4.4 Beyond Europe 1992: the Opening-up of Eastern Europe

The opening-up of Eastern Europe is, strictly speaking, beyond the scope of the Europe 1992 process. However, considering the enormous implications of this event on the EC, it would be difficult to conclude a study of the consequences of Europe 1992 without taking into consideration the developments in Eastern Europe.

The most probable consequences at the present time are the following:

- A considerable increase in EC exports to Eastern European countries: studies conducted by IFO[13] indicate that if Eastern European countries, which have conducted intra-Comecon trade until now, follow the common model[14] of other EC partners, then EC exports to these Eastern countries will likely multiply by three or four times by the year 2000[15] (in constant currency) and will likely surpass exports to North America;

- The strengthening of EC companies due to rapid growth in their investments in Eastern Europe and access to low-cost skilled labour;

- The possibility for EC companies to have access to certain natural resources in Eastern European countries (mines, forestry products, etc.).

The extent of these changes depends on the pace with which Eastern European countries are able to set up the foundations of a market economy. The ability to achieve such a goal cannot be taken for granted. Potential obstacles include the political risks of a backlash in the U.S.S.R. or destabilization due to renewed nationalism.

The consolidation of a market economy requires that:

- basic legislation be introduced guaranteeing the rights to private property and free enterprise;

- the productive system that has been dominated by large State-owned firms be restructured;

- the liberalization of prices take place in such a way as to not encourage an inflationary spiral.

Depending on the speed with which these adjustments take place, two basic scenarios can be foreseen. The first can be called the "valley of tears" because it envisages a long and chaotic transition that translates into depressed economic activity and a fall in per capita income for a significant part of the 1990s. In the second scenario, called the "rapid take-off," the adjustments would take place over a relatively short time, resulting in an immediate response from small local companies and in a propensity to invest from foreign companies. It would also permit a revival of growth in the first half of the 1990s.

Table 2 estimates the impact of EC exports to Eastern Europe according to these two scenarios. In both cases, the FRG would be the greatest beneficiary, since it accounts for more than half of EC exports to Eastern European countries.

The process of German unification should also reinforce European growth in the medium term. However, in the short term, the country's vast new capital needs and the Bundesbank's anti-inflationist policy could lead to slightly slower growth.

The question of the consequences of these developments on European integration is often raised. Some fear that they will act as a brake and a diversion to the Europe 1992 process. In-depth analysis of this issue remains beyond the scope of this study; however, it seems that the question will have to be raised primarily at the later stages of European Monetary Union and will only marginally affect the Europe 1992 process itself.