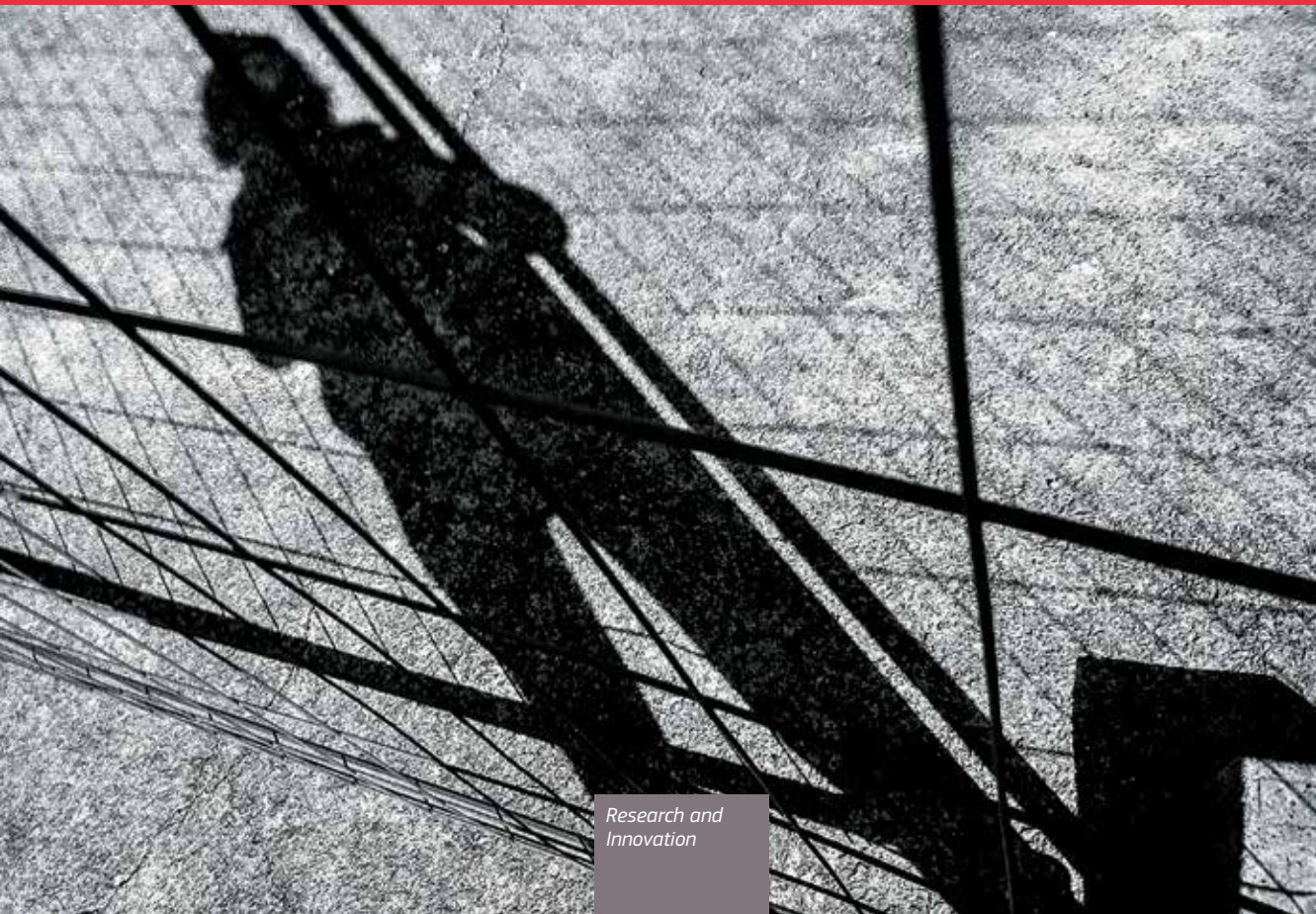




25 years after the fall of the Iron Curtain

The state of integration of East and West
in the European Union



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EUROPEAN COMMISSION

25 years after the fall of the Iron Curtain

The state of integration of East and West
in the European Union

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Introduction



The fall of the Berlin Wall in 1989 and the collapse of the Soviet Union signalled the end of the post-second-World-War bipolar system and transformed world order dramatically. The largest and most rapid changes took place in communist Central and Eastern Europe. This communist system was a Soviet type 'party-state' structure with the strategic aims of concentrating power in a leading Party superstructure, accelerating modernisation and expanding throughout the world. Although grounded in the egalitarian ideology of communism, the system had become totalitarian and had little in common with the idea of social justice enshrined in Marx's works.

The end of the Soviet Union and of the so-called Communist Block triggered important changes.¹ The dissolution of three federal states in the 1990s — the Soviet Union, Czechoslovakia and Yugoslavia — led to the creation of twenty-four new states in the region. International organisation representing and advocating the norms and values of pluralist societies — the Council of Europe, the Organisation of Economic Cooperation and Development (OECD), the International Monetary Fund (IMF), the World Bank, the World Trade Organisation (WTO) and others — began to expand rapidly, accepting former communist countries and their successor states as members. Consequently, NATO and the European Union also grew rapidly by successive enlargements to the East.

During the last 25 years, Central and Eastern European countries² have thus undergone unprecedented political, economic, social and cultural changes, experienced the benefits but also the disillusion of democratisation and the uncertainties of a new economic system in an ever-shifting international context. Obviously such transformations were bound to transform the Central and Eastern European countries fundamentally but in turn one would also have expected the enlargement of the EU to 10 new countries to profoundly affect the EU itself.

Four specific features of transitions in Central and Eastern Europe grant them a unique status. First of all, the exceptionally broad scope of change includes political institutions, the economic system, societal values and culture, defence alliances, integration in supra-national structures (first of all the EU) and state- and nation-building. Second, economic and political liberalisation occur simultaneously, although the former is bound to take more time to settle. The third feature of democratisation in Central and Eastern Europe is the fact that market-orientated reforms had to be introduced under democratic, or at least pluralistic, political arrangements; according to the scientific literature, economic reform has an easier time when it takes place under an authoritarian regime.³ Fourth, the transitions to democracy in Central and Eastern Europe have been peaceful (with the single exception of Romania where there were armed clashes in December 1989). One could add a fifth feature: **while international influences play a part in many democratic transitions around the globe, in Central and Eastern Europe they were very strong because of both security concerns (escaping from the former Warsaw Pact to NATO) and the modernisation effects expected through the**

1 Leszek Balcerowicz, (2002). 'Understanding Post-communist Transitions', in *Democracy after Communism*, eds. Larry Diamond and Marc F. Plattner, 63–77: Hopkins University Press.

2 In this Review, the terms Central and Eastern Europe (CEE) and East Central Europe are used interchangeably.

3 Adam Przeworski, Michael M. Alvarez, Jose Antonio Cheibub and Fernando Limongi, *Democracy and Development: Political Institutions and Well Being in The World 1950–90* (Cambridge, MA: Cambridge University Press, 2000). According to these authors, economic reforms create dissatisfaction within the population but this discontent, is more easily manageable by the repression mechanisms available in an authoritarian system, as illustrated for instance in the case of Latin America in the 1960s-1980s.

integration with the European Union. Of course NATO integration is also explained by the strategic goals of the Western European countries and of the USA, which tried to push back Russian influence and avoid the re-creation of a no man's land in Central and Eastern Europe.⁴ European Union integration, on one side, functioned as a powerful agent for democratisation, through the principle of conditionality (the so-called Copenhagen criteria) based on liberal democracy and market economy.⁵

Despite these daunting prospects, the transition to a democracy and market economy of Central and Eastern European countries was a rapid political process. After accepting the ambitious plan of the European Union by December 1993 in Maastricht, the EU15 opted for a large and comprehensive eastern enlargement which lasted less than 10 years (1 May 2004 for the first eight CEE countries, Bulgaria and Romania being integrated in 2007). As hinted above, the main reason for this urgency, at least on the side of the candidate countries, was that **EU integration represented their central foreign policy objective.** In all these countries, the negotiation developed under strong home policy pressure in favour of EU membership. This strategic objective forged national unity and support in favour of EU membership.

However, barely a year after the 'big enlargement', the new members of the EU found themselves in a Union of strategic uncertainty. The negative referenda on the draft Constitutional Treaty in France and the Netherlands in 2005 were followed by political procrastination, and even paralysis, for two years. And then, by the time the Lisbon Treaty was signed (in December 2007), a very large economic crisis broke out on the North American continent and in Europe, threatening the stability of the eurozone up to the present day. Last but not least, the recent events on the Eastern borders of the EU have reinvigorated the prospect of geopolitical tensions with Russia. In these matters, the EU has had difficulties in adopting a common stance because of varying appreciations and interests among Member States, the Central and Eastern countries being inevitably more sensitive to Russia's show of strength in the region.

It is thus noteworthy that these systemic transformations, in particular the NATO and EU enlargements, are still unfinished processes. Various new phenomena indicate that previously known tendencies of expanding western norms to the new Member States and the promising East-West rapprochement, not least in economic terms, have taken a downward turn over the last few years. Internally, all these countries have also experienced democracies in specific ways which sometimes rather veer towards outright nationalism, like in some Western EU countries. At the same time, **it is also important for the reader to give up the idea that the Central and Eastern European countries constitute a coherent geographical and geopolitical block shaped by 50 years of communism. In fact, while sharing a common past, these countries also display marked diversities in terms of both the history and the actual nature and style of their regimes and institutions;** such diversity has actually showed up clearly over the years since enlargement.

4 Jacques Rupnik, 'The International Context', in *Democracy after Communism*, eds. Larry Diamond and Marc F. Plattner, 132–146 (Baltimore, MD: The Johns Hopkins University Press, 2002).

5 Frank Schimmelfennig, Stefan Engert and Heiko Knobel, *International Socialisation in Europe. European Organisations, Political Conditionality and Democratic Change* (New York, NY: Palgrave Macmillan, 2006).

Even after 25 years of democracy and 10 years of EU membership, some problematic issues persist or, indeed loom even larger in several of these new Member States: intolerance and populism, attempts at discrediting democratic policy making, corruption, as well as regular political eruptions regarding the status of minorities and their rights. These backlashes may be a result of the recent economic crisis, of ineffective post-accession conditionality on the part of the EU, or of democratising too fast, too soon, without rooting far-reaching reforms in local mentalities: these are questions that should be put forward. **Finally, the relationships between the Western and CEE parts of the EU remain full of ignorance and misconceptions with perhaps the exception of close neighbouring countries such as Germany, Austria and Poland, Hungary, the Czech Republic and Slovakia. There is therefore an immense intercultural ground still open for further integration of the EU.**

This Review thus aims to describe, document and explain the fundamental systemic change that have taken place in Central and Eastern European countries since 1989 and the impacts on European integration⁶. Ten states of this region — the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia, followed by Romania and Bulgaria — have become EU members and others may yet do so, with Croatia being the most recent Member State.⁷ The Review constructs a concise, objective and yet critical account of the major geo-historical, political, economic, social and cultural changes in the last 25 years in Central and Eastern Europe and their relationships with European integration. In doing so it uses the results produced by several research projects funded by the EU under FP7, as well as other scientific evidence and analysis produced on CEE countries since the fall of the Berlin Wall.⁸

The first chapter situates Central and Eastern Europe from a more general, geo-historical perspective: it explains the choice of countries included in the analysis and the commonalities and differences between them, while also defining the main concepts at play. The following chapters look at different interrelated dimensions of democratic transition and consolidation whether political, economic, social or cultural. The conclusion summarises the main findings and offers suggestions for potential future development within the EU from the perspective of Central and Eastern European countries, which may eventually be relevant for other continental neighbours of the EU.

6 The Review will not address the issue of the impact of the enlargement on the Western part of Europe and on the EU in general.

7 Croatia had already become an EU Member State in 2013, but is not included in this Review because of its recent date of accession and a somewhat different historical and political context in comparison with the other new Member States.

8 FP7 stands for the Seventh Framework Programme for Research and Technological Development which was the main EU instrument for funding research between 2007 and 2013. The most relevant projects for this Review are: MAXCAP, GRINCOH, EUBORDERSCAPES, EUBORDERREGIONS and SEARCH. These are presented in more detail under Annex I.

1. Geo-historical overview



The fall of the Berlin Wall in 1989 marked the opening of a new chapter of European history both in the East and West. The fall of communism in Central Eastern Europe meant that for the first time since 1945, the states of the region were free to forge their own paths in the fields of internal and external policies. Eventually, for most of the countries belonging to the Warsaw pact, this meant a 'return to Europe', but in many cases this was a rocky road filled with both obstacles and trial-and-error processes. The characteristics of this rapport between the European Union (EU) and its Eastern neighbours proved to be transformative for both. The purpose of this chapter is to provide a synthetic overview of the history of the relationship between the former post-communist countries and the Western European members of the EU since 1989.

This chapter focuses on the exploration of the evolution of the 'Eastern' half of the European Union (CEE-10), from 1989 to 2014. The main issues under analysis relate to the field of international relations, as the topics of domestic politics, transition and economy are addressed in other chapters. The CEE countries are classified into three main categories, in order to facilitate an easier analytic presentation:

- The Visegrád⁹+ area (Hungary, Poland, Slovakia, the Czech Republic, Slovenia);
- The Baltic states (Lithuania, Latvia, Estonia);
- Romania and Bulgaria.

The choice of this geographical division is due to the similarities between the development levels of the countries, their own common political relationships and their contiguous histories¹⁰.

A legacy of foreign domination

The situation, as a glance upon a political geography of the area shows, was nowhere near straightforward. The majority of the contemporary states (6) were not formally established as distinct entities, because Slovakia, the Czech Republic, Slovenia and the Baltic states were part of larger conglomerates. However, all these countries share a contiguous history in the area and a number of common traits in their shared legacy. One important historical trait of these states is their existence under the domination, or in the hinterland, of empires. Countries and peoples such as the Slovaks, Poles, Czechs, Hungarians and so forth, found themselves under foreign imperial domination of throughout the 19th and early 20th centuries. This long

9 The Visegrád area refers to the four countries of Hungary, Czech Republic, Poland and Slovakia. In 1991, the first three formed the Visegrád Group, with the purpose of economic, social and political cooperation. The group was joined by Slovakia, after its independence in 1993. The site of the meeting where the group was formed was chosen as the town of Visegrád, where, in 1335, Hungarian King Charles I hosted a two-month congress with the Bohemian king, John of Luxembourg and the Polish king, Casimir III. It was crucial in creating a peace between the three kingdoms and securing an alliance between Poland and Hungary against Habsburg Austria. Another congress followed in 1338.

10 The focus of this Review falls on the Central and Eastern European states that joined the European Union in 2004 and 2007. Although there are references to Eastern Germany throughout the study, its evolution is strikingly different from its eastern neighbours, especially given its early re-unification with Western Germany — ensuring the free movement of labour, the unification of administration and defence and adoption of the euro — changes that either did not occur in post-communist Central and Eastern Europe or occurred much later in the democratisation phase via EU integration. Therefore, Eastern Germany is not considered in this Review as a unit of analysis by itself. The same applies to Croatia, which only became an EU member in 2013, and also has a very different history of democratisation from the ten countries analysed here, especially given its problematic state- and nation-building process, especially because of its involvement in the post-Yugoslav wars of the early 1990s.

history of domination by, and incorporation into, larger structures, whether empires or then the USSR thus meant that national self-determination in the domain of international relations was paramount for them over the post-communist period.

It thus remains that the societies and political elites of the countries manifest a sceptical attitude and even resistance towards integration into larger, multi-state structures, as such integration is traditionally perceived as foreign dominance. In the national-historical narratives of all Central, Eastern and South Eastern European states, the struggle against foreign dominance takes a central role. Many of the national movements of the 19th century were formed in these countries not only as an affirmation of ethnic and linguistic community, but as an assertion of national solidarity in front of some 'alien' occupier. **The political positioning of the EU with regard to its new Member States thus tends to remain delicate. On the one hand, the EU obviously embodies a freeing democratic status, but on the other hand, given its strong historical reliance on a common economic zone and its lack of clout in international relations, it can also be seen as a gateway for different forms of 'domination'. Therefore, it was and remains important for the EU to avoid the pitfalls of an 'imperialist' categorisation.**

1989 and its aftermath

Throughout Central and Eastern Europe, the Soviet-type economic and political system could not cope with the rising pressure coming from society. This led to several political events and protest movements against the regimes, which ultimately meant the rebirth of democracy in the region.¹¹ In Poland, after protracted talks in spring 1989, parliamentary elections held on 4 June resulted in a landslide victory for Lech Walesa's Solidarity Movement. However, the most important episode, from an international-relations perspective, was Hungary's decision in May 1989 to remove its border fortifications with Austria, therefore symbolically tearing down a piece of the very physical reality of the Iron Curtain. The country became both a safe haven and a window towards the Occident and, in the summer of 1989, it was inundated both by Romanian political refugees and by East Germans who wanted to emigrate to the Federal Republic of Germany. The Pan-European picnic organised by the Hungarian opposition, with the expressed desire of debating a border-free Europe, represented a unique and short-lived occasion for East-German refugees to escape. Finally, the country officially opened all its borders on 10 September, thereby affirming its separation from the Eastern bloc. On 28 November, Eastern and Western Germany signed a programme of cooperation with the prospect of future re-unification. The fall of the Berlin Wall on 9 November 1989 meant that the German Democratic Republic (GDR) opened its borders to the West. Other countries in the area made a turn towards a democratic system around the same date.

11 Jacques Rupnik, *1989 as a Political World Event: Democracy, Europe and the New International System in the Age of Globalisation* (Taylor & Francis, 2013), <http://books.google.hu/books?id=5YtmAQAAQBAJ>.

Timeline of events in 1989

3 February — Soviet troops withdrawal from Czechoslovakia begins.

6 February — Solidarity and the Polish Government start round-table talks.

7 April — Solidarity legalised, signs agreement on elections in which it can contest 35 per cent of seats in Sejm, all in Senat.

25 April — Soviet troops withdrawal from Hungary begins.

27 June — First breach in the Iron Curtain at the Austrian-Hungarian border.

7 July — Gorbachev tells Warsaw Pact leaders that they can choose their own road to socialism.

24 August — First non-communist government in Eastern Europe elected in Poland, since 1948.

10 September — Hungary opens the border with Austria, allowing East Germans to flee (more than 17 000 actually fled).

7 October — Gorbachev visits East Germany, and urges Erich Honecker to adopt reforms.

27 October — Warsaw Pact members endorse the right of self-determination, and renounce Brezhnev doctrine.

9 November — Berlin Wall opens.

10 November — Todor Zhivkov ousted and replaced by Petar (Petur) Mladenov in Bulgaria.

19 November — 10 000 attend the Civic Forum rally in Czechoslovakia.

28 November — Czechoslovakia abandons the leading role of the party.

3 December — East German government resigns.

10 December — Non-communist government elected in Czechoslovakia.

25 December — Nicolae Ceausescu and wife executed in Romania.

29 December — Vaclav Havel becomes the first democratic president of Czechoslovakia.

The next most important event following the 1989 waves of changes of system came about in 1991 with the fall of the Soviet Union. The dissolution was preceded by a number of events, in which Member States declared their independence from Moscow. Lithuania declared its independence on 11 March 1990 and was followed by Estonia on 30 March and by Latvia on 4 May. Soviet troops began to withdraw from the area in 1991, a withdrawal that was completed around 1993. It was also the year which saw the creation of two new states in Central Europe, through the dissolution of Czechoslovakia. Following the events of the Velvet Revolution, the two halves of the country saw the emergence of democratic and national political parties. The Czech Civic Democrats, led by Václav Klaus began talks in June 1992 with Vladimír Mečiar's Movement for a Democratic Slovakia following the federal elections of the same year. The two heads of state made the split official on 23 July 1992 in Bratislava. The dissolution came into effect officially on 1 January 1993.¹² With Slovenia's declaration of independence two years before, East Central Europe saw the apparition of another nation-state barely three years after the events of 1989.

In the EU, one of the most important steps towards assisting democratic transition in the East was taken in January 1990, with the launching of the PHARE programme. The programme (Poland and Hungary: Aid for Restructuring Economies) was the result of the work of the G7 summit in Paris on 14 July 1989. At the summit, the European Commission received a mandate for the development of PHARE, as 'the highest foreign policy accolade the Commission had ever had bestowed upon it'.¹³ The EU began to behave as an actor on the European stage of international relations.

Nowhere was this upheaval more apparent than in the field of external policy and action. 1989 had an important foreign policy component for many of the states involved: freedom meant not only democracy, but a disengagement from the restrictions of the Eastern bloc dominated by the Soviet Union and an opening of borders toward the West. This meant a reaffirmation of national control over one's foreign policy and in many cases, political independence as well. All sovereign states of Central and Eastern Europe now possessed all the tools for an independent foreign policy. Though the traditional narrative speaks of a clear path towards the West and European integration, this was altogether unclear in the early 1990s. This can be proven if the area is evaluated on a macro scale: while it is true that these states eventually proceeded towards the EU, many of their neighbours (Serbia, Ukraine, Belarus etc.), which found themselves in similar situations, embarked on a different path. While most of the former Soviet republics became integrated in the loose web of the alternative Community of Independent States, the countries of the former Yugoslav Republic engaged in armed conflict against one another in order to regulate the exact ethnic border lines. This resulted in the abortion of their European path, or at least in severe delays for their integration in the EU.

12 Jacques Rupnik, Robert Schuman Centre and Robert Schuman Centre. Programme on Eastern Europe, *Implications of the Czecho-Slovak Divorce for EU Enlargement* (European University Institute, Robert Schuman Centre, 2000), <http://books.google.hu/books?id=JwOGAAAAIAAJ>.

13 Arne Niemann, *Explaining Decisions in the European Union* (Cambridge University Press, 2006), <http://books.google.hu/books?id=HwI937vcHbwC>.

Events leading to the dissolution of Yugoslavia

1991 — Slovenia, Croatia and Bosnia and Herzegovina break away from Yugoslavia and declare their independence.

1992 — War breaks out in the Balkans.

1995 July — The Srebrenica genocide happens. 8 000 Bosniaks killed by units of the Army of Republika Srpska under the command of General Ratko Mladić.

1995 December — Bosnia and Herzegovina, Croatia and Serbia sign the Dayton Peace Agreement to end the war in Bosnia and Herzegovina.

1998 March-September — Open conflict between Serb police and separatist Kosovo Liberation Army (KLA).

1999 March — Internationally brokered peace talks fail and NATO launches air strikes against Yugoslavia lasting 78 days before Belgrade yields.

1999 June — President Milošević agrees to withdraw troops from Kosovo. NATO calls off air strikes.

2003 February — Milošević is put on trial in The Hague on charges of war crimes in Kosovo, Croatia and Bosnia and Herzegovina.

2003 October — First direct talks between Serbian and Kosovo Albanian leaders since 1999.

2006 June — Parliament of Montenegro declared the independence of Montenegro from the State Union of Serbia and Montenegro.

2008 February — Republic of Kosovo declares independence. Serbia says the move is illegal, but Europe's major powers and the United States recognise independence.

Competing narratives on the East-West divide in Europe

The 25-year transition of the EU10 countries included in this Review has been, simultaneously a remarkable, although unfinished, process. The default explanation for the present state of development in some of the countries is the so-called 'backwardness' of this region, in reference to a typical Eastern-Western divide. However, on closer inspection, if we only take into consideration the example of the recent economic crisis, we may find that the picture is somewhat nuanced, and some former 'Eastern' countries (such as Poland, Slovakia, Hungary and Romania) exhibit much more robust economies and developmental models than some of their counterparts (for example, Spain and Italy). The West-East duality is the result of a long historical process, according to historian Larry Wolff, through which the concept was artificially

constructed by Enlightenment thinkers.¹⁴ This division became reified in the post-war period, when the states became dominated by a totalitarian experiment and launched themselves into an alternative project of modernity. With the failure of the totalitarian project, scholars such as Marta Rabikowska¹⁵ have suggested the scrapping of the 'East-West' terminology, due to the improper comparisons and relationships of values it creates.

It is therefore tempting to view the totalitarian period in the area as a 'pause' in history, after which these countries were regained for Western Europe. The concept of Eastern Europe has actually been displaced further East in EU and UN terminologies in order to identify the states of the former Soviet Union. In the prewar and interwar periods, the countries of the CEE region were integrated into a number of different spatial and geographic categories. The most prevalent were Central Europe and South-Eastern Europe. Their origins may be traced back to their historical legacies as parts of the Habsburg and Ottoman Empires, but it goes beyond that. The case of Central Europe is especially controversial since ascendancy was claimed alternatively from the former Hungarian and Polish mediaeval empires, the Habsburg (and German) cultural area of domination-Mitteleuropa, and was defined as a part of Western Europe behind the Iron Curtain.¹⁶ Certain countries, such as Romania, Slovenia and Croatia may take membership in each group alternately, being, at the same time, Central and Southeastern. Scholars such as Jenő Szűcs¹⁷ have suggested the creation of a new term of East Central Europe. Such an abundance of competing and loose concepts creates a problem from the theoretical perspective: are any of them characteristic of the area? This question becomes especially vexing when we realise that they are the result and avatars of competing political and cultural projects in the area. They are also representatives of different historical periods, a reflection of the political and cultural dominance of former empires, mediaeval states and the totalitarian past. We may say that all of them hold some theoretical worth if the historical past is concerned, but they are not adequate tools to investigate the post-1989 developments. **The geographical area may be identified as CEE, but it displays too much cultural, social and political diversity after a quarter of a century to be identified under a single umbrella term, nor would such a term be desirable. Interestingly, it is diversity of influences, political traditions and culture that may be the only commonality of the CEE.** The states themselves have contiguous histories and a shared heritage, but beyond that, in terms of economy and political life, some of them may even be individually more similar to some of their 'Western' counterparts than to countries in their immediate neighbourhood. **Therefore, the history of the CEE-10 over the last 25 years is also a history of the decay of such umbrella terms, and the success of the fusion into the concept of a diverse Europe.**

14 L Wolff, *Inventing Eastern Europe* (Stanford University Press, 1994), <http://books.google.ro/books?id=mpaySgAACAAJ>.

15 Marta Rabikowska, 'The Ghosts of the Past: 20 years after the Fall of Communism in Europe', *Communist and Post-Communist Studies* 42, No 2 (June 2009): 165–179, doi:10.1016/j.postcomstud.2009.04.007.

16 L Johnson, *Central Europe : Enemies, Neighbours, Friends: Enemies, Neighbours, Friends* (Oxford University Press, USA, 1996), http://books.google.hu/books?id=e_m13Hk3AFEC.

17 J Szűcs, *The Three Historical Regions of Europe: An Outline* (Hungarian Academy of Sciences, 1983), <http://books.google.hu/books?id=qigpHQAACAAJ>.

Historical reconciliations, but some tensions still remain

One of the tools of the normalisation of inter-state relations in the area was the process of historical reconciliation between neighbours. While most of the states were supportive of each other's bids for independence, instantly providing official recognition and material support, there were still open questions reaching back as far as the end of the First World War. An important factor in the opening of the processes of historical reconciliation was the emergence of the European Union in 1992 as a soft power actor. The EU acted as a soft power, providing administrative support and brokering talks in the region, using potential membership as a motivational tool. The immediate incorporation of East Germany into this structure also hinged on the closing of an important chapter of history with one of its most important neighbours, Poland. The process of Polish-German historical reconciliation is a long one and predated the fall of communism. It began in 1965, with the Letter of Reconciliation of Polish bishops toward their German counterparts, which provided the foundation for the pardoning of crimes committed during the Second World War. In 1990, the final chapter of this long process was provided by the signing of the German-Polish Border Treaty (part of the Two-plus-Four Treaty),¹⁸ which regulated the border on the Oder-Neisse line. The act was completed by the signing of a Treaty of Good Neighbourship and Friendly Cooperation between the two states in the next year. Poland then went on to sign similar treaties with three of its other neighbours in 1992: Ukraine, Russia and Belarus, thereby regulating its relationship with them.

Hungary also had a potential problematic relationship with some of its neighbours in the period after 1989. Large Hungarian minorities still live in Romania and Slovakia (among others), and the Hungarian state's official self-perception as a guardian of the liberties of these minorities led to moderate tensions with Romania in the 1980s, when the two countries clashed at the diplomatic level in a number of international forums.¹⁹ This tension was dissipated, however, by the diplomatic detente between Hungary and its neighbours in the following years. In 1993, Hungary was the first country to officially recognise Slovakia as an independent state. This was, however, not followed up by the signing of a bilateral treaty by which Hungary would declare the inviolability of the two countries' borders. This volatile situation was defused by the soft power of the EU, which pressured the two parties into signing a Bilateral Treaty of Friendship and Cooperation in 1995, including chapters on the protection of minorities. A similar situation occurred in Romanian-Hungarian relations as well. After lengthy official discussions, Hungary and Romania signed the Treaty of Timișoara, or the Treaty of Understanding, Good Neighbourship and Cooperation, on 16 September 1996 (as a follow-up of a similar treaty signed with Ukraine in 1991).

However, some states still have unresolved issues, even at official level. The 'Benes decrees' in particular were a series of laws passed by the Czechoslovak government at the end of the

18 <http://usa.usembassy.de/etexts/2plusfour8994e.htm>, Formally entitled the Treaty on the Final Settlement with Respect to Germany, it was an agreement between the two German states and the four victorious powers of World War II, which established the shape of Germany as the combined territories of the FRG and the GDR, guaranteed the country's borders, limited its weapons and military forces, regulated the withdrawal of Soviet troops and permitted its continued membership in NATO.

19 Ronald D. Bachman, ed. *Romania: A Country Study*. Washington: GPO for the Library of Congress, 1989, <http://countrystudies.us/romania/76.htm>

Second World War that removed property and certain rights of citizenship from their ethnic German and Hungarian populations.²⁰ The official recognition the Czech and Slovak states still give to these decrees mean that the issue remains unresolved and has led to frictions in the relationship between the Czech Republic and Germany and between Slovakia and Hungary respectively. While very good at resolving technical issues and economic problems through soft power and economic incentives, some of the political issues, such as unfinished historical reconciliation processes, minority issues and border security issues stemming from corruption have not yet been resolved. Romania and Bulgaria are still not part of the Schengen Agreement, for example. The limits of EU soft power and its institutions were tested in recent years by unorthodox political measures taken by some Member States (Romania and Hungary for example, in the areas of judicial independence and media freedom).²¹ Some Member States, such as Hungary, Slovakia and Romania still cultivate at times a somewhat adversarial relationship, generated by meddling in each other's state affairs and politics. The conflict around the issue of double citizenship of ethnic Hungarians in Romania was one of the main topics of contention in the late 1990s,²² while in the case of Slovakia and Hungary the root of the conflict was the modification of the Slovak language law in 2009, which seemingly restricted the use of Hungarian in some public areas in the Slovak Republic. Cases such as these, in turn, generate recurring crises at the level of state and political relations within the EU.

Regional initiatives

The Baltic States, sharing experience during the events of 1989–90, relied upon each other politically. In order to bolster this cooperation, the countries formed a number of associations. The first and most important is the Baltic Assembly, established on 1 December 1990. It is a common political forum in which representatives of the parliaments of the Member States (Lithuania, Latvia and Estonia) meet and coordinate state policy. An outgrowth of this was the Baltic Council of Ministers, which together coordinate economic, military and cross-border projects and policies.

The Baltic three also played an important part in the founding and success of the Council of the Baltic Sea States, established in 1992. This political organisation played an important role in coordinating economic and state policies in the region, and has provided a forum in which geographic proximity fosters political alignment. The Council has 12 Member States, including the Baltic three; Poland, Germany and Russia.

The Visegrád Group was the other grand experiment in Eastern European political and economic cooperation and can be seen as one of the factors that put its members on the fast track toward EU membership. On 15 February 1991, the heads of state of Hungary, Poland and Czechoslovakia signed the Visegrád Agreement, establishing the basis for a cooperation still exists.²³ The initial goals were economic cooperation and mutual help

20 <http://www.hunsor.se/dosszie/benesdecrees.pdf>, last accessed at: 2014.3.11.

21 <http://www.osce.org/odihr/elections/116757>, *Ibid.*

22 Balázs Trencsényi, Dragoș Petrescu, Cristina Petrescu, Constantin Iordachi and Zoltan Kántor, eds., *Nationalism and Contested Identities: Romanian and Hungarian Case Studies* (Budapest: Regio Publishing House; Iași: Polirom, 2001).

23 Visegrad Group 1991 Agreement, accessed 1 March 2014, <http://www.visegradgroup.eu/documents/visegrad-declarations/visegrad-declaration-110412>.

for the promotion of democracy and Euro-Atlantic integration. One of the most important achievements of the Group was the establishment of CEFTA (the Central European Free Trade Agreement). This, together with the coordination in economic, technological, industrial and agrarian policies in the area, enhanced cooperation between its members, via the establishment of a pre-EU-like economic environment. The Group also established the International Visegrád Fund in order to support scientific research and culture.

The road towards the EU

The countries of East Central Europe engaged in a number of mutual ventures and forms of political cooperation in the decade preceding EU integration. The countries of the region also joined a number of international organisations, as stepping stones towards European integration but also supported further cooperation after their accession to the EU.

The Conference on Security and Cooperation in Europe (CSCE) was the most important inter-governmental security organisation of the pre-1989 period. All European states were part of the CSCE but the new international configuration brought about by the fall of the Soviet Union meant that many new states' representations were influenced by succession processes. The Charter of Paris for a New Europe, signed in late 1990, was an important stepping stone towards regulating inter-state relations in Europe. By 1993, all of the CEE-10 countries had joined the organisation, which was reconfigured to become the Organisation for Security and Cooperation in Europe after the 1994 Conference held in Budapest, Hungary.²⁴

NATO membership was the other element which pushed the integration of the CEE-10 countries forward into Western structures. The military organisation began to shift its structures, set up to deal with Cold War realities, and established a number of regional cooperation initiatives, such as the Partnership for Peace and the Euro-Atlantic Partnership Council which led to the expansion of NATO in the area prior to EU enlargements. Poland, the Czech Republic and Hungary were invited to join the organisation in 1997, and became full members in 1999. The rest of the CEE-10 countries were invited to join three years later, at the Prague summit, and attained NATO membership in 2004. The formal inclusion and integration into Western military structures was seen as an important milestone towards full European integration.

After the second half of the 1990s, neighbourhood relations in the area increasingly fell under the EU-home state-neighbour state triad. The countries of the first wave became members in 2004, while Romania and Bulgaria achieved membership in 2007. One of the most important tests for the Euro-Atlantic resolve of these states was the wars following the dissolution of Yugoslavia. These wars did not affect their NATO anchorage, greatly strengthening resolve in the area. One of the states, Slovenia, was directly involved in the conflict, emerging as an independent state on 25 June 1991. Hungary and others provided aid in the early stages of the conflict (arms to Croatia from Hungary).

24 OSCE Website, accessed 1 March 2014, <http://www.osce.org/who/87>.

The nexus of relationships which was made possible by the soft power of the European Union, crystallised in the toolkit of pre-accession. This toolkit was composed of programmes such as PHARE, SAPARD and ISPA (and indirectly, of the military strength of NATO).

After their accession to the EU, as members, Poland and Romania have been instrumental in creating the EU's Eastern Partnership. This initiative was intended to become the official platform through which the European Union governs its relationships with post-soviet states in its immediate neighbourhood, including Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. The EU has also seen this as a tool for the development of good governance and economic-financial practices in the area. At present, one of its successes is its contribution towards the lifting of visas for Moldova, and the close association of this country with the Union.

Another example of positive outcomes is the EU Danube strategy,²⁵ which brings together 14 member and non-Member States. The EUDSR is 'a macro-regional strategy adopted by the European Commission in December 2010 and endorsed by the European Council in 2011. The objective of the EUDSR is close cooperation of EU and non-EU Member States in the Danube basin in the fields of economy, infrastructure and environment. This initiative is similar to the EU Strategy for the Baltic Sea Region,²⁶ which is also currently being developed, with the same perspectives. The countries included in this strategy collaborate at a regional level in a number of sectors, ranging from tourism and environment to crime, transport and energy. This signals closer ties being formed at the regional level between EU members, and a deepening of the relationship between the countries.

Conclusion

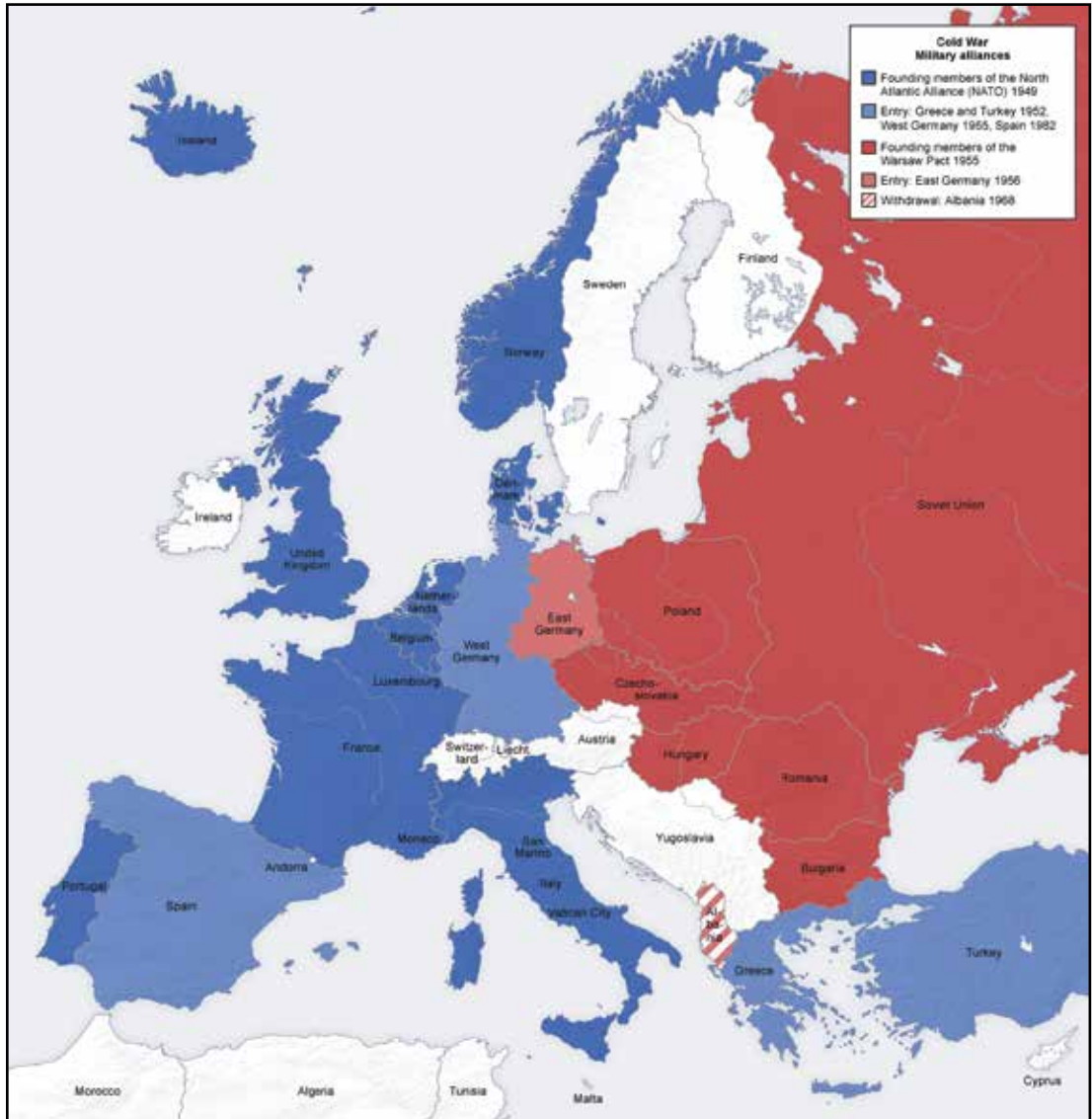
Membership of East Central European countries in the European Union has been, overall, a success from the point of view of neighbourhood relations, but with important caveats in the fields of economical and socio-political development, as further chapters will show. The soft power of the European Union was quite effective in negotiating dormant conflicts between the states of the CEE-10 countries and generating convergence towards European structures. The combination of economic and political incentives, however, did not function ideally at all times after the integration period (see the Hungarian-Romanian and Hungarian-Slovak conflicts), raising the necessity for a more specific post-accession conditionality or coordination policy.

The new context is quite different from that of a neighbourhood of post-communist states after 1989 and this must be clearly understood within the EU itself. The matrix of incentives, policies and strategies which have helped the area achieve EU integration functioned well in 1990s Europe, but they require adaptation and refinement to fulfil today's internal and neighbourhood policy needs. Therefore, the EU should look again, in particular through the regional funds but not exclusively, at a policy mix which would encourage further cooperation with the Western members of the EU but also within the Central and Eastern Member States too.

25 EUDSR website, n.d., <http://www.danube-region.eu/>.

26 EUSBSR website, last accessed at: 2.22.2014, <http://www.balticsea-region-strategy.eu/>

The divided Europe of the Cold War



Source: http://commons.wikimedia.org/wiki/File:Cold_war_europe_military_alliances_map_en.png

The European Union today

The European Union



Source: <http://ec.europa.eu/avservices/photo/photoDetails.cfm?sitelang=en&mgid=38#3>

2. Political transition and the state of democracy in East Central Europe: between hopes and disillusion



State of democracy

Overall, most of the Central and Eastern European Member States are now similar to Western European Member States in that they are considered free and democratic based on their overall performance in the areas of civil liberties and political rights.²⁷ For instance, Freedom House has rated **8 out of 10 CEE countries²⁸ as consolidated democracies over the past 10 years, while Bulgaria and Romania still remain semi-consolidated democracies** whose transition process is yet to be completed. However, in recent times, democracy in Slovakia and especially in Hungary again moved close to being considered as semi-consolidated after the recent economic crisis and subsequent political changes with potential limitations to democracy.²⁹ The EU has been particularly concerned about the state of democracy in Hungary.

The Hungarian so-called Media laws were adopted at the end of 2010 and echoed in the EU as a serious threat, not only for media freedom in Hungary but also as a violation of core values such as freedom of expression, independence of the judiciary and freedom of the press. The European Commission criticised the newly established National Media and Communications Authority's (NMHH) structure for being too centralised and powerful, as well as carrying out political interference in the nomination of directors of public media outlets. Political interference was also noted with respect to the replacement of the Governor of the Hungarian Central Bank, Monetary council and the data protection authority director. The Commission was also concerned with the Fourth Amendment to the Constitution, which bans political advertisement in commercial media, criminalises homelessness and provides a very narrow interpretation of the family.

The Hungarian situation was even debated in the European Parliament on multiple occasions.³⁰ The European Parliament also initiated an inquiry into certain articles of the new Hungarian Constitution and other legislations, resulting in a resolution that called on all Member States and EU institutions to safeguard the democratic values of the Union.³¹ The Commission has also initiated infringement procedures against Hungary with regard to some provisions of

27 'Freedom in the World.' *Freedom House*. Available: <http://www.freedomhouse.org/report-types/freedom-world>. Access: 2 November 2013.

28 Croatia is not included here.

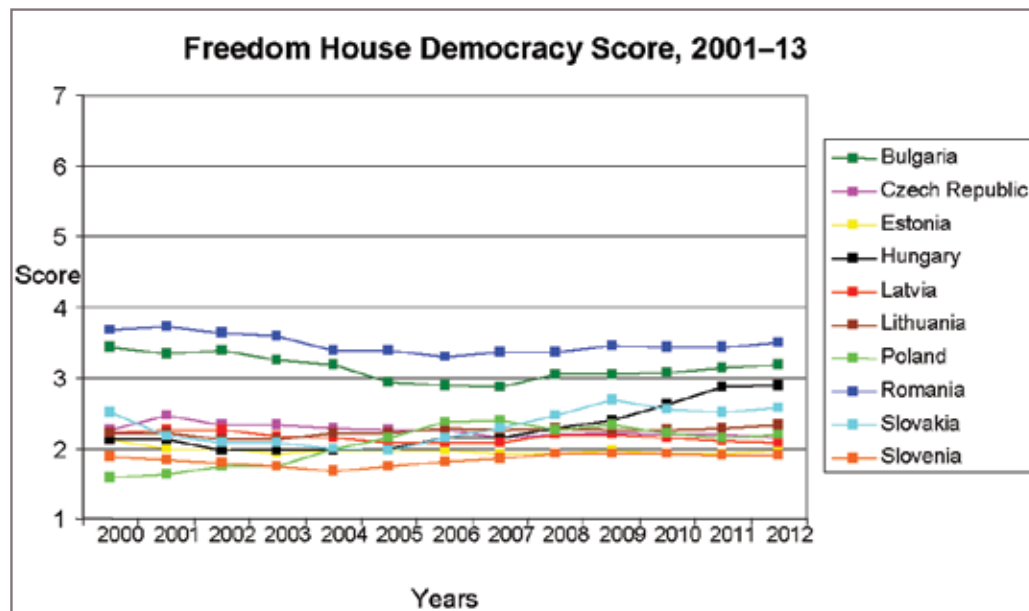
29 'Nations in Transit.' *Freedom House*. Available: <http://www.freedomhouse.org/report-types/nations-transit>. Access: 10 November 2013

30 European Parliament. 2011. 'MEPs hold debate on the Hungarian Constitution [Press Release, REF: 20110523IPR19960]' 25 May. Available: <http://www.europarl.europa.eu/news/en/news-room/content/20110523IPR19960/html/MEPs-hold-debate-on-the-Hungarian-Constitution>; European Parliament. 2011. 'Debate on Hungary's new constitution splits MEPs [Press Release, REF: 20110608IPR20933]' 8 June. Available: <http://www.europarl.europa.eu/news/en/news-room/content/20110608IPR20933/html/Debate-on-Hungary%27s-new-constitution-splits-MEPs>; European Parliament. 2012. 'January plenary: new president, lively debate on Hungary, waste [Press Release, REF: 20120119STO35729]' 20 January. Available: <http://www.europarl.europa.eu/news/en/news-room/content/20120119STO35729/html/January-plenary-new-president-lively-debate-on-Hungary-waste>; European Parliament. 2013. 'Debates, Tuesday, 2 July 2013, Strasbourg.' Available: <http://www.europarl.europa.eu/sides/getDoc.do?type=CRE&reference=20130702&secondRef=ITEM-014&format=XML&language=EN>.

31 European Parliament. 2012. 'Resolution on the recent political developments in Hungary (2012/2511(RSP))' Available: <http://www.europarl.europa.eu/oeil/popups/ficheprocedure.do?lang=en&reference=2012/2511%28RSP%29>; European Parliament. 2013. 'European Parliament resolution of 3 July 2013 on the situation of fundamental rights: standards and practices in Hungary (pursuant to the European Parliament resolution of 16 February 2012) (P7_TA-PROV(2013)0315)' July 3. Available: <http://www.europarl.europa.eu/sides/getDoc.do?type=TA&language=EN&reference=P7-TA-2013-315>.

the new Constitution, leading to a negative verdict by the European Court of Justice in 2013 and subsequent revisions to the basic law.³² Developments in Slovakia, probably because they have been less obvious and more rhetorical, have escaped the explicit attention of the European Union.

Figure 1: Freedom House Scores in CEE countries 2001–13



Source: *Nations in Transit*, Freedom House. 1–2.99: consolidated democracy; 3–3.99: semi-consolidate democracy; 4–4.99: transitional government; 5–5.99: semi-consolidated authoritarian regime; 6–7: consolidated authoritarian regime.

In short, while improvements since the regime change of 1989 have been significant, almost all political systems in East Central Europe are still lacking in some areas compared to the Western European model of democracy. These shortcomings, however, are rooted in the workings rather than in the framework of the institutional structure. Formal democratic institutions are sometimes overruled by informal practices which still bear the weight of the past and the lack of ‘thicker democratic culture’ which exists in Western Europe. **This is not a surprise in itself since we know very well that democracy is not only a set of institutions and rights it also a set of practices and a state of mind that need time to impose themselves: the history of Western democracy itself (see the cases of France, Italy, Spain, Germany for instance) shows adamantly that democracy takes time and need constant attention³³.** What is less clear is what

32 ‘Brussels struggles to bring Hungary back into line.’ *Euractiv*. Available: <http://www.euractiv.com/future-eu/commission-struggles-bring-hungary-news-518459>. Access: 20 May 2014; European Commission. 2013. The European Union reiterates its serious concern over the Fourth Amendment of the Constitution of Hungary [Press Release]. 12 April. Available: http://europa.eu/rapid/press-release_IP-13-327_en.htm. Access: 20 May 2014; ‘EU ends legal action against Hungary over judicial retirements.’ *LSE London Southeast*. Available: http://www.lse.co.uk/AllNews.asp?code=ya9bocd&headline=EU_ends_legal_action_against_Hungary_over_judicial_retirements. Access: 20 May 2014.

33 For a discussion on the non-formal aspects of democracy in the CEE-10 countries, please refer to Chapter 5 on the cultural aspects of transition below in this Review.

non-democratic use of democratic institutions can be done by not-so-democratic political forces: the issue is relevant in times of democratic disenchantment, not only in East Central Europe but everywhere else in the EU.

Constitutional order and institutional framework

After 1989, each country transformed its constitutional order. Latvia reinstated its 1922 constitution with the unrealised intention of adopting a new constitution later. In 1991, Romania and Bulgaria opted for an entirely new constitution, as did Estonia (1992), Lithuania and Slovenia (1991) once they gained their independence.³⁴ The Visegrád countries initially kept their Communist constitution in place, but added substantial amendments. The Czech Republic and Slovakia adopted new constitutions once their states separated in 1993, while Poland enacted a partially and later entirely new constitution, in 1992 and 1997 respectively. These changes came as a response to domestic pressure that swept away communism.

Starting in 1994, the CEE states officially expressed their interest in joining NATO and the EU in order to assure their military and economic security. In addition, in preparation for EU membership, they also amended their constitutions so as to fulfil the Copenhagen criteria³⁵ of democracy, market economy and rule of law (see Table 1: below) and adopt EU Law. During the years of accession negotiations, the EU practically supervised the democratisation process, contributing to the deepening of the rule of law in the applicant countries. After acceding to the EU, however, little further development towards convergence occurred with regard to democratic political practices in the CEE countries. As it turns out, the EU has limited powers to effectively monitor liberal democratic standards in its Member States.

Table 1: The Copenhagen Criteria

The Copenhagen Criteria		
Political	Economic	Legal
Stable institutions guaranteeing: <ul style="list-style-type: none"> • democracy; • the rule of law; • human rights and respect for minorities. 	<ul style="list-style-type: none"> • Functioning market economy; • Capacity to cope with competitive pressure and market forces with the EU. 	<ul style="list-style-type: none"> • Acceptance of the <i>acquis communautaire</i> to be able to take on membership obligations; • Adherence to political, economic and monetary union.

Source: Glossary, Summaries of EU Legislation, European Union

34 Anneli Albi, *EU Enlargement and the Constitutions of Central and Eastern Europe* (Cambridge: Cambridge University Press, 2005), 2–22.

35 'Accession criteria (Copenhagen criteria)', *European Union*. Available: [5:13:05 AM] Agnes Simon: http://europa.eu/legislation_summaries/glossary/accession_criteria_copenhagen_en.htm. Access: 20 May 2014.

Elections, the electoral process and participation

Each of the 10 countries made a transition to democratically elected state legislatures. Legislatures are either unicameral (Hungary, Bulgaria, Estonia, Latvia, Lithuania, Slovakia, Slovenia) or bicameral (Czech Republic, Romania, Poland). The majority of countries have a proportional electoral system (Bulgaria, Czech Republic — lower house, Estonia, Latvia, Romania, Slovakia, Poland and Slovenia); single-member plurality systems are only used in the case of two upper house elections (Czech Republic and Poland), while Hungary and Lithuania use mixed systems. Referendum is available in all 10 countries and has been used relatively often in each country, but with little success, due to low levels of participation. Voting is not legally compulsory in any of the countries.³⁶ It is usually accomplished in person, but mail-in ballots are allowed in the Baltic States, Poland, Slovenia and Slovakia. E-voting is only available to citizens of Estonia.³⁷

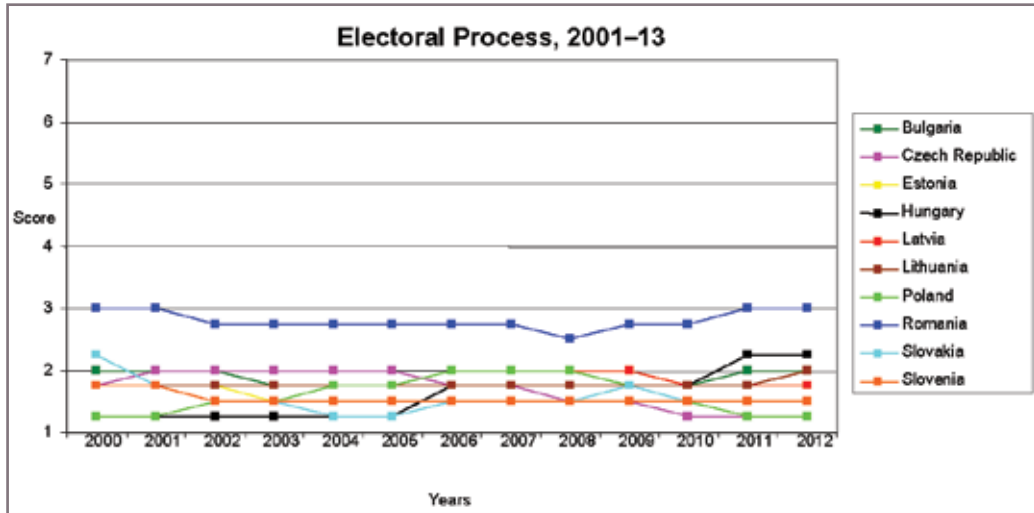
Like Western European Member States, Eastern Members are democracies with no discernible differences based on such institutional elements as the presence of a competitive multi-party system, access to the public via media outlets for all political parties, universal adult suffrage, regularly contested elections, secret and secure ballots, lack of massive voter fraud and access to media.³⁸ The majority of the CEE States also have an exemplary electoral process. Minor problems are present in Romania, because of small-scale electoral fraud and unequal media access for parties, and in Hungary, where negative developments have emerged since 2011 and mirror the controversies of the new restrictive electoral law.³⁹

36 'Direct Democracy Database', *The Institute for Democracy and Electoral Assistance*. Available: <http://www.idea.int/elections/dd/search.cfm>. Access: 5 November 2013.; Albi, Anneli. 2005. *EU Enlargement and the Constitutions of Central and Eastern Europe*. Cambridge: Cambridge University Press, p 138.

37 'Voting from Abroad', *The Institute for Democracy and Electoral Assistance*. Available: http://www.idea.int/elections/vfa_search.cfm. Access: 5 November 2013.

38 'Freedom in the World: Aggregate and Subcategory Scores', *Freedom House*. Available: <http://www.freedomhouse.org/report/freedom-world-aggregate-and-subcategory-scores>. Access: 4 November 2013; 'Methodology', *Freedom House*. Available: <http://www.freedomhouse.org/report/freedom-world-2011/methodology>.

39 This law was criticised by the European Parliament for the procedure through which it came into being (lack of consultation with opposition parties). 'European Parliament resolution of 3 July 2013 on the situation of fundamental rights: standards and practices in Hungary (pursuant to the European Parliament resolution of 16 L.N.Ñ-February 2012) (P7_TA-PROV(2013)0315)', 3 July 2013. Available: [http://www.europarl.europa.eu/sides/getDoc.do?type=TA&language=EN&reference=P7_TA-PROV\(2013\)315](http://www.europarl.europa.eu/sides/getDoc.do?type=TA&language=EN&reference=P7_TA-PROV(2013)315). In addition, problems were identified in its content. Criticism was directed less to the actual letters than to the practical implications of these provisions (gerrymandering, restrictive media and commercial opportunities to the opposition, differentiation between categories of voters, overrepresentation of the winner, fraudulent party endorsing procedures). The most comprehensive account of these issues was put forward by Professor Kim Lane Scheppelle in the *New York Times*. 'Hungary: An Election in Question Part I-V'. Available: <http://krugman.blogs.nytimes.com/2014/02/28/hungary-an-election-in-question-part-1/>; <http://krugman.blogs.nytimes.com/2014/02/28/hungary-an-election-in-question-part-2/>; <http://krugman.blogs.nytimes.com/2014/02/28/hungary-an-election-in-question-part-3/>; <http://krugman.blogs.nytimes.com/2014/02/28/hungary-an-election-in-question-part-4/>; <http://krugman.blogs.nytimes.com/2014/02/28/hungary-an-election-in-question-part-5/>, 28 February 2014. Access: 20 May 2014.

Figure 2: Electoral process in CEE countries 2001–13

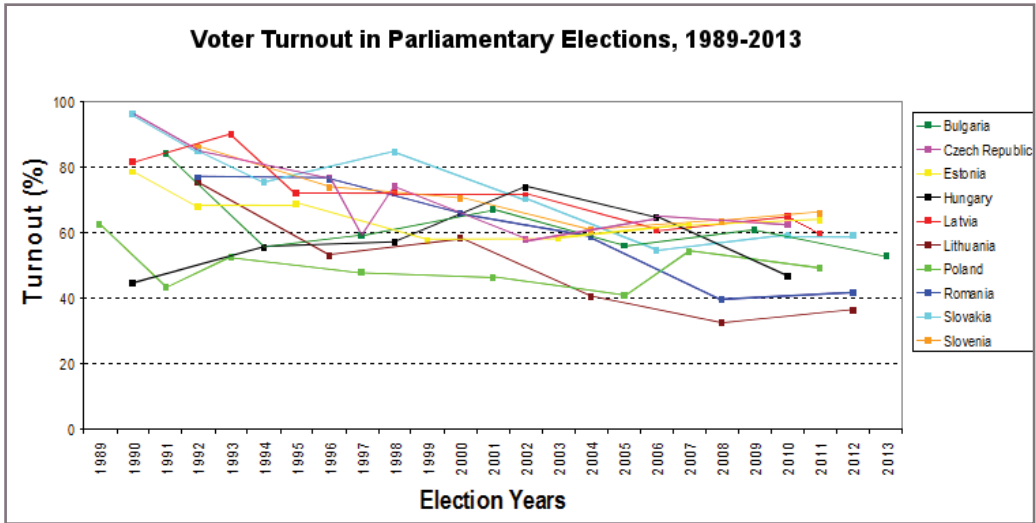
Source: *Nations in Transit*, Freedom House.

Scale ranging from 1–7 where 1 represents an exemplary democratic electoral process and 7 a highly problematic one.

Citizen participation patterns show more noticeable differences between East and West. Participation in Parliamentary elections was high immediately after the regime change across the region, with levels similar to those in the West.⁴⁰ **The average voter turnout during the entire 25-year period is about 65 %, but there is a clear declining trend shown by average voter turnout dropping to 55 % in the last five years.** The reasons are threefold. First, the sense of ‘living history’ made people turn out much more at the ballot-box at the beginning. Second, with the consolidation of political and party systems, voters could feel that their votes were not so important or even did not count. Third and more importantly, a general disillusionment with the often scandal-ridden ruling political elite and in general the new style of politics, as well as the very incomplete materialisation of expectations about high living standards, prosperous economy and generous Welfare State, also made people turn away from politics (see Figure 3: below).⁴¹

40 Turnout data for parliamentary, presidential, and European elections are from ‘Voter Turnout’, *The Institute for Democracy and Electoral Assistance*. Available: <http://www.idea.int/vt/index.cfm>. Access: 5 November 2013. For the analysis of Hungarian parliamentary elections of 2014 see: András Bozóki: *Free and Unfair: The Hungarian Elections* <http://www.iwm.at/read-listen-watch/transit-online/free-unfair-hungarian-elections-2014/>

41 Sabrina P. Ramet, *Central and Southeast European Politics since 1989* (Cambridge and New York: Cambridge University Press, 2010). However, there is also a large concern in Western Europe about the declining participation rates in Parliamentary elections, which some have compared to a ‘hollowing of Western democracy’ (see P. Mair, *Ruling the void: the hollowing of Western democracy* (London, New York: Verso, 2013)).

Figure 3: Voter turnout in parliamentary elections in CEE countries 1989–2013

Source: International Institute for Democracy and Electoral Assistance

Turnout levels and patterns are nearly identical at Presidential elections in the seven countries (Bulgaria, Czech Republic, Slovakia, Slovenia, Lithuania, Poland and Romania) that directly elect their Head of State. As for local elections, participation is, on average, lower than in national elections (51 %). Nonetheless, after some initial decrease, it stabilised at between 40 and 60 % as early as the mid-1990s. Turnout at European Parliamentary elections is extremely low. The average is about 31.5 %, with significant variations among countries. This is much lower than the Western European average which, despite a declining tendency since 1979 is still around 50 %.⁴² In both 2004 and 2009, the Eastern member with the highest voter turnout held a domestic election at the same time.⁴³ **The relatively low turnout in the 2014 EP elections also demonstrates a tendency of decreasing participation and highlights the problems of the legitimacy of the EU among many of the Member States. The reasons for this lack of interest are partly similar to those cited in the case of Western Europe: a ‘democratic deficit’ in the EU institutional structure, difficulties in identifying with European political issues and European politicians and the near absence of linkage between the activities of the EU Parliament and the everyday lives of citizens.** Interestingly, these elections also contributed to reopening the debate in some CEE countries about the advantages and disadvantages of belonging to the EU.

In short, the competitive nature of elections and regular changes in governments due to electoral fortunes show a rather healthy democracy in Eastern Europe. Yet voters in the new Member States tend to be more disillusioned than their Western counterparts and vote for the opposition and replace incumbent governments more frequently than citizens in Western European countries. Between 1990 and 2014, the

42 ‘Turnout at the European Elections.’ *European Parliament*. Available: <http://www.europarl.europa.eu/aboutparliament/en/000cdd9d4/Turnout-%281979-2009%29.html>.

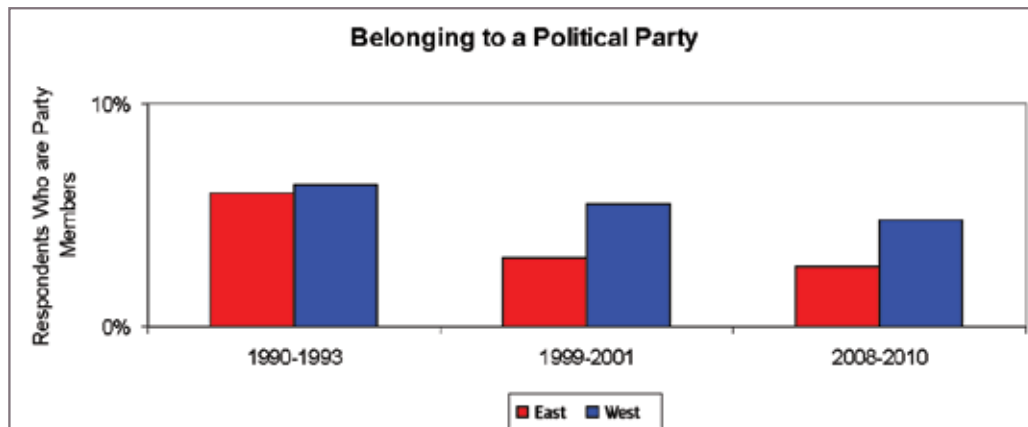
43 In 2004: Lithuania, presidential elections, and in 2009: Latvia, local elections.

eleven post-communist countries which are all members of the EU now, altogether had 144 cabinets, which means that roughly every second country has had a change of cabinets each year since 1990.

Party systems

Every CEE Member State in the EU has a multi-party system. While dozens of parties exist, at any given time there is only a handful in each country that can attract significant support. There are great ideological variations across these party systems but they follow the usual left-right ideological division. Apart from the Czech Republic and Bulgaria, *bona fide* Communist parties are rare, as they have been either discredited by their past roles or heavily defeated by their post-1989 political rivals. With the exception of Estonia, the centre-left is strong and made up by completely new or reformed Communist successor parties. The right side of the ideological spectrum is generally more crowded and more extensive as it spans from centre-right through populist to nationalist extremist parties. Traditional liberal and single issue — e.g. Green — parties exist but their number and influence are relatively small in the region. There was a rapid decrease in party membership in Eastern Europe in the early 1990s, once people were no longer required to become members of the Communist — or any other — Party. It should be recalled that party membership has declined in the past decades throughout Europe (see Figure 4: below).⁴⁴

Figure 4: Party identification in the EU 1990–2010



Source: *European Values Study (2nd, 3rd and 4th wave)*⁴⁵

In conclusion, in the new Member States of the EU electoral volatility and fragmentation of the party system are much higher than in Western Europe. At the turn of the millennium it seemed that a more stable political environment was in place. However, the emergence of cleavages along new issues in some countries, such as debates over EU membership in Bul-

44 Peter Mair and Ingrid van Biezen, 'Party Membership in Twenty European Democracies, 1980–2000', *Party Politics* 7 (2001): 5–21.

45 For more information http://www.europeanvaluesstudy.eu/frmShowpage?v_page_id=2560886164503602

garia,⁴⁶ the frequent failure of parties and coalitions in government and the recent economic crisis triggered again more electoral instability and more division of political supply among parties.⁴⁷

Civil society

Civil society in Central and Eastern Europe has gone through considerable changes since the regime change. During the Communist era, legitimate and/or legal civil organisations could exist only at the discretion of the state and party, and under their supervision. Yet (dissident) civic groups played a crucial role in bringing about regime change and often became members of the post-communist ruling elite. After 1989 and with the expansion of civil liberties and civil rights, most of the conditions necessary for the operation of an independent and healthy civil society were established. As a result, civic groups have mushroomed, although their number relative to the population has not reached Western European levels. In general, fewer people have joined these organisations in the East than in the West.⁴⁸ Exceptions to this trend were trade unions, which were mostly 'leftovers' from the Communist era, but their initial strength has radically declined by now.

Nor can we see a growth in the membership of these civic groups over time in the East. While membership rates are declining in the West, they still remain well above Eastern levels. A similar trend has been present in the Eastern part of Germany when compared to the Western part. Low organisational membership undermines the legitimacy of civic groups and these groups are often driven to give priority to the expectations of their Western donors, upon whose money their existence depends, over local needs.⁴⁹ The main political consequences of these trends are their inability to influence the policy-making process or to defend citizens against unjust or unfair practices. As a vibrant civil society is crucial to democracy, these developments make democracies in the CEE more vulnerable and less stable.

Civil liberties and human rights

Respect for human rights has been embedded in the EU treaties from the very beginning and it has now been reinforced by the Charter of Fundamental Rights integrated in the Treaty of Lisbon. Countries of the EU and those seeking to join must respect human rights, as must countries that conclude trade and cooperation agreements with the EU.

Freedom House ratings show no huge difference among new Member States in this respect. Most have quickly achieved consolidated democracy status with the exception of the late-

46 Dragomir Stoyanov, 'The Impact of EU Integration on the Bulgarian Party System', *The European Union and Party Politics in East Central Europe*, eds. Paul G. Lewis and Zdenka Mansfeldová, 190-209 (Houndmills: Palgrave-Macmillan, 2006).

47 Susanne Jungerstam-Mulders, *Postcommunist EU Member States. Parties and Party Systems* (Burlington, VT: Ashgate, 2006).

48 'European Values Study.' 2011. *European Values Study and GESIS Data Archives for Social Sciences. Leibnitz Institute for Social Sciences, University of Tübingen*. Available: <http://zacat.gesis.org/webview/index.jsp?object=http://134.95.45.58:80/objf/Catalog/Catalog5>. Access: November 25, 2013.

49 Thomas Carothers, *Aiding Democracy Abroad. The Learning Curve* (Washington DC: Carnegie Endowment for International Peace, 1999); Darina Malova, 'Notes on the State of Civil Society in Central and Eastern Europe' (CETrust working paper 36, available at <http://www.csf.ceetrust.org/paper/36/>, accessed on 14 September 2014).

comers (Romania and Bulgaria), which were still seen as semi-consolidated democracies until recently. Candidate states had to incorporate the protection of human rights into their legal systems through the *acquis communautaire* prior to signing the accession agreement. Therefore, from the legal point of view, new Member States do not differ from old Member States. Moreover, since the *acquis* transfer has been completed, the European Commission no longer prepares country reports and only comments on specific infringements (e.g. laws that violate EU laws and guidelines). Thus, due to the strict pre-accession conditionality requirements, new Member States show a steady convergence to the EU 15, at least when it comes to legal frameworks.

According to the European Court of Human Rights database on human rights violations, new Member States show no major discrepancy compared to old ones, either in the number of cases submitted to the court or in the ratio of submitted cases and cases with at least one violation.

A more important turning point can be seen after the 2008 global financial crisis. Human rights violations and rising extremism have correlated with economic troubles and many new Member States have been among the most affected economies in the EU.

The main difference between East and West within the EU lies in the type of most common human rights violations. In new Member States, which are rarely the target lands of migration, the rights of migrants and asylum seekers are not the main issue (though the corresponding legal frameworks and facilities are sub-standard). Rather, discrimination is targeted at other disenfranchised groups, such as Roma, women and LGBTQ citizens.⁵⁰ Violent incidents against these minorities have increased since the beginning of the recent financial crisis and are now part of a populist political discourse.⁵¹

Nationalism and the elitist-populist pendulum

Nationalism played a certain democratising role in the early stage of transition by offering strong collective political identity and thus giving an anti-communist, pro-independence, pro-democracy stance to the people of East Central Europe, especially in Estonia, Latvia and Lithuania. However, nationalism in the post-communist region tends to be more exclusive (ethnic) than inclusive (civic). The rebirth of the nationalistic agenda is visible almost all over in the region and carries some concern.

50 As for LGBTQ issues, people's attitudes represent the differences between East and West: Eastern Member States not only rank at the bottom of the list in their acceptance of such sexual orientations, but their attitude has also remained unchanged over time. Rory Fitzgerald. 2013, 'Exploring public attitudes, informing public policy. Selected Findings from the First Five Rounds', *European Social Survey*. Available: http://www.europeansocialsurvey.org/docs/findings/ESS1_5_select_findings.pdf. Access: 20 May 2014, p. 14. For the discrimination of women, see Beverly Dawn Metcalfe and Marianne Afanassieva. 2005. 'Gender, work, and equal opportunities in Central and Eastern Europe', *Women In Management Review* 20: 397-411.

51 For further details see the country reports compiled by the European Union Agency on Fundamental Rights: 1) ANTISEMITISM: there is no available comprehensive data, but most countries do have official data on the number of incidents that can be qualified as motivated by anti-semitism. http://fra.europa.eu/sites/default/files/fra-2013_antisemitism-update-2002-2012_web.pdf; 2) ROMA: Country reports do not cover most of the new Member States <http://fra.europa.eu/en/country-data/2013/country-thematic-studies-situation-roma>; 3) HOMOPHOBIA: all reports available <http://fra.europa.eu/en/national-contribution/2012/country-thematic-studies-homophobia-transphobia-and-discrimination>; 4) ACCESS TO JUSTICE: all reports available <http://fra.europa.eu/en/country-report/2012/country-thematic-studies-access-justice>.

Citizens of post-communist countries had high expectations after the fall of the Iron Curtain, as they believed that democracy and welfare would come together and that their countries would catch up with Western European levels quickly. This was one of their expectations concerning EU-accession as well. However, this has proven not to be the case in the past 25 years. Social and economic inequalities have increased, thus pushing political leaders to adopt more populist stances. Instead of offering consolidated policy-making, too often a cycle of elitism and populism has polarised politics and policies. **Populism in Central and Eastern Europe often seems to combine nationalist and social elements of demagogy with anti-Roma sentiments which repeatedly challenge, if not destabilise, the existing democratic institutions.**⁵²

Minorities

The majority of CEE Member States have large *national and/or ethnic minorities* living on their territory. In Central and Eastern Europe the larger ethnic minority groups include the Russians in the Baltic States, Poles in Lithuania, Hungarians in Slovakia and Romania and Turks in Bulgaria. Although precise data are unavailable, the Roma minority is significant in many Central and East European countries; in Slovakia, Hungary, Romania and Bulgaria, estimates range from 7 % to 10 % of the population.⁵³ National, and more recently ethnic minority, issues have always been sensitive in the area, because of historical claims to the same land and sometimes the ensuing mutual atrocities committed over centuries in complex political settings. The fact that minorities have been present in these areas for a long time differentiates them from the minorities of Western Europe where — with a few exceptions — most of the minority problems emerged out of immigration from non-EU nations.

The hope that in the EU borders will become less important and thus minority relations will improve did not materialise in the CEE countries. If anything, CEE States have become more protective of their nations. This is so because they still primarily define the nation-State in ethnic/nationalistic terms and feel very strongly about their recently regained independence and/or sovereignty. In extreme cases, this has led Estonia and Latvia to disenfranchise a large segment of their ethnic Russian populations. Nonetheless, the EU has exercised some influence over the treatment of minority groups by establishing standards for human rights and treatment of minorities, and by monitoring compliance of human rights throughout the accession process. In most cases, minority rights are provided by the State but their actual implementation leaves room for improvement.

In some countries, the minority cleavage is mirrored by the party system as well. For instance, the Democratic Union of Hungarians in Romania and the Party of the Hungarian Community represent the Hungarian minorities of Romania and Slovakia respectively, while the Movement for Rights and Freedom does the same for Turks in Bulgaria. These parties have gained parliamentary representation and participated in government coalitions. However this is not the case in other countries with large

52 See, for instance, the cases of Poland under the Kaczynski-government between 2005–07, and Hungary under the Orbán government since 2010.

53 Statistics provided by the Council of Europe within the Roma and Travelers project available at http://www.coe.int/t/dg3/romatravellers/default_en.asp

non-national communities. Ethnic Russian parties in particular find it difficult to obtain enough support to enter the legislature in the Baltic States, as do ethnic Poles in Lithuania. There is obviously a delicate democratic trade-off in such political situations: should minorities be represented on their own in 'national' parties with the risk of antagonising divisions in a country or should they be 'integrated' into 'national' political parties with sensitivity to pluralism? Many solutions are available and so far democratic agreements have proved relatively good.

The case of the *Roma minority* is a more difficult and comprehensive problem. The Roma population is spread across Bulgaria, Romania, Hungary, Slovakia and the Czech Republic, yet their situation is much the same in all of these countries. Their treatment was a problem repeatedly mentioned in the EU country reports before accession. In 2011 the EU adopted the Framework for National Roma Integration Strategies to close the economic, social, and human rights gap between Roma and other EU citizens, focusing on education, employment, healthcare and housing by 2020.⁵⁴ **The EU established a joined responsibility between the Member States and the EU institutions on the Roma situation with the tasks of developing, financing, implementing and monitoring their own integration strategies in cooperation with Roma civil organisations. These tasks rest primarily on CEE Member States while the EU offers expert advice, final support and annual monitoring. Although national strategies have been established through such cooperation, it is yet completely unclear whether they will be effective in achieving the desired outcome.**⁵⁵

Despite the funding of projects to improve the situation of the Roma, the EU has not been able to help in solving the Roma issue. **Several states put forward ambitious policies to integrate the Roma population but these did not do away with the existing deep-seated discrimination against them. The Roma issue cannot be effectively dealt with in a short span of time as this minority group's serious socio-economic position — extremely high unemployment (around 70 %), lack of education and skills, as well as unsanitary living conditions — makes it a pervasive issue. There is thus a kind of despair about Roma people. In times of economic development, nobody cares for their future; in economic downturns they become a problem and are likely to be scapegoats for other cultural and nationalistic concerns. There seems to be no clear policy on the Roma population situation neither at national nor at EU levels.**

Since the EU accession, the situation of the Roma has not improved and, interestingly, the end of the continuous monitoring of CEE States by the EU has not helped. **The Roma problem has continued to be crucial in some CEE countries like Hungary, Slovakia and Romania for instance.**⁵⁶ **However, because of the acute economic and social problems**

54 European Commission, 2011. Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. An EU Framework for national Integration Strategies up to 2020. Available: http://ec.europa.eu/justice/policies/discrimination/docs/com_2011_173_en.pdf.

55 European Commission — Directorate-General for Justice, 2014. Report on the Implementation of the EU framework for National Roma Strategies. Available: http://ec.europa.eu/justice/discrimination/files/roma_implement_strategies2014_en.pdf.

56 István Pogány, 'Post-communist Legal Orders and the Roma: Some Implications for EU Enlargement', *Spreading Democracy and the Rule of Law? The Impact of EU Enlargement on the Rule of Law, Democracy, and Constitutionalism in Post-communist Legal Orders*, eds. Wojciech Sadurski, Adam Czarnota and Martin Krygier, 335-356 (Dordrecht: Springer, 2006). Aidan McGarry, *Who Speaks for the Roma? Political Representation of a Transnational Minority Community*. (New York: Continuum, 2010). Bernd Rechel, ed., *Minority Rights in Central and Eastern Europe* (London and New York: Routledge, 2009).

in these countries, Roma migration to Western Member States amplified without solution: the Roma population is seldom welcomed there either.⁵⁷

Corruption and state capture

Corruption remains an issue of intense concern for Central and Eastern EU Member States. What is striking is the difference of perceptions between Central and Eastern Europeans on the one hand and Western Europeans on the other hand. Citizens' perception of corruption has improved in the East over time but has deteriorated in the West (see Figure 5: below). For instance, the least corrupt among the new Member States (Estonia, Slovenia) are perceived as less corrupt by their population than the most corrupt among the old Member States (Italy, Greece).⁵⁸ Of course, perceptions of corruption are as different as corruption itself — methodologically virtually impossible to measure. Nevertheless, perceptions of corruption are relevant when assessing progress made towards lowering it. **Corruption has significant political costs⁵⁹ and can even lead to autocratic political leadership and economic stagnation at the same time. Unlike in most Western European countries, the danger of state capture (when external private interests take over public policy formation) seems to be a recurrent phenomenon in some Eastern European countries as shown by countries like Bulgaria, Croatia, Hungary, Romania and Slovakia.** Corruption affects the distribution and effective use of the Structural Funds money that countries receive from the EU and is often linked with organised crime. However, fighting corruption is difficult because of the involvement of high-ranking officials, attempts by governments to legalise the use of public funds for private purposes via legislative action, inadequate coordination between government organisations and at times a lack of judicial independence.⁶⁰ In some cases political and economic entrepreneurs may occupy the state from inside and regulate corruption in a biased manner which furthers their own private interests.⁶¹

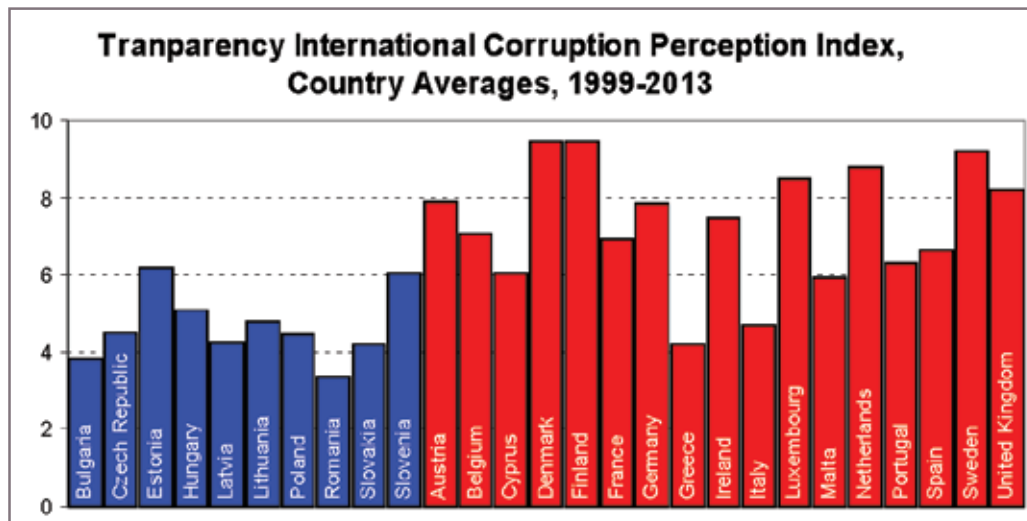
57 For further details on the challenges and obstacles to cultural diversity and tolerance see the ACCEPT PLURALISM FP7 research project (<http://accept-pluralism.eu/Home.aspx>) and on ethnic differences in education see the EDUMIGROM FP7 research project (<http://www.edumigrom.eu/>). Particularly about the causes, attitudes towards and the impact of CEE Roma (and non-Roma) migration to the West see Sotyanka Cherkezova and Ilona Tomova. 2013. 'An Option of Last Resort? Migration of Roma and Non-Roma from CEE Countries', *UNDP Roma Inclusion Working Paper*. Available: <http://www.undp.org/content/dam/rbec/docs/Migration-of-Roma-and-Non-Roma-from-Central-and-Eastern-Europe.pdf>.

58 'Quality of Government Standard Dataset 2013', *Quality of Government Institute*. Available: <http://www.qog.pol.gu.se/data/datadownloads/qogstandarddata/>. Access: 10 November 2013.

59 More recently see the fall of the government in the Czech Republic in 2013.

60 'Nations in Transit', *Freedom House*. Mihaly Fazekas et al, 'Are EU Funds a Corruption Risk? The Impact of EU Funds on Grand Corruption in Central and Eastern Europe, (European Research Centre for Anti-Corruption and State-Building working paper No 39, 2013).

61 Cristina Dallara, *Democracy and Judicial Reforms in South-East Europe: Between the EU and the Legacies of the Past* (Springer, 2014) (Ch. 3, 'The Successful Laggard in Judicial Reform: Romania Before and After the Accession'); Leslie Holmes, 'Political corruption in Central and Eastern Europe', in Martin J. Bull and James L. Newell (eds.), *Corruption in Contemporary Politics* (Palgrave, 2003); Eric Uslaner, *Corruption, Inequality, and the Rule of Law. The Bulging Pocket Makes the Easy Life* (Cambridge University Press, 2008).

Figure 5: Corruption Perception Index in the EU 1999-2013

Source: Quality of Government Institute⁶²

The original 0–100 was reduced to a 0 (highly corrupt) to 10 (highly clean) scale for simplicity. Data for Cyprus and Malta is only available starting 2004. (Eastern Members are blue, Western Members are in red)

Relations with and position within the European Union: success and limits of the Visegrád process

Despite adopting the institutional structure of democracies and the *acquis* of the EU, changing their legal systems and legislation, joining NATO, the EU and the Schengen Area (except Romania and Bulgaria which are still Schengen candidate countries) and lifting the barriers on the free movement of people, some new Central and Eastern European Member States still have been tempted to prioritise monetary advantages from the EU membership over their actual responsibilities as members. This partly repeats the situation after joining NATO. New Member States then rushed to enjoy the security benefits of membership but failed to modernise their armies to the level required by NATO.

There are various reasons for this kind of approach to EU membership.

First, East Central Member States were primarily attracted to the EU standard of living and were willing to endure the political costs that come with membership. However, the EU itself had significantly changed during the period of accession negotiations and wanted to deepen the political aspects of the integration of the enlargement process, thus putting more pressure on new Member States than they had expected.

Second and related to this, during the years of negotiations for accession, governments often blamed their unpopular economic measures on the EU, arguing that these were necessary to obtain the prosperity that comes with EU membership. On the one hand, this pattern has survived after accession and some governments — or a part of the political elite — have kept their earlier rhetoric, acting as an inner opposition within the EU. It is also true that **the pro-EU national consensus broke up with accession itself and since then politicians have no longer taken any domestic political risk by expressing an anti-EU opinion**. On the other hand, as a result of the above rhetoric, the population had unrealistically high hopes which turned into disappointment when they failed to notice much change after accession. This made some people receptive to anti-EU messages.

Third, as pointed out above, appealing to nationalistic sentiments in the population at times of strong economic recession and offering a policy choice that resists stronger outside forces remains politically profitable. **In short, domestic interests and goals often override European commitments in the eyes of political elites.**

Historical heritage, nationalistic overtones and antagonism over the treatment of minorities also make regional cooperation and relationships with the EU troublesome. The cooperation among the four Visegrád countries symbolises this well. The Visegrád process was established right after 1989 in order to share experiences during the Euro-Atlantic integration and thus facilitate the achievement of membership status. The flexibility and practical approach of the Visegrád Group allowed it to retain a certain separate identity within the EU. However, internal controversies over the evaluation of the situation of the Hungarian minorities (the so-called Benes decrees), as well as Poland's attempts to associate itself with France and Germany in order to achieve a more influential power status in the EU, have set this cooperation back. Nevertheless, the group did help Slovakia to catch up in the late 1990s and eventually to accede to the EU together with the other three Visegrád countries.

With the nearing of EU accession, the goals of the organisation were redefined, although it was never transformed into a formal organisation. Emphasis was put on pursuing joint interests within the EU, with special attention to relations toward Eastern neighbours and drawing relations closer between citizens through the programmes and sponsorship activity of the newly established International Visegrád Fund.⁶³ As has been shown by the European research MAXCAP project, support for future enlargement remains higher in these (and other Eastern) Member States than in the West, even though both old and new EU states are losing their enthusiasm for receiving new states among their ranks.⁶⁴ The Visegrád Four therefore focus on cross-border cooperation between new Member States and their Eastern and Southern non-EU Member States. It means that the new EU Member States have become pivotal in the successful implementation of the European Neighbourhood Policy. However, other difficult issues remain. While the relatively close succession of the Czech (2009), Hungarian and Polish (2011) presidencies of the European Council of Ministers was highly beneficial to the Visegrád countries, the European research project EUBORDERSCAPES points to the fact that the Schengen border regime makes such cross-border cooperation and the spreading of European

63 Martin Dangerfield, 'The Visegrád Group in the Expanded European Union: From Pre-accession to Post-accession Cooperation', *East European Politics & Societies* 22 (2008): 630-667.

64 Dimiter Toshkov, Elitsa Kortenska, Antoaneta Dimitrova and Adam Fagan. 2014. 'The "Old" and the "New" Europeans: Analyses of Public Opinion on EU Enlargement in Review', *MAXCAP Working Paper 2*. Available: http://maxcap-project.eu/system/files/maxcap_wp_02.pdf.

cultural values more difficult. This might also undermine cross-border cooperation — and the emergence of a strong regional identity — among the Visegrád (and other Eastern border) States.⁶⁵ This is well illustrated by the fact that in some other policy areas the Visegrád countries have actually drifted further apart. For example, only Slovakia has joined the eurozone. In addition, Poland has not given up its aspiration to become one of the most influential Member States within the EU. Finally, Hungary's extension of citizenship to members of the Hungarian historical minorities in neighbouring countries such as Slovakia and the Czech Republic has opened up new rounds of heated political discussion between the Visegrád countries.⁶⁶

Conclusion

Retrospectively, from a political perspective, the transition period was relatively smooth in most CEE countries despite earlier predictions and the painful difficulties of the economic transformation. Bulgaria and Romania were the exceptions to this trend, because these countries underwent a longer, belated political transition (1989–97). The second period (1998–2004) was the epoch of democratic consolidation, when most countries stabilised their institutional order, achieved economic development, negotiated EU accession successfully and harmonised their regulations to match EU standards. **However, in the more recent post-accession period (2004–14), the emerging global economic crisis made it clear that the foundations of many of these new democracies are still shaky. One of the major lessons of East Central European politics is that democratic institutions and regular elections may not always be enough in themselves to ensure a vibrant democracy. Higher citizen commitment to democratic values and their active participation in politics would be necessary to maintain a strong democracy and prevent its decline. Moreover, in recent times, the role of elites in some of these countries has appeared questionable or even controversial in relation to democratic standards and institutions.** There is therefore an urgent need to deepen democracy in CEE countries and the EU should actually be mandated to help democratisation in its Member States.

65 Cathal McCall. 2013. 'European Union Cross-border Cooperation and Conflict Amelioration', *EUBORDERSCAPES Working Paper 1*. Available: http://www.euborderscapes.eu/fileadmin/user_upload/Working_Papers/EUBORDERSCAPES_Working_paper_1_McCall.pdf.

66 Hungarian historical minorities were cut off from their nation state at the Trianon Treaty of 1920. Nevertheless, it is not just a Hungarian issue, since Croatia grants citizenship to Croats living abroad, as does Romania to those ethnic Romanians who live in Moldova.

3. Economics in Central Eastern Europe: the mixed results of the transition to market economies



From socialist to market economy

After the Second World War, all ten Central and Eastern European (CEE-10) countries became part of the socialist economic system in the Soviet Bloc. The socialist system was characterised by public ownership of all factors of production, strong political control, a dominant share of intra-COMECON⁶⁷ trade and a planned economy. In this system, decision-making was centralised and coordinated by a central plan and both material and moral incentives were used to motivate economic agents. Two countries — Poland and Hungary — experimented with a market socialist system, which had a higher share of decentralised decisions, some activities also being coordinated through market mechanisms.

In 1989 the socialist system peacefully collapsed in the Visegrád-5 countries (Czech Republic, Slovakia, Poland, Hungary and Slovenia) and also in the South-2 countries (Romania and Bulgaria). In 1991 this process was concluded with the collapse of the Soviet Union and access to independence by the Baltic-3 countries (Estonia, Latvia and Lithuania). Thereafter, all ten countries adopted capitalist market economies characterised by private property and market-type systems. This new economic system brought a complete change to their economies. Shortages — highly characteristic of the socialist period — disappeared but new types of uncertainties, inequalities and unemployment in particular, emerged.

After the collapse of the socialist system, the European Union decided to integrate these ten countries in order to stabilise the European continent. The enlargement of the EU to the CEE-10 countries was conditioned to their compliance to the EU legal and institutional requirements (*acquis communautaire*) and the development of market economies (see the so-called Copenhagen economic criteria to be met in order to be integrated, in Table 1: above) combined with financial assistance, support to public administration reform⁶⁸ and foreign direct investment.

The first years after the break-up of the Central and Eastern European socialist system: between ‘shock therapy’ and gradual sequencing of reforms

The early years of transition can be roughly divided into two phases. **The first period, which lasted approximately from 1989 until 1994, was characterised by profound changes driven by major economic and social reforms, in combination with macroeconomic austerity measures⁶⁹ and intense external shocks.** This period was characterised by an

67 The Council for Mutual Economic Assistance (COMECON) was founded in 1949 as an Eastern Bloc response to the Western formation of the Organisation for European Economic Co-Operation.

68 See for instance a very early comparative analysis of such reforms in Slovakia, Bulgaria and Hungary in Tony Verheijen and David Coombes (Ed.), *Innovations in Public Management. Perspectives from East and West Europe*. Cheltenham: Edward Elgar (1998).

69 Policies used by governments to reduce budget deficits during adverse economic conditions (spending cuts, tax increases or a mixture of the two, etc.).

overall economic decline mostly due to the reallocation of resources and efforts at macro-economic stabilisation. However, it is quite likely that the rates of growth were underestimated in official data, mostly because the newly emerging non-state sector was not fully included in the data collection process of statistical offices.⁷⁰ Still, in most countries, output per capita did decline, reaching lows at around 1992–94, subsequently followed by an (often impressive) recovery.

In the early 1990s all CEE countries followed policies based on the Washington consensus:⁷¹ privatisations, price and trade liberalisation, wage restraints and macroeconomic stabilisation, varying of course in speed, scope and modes of implementation.

Unlike the countries of the former Soviet Union, the CEE-10 succeeded in avoiding the inflationary threat, except Bulgaria and partially Romania, once prices — which were under administrative control during the socialist period — were liberalised. The stabilisation programmes that contained inflation included tight monetary policies, wage control and non-inflationary financing of budget deficits.⁷²

At the beginning of the reforms there was controversy over the relative merits of ‘shock therapy’ versus a gradual sequencing of reforms. It was clear that in some areas, such as price and trade liberalisation, inflation stabilisation and small scale privatisation, quick interventions worked; but in other areas changes took much more time. Those in favour of shock therapy, such as Poland and Czechoslovakia, argued that after the collapse of socialism there was a short time-interval in which the consensus between the elites and population was stronger than it would ever be again, and that therefore there was a need for quick action. This view emphasised the need to separate the firms quickly from the central state in order to avoid newly formed vested interest groups blocking privatisations. Those favouring a more gradual approach, like Hungary, were concerned about inefficiencies arising from such actions and warned that rapid — at times random — privatisation might be politically too costly in the medium run.⁷³

Overall, it must be realised that, at the beginning of the reforms, policy views on shock therapies were shaped by opinions from international financial organisations and Western academic circles. These opinions were rooted in standard price theory, experience of stabilisation in other regions and lessons from comparative economics. This was an optimistic approach which believed in self-ordained societal engineering that delivers efficiency gains:⁷⁴ the reality proved much less easy in most CEE countries.

70 Stanley Fischer and Ratan Sahay, ‘The Transition Economies after Ten Years’, *National Bureau of Economic Research* (2000).

71 A list of ten market-orientated policy reform prescriptions agreed by international institutions in Washington influenced by US national politics (IMF, World Bank,) and promoted for crisis-hit developing countries, such as Latin American countries in late 1980s. The economic relevance and the ideological orientation of this approach have been heavily criticised and later profoundly amended by these institutions, given the controversies about the results of this approach, notably in Latin America.

72 Stanley Fischer and Ratan Sahay, ‘The Transition Economies after Ten Years’, *National Bureau of Economic Research* (2000).

73 Ibid.

74 Gerard Roland, *Transition and Economics: Politics, Markets and Firms* (MIT Press, 2000). See also Ryszard Rapacki and Mariusz Próchniak, *The EU Enlargement and Economic Growth in the CEE New Member Countries*. DG ECFIN economic Papers 367, March 2009. http://ec.europa.eu/economy_finance/publications/publication14295_en.pdf

Catching-up with Western Europe: 1995-2007

After an impressive fall in output in the first five years of the transition, the CEE countries entered a promising catch-up⁷⁵ process towards Western European levels. Initially, the faster the speed of reforms, the quicker the recovery to positive growth rates. The economies that did best were those that pursued reforms more vigorously and were closer geographically to Western Europe. Between 1995 and 2007, the income gap between EU15 (countries members of the EU before the 2004 enlargement) and the CEE-10 was to an extent reduced, but still remained large.

Increased trade openness⁷⁶ together with foreign direct investments represented the engine of this growth process. From the second half of the 1990s — on an annual basis — the growth differential between these countries and the core countries of Western Europe has always been positive. In good years the growth differential was more than three percentage points, while in the crisis years it was still above zero.⁷⁷

In the period 1995-2007, the CEE countries belonged to the fastest growing economies on the globe. For example, in the period 2000-07, the three Baltic countries and Romania had average yearly growth rates of about ten per cent, while the growth rates of Slovakia and Bulgaria were just little below this level.⁷⁸ The process of convergence was helped by the fact that in this period the Western European countries were growing at very slow rates. **One of the driving factors of this growth path was the remarkable openness of the CEE economies. Despite their small economic size, they became important trading partners of the EU15 and of Germany in particular.**

The implementation of the *acquis communautaire* and the East-West integration provided a common framework for the CEE countries to engage in rapid convergence. Given the gap in the level of development between the CEE-10 and EU15 one can say that the East-West integration expanded the opportunities of the former much more than those of the latter.⁷⁹

A specific case is the convergence between East and West Germany. Huge net transfers from the West to the East were supposed to help the latter catch-up with the former. However, labour productivity still remains lower in the Eastern provinces of Germany and labour migration from the Eastern rural areas persists, despite the fact that these regions are relatively homogenous with their Western counterparts in terms of language, culture, law and education.

75 A widely used concept in economics (also referred to as convergence) representing the view that poorer economies' per capita incomes will tend to grow faster than those of richer economies, eventually converging at some point in the future.

76 Trade openness, or trade-to-GDP ratio, is measured as the average of total trade (i.e. the sum of exports and imports of goods and services) relative to a country's GDP.

77 Ewald Nowotny, 'Achieving balanced growth in CESEE countries', *Conference on European Economic Integration (CEEI)*. Helsinki (2012).

78 Ibid.

79 Richard E. Baldwin, Francois Joseph F. and Richard Portes, 'The costs and benefits of eastern enlargement: the impact on the EU and Central Europe', *Economic Policy* 12: 24 (1997): 125-176.

In the following, two issues are considered. First, there is the importance of factors which helped the high growth pattern in the period 1995–2007, especially the behaviour of total factor productivity (TFP).⁸⁰ Second, there are the hidden vulnerabilities in these economies which affected the East Central European countries during the recent crisis and significantly slowed down the convergence process.

Productivity gains

The CEE countries have recorded impressive productivity gains over the past 15 years. Manufacturing has been the main driver of productivity convergence while gains in services have been less pronounced. Productivity catching-up has been accompanied by a substantial inflow of foreign direct investment to industry and also by financial and business-related services.⁸¹

The rapid growth in the CEE countries is mostly attributed to the growth of total factor productivity, which outperforms the contribution from capital accumulation, while the contribution from employment growth — at times — is even negative. Initially, the CEE region faced large technological gaps but it received huge benefits from spillovers of foreign direct investments.

In the period 1996–2009, higher TFP growth rates in the CEE countries than in Western Europe can be observed. On average, the annual contribution of TFP growth to total growth amounted to 2.4 percentage points over the 1996–2009 period in the CEE countries. In the EU-15, TFP growth added on average 1 percentage point to overall growth.⁸²

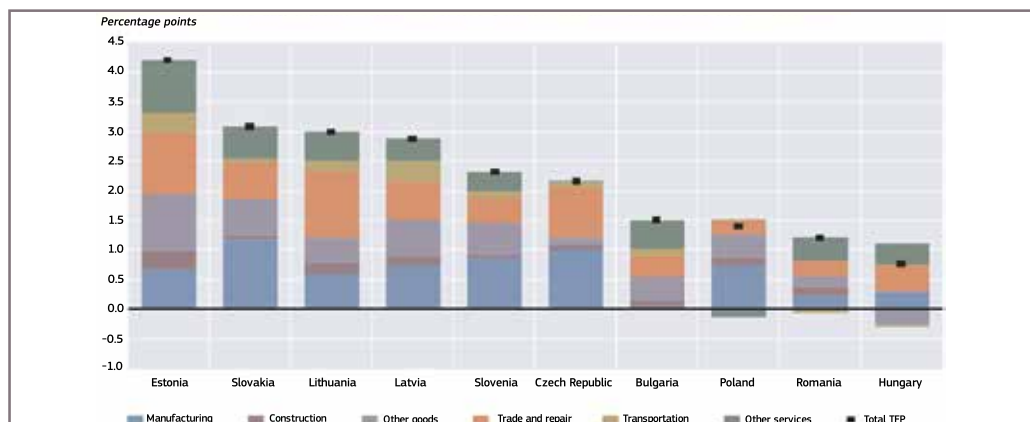
As Figure 6 below documents, there are also relatively large differences in total factor productivity growth between the CEE countries. The Baltic States and Slovakia exhibit the highest total factor productivity growth over the period 1996–2009. This positive TFP growth differential suggests technological convergence between these countries and Western Europe.

80 TFP is the portion of output not explained by the amount of labour and capital used in production; its level is determined by how efficiently the inputs are utilised in production processes.

81 Martin Bijsterbosch and Marcin Kolasa, 'FDI and productivity convergence in Central and Eastern Europe: an industry-level investigation', *Review of World Economics* 145: 4 (2010): 689–712.

82 Konstantins Benkovskis, Ludmila Fadejeva, Robert Stehrer, and Julia Woerz, *How Important is Total Factor Productivity for Growth in Central, Eastern and Southeastern European Countries?* Working Paper 05/12, Latvijas Bank (2012).

Figure 6: Total Factor Productivity and Industry Contributions to Value Added Growth in CEE countries, 1996-2009

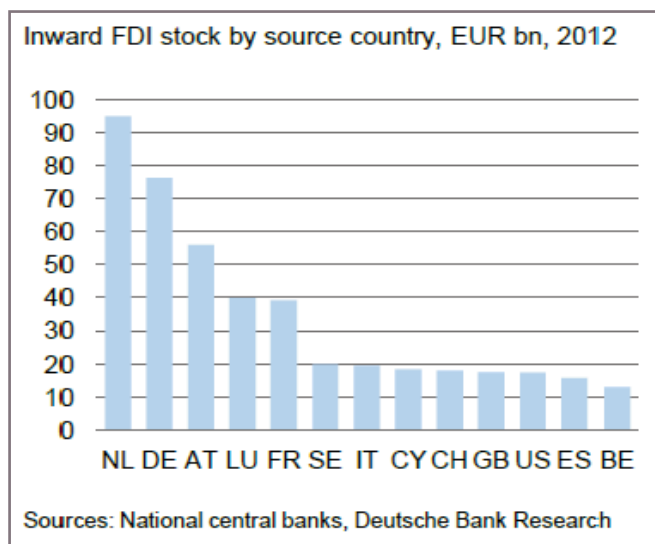


Source: Benkovskis, K., Fadejeva, L., Stehrer, R. and J. Wörz. *How Important is Total Factor Productivity for Growth in Central, Eastern and Southeastern European Countries?* Latvijas Banka, 2012, Working Paper 05/12, p. 19

Dependence on foreign direct investments (FDI)

The EU15 countries, most importantly the Netherlands, Germany and Austria, were the main providers of foreign direct investment to the CEE-10 countries, as can be seen in Figure 7: below. These Western European countries represented around three quarters of total foreign direct investment inflow into the CEE-10.

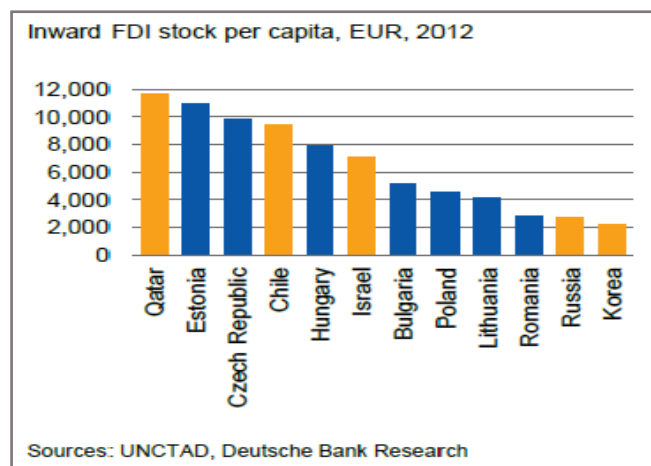
Figure 7: Inward FDI stock, Western Europe 2012



Source: Deutsche Bank Research, *CEE: Fit for the Next Decade in the EU*, April 24, 2014, available at https://www.dbresearch.com/PROD/DBR_INTERNET_EN-PROD/PROD000000000333559/CEE%3A+Fit+for+the+next++decade+in+the+EU.pdf

The largest FDI recipients are Poland (36 % of total CEE-10 FDI stock in 2012), the Czech Republic (19 %) and Hungary (14 %).⁸³ One also observes a very high level of FDI per capita in some countries of the region; notably, Figure 8: below shows that **in 2012 for instance, Estonia, the Czech Republic and Hungary received some of the highest per-capita stock of foreign direct investments in the world, leaving other successful emerging markets, such as Russia and Korea, well behind.**

Figure 8: Inward FDI stock per capita 2012



Source: Deutsche Bank Research, *CEE: Fit for the Next Decade in the EU*, 24 April 2014, available at https://www.dbresearch.com/PROD/DBR_INTERNET_EN-PROD/PRODO000000000333559/CEE%3A+Fit+for+the+next++decade+in+the+EU.pdf

Foreign capital inflow was an important factor facilitating the privatisation and reconstruction process at the beginning of the transition. The CEE countries created a regulatory framework and offered a wide range of incentives to foreign and domestic investors such as tax inducements, subsidies, grants, special economic zones, free trade zones and other similar tools.

Not all types of FDI have the same effect on domestic economies; in other words, the composition of the FDI matters. For example too much FDI in the non-tradable sector — as for example into financial intermediaries — can lead to larger current account deficits, while FDI in the tradable sector could help future exports.⁸⁴ In addition, FDI in the non-tradable sector might fuel credit booms. According to research developed within the European research GRINCOH FP7 project,⁸⁵ FDI significantly influenced export restructuring in the CEE countries and continues to influence their long-run productivity growth.

83 Deutsche Bank Research, *CEE: Fit for the Next Decade in the EU*, 24 April 2014, available at https://www.dbresearch.com/PROD/DBR_INTERNET_EN-PROD/PRODO000000000333559/CEE%3A+Fit+for+the+next++decade+in+the+EU.pdf

84 Bulgaria and Estonia have the highest stock of non-tradable FDI and they also have a high import to GDP ratio. See: Yuko Kinoshita, *Sectoral Composition of Foreign Direct Investment and External Vulnerability in Eastern Europe*. Working Paper 123, International Monetary Fund, 2011.

85 GRINCOH stands for Growth — Innovation — Competitiveness: Fostering Cohesion in Central and Eastern Europe. GRINCOH aims to project development scenarios of CEE countries until 2020 from the perspective of both development in CEE countries and of EU's cohesion policy.

There is no doubt that the modernisation of CEE industries is highly indebted to enormous FDI inflows. However, the social impact of FDI on a broader scale seems less clear. For example, CEE governments face difficulties in funding social programmes and public education, given the fiscal constraints that stem from intense competition for FDI, which frequently includes costly tax-reduction packages.⁸⁶

During the recent financial crisis FDI slowed down but it started to recover quickly, even if remaining below its pre-crisis levels. Given the geographical proximity and the strong integration of the CEE-10 and the Western EU member countries, one can expect that the latter will remain the main source of FDI for the former in the near and medium terms as well.

In addition to FDI, **the CEE countries have benefited extensively from different EU funds and transfers.** For example, Structural and Cohesion Funds programmes amounted to a total budget of EUR 336.5 billion (2008 prices) for the EU budgetary period 2007–13. **Around half of the total sum, EUR 177 billion, was available for the CEE-10 countries.⁸⁷**

Another vital source of transfers is the European Investment Bank to which the new Member States can apply for loans with objectives such as fostering convergence, offering support to small and medium-sized enterprises and sustaining the development of alternative energy supplies. The economic impact of these funds is significant, as they help to increase income and output in these countries and regions. According to the GRINCOH European project, **one of the main findings regarding the EU's cohesion policy is that the funding was often spent on urgent problems, with somewhat less emphasis on the needs of long-term strategic development,** as the Cohesion Policy operates under national administrative and regional constraints.⁸⁸

The slow progress of innovation

The impact of FDI on productivity critically depends on the absorptive capacity of industries in the recipient countries, that is, on their ability to integrate new knowledge into domestic conditions and use it to achieve higher productivity. One of the central objectives of the European research GRINCOH FP7 project in this regard is to identify the implications for sustainable growth, greater economic, social and territorial cohesion in the CEE countries based on innovation and the development of technological capabilities. This absorptive capacity depends on the level of technology transfer, corporate culture and level of human capital in domestic firms.⁸⁹

86 Martin Bijsterbosch and Marcin Kolasa, 'FDI and productivity convergence in Central and Eastern Europe: an industry-level investigation', *Review of World Economics* 145: 4 (2010): 689-712.

87 Varga Janos and Jan in 't Veld, 'The Potential Impact of EU Cohesion Policy Spending in the 2007–13 Programming Period: A Model-Based Analysis', *European Economy Economic Paper*, 2010, No 422.

88 Ferry (2013) points to the fact that regional development in these countries might be dictated less by strategic considerations and more by the need to absorb quickly the funds from the European Union. He also points out the need to develop comparative policy studies within this region. See, Ferry, Martin, FP7 GRINCOH Cohesion Policy and Its Components: Past, Present and Future, WP8 Task 2: Cohesion Policy Lessons from Earlier EU/EC Enlargements, Synthesis of Case Studies, 2013, <http://www.grincoh.eu/working-papers>.

89 Martin Bijsterbosch and Marcin Kolasa, 'FDI and productivity convergence in Central and Eastern Europe: an industry-level investigation', *Review of World Economics* 145: 4 (2010): 689-712.

In spite of rapid economic growth and extensive TFP improvement, **investments by CEE countries in knowledge creation have only been modest.**⁹⁰ **Instead, these countries tend to rely more on external knowledge transfers.** The findings of the GRINCOH project suggest that strengthening research excellence and cross-border scientific networking in these new Member States could be a way to increase regional innovativeness, which in combination with other policies could foster regional development.⁹¹

The gap between business-sector knowledge creation in the CEE and EU15 countries is much greater than the gap in income.⁹² **With a few notable exceptions, the domestic business environment has a low innovative potential, which translates into reduced international competitiveness, and reliance on imports of technology and equipment.**⁹³ Trade openness functions as a channel for technology diffusion but, without the proper absorptive infrastructure, it cannot achieve the critical mass needed to increase the international competitiveness of CEE production.

While CEE countries are not successful in producing inventions at the cutting edge, they can successfully adopt and diffuse them.⁹⁴ However, **the need remains for more efforts to support and develop innovations in view of sustained long-run growth. This fact is even more important now since the initial drivers of growth (reallocation of resources, benefits from restructurations and comparative advantage in labour-intensive industries) might become less evident.**⁹⁵

The results of the European research SEARCH project point to the fact that, in general, countries which display the highest level of innovation are typically those that show the highest adoption rate; conversely, countries with weak capacity to innovate are also weak adopters. Interestingly, the CEE countries seem to be exceptions in this regard, having a very high adoption compared to their rate of innovation.⁹⁶

Research carried out under the same SEARCH FP7 project also speaks about improved innovation capacity — the more a country participates in the internal EU market, which grants free movement of goods and people and removes barriers for business, the more competition and innovation increase. Research shows that internal market regulations have positive and indirect impacts on the adoption of innovation across the EU Member States. For example, they stress that the internal market regulations which foster cooperation can positively affect the

90 Jaanika Meriküll, Helen Poltimäe, and Tiiu Paas, 'International Technology Diffusion: The Case of Central and Eastern European Countries.' *Eastern European Economics* 51: 2 (2013): 21-38.

91 GRINCOH, *Summary description of project context and objectives*, accessed at: <http://www.grincoh.eu/GRINCOH/reports?get=befc58c828c7d7d568e19f7107301260>

92 Ibid.

93 Marius Krammer and Sebastian Sorin, 'Drivers of National Innovatice Systems in Transition: an Eastern European Cross-Country analysis', *Munich Personal RePEc Archive*, 2008.

94 Ibid.

95 Ibid.

96 Morina, Rosina and Jordi Surinach, *Characterisation of Innovation Adoption in Europe*, SEARCH Working Paper, January 2013. These authors explicitly mention Slovakia, Hungary, Latvia and, to a lesser extent, Poland as countries with a very high adoption of innovation as compared to their rate of innovation production, p. 14.

level of innovation adoption.⁹⁷ In this regard, there are grounds to be more optimistic about the innovative capacity of CEE countries in the future.

High rates of unemployment, especially among the young

Just after the fall of the Berlin Wall, the labour markets of the former socialist economies were characterised by almost zero unemployment but also by an excess of labour demand over supply. Immediately, widespread overstaffing in many sectors contributed to low levels of productivity. As a result of several drastic reforms in the first five years of transition, labour demand and employment started to decline and as a consequence employment in the CEE region decreased.⁹⁸ These employment losses either fuelled unemployment or formal economic inactivity.⁹⁹ Employment rates of the population aged 15–64 declined considerably in the first ten years of transition, and even afterwards changes were marginal. **The steepest fall in employment in the first ten years after the fall of the Berlin Wall happened among the young (aged 15–24) as compared to prime age and older (50–64) workers, thus putting pressure on young people to migrate outside the CEE region.**¹⁰⁰

Initially, many countries introduced early retirement schemes to avoid the long-term unemployment of older workers. This approach changed later as these early retirement schemes placed a burden on national pension systems. More recently, to make pension systems sustainable, the retirement age has been raised in many countries.¹⁰¹

Today, unemployment remains relatively high in the CEE countries compared to the EU27 rates (see Figure 9: below) although in recent years unemployment in some Western EU countries has skyrocketed. In the period 1998–2012 the average unemployment was lowest in Slovenia (around 7 %) and highest in Poland (around 14 %). In addition, Bulgaria, Estonia, Lithuania and Slovakia had unemployment well over 10 per cent.¹⁰²

97 Manca, Fabio, Rosina Moreno and Jordi Surinach, *The Role of the EU Internal Market on the Adoption of Innovation*, SEARCH Working Paper 4/16, September 2013.

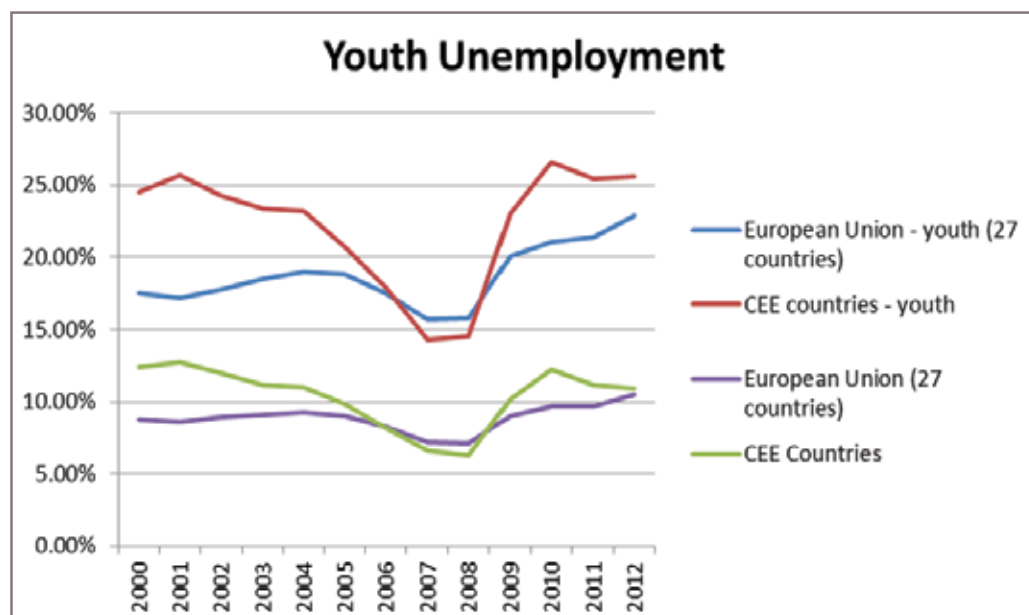
98 Alena Nesporova, *Why unemployment remains so high in Central and Eastern Europe*. Employment Paper 43, Geneva: International Labour Office, 2002.

99 Ivan T. Berend, *From the Soviet Bloc to the European Union* (Cambridge University Press, 2009).

100 Alena Nesporova, *Why unemployment remains so high in Central and Eastern Europe*. Employment Paper 43, Geneva: International Labour Office, 2002.

101 Ibid.

102 Giray Gozgor, 'Testing Unemployment Persistence in Central and Eastern European Countries', *International Journal of Economics and Financial Issues* 3, 3 (2013): 694–700.

Figure 9: Youth unemployment in the EU, 2000–12

Source: Eurostat, <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tsdec460>

Unemployment in the CEE countries thus tends to decline with age, reaching the lowest levels for the pre-retirement population, which reflects persisting seniority rules and insider power.¹⁰³ In 2000, the average youth unemployment rate was around 24 %, compared to 12 % for the total population. Until 2007, the unemployment rate among the young decreased to around 14 %. In the recent crisis, however, the gap between the young and the total unemployment rates has increased again. Since its peak in 2010, the youth unemployment rate in the CEE countries has stabilised.¹⁰⁴

The return of growth after the crisis years has failed to translate into a labour market recovery. Employment lags behind GDP in terms of average growth rates. Average figures, however, conceal a degree of heterogeneity across the region.¹⁰⁵ Some countries have seen employment rebound, while others have experienced a jobless recovery, which means clearly that growth and employment are not mechanically linked. For example in Bulgaria real GDP has surpassed its pre-crisis level, yet employment remains below 2007 levels.¹⁰⁶

103 Alena Nesperova, *Why unemployment remains so high in Central and Eastern Europe*. Employment Paper 43, Geneva: International Labour Office, 2002.

104 Eurostat. *Unemployment Statistics — Statistics Explained*. 4 March 2014. <http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Unemployment_statistics#Youth_unemployment_trends (accessed: 10 March 2014).

105 EBRD. *Transition Region in the Shadows of the Eurozone Crisis*. EBRD, 2012.

106 EBRD Report, 2012, Chapter 2, Transition Region in the Shadows of the Eurozone Crisis.

Labour costs vary among the EU member countries: in Slovenia, a 'high-wage' country by CEE standards, the average monthly labour costs in industry and services (gross wages and salaries plus indirect labour costs, converted at current exchange rates) are below forty per cent of those for Germany. Labour costs in Bulgaria and Romania are less than ten per cent of the German level.¹⁰⁷ Nominal labour costs are increasing in all new member countries. This is a positive sign with regard to catching up in terms of standards of living but it still puts pressure on the international cost competitiveness of the CEE countries unless such rising labour costs are compensated by a proportionate rise in productivity.¹⁰⁸ **Most CEE countries thus try to keep a delicate balance between maintaining economic attractiveness through low labour costs and furthering well-being among their population through improved wages and standards of living.**

For the citizens of the former East Germany, the transition brought an immediate increase in living standards together with high unemployment. Although a free market economy was successfully introduced, it did not lead to the rapid convergence of the two halves of the country and unemployment has remained high in the Eastern part of Germany. The early collapse in employment was influenced by strong unionisation which kept wages unduly high; however, although that is much less the case today, unemployment remains high. The issue of the low performance of East Germany is the cause of much debate in Germany and some economists even stress the disincentives of the generous social welfare system and of large transfers as proximate causes of low employment in East Germany.¹⁰⁹

Vulnerability of the CEE economic model during the recent crisis

The recent crisis revealed the sensitivity of the CEE growth model to foreign capital inflows. The crisis also led to lower demand for products from the CEE region, to lower business investment and to a steep decline in credit.¹¹⁰ Indeed, research conducted under the European research project GRINCOH confirms that the crisis hit the CEE countries harder, albeit not all to the same extent. As a consequence, growth was interrupted and the convergence process between CEE countries and Western Europe and within the CEE region itself slowed down. Poland, for example, was affected only mildly, in comparison to some other countries, such as Hungary and Slovakia, which were hit much harder.

Vulnerabilities accumulated in CEE countries in different forms. First, increased wages coupled with strong lending by banks and credit institutions led, in some countries, to high growth in housing prices. Second, lending to households and business was often denominated in foreign currencies while income was created in domestic currency, which led to exchange rate high-risk exposure. Third, in a large number of countries the nominal as well as the real exchange

107 Peter Havlik, *Unit labour costs in the new EU Member States*. Vienna: The Vienna Institute for International Economic Studies, 2005.

108 Ibid.

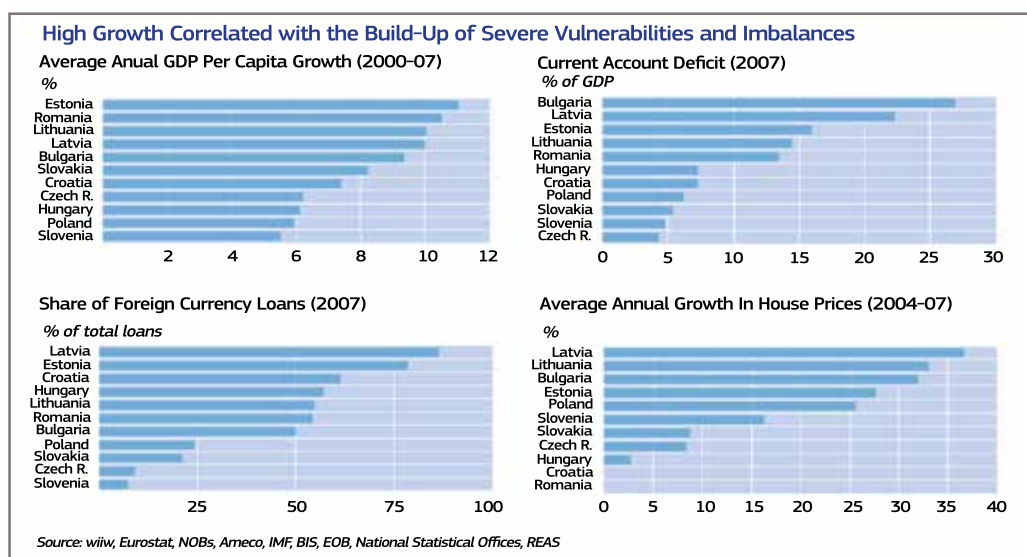
109 For analysis of different views see Jennifer Hunt, 'The economics of German reunification', *Dictionary of Economics* (New York: Palgrave Macmillan, 2006).

110 IMF. *Central, Eastern, and Southeastern Europe: Regional Economic Issues*. International Monetary Fund, 2013.

rate appreciated, which led to sizeable current account deficits.¹¹¹ Countries with the largest imbalances before the crisis were hit hardest during the crisis.¹¹²

Figure 10 below charts the pre-crisis vulnerabilities of the CEE economies. In 2007, for example, the current account deficit in almost all countries was higher than five per cent, with the exception of the Czech Republic. However, the deficits in Bulgaria, Latvia and the Baltic countries were extraordinarily high. The share of foreign currency loans was low in Slovenia, the Czech Republic, Slovakia and Poland. However, it created considerable tension in the Baltic countries, Hungary, Romania and Bulgaria. One also observes a pre-crisis bubble in housing prices in the Baltic States, Bulgaria and Poland.

Figure 10: Pre-crisis vulnerabilities in CEE countries



Source: Ewald Nowotny: *Achieving balanced growth in the CESEE countries*, Bank for International Settlements, November 2012.

The recovery from the recent crisis seems to be moderate and well below the optimistic pre-crisis forecasts. As already noted, these vulnerabilities have slowed down the process of convergence between East Central and Western Europe but the EU still retains the aim of integrating all its members more and more closely. The process of integration is far from being a linear story and shows times of economic and social slow-down as illustrated by the recent crisis. Researchers in the European research MAXCAP project have noted for instance that the EU might drift apart with enlargement, as there are differences not only between North and South but more fundamentally between East and West: 'There are significant disparities in socio-economic development, democratic quality and governance capacity that still marks a rift between the "old" Member

111 A current account deficit occurs when the value of goods and services a country imports exceeds the value of goods and services it exports.

112 Ewald Nowotny, 'Achieving balanced growth in CESEE countries', *Conference on European Economic Integration (CEEI)*. Helsinki, 2012.

States in Western Europe and the “new” Member States.¹¹³ **An important political issue for the years to come at EU level will thus be to analyse with much more attention how such convergence in the EU can take place and what it means in terms of adapted social and economic policies for the CEE countries.**

Modernising agriculture

In rural areas the transition from planned to market economy unsurprisingly contributed to a significant loss of employment in agriculture in the 1990s. Initially, agricultural output declined sharply across all transition countries, mostly as a result of sharp decreases in agricultural producer and food consumption subsidies following the breakdown of the old system. However, in most CEE countries, the decline in agricultural output ended by the mid-1990s.¹¹⁴

They followed a transition programme comprising the elimination of centrally determined agricultural production targets, the liberalisation of prices, the introduction of hard budget constraints and the privatisation of land and non-land farm assets, as well as food production enterprises.¹¹⁵ The farming structures that emerged are characterised by the coexistence of large and small farms varying in composition across the region. While the agricultural reform processes in Bulgaria, Romania, Poland, Slovenia and the Baltic States mostly resulted in excessive land fragmentation with small-scale family farms, in the Czech Republic and Slovakia large-scale farms of various legal forms emerged.¹¹⁶

This heavy restructuring process in agriculture was accompanied by increased rural-urban disparities compared to the more egalitarian policies during socialism. The SEARCH European project finds that economic integration has led to the restructuring of industrial sectors and the relocation of activities in the new EU members. This new economic geography characterised by divergence and polarisation between regions appears to be among the main consequences of enlargement, with metropolitan regions and regions bordering the EU advancing, while others remain rural and stagnate or decline.¹¹⁷

In the pre-accession process, rural areas gained attention as new Member States had to adopt the EU rural development and structural policies, eventually aiming at reducing inter-regional disparities. This key objective has been supported by the structural and cohesion funds and the Common Agricultural Policy (CAP) of the European Union. Slightly less than 30 % of EU27’s utilised agricultural area is located in the new Member States, with Poland, Hungary

113 Tanja Börzel, *Coming Together or Drifting Apart? Political Change in New Member States, Accession Candidates and Eastern Neighbourhood Countries*, MAXCAP Working Paper No 31 May 2014, p. 25.

114 Csaki, C., Kray, H. and Zorya, S., 2006. *The Agrarian Economies of Central-Eastern Europe and the Commonwealth of Independent States*. ECSSD Environmentally and Socially Sustainable Development Working Paper, 46. Washington, DC: World Bank.

115 Wandela, J., Pieniadzb, A. and Glaubena, T. (2010). 'What is success and what is failure of transition? A critical review of two decades of agricultural reform in the Europe and Central Asia Region', Leibniz-Institute of Agricultural Development in Central and Eastern Europe (IAMO), Halle (Saale), Germany; European Commission-DG Research, Brussels, Belgium.

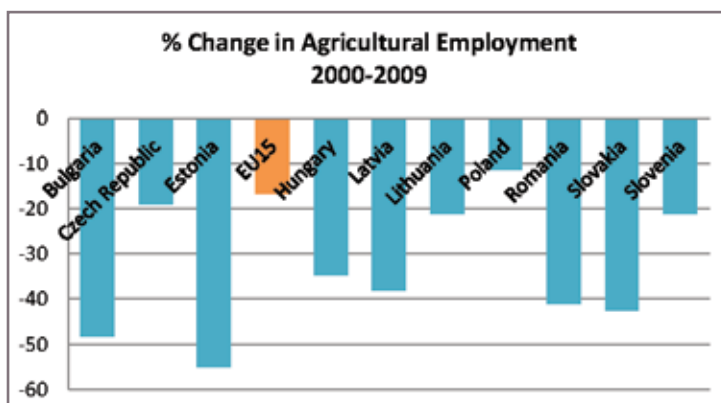
116 Ibid.

117 Ascani, A., Crescenzi, R. and Iammarino, S. (Jan 2012). 'New Economic Geography and Economic Integration: A Review'. WP1/02 Search Working Paper. <http://www.ub.edu/searchproject/wp-content/uploads/2012/02/WP-1.2.pdf>

and Romania being the biggest agricultural producers.¹¹⁸ **The CAP proved beneficial and resulted in an increase in farmers' income, becoming an important source of revenue in the rural sector.**¹¹⁹ Part of the higher income can be explained by CAP subsidies as well as by a moderate convergence of CEE agricultural prices with Western European prices. The EU accession also affected the new Member States' structure of agricultural production which moved towards increasing share of crop production. In 2011, for example, in most of the new Member States the share of crop output was about 75 % of total agricultural output, as compared to previous share of 50–60 %.¹²⁰

However, as compared with other sectors of the economy, the share of agriculture in the region — expressed as per cent share of the GDP — further declined after EU accession. After EU accession, agricultural output yield increased. Thus **the agricultural productivity gap in terms of yield per hectare between the old and new Member States has decreased, but still remains significant.**¹²¹

Agricultural employment fell back — as shown in the Figure below — which also reflects the restructuring process which reallocates jobs away from agriculture towards services.¹²²



Source: Own estimation based on data from: Eurostat News Release. 'Agriculture in the EU27: Employment in the agriculture sector down by 25 % between 2000 and 2009. Real income generated per worker up by 5 %.' 66/2010 — 7 May 2010. http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/5-07052010-AP/EN/5-07052010-AP-EN.PDF

As regards trade in agricultural food products, both agricultural food exports and imports increased across the board. In Hungary, for example, agricultural food export doubled from 2003 to 2011. In nominal terms agricultural food trade balance was positive in the period

118 Csaki, C. and Jambor, A. (2009). 'The Diversity of Effects of EU Membership on Agriculture in New Member States', FAO Regional Office for Europe and Central Asia. *Policy Studies on Rural Transition* No 2009-4.

119 Ibid.

120 Csaki, C. and A. Jambor. 'Impacts of the EU Enlargement on the New Member States Agriculture', Discussion paper. *Acta Oeconomica et Informatica*. XVI (Number 1, 2013): 35–50.

121 Csaki, C. and A. Jambor. 'Impacts of the EU Enlargement on the New Member States Agriculture', Discussion paper. *Acta Oeconomica et Informatica*. XVI (Number 1, 2013): 35–50.

122 Csaki, C. and Jambor, A. (2009). 'The Diversity of Effects of EU Membership on Agriculture in New Member States', FAO Regional Office for Europe and Central Asia. *Policy Studies on Rural Transition* No 2009-4.

2003–11 only in Bulgaria, Hungary, Lithuania and Poland, while the biggest deficit was observed in the Czech Republic and Romania.¹²³

CEE countries and the euro currency

Five smaller CEE countries — Slovenia, Slovakia and the Baltic States — followed a quick path towards the euro, whereas the remaining countries have taken a more moderate approach. Slovenia became the first country to be granted full EMU membership, in 2007. It was followed by Slovakia (2009) and Estonia (2011), then Latvia joined in 2014. Lithuania aims at adopting the common currency in 2015. In Hungary, the Czech Republic and Poland, the euro has become an issue in national politics. It is feared that further consolidation of the euro area might push these countries and also Romania and Bulgaria to a more marginal position in the EU decision-making process. Recently, both in the Czech Republic and in Poland, voices for euro-adoption have strengthened. **The success of some CEE countries in joining the eurozone actually shows that belonging to the eurozone is not an impossible task for CEE countries: hopefully the recent reforms adopted by the EU in order to improve the Monetary Union, better monitor the banks and improve the macro-economic coordination of the eurozone will improve the prospects of CEE countries for their accession to the Economic and Monetary Union.**

Broader political economy characterisation

The model of development of the CEE countries is based on integration with the European Union in the economic and political sphere through institutional development, trade and financial integration. But two features characterise the economic situation of the CEE countries since their integration.

1) The CEE economies have largely been fed by foreign capital. The net capital inflows, mostly from the European Union countries before the crisis, were larger than in any other emerging region. Credit expansion in the CEE countries has been mostly financed by capital inflows from abroad, rather than by domestic deposits. The openness of these economies also increased quickly and became, in general, much higher than in EU15 countries and in most of other emerging regions.¹²⁴

2) The CEE economies do not manage to favour innovation. According to the European research Project EUBORDERREGIONS, the regional development framework in the Northern EU regions is far more reliant on high-technology services sectors and high value-added manufacturing than in East Central Europe. Regions in CEE countries are biased towards low technology and manufacturing.¹²⁵ **A crucial issue is thus how the CEE countries can**

123 Csaki, C. and A. Jambor. 'Impacts of the EU Enlargement on the New Member States Agriculture', Discussion paper. *Acta Oeconomica et Informatica*. XVI (Number 1, 2013): 35–50.

124 Becker Torbjorn et al, *Whither Growth in Central and Eastern Europe? Policy Lessons for an Integrated Europe* (Brussels: Bruegel Blueprint Series, 2010).

125 Daniela Grozea-Helmenstein et al., *Benchmarking EU-Border-Regions: Regional Economic Performance Index*, (EUBORDERREGIONS Project Report) accessed at www.euborderregions.eu/files/report%20vienna.pdf

adapt their economic model and turn to an economy of innovation helped by regional ‘smart specialisation’ for instance.

Additionally, **the CEE economies show fundamental dependence on investment decisions by transnational corporations with selective transfers of technological innovations.**¹²⁶ This economic model seems to lead to comparative advantages in sectors such as automobiles and consumer electronics, but fails to lift the standard of living of the whole population. Instead, one observes a growing dualism within these societies with rising income disparities between those who participate in the multinationally connected sectors and the rest of the population. Such a situation, if not changed, may have very adverse social and political consequences for the CEE countries. These inequalities have led to increasing political and social tensions in some countries and have often been accompanied by the rise of populism. Reform fatigue, nostalgia for lost security and for a more egalitarian society, as well as general disillusionment, have caused a backlash against further reforms in several CEE countries.¹²⁷ Indeed, this situation can also affect future opinions about a wide variety of integration issues, including the future enlargement of the Union.¹²⁸

To the extent that economic performance helps to build democratisation one can see sustained economic growth as a stimulus for democracy. But low growth coupled with widening inequalities and a weak middle class can put democracies to the test, as can also be seen in the Western part of the EU. Stability in the region might also require getting the level of development over a given threshold. Yet, populist political movements that represent the short and medium-term transition-losers might undermine the best achievements of the democratic and economic transition.

Conclusion

Despite good pre-crisis growth performance in the CEE countries, income differentials with Western Europe are still very large and has caused disillusion among those who hoped that joining and imitating Western Europe would quickly bring economic and social benefits equivalent to those enjoyed by Western countries. There are good reasons for this difference, especially as both factor inputs and factor productivity are significantly lower. For example, per capita capital stock in most CEE countries is only a fraction of that in the Western part of the EU. Labour force participation (percentage of 15–64 year olds in the labour force) in these countries is also still lower than in advanced European countries.

It seems that the most suitable growth-enhancing approach in the long term is a reasonable increase in competition in the domestic economy though an improved regulatory approach which limits market imbalances, supports an increase in standards of living and ensures im-

126 Andreas Nölke and Arjan Vliegenthart, ‘Enlarging the varieties of capitalism: the emergence of dependent market economies in East Central Europe’, *World Politics* 61:4 (2009): 670–702.

127 Irena Grosfeld and Claudia Senik, ‘The Emerging Aversion to Inequality’, *Economics of Transition* 1:18 (2010): 1–26.

128 Support for future accessions into the EU is still higher in the CEE countries than in the EU15 as research in FP7 project MAXCAP shows. See, Toshkov, Dimiter, Elitsa Kortenska, Antoaneta Dimitrova and Adam Fagan, *The ‘Old’ and the ‘New’ Europeans: Analyses of Public Opinion on EU Enlargement* in Review MAXCAP Working Paper No 2, April 2014.

provements in the quality of education.¹²⁹ Other sources of growth also need to be strengthened, most notably private domestic savings, as investment rates in the CEE countries are to a large extent financed by foreign savings and are low compared, for example, with emerging Asia.¹³⁰ Finally, leading the CEE economies towards more innovation also seems a necessary alternative if these countries are to steer their own economics more independently.

The overall situation remains mixed. If economic modernisation has undoubtedly taken place, the number of losers in the transition to the market economy still remains very high and may fuel further discontent, first of all in the electoral arena. 25 years after the fall of the Berlin Wall and the implementation of radical market economics, it is time for a reassessment of views on the political economy of East Central European countries.

129 Philippe Aghion, Heike Harmgart and Natalia Weisshaar, *Fostering Growth in CEE Countries: a Country-Tailored Approach to Growth Policy*. Working Paper 118, European Bank of Reconstruction and Development, 2011.

130 Lorenzo Bini Smaghi, 'Real Convergence in Central, Eastern and South-Eastern Europe: A Central Banker's View', *Real Convergence in Central, Eastern and South-Eastern Europe*, eds. Reiner Martin and Adalbert Winkler, 11-17 (Palgrave MacMillan, 2009).

4. The unequal costs of the social transition



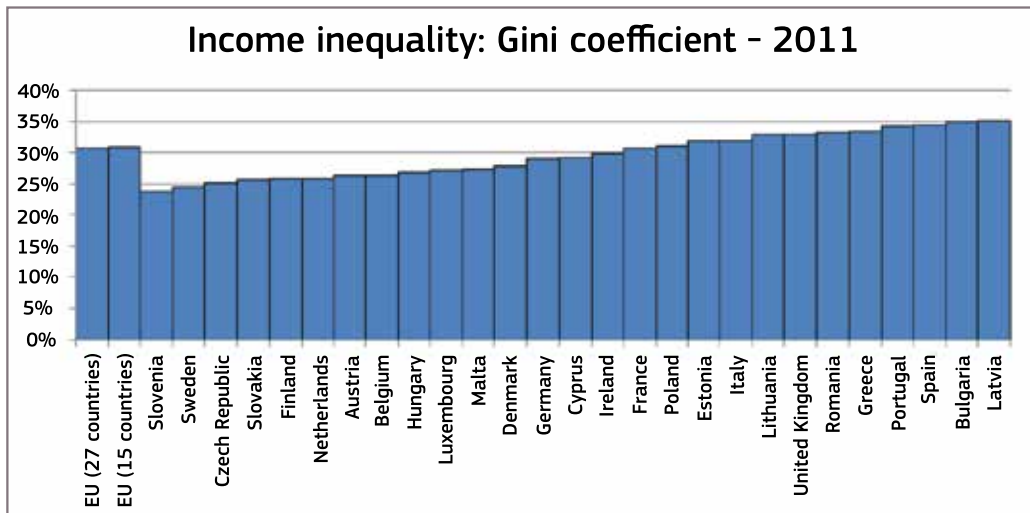
Inequality and poverty

During the socialist period inequality was low among different strata of the population, since nominal wages were quite similar. However, even during that period — characterised by general shortages of consumer goods — there were significant differences in access to goods (and therefore in hours spent queuing).

Living standards are today higher than fifty years ago in the ten CEE countries. The MAXCAP European research project has found that a majority of European Union citizens agree that the enlargement of the EU has contributed to better living standards in CEE countries. This opinion is shared by citizens of both new and old Member States.¹³¹ **More people are richer and more people live long enough to experience the new prosperity. However, this progress comes together with increasing inequality, at least in some CEE countries.**

Inequality is commonly measured using the Gini coefficient, a number that lies between 0 (perfect equality — everyone has the same) and 1 (perfect inequality — one person has everything). In 2011 (see Figure 11: below) among all the 27 EU members, income inequality seems to be the lowest in Slovenia, Sweden, the Czech Republic, Slovakia and Finland.¹³²

Figure 11: Income inequality in the EU 2011



Source: Eurostat http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ilc_di12

131 'The "Old" and the "New" Europeans: Analyses of Public Opinion on EU Enlargement in Review', MAXCAP project, accessed 2 June 2014, http://maxcap-project.eu/system/files/maxcap_wp_02.pdf

132 'Eurostat — Data Explorer,' accessed 19 March 2014, http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ilc_di12
For an illustration of this process, from the early 1990s until the late 2000s the real disposable income of households in the Czech Republic grew at an average rate of 2.7 %, of which the bottom decile household income grew at 1.8 % and the top decile at 3.0 %. In Hungary for the same period the growth was less: the average annual change was 0.6 %, with lowest decile growing by 0.4 % and top decile by 0.6 %. See, OECD, 'An Overview of Growing Income Inequalities in OECD Countries', (2011), p. 23.

In contrast, the highest inequality is found in Latvia, Bulgaria, Spain, Portugal and Greece. **In the CEE-10 countries, income inequality is lower in the Visegrád countries and higher in the Baltic and Southern countries.** Whereas after the socialist period the average Gini coefficient in Central Europe rose to approximately Scandinavian levels, in the Baltic and Southern countries inequality grew faster.¹³³

However, in the CEE 10 countries one observes a quite substantial difference between objective and subjective inequality. Objective inequality is measured in terms of income or consumption, while subjective reflects people's opinions, perceptions and feelings about their well-being. In the new EU member countries, the levels of subjective inequality are higher than those of objective inequality. This difference might stem from a number of specific facts. First, salaries and incomes were low under socialism but were overly egalitarian. Second, large segments of the CEE population believe that privatisations created a kind of arbitrary class society and that poor people are trapped in poverty with a low probability of exit. One should note that at the beginning of the transition process, in most of the CEE countries, the proportion of people associating democracy with social equality was very high.¹³⁴ Additionally, under the socialist system, people were used to living in some kind of material security, as most of the needs of everyday life were guaranteed by the paternalistic state.

Regional inequalities in the European Union follow a mixed core-periphery, East-West and North-South pattern. On average, Western and Northern regions are more advanced than Eastern and Southern regions. In the CEE countries, the process of catching up helped to reduce differences among East and West. However, as alluded to in the previous chapter, convergence in most countries has been achieved through the much higher performance of metropolitan areas compared to rural areas and small towns. Although metropolitan regions in the European Union have generally higher income per capita than the national and the EU average, this trend is even more pronounced in the CEE countries.¹³⁵

Regional inequalities have thus increased over time in all CEE member countries.¹³⁶ In particular, the cities and regions which had been the engines of socialist development — especially in heavy industry — faced considerable social problems once the former socialist enterprises collapsed.¹³⁷ Diminishing output

133 Anders Aslund, *How Capitalism was Built, The Transformation of Central and Eastern Europe, Russia and Central Asia*, (Cambridge University Press 2007), 184-185.

134 See Laszlo Bruszt and Janos Simon, 'Political culture, political and economical orientations in central and eastern Europe during the transition to democracy', (1991), manuscript Erasmus Foundation for Democracy, Budapest); quoted in Adam Przeworski, *Self-Enforcing Democracy, The Oxford Handbook of Political Economy*, eds. Barry R. Weingast and Donald A. Wittman, Chapter 17 (Oxford University Press, 2006), p. 313.

135 George Petrakos, 'Regional growth and inequalities in the European Union', *Discussion Paper Series*, University of Thessaly, 15:2 (2009): 23-44.

136 Panagiotis Artelaris, Dimitris Kallioras and George Petrakos, 'Regional inequalities and convergence clubs in the European Union new Member States', *Eastern Journal of European Studies*, Volume 1:1 (2010).

137 Modern research shows that local forces remain crucial in shaping regional economic development and that competitive advantage contains strongly localised elements. 'Therefore, what development strategies should aim at is basically to adopt balanced policies which build upon local strengths and try to alleviate local weaknesses as the only way to root economic activity in territories in a sustainable manner', Ascani, Andrea, Riccardo Crescenzi, and Simona Iammarino, Regional Economic Development: A Review, WP 1/03 SEARCH Working Paper, January 2012, p. 19.

went hand in hand with a fall in income, increased unemployment and widening regional differences.¹³⁸

Globalisation of trade in goods, services, labour and capital markets contributed to increasing income differences. An additional factor is skill-biased technological change, which might explain increases in labour earnings inequality. In particular, younger, well-educated and internationally orientated groups of employees have benefited from Europeanisation and trans-nationalisation processes.¹³⁹ Following the forced homogenisation during the socialist period of regional policies, regional heterogeneity after 1989 has clearly increased.

Poverty is the other important social feature of the last decades in East Central Europe. Poverty increased substantially in regional pockets such as Eastern Slovakia and Eastern Hungary.¹⁴⁰ Within these regions one finds a more widespread traditional paternalistic approach, with more dependence on state patronage. From the beginning of the 1990s, the transition radically changed the previous system of social security and transition difficulties and rising unemployment contributed to changes in the social structure of society.¹⁴¹ This is obviously in sharp contrast with the expectations of people regarding markets and democracy after the fall of the Berlin wall. **People actually expected significant improvements in well-being after the regime change. However, many people have remained in poor conditions or have even seen their situation worsen, while others have sunk into permanent poverty or even extreme poverty** (i.e. when people lack the basic commodities).

While most homeless people and some segments of the Roma population do experience extreme poverty, poverty in the CEE countries remains relative and varies from country to country. The relative income poverty line is measured against the average or median household incomes in a country. Typically, following the European definitions applied by Eurostat, people falling below 60 % of the median income are said to be at risk of poverty. This rate would be considerably higher if there were no social transfers (see Figure 12 below).¹⁴²

In 2011, 17 % of the EU28 population was at risk of poverty even after social transfers. The highest at-risk-of-poverty rates after social transfers were observed in Romania (22 %) and Bulgaria (21 %), with the lowest rates in the Czech Republic (9 %), Slovakia (13 %), and Slovenia (13 %).

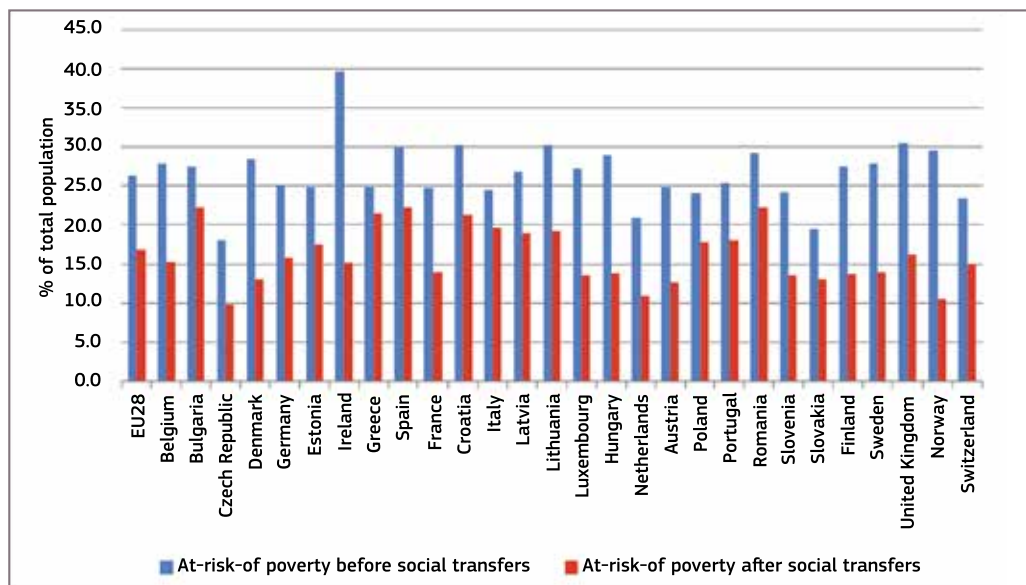
138 Capello and Perucca (2013) identify those regions which are highly integrated within global processes and are specialised in competitive open sectors. These regions lead economic growth in the CEE countries as they have better access to foreign sources of innovation and knowledge accumulation (through foreign direct investment and trade) as well as a better ability to use local assets. See, Capello, Roberta and Giovanni Perucca, Globalisation and Growth Patterns in Eastern European Regions: From the Transition Period to the Economic Crisis, Working Paper in the GRINCOCH, FP7 project, WP 1 - Task 3, February 2013 <http://www.grincoh.eu/working-papers>

139 Martin Heidenreich, 'Deliverable 3.1 Patterns and Determinants of Income Inequality in a Regional-National-European Multilevel System' in the FP7 project LOCALISE *Local Worlds of Social Cohesion. The Local Dimension of Integrated Social and Employment Policies*, Grant agreement no: 266768, Coordinating Organisation: CETRO.

140 Dirk J Bezemer, 'Poverty in transition countries', *Journal of Economics and Business*, Vol. IX, (2006):11-35.

141 Teo Matković, Zoran Šučur, Siniša Zrinščak, 'Inequality, Poverty and Material Deprivation in New and Old Members of the European Union', *Croatian Medical Journal*,48, (2007): 636-652.

142 'Poverty and Inequality in the European Union', The Poverty site, note written by the European Anti-Poverty Network (EAPN), accessed 19 March 2014, <http://www.poverty.org.uk/summary/eapn.shtml>

Figure 12: At-risk-of poverty before and after social transfers in the EU countries, 2011

Source: Eurostat http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ilc_li10&lang=en

An additional measure of poverty shows the share of the population which fulfils at least one of the following three conditions: being below the poverty threshold, being exposed to severe material deprivation, or living in a household with very low work intensity.¹⁴³ In Europe, the worst situation in this respect is in Bulgaria, Romania, Latvia, Lithuania and Hungary. In Estonia, Slovakia, Slovenia and especially the Czech Republic, the risk of poverty and social exclusion is the lowest in all CEE countries.

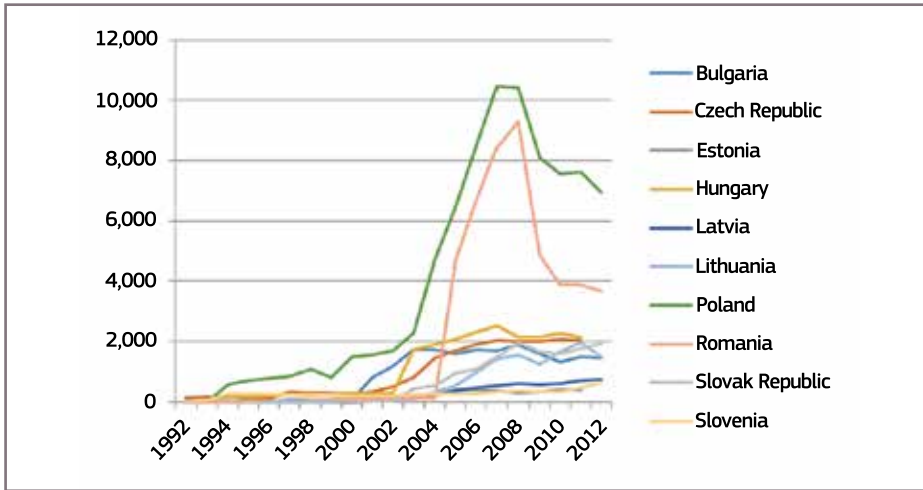
The percentage of children living in a household at risk-of-poverty or social exclusion ranged from 16 % in Slovenia to more than 40 % in Latvia, Hungary, Romania and Bulgaria. The main factors affecting child poverty are the labour market situation of the parents, which is linked to their level of education, the composition of the household in which the children live and the effectiveness of government intervention.¹⁴⁴

Remittances — transfers of money by foreign workers to individuals or households in their home country — have had a positive impact on poverty reduction, as many of these households receiving remittances are poor. The flows of remittances have greatly increased from their former insignificant levels in the early 1990s. The highest levels are in Poland and Romania (in 2012 EUR 5.6 billion and EUR 3 billion respectively, out of EUR 17.3 billion for all CEE-10 countries),¹⁴⁵ and these countries have seen some of the biggest migrations among their population.

143 'People at risk of poverty or social exclusion', Eurostat, accessed 19 March 2014, http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/People_at_risk_of_poverty_or_social_exclusion

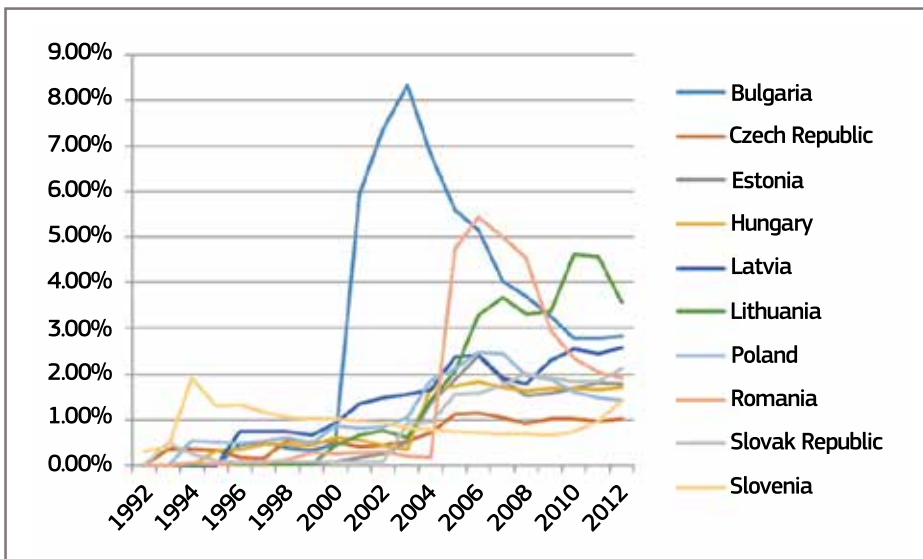
144 'People at risk of poverty or social exclusion', Eurostat, accessed 19 March 2014, http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/People_at_risk_of_poverty_or_social_exclusion

145 World Bank Database, accessed 19 March 2014, <http://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT>, using an average exchange rate in 2013: 1 EUR = 1.236 USD.

Figure 13: Remittances into the CEE countries, 1992-2012 (mil. USD)

Source: <http://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT>

In 2012 remittances ranged from around 1 % of GDP to 3.6 % of GDP, while in the early and mid-2000s differences were more marked (see Figure 14: below).¹⁴⁶ The level of remittances is of course closely correlated to migration, as people working abroad are usually sending money back home. As CEE-10 migrants in Western Europe themselves have suffered from the crisis since 2008, the level of remittances has dramatically decreased in some cases, thus affecting in turn the receiving countries in East Central Europe.

Figure 14: Share of Remittances in the GDP, 1992-2012 (% of GDP)

Source: <http://data.worldbank.org/indicator/BX.TRF.PWKR.DT.GD.ZS>

Changes in wealth

At the beginning of the transition, the rapid privatisation of large state-owned enterprises was considered the only remedy for the ineffective allocation of resources. Countries such as Estonia and Hungary relied primarily on the direct sale of large and medium-sized companies to foreign investors. The Czech Republic, Slovakia (in the first round of privatisation) and Lithuania opted partially for mass privatisation through distribution of vouchers to the population. This was initially seen as fair but it produced a disproportionate dispersion of ownership, often enriching asset-stripping managers. The benefits to small investors from voucher privatisation that were originally envisaged seem today quite limited.

Poland, Slovenia, Bulgaria and Romania were slow in privatising their large state enterprises, with the last two countries continuing to subsidise them until the second half of the 1990s. It seems that privatisation of large industrial firms in the former East Germany by the independent body known as Treuhandanstalt produced the least controversial results. **However, there appears to be no clear pattern between the way privatisation happened and the subsequent economic and social development of the CEE countries.**

Changes in the wealth of individuals were also caused by property restitution. During the early phases of communist regimes, the state had frequently confiscated property from its citizens. The process of restitution has been complex, as some buildings and property no longer exist or are used for other purposes. This made complete restitution in kind impossible. As a result, the process was often delayed and there was no single system that could have been applied to all the countries.

In OECD countries, the average income of the richest 10 % of the population is about nine times that of the poorest 10 % and it has been rising over the last 25 years.¹⁴⁷ The income share in total income of the top 10 % of the population is 24.4. This number tends to be lower in Eastern-European countries than the OECD average.¹⁴⁸

The mixed picture of migration

After the systemic change which took place in the CEE countries, the expectation was that differences in income would lead to mass migration from East to West. In fact, the net increase of foreign residents from the new Member States in the old EU countries has been lower than predicted in almost all countries that have opened their labour markets to citizens of CEE countries.¹⁴⁹ As Table 2: below shows, **around 2.2 million CEE residents migrated and mostly to a very small number of Western European countries like Germany, Austria and the UK.**

147 OECD. 'Divided we stand: Why inequality keeps rising', (2011).

148 OECD (2014), 'Income Inequality Update — June 2014' (www.oecd.org/els/soc/OECD2014-Income-Inequality-Update.pdf)

149 Paolo Ruspini, 'The Post-enlargement migration space and its open questions', Selected papers from the 14th Nordic Migration Researchers' Conference, 14–16 November 2007.

Table 2: Net Migration from CEE Countries 1988-2012

Country	Net migration (1988-2012)	Share of net migration to the population in 1988
Romania	-890 716	4 %
Bulgaria	-679 070	8 %
Poland	-677 540	2 %
Lithuania	-543 566	15 %
Latvia	-353 524	13 %
Estonia	-175 486	11 %
Slovakia	32 914	1 %
Slovenia	68 432	3 %
Hungary	412 310	4 %
Czech Republic	629 392	6 %

Source: World Bank and Eurostat¹⁵⁰

Even before accession, there was considerable irregular migration from countries such as Poland, Romania and Bulgaria to Western and Southern Europe (especially Germany, Italy and Spain). By the 1990s, a large number of the Western European countries had introduced specific programmes to facilitate temporary labour migration.¹⁵¹

Originally, in an effort to regulate migration, the EU15 countries decided to impose transitional periods of up to seven years for the free movement of workers from the new Member States. In 2004, only a few Member States removed immigration barriers for workers completely (Sweden) or largely (UK, Ireland, Denmark). Others opened their labour markets partially either by (small) quotas or in a few sectors based on bilateral agreements.¹⁵² Under such bilateral agreements Spain accepted around 600 000 migrants from Romania and Bulgaria between 2000 and 2007 and Italy around 400 000. This inflow did not increase after 2007 when both countries joined the EU.¹⁵³ In 2000, the vast

150 World Bank, accessed: 19 March 2014, <http://data.worldbank.org/indicator/SM.POP.NETM>
Eurostat, accessed 17 August 2014, http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=demo_gind&lang=en

151 Richard Black, Godfried Engbersen, Marek Okólski, Cristina Pantiru (eds.), *EU Enlargement and Labour Migration from Central and Eastern Europe*, (Amsterdam University Press, 2010).

152 Herbert Brucker, 'The Impact of Real Convergence on Migration and Labour Markets', in *Real Convergence in Central, Eastern and South-Eastern Europe*, Rainer Martin, Adalbert Winkler eds., 146-165 (New Palgrave, 2009).

153 Ibid.

majority of citizens from CEE countries residing in the EU were registered in Germany and Austria. By 2007, however, Great Britain and Ireland also saw increasing numbers of foreign residents from post-communist countries.¹⁵⁴

Looking at Table 2: above, it can be noted that the CEE region has been divided between predominantly migrant-sending and migrant-receiving areas. The former include Poland, Romania, Bulgaria and the Baltic countries, while the latter include the Czech Republic and Hungary where positive net migration has been impressive.¹⁵⁵ Estimates based on total net population change still suggest a net migration outflow of around two million people in the period 1988-2012. Anecdotal evidence would suggest that the outflow from Romania, Bulgaria and Poland is likely to be higher than what the official data record shows. Additionally, there has been significant migration from Hungary to EU15 countries recently. **According to the findings of the SEARCH European research project, the positive effects of migration on both host and origin countries indicate the need for a common migration policy, supporting integration and leading to sustainable growth.**¹⁵⁶

Public health under pressure

After the systemic change of 1989, life expectancy in the Visegrád-4 countries began slowly to increase. This process was slower in the Baltic-3 countries where the collapse of the socialist regime had an adverse effect on population health; the stress and chaos it induced being eventually worse than in the Visegrád-4 countries.¹⁵⁷ **At least none of the CEE countries experienced a fall in life expectancy as in some of the countries of the former Soviet Union.**¹⁵⁸

However, differences persist between post-communist European countries as regards the life expectancies both for males and females (see Figure 15: below), while within some countries the situation may even be more dramatic for some social groups. For example, in Slovakia, Roma communities that live in very poor conditions have a life expectancy of 55 years for males and 59 years for females, while the average life expectancy is 71 years for males and 79 years for females.¹⁵⁹

154 Herbert Brucker, 'The Impact of Real Convergence on Migration and Labour Markets', in *Real Convergence in Central, Eastern and South-Eastern Europe*, Rainer Martin, Adalbert Winkler eds., 146-165 (New Palgrave, 2009).

155 In Hungary the most migrants arrive from Romania (25 % in 2011) followed by Germany, Ukraine and Slovakia. In the Czech Republic the immigrants arrive from Slovakia (over 20 % in 2011), Russia, Ukraine and Germany. OECD (2013), *International Migration Outlook 2013*, OECD Publishing.

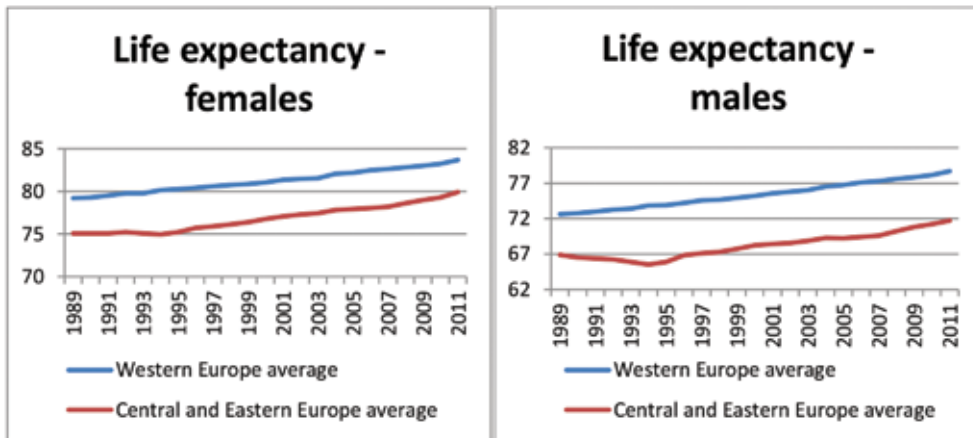
156 'D7.8 Final Executive Research Summary.' SEARCH Project, accessed 2 June 2014, <http://www.ub.edu/searchproject/results/scientific-executive-summary/>

157 David A. Leon, 'Trends in European Life Expectancy: a Salutory View', *International Journal of Epidemiology*, 40, No 2,(2011): 271-277.

158 Anders Aslund, *How Capitalism Was Built, The Transformation of Central and Eastern Europe, Russia and Central Asia*, (Cambridge University Press 2007), 188.

159 Article based on research by the Slovak Academy of Science. <http://www.novinky.cz/zahranicni/evropa/322432-romove-se-na-slovensku-dozivaji-55-let-jako-v-rozvojovych-zemich.html>, accessed 18 December 2013.

Figure 15: Trends in life expectancy at birth (years, unweighted averages) for Western and Central and Eastern Europe by sex, 1989–2009



Source: Own calculation based on the World Bank data.¹⁶⁰

From 1994 onwards, life expectancy increased in all CEE countries (the least in Bulgaria, by almost three years, the most in Estonia, by almost ten years). **However, overall, in 2011, the difference in life expectancy between West and East is still four years for females and even an impressive seven years for males.**

Health care systems in most CEE countries have remained highly centralised and hardly been hit by privatisation.¹⁶¹ The current economic crisis has had a negative effect on health and increased restrictions on access to quality health and social care, especially for those in lower socio-economic groups, represent another negative effect of the economic recession.¹⁶²

Public education

Education was of a moderately good standard during the socialist period but the whole region has reached almost 100 % literacy rates. Secondary education and university education — especially engineering, mathematics and similar subjects — also performed well. Social sciences and the humanities were partly absent from the education landscape as these subjects were affected by communist ideology. After the collapse of the socialist system this changed and education in the social and human sciences is now similar to university curricula in the EU old Member States. The late success of higher education in social sciences and the humanities still has reverse effects. The increased demand for higher education, directed towards new subjects, such as management, business administration, political science and the like, has actually led to a mismatch between labour market needs and the output of universities.

¹⁶⁰ World Bank, accessed 19 March 2014, <http://data.worldbank.org/indicator/SP.DYN.LE00.IN>

¹⁶¹ One observes a huge opposition to increasing the share of private sector in the health care system in the CEE countries. One might suggest that further EU-sponsored research should help in dealing with this important policy issue.

¹⁶² World Bank, accessed 19 March 2014, <http://data.worldbank.org/indicator/SP.DYN.LE00.IN>.

The proportion of young people with at least an upper secondary qualification is growing in almost all CEE countries and is higher than the EU average. The highest proportion of students completing secondary education can be found in Slovakia, Poland, Slovenia and the Czech Republic.¹⁶³ This might remain an important asset for further innovation capacity, if it is well managed by national policy-makers in the areas of education, research and development policies.¹⁶⁴

The number of university students has risen considerably over time, almost doubling in comparison with the pre-transition levels. However, this expansion was not supported by adequate resources: teachers and educators have only had low wages, which negatively influences their social status.

Another important issue is the brain-drain of CEE students. In the new EU member countries, the established public universities have remained dominant. Students from CEE countries can access EU programmes such as Erasmus which promote mobility opportunities for students, trainees, teachers and staff. As a result, large numbers of young people from these countries study at good colleges and universities in Western Europe and North America. After graduation, attracted by high salaries and greater security, many of these students find jobs in the country where they studied and do not return home. In addition, because of labour shortages in health care and engineering sectors in Western Europe,¹⁶⁵ many skilled doctors, nurses, engineers have emigrated from the CEE countries. Table 3: below provides some information about the number of doctors from new member countries who work in Western European countries.

Table 3: Doctors in Selected Western European Countries Who Have Training/Citizenship from Ten CEE Countries¹⁶⁶

Destination/ Source countries ¹⁶⁷		Bulgaria	Czech Republic	Estonia	Hungary	Latvia	Lithuania	Poland	Romania	Slovakia	Slovenia	TOTAL
Denmark	2005	26	7	6	12	7	114	187	58	2	0	419
Finland	2005	7	1	427	17	3	6	40	7	1	0	509
France	2004	59	44	2	27	6	5	193	568	4	0	908
Germany	2005	462	304	27	359	43	6	1 332	824	454	28	3 839
Ireland	2007	0	46	2	59	6	8	155	0	43	2	321
Italy	2006	0	0	0	0	0	0	207	389	0	0	596
Nether- lands	2007	2	15	1	27	1	2	131	16	9	1	205
United Kingdom	2007	327	884	44	1 002	105	205	2 022	644	183	19	5 435

Source: based on WHO, 2009: *Migration of Health Personnel in the WHO European Region*, page 18

163 This is based on data in the proportion of the population in the 20–24 age group having completed at least upper secondary education, 2010 in Eurostat — Key data on education in Europe http://eacea.ec.europa.eu/education/eurydice%20/documents/key_data_series/134EN.pdf, accessed 19 March 2014.

164 We thank the reviewer for this suggestion.

165 See http://ec.europa.eu/home-affairs/policies/immigration/docs/Satisfying_Labour_Demand_Through_Migration_FINAL_20110708.pdf

166 Dussault, Gilles, Inês Fronteira, and Jorge Cabral. 'Migration of health personnel in the WHO European Region.' *Instituto de Higiene e Medicina Tropical/World Health Organisation, Lisbon/Copenhagen* (2009).

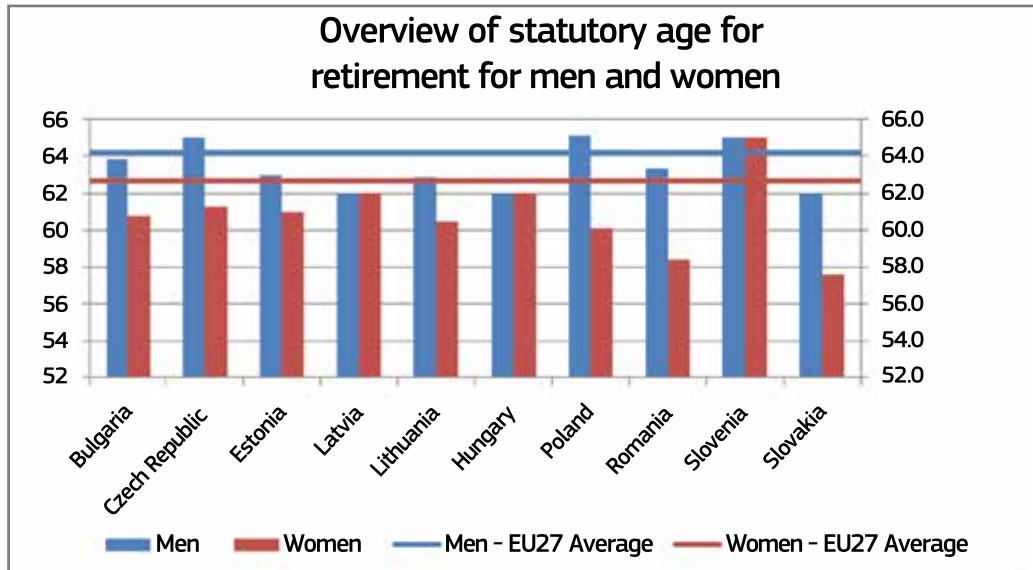
167 See http://ec.europa.eu/home-affairs/policies/immigration/docs/Satisfying_Labour_Demand_Through_Migration_FINAL_20110708.pdf

Finally, there are missing linkages between business and the higher education sector. The number of researchers employed by industry needs to increase significantly in the CEE countries to approach the level of the more science-intensive economies in Western Europe.¹⁶⁸ Unfortunately, a prominent policy feature in some CEE countries is the lack of vision on such necessary links between education and the labour market, notably in the industrial sector.¹⁶⁹

Pension systems: a hectic road

Pensions systems in the CEE countries have followed a rather hectic road. Initially most countries pursued pension reform by implementing a three-pillar pension system comprising a publicly financed pillar based on the pay-as-you-go principle, a mandatory privately financed second pillar and a voluntary privately financed third pillar. The recent crisis, however, has led some of these countries to make changes to their pension systems. Some countries have *de facto* re-nationalised their private pension funds, others have diverted contributions from private funds into the public pillar and/or downsized the second pillar based on private financing of pensions.¹⁷⁰ One of the reasons for the lack of success of the second pillar was the low yields on investment, which was a result of regulating these investments in order to avoid risks.¹⁷¹ The recent recession has also had fiscal consequences that brought the first pillar to crisis and led to increasing retirement age although there are still marked differences between countries and within countries between men and women (see Figure 16: below).

Figure 16: Age for retirement in CEE countries 2013



Source: Social Protection Committee — European Commission, 'Social policy reforms for growth and cohesion: Review of recent structural reforms 2013', p.38 <http://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=7674>

168 See Tiits, Marek, Kalvet Tarmo and Imre Murk, Reform of higher educational systems in CEECs and the effectiveness of its link with R&D policy with the view to Smart Specialisation, GRINCOCH, Seventh Framework Programme, 2014, www.grincoh.eu/working-papers.

169 Victoria Kravtsova, Slavo Radosevic, 'Are systems of innovation in Eastern Europe efficient?', *Economic Systems*, vol. 36, issue 1, (2012): 109–126.

170 Jan Drahokoupil, Stefan Domonkos, 'Averting the funding-gap crisis: East European pension reforms after 2008', *Global Social Policy*, 12 (3), (2012): 284–299.

171 Luca Barbone, 'The Battle Over Private Pensions', CASE Warsaw, E-brief, No 05/2011, (2011).

Conclusion

Changes in the distribution of income and wealth associated with globalisation and the development of the market system have resulted in change of ownership, polarisation of wealth, a large increase in inequalities and also increased poverty. **Inequalities have worsened notably because of the failure to significantly improve public health and public education and because of the selective foreign direct investment. Through the recent crisis, the situation has even deteriorated further as citizens in lower socio-economic groups have faced increased access restrictions to quality health and social care.** Together with relatively high unemployment and employment insecurity, the CEE countries thus constitute a worrying picture for socially weak groups, such as ethnic minorities and young people.

As a result, for those who are still able to get away from the spiral of poverty, migration has become an obvious option. **Migration has thus become an increasingly important phenomenon, although — contrary to popular belief — it seems to create more problems for CEE countries than for the EU15 Member States.** In this respect new approaches — including a more strategic use of EU-funds in favour of a more balanced economic development — could make significant changes in the future.

5. The cultural transition



The change of regime that occurred in 1989 and the ensuing integration in supranational structures such as the EU and NATO were of unprecedented scope, affecting all political institutions, the economic system, societal values/culture and defence alliances, as well as state- and nation-building.¹⁷²

Democratisation requires both the creation of institutions and the longer lasting process of rooting these institutions in the political culture of every particular country, thereby creating a civil society and increasing the possibilities for democratic consolidation. The mere 'adoption' of democratic institutions does not guarantee a 'full' democracy,¹⁷³ and it is this societal adaptation to new institutions and adherence to new political principles upon which this chapter focuses.

It aims to present and discuss the ways in which people in East Central Europe have perceived and interpreted changes in their societies after 1989 as available in multi-national surveys. The European Values Survey (EVS) longitudinal dataset includes all the countries in focus and offers a time dimension by integrating in one dataset three surveys in significant periods of time: the early 1990s, the late 1990s and the early 2000s. These temporal sequences are telling for the different stages of democratic transition and consolidation, from the very early reforms through the more advanced stages associated with EU membership.

Cultural transition ties into attitudes on a broad set of issues that include core political values (evaluations and understanding of the political system and its governing principles — at national, European and international levels), identity issues including both tolerance for minorities and identification with the EU, and cultural features including religious identification and behaviour, social trust and views of one's life's goals and principles.

Core political values: frustrations with democracy

It has been long debated in the political science field that political attitudes form the nucleus of political culture.¹⁷⁴ The ways in which citizens understand and evaluate the political system, their positive or negative attitudes towards the system and their participation are critical in democracies in transition, especially since, under communism, political participation was either a state mechanism for creating the facade of a workers' regime, or forbidden and severely punished.¹⁷⁵

172 Leszek Balcerowicz, 'Understanding Postcommunist Transitions', in *Democracy after Communism*, eds. Larry Diamond and Marc F. Plattner, 63-77 (Hopkins University Press, 2002).

Valerie Bunce, 'Comparing East and South', in *Democracy after Communism*, eds. Larry Diamond and Marc F. Plattner, 18-32 (Hopkins University Press, 2002).

173 William M. Reisinger, 'Choices facing the Builders of a Liberal Democracy', in *Democratic Theory and Postcommunist Change*, ed. Robert D. Grey 24-51 (Prentice Hall, 1997).

174 Gabriel Almond and Sidney Verba, S., *The Civic Culture; Political Culture and Attitudes in 5 Nations* (Princeton, NJ: Princeton University Press, 1963).

175 Mate Szabo, 'Repertoires of contention in post-communist protest culture: An East Central European comparative survey (Hungary, Slovakia, Slovenia)', *Social Research* 63: 4 (Winter 1996): 1155-1182.

The European Values Survey (EVS) longitudinal dataset shows that **satisfaction with democracy is rather low in all 10 CEE countries (around 30–40 %, and even lower in Romania and Bulgaria)**, comparable to some Western EU Member States (Greece, Portugal) but markedly lower than in countries like Luxembourg, the Netherlands or Germany. Nevertheless, throughout the EU, support for democratic principles — irrespective of governmental performance — is uniformly high.¹⁷⁶ In some cases, the effect of economic recession shows in public opinion data, with Portuguese and Greek citizens not being as supportive of democracy in the 2008 wave as before. The discrepancy between citizens in old and new EU Member States can be best explained by differentiating between support for principles and support for particular reforms and measures. Support for democratic principles (diffuse support) shows attachment to the principles of democratic government, while satisfaction with concrete reforms and regimes (specific support) indicates dissatisfaction with specific government performances. **The hardships of transition can and indeed do create frustration.** Understandings of democracy vary across CEE countries; Romanians and Bulgarians support strong leaders and technocracy (around 70–80 %) while the Visegrád+ countries' citizens rank lower on these items (about 20 %). **Respect for authority — as a core value — enjoys massive support in all countries over the whole period (50–70 %), potentially suggesting fear of the uncertainties brought by democratisation, especially in terms of economic instability and multiple changes of government and hopes among many that a charismatic leader could make it and get the country back on track.**

Moving on to political participation, there is a significant decline in both political interest and political discussion, probably a result of apathy and lack of confidence in politics and politicians; a widespread phenomenon across Central and Eastern Europe. Initial rates of interest in political discussion ranged from 60 to 70 % in the early 1990s, falling to about 30 to 40 % in the 2000s. Forms of unconventional political participation (petition signing and attending lawful demonstrations, a trademark of a healthy consolidated democracy) followed the same path.

Confidence in institutions is another indicator that shows the health of democracy and it is low everywhere and decreasing, rarely reaching above 5 % (the percentage of those having a great deal of confidence). **Overall, confidence in political institutions in post-communist countries is around 20 %, while in most of Western Europe it is between 30 % and 50 %.**

Obviously, the transition to democracy in East Central Europe overlaps with EU integration. Attitudes towards, and evaluations of, the EU are therefore important for its legitimacy and for discussions about democratic deficit. EU integration, it must be recalled, functions as a powerful agent for democratisation, through the principle of conditionality and the implementation of the Copenhagen criteria (see Table 1, Chapter 2).¹⁷⁷ However, throughout the process of adopting the *acquis communautaire*, candidate countries were often put in a position of

176 Measuring satisfaction with democracy is a rather problematic issue, since citizens may understand the question differently, from evaluations of democratic principles to evaluating precise governments.

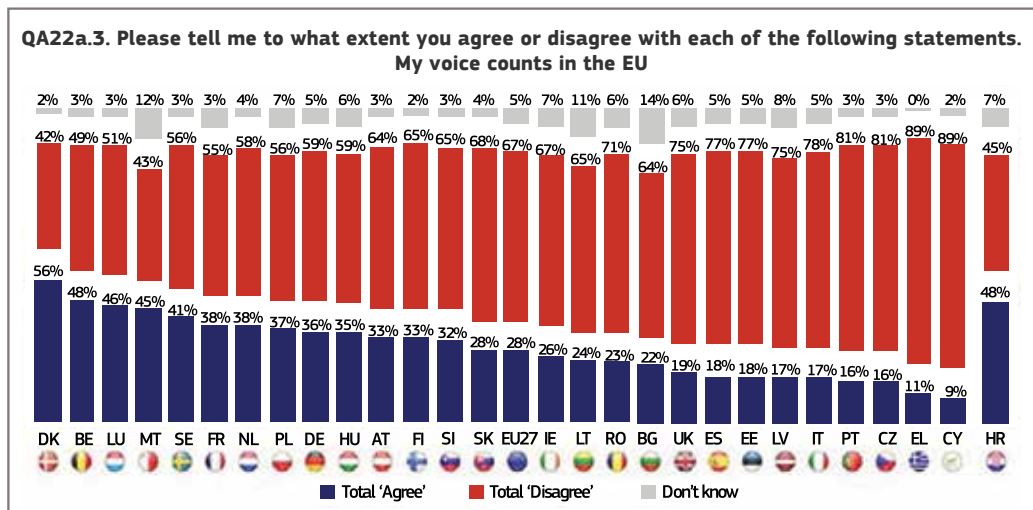
177 Frank Schimmelfennig, Stefan Engert and Heiko Knobel, *International Socialisation in Europe. European Organisations, Political Conditionality and Democratic Change* (New York, NY: Palgrave Macmillan, 2006).

inferiority that required them to adapt to perceived or actual unfair outcomes.¹⁷⁸ Countries accepted this position because EU accession had been internalised in both the political culture and in the policy-making of most political parties.¹⁷⁹

Eurobarometer data from 2007 shows that people in post-communist countries shared the same understandings of the EU with Western citizens, but tended to see the EU as a continent of culture and of a common glorious history. The overall sentiment is one of support and attachment towards the EU, with Romanians and Bulgarians being the most enthusiastic supporters. The EU is seen as a promoter of democracy, economic prosperity and peace. This result is corroborated by the last wave of EVS, in which Romanians, Bulgarians and Polish were the least afraid of the identity and socio-economic losses associated with EU membership, in comparison to Hungarians who argue that their own country pays too much into the EU budget, and Slovaks and Czechs who associate EU membership with loss of cultural identity. Objective knowledge of the EU ranks high (around 80 %) in the new Member States.

Given the economic crisis and rising levels of Euro scepticism and the perceived deepening of the democratic deficit, attitudes towards the EU have deteriorated in recent years. Nevertheless, Figure 17: below shows that in 2013 there are still important differences between national perceptions of the so-called EU democratic deficit.

Figure 17: Perceptions of democratic deficit in the EU 2013



Source: Standard Eurobarometer 79 spring 2013

In fact, research carried out within the European research project MAXCAP suggests that scepticism is rising in both new and old Member States, and the tension between national and European identities is a cause for concern in all parts of the EU. In fact, the extensive data analyses conducted by the MAXCAP team suggests that determinants of favourable

178 Heather Grabbe, *The EU's Transformative Power. Europeanisation through Conditionality in Central and Eastern Europe* (New York, NY: Palgrave, Macmillan, 2006).

179 Ibid.

attitudes towards the EU are similar in old and new Member States. **It also confirms previous research pointing to the increasing gap between elites and the mass public in evaluating the benefits and desirability of EU enlargement.**

The impact of public opinion on foreign policy is generally considered rather small but it reflects citizens' views of the international system and of the roles that one's country has to assume on the international stage — an indicator of broader political values.¹⁸⁰

EVS data indicate that citizens in East Central Europe see the nation state as the primary decision-maker in many international issues (human rights regulation and implementation, development aid and even for maintaining peace) while many Western European citizens show more commitment and trust in multilateral arrangements and the increasing role of international organisations. Eurobarometer 67.1 on *Cultural Values, Poverty and Social Exclusion, Developmental Aid and Residential Mobility* from 2007 confirms that the citizens of both East and West Europe share the same commitment in supporting international development aid, although in the former countries there is clearly less involvement at the personal level both in terms of money giving and offering to get involved in voluntary activities. Post-communist citizens see their involvement in development rather as a strategic foreign policy plan through which their country's goals and interests are furthered, while heavily promoting basic economic development in the recipient countries. Western European citizens support development as more of an effort to bring about sustainable development and promote democracy.

Understandings and evaluations of democracy in both principle and system differ across the ten CEE countries, but across the area as a whole political participation is in decline, and apathy has replaced early enthusiasm with democratic politics.

Becoming an EU member was a priority and milestone of democratisation in CEE countries, and attitudes towards it are still overall positive, although most post-communist citizens still display a strong attachment to their State and its role in foreign policy-making.

Tolerance and identity

Even in Western consolidated democracies, support for a democratic political regime is not necessarily accompanied by deeper levels of tolerance, and identity is constantly re-fashioned. In principle citizens do support democratic rights but tolerance towards minority groups can be a contested issue.¹⁸¹ Peflley and Rohrschneider claim that democratisation in Central and Eastern Europe does not necessarily entail higher tolerance.¹⁸² The European research project *Tolerance, Pluralism and Social Cohesion: Responding to the Challenges of the 21st Century in Europe — ACCEPT PLURALISM* has analysed how European societies have changed in terms of tolerance and cultural diversity, with a focus on the EU's new Member States.¹⁸³

180 Judith Goldstein and Robert Keohane, *Ideas and Foreign Policy: Beliefs, Institutions and Political Change* (Ithaca: Cornell University Press, 1993).

181 John L. Sullivan, James Pierson and George E. Marcus, *Political Tolerance and American Democracy* (Chicago, IL: University of Chicago Press, 1982).

182 Mark Peflley and Robert Rohrschneider, 'Democratisation and Political Tolerance in Seventeen Countries: A Multi-level Model of Democratic Learning', *Political Research Quarterly*, 56:3 (September, 2003): 243-257.

183 <http://www.accept-pluralism.eu/Home.aspx>

Indeed, ACCEPT PLURALISM is one of the most comprehensive research projects aimed at understanding and analysing tolerance-related issues in 14 EU countries, both new and old Member States and in Turkey. The variety of the countries included in the project speak of the importance of understanding local context and not applying general solutions to specific problems.

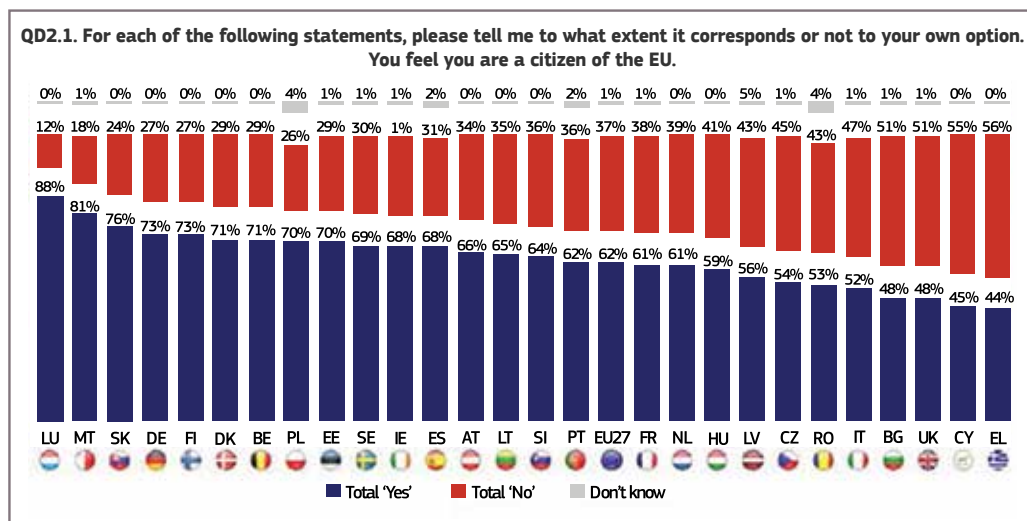
Tolerance is a core value of democracy, and yet one that takes longer to learn. Most multinational surveys include a battery of items on tolerance towards minority groups. **In all 10 CEE countries intolerance towards Roma is around 50 % and intolerance towards homosexuals is sometimes higher (about 70 % in the early 1990s in the Baltic countries, Romania and Bulgaria). Even in the 2000s, intolerance towards homosexuals still borders the 50 % mark in the CEE region and ranges around 35 % in the Visegrád+ countries (probably a figure pulled down by a rather liberal Czech society). In comparison, intolerance towards Roma in Western Europe is about 20 % lower, albeit higher in countries such as France** — where scandals around Roma captured the headlines in the recent past. The comparison displays starker differences in terms of tolerance towards homosexuals, with a low and diminishing percentage of Westerns European citizens mentioning aversion to homosexuals as potential neighbours (in the single digits in most Western Europe) and between 20 and 30 % in Italy and Greece. Moreover, many of the countries included in the analysis are not ethnically homogenous and tolerance towards ethnic minorities can, and sometimes has, become an issue. Hungarians in Romania and Slovakia, and Russians in the Baltic States are relevant minorities that, although legally represented through political parties, have also become critical motives for populist and sometimes radical nationalist shows of strength.

In terms of gender equality, it seems that all 10 countries have come a long way. At the beginning of the democratic sequence about 50 % of respondents in surveys believed that if jobs were scarce, then men should have priority to the detriment of women, while in the 2000s only about a quarter of society still held the same belief (with slightly higher percentages in Romania).

The process of identity construction is a complicated and ever-changing issue in East Central Europe. Citizens need to learn how to define themselves as ethnics of their respective States, but also as citizens living in a democracy and as citizens of the European Union. According to EVS longitudinal data, in all countries under analysis, a relative majority of respondents (around 30–40 %) feel most attached to their locality or town. Nevertheless, after regaining independence with the fall of communism, attachment to their countries grew steadily throughout the three periods analysed. In the Baltic States, Slovakia, Bulgaria and Hungary, identification with one's own country is still on the rise. The mechanisms behind these changes are different: while in the Baltics and in Slovakia it is probably a measure of attachment to a newly formed or affirmed national identity, in Bulgaria and Hungary it may relate to nationalist policies, also related to discontent towards the EU. According to the Eurobarometer data series (the most comprehensive longitudinal data regarding attitudes towards the EU and European identity), **throughout the EU, the level of identification with the EU is stable (around 60 %)**. In 2013, respondents in Poland and Slovakia are well above the EU27 mean in terms of feeling themselves to be citizens of the EU; Bulgaria, Romania and the Czech Republic are significantly below. Nevertheless, some of the methodological research carried out by the MAXCAP team suggests that European identity and positive evaluations of the EU are concepts that are extremely difficult to

operationalise and measure given the polarisation surrounding EU issues in each country and their direct relationship to national-level political debates.

Figure 18: European identity across EU Member States 2013



Source: Standard Eurobarometer 79 spring 2013

Societal values, modernisation and the fabric of society

The 1989 collapse of communist regimes entailed not only the adoption of formal democratic rules and mechanisms but also a change in values. Modernisation was at the core of this change and citizens of Central and Eastern Europe changed their value systems in three different, yet related, aspects: religious identity and behaviour, attitudes towards materialism and post-materialism and, finally, conceptualisations of their own societies.

Religious variables are key factors in defining cultural transition in East Central Europe: after five decades of forced secularisation, the citizens of this area have returned to religion and the church.¹⁸⁴

Inglehart and Norris found empirical evidence for the relationship between secularisation and socio-economic development.¹⁸⁵ They argue that in post-communist Europe, as the Human Development Index and GDP increase, the importance of God decreases. They also find that

184 Pippa Norris and Ronald Inglehart, *Sacred and Secular: Religion and Politics Worldwide* (New York: Cambridge University Press, 2004).

Paul Froese, 'Hungary for Religion: a Supply-Side Interpretation of the Hungarian Religious Revival', *Journal for the Scientific Study of Religion*, 40: 2 (2001): 251-268.

185 Pippa Norris and Ronald Inglehart, *Sacred and Secular: Religion and Politics Worldwide*, 2nd ed. (New York: Cambridge University Press, 2011).

the highest levels of religious identification are found in religiously homogenous countries.¹⁸⁶ This finding is in contradiction with other theories of religious behaviour that postulate higher religious identification and participation in countries in which multiple religions compete on the market,¹⁸⁷ and is not fully supported by the data analysed in this review paper. Nevertheless, such religious revival was not uniform across all countries and secularisation did not always become the consequence of political and economic development. Moreover, religious practices and their meaning have also changed.¹⁸⁸

In the early 1990s, religious identification was very low, especially in the Baltic countries (approx. 30 %) but it steadily grew over the years, reaching about 60 % in the Baltic and the Visegrád+ groups and almost 90 % in Romania and Bulgaria (both Eastern Christian — Orthodox countries, with dominant Orthodox Church) and in Catholic Poland. The data shows that in terms of religious participation and religiosity, the Baltic countries remain the most secular and Romania and Bulgaria the most religious (more than 35 % of Romanians and Bulgarians claim to pray on a daily basis). In all countries the church enjoys a certain highly regarded status and people believe in its ability to solve social and moral problems. **Confidence in the church is significantly higher in CEE countries than in the old Member States — in double digits — especially in Romania, where it has also grown over time, in contrast to the downward trend in most EU countries.** Confidence in the church in Western Europe varies from single-digit values in the more secular countries such as France, Germany or the Netherlands, and is declining to about 20 % in Portugal and Italy.

Nevertheless, the high values of religious identification and participation present at the beginning of the 1990s have diminished considerably over time, except for the two Orthodox countries — Romania and Bulgaria (and Poland). In these countries, a majority of citizens even believe that politicians should also be religious individuals.

Most people in Central and Eastern Europe are more religious than Western Europeans and communism was not successful in its forced secularisation strategy. While the separation of church and state is supported in principle, in reality the two share privileged relationships in Orthodox countries. For example, while the Romanian Orthodox Church is not a state church, it enjoys disproportionate support from the State in comparison to other churches, both in terms of financial and symbolic capital.

It can be empirically demonstrated that as people gain access to better material conditions, they start to be more interested in asserting and developing the post-materialist components of their identities.¹⁸⁹ Modernisation brings about the adoption of more secular values, while post-industrialisation calls in a process of reflecting upon one's identity, which becomes manifested through self-expression values.

186 Ibid.

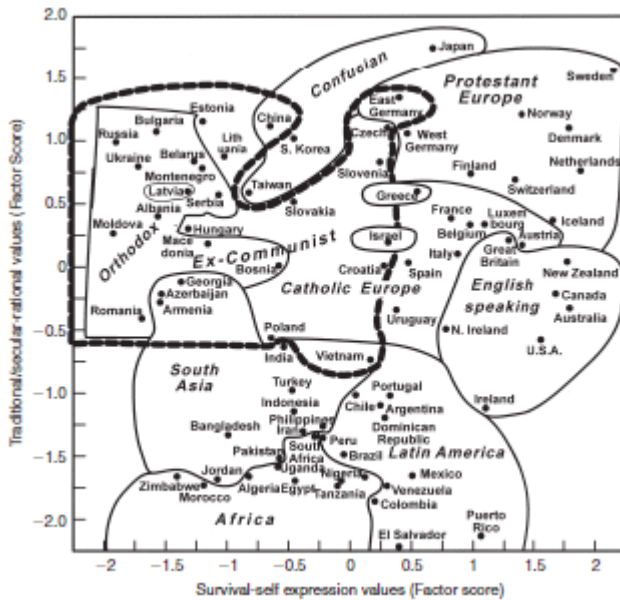
187 Roger Finke and Laurence Iannaccone, 'Supply-Side Explanations for Religious Change', *Annals of the American Academy of Political and Social Science*, 527 (1993): 27-39.

188 Grace Davie, *Religion in Britain since 1945: Believing without Belonging* (Oxford: Blackwell, 1994).

189 Ronald Inglehart, *Culture in Advanced Industrial Society* (Princeton NJ: Princeton University Press, 1990); Ronald Inglehart, *Modernisation and Postmodernisation: Cultural, Economic, and Political Change in 43 Societies* (Princeton, NJ: Princeton University Press, 1997). Ronald Inglehart, 'East European value systems in global perspective', in *Democracy and political culture in Eastern Europe*, eds. Hans-Dieter Klingemann, Dieter Fuchs and Jan Zielonka, 70 (New York, NY: Routledge, 2000).

The CEE countries seem to be all in a materialist phase. **Throughout the transition and consolidation periods, citizens in East Central Europe became increasingly orientated towards material gain and profit — for example more than 90 % of respondents believe that the most important factor in a job is its pay.** The same result is corroborated with the overwhelming emphasis placed on the individual (more than 80 %) and on money (60 %, slightly less in the Baltic countries). By comparison, in Western Europe, preference for more individualism and the importance of financial retribution is on average 10 % to 20 % lower, according to the World Values Survey.

Figure 19: Central and Eastern European values in a global perspective



Source: Ronald Inglehart, 'East European value systems in global perspective', in *Democracy and political culture in Eastern Europe*, eds. Hans-Dieter Klingemann, Dieter Fuchs and Jan Zielonka, 70 (New York, NY: Routledge, 2000).

Expanding on de Tocqueville's observations, Putnam has developed the concept of social capital as the most useful resource for a good civil society.¹⁹⁰ Consisting of trust, norms and networks, social capital has become an indicator of the quality of democracy, and higher levels of social trust are found in the most 'solid' democracies.

Social trust is an indicator of the quality of democratic performance and is indicative of the health of democracy. **The data suggests that in all CEE countries, and in stark contrast with the consolidated democracies of North America and Western Europe, social trust and civic engagement are rather low (around 20 % of society) and constant over the 15–20 years of democratic transition, with a brief drop in the**

190 Robert Putnam, *Bowling Alone: The Collapse and Revival of American Community* (New York, NY: Simon and Schuster, 2000); Robert Putnam, Robert Leonardi and Raffaella Y. Nanetti, *Making Democracy Work: Civic Traditions in Modern Italy* (Princeton, NJ: Princeton University Press, 1993).

late 1990s, only to recover in the 2000s.¹⁹¹ If social trust has remained low in all post-communist societies over the last 25 years despite democratic consolidation, it may mean that the actual hardships of transition would not change most people's outlook on social relations and their trustworthiness.

Conclusion

The overall conclusion on cultural development in East Central Europe 25 years after the fall of the Iron Curtain shows mixed results. On the one hand, most citizens have internalised the core values of democracy. East Central European citizens have also adopted some Western social beliefs, such as increased secularism and individualism but only to some degree. On the other hand, there is considerable political apathy (especially in terms of involvement in politics), and still low levels of tolerance of minorities (Roma and sexual minorities are still not adequately integrated). Furthermore, social trust and trust in political institutions are low and do not show signs of increasing. Finally, the citizens of East Central Europe seem to be on the materialist side of democratic development, placing a heavy emphasis on economic development, respect for security and authority, to the detriment of freedom of expression and pluralism. They are also strongly attached to the nation state as the primary decision maker in international politics.

All these considerations seem to lead to an intriguing question whose political relevance is by no means small: are the new EU Member States slowly progressing towards convergence with the Western EU countries, despite difficulties, or are they finding their own democratic ways? Many observers prefer to think that the same variety of cultures still at play in Western Europe, despite some convergence, is also likely to be seen in East Central Europe, thus showing that there is no single, nor one best path for diversity in unity in the EU.

191 Hans-Dieter Klingemann and Dieter Fuchs, 'Democratic communities in Europe. A comparison between East and West', in Democracy and political culture in Eastern Europe, eds. Hans-Dieter Klingemann, Dieter Fuchs and Jan Zielonka, 55 (New York, NY: Routledge, 2000).

Conclusion



This Review aimed at analysing the fundamental changes in Central and Eastern Europe after the fall of the Berlin Wall in November 1989. Proclaimed the ‘end of history’ by Francis Fukuyama,¹⁹² the year 1989 marked not only the breakdown of the communist regime but also the alleged triumph of liberal democracy. Indeed, it seemed that there was only one road ahead for the 10 countries that joined the EU, that of liberal democracy. However, history disconfirmed this expectation, as shown by the example of other CEE countries which did not join the EU and of former Soviet republics that are not fully committed to democratisation. As the EU-funded research projects have shown, the 25 years of transition to democracy and market economy can be seen as a series of particular choices and reactions to the geopolitical context influenced by the EU, NATO, the USA and other more or less ‘big players’ on the regional scene in Europe. The fact that only some former communist countries chose democracy suggests that the turning point of 1989 did not necessarily imply ‘path dependency’, and it created diverse effects in different countries.

The insights collected in the chapters of this review are summarised below.

1. **Is democracy actually rooted firmly in the 10 CEE countries that have integrated into the EU? These recent democracies are considered consolidated or semi-consolidated, based on their performance in the areas of civil liberties and political rights.** On paper, all features of democracy are there: a democratic constitutional order, transparent electoral processes, pluralistic party systems, freedom for civil society, protection of human rights and of minorities’ status and so on. These achievements were actually a pre-condition for accession to the EU under the so-called Copenhagen criteria. However, although the transition and consolidation periods were relatively undisturbed, **one of the major lessons of East Central European politics is that democratic institutions are by far not enough to defend democracy: the institutional framework constitutes a ‘necessary but not sufficient condition’ for successful consolidation. It is the citizens’ commitment to democratic values and their active participation on the one hand and an equivalent commitment for democracy on the side of the elites that are needed to maintain a strong democracy and prevent its decline.**
2. **Do people in the 10 CEE countries enjoy the benefits of democracy? On the one hand, most citizens have internalised the core values of democracy, secularism and individualism have spread. On the other hand, there are more political apathy, new forms of political extremism and growing intolerance for minorities. In particular, social trust and trust in political institutions are low.** The citizens of East Central Europe seem to be mainly focused on materialism, placing a heavy emphasis on economic development and respect for security and various forms of authority to the detriment of plurality and freedom of expression. **This evolution towards forms of intolerance and egoism may be linked to the overall low trust in the current working of existing democratic institutions.**

192 To paraphrase the famous article published by F. Fukuyama in 1989 in the journal *The National Interest*. Of course the article was a question, i.e. ‘the end of history?’.

3. **Can we see a market economy in these countries? Certainly the new economic systems have little in common with the previous party-state controlled economies. Shock therapies on labour and capital markets, huge investments from abroad, de-regulations and modernisation of institutions, as well as support from the EU structural funds have brought dramatic changes in the ten new Member States.** Shortages and queues outside the shops have disappeared but the new economic order has brought other types of uncertainties, among which increased inequality, high unemployment and uncertainties as to whether economies based on cheap labour and high foreign direct investment are sustainable on the long run. **Although a promising catching-up process with Western Europe took place in the early 1990s, there are signs of lasting economic difficulties, especially when the EU economy in its entirety has been in difficulty since the break up of the crisis in 2008. It is time for the CEE countries to think of suitable growth-enhancing policies for the long run, based in particular on new industrial models linked to innovation and improvement in the quality of education. In this context, the strategic orientation of EU funds will be critical.**

4. **Have people in the 10 CEE countries which joined the EU enjoyed their new life in a free market economy? The transition to a free economy has evidently brought a material wealth unknown before 1989. But there is still a wide gap between the expectations of 1989 and the actual achievements 25 years later: frustrations among those left behind by market economies are quite palpable.** On the one hand, higher living standards have been accompanied by increasing discomfoting inequality. There have been many winners but also many economic losers and the prospects for the losers to get out of poverty and material deprivation are not good, like in the Western parts of the EU. On the other hand, the new generations born a little before or just after 1989 do not have the comparative historical view of their predecessors and have other expectations. **There are concerns on the availability and quality of public services. The quality of public health and education is still problematic in the new EU Member States, inequality is on the rise, unemployment is high among various groups of citizens and several forms of insecurity are critical. Consequently, vulnerable groups such as ethnic minorities or old and young people are more and more at risk.**

Looking to the future, the most important question to ask is whether the CEE countries can become fundamentally integrated into a common system called the EU. Consequently, from a Western EU point of view, it is imperative to think in terms of policies and programmes responding to the specificities of each new Member State, and avoid looking at CEE countries as a 'block': they are as diverse as the 'old' 15 EU Member States can be. The past achievements in terms of democracy, market, cultural exchanges in Central and Eastern Europe are impressive and must be acknowledged, but there is still an impression of discomfort between both sides which must be tackled.

1. **Migration exchanges between the Eastern and Western parts of Europe (which was an old phenomenon interrupted by 50 years of communist rule) need to be better monitored in order to serve mutual purposes.** The financial and economic crisis which started in 2008 certainly sparked more selfish

sentiments against foreigners among many Western EU countries. As shown in this Review, migration from East to West has been rather mixed, concentrating on a few emigrating countries in the CEE countries (Romania, Bulgaria, Poland mostly because of the size of their populations) and low or middle skills workers, and a few immigrating countries in Western EU countries (Germany, Austria and the UK). Migration from West to East in the EU has also taken place but in a rather unequal way, 'the West teaching to the East' within 'free' markets but without longer term prospects and thus with limits as to how to leave long-lasting competences in the CEE countries. **New deals must be agreed so that CEE countries can take advantage of the EU (in particular the Structural Funds) to develop their own economic and labour policies and establish mutually efficient joint labour and internal markets with Western countries of the EU.**

2. **Are there differences between the Western and the Eastern approaches to democracy? The answer is no, democracies are under pressure everywhere in the EU because of their lack of economic efficiency and the weak contribution by traditional political parties to new ideas and programmes for tackling globalisation and the ensuing problems at national level. A few CEE countries have recently shown some reluctance to agree with the EU assistance or monitoring of internal affairs. After all, the end of Soviet domination meant total independence and not the acceptance of foreign (even EU) interference in domestic affairs.** This is an unwelcome development but which is not restricted to the CEE countries (see the Austrian and UK cases for instance). There is still a lot of confusion between autonomous democratic development and democratic monitoring: if democracy is at least a freedom of expression, then some democratic monitoring must be accepted, in the EU in general, and in the East and West as well, beyond 'national self-determination'. In this context, the resistance of CEE countries to the EU is definitely more politically motivated than caused by technical or financial difficulties of implementation. **When the transitory periods of adaptation to the *acquis communautaire* were near to expiring, some political actors of the new Member States began to test the endurance of EU norms. In reality, they tried to separate the benefits of EU membership (various freedoms, EU funds etc.) from its obligations.** New members were able to grasp, and partly also experience in practice, that the EU has only three main enforcement devices: the excessive deficit procedure, infringements procedures and Article 7 sanctions (which have never been applied so far). However, their implementation has, in reality, a rather weak effect on the basic attitude of a Member State's government once it has internal political motivations for acting against EU norms and rules. Therefore, **post-accession developments resulted in democratic setbacks in some new EU Member States, and even re-orientations of foreign policy towards Russia or China (as is the case in Hungary). Accordingly, EU institutions are not sufficiently prepared and authorised to monitor and sanction non-compliance with the rules, norms and fundamental values of the EU in an efficient way, once a Member State does not keep its voluntary obligations.**
3. **Lessons of the last enlargements in 2004 and after cannot be automatically projected to further neighbouring areas, as several conditions are different.** The successful integration of the 11 (including Croatia) members that

joined the EU between 2004 and 2013 will influence future enlargements. In 2014, Serbia and Montenegro conducted promising accession talks while the outcome of the entry negotiations with Turkey (since 2005) depends mostly on decisions made in the bigger EU Member States — decisions influenced by home politics. Close strategic cooperation with Turkey would facilitate the consolidation of the Balkans and open new routes of energy supply from the Black Sea region. Along its eastern borders, EU enlargement has already reached the sphere of interest of Russia. After the Russian occupation of Crimea in March 2014, the chances of coordinating and harmonising EU and Russian interests are pessimistic. Nevertheless, **trade flows, energy connections and peace in Europe will require a fundamentally new strategic approach from the EU to its Eastern neighbourhood (including Russia). It is thus important for the EU to better integrate the experience of their new Central and Eastern Member States when defining a strategy regarding the neighbourhood policy**¹⁹³.

25 years after the fall of the Berlin Wall, the 11 CEE countries that have joined the EU have definitely left behind their totalitarian past. But much should still to be done so that more expectations sparked in 1989 do not become illusions. The road to political and economic freedom, circulation of people, ideas, goods and services, as well as self-determination and national development within the EU must still be explored, much in the tradition of the EU itself in its founding texts. The 10 CEE countries which joined the EU in the first decade of the 2000s can certainly support the ideals of peace, democracy and economic development for which they signed up, and thus play an active role in building a common EU future.

193 See in particular the last Review of DG RTD on 'A Global Actor in Search of a Strategy: European Union Foreign Policy between Multilateralism and Bilateralism', (2014).

Appendix

Review of FP7-funded projects and their contribution to ongoing research

The five selected FP7 research projects reviewed in this publication (SEARCH, MAXCAP, GRINCOH, EUBORDERREGIONS, EUBORDERSCAPES) indicate the EU's continuous interest in its new Member States and their further neighbours, the European Neighbourhood Policy (ENP) countries.

The *Sharing Knowledge Assets: InteRregionally Cohesive NeighBorhoods project* — **SEARCH**¹⁹⁴ started in 2011 and ended in July 2014. The main objective of the project is to strengthen the integration process between the EU and the NMS. The project team investigates issues related to trade flows, human and social capital, people mobility, technological development, innovation and institution building. The two main findings of this project assert the asymmetrical trade relationship between the EU and the ENP countries, with the former often dominating, and the importance of migration as a solution for ENP hardships in offering adequate employment.

The *Growth — Innovation — Competitiveness: Fostering Cohesion in Central and Eastern Europe* — **GRINCOH** project (2012–15)¹⁹⁵ focuses on Central and East European countries and explores them through the lens of ensuring more cohesion within the EU. The main idea is that the CEECs' development strategies need to be centred more on innovation that could, in turn, secure long-term competitive and sustainable growth.

The *Maximising the integration capacity of the European Union: Lessons and prospects for enlargement and beyond* — **MAXCAP** — started in 2013 and ends in 2016.¹⁹⁶ It explores the last two waves of EU enlargement and assesses their consequences on new Member States, the EU institutions themselves and potential new Member States. Integration capacity, the core concept of this project, originated in a policy debate reflecting concerns on the EU's ability to absorb new members. It can be analysed along two dimensions, internal (EU's readiness and ability to enlarge) and external (non-Member States' preparedness to become members).¹⁹⁷

194 <http://www.ub.edu/searchproject/>

195 <http://www.grincoh.eu/>

196 <http://www.maxcap-project.eu/>

197 For a detailed discussion on the concept of integration capacity please refer to MAXCAP's first working paper 'Enlargement and Integration Capacity: a Framework for Analysis', by Frank Schimmelfennig, (February 2014) accessible at http://maxcap-project.eu/system/files/enlargement_and_integration_capacity-a_framework_for_analysis.pdf

At the core of the *European Regions, EU External Borders and the Immediate Neighbours. Analysing Regional Development Options through Policies and Practices of Cross-Border Co-operation (EUBORDERREGIONS)*¹⁹⁸ project are the concept and practices of cross-border cooperation. The project started in 2011 and ends in 2015, and centres upon the EU's external borders and neighbourhood relations. Although at the borders of the EU there are very diverse countries (socially, culturally and geographically), just as the EU itself is equally diverse, these countries share economic problems, some of which derive from their very location at the periphery. Cross-border practices can contribute to ameliorating such issues, while also potentially creating new ones, and the project looks at the consequences of increasing cross-border cooperation.

The **EUBORDERSCAPES** (*Bordering, Political Landscapes and Social Arenas: Potentials and Challenges of Evolving Border Concepts in a post-Cold War World*) project started in 2012 and ends in 2016.¹⁹⁹ Its main aim is to document and re-interpret the concept of borders as it is understood in today's world characterised by both regionalisation and globalisation forces. Considering frontiers as frames of reference and tracking paradigmatic shifts in social sciences, the project distinguishes between subjective and objective borders and assesses how the reconceptualisation of the term affects everyday understandings of borders.

198 <http://www.euborderregions.eu>

199 <http://www.euborderscapes.eu/>

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Europe changed tremendously in 25 years. One glimpse on political maps from 1989 and from today is enough to confirm this. When looking on these maps the reader is almost disoriented by the rapid changes of borders of countries and the European Union. Few people expected the fall and demolition of the Iron Curtain, the liberation, the reunification, the separation and the disappearance of European countries or the Soviet Union at such a speed. Even fewer people foresaw the peaceful integration of 11 former socialist countries into the European Union until 2013.

During the last 25 years, Central and Eastern European countries have undergone unprecedented changes. In turn, the enlargement of the EU to these new countries also affected profoundly the EU itself. This Review aims to describe, document and explain the fundamental systemic change that took place in Central and Eastern Europe since 1989 and its impacts on European integration. The authors construct a concise, objective and yet critical account of the major geo-historical, political, economic, social and cultural changes in the last 25 years in Central and Eastern Europe and their relationships with European integration. In doing so they use the results produced by several research projects funded by the EU under its 7th research framework programme as well as other scientific evidence and analysis produced on Central and Eastern European countries since the fall of the Iron Curtain.

Studies and reports

