



ICEG EUROPEAN CENTER

**ECONOMIC AND POLITICAL
RELATIONS
AFTER THE EU ENLARGEMENT:**

**THE VISEGRÁD COUNTRIES
AND RUSSIA, UKRAINE,
BELARUS AND MOLDOVA**

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SUMMARY

The eastern neighbourhood policy of the European Union has become more accentuated in consequence of the recent enlargement process. Central European new member states are the eastern territories of the Union, and their borders to the East represent the frontiers of the EU in this part of Europe. This new situation substantially affects existing political and economic links with Russia and will modify the framework of this relationship. The changing conditions significantly increased the importance of EU - Russia summits.

While the enlargement is expected to tighten further the already strong links between the previous EU members and the new member states, the latter group of countries may not and should not neglect their economic and political ties with Russia. In the medium term Central European countries should take into consideration the effects of the growth potential of the Russian economy at both macroeconomic and microeconomic levels as well as Moscow's non-negligible political role in the currently changing world.

These conference proceedings concern three main areas of the changing relations between Russia and the Central European new EU member states. Firstly, the political and strategic relations; secondly, the effects of shadow economy and corruption on the microeconomic level of links between Russia and the Central European countries; and thirdly, the economic and commercial relations. The following papers include comparative analyses and pay particular attention to the specific features of the ties between group of countries or the bilateral relations between two selected countries. These comparative analyses and the case studies show such pictures that can reflect the complexity of relations.

The *first part* of this collection deals with the political and strategic issues. The paper of A. DULEBA looks at the relations between the new EU member states and Russia in the context of global political interests and actions of the EU, the US and Russia. He formulates his own theses and questions, which represent the main foreign policy and security framework and conditions for the links between the new EU member states and Russia. The paper of A. ORBAN focuses on the particular features of the eastern policy of the EU. She points out some major dilemmas on both sides. These are analysed from the Russian perspective by E. KLITSOUNOVA. Her paper exposes the different attitudes and discourses of Russia concerning the EU and NATO as well as the future strategic orientation of Russian policy towards the Union. This will most likely be a rather interest-driven than a value-driven process, which includes supporting and hindering elements. Under such conditions a more precise determination of EU neighbourhood policy seems necessary and unavoidable. The analysis of bilateral relations between the Czech Republic and Russia by P. KRATOCHVIL shows the particular aspects of the complexity of this neighbourhood. His study presents the various historical stages of development in these relations from a cool atmosphere to their normalisation.

The *second part* of the collection contains the papers about the effects of shadow economy and corruption on the microeconomic level of the relations between Russia and the Central European countries. The essay of S. P. GLINKINA deals with the topical issue of "decriminalisation" of Russian economy, which entails the development of the tax collection system, the effective protection of property rights, the respect of contracts and guaranteeing the rule of law, as well as the strengthening of control bodies, *etc.* The ties between the business sector and the state in Russia are a particular segment of corruption. Its various aspects are analysed by O. PACHENKOV. In his paper SMEs receive particular attention and their problems are shown. The roots of corruption can be explained by the imperfection of the bureaucratic system, and the inadequate laws and regulations. The findings of the analysis are based on empirical research and answers to a questioner. This situation in Russia can be compared to that in Hungary on the basis of the information provided by the work of T. BENEDEK *et al.* The paper surveyes the nature of corruption and reviews the development path of public procurement procedure in Hungary. It points out the weaknesses of the existing system and suggests particular policy tools to reduce corruption in public procurement in Hungary.

The *third part* focuses on the economic and commercial links between the new EU member states and Russia, Belarus and Ukraine as well as the direct and indirect impacts of EU enlargement on the neighbouring countries of the Union. A general analysis and perspective on economic co-operation is given by A. KÖVES. He argues that enlargement will not bring about further significant changes in the commercial and economic co-operation between these two groups of countries because the change in integration and commercial reorientation already took place in the course of the 1990s. He points out the main features and characteristics of these relations and prospective development. His views are partly challenged by O. S. VASSILEVSKY, who

expects several adverse effects on the commercial relations between the Visegrád countries and Belarus after the accession of the former. These effects will be caused by the changing trade regime, tariffs and non-tariff regulations. At the same time, he suggests policy measures, which can reduce the adverse effects. R. GRINBERG draws up a general picture of the current and the future states of Russian economy. Its actual situation and potential development basically determine the economic relations between the EU and Russia and influence their political relations. The conclusion of this essay is manifold. It points out some of the obstacles and shortcomings, however, it indicates possible solutions as well.

The main message of this collection can be summarised rather briefly. In a future political process aiming at integrating Russia into the common political and economic development of the European continent, the role of Central European EU member countries will be significantly upgraded both for the EU and Russia. The foundation of this development can be and should be laid down already now by the three partners involved, the EU, the Central European countries and Russia.

Therefore, we strongly recommend this volume to everyone who is interested in such political and economic issues that will basically influence the future political and economic development of the Central European new EU member states and their neighbours (Russia, Belarus, Ukraine, etc.). Moreover, these issues will certainly determine the political dialogue and the economic co-operation between two important groups of actors in the global political and economic scene, namely the EU countries and their new eastern neighbours.

The Editors

FOREWORD

ICEG European Centre and our Foundation together with the support of Freedom House, UNDP and ITD Hungary organised a conference in Budapest in February 2004. The topic of the conference was the impact of the accession of the Visegrád countries to the EU on the economic relations between these states and Russia, Ukraine, Belarus and Moldova. That is why business and financial companies, certain international organisations and state institutions were involved in this discussion. The aim of the conference was to evaluate the emerging new situation on the one hand, and to prove that in spite of the EU accession of the Visegrád countries their economic relations with Russia and the other neighbouring countries may strengthen and should not necessarily weaken.

The political and economic relations between the Visegrád countries and Russia and the other neighbouring countries have changed a lot for the last fifteen years. The earlier economic, mainly commercial relations declined. Many relations, which seemed to be traditional during decades, came to an end or weakened. The Visegrád countries as well as their eastern neighbours opened up to the West. This policy has fundamentally changed the direction and the volume of their relations among themselves. In this process political factors also played a significant role. It is worth mentioning that new elements, too, have appeared in their relations. For example, these countries started to invest in each other's economies.

During the discussion our aim was not to evaluate the changes of the past decade but rather to analyse the new possibilities and opportunities of future economic co-operation. It is important that the EU accession of the Visegrád countries should not cause new difficulties in the economic relations but should open up new possible areas of co-operation among these two groups of countries.

Hungary and the other Visegrád countries were preparing for EU membership for about a decade since meeting community requirements needed several qualitative and quantitative changes. We think that partly similar processes will and should also take place in the case of Russia and other neighbouring countries. These changes will be necessary particularly in those areas where the further development of co-operation with the EU makes them unavoidable. If these countries start a harmonisation process it will probably take a longer time than it did in the Visegrád countries. The successful completion of harmonisation can contribute to further development of relations between small- and medium-sized enterprises, joint ventures, the application of modern technology and flexible organisations.

Regarding the future, one should think of the institutionalisation of the relations between the EU and its eastern neighbouring countries. One of the alternative possibilities is the membership of Russia and other neighbouring countries in the European Economic Area. This status could formalise and institutionalise the co-operation. It involves, among others, the free movement of goods and the fight against organised crime and drugs without the implementation of EU rules, for example those of common trade policy, customs union or common agricultural policy. If this policy alternative of the EU—Russian relations is discussed in the future, Hungary will surely support such solution.

Finally, I would like to express my hope that this conference, the printed version of its proceedings and further joint research work will contribute to the success of academic discussions on these issues and to the actual development of the political and economic relations between the EU and its eastern neighbours as well as between the Visegrád countries and their eastern neighbours.

Chairman of the Board of Trustees Foundation for Research into the World Economy

János Szita

**PART ONE:
POLITICAL RELATIONS AND SECURITY ISSUES**

COMMON FOREIGN AND SECURITY POLICY OF THE ENLARGED EU: WHAT ROLE FOR NATO AND RUSSIA?

Alexander Duleba¹

Let me start with a trivial point in order to stress not trivial challenges that the EU faces in the CFSP area on the eve of its upcoming enlargement.

The CFSP is an imperative result of the European integration process. The deeper is inner integration within the EU, the more common foreign and security policy of the EU is required and vice versa, the more common is foreign and security policy of the EU members, the better are prospects for EU integration. Should the EU fail in the CFSP area it might undermine prospects for the EU as such. Bringing national foreign and security policies under a common denominator is much more complicated task for Europe of 25 than it was/or/is for Europe of 15. The Iraqi crisis shows it clearly. The lack of common approach among the EU members towards cardinal issues of today's world agenda is a challenging reality.

Both the United States and Russia are key international actors for the EU relations with which predetermine a tenet of its foreign and security policy. Without achieving a common understanding on what should be like the EU policy toward the United States and Russia the very concept of the EU' CFSP as such is simply impossible.

Let me use my time to share with you my six thesis/or/question marks of which three concern the current transatlantic agenda and three the EU relations with Russia. Let me be frank and a little bit provocative in my valuations. All we need frank and open discussion in order to overcome current disputes and ensure prospects for our common future. Strong and united EU is I do hope sufficient background, which gives enough legitimacy for such critical approach.

1) CFSP AND TRANSATLANTIC RELATIONS

First thesis

Observing developments in transatlantic relations over the last five or six years, and especially in the context of Iraqi crisis, I would conclude that no side of the Atlantic (United States on one hand and some European allies on the other) actually knows what it expects/wants from its partner. This is a challenging reality and the key problem of current disputes, which lies behind the current transatlantic rift. It is possible to achieve an understanding and agreement between the two sides provided that each of them knows clearly what it wants. This is simply impossible when at least one of the sides cannot identify clearly what it wants. Let me illustrate this thesis through main paradoxes of both European and American approaches.

The main paradox of "European approach": Europeans want to see the EU become a superpower like the U.S., however, they resist increased military spending. It is still not clear how Europeans want to become the superpower. The Amsterdam Treaty came into force in 1999. The first Common Strategies of the EU has been adopted on Russia, Ukraine and Mediterranean Region. Should the EU whenever in the future develop its coherent and consistent Common Foreign and Security Policy and ESDP it has to adapt its Common Strategy on the U.S. Moreover, my conviction is that the first Common Strategy of the EU at all should be that one on the U.S. Without identifying the EU common policy toward the U.S. the EU CFSP as such is not realistic

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concept. In other words, Europeans do not know what they want. Rather they have just feeling what they do not want in terms of how the U.S. should/or/should not behave on international scene, but they are still far from a clear definition of the European interests in relations with the U.S., which by the same mail must answer question what it means the EU as a superpower.

The main paradox of the “U.S. approach”: On one side the United States press European allies to take over responsibility over their security and defense and by the same mail, when Europeans do steps in this direction Americans are concerned about what they do. Correct me if I am wrong, but Americans started to press the EU in afterwards of Yugoslav crisis taunting Europeans for their political mistakes in the former Yugoslavia following the fact that when time came to stop ethnic cleansing and violence in the Balkans the US shared 80 percent of the total costs of military operation. In afterwards, the EU Treaty of Nice of 2000 expanded the CFSP concept into the area of defense policy. When Europeans started to go in this direction and achieved some – not too big, but anyway some – progress over the last five years, Americans are afraid that EU could develop a separate defense structure out of NATO. Did Americans clearly understand what they want in this regard after Yugoslav crisis?

Second thesis/question mark

Are questions concerning current transatlantic rift raised by and in Iraq? As to my understanding, – no – these are questions raised partly in Yugoslavia in 1999 and partly by 11 September: role of the UN, non-5 Article crisis operation – in Yugoslavia NATO stopped to act as a coherent actor (and became for the first time a “coalition of willing”). On September 12th – when NATO for the first time in its history activated procedure in accordance with the Article 5 of the Washington Treaty the U.S. did not make use of NATO as an instrument in fighting Taliban in Afganistan. In this logic September 11th has marginalized NATO. I think, Iraq just highlighted Yugoslav questions – it did not raise them. Trying to get answers in respect of current transatlantic dispute, we must answer Yugoslav questions of 1999 first.

And we have to be open and frank – if this is the case that means that NATO is not adapted under new realities regardless of what has been declared by all post-Yugoslav summits of Alliance. In Yugoslavia both U.S. and Europeans lost an important part of their common agendas. Iraqi crisis highlighted the fact of a lack of common agenda outside of Europe. Yugoslav questions highlighted much more important fact – a lack of common agenda inside of Europe. These questions must be answered first.

Third thesis

Following the above points it means that we have to define what NATO we want. There are the following three basic options.

1. Defence alliance and nothing more (this would mean that EU will not underway steps leading to building its separate defence structure)
2. Defence alliance and European actor responsible for security and stability in Europe together with the EU with a clear distribution of roles and responsibilities so that both NATO and EU do not compete each other, and/or
3. Defence alliance and global actor with a global responsibility (this option assumes that the EU resigns from its ambition to become a superpower)

In other words, we have to identify whether the U.S. and European allies do share common agendas in Europe and outside of Europe and whether as well as in which areas they are ready to act jointly. This is only a way leading toward a real and common indeed foreign, security and defence policy of the EU and also dispersing a fog hiding its future. It is a general characteristic of the EU newcomers that they perceive both NATO and EU not as two separate coins but rather two sides of the same one coin.

2) CFSP AND RUSSIA/EASTERN NEIGHBOURS

Russia and the Ukraine were the first countries on which the EU passed the external relations Common Strategies – the new instruments of the CFSP established by the Treaty of Amsterdam, which entered into force in May 1999, by the way, almost in the same time when NATO completed its military operation in former Yugoslavia.

Likewise what concerns the EU “Western agenda” the EU newcomers afford a new perception of its “Eastern agenda”. The way in which internal political processes in Russia, the Ukraine and Belarus are understood and perceived in Central Europe differs – due to a long historical, political and cultural experience – to a large extent from those of the ‘old’ Member States in Western Europe. Nevertheless, it is the assessment of internal processes in place in Eastern European countries that plays a key role in determining the exact objectives and instruments of EU foreign policy and relationship developments towards Russia, Ukraine, Belarus and Moldova. It is reasonable, by all accounts, to expect the EU enlargement by Lithuania, Latvia, Estonia, Poland, Slovakia and Hungary to have a direct impact on EU Eastern Policy. To what extent do the interests of the current and prospective new Member States differ one from another, especially in terms of the objectives and instruments to be used to enhance relations towards the countries in Eastern Europe? There are several questions in this respect. Let me limit myself on the following three points/questions:

First question

Why has the EU adopted two separate Common Strategies on Russia and the Ukraine instead of just one Common Strategy on the CIS (Commonwealth of Independent States) or a region of Eastern Europe?

This is especially intriguing since the third Common Strategy passed by the EU was the Common Strategy on the Mediterranean Region covering twelve countries. This question might seem to be just rhetorical, but an individual approach to Russia and the Ukraine keeps the Union away from an adequate response to challenges arising within the strategic Russia-Belarus-Ukraine triangle in Eastern Europe. For example, an independent Ukraine has been said to represent an essential key to Europe’s stability and security element, and the country “exposed to Russian economic and political influence” in the EU Country Strategy Paper on the Ukraine. However, an individual EU approach to Russia and the Ukraine prevents the Union from dealing with the mutual relations of these states, which is of essential importance for the stability of Europe. If a Regional Common Strategy on this issue were to be developed, the correlation within the Russia–Ukraine–Belarus triangle in Eastern Europe could not be omitted. Why does the EU strategy deal with no ‘Russian influence on the Ukraine’ even though its independence is considered to be of key importance for the stability and security of the continent?

Why has the European Union been marginalizing Russia’s support of semi-democratic regimes in Eastern Europe? Russia’s support of the regime of Alexander Lukashenko, the president of Belarus, supported by Russia, is the most striking example. The EU has frozen its relationship with Belarus since 1997 as a result of the heavy-handed and un-democratic conduct of the Minsk government. A number of similar occasions arose in the past when EU interests, such as the relationship towards semi-democratic regimes in the former Yugoslavia region, and even Slovakia in 1994-1998, differed profoundly from those of Russia. Even though Russia continues to support the present-day Minsk regime, this support is fully ignored by EU eastern policy and bilateral strategy building towards Russia. Why has this ‘gap’ occurred in the EU eastern strategy? The CSP on Russia includes a statement saying that “the EU seeks to cooperate with Russia in order to promote the democratization of Belarus”, but there are no EU policy instruments to put such statement into practice.

It is impossible to replace a complex EU regional strategy towards the Eastern European region with bilateral strategies towards particular countries in Eastern Europe. Owing to the lack of its regional approach, the EU will fail to give a clear response to questions relating to its intended goals and the reasons behind them in Eastern Europe.

Second question

Why do the EU assessments of the political systems in Russia and the Ukraine differ?

The European Commission Communication on Conflict Prevention from April 2001 defines the Country Strategy Paper as an instrument used to “analyze national conditions and use EU assistance for conflict

prevention policies”. Since the end of 2001, CSP’s have foregone any TACIS Indicative Program providing grounds for the allocation of EU assistance and its use by beneficiaries. Pursuant to the CSP on Russia, any CSP is to establish: 1. Cooperation objectives, 2. The EU policy response and 3. Priority fields of cooperation.

The CSP’s on Russia and the Ukraine present the political situations quite differently. The assessment of Russia speaks of ‘political stability’, while in the Ukraine, the situation is said to be ‘weak and uncertain’. Russia is defined as a consolidated ‘presidential democracy’ while the constitution of Ukraine is said to be ‘highly presidential’. Reading these statements for the first time, one can see they are quite controversial and unsubstantiated. The constitutions of these countries and Belarus are more or less of the same ‘high presidential’ nature, particularly in terms of the powers of the Head of State. Both the Russian and Ukrainian presidents are not only the chief national executives, but have, in fact, some partial legislative powers vested in the authority to issue presidential decrees enabling them to substitute laws passed by national parliaments. Both presidents keep the same strong-handed ‘control’ over the national coalition and opposition activities and in the same democratic, or rather un-democratic manner. Neither the presidents in Russia, nor the Ukraine, not to mention the president of Belarus, suffer any inhibitions about misusing the so-called administrative resources to ‘improve the morals’ of their political opposition and to gain control over the public and private media. The political systems in Russia and the Ukraine, which are not very clear -pursuant to the EU assessment –, differ, *de facto* and *de jure*, in terms of democracy. The better image created by the current Russian president abroad, in comparison to the Ukrainian president, does not establish the political system in Russia as being significantly different than the one in the Ukraine or more democratic.

The distinctions found in EU documents, which assess the political systems in these two countries, and which result in assistance programs redistributing hundreds of millions Euro’s each year are – least to say – inadequate. Why does the EU base its assistance strategies towards the countries in Eastern Europe on the ‘personal image’ of national leaders instead of the Copenhagen criteria aimed at assessing the political transformation processes in post-communist countries in line with the assessment criteria applied to Candidate Countries nowadays?

Third question

What are the EU goals in Russia and the Ukraine and to what extent do the cooperation and assistance programs meet them?

The EU declares that it would like the countries in Eastern Europe to be established as stable, open and pluralistic democracies; the EU strategies, however, fail to determine the instruments and policies to be used to help Moscow, Kiev and Minsk to reach such establishment.

Pursuant to *The European Union’s Role in Promoting Human Rights and Democratization in the Third Countries* (as of 8 May 2002), promoting human rights and democratization became high priority of EU external relations, and any assistance and enhancement programs relating to the third countries should fall under such priority. In the 1990s, the good governance principle became a high priority of the relationship towards the third countries. Pursuant to the Treaty of Amsterdam signed in 1997, and following the advancement of the CSFP since 1999, the EU perceivably has sought for a more ‘value-centred’ approach within its external policy; however, reality does not meet this purpose at all. The Treaty of Amsterdam of 1997, proclaimed human rights to be a cornerstone of the EU external policy. The EU Charter of Fundamental Human Rights followed the Treaty of Amsterdam, and the December 2000 Summit in Nice declared it necessary to harmonize EU external and internal policies. The TACIS assistance programs approved for Russia and the Ukraine for 2002 and 2003, however, gave no evidence that any cardinal changes have been made in the current good governance principle approach.

According to the TACIS Indicative Program 2002–2003, Russia was to be granted assistance in the amount of EUR 90 million in 2002, including EUR 15 million to be used to promote the development of a civil society. In 2003, the EU had to grant Russia up to EUR 94 million while the support to be used to enhance the civil society was once again total EUR 15 million. The TACIS Program in 2002 granted Ukraine EUR 67 million, including EUR 8 million to be used for civil society development purposes. In 2003, the Ukraine has received EUR 48 million, including the same amount of EUR 8 million to be used to develop a civil society. Just like in the 1990’s the rest of the resources have been used in promoting good governance principles. With regard to the political situations in Russia and the Ukraine, this money, *de facto*, supported their state bureaucracies, which is an essential instrument of a highly presidential system. Why does the EU believe that the post-soviet state

bureaucracy will establish democratic, open and pluralistic societies in Eastern Europe? Does not the structure of assistance approved within the TACIS Indicative Programs contradict the EU priority as to its external relations towards the third countries proclaimed in the EU Communication of May 8, 2001?

An interesting paradox can be seen when observing the development of the EU approach towards Russia. In the 1990s, the EU external assistance policy followed the November 28, 1991 Council Resolution – before the Treaty of Amsterdam came into force in 1999 – which responded to the breakdown of the Soviet Union and underlined the importance of the good governance principle applied within the EU external assistance policy. According to this Resolution, non-governmental organizations should be promoted in partnership countries in order to improve democratization processes there, but the NGOs used as the EU assistance root recipients only providing negotiations with their national governments had failed. In other words, the EU decided to favour the pragmatic good governance principle, or the external partners' stability, within its assistance policy, while EU-Russia relations in 1990 were, on the contrary, determined by strictly value politics matters – the response of the Russian government to the crisis in Chechnya is a particular example. Having passed the Amsterdam Treaty, the EU defined its promotion of democratization processes and human rights – value policy matters – in the third countries to be of the highest importance within the CFSP. However, the EU assistance policy has not reflected such priorities at all since the TACIS assistance programs passed for Russia and the Ukraine for 2002 – 2003 maintain the assistance allocation of 1990s. The paradox of such approach lies with the EU proclamation of its new 'value-centred' relations and approach towards Russia to be applied since 1999, but its failure to change the old 'pragmatic' policy instruments.

The tension between the good governance principle, or the enhancement of the stability of the post-communist regimes, and the value politics, or the enhancement of the democratization processes and human rights in the countries concerned, can be easily discovered within the EU policy towards its partners from Eastern Europe since the beginning of 1990s. Neither the 1999 Common Strategies on Russia and the Ukraine, nor subsequent documents and political practices of the years that followed answered the question of harmonizing these two EU policy principles, or the dilemma of which should be of the top priority. Until that happens, the Common Strategies on Russia and the Ukraine will remain just well written compositions or wish lists failing to be turned into real EU policy strategies towards these countries. Without well-defined implementation instruments, a strategy ceases to be a strategy.

The above are just few questions in respect of the both crucial Western and Eastern agendas of the enlarged EU that must to be answered provided that the enlarged EU or Europe of 25 wants to come ahead with its CFSP.

* * * * *

THE EU'S EASTERN POLICY: A VISEGRÁD PERSPECTIVE

Anita Orbán²

A debate occupying the European Union for the past year and a half has centred on its policy toward its neighbours to the East following its 2004 enlargement but more importantly following the one in 2007. The dialogue remains at the preliminary stages for now, and there appear to be no foregone conclusions about where it will lead. The coming two years will provide Hungary with an opportunity to influence the Union's eastern policy in keeping with its own interests.

The outlook for democratic transformation in Ukraine, Belarus and Moldova does not look good because the powers in those respective lands appear to be stopping at nothing to hold on to their own positions. The democratic forces in these countries would need as much backing from the West as possible if they are to stand a real chance of running against their political rivals, who also have the considerable resources of the state at their disposal. The situation has been made more complex by the fact that the Kremlin has been showing ever keener interest in these countries in recent years. Russia has been attempting gradually to regain influence in all three of these states. If Russia succeeds, it will, in all probability, lead to an export of the ever more autocratic Russian political model and the complete crushing of local democratic forces. This would certainly pose significant security risks for Hungary and the European Union.

Should the political situation in the states on the EU's eastern frontier diverge dramatically from Union norms, those borders will become far less crossable than they have been for decades, making it much more difficult – among other things – for the nearly 200,000 ethnic Hungarians living in Ukraine to maintain ties with their mother country.

Among the documents to deal with the future direction of EU Eastern Europe policy, the March 2003 Communication of the Commission to the Council, "Wider Europe – Neighbourhood: a new framework for relations with our Eastern and Southern Neighbours", is of great interest to Hungary and other countries on the eve of their accession. The document refers to Ukraine, Belarus, Moldova and Russia but also includes the countries of the Southern Mediterranean region: Egypt, Algeria, Israel, Jordan, Lebanon, Libya, Morocco, the Palestinian Authority, Syria and Tunisia.

The aim of the Wider Europe concept is to surround the EU with a ring of friendly states. Toward this end, the Union would open up its markets more to these neighbouring countries and facilitate the free movement of goods, services, people and capital between the EU and its neighbours. At the same time, the New Neighbourhood policy rules out the possibility of the countries affected becoming EU members in the middle term. As Commissioner Chris Patten noted, "Over the past decade, the Union's most successful foreign policy instrument has undeniably been the promise of EU membership. This is not sustainable. For the coming decade, we need to find new ways to export the stability, security and prosperity we have created within the enlarged EU."

This concept has presented several problems for Hungary, Poland and Lithuania. The notion of a Wider Europe lumps Eastern European countries together with states of the Southern Mediterranean region. Brussels expressly ruled out the possibility of EU membership for countries in Northern Africa and the Middle East. Although the possibility of accession is not ruled out for the Eastern European states, the mid-range plan does not even discuss it. Regrettably, lumping the region together with the Southern Mediterranean states may eliminate even the long-range possibility of accession. It is certainly conceivable that the EU plans to adapt the

² The Visegrád Institute

policy it has used with the North African and Middle Eastern states to its evolving relations with our eastern neighbours, i.e. to aim for 'deepened co-operation' instead of 'integration'. Losing the possibility of accession, however, may bring about a further weakening of the democratic opposition in Ukraine, Belarus and Moldova and an orienting of those countries toward Moscow.

It is not in Hungary's interests for the EU's eastern frontier to become permanent in 2007. One, it would make it difficult for the Hungarian minority in Ukraine to maintain ties with the mother country. Two, the gap in the political and economic situation in states within the Union and in those without would grow even larger, possibly leading to regional instability. In order to prevent this, Budapest must attempt to change the Wider Europe concept in at least two areas:

- * The Eastern European states must be treated separately from the Southern Mediterranean region. A distinct policy for Eastern Europe is necessary whether this is a part of the Wider Europe concept or not.
- * The document must be more open on the matter of future EU membership for Ukraine, Belarus and Moldova, and this possibility must be made an express part of the concept.
- * In addition to impacting the New Neighbourhood policy, Hungary, Poland and Lithuania will have a say in the allocation of related resources as well. Approved in July 2003, a document entitled "Paving the way for a New Neighbourhood Instrument" recommends that the Union should only plan its long-term assistance programmes for Eastern Europe after 2007. Thus, 2004–2007 will represent a trial period based on which long-range programmes will be developed.

To the extent that Hungary wishes to influence the EU's eastern policy, the next two years will be the time to act. If Budapest can put forward specific proposals and take an active part in evaluating other New Neighbourhood policy initiatives, it will certainly have a hand in forming long-term eastern policy after 2007.

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EU—RUSSIAN RELATIONS AFTER THE ENLARGEMENT: PROBLEMS AND PROSPECTS

Elena Klitsounova³

The expansion of the European Union is fundamentally changing the face of the region. Its transformative effects expand far beyond the borders of the EU and range across a great number of policy areas. Neither Euro-optimists nor Euro-sceptics question the fact that future of Europe depends on what policies of co-operation between (old and new) EU members and their (old and new) neighbours will be developed in the coming years.

Focusing my remarks on the state of Russian relations towards the EU, I would like to suggest that future of Europe in large part depends on what policies of cooperation between Russia and the enlarged EU will be developed. Despite many positive trends currently taking place in the EU—Russian relations, there still remains a sound possibility that coming years will witness the suspension of the EU—Russian strategic partnership. What and why may go wrong? What is Russia’s policy on cooperation with the EU?

In the late 1990s, the Russian leadership declared that it had made a “European choice” and viewed EU—Russian relations as a “strategic partnership”. Yet, the path of development towards this declaration provides much material for thinking on the complicated nature of the EU—Russian partnership.

For a long time the Russians debated their place in post-cold Europe without paying an adequate attention to the process of widening and deepening of the EU. On the one hand, the Russian official discourse presented the EU exclusively in favourable light, and this political admiration of the EU for a long time represented a sharp contrast to the Russian attitudes towards NATO, which was still met with continuous mistrust and annoyance. On the other hand, only limited political attention was given to the EU-related issues. If one follows the Russian Duma debates, the speeches of President Yeltsin, statements by Russian policy-makers, it is easy to observe that the EU and its enlargement were hardly mentioned. In the 1990s, the discourse on the EU was neither dominant nor prominent among Russian political discourses. The EU issue acquired neither attention from Russian state agencies nor a considerable endorsement by various interest groups. As a result, very little work was made to design a sound strategy to deal with new challenges and opportunities posed by the European integration. Although there was a broad range of objectives enumerated under the slogan of EU—Russian partnership, Russian official documents did not reflect any clear strategy and prioritization of action in different issue-areas. Summing up, the first decade of EU—Russian relationship was characterized by the relatively weak profile of the EU in the Russian foreign policy thinking coupled with the lack of any strategic substance in the dialogue between the two parties.

The beginning of the 21st century was marked by a significant revival of EU—Russian relations. Moreover, Russia’s European discourse and policy changed considerably during the Putin’s presidency. Russia’s current national idea, as expressed by president Putin and his administration, is modernization and competitiveness of Russian economy. This reframed the Russian discussion on the EU in new terms: Russia’s European policy seems to be very much understood in terms of promoting Russian development goals; the forging EU—Russian relations is presented as vital to achieving Russia’s modernization and Russia’s competitiveness in a globalizing world. Consequently, the EU has become a constant theme in Russian official discourse, and Russian policy-makers have begun taking a more assertive role with regard to Russia’s partnership with the EU. There are very positive signs that the Russian leadership has been willing to advance Russia’s partnership with the European Union much farther and much faster since Putin’s policy towards the EU has been an

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interrelated part of a larger enterprise – Putin’s “Russian project”. Serious attempts have been made to identify areas of practical cooperation with the EU, to develop initiatives with concrete instruments, financing, and content which would go beyond the realm of “virtual” cooperation. Several sectoral cooperation initiatives were launched – ranging from the energy dialogue through ecology and security to home affairs.

In the beginning of the new millennium, Russia, together with the EU, seems to be encouraged by the idea of creating several “common European policy spaces”, notably for economics, education and research, justice and home affairs, and external security. This looks like excellent building blocks for a “Wider Europe” policy that would minimize the new division lines between the enlarging EU and Russia. Naturally, the extent to which such initiatives can be utilized depends on political will and resources of both Russia and the EU. The EU—Russian partnership, already rich in twists and paradoxes, is still work-in-progress.

The current agenda of the EU—Russian partnership is full of the questions of strategic choice, including, for Russia, whether and to what extent it is willing and able to Europeanize itself, *i.e.* to converge on modern European values and standards; whether it is willing and able to be part of EU Neighbourhood Policy.

The problem seems to be that until now neither Russia nor the EU have invested much effort in finding clear answers to these questions.

With regard to Russia, it is vital to note that the very fact that Russia does not aim at joining the EU as a member-state means that it has, in principle, to formulate a very complicated “policy-mix” between two opposite set of policies – those focused on involvement in and those aiming at exclusion from the EU affairs. To find an accurate balance between strategies of inclusion/exclusion would require much work. It is obvious that Russia’s cooperation with the EU has gained more importance during the Putin’s presidency. It is less obvious to what extent new initiatives can be successfully implemented. The critical issue is whether Russia will go beyond diplomatic declarations to the point of organizing a real convergence of interests and political norms and values with the European Union. The answer to this question is not yet clear.

To be able to profit from partnership with the EU, Russia must continue to reform itself. From this perspective, a Russia’s serious engagement with the EU is far more than a policy specifically limited to one – economic or political – dimension; it is profound transformation extending to politics, economics, and social life. Yet, the questions remain to what extent the interrelates goals of partnership with the EU and profound domestic transformation are supported by various interest groups in Russia; to what extent these goals are seen by general Russian public as both realistic and desirable enough to provide sufficiently strong support for Russian European policy.

Two points are worth mentioning here. First, in contemporary Russia, the European project seems to be an elitist project put forward by the supreme Russian state leadership and repeatedly advocated by a small number of policy experts. So far, little has been done to positively translate this project into the life terms of Russian general public. On the one hand, there seems to be few Russians who are overtly antagonistic to integration with Europe. On the other hand, the EU and all it implies have been relatively uninteresting to many in Russia. In practice this means that due to a lack of strong domestic pressure for speedy integration with the EU, Russian policy-makers seem to have been working with no set deadlines.

Second, the price that Russia should pay for its deeper integration with the EU is not necessarily an appealing prospect to Russian elites since Russia’s Europeanization is likely to challenge many of Russian political institutions and practices. The way the European question has played out in contemporary Russia seems to be the product of the interplay of purely economic than broader political interests. The rise of new economic elites is one of the main driving forces behind new Russian policy towards the EU, and Russia’s relations with the EU seems to be rather interest-driven than value-driven process. In this “economized” worldview, EU—Russian partnership means that the EU accepts Russia as an equal partner as it is, without paying much attention to Russian internal political development. This is evident from the tendency towards “economization” of the European issue, which makes the majority of Russian initiatives towards the EU specifically limited to economic aspects. In this context, the Russian leadership has been in a very controversial situation: on the one hand, it claims its eagerness to stay in the general framework of cooperation with the EU; on the other hand, it seems to lack the long-term strategy on adjusting to existing rules and values of the EU.

To analyze the complexities of Russia—EU relations also requires a more subtle and complex account of Russian and EU relations towards the countries in between the borders of the Russian Federation and the enlarging EU. It is especially true given that (1) Russia has been more and more involved in new integration processes within the CIS area and (2) the EU is gradually shifting its focus from the Enlargement issues to the

“Wider Europe – Neighbourhood” Policy, which is likely to involve a significant measure of economic and political relationship with post-communist states.

With the EU borders pushed eastward, Belarus, Moldova, Ukraine, and countries of the southern Caucasus will be “nearby foreign countries” for both Russia and the enlarged European Union. As a result, patterns of interdependence between Russia, the EU, and their post-Soviet neighbours are likely to be altered, and new different opportunities to manage these relations will arise. This called for new policies on the behalf of both Russia and the EU. In this context, the questions of strategic choice are as follows:

- * for the EU, whether it is willing and able to develop a coherent Neighbourhood Policy and to wrap into this policy everything related to the European Union’s relationship with the rest of the continent;
- * for Russia, whether and to what extent it is willing and able to combine the two elements of Russian foreign policy, namely strategic partnership with the EU and Russian effort on establishing a common economic zone and a regional security framework with some post-Soviet states; whether it is willing and able to coordinate its “CIS policy” with EU Neighbourhood Policy; whether it is willing and able to be part of EU Neighbourhood Policy.

Certainly, to answer these questions would require much work. It would also require much work to reconcile divergent interests and approaches. Until now there have been many interpretations of the EU Neighbourhood initiatives, including serious disappointments since Ukraine and Moldova argue for more clearly-defined perspectives of EU membership and the South Caucasus states wish to be included as the policy’s clients. There are also indications that some Russian policy-makers are concerned that coming years will witness the rise of direct EU—Russia rivalry in the “overlapping near abroad” and this may cause the incorporation of the philosophy of dividing lines (between Europe and “non-European” Russia) into the Neighbourhood initiatives. Indeed, serious reasons for such a pessimistic prognosis can be found by looking, for instance, at Poland’s stand on the Eastern Dimension which seems to be torn between constructing dimensionalism as a form of postmodern networked political space and (re)constructing state-centred landscapes, centuries-long rivalries, and hierarchically established relations. Summing up, in what is going on under the positively-looking façade of the “Wider Europe – Neighbourhood” relations one could notice the existence of the complex and interdependent problems and challenges.

It is clear that neither the EU can ignore Russian vision of its neighbourhoods nor Russia can afford to ignore the gradual emergence of EU “Wider Europe – Neighbourhood” Policy. The problem is that until now neither Russia no the EU have invested much effort in building up policies on new neighbours’ cooperation. With regard to Russia, it is easy to observe that designing the policy over the EU Neighbourhood initiatives does not belong to the list of Russian high priorities, and Russia appears to have kept aloof from the Wider Europe – Neighbourhood debates.

It is important to examine the reasons for this lack of interest in discussing new challenges and opportunities posed by the EU Neighbourhood initiatives. It is also important to note that since the “Wider Europe – Neighbourhood” Policy is not yet a well established program, Russia still has an opportunity to determine (to some extent) the character of this policy and incorporate in it some of Russian needs. It is even more important to understand that, assuming the complexity involved in designing new neighbourhood policies, one key to success is to find linked interests and shared objectives for Russia, (old and new) EU members and their (old and new) neighbours.

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POLITICAL RELATIONS BETWEEN RUSSIA AND THE CZECH REPUBLIC: OR THERE AND BACK AGAIN?

Petr Kratochvíl⁴

INTRODUCTION

The aim of this paper is twofold. The main bulk of the paper presents an analysis of the latest development in the political relations between Russia and the Czech Republic (CR) and make some remarks about the future prospects. Secondly, I also shortly address a more abstract question of why the improvement in the Czech–Russian relations has been much slower than in the case of Polish–Russian or Hungarian–Russian relations.

At the very beginning I should correct a false assumption which may stem from a mistaken interpretation of the title of my paper: I do not intend to simply reiterate the conventional wisdom among Czech analysts and policy-makers who, when asked the classical Chernyshevski’s question “kto vinovat?“, often insist that only and exclusively Russia is to blame for the failure to establish normal relations between the two countries. I will, quite to the contrary, try to show that neither side pursued a cooperative approach in the past years.

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To begin let us remind us that, historically speaking, the relations between the Russian Empire and the Czechs were harmonious, albeit sometimes overly idealized: The Russian Empire was often portrayed as the ultimate defender of the freedom of Slavic nations oppressed by the German, Austrian or Turkish rulers. At the time of the Czech National Revival, Russia was regarded the natural ally of the Czechs aiming at self-determination. Only after the communist *coup d'état*, this attitude began to change. But the deadly blow to the already worsening relations was dealt with the 1968 invasion of Warsaw Treaty armies.⁵ Regardless of the tragic nature of the Soviet invasion, we might assume that there had not been much negative experience with Russians prior to 1948 and that, therefore, the return to normal relations after the end of the Cold War could be more swift in the case of the R than in that of Hungary or even Poland with its long history of deep-rooted aversion.

Surprisingly enough, this was not the case. The return to normalcy took no less than ten years. The Czech foreign policy towards Russia after 1993 can be roughly divided into three stages with different levels of interaction and different attitudes towards the Eastern giant.⁶ This is illustrated in *Table 1*.

Table 1. Czech foreign policy towards Russia

	Russia as a threat	Russia as a partner
Frequent references	Stage I (1993–1996)	
Rare references	Stage II (1997–1999)	Stage III (2000–....)

Each of the stages shown in the table is characterized by a different pattern of Czech behaviour towards Russia. In the first stage, the country's main target was the "return to Europe", meaning both joining the European Union and NATO. The fear of unstable Russia was often seen as one of the main driving forces. The second stage started approximately at the time when it was already sure enough for the CR that it would join both organizations in nearest future. Russia, though still considered rather as a threat than as a partner or an opportunity, virtually vanished from the Czech foreign political agenda. Only in the third stage, Russia emerged as a country the Czech government dealt seriously with but still the attention given to Russia has lagged far behind both Western Europe and Central European space.

We easily draw a similar table that reflects Russian foreign policy towards the Czech Republic. (Table 2.)

⁵ For a similar account of the transformation of the Russian–Czech relations see Sokolov, Maksim. Jazycheskoye pokayanie. Izvestia.ru. <http://www.izvestia.ru/sokolov/article37422>

⁶ I start my analysis in 1993 when Czechoslovakia split.

Table 2. Russian foreign policy towards the CR

Stage	Predominant behaviour
Stage I (1993–1996)	Political pressure
Stage II (1997–1999)	Lack of interest
Stage III (2000–...)	Construction of a normal relation

BEFORE STAGE I

Shortly after the fall of communism, both the Soviet Union and Czechoslovakia had similar ideas: A well-known example is President Havel's famous proposal to dissolve not only the Warsaw Treaty but also NATO.⁷ Similarly, both countries believed that OSCE would be the best guarantee of security in Europe. Whereas Havel and other representatives of the Czech foreign policy elite dropped these ideas well before the split of Czechoslovakia, the very same ideas (e.g. the OSCE as the corner stone of the European security architecture) remained key pillars of the nascent Russian foreign policy towards the West. Even the pro-Western Foreign Minister Kozyrev believed that NATO expansion would have serious repercussions for Russia and should be replaced with strengthening the OSCE or with "cross security" guarantees for Central Europeans from NATO and from Russia.

STAGE I

At the beginning of Stage I, the main political and security issue between the two countries was the question of NATO enlargement. The growing disillusionment of Moscow with the US plans for NATO enlargement which became visible already in 1993 and even more so after the release of the NATO enlargement study in 1995, was coupled with ever more vehement Czech demands for NATO membership. Although the West tried to soothe Russia through the 1994 Partnership for Peace, a short glance at Czech media reports presents a different picture: NATO membership was clearly understood as a safeguard against the destabilization coming from the East.⁸ Three events were typically mentioned in this context: the unsuccessful coup of 1991, Yeltsin's handling the Parliament during the hot autumn 1993 and, later, also the war in Chechnya was added to the list of dangers lurking in the East.

On the other side, Russian diplomacy was forced to make a fundamentally important choice that would pre-determine the future development in the mutual relation between the CR and Russia for several years: either to acquiesce to the NATO enlargement plans and thus improve its relations to the candidates for NATO membership, or to run into heavy opposition which would inevitably lead to tenuous relations with the candidate countries. Although the Russian reaction varied from time to time, the overall Russian stance was closer to the latter alternative.

STAGE II

Since 1997 there were signs indicating a gradual change in the troubled relationship: The first reason for this shift was the final decision about NATO enlargement. The Founding Act on Mutual Relations, Cooperation and Security between NATO and the Russian Federation also helped to alleviate Russian fears of an enemy *ante portas*.⁹ To assume that the improved overall conditions would also move both sides to set aside their old differences would be, however, totally wrong. Russia gradually weakened its political pressure on the CR but a warming up of the bilateral relations did not follow the move. Instead, Russian foreign policy effectively

⁷ Cf. Prezident Václav Havel a NATO. Radio Prague, http://www.radio.cz/cz/html/nato_havel.html

⁸ Cf. Běloševský, Dmitrij: Česká republika v ruské zahraničněpolitické reflexi 90. let. http://veda.fsv.cuni.cz/konf_sem/globalni_svet/GS_prispevky/g_s_ter_belosevsky.htm

⁹ NATO On-line Library, <http://www.nato.int/docu/basicxt/fndact-a.htm>

overlooked the CR on the political map of Europe. This led some Czech analysts to believe that “after the definitive decision about our joining the Alliance Russia adopted a posture of insulted frostiness towards the CR and systematically blocked the development of mutual relations for several years.”¹⁰

In similar vein, the CR, now firmly anchored in the western alliance, did not make a single friendly move to overcome the stalemate. To the contrary, it played its old game of describing Russia as the archenemy of the free, democratic world. This aspect of Czech foreign policy was so evident that some politicians from neighbouring countries warned against undue anti-Russian sentiments that effectively prevented the new NATO member states from creating normal relations to Russia.¹¹

STAGE III

The beginning of Stage III was marked by Putin’s ascension to power. Putin’s pragmatism laid particular emphasis on multidirectional diplomacy with good relations to every part of the world, especially in economic terms. After the Alliance enlargement in spring 1999, seemingly less controversial topics were allowed to gain more prominence. One of them was the abolishment of visa-free regime and the other payment of the 3.5 billion USD debt. Although the end of visa-free travel by the end of May 2000 caused some problems to Russian side, the move had some positive side effects. First of all, both sides were forced to communicate with each other and interests of both compelled them to looking for a solution, which would (a) be in accordance with the requirements of the European Union and (b) make as little damage to the bilateral relations as possible. Similarly, the discussion about the restructuring and payment of Russia’s debt to the CR showed the willingness of both sides to move ahead with the solution of this old issue.

The intensification of political dialogue started even before the question of the mounting Russian debt was settled. In February 2001, Russian foreign minister Igor Ivanov paid an official visit to Prague and although he spent there only several hours, his visit gave rise to bold predictions of “a return of Russia to the Czech Republic”.¹² A whole series of visits followed during the next two years: In January 2002, Czech Foreign Minister Kavan visited Moscow and in April Russia hosted Czech Prime Minister Zeman. As representatives of Czech Social Democratic Party, both ministers were well disposed towards Russia. They repeatedly expressed their support for closer cooperation of NATO and Russia¹³ and Russian diplomats appreciated this gesture as Czech President Havel constantly rejected closer relations of Russia with NATO or even further institutionalization of the relationship.

Last year, the new Foreign Minister Svoboda visited Russia, and in autumn, Czech President Václav Klaus, elected in March 2003, also paid a visit to Moscow. The success of his journey was granted because of two simple reasons: First, former President Havel hesitated to visit Russia and so an official visit in the very year when the new President came to power was greatly appreciated. Secondly, Havel often criticized Russian military actions in Chechnya and shortly before the end of his presidential term, he stated that Russia was not a European country.¹⁴ Klaus’s visit to Russia may be the final step to normalization of the mutual relation and it is not by chance that Foreign Minister Svoboda declared the current stage of “the Russian—Czech ties the best in the last ten years.”¹⁵

¹⁰ Cf. Pełczyńska-Nałęcz, Duleba, Póti, Votápek (eds.): Eastern Policy of the Enlarged European Union: Developing Relations with Russia, Ukraine and Belarus. A Visegrád Perspective. Slovak Foreign Policy Association, Bratislava, 2003

¹¹ Cf. Kotyk, Václav: Jak přistupovat k politickému dialogu se současným Ruskem. Mezinárodní politika, 4/2001.

¹² Rossiya vernulas’ v Chekhiyu: bol’shoy brat vspomnil o svoich sosedyach. 17 February 2001, LentaRu, <http://www.lenta.cz/0102/05ivanov.htm>

¹³ Jan Kavan: „My ne opasayemsa sblizheniya NATO s Rossiyey.“ Izvestiya.Ru, <http://izvestia.ru/article13171> or O peregovorakh Predsedatelya Pravitel’sтва Rossiyi M.M. Kas’yanova s prem’yer-ministrom Chekhiyi M. Zemanom. Soobshchenye press-sluzhby Pravitel’sтва Rossiyskoy Federaciyi,

<http://www.ln.mid.ru/ns-reuro.nsf/strana?OpenView&Start=30&Count=30&Expand=35#35>

¹⁴ Vaclav Klaus peresporil Vaclava Gavela: Prezident Chekhiyi dokazal, tshto s Rossiyey nuzhno imet’ delo. Vremya novostey, 3 November 2003, <http://www.vremya.ru/2003/206/5/84009.html>

¹⁵ Cirill Svoboda: „Nashi otnosheniya – naylutschiye za posledniye 10 let“. Izvestiya.Ru, 25 April 2003, <http://izvestia.ru/politic/article33160>

WHY SO LATE?

The final question to be answered is why the relation between Russia and CR has needed so much time for normalization? We can identify at least two kinds of factors, which we provisionally label as material and sociological. Let us first tackle the material factors: The most striking difference in geographical position compared to other Visegrád countries is that the CR does not share a common border with neither the Russian Federation itself nor with any other post-Soviet country (*e.g.* Ukraine). Therefore, if we speak about the Eastern policy of the CR, we might as well mean the Czech policy to other Visegrád countries. An Eastern policy towards Russia has been, strictly speaking, non-existent with the sole exception of the early 1990s. The geographical position was probably one of the very reasons for this deficiency.

The group of sociological factors is undoubtedly more comprehensive. First of all, the Czech Republic and its political elite in the 1990s took greater pains than any other post-communist country to return to Europe and even to erase the mere memory of the communist past. Thus, it often accentuated its exceptionality and rejected deeper engagement of the country elsewhere than in the West. Secondly, internal political situation also exerted considerable influence on the country's foreign policy orientation. The pro-Russian Communist Party has not, unlike other communist parties in the region, reformed itself. In consequence, all other relevant political parties in the CR rejected to share power with communists who were thus forced to constant anti-systemic opposition. However, their popularity has risen steadily, Communist Party now ranking only second in election polls. On the other hand, post-communists in other Visegrád countries were strong enough to come to power and thus soften their country's stance towards Russia.

CONCLUSION

Let us summarize the most important conclusions of this paper: Although rather belatedly, the CR has finally succeeded in normalizing its relations with Russia. It would be ominous to blame just one of the two partners for the failure to construct a normal partnership earlier in the 1990s. While Russia was fiercely opposed to Czech NATO accession, the CR on its part ignored Russia or focused solely on its actions in Chechnya without giving it a chance to develop a constructive relation. Only after the final decision about Czech membership in the Alliance and de-ideologization of Russian foreign policy with Putin's rise to power, the situation began to change slowly. This trend was accelerated when new and old issues alike had to be solved such as the introduction of visa regime or the issue of Russia's debt to the CR. The future of Russian–Czech relations seems therefore if not bright then at least more promising than the time of the “cold peace” in the second half of the 1990s.

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**PART TWO:
SHADOW ECONOMY AND CORRUPTION**

ТЕНЕВАЯ ЭКОНОМИКА РОССИИ И ПУТИ ЕЕ ОГРАНИЧЕНИЯ

Глинкина Светлана Павловна¹⁶

Значительная часть (по разным оценкам, от 25 до 50%) российской экономики находится сегодня «в тени». Легализация бизнеса и его декриминализация – важная задача современного этапа развития общества. Как показывают имеющиеся расчеты, декриминализация экономики может обеспечить рост производства более, чем на 20%.

ЧТО ЗНАЧИТ ДЕКРИМИНАЛИЗИРОВАТЬ ЭКОНОМИКУ?

Эта задача не сводится исключительно к вытеснению организованной преступности из всех сфер делового оборота (такое понимание лежит в основе разрабатываемой МВД РФ Комплексной программы декриминализации территорий и крупнейших объектов экономики). Ведь теневая экономика сегодня – это не только и не столько совокупность форм хозяйства и секторов экономики, противостоящих государству и легальным сегментам рынка (производство и сбыт наркотиков, незаконная торговля оружием, проституция, рэкет и т.д.). Это совокупность отношений, присущих на современном этапе всем без исключения секторам экономики и, следовательно, декриминалировать экономику – это значит повысить на порядок прозрачность ведения бизнеса и корпоративного управления.

Легализация и декриминализация российского бизнеса требуют реализации программы, конечной целью которой должно стать обеспечение взаимовыгодного контракта между государством и бизнесом, в соответствии с которым стороны берут на себя и строго выполняют следующие обязательства. Бизнес разворачивает общественно полезную экономическую деятельность, не уходя от выполнения фискальных обязательств. Государство – обеспечивает предпринимателям разумную «цену вхождения на рынок», защиту прав собственности и соблюдение контрактов, достойное социальное обеспечение граждан.

Совершенно очевидно, что экономические преступления будут существовать до тех пор, пока в результате нарушения условий контракта (взятых на себя обязательств) одна из сторон получает большую выгоду, чем в случае выполнения контракта, и при этом санкции за нарушения обязательств не исчерпывают ожидаемого прироста прибыльности.

Следовательно, контракт должен быть дополнен механизмом выявления и наказания фактов его не соблюдения. Очевидно, что эффективность действия такого механизма будет зависеть от четкости и однозначности проработки законов, принципиальной возможности (наличие соответствующих кадров, финансовых и технических средств) выявления правонарушений и обеспечения возможностей применения санкций ко всем участникам правонарушения, независимо от их социального статуса и материального положения.

Исходя из сказанного, в целях легализации находящейся сегодня в «тени» экономики и декриминализации бизнеса можно предложить следующие практические шаги.

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1) СОВЕРШЕНСТВОВАНИЕ СИСТЕМЫ НАЛОГООБЛОЖЕНИЯ

Глобализация практически снимает национальные границы производства. При этом сохраняются существенные различия в ставках налогообложения доходов в разных странах. В таких условиях у предпринимателей, объективно заинтересованных в минимизации своих издержек путем ухода от налогов, существуют реальные легальные возможности решать эти задачи, используя имеющиеся в мировой практике институциональные формы (в частности, оффшорные зоны).

Чтобы противостоять такой ситуации потребуется:

- * обеспечить перенос тяжести налогообложения с доходов, получаемых от трудовой, инновационной и инвестиционной деятельности, на налогообложение рентных доходов от эксплуатации природных ресурсов, доходов от собственности, а также доходов от деятельности, связанной с негативными экологическими и социальными последствиями. Базой налогообложения должны стать не результаты производства, а ресурсы, находящиеся в пользовании того или иного предприятия, и последствия его деятельности, наносящие вред обществу;
- * свести к минимуму возможности ухода от налогообложения, совершенствуя законодательство в области трансфертных цен (при использовании трансфертных цен бремя доказательства того, что экономическая деятельность при осуществлении заключенных сделок действительно имела место, должно лежать на налогоплательщике); ввести налог на платежи в оффшорные центры со значительно повышенной ставкой; не придерживаться соглашений об избежании двойного налогообложения, если «природа» дохода связана с пагубной налоговой конкуренцией.
- * ввести режим, при котором резидентные компании должны информировать национальные налоговые ведомства о своих международных сделках и операциях за рубежом.

Предлагаемые меры полностью согласуются с предложениями экспертов ОЭСР по борьбе с «пагубной налоговой конкуренцией».

2) ЛИКВИДАЦИЯ ИНСТИТУЦИОНАЛЬНЫХ И АДМИНИСТРАТИВНЫХ БАРЬЕРОВ ВЫХОДА ПРЕДПРИЯТИЙ НА РОССИЙСКИЙ РЫНОК

Хотя процедуры лицензирования экономических субъектов в России отличаются от региона к региону, в среднем новый заявитель должен обойти 20-30 учреждений и получить 50-90 утвержденных регистрационных форм. Для того чтобы начать новое дело, нужно получить около 30 различных видов лицензий. Согласно обследованию Всемирного Банка – РАН, 12% предприятий показали, что в 1999 г. они подавали заявку на получение новой лицензии, но им в ней было отказано. Тридцать четыре процента обследованных фирм показали, что они были вынуждены получить лицензию, которая, по их мнению, законодательно не требовалась, а 13% показали, что их предприятия заплатили лицензионный сбор выше установленного размера. В среднем для организации небольшого предприятия в Москве требуется в четыре раза больше времени, чем в Варшаве, при этом российский малый и средний бизнес подвергается в два раза большему числу проверок.

Необходимо существенное сужение числа видов деятельности, основанных на разрешительном, а не уведомительном принципе, сокращение числа разного рода проверок предприятий, упрощение системы бухгалтерского учета, активная борьба с коррупцией.

3) СОЗДАНИЕ МЕХАНИЗМОВ ДЕЙСТВЕННОЙ ЗАЩИТЫ ПРАВ СОБСТВЕННОСТИ ВСЕХ УЧАСТНИКОВ ЭКОНОМИЧЕСКОЙ ЖИЗНИ, ЧТО ПРЕДПОЛАГАЕТ

- * разработку механизмов реализации контрактных прав, прав собственников и акционеров, установление прозрачности деятельности предприятий для акционеров;
- * декриминализацию процедуры банкротств путем устранения многочисленных лазеек, имеющихся в Законе о банкротстве, обеспечение государственного контроля за соблюдением «правил игры» при проведении банкротств, усиление контролирующей роли федеральных органов исполнительной власти, установление реальной ответственности временного управляющего за исполнение закона, стимулирование государством создания и развития крупных специализированных компаний, обладающих достаточными интеллектуальными, административно-организационными, а возможно, и финансовыми ресурсами для того, чтобы осуществлять ответственное внешнее управление предприятиями-банкротами;
- * обеспечение процесса смены собственника в конфликтных ситуациях в рамках гласных, прозрачных и при этом достаточно оперативных судебных процедур.
- * предприятие должно выставлять на торги целиком, чтобы исключить возможность высасывания из него наиболее ликвидных ресурсов.

4) РАЗРАБОТКА МЕХАНИЗМОВ СОБЛЮДЕНИЯ КОНТРАКТОВ

В интересах решения этой задачи требуется проведение всесторонней судебной реформы, направленной на достижение следующих основных целей:

- * независимость органов судебной власти от власти исполнительной, в том числе – в нынешней российской системе власти – и от президента как фактического главы исполнительной власти;
- * создание механизмов исполнения судебных решений и независимой системы контроля их качества;
- * реализация программ защиты судей, потерпевших и свидетелей.

Необходимо решение проблемы финансирования деятельности судов. Нищета последних делает их зависимыми практически от любого источника финансирования, который может носить в том числе и криминальный характер. Слабость суда не просто лишает общество и государство инструментария борьбы с преступностью и коррупцией, но и делает невозможными судебное, т.е. легальное, решение споров, вынуждая дополнять его неформальными и, как правило, незаконными действиями. А это – классическая услуга, оказываемая организованной преступностью при помощи неразрывно связанной с нею коррупции.

5) ОБЕСПЕЧЕНИЕ ЧЕТКОСТИ И ОДНОЗНАЧНОСТИ ЗАКОНОВ

В этих целях сегодня необходимо ликвидировать большое число законов непрямого действия, оставляющих простор для чиновничьего произвола, коррупции, нарушения законодательства (наиболее яркий пример – Таможенный кодекс). Целесообразно проведение всех проектов законов, постановлений и инструкций через специальную экспертизу, отсекающую положения, создающие предпосылки для криминализации экономических процессов и развития коррупции.

Необходим тщательный анализ законодательных актов, регулирующих особо криминализированные сферы экономики, скорейшая ликвидация имеющихся в нем многочисленных «дыр». Так, очевидно, что Уголовный кодекс должен включать нормы ответственности высших должностных лиц за сам факт нарушения закона при распоряжении государственной собственностью, бюджетными средствами, незаконное предоставление налоговых, таможенных или иных льгот, если этим нанесен ущерб государству и обществу. Наличие же личной заинтересованности должно рассматриваться не как необходимое условие для привлечения к ответственности, а лишь как дополнительное отягчающее преступление обстоятельство.

6) ФОРМИРОВАНИЕ ВЫСОКОКАЧЕСТВЕННОГО КАДРОВОГО И ТЕХНИЧЕСКОГО СОСТАВА КОНТРОЛЬНЫХ СЛУЖБ

Ввиду резкого изменения экономических реалий, появления принципиально новых явлений и феноменов в экономике задача контроля за деятельностью субъектов хозяйствования существенно осложнилась. Во избежание ситуации, когда чем легче в каком-то секторе экономики осуществлять измерения и контроль, тем с большей вероятностью именно на нем будет сконцентрировано внимание контрольных служб государства и, следовательно, наиболее важные сферы экономики (финансово-кредитная сфера, внешнеэкономические связи и т.д.) оказываются наименее контролируемыми со стороны российского государства, требуется:

- * обеспечение подготовки принципиально новых высококвалифицированных кадров для контрольных служб;
- * установление прямой зависимости между финансированием деятельности контрольных служб и их вкладом в общий доход государственного бюджета;
- * внедрение системы непосредственного экономического стимулирования работников контрольных служб в зависимости от величин выявленных ими нарушений (т.е. объема санкций, предъявляемых нарушителю, и средств, получаемых от него в доходы государства).

7) ОБЕСПЕЧЕНИЕ РЕАЛЬНОГО РАВЕНСТВА ВСЕХ ГРАЖДАН ПЕРЕД ЗАКОНОМ

- * Ни одно должностное лицо и ни один государственный орган не должны иметь права принятия решений, подрывающих равноправие граждан. Принятие должностными лицами органов государственной власти подобных незаконных решений, нарушающих конституционные основы демократического государства, должно рассматриваться как тяжкое государственное преступление.
- * Узаконенный гипертрофированный иммунитет от правосудия представителей законодательной, судебной власти должен быть существенно ограничен, приведен в соответствие с общепризнанными в мире нормами, а фактические возможности чиновников уклоняться от ответственности за нарушение законов – решительно устранены.
- * В современных условиях равенство всех граждан перед законом можно обеспечить лишь на путях решительной борьбы с коррупцией. Криминализация экономики и коррумпированность государственного сектора – это две стороны медали. Для того, чтобы высшая государственная власть смогла начать борьбу с коррупцией, чтобы в эту борьбу начало верить общество, следует срочно отстранить от высшей власти лиц и организации, ассоциируемые с коррупцией, особенно на высшем уровне. Необходимо восстановление норм деловой этики, без чего никакое повышение уровня материального обеспечения и социальной защищенности работников госаппарата не даст желаемых результатов.
- * Следует принять цивилизованный закон о лоббировании, создающий публичный, легальный механизм согласования интересов промышленно-предпринимательского сообщества и органов государственной власти; в частности, представляется разумным принять правило, по которому позиция отраслевых ассоциаций предпринимателей по каждому вопросу, который, по их мнению, затрагивает их деятельность, должна быть доведена до сведения депутатов, принимающих закон, или руководителя, принимающего тот или иной нормативный акт. Это мнение может быть учтено или отвергнуто без обсуждения с высказавшими его, но субъекты экономики должны иметь право на доведение своего мнения до государства.

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BUSINESS – STATE RELATIONS IN CONTEMPORARY RUSSIA IN CONCERN TO CORRUPTION PHENOMENON

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In my paper I am going to present some preliminary results of the research project “Prospects for fighting corruption in post socialist countries: cases of Russia and Hungary”.¹⁸

In according to Corruption Perception Index (CPI) by Transparency International Russia is ranked now 86th among 100 countries. In according to INDEM foundation – Russian NGO doing economical, political and sociological researches on the corruption issue, nowadays about 34 billions USD are spent by Russian people for bribes. In my opinion these two numbers show that corruption is a significant problem for contemporary Russian society.

However, I believe that the whole phenomenon of corruption could hardly become a subject for empirical sociological research. That is why we choose one segment and concentrated on the business – state relationships. However even this topic is still too wide and complex and we were forced to focus on more precise and concrete fragment of state-business relationships. Recent studies identify Russia's regional and municipal levels as the most corrupt levels of authority. Data on “corruption flows” in Russia's bureaucratic market gathered by the INDEM foundation, that the municipal level of authority is the most corrupt (75% of corruption market), the regional level comes in second (20%) and the federal level third (5%)¹⁹ (Satarov, 2002). Because of this, we considered it essential to focus our research on state – business corruption at the municipal level (the case of St Petersburg), which currently poses such an impediment to business development. And the study considered small and medium-sized business as the most sensitive and least protected business sector facing corruption.

In order to determine the social mechanisms and hidden conditions of corruption, we focused our empirical research on actual business behaviour and examined how business and municipal authorities interact in practice. The research included quantitative and qualitative analysis of the phenomenon of business corruption in the sphere of small and medium-sized business. The main purposes of the study we formulated as follows:

¹⁷ Center for Independent Social Research

¹⁸ The project was supported by USAID and IRIS foundation in the framework of the Think Tank partnership program. Our main partner was Hungarian Think Tank “Foundation for Market Economy” and American University (TRACCC, Washington D.C.). See final report at: www.indepsocres.spb.ru.

¹⁹ These figures refer to low-level business corruption.

- * to identify key problems facing small business that provide a breeding ground for corruption;
- * to gauge the extent to which the corrupt practices of business are adaptive responses to the legislative, economic and social environment;
- * to evaluate the willingness and readiness of business people to act against corruption.

Although our study was focused on the St Petersburg municipality alone, the outcomes received in the course of the study are not specific for St Petersburg and could be reasonably extended to the whole situation in small and medium-sized business in Russia. The broader generalizations can be rather made on the basis of the *qualitative* data based on 30 interviews with representatives of small and medium-sized (SMEs) enterprises in St Petersburg.²⁰ It reveals the nature of corrupt relationships, particularities of informal interactions between business and the state in small and medium-sized business.

PROBLEM AREAS AND TOPICS (FORMULATED BY THE INFORMANTS IN INTERVIEW)

Problems, giving birth to corruption practices

On the basis of the analysis of our interviews we pointed out the problematic areas as follow:

1) IMPERFECTION OF THE BUREAUCRATIC SYSTEM: ITS INEFFICIENCY, INFLEXIBILITY, SLOWNESS, ETC.

Our informants stressed that one of the reasons for corruption is wrong system, all decisions need ages to be made; one has to spend so much efforts and time to solve this or that small bureaucratic problem – so he or she has no time for proper work! Moreover, these procedures look like artificially overcomplicated by officials. Many informants refer to Western experience where one need to send one letter to officials to notify them she/she is going to start business – that is it, on comparison to kilos of papers, hundreds of stamps, months of time one need to spend to start business legally in contemporary Russia. As a result, people say, it is much easier to refuse the idea to run business at all than to start it! Or you need to employ illegal methods, shadow economy tools to stipulate all the procedures at the very beginning of your business already: “In the middle of the summer, in the middle of our process they dismissed local officials. And put new ones. And correspondingly – now a comma should be not there, all the documents need to be remade, something needs to be added, something to be removed. Nothing depends on me! And in the end again they do not allow to open it (enterprise)”

2) OLD FASHIONED LAWS AND REGULATIONS: LACK OF LOGIC IN BUREAUCRATIC RULES AND REGULATIONS, LACK OF CORRESPONDENCE OF THESE RULES TO THE CONTEXT OF REAL LIFE.

Our informants mention many times that some contemporary rules are totally out of logic and reality! It is true especially in case of department’s instructions (not laws) – these of sanitary and fire protections services, for instance. Some of these instructions are dated by 1960-70s, some are even by 1930s! Thus they are totally out of reality! It makes impossible to follow them in real practices. Officials, who are responsible for these rules and come to enterprises to control them, know about this impossibility to follow the rules. So the only way to handle out this problematic situation is to bribe officials, to let them “shut their eyes” to the violations of stupid but existing rules: “We belong to public catering, but we don’t cook anything ourselves. They insist on setting three new sinks, for example. We don’t need them! We don’t cook anything! But if they want, they can shut us down because of this. And these norms, these rules, they have not been changed practically from 1974. 1974 and 2004!?”

²⁰ Several kinds of business is represented in our data basis: trading (including foods) – 11; production (including construction) – 5; services (including cafes, securities (stocks, *etc.*), business and law consulting, *etc.*) – 14; To find informants we used method of “snow-ball” – found them mostly through personal networks; first of all – because the topic of the research was too sensitive and personal trust was an important part of communication, otherwise we would get a lot of general words and speculations.

3) MEANINGLY KEPT GAP IN LAWS AND RULES: LAWS AND REGULATIONS ARE DESIGNED IN A WAY THEY COULD NOT BE FOLLOWED BY PEOPLE.

This is quite popular sentence: “you can not conform all rules, it is just impossible – then you have to close your enterprise!” (impossibility to pay all taxes is a variety of this kind of claims). Businessmen cannot understand who needs all these troubles. The only explanation is: bureaucrats need it to initiate corruption in form of bribing for pushing, accelerating procedures. People believe this is a kind of “meaningly kept gap in laws” done and kept by officials to have a chance to catch and punish (to fine usually) any businessman – because there is always a rule you do not conform for some reasons; at the same time this is a way for officials to find violations and to initiate corruption as a way for businessmen to avoid official punishment (the size of bribes is usually smaller than the size of official fine): “In such a situation, in the real state of thing, constantly whatever you are doing you are always violating the law. And you always feel yourself a criminal and in fact, you are forced to pay off”.

There are several consequences from this situation – for the attitudes of businessmen towards the officials and bureaucratic structures, and consequently – for the state-business relationship:

Distrust attitude: all our informants mentioned that they do not believe in “fair (honest) bureaucrat”.

Everyone is sure that all officials take bribes – bigger or smaller, they all are corrupted and are kind of people who “won’t lift a finger” without money. It causes to certain attitudes and activities of people, including businessmen. It means that they all a priori are ready to give bribes to officials; many businessmen do not even try to find legal and official ways of solutions of this or that problem – they start straight away with looking for access to corrupted officials to give them money to solve their problems in this way – “fast and easy” (in comparison to official way): “In reality, when instance comes to business, and find problems, you will understand that they have come here not to shut you down as soon as possible and, *etc.* No, they have come here in order to get some money from you”.

Attitude for a distance: businessmen prefer to keep a great distance between themselves and state.

Those who succeed to keep distance consider themselves to be lucky. They do want to have as less as possible in common with the state: “Knowing that the state is a vampire, we have brought to minimum our contacts to the state”.

Functional approach: businessmen treat corruption as natural, integral part of interaction with the state and power representatives.

Businessmen use the logic and rhetoric of “transaction costs” toward bribes and other forms of corruption: corruption is interpreted in this case in economic terms, without any emotions involved. We call it “functional approach”: “I need to get something. If I can get this, say, by bribing an official – well, there is nothing else to do, it is an unavoidable evil, if I want to get this desired object”.

However simultaneously with the functional approach another attitude takes place as well. We call it:

Emotional disgust: though many businessmen treat corruption as transactional costs, there are many of them who hates all this corruption procedures, first of all – because of emotional feelings – people hate to feel humiliation and feebleness, independence – these terms our informants used to describe their feelings in situation of interaction with corrupted officials, in situations of giving bribes, etc.: “I want to say that every official depending on his upbringing, his intellect and I don’t know what else to a bigger or minor degree but he would necessarily smear you on the table. If he is a cad, then he will be actively doing this. If he is a well-brought-up, then he will be doing this by his indifference. None of them takes care!”

The last but not least consequence is the intermediaries boom. On this issue I would like to concentrate.

INTERMEDIARIES’ BOOM AS A NEW FEATURE OF THE CORRUPTION MARKET

Interviews with businessmen have explicitly demonstrated the emergence of a wide-scale market for informal and semi-formal services mediating relations between business and the authorities. In recent years, there has been a growth of legalized and formalized firms-mediators selling bureaucratic services. We have called this phenomenon an intermediaries’ boom.

We realized that the growth of intermediaries is predetermined by the fact that these services are good for businessmen. They prefer to deal with intermediaries instead of dealing directly with officials because it is simpler: intermediaries know all the details and hidden dangers of this process. It is faster and anyway it saves time and therefore – money. It makes possible to avoid emotional strain, which is usually a painful part of the interpersonal communication between businessmen and officials; when a businessperson goes to an intermediary, the situation is different – it takes the shape of formal service and businesspeople feel like a customer in that case. Finally, sometimes intermediaries provide the only possible way to get access to this or that bureaucrat: “So, if you come in just like that from the street – you will be kicked out”.

Although at first glance, the situation with intermediaries looks reasonable and very similar to the situation in the West, in Russia these services seem to function as a screen, being in fact a hidden form of rewarding officials for accelerating bureaucratic procedures for additional payment. Of course, these are hypothetical assumptions that need to be specially investigated in further studies; however the interviews provide some evidence for this already now.

As a matter of fact, intermediaries combine in their activities explicit functions and hidden or shadow functions. The main resource for accomplishing these functions is their access to a bureaucratic structure (or a bureaucrat) that provides the possibility for obtaining a necessary bureaucratic service. There are several evidences, which allow our informants to interpret intermediaries as involved in corruption relationships:

1. It is considered that the very fact of existence of such intermediaries implies illegality already: people believe that many of these intermediate firms are artificially created by officials themselves – in order to employ their friends, relatives and other loyal people who will take money from clients for intermediating services and then share this money with officials for who they work. So in this case such intermediaries are artificial obstacles, barriers created by officials to stop and collect money for themselves and people who are loyal to them. This is the case of issuing licenses, for instance: “There are about a dozen people involved, you know, like relatives, friends, who, bring him [the official] about half [of the money]. But they deal with this. If they bring this paper – it will be accepted [by the officials], if not [them] – well, it won’t. It’s amazing! ”
2. Quite often officials mobilize the power resource which turns out into the monopoly right for the intermediaries: our informants mentioned situations when officials force them to deal with certain commercial firm to buy certain products or services which are needed for the enterprise to fit the official’s requirements. Of course in these firms all products and services are much more expensive than in ordinary firm, but officials refuse to recognize certificates, products and services of any other firms. It looks like mediated extortion or blackmail. Businessmen believe that those intermediate firms are created by official departments or anyway share money with the bureaucrats. So officials use their power resource to force businessmen to buy goods and services from certain firms which are confidants of the authorities: “Firemen – they are just extortionists, in a direct sense. There are fire extinguishers, hanging on the wall. Nevertheless, we were forced to buy another one. And you should buy an extinguisher in the specialized shop which is situated at the fire unit”;
3. Another explanation of the existence of intermediaries is their involvement into illegal corruptive practices. Our informants believe that bureaucrats create these firms because they do not want to run risk and take bribes from people “from the outside”. They prefer to take money from those who they know, which they trust: “First of all, you won’t get to authorities being just a person from the street. Nobody will let you in – neither in Smolnyi, nor in Voznesenskogo street,²¹ where some committees are sitting. You will not be issued a pass, and that’s it, you are out. In order to get there, you need to have a possibility to get there...”;

So we can see the contradiction here: on the one hand, businessmen often prefer to deal with them instead of direct deals with bureaucrats, but, on the other hand, they blame intermediaries for corruption involvement and extortion. What conclusions might be drawn from this contradiction? One possible answer is: there are different intermediaries, working in different ways, realizing different functions, *etc.* We assume that the distinguishing of intermediaries for two types must be drawn as follow:

²¹ Locations of the offices of the Municipal Authorities in St Petersburg.

- * “pure extortionists”: here we unite intermediaries who are created on an “empty place”, usually – by corruptive bureaucrats themselves or sometimes are linked to the latter (usually – share with them money); this second type of intermediaries is absolutely artificial, needless, useless and harmful; their services are not rooted in any demands of the market relations – they are imposed to businessmen by corruptive officials; these services complicate simple procedure and allow bureaucrats to extort money for services they are supposed to provide for free;
- * commercial type or “VIP service”: by this type we unite intermediaries, which provide practically and commercially rooted “chargeable services”. Here we deal with the ordinary situation when one pays for faster and simpler procedure which he or she might get for free but it takes time; so one could prefer to save time and spend extra money; in fact businessmen combine both strategies – they deal directly with bureaucrats when there is no hurry and/or they have no extra money to spend; but they deal with intermediaries when time is pressing and there are extra money.

These latter types of intermediaries are rather “normal” from the functional point of view. The only feature making this type of intermediaries a part of corruption relations is the very fact that money paid by businessmen do not go to the budget but settle in the official’s pockets. Moreover, there is a strong need for this kind of intermediaries because the system of regulations and their implementation is very bad in Russian society; and even in case laws and regulations are good – the infrastructure is old fashioned, slow, inefficient. This is a challenge of a market system to a clumsy bureaucratic system, or as Russian economic sociologist Vadim Radaev says this is a case of an “institutional compromise” when one kind of institutes do not fit the other type (for instance, economic institutes do not fit the bureaucratic ones) and compromise is needed. In case the market system wins and bureaucratic institutions change then there will be no demand for corruption and we will get ordinary institute of intermediaries of western type when all the payments will be formalized, i.e. made legally and become taxable. If inert bureaucratic system will not change – then corruptive component will remain in this kind of intermediating services, although services are functionally reasonable.

PERSPECTIVES FOR THE FURTHER INVESTIGATIONS (INSTEAD OF CONCLUSION)

Unfortunately interviews showed quite unpromising results in the regard of fighting corruption activities. Almost all of our informants claimed they would like to have an association which would protect rights of SMEs against corrupted officials, because they do not trust any other structures/institutions in this concern; however no one ever dealt with any business-association in order to solve the corruption problem and no one believes these associations could be created by SME businessmen and could be efficient in fighting against corruption: “Well, how to unite? You think I have nothing else to do? And the same is the rest. When? And who we will be uniting with? No. First of all, everyone has a thousand of things to do, and problems are very different. Someone opened long time ago, someone recently, someone is thinking how to change a Mercedes to Rolls Royce, someone is thinking how to make both ends meet. And everybody is put in the same conditions, that all are entrepreneurs”;

or:

“I am more than certain that entrepreneurs of course can gather, sit in a room together, smoke, drink coffee and talk that that’s it, we are fighting. But when each of us personally will be addressed by some bodies, he will be solving this problem on his own, because everyone understands that if he does not give a bribe by some principal motives, he will loose more. Entrepreneurs are people who count money”.

As a result civic associations, self-initiated associations of SMEs either do not exist or work for different aims. For now our hypothesis in this concern looks as follows: very few NGOs have appeared because there has been a huge boom in intermediary firms instead. Businessmen prefer to solve their problems not through establishing business associations but through addressing intermediary firms, which are involved in corruption activities. For businessmen who seek to achieve their goals with minimal costs this way occurs to be the optimal solution whereas from the position of the society and corruption prevention this is a dead end, which reproduces corruption relations and promotes further embeddedness of corruption mechanisms in the society. The most important consequence of the intermediary firms boom is that they reduce the demand among businessmen for fighting corruption and therefore reduce their support for business associations and NGOs: intermediaries attract business resources (money, time and force) which could be invested into the development of anticorruption NGOs activities.

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NATURE OF CORRUPTION IN PUBLIC PROCUREMENT IN HUNGARY²²

T. Benedek – M. M. Dezsériné – M. Knáb – A. Krassó – A. R. Trönnberg

Research workers of the Foundation of Market Economy were surveying the nature of corruption by reviewing the development path of public procurement procedure in Hungary. Purpose of the Hungarian research was to review the different facts and opinions in connection of setting a limit to reducing corruption in the public procurement procedure and also to value the chance of developing the anti-corruption practice in it.

It could be stated on the basis of opinions collected via in-depth interviews at more than 50 buyers and seller institutions (ministries, local governments) and enterprises that both the buyers (proposal requesters) and sellers (proposal givers) are interested in decreasing the danger of corruption, increasing transparency, equal chances and also improving efficiency of operation level in course of the public procurement procedure. The amendment of the Act on Public Procurement (PPA) on the agenda leads to a progress in the process, which – according to the parties' opinion – changes advantageously the sphere of public procurement regulatory enactments. We are expecting that corruption danger could be decreased by monitoring the transparency and efficiency of the public procurement procedure and permanent strengthening of formal contacts.

Our conclusions, suggestions can be grouped into four topics:

- * prospects of closing the front doors of corruption,
- * endeavours to eliminate the back doors of corruption,
- * relations between the efficiency level of public procurement and the dangers of corruption, and
- * fragile balance in terminology and interpretations.

²² This study was developed in the frame of the project titled „Fighting corruption in post-socialist countries: cases of Russia and Hungary” sponsored by USAID, IRIS, KPMG Consulting Barents Group with participation of the following NGOs: Foundation for Market Economy (Budapest), Center for Independent Social Research (St Petersburg) and American University Transnational Crime and Corruption Center (Washington).

1) PROSPECTS OF CLOSING THE FRONT DOORS OF CORRUPTION

Openness in public procurement is clearly ensured if procurements made by institutions are carried out in accordance with the order of public procurement procedures as required by law. If procurements are removed from under the force of the PPA, the opportunity considered by the public as a „corruption front door” opens up. We will now list the factors that may influence the spreading of procurements conducted as part of public procurement procedures at a slower pace and in a more contradictory manner than desirable:

- * Preparedness of those applying the law, staff shortage, problems pertaining to interpretation and approach.
- * Contradictions of other provisions pertaining to the regulations on budget financing, special issues related to practical solutions.
- * Successful assertion of group interests in excluding the public and regarding transparency.

Further to the practice of the last three years and the findings of the in-depth interviews, it can be ascertained that we have found examples of all the above-mentioned factors pertaining to the exclusion of procurements financed from public funds from the scope of the Act on Public Procurement.

In summary, it can be ascertained that, in a successful assertion of group interests to evade the rules of public procurement, the following also play a fundamental role:

- * Legislation does not possess an appropriate independence (possibly it is rather filled with politics).
- * The media, instead of revealing facts in a well-founded manner, opts for the easier way and – affecting emotions, – supports a politics of scandals.
- * Public morals/public culture do not carry an anti-corruption conduct in a wide, society-level sense.

Our former findings, in our world progressing on the road towards globalisation, are valid also beyond country boundaries.

2) ENDEAVOURS TO ELIMINATE THE BACK DOORS OF CORRUPTION

The transparency and clarity of public procurements can only be ensured by guarantees of openness. In our survey, we examined corruption risks occurring during the preparation of bids or while issuing invitations for bids and also during the decision-making process.

It is a general opinion that bids are not announced on the basis of proper expertise and, as a result, are not announced precisely. Institutions inviting tenders are sometimes unable to determine their needs precisely in few fields (i.e. IT). As a consequence, bidders will become exposed.

Another extreme is the unreasonably strict formal requirements in tenders. It is often problem, that approximately 20-40 percent of all the efforts made in compiling a tender will be dedicated to the substantial part, whereas 60-80 percent on meeting formal requirements. Bidders also complained that opportunities for completing omissions are also not regulated in a uniform manner and that exclusions are often made on such grounds. Based on the wishes of many, granting the option to submit missing documentation in the course of public procurement procedures should also be harmonised! The reason we think this is a well founded request is because today, during the preparation phase of public procurement tenders – for example in research – there seem to be way too much fuss about formal errors.

The proposed amendment of the PPA may present a significant step forward in handling unfounded commitments. Considering competition in the market of public procurements, at times bidders undertake commitments that interfere with fair competition, violate generally accepted professional practices, rules of ethics (unfounded content elements of the bid such as prices too low or, in a manner fit for humour magazines, a warranty for 700 years) to ensure that the entity inviting tenders awards these sections the maximum number of scores. The proposed amendment of the PPA intends to handle this issue by providing that institutions inviting tenders must ascertain the splidity and feasibility of such content elements of tenders that look unreal and impossible to fulfil. Inappropriate explanation may also result in exclusion.

However, what do we consider appropriate explanation? If executing the above-mentioned public procurement at an unreal price may, as a reference, generate significant assignments for the bidder at a later date, a low price as a good investment may produce multiple returns. Thus, from the bidder's point of view, this is a great deal that should not be disapproved of.

Who should the law protect; can it be regulated at all? Is there a need for regulation? The draft bill only mentions requests for explanations but does not deal with the future course thereof, as to when, under what circumstances can an explanation be accepted?

Another question is whether or not the contractor will be actually motivated if the price is unusually low? Although, at this point, it was added that the above can be prevented by concluding a good contract and by setting forth appropriate liquidated damages and penalties, however, a great deal of caution is still required to handle this question. Addressing problems possibly arising will be time-consuming and complex even in case of a good contract.

It would be important to elaborate a more differentiated system of evaluation criteria (with weightings) used for the evaluation of the bids. In order to achieve this, the person(s) responsible for public procurements within the organisation should agree with the expert who is capable to express the definition of key substantial elements in a mathematical approach. Bidders wanting to prepare a proper tender should know the exact needs of inviters, who should meanwhile also look after all the available solutions on the market. This presumes the professional relation between inviters and bidders.

In summary, it can be established that compliance with the Act in itself will not eliminate corruption. Intentions relating to corruption will either diminish or there will be no reason for corruption if an appropriate market balance exists in one form or another. Thus, the question is whether or not those carrying out procurement activities possess an appropriate knowledge of the market and for what purpose and how reasonably public funds are used as the PPA only includes provisions on how to use such public funds.

It was a common view of both those inviting and submitting bids that an opportunity for corruption only occurs when determining the professional criteria and upon possible leakage of information. In all other occurrences, corruption will result in a violation of the law, which, in most cases, will become known almost immediately. Therefore, the opinion is that the call for bids, with special emphasis on its professional section, must be extremely specific and clear as regards wording.

Unfortunately we think that the conditions capable of ensuring a meaningful substantive control and monitoring of goods/services/investments created as a result of the public procurement process are not yet available. These conditions partly lack the financial background and partly miss electronic support.

According to certain extreme opinions, the institution of monitoring is practically unknown in Hungary. Indeed, it would be necessary to prepare an actual analysis instead of formal reports upon the completion of some large scale assistance projects. It would be worth considering that, similarly to the EU practice, a predefined percentage of assistances should be allocated for that purpose.

3) RELATIONS BETWEEN THE EFFICIENCY LEVEL OF PUBLIC PROCUREMENT AND THE DANGERS OF CORRUPTION

The inflexibility of the public procurement procedure is causing problems mainly for investments whose market is changing rapidly, and where advantages of innovative breakthroughs and actions should be used. It is difficult to apply the PPA currently in force in these areas and the success of the procedure is questionable. Procurements realised through such procedures will not yield the best, up-to-date and cheap offers as such process is time consuming and the requirements of the tender rapidly become obsolete.

The scope of centrally procured products is also difficult to handle from the point of view of flexibility and adjustment to existing infrastructure. Although the persons interviewed basically judged the majority of centrally procured products as adequate, yet, the scope of such products is contested mainly in the case of healthcare and partly in the case of IT products, due to the following reasons:

1. Due to the one-year or longer framework agreements for centralised public procurements, the process of changing products and prices is inflexible – especially in dynamically growing areas such as IT (portable memory, for example, was not yet available a year ago and therefore does not feature among centrally procured products, although it should be listed among them).
2. The issue of compatibility is a basic criteria both in the area of IT and health care, since recently procured equipment, appliances or accessories must be compatible with the other systems, equipment or appliances used by the company or the healthcare institution.
3. Experience shows that the same product may not be ordered in large quantity for each department of each hospital because the institutions and the doctors want to stick to the equipment they used and tested in the past. Further, new procurements must also be adjusted to circumstances, and to the usual processes applied.

Many believe that the public procurement procedure “is over complicated”. By this, they mean that a lot more records and various application forms must be obtained and kept, which, on occasion, do not facilitate the procurement activity or are related to it only remotely. They have also indicated as a problem that the authorities issuing certain certificates are not always prepared to enforce the law.

The degree of savings that may be achieved through public procurement is a rather controversial issue. No accurate report has ever been produced in that respect, neither by the EU nor by Hungary; although some estimations are published from time to time. However, the position can be maintained according to which public procurement regulation presumes the efficacy thereof, i.e. the savings that can be realised through its application are higher than the costs associated with the implementation of the formal procedures.

4) FRAGILE BALANCE IN TERMINOLOGY AND INTERPRETATIONS

It can be regarded as a general opinion, that the relevant regulations and the expected modifications thereof are adequate in terms of mitigating the risk of corruption to a significant extent. Yet, it is impossible to fully eliminate abuses only through administrative measures. A change in attitude and a different approach is required to prevent corruption. Intertwining of interests may not be excluded nor can the maintenance of information contacts or the leaking of information during the preparations phase be done away with.

The Act on lobbying is also missing, which, if well formulated, could be a supporting force in that matter and the public opinion would not confuse lobbying with corruption. In the opinion of the experts on the subject, unfortunately today it is still difficult to differentiate lobbying from corruption not only in Hungary but also in the entire post socialist region. Many explain this phenomenon by the fact that politics are present throughout the preparation and implementation of tenders connected to the implementation of large scale projects – exerting significant influence on international relations and the national economy – and are capable of pursuing their ‘expectations’.

It would be necessary to practically define the profile of lobbying and regulate its functioning. Academic experts have a hard time providing a scientific explanation for lobbying; governance basing on a practical approach would be needed.

At the same time, another question arises: should we treat a well functioning partner relationship as corruption, a partner relationship which is characterised by continuous communication in order to best meet the needs of the client? Should we suspect corruption when the client is invited to a professional event, or when the known supplier consults the client on the occasion of a tender?

It is a serious concern of many parties interviewed, that the requirements pertaining to public procurement procedures should be fully enforced from one day to the next which questions the future of any previous professional co-operation. We are talking about long-term development co-operation agreements as a result of which numerous products have been developed jointly and such joint efforts were settled later on by having the party as supplier. However, according to the new procedure, own experience may not be considered as reference, i.e. even though the client may know it full well that its partner company, with whom they have jointly developed or modified a product, could deliver the product in question at the highest quality possible; this may not be pursued as an advantage during the procurement procedure. This means that references of this kind may not constitute an evaluation criteria.

All of the institutions inviting tenders had a uniform opinion in that there is no need to further tighten the control of public procurement procedures. Instead, the fulfilment of the contracts following the procurement procedures should be monitored and deviations be sanctioned.

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PART THREE:
MACROECONOMIC PROSPECTS AND FOREIGN TRADE

PERSPECTIVES FOR ECONOMIC COOPERATION BETWEEN RUSSIA AND THE COUNTRIES OF CENTRAL AND EASTERN EUROPE IN THE LIGHT OF THE ENLARGEMENT OF THE EUROPEAN UNION

András Köves²³

This paper argues that Eastern enlargement of the European Union will not bring about any further significant changes in trade and economic cooperation between Russia and the former socialist countries of Central and Eastern Europe (CEE). Most of the really important changes related to the European integration and re-orientation have already occurred in the period following 1989, and there is little left for the future. On the other hand, economic and political stabilization in the CEEs – of which full membership in the EU should be an important phase – may contribute to better conditions (than in the turbulent transition period) for the development of relations with Russia as well.

De facto integration of CEEs in (Western) Europe started as early as 1989-1990, concurrently to political change and economic transformation. Of all fields of integration, trade was the first to start. Trade re-orientation was an organic part of transformation (as a consequence of both the collapse of the CMEA and the rapid rise of trade with the West), and was an accomplished fact in most of the CEEs as soon as early 90s. By the end of the millennium, the share of the 15 present member countries of the European Union in total trade of most of the CEEs reached the point of culmination (a share between two-thirds and three-quarters in exports; somewhat less in imports). This is a unique feature of Eastern enlargement (as compared to previous cases of enlargement): trade-creating and trade-diverting effects of joining the European Union had emerged in their entirety before full membership of the new-comers was attained. It would make no sense (what is more, it would be even counter-productive) to aim at further increase of those shares.

Parallel to the growing volumes of trade, and in accordance with the “Europe Agreements” concluded in the early 90s, trading systems and trade policies of now acceding countries have gradually approached those of the Union. Therefore, coming change from national trading systems, regulations and policies of the CEEs, and also from nationally concluded trade agreements with third countries, to the acceptance of the common commercial policy of the Union will result in minor changes only, as far as conditions of trade, including those with third (non-member) countries are concerned. Also, according to calculations, in case of Hungary for example, the change from national regime of Most-Favoured-Nation treatment of Russia to the GFS treatment extended to Russia by the Union will not imply any significant alteration of conditions of bilateral commerce.

From another perspective, the only beneficiaries of the fundamental changes of geographical (regional) composition of CEE’s trade following the political transformations of more than a decade ago were developed countries, foremost the countries of Western Europe. To illustrate: Germany has not only become Hungary’s trading partner number one. Its present weight is outstanding in historical perspective, too. Its share in Hungarian exports of recent years is higher than that of the Soviet Union during the CMEA years. Taking account of overvaluation of the transferable rouble (the accounting currency of most of intra-CMEA trade) before 1989, the numbers are especially striking.

The rest were mostly losers. In physical terms, overall trade among the former socialist countries of Europe, taken together, does not seem to have reached the level of 1989 at the onset of this century. While decline of relations between Russia (and other CIS countries) on one hand, and the CEEs on the other, is the most

²³ Kopint–Datorg, Hungary

dramatic development in foreign economic relations of post-socialist countries, the lack of dynamism and continuing relegation to the background of intra-CEE trade is a most surprising one.

Mutual trade among CEEs has been of relatively limited significance for most of the last century. Before the war, this situation could be explained by unneighbourly relations among them, protectionism and strivings for mutual isolation. In the socialist period, the reason was simple as well: CMEA cooperation had “radial” character. All the CEEs had robust relations with the Soviet Union (not only the political and military center of the grouping but a vast selling market for CEEs’ manufacturing goods and – in some cases – food, and a source of imports of needed energy and raw materials), while trade among the smaller member-countries was neglected. In post-socialist times, despite discontinuation of CMEA, and the establishment of the CEEs’ own – however, temporary – “small” integration within the framework of the CEFTA, integration in (Western) Europe in each of them had preference over integration with the other CEEs. From a somewhat different perspective: while integration of some or most CEEs in Europe and the global economy progressed quite well, European integration of the CEE region as a region was less dynamic. In Hungary, the share of CEEs both in exports and imports has been almost continuously subsiding for the whole period shown; today it is less than before the political changes. This statement holds for each CEE one by one, for the group of former (smaller) CMEA members, and, finally, for CEEs in the broader sense. Some consolidation seems to be occurring in recent years.

As a consequence of what has happened after 1989 in and around post-socialist countries, the structure and character of their economic relations with each other changed immensely.

Firstly, as a consequence of reorientation to the West of trade of all former CMEA member countries (and their successors) following political changes, as well as the either attained or planned membership of the majority of former European CMEA members in the NATO and the European Union, the former CMEA lost all the characteristics of being an economic or trade bloc or group. As shown by trade statistics, the center of gravitation for economies of all (or, at least, of the great majority of) sometime socialist countries lies outside the former bloc – in Western Europe.

Secondly, contrary to the CMEA period, and notwithstanding the above-mentioned and other factors, which act as a constraint to development of the economic relations among Central European countries, intra-CEE trade of the CEE countries is now larger than trade with Russia (or even trade with the whole CIS). This is especially the case with exports of CEEs.

Thirdly, the most striking change following transformation is contraction of trade with Russia, first of all, exports to Russia. Trade between CEEs and Russia, while generally losing much of its former significance, has become excessively asymmetrical as far as exports and imports are concerned. Russian exports of oil, gas, and some other raw materials to CEE have, at a lower level in any case, survived into the twenty-first century, while „traditional” (*i.e.* developed specifically for exports to the Soviet Union) CEE exports of manufactures and food – have not.

There is a mutual dependence on Russian exports of energy to CEE. For the CEEs, Russia is a cheap (relative to alternative sources), reliable, geographically near-by supplier of most of their needed imports of energy, with established and well-functioning transport infrastructure. For Russia, CEE remains the market outlet for a large part of its exports of oil and gas, and one of the important transit routes for its actual and potential energy exports to Western and Southern Europe, as well as Asia Minor. CEE is also an area for promising foreign investments of leading Russian oil and gas companies.

Just the opposite seems to be the case with CEE exports to Russia: in macroeconomic sense, present trade data are witness of mutual „independence”, following the not-so-long process of smashing and deconstruction of large-scale business relations of the CMEA period. The Russian share in CEE exports is about 2 percent, while about 6 percent of total Russian imports come from CEE (the six former CMEA members). In such a situation it is simply irrelevant to raise the question of eventual further negative implications of CEEs’ full membership in the European Union. This is not to ignore the highly protectionist and divisive policies of the Union, aimed, first of all, at imposing more administrative controls and restrictions on crossing its borders by nationals (inhabitants) of non-member states, at limiting cross-border (shuttle) trading and employment (legal and illegal). The injurious negative human (regional) implications of those policies, the eventual difficulties of business as usual notwithstanding, the macro-economic impact of the measures for Russia–CEE trade seems to be limited. By all means, they should not conceal the deeper, basic causes of the decay in relations.

However, following Eastern enlargement, uncertainties facing Russian exports to CEEs, and, especially energy, may increase, if the Union’s endeavours at securing energy supplies are not made consistent with the interests

of Russia in establishing secure and long-term legal and physical infrastructure for exporting energy to Europe. The question relates very much to enlargement. The issue that may touch upon Russia–CEE relations is the share of the gas (and perhaps other energy) supplies the EU is prepared to allow from any one source. Officially, there are no restrictions on this amount, but it is recommended that not more than 30 percent of gas imports should derive from one source, given the dependency which the future EU members have for Russian gas. It is well-known that the present share of Russian gas in CEE imports is much higher. The eventual enforcement of the restriction (which, under present circumstances, does not seem to correspond to interests of the Union's security of supply) would seriously impair Russian exports to CEEs, energy situation of the latter, as well as the realisation of the EU–Russia energy partnership.

Whatever should come of the energy problem, or of other possible dangers and uncertainties of Russia–CEE trade, the most important thing is to have a clear conception of the factors behind the present situation in trade. The problems are different in character. A lot of important problems of Russia–CEE trade have nothing to do with the EU (they have to do with the Russian economy as a whole), and full membership of CEEs will not change them even an iota. Other current problems (related to the competitive positions of CEE's firms in the Russian markets) may even be easier to deal with, when Central Europeans will be fully within the EU. A third category of problems (determining geographical and commodity pattern of CEE's trade) relates to the globalization of economies of the region, or, some characteristics of the present global division of labour.

Some CEEs were losing positions on the Russian markets not only after 1989–1990, but following the financial crisis of 1998, to the EU and other countries. In some cases, political difficulties might have played a role. Generally speaking however, CEE exporters are squeezed out of the market because of lack of competitiveness as far as, for example, financing is concerned. In this respect, EU exporters of agricultural products are in far better position than CEEs. Countries with a large share of food in exports to Russia (Hungary in 1996–1997) have suffered a significant decline. Full membership may even help to improve competitive positions in this respect.

CEE trade with the world is mostly dominated by multinationals. Multinational companies established in CEEs are part of complex global production, assembly and marketing networks. They export and import mostly through the channels of intra-company transactions (or their intra-company transactions via national borders are called exports and imports); to the degree that those channels are keeping away from Russia because of the relatively slow joining of this country into multinational division of labour, neither their products do get (at least, directly from CEEs) to Russia.

The real and most important problem is however structural weakness of Russian exports (and of Russian industry), the lack of internationally competitive manufacturing industry, and the consequent large-scale dependence of economic growth on development of international oil prices. Also, because of inherited from Soviet times weaknesses and the protracted crisis of the 1990s, the size of Russian import market is much smaller than usually presumed.

As far as Hungarian–Russian relations are concerned, 1.3 percent of Hungarian exports went to Russia (0.8 percent to Ukraine and 2.4 percent to the whole of CIS taken together) in 2002, while 6 percent of imports originated in Russia (7.8 percent in CIS as a whole). Following some improvement in bilateral relations (and the cyclical downturn in Western Europe constraining the growth of Hungarian exports to the EU), Russian share in Hungarian exports grew to 1.5 percent in 2003. Imports from Russia reached 6.2 percent of total Hungarian imports last year. As mentioned, the difference between the shares of exports and imports comes from the fact that while the former declined very seriously as compared to pre-1989 situation, the most of primary energy continues to be imported from Russia. Due to strong discrepancies between imports and exports, the most of the trade deficit is taking its origin in trade with Russia (59.6 percent in 2001, 55.9 in 2002 – but only 46 percent in 2003). Comparing fresh data with those of some years earlier, as far as exports is concerned, the losses are disquieting even relative to low data of the first half of the 1990s. (In 1996–1997, share of Russia in Hungarian exports was about 5 percent.) While trade with other former CMEA countries also is not showing a rosy picture, in 2002 Hungary exported to the Czech Republic, Poland, Slovakia and Romania each more than to Russia. In imports, because of deliveries of energy, Russia has remained a partner of decisive importance, however its role is changing in so far as imports from CEE (former CMEA), in aggregate, surpass those from Russia.

Following the financial crisis of 1998, Hungarian exports to Russia in dollar terms decreased to one-third in two years before showing some moderate increase recently. Although direction of change in each year (and in the whole of the period between 1997–2002) conformed to that of the total Russian imports, the original fall

was heavier, the consolidation following 2000 – more sluggish than in Russian trade with most countries. While patterns of Russian imports have changed to the detriment of CEEs, Hungary has fallen backwards even within the group of CEEs. From a Hungarian point of view, the big problem with that is that the decline (especially after 2000) has coincided with a more general slow-down in exports and industrial growth.

Decline in trade relations following 1998 is not only due to the problems of Russian economy. Hungarian policies (and policies of other CEEs) also bear a part of responsibility. However, longer-term trade trends between CEEs and Russia depend basically on the situation of Russian economy and the size of Russian import market. Following the grave, almost 50 percent decline of GDP between 1991–1998, the economy is on a dynamic stage now, even if the production level of 1989 is a way off. Dynamism is nourished by political stability, the depreciation of the rouble after 1998 (making many important segments of the domestic production competitive with the imports) and the high international oil prices. However, structurally, the economy is weak. As a singular case in the world outside the OPEC, number one mover of economic development is high oil prices, although Russia can not influence their level. Russian (formerly Soviet) intentions to develop internationally competitive manufacturing and abolish quasi-monoculture of fuel exports have been known for about three decades, however no changes have followed. Therefore, Russian dependence on the international oil and gas markets is very high: 55 percent of its exports consist of fuels.

Moreover, not only structural weaknesses and eventual instability make future development of Russian economy somewhat uncertain, but the country's potential to import, although widening, is relatively limited for the time being. According to UN data, in 2001, Russian imports from the world (about USD 42 billion) were less than Polish ones (50 billion) and little more than Hungary's imports (34 billion). Correspondingly, Russia's share in world imports was 0,72 percent as compared to Poland's 0.87 and Hungary's 0.58 – or to the country's own 1.72 percent share in world exports. No significant change occurred in 2002. Russian imports reached USD 46.2 billion (0,76 percent of world imports) as compared to Poland's 55.1 billion (0.91 percent) and Hungary's 37.8 billion (0.62 percent).

Which means that as far as its import potentials are concerned, Russia today belongs to the same class of countries as Poland, and some other CEEs. Of course, the situation may change in a short period of time. Some of the questions pertaining are: will the present rate of growth of Russian economy persist, economic uncertainties inside the country subside, terms-of-trade steadily improve and trade growth accelerate. Even in such case, Hungarian exports (as well as exports of other CEEs) to Russian markets may remain limited for a longer period of time as development needs of the Russian economy will mostly be covered by deliveries from the most advanced countries, while China will remain an inexhaustible as well as the cheapest source of imports of mass consumption goods. Eventual advancement of multinationals in Russian economy may lead to growing role of foreign investors in the selection of trade channels and trading partners.

All that leads us to conclude that no basic changes as a consequence of full membership should be expected, as far as trade orientation of CEEs (Hungary included), and the prevailing role of the Union (respectively Germany) in external relations is concerned. Of course, there are a lot of unanswered (unanswerable) questions related not so much to the effects of *de jure* membership, than to economic development of EU25 and the future of European integration.

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THE CONSEQUENCES OF EU ENLARGEMENT ON TRADE RELATIONS BETWEEN BELARUS AND THE VISEGRÁD COUNTRIES

Stanislav Vassilevsky²⁴

The enlargement process of the European Union (EU) is utterly challenging for the Republic of Belarus, the brand-new neighbour of the community, particularly from the point of view of trade policy.

The prevailing tendency of recent years is evident: there was a dynamic development of foreign trade between Belarus and the EU countries. In 2003 Belarusian exports to the EU increased compared to 2002 more than 1.5 times and amounted to 2.280 billion USD. The Belarusian exports to the Visegrád countries amounted to 0.611 billion USD (*Table 1*).

**Table 1. The trade of Belarus with the EU and the Visegrád countries in 2003
(ths. USD)**

Country	Exports	Imports	Turnover
Hungary	105475	37802	143277
Poland	434171	348489	782660
Slovakia	22334	25463	47797
Czech Republic	49286	74477	123763
Visegrád countries	611266	486231	1097497
EU countries	2279000	1777000	4056000
Total	2890266	2263231	5153497

In general, Belarusian exports to the countries that are present-day members of the EU reached more than 35% of total Belarusian exports in 2003 proving the European vector to be a priority direction of Belarusian foreign economic policy. It is important to notice, that the exports of Belarusian goods to the EU countries for the last three years has increased more than three times (from 1.2 billion USD in 1998 to 3.7 billion USD in 2003).

The major export goods of Belarus to the Visegrád countries are oil, oil products, gas, fertilizers, cement, steel and wood products, tractors, parts of tractors and automobiles, casein, while the major imports are electric lamps, tubes, pharmaceuticals, consumer products, plastics, pumps, varnishes, slag, wool, fibreboard and fruits.

With the enlargement of the EU Europe is not bipolar any more. The geopolitical importance of the territory of Belarus, the main transport corridor between Russia and Europe, is growing rapidly. This unique importance of transit will have to provide substantial funds to modernize a considerable part of the country's industry.

Belarus expects that increasing structural support to the Visegrád countries within the EU (PHARE, SAPARD, ISPA, etc.) and direct payments from the common budget will consolidate capital supply in the new member countries, which, in turn, will encourage them to invest in neighbouring non-member states, including the

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Republic of Belarus. The total positive balance of support for Poland in the forthcoming three years will account to 6998, for Hungary 1374, for the Czech Republic 778 and for Slovakia 831 million euros.

At the same time, besides the positive effects of EU enlargement, there are some factors that can damage the interests of trade and economic cooperation between Belarus and the Visegrád countries. On acceding to the Union the European Commission requires candidate countries to denounce intergovernmental agreements on trade and economic cooperation with the Republic of Belarus, which provide the most-favoured-nation treatment in mutual trade. However, this trade regime is used *de facto* in commercial and economic relations between Belarus and the EU.

The shift to the EU's common customs-tariff and preference system by the new member states can either bring tangible benefits or create extra tariff walls. For example, the conditions for the access of Belarusian goods to Hungary, Poland, the Czech Republic and Slovakia are improving in general, as the rates of customs duties are higher in these countries than in the EU-15. On the other hand, the tariff conditions to enter the Latvian, Lithuanian and Estonian markets will become worse. (Table 2)

Table 2. Consequences of tariff changes in the Visegrád countries to the exports of Belarus (calculated on the basis of overall trade results, 2003)

Country	Exports of Belarus in ths. USD used for calculations	% of calculated export out of total exports	Average weighted tariff in the country, %	Import duties in the country	Average weighted tariff in the EU, %	Import duties in the EU, %	Potential benefit of enlargement for Belarus
Hungary	101630,4	96,4	1,0	1057,7	0,6	611,0	446,6
Poland	364073,4	83,9	5,2	18966,6	0,9	3143,1	15823,5
Slovakia	18548,7	83,1	5,2	956,3	0,5	88,5	867,8
Czech Republic	43998,4	89,3	4,6	2044,9	2,5	1109,3	935,6
Total	528250			23025,5		4951,9	18073,5

It is obvious, that the enlargement of the EU will bring about problems for the exports of certain groups of products from Byelorussia to the Visegrád countries because the application of non-tariff trade measures of the EU will be automatically extended to the new EU member states.

The extension of these restrictive trade measures concerns first of all the automatic application of the antidumping duties for potash, nitric fertilizers and chemical fibres as well as the application of import quotas for textile products. As a consequence, the total negative effect of the extension of antidumping measures only on the EU–Belarus bilateral trade could account for 110 million USD per year, including up to 65 million USD of Belarusian exports to the Visegrád countries (mainly potash to Poland, Slovakia and the Czech Republic as well as the small amounts of polyester staples to Hungary and Poland).

Fortunately, the voluntary quantitative export obligations of Belarus, Russia and Ukraine in regard of the supply of potash fertilizers to the new EU members were accepted by the European Commission in May 2004. They will last until May 2005 and partly soothe the stated issue in the short run.

The full list of non-tariff measures of the EU regarding the exports of Belarus is listed in Table 3.

Table 3. Non-tariff measures of the EU regarding the exports of Belarus (February 1, 2004)

Product	Measure
Textile products	Quotas, for 34 out of 146 categories
Carbamide	Anti-dumping duty, 7%+7 EURO/ton
Potash	Anti-dumping duty, 19–48 EURO/ton
Urea-ammoniac mixture	Anti-dumping duty, 6,5%+17,86 EURO/ton
Polyester staple	Anti-dumping duty, 15,8–21%

Besides, the Belarusian exporters will confront with the technical barriers for their export production in terms of the accordance to the standards and norms of the EU. The most important are the EU technical security and ecological requirements, which touch upon food, growing wild products and industrial products (tractors, automobiles, TV sets) originated in Belarus.

Preliminary steps and measures to be taken to mitigate the possible negative effects of the enlargement of the EU for the mutual trade of the Republic of Belarus and the Visegrád countries are the following:

1. To reach new bilateral trade and investment agreements between the Republic of Belarus and the Visegrád countries in order to avoid the legal vacuum in mutual economic relations.
2. To elaborate and to realize the program for ISO 9000 and 14000 certification of products and quality systems in Belarus at national level.
3. To set up the transitional period for the application of the antidumping measures of the EU in the Visegrád countries after the enlargement.
4. To increase the quotas on the imports of Belarusian textile products to the EU, which are most sensible to the process of the EU enlargement.
5. To formulate and realize jointly the concept of the neighbourhood of the EU.

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THE SUNNY AND SHADY SIDES OF RUSSIAN ECONOMIC

Recovery Ruslan Grinberg²⁵

ADVANTAGES

There has been a visible growth in the economy of Russia for the last few years, proven by the increase in all macroeconomic indicators: GDP 28.5%, industrial production 30.5%, investment 50%, real income of population 56.5%, agricultural production 18.5% for the period 2000–2003. Moreover, the annual rate of inflation has decreased from 36% to 12% (a reduction to a third its previous level), and gold and foreign reserves have increased six times up to 75 billion USD.

The year 2003 was especially positive and that was quite unexpected for most of the experts. The deceleration in economic growth was expected but there was an acceleration of 6.7%.

There was another positive surprise – the significant growth in investment activity. Investments in fixed capital increased during the year 2002 by 2.6% and in the year 2003 by 12.5%. The expert community in Russia at the beginning of this century was seized with the idea of “a fatal phenomenon” for the year 2003. The idea originated in the coincidence of foreign debt repayments at their peak and the collapse of infrastructure due to a high degree of deterioration. The dreary prophecies turned out to be wrong this time. The country was not only able to pay back a major part of its foreign debt (almost 17 billion USD) but it was also able to reduce the ratio of foreign debt to GDP (from 36% to 27%). There were some man-caused disasters but they were not as numerous as expected.

Other successes achieved in 2003 include:

- * The record growth in commodity exports and imports with unprecedentedly high active trade balance at the level of 60 billion USD.
- * An increase in the inflow of FDI (6 billion USD).
- * The beginning of the process of “dedollarization” in domestic money circulation; according to various estimates Russians converted about 6 billion USD into rubles by opening ruble accounts with banks (10% to 20% of dollar savings hidden “into stockings” and “under mattresses”).
- * Russia was granted the investment rating (Moody’s).
- * The enactment of the long-expected law about private bank deposits insurance (100 K. RUR.).
- * The rapid dynamics on the stock market; the total capitalization of Russian companies has almost doubled in a year and amounts to 200 billion USD.
- * The rapid growth in crediting for durable consumer goods.
- * It was the first time from the beginning of market reforms when the majority of population had better subjective perception of its own welfare position; almost half of the recently interrogated respondents of an independent sociological survey – 48% – have regarded themselves as belonging to the middle class.

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DISADVANTAGES

The most conspicuous of them is that the 75% growth of GDP was the consequence of an increase in fuel and raw materials exports when world prices were kept at a stable and high level. The “Dutch disease” becomes apparent in modern Russia in full measure. The country has experienced “growth without development”. In other words, the economic orientation for fuel and raw materials continue to become apparent without any serious progress in industrial diversification and modernization. Its structure remains primitive.

Other neglects and failures in the year 2003:

- * The regress in the dynamics of small- and medium-scale business; small- and medium-scale businesses produce only 10% of GDP, and there is almost no state support to this type of businesses.
- * There is no success achieved in consolidating the post-Soviet area due to the fact that centrifugal tendencies are stronger than centripetal forces.
- * Despite the growth in GDP there is an increase in unemployment due to the discontinuance in import substitution as a result of growth of ruble real exchange rate (by 13% in 2003).
- * The growth in personal income was not similar: the lion’s share (2/3) accounted for 20% of the wealthiest Russians, who had already benefited from the market reforms; as a result social polarization has also increased.
- * The selective approach to the privatization deals of the 1990s also does not improve the investment climate in the country.
- * The regress in the development of a civil society, “the atomization of a society”.
- * The oligarchic capitalism gives place to a bureaucratic one.

PROSPECTS

To all appearances there will be nothing new on the qualitative side in this year, although economic policy in the country for the second presidential term should desirably be adjusted and based on state activity and private initiative complementing each other. Now there are only a few differences from the policy realized at the beginning of reforms. It is possible to call it the policy of “modernization based on ideological liberalism” or the concept of “minimum state”. Virtually, there is a substitution of the aim with the tool. The improvement in the welfare of Russians, or the whole nation in other words, can be the only aim. We still have as the aim the so-called triad from the Washington consensus: stabilization, liberalization and privatization. And the government announces its aspirations to carry out the same policy in the future by following these tracks. It has as a result the bizarre idea of creating a stabilizing fund, the duplicate of CBR gold and foreign reserves, but for this time they will be at the disposal of the Ministry of Finance. It is an inert policy of taking away the excess profits from oil industrialists, an almost maniacal conviction in fact, that only the reduction of the tax burden will guarantee a stable economic growth and, at last, the rejection of taking responsibility in the social sphere as a budget policy.

The tendency of “primitivization” in the Russian economy under the circumstances is becoming irreversible even if it is possible to achieve a breakthrough in following the law and stabilizing the conditions for business life. While maintaining economic dynamics with the powerful raw materials industries due to their export potentials, a significant share of manufacturing industry will lose all prospects for development. In general, this is the way how a country is slipping beyond the world of intellectual and technological backwardness.

Still, there is a real alternative to this variant based on the principles of rational-pragmatic liberalism. Thereupon it will be necessary to activate the available potential in research and production with the aim to achieve the international level of competitiveness in selected industries and sectors of the Russian economy. Following this way means the development and the realization of an appropriate structural and innovative policy. It is the only strategy that offers the chance for a conscious structuring of the post-Soviet era or at least the most of it. And it is the only means to launch own competitive transnational corporations able to participate in globalization as subjects instead of being the objects of the process.

Thus it is extremely important not to be tempted to run into extreme measures of state expansionism, threatening to replace the boundless liberalism of the 1990s. Russian society should realize that the lack of state

regulation is as harmful for the market economy as its overabundance. Otherwise, it will constantly jump from the arbitrariness of authority to the authority of arbitrariness and back losing all chances to a progressive and civilized modernization of the country.

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