the principal architects of the EC wrote, "There will be no peace in Europe if States are reconstituted on a basis of national sovereignty with all that that implies in terms of prestige politics and economic protectionism." P. Fontaine, Jean Monnet, A Grand Design for Europe 41 (1988).

23. Pisar, *Yugoslavia and Europe*, 41 Rev. Int'l Aff. 27 (1990).

24. *EFTA Working on Joint Declaration of Cooperation With Hungary*, Reuters, Mar. 9, 1990 (LEXIS, Nexis library, Omni file).

25. *Jaruzelski Appeals for Reduction In Poland's Debt*, Reuters, Feb. 4, 1990.

26. "Regarding our relations with Europe, we are candidates for entering the European Community . . . . We are striving to enter EFTA and we understand that EEC will become a new home for European countries which will perform well . . . . But our ambition is to get the membership of the European Community." Statement of Zivko Pregl, Deputy Prime Minister of Yugoslavia (available from the Yugoslavian Embassy to the U.S.).

membership as a stepping stone to the EC. And EFTA itself may be unsuited to accepting the East European states as members. EFTA comprises highly independent trading states and has little corporate identity. Although it has a central administrative structure, with a council which meets periodically, EFTA is not oriented toward concerted action.[27] With the exception of agreements with the EC, EFTA states seldom adopt a common policy toward non-EFTA states. As a result, EFTA and the five East European states have not formed long-term agreements with each other.

The hesitancy of East European-EFTA negotiations also reflects the East European emphasis on bilateral association with the EC. In their Joint Declaration of June 22, 1988, Comecon and the EC first authorized bilateral negotiations between East European states and the EC.[28] Since then, all five states have made substantial progress toward normalizing relations with the EC. Hungary signed an accord on September 26, 1988, while still under the old regime.[29] Czechoslovakia signed an agreement on December 16, 1988, which it upgraded on March 23, 1990.[30] Poland signed an accord on March 13, 1990, and Bulgaria and the EC initialled a pact to liberalize trade on April 3, 1990.[31] Yugoslavia signed a basic trade and economic cooperation agreement with the EC in 1983. This agreement has been steadily amended and is now functionally on par with the other, more recent, East European accords.[32] These similar, individual accords satisfy the East European preference for bilateral negotiation but, in practical terms, may group the five East European states together.

Although formally bilateral, the individual accords are remarkably similar in scope, language, and structure.[33] Their central concern is

27. Convention Establishing the European Free Trade Zone, Jan. 4, 1960 art. 32, 370 U.N.T.S. 3. On EFTA's lack of consensus, see *EFTA Ministers Conclude Meeting with Call for a "Structured Partnership" with the EC*, 6 Int'l Trade Rep. (BNA) at 1629 (Dec. 13, 1989).

28. 31 O.J. EUR. COMM. (No. L 157) 34 (1988).

29. 31 O.J. EUR. COMM. (No. L 327) 1 (1988).

30. 32 O.J. EUR. COMM. (No. L 88) 1 (1989). A revised agreement, as yet unpublished, was initialed on March 23, 1990, and is reported to give Czechoslovakia better access to EC markets and "know how" as one of a "series of pacts being concluded with reforming East Bloc countries at a breathtaking pace." *EC, Czechoslovakia Initial Sweeping Trade and Cooperation Pact*, Reuters, March 23, 1990 (LEXIS, Nexis library, Omni file).

31. 32 O.J. EUR. COMM. (No. L 339) 1 (1989) (Poland). Bulgaria initialed an accord, not yet published, which marked the final agreement in the series. *EC, Bulgaria Initial 10-Year Trade, Cooperation Pact*, Reuters, Apr. 4, 1990 (LEXIS, Nexis library, Omni File).

32. For the basic accord, see 26 O.J. EUR. COMM. (No. L 41) 1 (1983). Subsequent amendments and supplements are found in 32 O.J. EUR. COMM. (No. L 307) 5 (1989); 31 O.J. EUR. COMM. (No. L 367) 78 (1988); 30 O.J. EUR. COMM. (No. L 389) 65 (1987); 30 O.J. EUR. COMM. (No. L 371) 4 (1987); 30 O.J. EUR. COMM. (No. L 318) 51 (1987); 28 O.J. EUR. COMM. (No. L 288) 4 (1985); 26 O.J. Eur. Comm. (No. L 237) 1 (1983).

33. 32 O.J. EUR. COMM. (No. L 339) 1 (1989) (Poland); 32 O.J. EUR. COMM. (No. L 88) 1 (1989) (Czechoslovakia); 31 O.J. EUR. COMM. (No. L 327) 1 (1988) (Hungary). Bulgaria's accord is not yet published. Due to its history, Yugoslavia's accord is something of a special case.

normalization of trade in industrial products. The accords do not apply to products covered by the treaty establishing the European Coal and Steel Community, affect the provisions of existing agreements concerning trade in textile products, or disturb existing agreements in the agricultural sector.[34] The parties attempt to liberalize trade in industrial products by pledging to "accord the highest degree of liberalization which they generally apply to third countries to imports of the other's products."[35] All the accords abolish specific quantitative restrictions on EC imports and promote cooperation in a variety of areas, including industry, energy, mining, tourism, and the protection of the environment.[36] The accords all establish a committee to monitor and amend the processes of trade liberalization and economic cooperation.[37] Agreements concerning specific products are contained in appended annexes.

The Yugoslavian accords differ slightly from the others. Never bound by the strictures of Comecon membership, Yugoslavia has a longer history of economic reform, and of negotiating with the EC, than the other East European states.[38] In general, the Yugoslavian accord is less oriented toward the creation and liberalization of markets and more oriented toward "contributing to the economic and social

---

34. 32 O.J. EUR. COMM. (No. L 339) tit. I, art. 4, at 3 (1989) (Poland) (parties agree not to disturb existing or subsequent agricultural agreements); 31 O.J. EUR. COMM. (No. L 327) tit. I, art. 3, at 3 (1988) (Hungary) (parties agree not to disturb existing or subsequent agricultural agreements). *But see* 32 O.J. EUR. COMM. (No. L 339) tit. I, art. 12, at 4 (1989) (Poland) (handling agricultural matters). The agreement with Czechoslovakia makes no explicit mention of agricultural agreements. In general, the Czechoslovakian accord is less comprehensive than the other East European accords. Presumably, the updated accord initialed (not yet published) on March 23, 1990, makes the Czech accord equivalent to those of Poland and Hungary.

35. 32 O.J. EUR. COMM. (No. L 339) tit. I, art. 6, at 3 (1989) (Poland); 32 O.J. Eur. Comm. (No. L 88) art. 3, at 3 (1989) (Czechoslovakia) (which reads "highest possible degree of liberalization"); 31 O.J. EUR. COMM. (No. L 327) tit. I, art. 4, at 3 (1988) (Hungary).

36. Accords between Poland and Hungary and the EC are also similar in their modifications under the Poland Hungary Aid for Restructuring of Economies (PHARE) action plan, formed by the Group of Seven at the Paris Summit (July 14–16, 1989) and subsequently adopted by the Group of 24. Under PHARE, the EC is responsible for coordination of the aid which the Group of 24 is extending to Poland and Hungary. Although the EC will not supervise the debt problems of Poland and Hungary, the EC budget will guarantee billions of ECU in loans for restructuring. COMMISSION OF THE EUROPEAN COMMUNITIES, EC-EASTERN EUROPEAN RELATIONS: BACKGROUND BRIEF (Jan. 19, 1990).

37. 32 O.J. EUR. COMM. (No. L 339) tit. III, art. 20, at 6 (1989) (Poland); 32 O.J. EUR. COMM. (No. L 88) art. 12, at 4 (1989) (Czechoslovakia); 31 O.J. EUR. COMM. (No. L 327) tit. III, art. 13, at 5 (1988) (Hungary).

38. Paradoxically, Yugoslavia seems to see itself as both ahead of and behind the events elsewhere in East Europe. "It should not be forgotten that by her resistance to Stalinism, by her option for socialism with a "humane image," by her open frontiers and circulation of her citizens among the manpower of European states, Yugoslavia was a direct participant in creating a new kind of Europe. If her institutional association with Europe objectively lags somewhat today, the fault is not Yugoslavia's alone." Pisar, *Yugoslavia and Europe*, 41 REV. INT'L AFF. 25, 26 (1990).

development of the Socialist Federal Republic of Yugoslavia."[39] Nevertheless, the Yugoslavian accord resembles the other accords in many respects.[40] Most importantly, the current enthusiasm for market reform makes the accord functionally similar to the accords signed between the EC and the Comecon states.[41]

By mid-summer, these accords should lead to a "second generation" of bilateral association agreements, which were approved at the EC Summit in Dublin on April 28, 1990.[42] The associations will be relatively novel because, unlike the earlier associations enjoyed by Greece, Portugal, and Spain, they will not provide for future accession into the EC.[43] The associations thereby strike a compromise by anchoring the five East European states while avoiding rash commitment by an EC that remains somewhat undecided about its own scope.[44] The association agreements will accelerate the process of trade liberalization begun by the accords, but no schedule has been set for the

---

39. 26 O.J. EUR. COMM. (No. L 41) art. 1, at 4 (1983). The main difference between the Yugoslavian accord and the others is one of tone: Where the more recent accords confess a belief in the free market, the Yugoslavian accord seeks to improve "the conditions of access for Yugoslav products into the Community market." *Id.* tit. II, art. 14, at 6.

40. Under article 15 and subject to various restrictions, Yugoslavia may export industrial products to the EC free of numerical quotas or customs duties. 26 O.J. EUR. COMM. (No. L 41) tit. II, art. 15, at 6 (1983). *But see* 32 O.J. EUR. COMM. (No. L 307) 5 (1989) (reestablishing some customs duties as provided by article 15). The Yugoslavian accord also provides for a "cooperation council," analagous to the Joint Committee of the other accords. 26 O.J. EUR. COMM. (No. L 41) tit. III, arts. 46–51, at 12–13. But in contrast to the other accords, the Yugoslavian accord is longer and broader in scope; it treats labor, prior agreements with Italy, and a wide range of agricultural products. *Id.* tit. IV, arts. 44–47, at 12–13 (labor); tit. III, arts. 41–43, at 12 (prior agreements with Italy); tit. I, art. 7, at 5 (agriculture).

41. "What is essential is that Yugoslavia is definitely coming out of a prolonged period of stagnation; a period in which, if I may say so, a certain neodogmatism prevailed . . . . The Yugoslav Government has introduced a programme of economic reform, based on the laws of a modern market economy." Loncar, *Yugoslavia and the World*, 41 REV. INT'L AFF. 1, 5 (1990) (speech delivered by Yugoslavian Secretary for Foreign Affairs Budimir Loncar at the French Foreign Relations Institute, Paris, Jan. 31, 1990).

42. Goldsmith, *European Leaders Take Crucial Step Toward "Political Union"*, UPI, Apr. 28, 1990 (LEXIS, Nexis library, Omni file). Approval for association extends to Poland, Hungary, Bulgaria, Czechoslovakia, Yugoslavia, and Romania.

43. Poland, Hungary, Czechoslovakia, Bulgaria, Yugoslavia, and Romania seek to join the EC as soon as possible, but the new-style association pacts carry no guarantee of eventual membership, unlike previous agreements that led to Greece, Spain, and Portugal joining the Community in the 1980's. *Id.*

44. *European Community: Deepeners versus Wideners*, ECONOMIST, Feb. 3, 1990, at 50. Too strong a commitment to East Europe may upset the process of EC integration. The Single Act came into force in 1987; the momentum behind the integration process is not very old. The Bundesbank has already committed many resources to the process of German unification and may be unable to steady the financial course of an EC heavily committed to East Europe. Despite recent successes, the EC is hardly uncontroversial and if participation in the market leads in the short term to inflation or other hardship, it will be politically difficult to sustain the process of integration. The EC may assume many of the burdens of transforming the East, but it must spend political, as well as financial, capital to do so. *See* Hoffman, *A Plan for The New Europe*, N.Y. Rev. Books, Jan. 18, 1990, at 18.

achievement of free trade. The associations will also encourage systemic change in the East European states by requiring progress "towards systems based on political and economic liberties."[45] The association agreements will include "technical assistance and financial support" and "information exchange and cooperation."[46] Joint projects will be created for the renovation and construction of the infrastructure necessary to a modern economy. Finally, association agreements will provide for political dialogue between the Community and the several East European states.[47] In sum, EC association substantially institutionalizes, and thereby solidifies, the changes wrought by the recent upheavals in East Europe.

Association agreements benefit both the EC and the five East European states. The East European states must find markets to replace the guarantees afforded by the Comecon system; association would promote entry into the markets of Western Europe. Industrialized free market societies rely on stable markets to insure the delivery of basic goods and services. The danger of gradual change in the East European states, however, is that government may be unable to administer an area of the economy, while the private sector may not be developed enough to meet the societal need dependent on that area of the economy. Also, the transition to a market economy will result in inflation as price restraints are lifted on scarce goods. Because inflation coupled with unemployment will inevitably create social discontent, many East European states seek rapid transformation.[48] Bilateral association with the EC, with accompanying aid, technology, and access to Western markets, will speed these transformations and thereby cushion some of the inevitable hardships of structural change.

In addition to positive benefits, EC association will also avoid the potential economic disadvantage that further EC integration will create for the five East European states. Unassociated, the East European

---

45. Currently, the G-24 provision of similar support, which is coordinated by the EC, is premised on the progressive adoption of liberal values and market economics. Presumably the EC will continue this policy. Andriessen, *Change in Central and Eastern Europe: The Role of the European Community*, NATO REV., Feb. 1990, at 1, 4. (Frans H.J.J. Andriessen is Commissioner for External Relations and Trade Policy for the European Community.).

46. *Id.* at 6.

47. *Id.*

48. "You don't try to cross a chasm in two jumps." Sachs, *Eastern Europe's Economics*, ECONOMIST, Jan. 13, 1990, at 2. Lawrence Summers, Professor of Economics at Harvard University, also advocates rapid reform and finds the situation in East Europe analogous to a situation in which it is suggested that Britain reform its practice of driving on the left. But, finding the switch to the right side a radical reform, Britain starts by only applying the new policy to trucks. L. Summers, Address at Conference on Economic Transition in Eastern Europe, Brandeis University (May 4, 1990) (available from Brandeis University). For an argument in favor of gradual change, see Galbraith, *Which Capitalism for Eastern Europe*, HARPERS, Apr. 1990, at 19 (lecture delivered at the University of Edinburgh, January, 1990).

states face being unable to compete against EC producers for customers in an integrated EC.[49] But though they cannot afford to be shut out of the unified market, few East European industries could at present sustain open competition with the EC. The accords normalize relations between the EC and the East European states, but they do not steer a course between the Scylla of economic isolation and the Charybdis of failure to compete. Consequently, the East European states need association agreements more comprehensive than the current accords.

The EC also benefits from the association agreements, which show solidarity with, and support for, the democratic movements in East Europe.[50] Many hope that democratic states in East Europe, particularly if closely associated with the EC, will make Europe a safer place than has been possible under the politics of opposing alliances.[51] Economically, a closely associated East Europe presents rich opportunities for the EC. East Europe provides EC capital with new cooperative ventures and untapped investment possibilities and offers EC producers new, and potentially enormous, markets. Both East Europe and the EC will benefit from bilateral association "reflecting geographic proximity, shared political, economic, and cultural values and increased interdependence."[52]

The East European developments of 1988–89 presented the EC with a single pressing problem: how to Westernize, modernize, and integrate the East European command economies.[53] In response, the EC developed a preliminary strategy applicable to all East European states.[54] Recognizing that the time-consuming negotiation of highly individualized accords is impracticable, the EC seems to have used each general trade agreement as a model for the next. Moreover, the EC gives every sign of negotiating basic second generation agreements with equal speed. In responding quickly and practically to the East

49. These fears of being excluded from EC trade parallel those of EFTA. *See* sources cited *supra* note 9.

50. Andriessen, *supra* note 45, at 1.

51. Failure of the Glorious Revolutions of 1989 and the resulting economic collapse could cause immense human suffering and great political instability. More optimistically, successful transformation of East European economies could make the European market even larger, with a concommitant gain in prosperity for everyone. Possible profits, as well as the cost of failure, counsel a strong commitment by the EC to the restructuring of the East European economies.

52. Andriessen, *supra* note 45, at 5.

53. The Western tendency to group the East European states is also based on geography, over forty years of homegenous politics, and the recent fall of the Soviet-backed Communist regimes, with the concurrent adoption of more liberal ideologies.

54. The EC advocates the use of aid, either outright or through debt rescheduling, to ameliorate the hardship which will accompany transformation. The first steps of restructuring are to be pricing reform (the end of subsidies) and currency convertibility. *See* Sachs, *supra* note 48, at 21. Nonetheless, there is increasing controversy about the order in which reforms are to be carried out. J.M. Motias, Address at Conference on Economic Transition in Eastern Europe, Brandeis University (May 4, 1990) (available from Brandeis University).

European need, the EC has negotiated a series of trade agreements so similar as to make few distinctions between the East European states.

The five East European states, committed in form to bilateral agreement with the EC, have negotiated accords whose striking similarities reveal the continued Western perception of an East European bloc. Thus the Revolutions of 1989 have yielded a series of agreements as important in their structure as in their content. When the East European states exerted their commitment to self-determination and rejected centralized economic control, they emerged to find a Europe and perhaps a world with increasing collectivization of national interests. The EC has achieved a level of unity perhaps never seen in modern Europe.[55] Despite their newly realized autonomy, the East European states find themselves grouped together by their need for immediate Western assistance. The EC alliances they consider the key to Western markets have been achieved rapidly because of the Western tendency to perceive a collective East European problem. In taking a great leap toward nationalism, the East European states may have committed themselves to supranationalism.

Amy Deen
David A. Westbrook

55. Even staunchly autonomous EFTA states are voting, against tradition, for completely free trade with the EC. *See generally* Bressand, *Beyond Interdependence: 1992 as a Global Challenge*, 66 INT'L AFF. 47 (1990).