

**ECONOMIC COMMISSION FOR EUROPE**

**GENEVA**

**THE ECONOMIC COMMISSION  
FOR EUROPE  
IN THE AGE OF CHANGE**



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## FOREWORD

Professor Sidjanski agreed to write the history of the United Nations Economic Commission for Europe on the occasion of its fiftieth anniversary. "The United Nations Economic Commission for Europe in the Age of Change" is the result of this promise but also the fruit of his European experience, his reflections and his work. The secretariat answered the numerous questions of this author eager for information without trying to influence or guide him.

I am therefore at liberty to praise the merits of this book. It has the virtue of providing a wealth of information and observations on the history of an institution that is both European and part of the worldwide organization *par excellence* that is the United Nations; and the virtue, above all, of drawing a link between the development of the UN/ECE and the large-scale changes in Europe during its lifetime. These changes are manifold and overlap in time. They include the upheaval in the balance of power between the two blocs and the emergence of new groups of countries; economic integration movements, which assert themselves and grow, like the European Communities, or which collapse, like Comecon; change in the institutional landscape, whose architecture recalls the extravagance of Antonio Gaudí y Cornet rather than the sobriety of Claude Nicolas Ledoux.

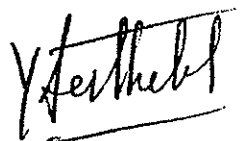
It is the integration of the continent that serves as the guiding principle of this book: integration within the two cold war blocs; integration of the multipolar Europe of today; the integration of this Europe in the world. It is also this same word "integration" that best sums up the action of the UN/ECE: unfailingly, the UN/ECE has built bridges between the different parts of Europe, as much through its studies, which provide a better understanding of each other's economic policies and difficulties, as through its conventions, norms and standards, all instruments of integration and harmonization.

The importance of the task of the UN/ECE has not diminished since the cold war. Despite the increase in the number of institutions active throughout a large part of Eastern Europe and Central Asia, the UN/ECE remains the only economic forum where all the countries of the region meet on an equal footing. It shares that privilege with the OSCE for security and, shortly, with the Council of Europe for democracy and minorities. This privilege gives it

new responsibilities, at a time when the expansion of NATO and the European Union raises, here and there, fears of exclusion or, at least, of not being able to gain the same advantage from the transition to a market economy.

By bringing together North America and all the countries of greater Europe, the UN/ECE already offers an opening onto the world for Europe, and perhaps this book somewhat overlooks the important and necessary role of the United States within the now multipolar Commission. ECE's position within the United Nations further broadens this opening onto the world. The United Nations leads the Commission to reflect on the European dimension of global problems. The attention paid to the role of women and demographic trends stems from the fillip given by the World Conferences in Beijing and Cairo and it is to be regretted that the Social Summit in Copenhagen did not give rise, within the Commission, to a reflection on exclusion and poverty in Europe. If this book is discreet on these issues, it nevertheless does underline the impact of ECE conventions, norms and standards on the rest of the world and the extreme flexibility that being part of the United Nations provides for the dissemination of these instruments.

The book ends with a vital message, which I fully share, a message to the member States that could be summed up as follows: "the UN/ECE is a remarkable instrument, efficient, flexible, inexpensive. Use it".



**Yves BERTHELOT**

Executive Secretary  
United Nations Economic Commission for Europe

## PREFACE

*It is a signal honour to have been invited to write this account of the activities of the Economic Commission for Europe to mark the organization's Fiftieth Anniversary. My task, as stimulating as it has proved arduous, has made me more keenly aware of both the abundance of the ECE's achievements and its capacity to adapt to the new European environment thanks to its knowledge and experience of the two Europes, separated for so long by the Iron Curtain, which it is now helping to bring back together.*

*In seeking to define the ECE's original contribution to a changing world, I have been prompted to describe, in broad outline, the new landscape of Europe which, though full of promise, is not without its risks. While the transition to a market economy and democracy gives cause for hope, the contrast between integration in the West and fragmentation in the East cannot but give rise to concern about security and development on the European continent. This is the context of the mission, as difficult as it is unusual, to which the ECE has harnessed all its forces. Its efforts are aimed both at integrating the countries of Central and Eastern Europe into the European and world economy and, by laying the foundations for greater interdependence, at protecting the region from the threat of fragmentation. In this way it is making its unique contribution to security, development and democracy. This is the conviction to which I have been led in the course of my analysis whose findings I have tried to summarize as faithfully as possible.*

*I could never have successfully completed this task without the effective assistance of several ambassadors of member States or without the constant support of the Executive Secretary and the heads of divisions and their staff. However, all this assistance in no way releases me from my personal responsibility. That is to say that I assume full responsibility not only for all interpretations and opinions but also for any imperfections and omissions to be found in this account of the ECE and its progress through the new political and economic landscape of the Europe of today.*

Dusan Sidjanski

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## LIST OF ABBREVIATIONS

<b>BIS</b>	Bank for International Settlements
<b>CEFACT</b>	Centre for Facilitation of Procedures and Practices for Administration, Commerce and Transport
<b>CEFTA</b>	Central European Free Trade Area
<b>CFSP</b>	Common Foreign and Security Policy
<b>CIS</b>	Commonwealth of Independent States
<b>COMECON</b>	Council for Mutual Economic Assistance
<b>CSCE</b>	Conference on Security and Cooperation in Europe
<b>EAGGF</b>	European Agricultural Guidance and Guarantee Fund
<b>EBRD</b>	European Bank for Reconstruction and Development
<b>EC</b>	European Community
<b>ECLAC</b>	Economic Commission for Latin America and the Caribbean
<b>ECMT</b>	European Conference of Ministers of Transport
<b>ECOSOC</b>	United Nations Economic and Social Council
<b>ECSC</b>	European Coal and Steel Community
<b>EDC</b>	European Defence Community
<b>EDI</b>	Electronic Data Interchange
<b>EEA</b>	European Economic Area
<b>EMEP</b>	Cooperative Programme for Monitoring and Evaluation of the Long-range Transmission of Air Pollutants in Europe
<b>EMI</b>	European Monetary Institute
<b>EMU</b>	Economic and Monetary Union
<b>ERDF</b>	European Regional Development Fund
<b>EU</b>	European Union
<b>FAO</b>	Food and Agriculture Organization of the United Nations
<b>GATT</b>	General Agreement on Tariffs and Trade
<b>GDP</b>	Gross domestic product
<b>GDR</b>	German Democratic Republic
<b>GNP</b>	Gross national product
<b>IGC</b>	Inter-Governmental Conference
<b>IMF</b>	International Monetary Fund
<b>ISO</b>	International Organization for Standardization
<b>ITC</b>	International Trade Centre
<b>LON</b>	League of Nations
<b>NATO</b>	North Atlantic Treaty Organization
<b>OEEC</b>	Organization for European Economic Cooperation
<b>OIC</b>	Organization of the Islamic Conference
<b>OSCE</b>	Organization for Security and Cooperation in Europe

<b>SECI</b>	Southeast European Cooperative Initiative
<b>SME</b>	Small and medium-sized enterprises
<b>TIR</b>	International Carriage of Goods by Road
<b>UNDP</b>	United Nations Development Programme
<b>WEU</b>	Western European Union
<b>WTO</b>	World Trade Organization

## The Economic Commission for Europe in the age of change

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### Presentation

The Economic Commission for Europe has just celebrated its fiftieth anniversary. It has taken this opportunity to take stock of its achievements and reflect on its present position and future prospects. Since it was established in 1947, it has had to adapt to radical changes in conditions, in both Europe and the world at large. Its original mandate was to assist with the reconstruction of Europe, its economic development and the strengthening of economic relations between the European countries themselves and between the latter and the other members of the United Nations. Barely had the Commission begun to function, when it was confronted with the breakdown in friendly relations between the Western allies and the Soviet Union. The alliance between two incompatible regimes, forced upon them by the struggle against a common enemy, turned quickly into a "cold war" which brought increasingly rapid changes and drove deep wedges through the world and the international institutions. Thereafter the Commission was the only official bridge between two Europes separated by an "iron curtain", to use the symbolic term coined by Winston Churchill. It found itself at grips with the grave problems of a Europe devastated by war which, rather than riding a wave of solidarity, was being torn apart by the rivalry and indeed the enmity of two opposing political and economic systems and the ideological confrontation between East and West.

In fact, the rivalry was so intense that there was little room left for a joint programme of European reconstruction and development. Despite the fact that the promoters of the Marshall Plan had invited the countries of Eastern Europe to join those of Western Europe in taking advantage of the American aid, the States that had been newly converted or subjected to socialism were obliged, after some hesitation, to reject this offer under pressure from Moscow. In these circumstances, the Commission was unable to carry out its ambitious mandate in full. However, faithful to the mission of the United Nations, it was able to transcend the differences in ideology by patiently seeking to forge links wherever the needs of cooperation coincided with the common interest. Hence its recourse to a technical and pragmatic gradualist approach

designed to meet the requirements of its member States one step at a time. Thus, throughout its long history, the Economic Commission for Europe has sought to meet the needs of its member countries by adapting itself, first, to the difficult conditions of the cold war and, later, to the upheavals created by the end of confrontation.

A contemporary reviewer of the Commission's concrete achievements would tend not to appreciate their true value if he failed to take the history of the institution into account. At the beginning, because of the ideological conflict, the countries of Eastern Europe were reluctant to take part in the activities of the principal committees, thus restricting their scope. A few years later, the countries of the Eastern bloc agreed, despite some lingering opposition, to participate actively in the work of the committees, thereby making it possible to step up economic cooperation and extend its field of action to the region as a whole.

From the end of its first decade and for a period of more than forty years, the Economic Commission for Europe was the only forum in which the two diametrically opposed systems could engage in dialogue and discuss economic cooperation. In this capacity, it rendered an immense service by adopting a discreet and progressive approach inspired by the functionalism of David Mitrany and Georges Scelle, according to which international demand creates international function which, in its turn, creates the international institutions responsible for meeting the needs. By furnishing proof of its ability to satisfy its members' requirements, the Commission was able to develop its activities in accordance with its means. It demonstrated its usefulness while succeeding in adapting its activities to the evolving economic and political situation.

In 1989, the complacency of governments and international organizations, the socio-economic actors and the thinking class was rocked by a far-reaching, structural and revolutionary change. The security underpinned by the balance of forces and peaceful coexistence had helped to impose a set of rules to which both camps had agreed or were resigned. As the powerful bloc which had been built around the Soviet Union fell apart, the Berlin wall, the symbol of separation, gave way to open frontiers and the reunification of Germany. The initial enthusiasm aroused by the recovery of freedom was tempered by the enormity of the problems posed by this transformation. Once the shock had faded, governments, followed by the European and international organizations, began reviewing their ideas and strategies while seeking to reposition themselves within the new geopolitical environment. As distinct from most other Western organizations, which had to discover Eastern Europe and revise their objectives, the ECE, with its

wealth of experience of cooperation between East and West, had merely to adjust its priorities and the instruments which had proved their worth during the cold war.

At the end of the two world wars, the main concern had been to maintain peace. The principal aim of the LON and the UN was to preserve peace by outlawing war. The principle that required the observance of treaties ("pacta sunt servanda") was supplemented by a new general obligation, namely the observance of peace ("pax est servanda"). In May 1930, in the League of Nations, Aristide Briand, the then French Foreign Minister, proposed "the organization of a European federal union regime". The Briand Plan, though it came to nothing, had the merit of stressing the central role of France and Germany (Briand-Stresemann) as well as introducing a new dimension into European security, namely socio-economic interdependence—the movement of goods, capital and persons, assistance for Europe's less developed regions—which, by forging bonds of solidarity in numerous sectors, would serve as a basis for peace.<sup>1</sup> Hence the need not to confine the international organizations within governmental enclaves but to open them up to other social forces. The classical concept of relations between States is being extended to include more complex relations in which various socio-economic and political forces and even individual citizens take part. Formerly filtered through State channels, these relations are tending to become more direct and cross-border. During the last few decades, this trend has found expression, in particular, in an intensification of regional integration, as evidenced by the experience of the European Community and the Economic Commission for Europe.

The movement relies not only on improved transport and communications facilities and on the growth of trade but also on the dense network of international and regional organizations, multinational enterprises and professional, social and scientific associations. The realities of interdependence and integration have led the United Nations, particularly the regional economic commissions, and other regional bodies to change their *modus operandi* and open up their field of action. This trend is being reinforced by the irruption of information technology into the everyday life not only of the organizations but also of private individuals. The resulting proliferation of networks of horizontal relations is helping to accelerate the creation of integration areas at the regional, continental and world levels. Thus, each country is being led to

<sup>1</sup> The French proposal made a deep impression on the integration movements, due as much to the creativity of its language as to its approach. Supranational body, common market, *de facto* solidarity, community of European peoples, continuous creation are all terms which today form part of the European vocabulary.



seek integration into a larger whole, with greater participation of the socio-economic actors whose various interactions, in their turn, are promoting a "spillover" effect within the context of regional cooperation and integration.

In a world characterized by the proliferation of international actors and means of communication, Europe is experiencing a dual revolution: on the one hand, a slow revolution being driven, despite stops and starts, by the engine of European integration and, on the other, a revolutionary transition of the former communist regimes to democracy and the market economy. "Revolutions" in Europe and changes in the international institutions, these are the two forces to which, on its fiftieth anniversary, the Economic Commission for Europe finds itself exposed. What its place and its mission will be are the two questions which form the basis of the following reflections.

## PART ONE

### THE ECE AND A RADICALLY CHANGING EUROPE

It is generally acknowledged that the year 1989 marked the end of the division of Europe and the beginning of the reconstruction of European unity on the basis of the principles of democracy and the free market. The transformations and reforms undertaken in the countries of Eastern Europe constitute a radical change being brought about by means of a transition process proceeding at several different speeds.

The period prior to 1989 was characterized not only by the rivalry between two systems but also by the establishment of two economic integration institutions that incorporated diametrically opposed concepts and practices: on the one hand, the European Community, an integration model based on free association with common institutions and a market economy and, on the other, integration imposed by a dominant power, based on a common ideology and the socialist division of labour. In this confrontational environment, the ECE was to seek to deploy all the resources of technical diplomacy, thus preparing the ground for *rapprochement*, transition and differentiated integration on a continental scale. This contrast between division and integration forms a thread that runs through the chapters of Part One.

## I. EUROPE DIVIDED BETWEEN EAST AND WEST

In the aftermath of the Second World War, peace depended upon agreement among the five permanent members of the Security Council. When this agreement broke down, the world and Europe found themselves split between two opposing systems, one democratic and based on the market economy, the other totalitarian, with an all-powerful single party in control of a planned economy.

This split between East and West did not spare the United Nations or the economic and social cooperation of which Europe was the principal beneficiary. It was in this context of alternating tension and *détente* that the Economic Commission for Europe accomplished a considerable task, little by little and often behind the scenes. Its technical and sectoral approach was successful in meeting, discretely but effectively, the exchange and cooperation needs of member countries belonging to two systems which, though rivals, used similar technical means. In fact, without endorsing the optimistic thesis of Friedrich and Brzezinski who in the sixties proclaimed the global convergence of America and the Soviet Union, it is true to say that their industrialization and economic development efforts did not fail to exploit areas of convergence. In this context, despite the creation of two opposite poles of integration, the ECE continued its work of *rapprochement* and cooperation in technical and practical fields in which the methods and language of the experts provided a basis for reaching an understanding.<sup>2</sup>

Thus, despite the mutual distrust which prevented the establishment of bonds of interdependence and tended to reduce cooperation to the lowest common denominator, the Economic Commission for Europe succeeded in accomplishing a series of specific tasks of benefit to all its members in a spirit not of neutrality but of non-alignment. And that thanks to the course set for it from the very beginning by Gunnar Myrdal, its first Executive Secretary. In carrying out its work, the Commission relied, firstly, on a secretariat staffed by highly qualified enterprising men and women, infused with the team spirit and a spirit of independence of both governments and the private

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<sup>2</sup> In very different circumstances and a very different context, the Economic Commission for Latin America (ECLA) adopted a similar approach which, by stressing the role of the experts (*los técnicos*), tended to minimize the opposition between regimes and political leaders.

sector. Secondly, most of the work was done within the subsidiary bodies, committees and working parties which, even at that time, were the main pillars of the Economic Commission for Europe. These bodies, which enjoyed a large measure of autonomy, were required to deal with concrete problems that demanded a high degree of technical competence in specialized fields. From the outset, the work of the experts was carried on away from the gaze of a curious press, following practices which ensured that governments, in collaboration with the secretariat, contributed their share to the preparation of the working documents for the specialized meetings.

This up-stream participation of government experts in the preparatory work quickly became a tradition which, at the same time as ensuring the quality of the working documents, had the advantage of making it easier for the committees to reach a consensus in adopting recommendations, a consensus which was all the more necessary in that at this technical level the aim was to avoid confrontation and address recommendations directly to the governments. This technique, based on the common language of the experts and specialists, was widely exploited. The activities were carried on between the annual meetings conducted at ambassadorial level which traditionally gave rise to a number of sometimes virulent exchanges reflecting the antagonism between the two systems. Under changing conditions, ranging from cold war to peaceful coexistence, itself not without its tensions, the Economic Commission for Europe displayed a high degree of adaptability and much flexibility. This approach, which is not dissimilar to the functionalist method, enabled the ECE to record a number of significant achievements.

### 1. Integration in the West: the emergence of a new economic pole, the European Community

The European Community and the Economic Commission for Europe share an approach based on economic and technical cooperation. To a considerable extent, this approach, which has something in common with the functionalist theory, shields them from political rivalries and tensions. The European Community in its relatively harmonious environment, like the ECE in an environment of alternating tension and *détente*, has sought to develop sectoral integration and cooperation among member countries. Any evaluation of the results achieved must take into account the very different conditions in which the two institutions have operated, as well as the extent of the resources placed at their disposal. The advent of the European Community, a new economic pole in Western Europe, and the attraction it has exerted and continues to exert are determining the current changes in the global European

system and, to a large extent, the present and future role of the Economic Commission for Europe.

### *Origins of the European Community*<sup>3</sup>

The European Community had its source in the confluence of several movements that favoured European union. Following the example of the Resistance, various European militant movements which met at the Congress of The Hague in 1948 formed an alliance within the European Movement and drew up a "European manifesto" setting out the principles and broad outlines of a United Europe. This global political approach was paralleled by the development of the functionalist model represented by the OEEC and the Schuman Plan. The functionalist method, as practised at the beginning of the European Communities by Jean Monnet, proceeds sector by sector to arrive eventually, under the influence of intersectoral interaction, knock-on and spread effects, at the construction of a global, that is to say political community. Through a conjunction of circumstances or a convergence of ideas, the Monnet method came to coincide with the mechanism of integration as formulated in the functionalist theory supplemented by the *spillover* concept of Ernst B. Haas, according to which integration initiated in one sector necessitates integration in related sectors, thereby producing a cumulative effect. The movement spreads by degrees, from sector to sector, at the same time triggering a reaction which, in its turn, produces further action. This mechanism provides an effective response to real needs. Even if it has not yet made it possible to achieve the ultimate goal, namely political union, it has contributed decisively to the initiation and subsequent amplification of the integration process. It has revealed the importance not only of the institutions but also of various actors, enterprises and interest groups.

In contrast to the specialized and technical organizations whose objectives are restricted to their own particular field, the European Community aims to establish a federal community or political union. Although the initial impetus was slowed by the failure of the European Defence Community in 1954, the primary intention to establish a political union is still a feature of European integration. It has found concrete expression in the institutions of the European Community—and later the European Union—which foreshadow a political system and which, at least in the area of economics, apply political decision procedures.

<sup>3</sup> D. Sidjanski, *L'avenir fédéraliste de l'Europe. La Communauté européenne, des origines au traité de Maastricht*. Paris, Presse universitaire de France, 1993, pp. 89-95.

### *Contribution of the ECE to the creation of the ECSC*

Since 1949, the Economic Commission for Europe has been contributing to the promotion of European integration. At the request of the French Government, it drew up a report on trends in European steel production.<sup>4</sup> The study concluded that the plans for investment in steel production were out of proportion to the demand and suggested that steel consumption be stimulated by increased investment in the building sector and the steel-using industries. Clearly, the experts feared overproduction as a result of uncoordinated investment by the European States. Whereas the socialist countries disregarded the recommendations of the Economic Commission for Europe despite the fact that they were giving priority to iron and steel production, for his part, Jean Monnet put them to good use in organizing cooperation among countries of Western Europe. In fact, this study of the Commission's formed a basic element of the Schuman Plan drawn up by a team grouped around Jean Monnet and launched on 9 May 1950. In this way it contributed to the creation of the European Coal and Steel Community, a first step towards the establishment of the European Economic Community and, subsequently, the European Union.

This was the beginning of a "silent revolution" initiated by the six core countries. The subsequent process of economic and technical integration would transform the traditional enemies into the Franco-German partnership which, from the outset, was to be its principal advocate. Through its contribution to peace and union, the establishment of the European Community was the most striking development to take place in Europe during the immediate post-war period.

### *An economic community with political aspirations*

The political intent has been repeatedly reaffirmed all along the sometimes tortuous path of the European Community. The extension of its authority into new areas, the consolidation of its powers and the progressive democratization of its institutions are all evidence of this. Initially, the European Community was confined to the economic and technical spheres with the pre-eminently political matters such as foreign, security and defence policy, monetary policy and large swathes of social policy being left to the member States. However, the growing weight of its intervention in the form of common standards and policies has not only influenced the political life of its

<sup>4</sup> Steel Division, Economic Commission for Europe, *European Steel Trends in the Setting of the World Market*, Geneva, 1949, p. 4.

members but with increasing frequency carried it beyond the boundaries of economics. Despite pauses and setbacks, the spillover phenomenon has produced its effects. Thus, the establishment of a customs union and its counterpart, a common commercial policy, has made considerable inroads into foreign relations and affirmed the Community identity in the GATT and in relations with the developing world.

By completing the Single Market and extending the areas of common policy to the regions and the environment, the Single European Act (1986-87) further consolidated the integration process. Since it was first established, the European Economic Area has gradually been extended to include the four freedoms: movement of goods, persons, capital and services. In their turn, these new or broadened functions have provoked institutional improvements such as the extension of the qualified majority voting procedure and greater participation of the European Parliament in the exercise of the legislative function. These examples serve to illustrate the development of the European Community which, by the astute use of economic instruments, has succeeded in laying the foundations of a political community.

This interpretation of European integration is supported by a number of facts: new social structures for the socio-economic organizations, new lobbies and public interest groups, and new managerial and corporate networks are being formed within the Community; the successive enlargements with the accession of the United Kingdom, Denmark and Ireland in 1973, Greece in 1981, followed by Spain and Portugal in 1986, then Austria, Finland and Sweden in 1995, all bear witness to the powerful attraction exerted by this dynamic pole. The progress made with the Single European Act of 1987, then the Treaty on European Union (Maastricht) in 1992 and the Treaty of Amsterdam in 1997 also show how, step by step, the Community is evolving toward an original form of political union without making a frontal assault on the political obstacles. By these means, the bonds of interdependence and solidarity on which security in Europe depends are being steadily strengthened.

Certainly, the European Union and the Economic Commission for Europe have something in common. In the case of the EU, the concentration of activity in the economic and technical spheres is attributable to the setbacks to political integration and, in the case of the ECE, to the desire to render services of benefit to all its members in a context free of political or ideological confrontation. However, the resemblance between the Community and the ECE stops there. In fact, the former is confined to part of Western Europe, whereas the latter covers a geographical area that extends from Vancouver to Vladivostok. This implies differences in level, depth and intensity

of action, as well as in the procedures for the adoption of normative instruments and decisions and their scope. At the same time, the inclusion of a Community in the process of integration in a broader system of regional co-operation affords opportunities for a wide range of cooperation, exchanges of experience and joint ventures. These opportunities, which were exploited in several areas by the ECE in the course of the cold war, are now there to be used for the purpose of taking full advantage of the *rapprochement* between East and West and the conditions thus created for more effective, more open and more far-reaching collaboration. This, it seems, should be the future mission, beyond the transition period, of the Economic Commission for Europe.

## 2. Integration in the East: the COMECON experiment

### *An attempt at the socialist division of labour<sup>5</sup>*

Founded in 1949, the Council for Mutual Economic Assistance, known as COMECON, was later extended to include such non-European countries as Mongolia (1962), Cuba (1972) and Vietnam (1978). As distinct from the European Community, COMECON was intended to integrate centrally planned economies. Created under pressure from the Soviet Union, COMECON was obliged to accept the Stalinist model of extensive growth which made the countries of Eastern Europe dependent upon Soviet supplies of raw materials and upon the Soviet market for the sale of their products. This structure based on domination, like the "socialist division of labour", failed to produce the expected results. Moreover, several of the COMECON member countries, including the GDR and Czechoslovakia, sought outlets for their manufactured goods on the world market. These were early warning signs of the need for the countries of Eastern Europe to become integrated into the world economy.

A comparison of the main phases of development of the European Community and COMECON, as analysed by the ECE, reveals the differences between both their methods and the results obtained. In COMECON, the initial idea was to assign each country a production sector for which it was best endowed with natural or human resources or best equipped. To each according to his ability. The application of this principle was intended to result in the creation of an area of integration and interdependence based on sectoral programmes. This concept of planned integration rapidly fell foul of the desire on the part of the member countries to equip themselves with heavy and met-

<sup>5</sup> Economic Commission for Europe, *Economic Integration in Europe and America*, Economic Studies No. 5, Chapter 2, Economic Integration and Disintegration in Eastern Europe, United Nations, New York and Geneva, 1995, pp. 111 *et seq.*

allurgical industries, by which they were merely following the basic principles of socialist economics. National development policies ultimately won out over the ambition to achieve a socialist division of labour.

Whereas the 1957 Treaty of Rome had restructured the institutions established by the ECSC and defined the objectives, the procedures and the timetable for the installation of a customs union and common policies, COMECON, though it acquired a Charter in 1959, did not provide itself with permanent institutions until 1962. By that time, the Six had already adopted the main elements of the common agricultural policy and the rules of competition.

Towards the end of the sixties, the Common Market entered its final phase with the completion of the customs union, the common commercial policy and the common agricultural policy. At the same time, other common policies, not envisaged by the Treaty, were being introduced, notably the regional and research and technological development policies. While this integration process was advancing on a broad front, the COMECON countries, for their part, were approving their "integration programme", followed by the launch of "multilateral planning" in 1975 and their long-term programme objectives in 1979. This integration process, based on medium- and long-term joint planning, was intended to lead to a unified socialist market by 1985.

Paradoxically, in contrast to the successes recorded by the European Community, COMECON's efforts at integration made under the domination of the Soviet Union produced only modest and ambiguous results. In fact, the integration of a large economic area based on the creation of a common market and governed by the rules of competition proved to possess a much more powerful dynamic potential than the attempts at integration among centrally planned systems subject to the constraints of a socialist division of labour. Moreover, the economies of the COMECON countries were distorted by unbalanced trade flows attributable to the political and economic hegemony of the Soviet Union. By comparison, the better balanced distribution of powers and economic strength among the member countries of the European Community favoured a process of cooperation in which each country had more to gain than to lose.

In 1989, this system, held together by socialist political power, began disintegrating with the communist bloc itself. COMECON disappeared on the heels of the Warsaw Pact. Since then, the countries of Central and Eastern Europe have reoriented themselves towards the European Community, making accession to the Community and the European Union one of their priorities. As for the countries of the former Soviet Union, they are endeavouring

to integrate themselves into the world economy and, with the exception of the Baltic countries which aspire to full membership, to establish partnerships with the European Union. Since the fall of the Berlin wall, European geopolitics and geo-economics have thus undergone a profound upheaval.

Throughout the period prior to 1989, during the phases of both cold war and *détente*, the ECE helped to prevent the total breakdown of economic relations between the two Europes by making economic surveys of the two blocs, promoting and facilitating trade, and drawing up common rules and standards, as well as by offering technical and statistical support. It made comparative studies of the progress and problems of the free-market and planned economies and of the process of integration in both East and West. These comparisons discreetly revealed the true performance of the two systems. It seems likely that this work was not unrelated to the attempts at liberalization made by certain countries of Eastern Europe well before 1989.

## II. THE SHOCK OF TRANSITION

### 1. Break-up in the East

#### *Two opposing trends*

#### *Fragmentation versus integration*

Remarkably, the fragmentation process did not stop with the break-up of the socialist bloc but went on to destroy the integrity of even multinational States, notably ancient Russia and its successor, the Soviet State, as well as two others, Yugoslavia and Czechoslovakia, founded in the aftermath of the First World War. This process of disintegration contrasts with the trend towards the creation of large regional economic areas and, in particular, with the integration exemplified by the European Union. The strength of these two opposing movements—continuing integration in the West and disintegration in the East—and the fact that they have been proceeding simultaneously since 1989 have confronted the Economic Commission for Europe with a challenge and it is important to identify the principal factors involved.

The two trends, which can be found in various forms and to varying degrees in contemporary societies, are related to the two concepts defined by Emile Durkheim, namely, solidarity through interdependence and solidarity through resemblance. Solidarity through interdependence is based on trade between producers of diversified goods. In industrial societies, the division of labour by specialization has woven a dense network of interdependence among large, small and medium-sized enterprises, especially in the processing and services sectors. Under the influence of economies of scale and the information highway, the image of an interdependent world is becoming a reality, alongside the concepts of a world market and globalization. One of the consequences is a strong propensity to establish and develop regional economic areas extending beyond State boundaries, along the lines of the European Community, the European Economic Area and pan-European economic cooperation.

Solidarity through resemblance lies at the origin of nation-building. It is based on the feeling of belonging to a community, a human grouping characterized by a number of common characteristics such as a shared history or

destiny and a common language and culture. This tendency, which draws men together in national or local communities, derives from the desire to assert one's identity, one's originality and one's difference from others. Feelings of national belonging can also take the form of an extreme nationalism, as sometimes manifested when a nation is first created or re-emerges or among independence movements in multinational States. These movements, often violent, may lead some minorities to challenge the nation State of which they form part. The Yugoslav conflict offers a dire example of the threat of extreme nationalism. This threat, which Europeans had been inclined to regard as a thing of the past, has re-appeared with unexpected violence. It is endangering solidarity through interdependence and the regional integration process.

At the same time, the shock produced by disintegration in the East is a warning of the power of solidarity through resemblance in contemporary societies. Thus, it must be acknowledged that the world continues to be torn between the thrust for globalization and regional integration fuelled by the new technological civilization and the fascination exerted by cultural, national and even local uniqueness. In the face of the tendency toward standardization and the imitation of a common model, the desire to set oneself apart through historical heritage and national or regional identity continues to be expressed, often with surprising vigour, especially when it constitutes a spontaneous response to standardization imposed by force.

Hence the main effort should be directed towards seeking a dynamic equilibrium between the positive effects of globalization and regionalization (which necessitate the generalization of economic and technical standards and instruments) and the requirements of differentiation based on the specific nature or situation of countries or sub-groups of countries. It is thus a question of profiting from the opportunities offered by the first of these movements while respecting the cultural and national diversities expressed by the second. Any disturbance of this equilibrium could give rise to upheavals which, like those in Eastern Europe, threaten the international order. Hence a choice must be made between strengthening the unions of States in process of formation and the broad institutions for promoting dialogue and integration, such as the Economic Commission for Europe and the OSCE, or witnessing the recrudescence of international or interethnic conflicts.

Thus, in the face of the dangers of destabilization, the answer lies in the development of the solidarity through interdependence from which both the European Union and, on a pan-European scale, the Economic Commission for Europe draw inspiration. Their goals and achievements are in keeping with the globalization and regionalization movements which, according to

W. W. Rostow, are being induced or accelerated by four main factors, namely, the new technological revolution, the competition from the newly industrialized countries, the threat to the environment and the end of East-West confrontation.<sup>6</sup> These developments, which Rostow regards as revolutionary, reflect the need, ever more clearly perceived, to organize at the regional level a response to the threat that weighs upon the environment, while simultaneously endeavouring to strengthen competitiveness around powerful regional poles.

Beyond the regional level, the same factors are contributing to globalization in such dynamic growth areas as financial markets, networks of multinationals, new information and communications technologies, and trade in industrial products, raw materials and services. Market integration in the electronics and other high-tech sectors is giving rise to transnational movements which, on several fronts, are tending to erode the power of the State. In fact, these global phenomena are weakening the grip of the State on the behaviour of other large operators who theoretically fall under its control. They are pushing back the decision-making frontiers to the regional or world level.

Whereas the four factors mentioned by Rostow tend to reinforce the theory of integration and the spillover effect, the radical changes which have taken place or are under way in Eastern Europe provide evidence of the fragility of multinational integration within a State or a sub-region and of the risk of a reversal of the movement which could ultimately lead to disintegration. This finding was made in the fifties by a team from Princeton headed by Karl W. Deutsch. On the basis of an analysis of some thirty historical cases, it concluded that the spillover process could have a disintegrating as well as an integrating effect. Spillover was not a one-way street, having a negative aspect in the form of spilldown, as illustrated by the fate of the Soviet Union and Yugoslavia.

From this dual standpoint of integration and disintegration, the world and its regions appear to be torn between the trend towards regionalization and the claims of national and local identity. How then can we control these contradictory movements and secure the advantages offered by scientific and technological progress while guaranteeing respect for cultural, national and local diversity? These are questions to which Europe and the world must find the answers.

<sup>6</sup> W. W. Rostow, "The Coming Age of Regionalism", Encounter, June 1990, pp. 3-7.



*The early signs of radical change*

The disintegration in Eastern Europe was as radical as it was unexpected. It surprised both the analysts and the politicians. Admittedly, there had been numerous signs that had not gone quite unnoticed, but the observers who ventured to predict the break-up of the Empire, like H       Carr     d'Encausse, were dismissed as unrealistic. The same fate was reserved for the analyses of Karl W. Deutsch which revealed the contradiction between the rigidity of the Soviet system and the requirements of the advanced economies. Nevertheless, as early as 1986, Mikhail Gorbachev was insisting, in his speech to the Central Committee, on the need to reform a system whose inflexibility was proving to be an obstacle in the path of the new technological revolution. On the same occasion, he drew up a table of the inefficiency and waste resulting mainly from the sclerosis of the Party, the true holder of power, and the clumsiness of the administrative machinery which, thanks to the centralized planning system, had supreme control of the economic apparatus. The concentration of political and economic power, the lack of modern management methods and effective means of monitoring the operation of the economy, and the preponderant role of heavy industry and the military-industrial complex were responsible for the numerous shortcomings of the Soviet economy. All of these factors were reflected in the analyses made by the ECE in its economic surveys of Europe.

By taking certain liberties with the original model, some of the countries of Eastern Europe, such as Hungary and Yugoslavia, sought to achieve at least a partial liberalization of their economies. The latter drew gradually closer to a socialist market economy by practising decentralization and self-management. This hybrid system—sometimes cited as an example in the West—came up against the difficulty of combining economic pluralism with the monopoly of a single party. This raised the question whether a market economy is compatible with an authoritarian regime and, conversely, whether democracy can survive in a centralized economy. Very soon, Gorbachev was forced to acknowledge that there was an inseparable link between democracy and the market economy, two complementary systems both based on competition.

The reforms which began to be introduced in 1986 under the triple banner of reorganization, democratization and *glasnost* had some unexpected effects. Intended to reform the socialist regime, this process soon raced beyond the initial objectives of its promoters to end in crisis for the regime and the break-up of the Soviet Union. Within three years, the disappearance of the Soviet Union had given rise to the emergence of fifteen independent States, including Russia, Ukraine and the Republic of Belarus, and the dissolution of

the Eastern bloc. The scale of this phenomenon and its rapidity can be attributed to the feelings of frustration experienced by broad swathes of the population, feelings which deserve to be taken into consideration in examining the risks that result from the new geopolitical configuration in Europe.

These introductory remarks reveal the unsuspected depth and scope of the transformations in progress in the countries of Eastern Europe. The economic and political changes, which are closely interlinked, reflect the scale of the tasks which lie ahead, their complexity and the sacrifices to be made. By providing support and technical assistance for the implementation of the reforms and the relaunching of the economies in transition, the international economic organizations—and especially, thanks to its unique expertise, the ECE—are contributing to the consolidation of democracy in those countries.

Since 1989, the dealing of a new geopolitical hand has dispelled the Soviet threat and thus facilitated progress in the area of security and disarmament. However, although the global threat to Europe may have disappeared, other risks, previously masked by the fear of invasion and the opacity of the socialist regimes, have emerged. This applies, in particular, to the conflicts between different national and ethnic groups living together in the same country. Similar conflicts may trouble other countries or regions in Western Europe, but in Eastern Europe they have provoked the violent break-up of Yugoslavia, peripheral clashes in the CIS and the uncontested divorce of the Czechs and Slovaks. Moreover, they are latent in certain regions of Central Europe and in particular, despite the progress achieved, in the relations between Hungary and its neighbours, Romania and Slovakia, which have large Hungarian communities living within their borders. In 1996, an opinion poll revealed great concern as regards respect for human rights in Romania; in Slovakia, positive opinions were only slightly outweighed by negative views; in Hungary, despite a declining trend, the views of the public on respect for human rights remained the most positive among the countries of Central Europe.<sup>7</sup>

Similar problems exist in most of the States of Central and Eastern Europe where communities belonging to other national or ethnic groups live alongside the majority population. Furthermore, in Russia, many uncertainties surround the control of weapons of mass destruction and the growth of organized crime at the national and global level, and people are equally concerned about the pollution of the environment by rundown industries and nu-

<sup>7</sup> European Commission, *Central and Eastern Europe*, Eurobarometer No. 6, March 1996, pp. 13, 17 and 18. Net replies (% of positive replies less % of negative replies): Hungary +18, Slovakia -9, Romania -45% as compared with +52, +30 and +21% respectively in 1991.



clear power stations.<sup>8</sup> All these major risks have one thing in common: they extend beyond State boundaries. Most of them, like the high-tech sectors, form part of the globalization process and represent new forms of global insecurity. Moreover, the outbreak of nationalism in Central, Eastern and South-Eastern Europe poses a multiple threat to internal and external peace. History never ceases to surprise: nationalist movements which were thought to have been left behind by European integration in the West and the proletarian international in the East are displaying unexpected vitality.

### *Conflicts and transitions*

#### *The Yugoslav conflict*

The Yugoslav conflict provides a violent illustration of both the range of threats and risks in the post-communist period and the resulting process of fragmentation. The disintegration of the central State and the transformation of the Yugoslav Republics into independent nation States can be attributed to a convergence of potent factors: a grave economic crisis combined with increasing disparities between the Republics and the Provinces which accentuated mutual perceptions of exploitation and subjugation; the sudden explosion of nationalist passions which burst into the ideological vacuum in pursuit of a feeling of community; the unequal coexistence of minority communities and nationalities within the ancient Republics and Provinces; and all this against a background of a regime in crisis and a struggle for power. Thus, all the elements were in place for the outbreak of a war that was to accelerate the destruction of this area of interdependence.

Politically, the war had its origins in the desire to establish *homogeneous nation States* where there had previously been an ethnic jigsaw. Once the new international frontiers had been established, the aim became to gather within the borders of the State all the people belonging to the same nation, by conquest or reconquest, with total disregard for the minority communities living within those new frontiers. This policy was implemented by means of forced assimilation or discrimination, expulsion and, in certain extreme cases, extermination. It is these practices which have made it so difficult to induce

<sup>8</sup> In the nuclear sector, cooperation is focused mainly on the application of the protocol of agreement signed by the representatives of the G7 and the Ukrainian Government in December 1995 concerning the shutdown of the Chernobyl nuclear power station. At its Dublin meeting in 1996, the European Council stressed its firm attachment to the permanent closure of the Chernobyl power plant. The shutdown of reactor No. 1 ordered by the Ukrainian authorities is regarded as an important step. (*General Report for 1996, op. cit.*, No. 365 and Conclusions of the Presidency of the Dublin European Council, 13 and 14 December 1996).

the three peoples which made up Bosnia and Herzegovina to live together again. They have also led to persistent tensions in other Republics with minority populations such as the Albanian communities in Kosovo, Serbia and the former Yugoslav Republic of Macedonia.

Great waves of *migrations* prompted by war, persecution or threats have totally upset the demographic structure. They have created economic burdens and social tensions in the host States (Serbia and Croatia) as well as in the neighbouring countries of Central and Eastern Europe. Until fair and just solutions are found (return with guarantees, compensation or rehabilitation), these migrants will constitute a risk factor capable of rekindling the conflict and destabilizing the region. The question of the return of the refugees to their lands and villages in Bosnia and Herzegovina or the Krajina is a sword of Damocles.

Another consequence has been the *fragmentation of the Yugoslav social and economic area* as a result of the creation of frontiers and the recourse to protectionist policies. The simultaneous loss of the previously existing trade networks and mechanisms for cooperation between the Republics of the former Yugoslavia, the breakdown in means of communication and the destruction of roads, bridges and railways are so many barriers erected by war. The rebuilding of this infrastructure and its integration into the European networks are aspects of the area's reconstruction on which its trade and the functioning of its industry depend. Moreover, the strategies and economies of war and shortage that have prevailed not only in Bosnia and Herzegovina but also in Croatia and Serbia, will have to be reversed in order to restore confidence and stability in the region. This will call for a patient and continuing effort to rebuild areas of interdependence and, later, solidarity, while nursing back to economic health a region in which the black economy and illicit networks flourish by creating "bypasses" to offset the lack of an open economy.

In fact, the conflict and the resulting mutual mistrust have had a dual adverse effect by simultaneously slowing down the *transition* to both democracy and a market economy. The mobilization of the population to reconquer land or defend itself against the threat from neighbours, together with the military and psychological preparation for this role, has had a series of direct consequences: sacrifices have been imposed on the population in the name of the need to arm or rearm and authoritarian measures have been justified by the external or internal threat, thus impeding the process of democratization. Finally, there has been recourse to official propaganda and censorship, as well as to repression of the opposition.

These practices, highlighted by the conflict, have had a serious impact on economic restructuring and privatization. As in other countries in transi-

tion, several large enterprises, formerly self-managed under the socialist regime, have been put up for sale but, for lack of private bidders, have often been taken over by quasi-public companies or picked up cheaply by members of the old or new "nomenklatura". Under the pretext of privatization, numerous enterprises have thus been directly or indirectly taken back into State hands.

At the same time, this atmosphere of crisis and conflict has encouraged, to a greater extent than elsewhere, the blossoming and expansion of networks of traffickers supplying the black markets in drugs and arms, together with the spread of regional and international crime. The black-market dealers have built up huge fortunes with impressive speed and efficiency, thus opening up a gap between the new rich and the poverty-stricken masses. This disparity of wealth is adding to the general instability of societies already exposed to numerous conflict-induced stresses. Furthermore, in economies in transition in which structural reform has come to a standstill while price liberalization continues to exert fierce inflationary pressures, the ostentatious presence of the new rich is undermining the people's morale and giving rise to discontent and disaffection. This set of circumstances, combined with worn-out plants and workers who are underpaid or left unpaid for months on end, is aggravating the economic crisis and breeding a serious social crisis as well. In addition, unemployment and conscription have prompted an exodus of young academics, scientists and economists, many of whom have sought refuge in Western Europe and America. This "brain drain" could well place a severe constraint on future economic revival and development, as well as on the reintegration of a fragmented society.

In the present phase of reconstruction, the European Union and its member States are shaping up as major contributors. Nevertheless, the rehabilitation of the economies and social fabrics within the borders of the former Yugoslavia will require multiple support from America, Russia and other countries. It will also be necessary to prepare for the integration of the new States into the European and world economies. The sectoral and technical approaches successfully applied by both the European Community and the Economic Commission for Europe could make an effective contribution to this dual effort to bring together the Republics born of the former Yugoslavia and integrate them into a greater whole.

#### *From the Soviet Union to the Commonwealth of Independent States (CIS)*

By leading to the disappearance of the Warsaw Pact and COMECON, the break-up of the Soviet Union brought about a radical change in the geo-

political situation. Though it made possible the substitution of cooperation for confrontation, with the Soviet Union and then Russia opening their doors and seeking integration into the European and world economic system, at the same time, by upsetting the balance of the bipolar world it introduced an element of uncertainty and insecurity into international relations. Both the positive effects and the inherent risks of this revolution have had a direct impact on the stability of the global and, in particular, the European international system. Thus, the transition which took place within the communist bloc overturned political and economic structures which had been erected and preserved by coercion and repression over a period of more than 70 years in the case of the Soviet Union and almost half a century in the case of Eastern Europe. However, at the same time as releasing numerous social forces which had previously been stifled, it also ran up against the entrenched ways of thinking and behaving upon which the functioning of institutions depends.

At the time of the dismemberment of the Soviet Union, the worst was avoided. Although tensions persist between Russia and the Ukraine, the fears of a conflict were not realized. On the other hand, several peripheral conflicts broke out on the fringes of Russia and within its borders. The conflict over Gorno-Karabagh in Azerbaijan lies at the origin of the tensions with Armenia and the energy blockade. Although negotiations are being conducted under the aegis of Russia and the OSCE, they have not yet led to a settlement. In Georgia, where the Abkhaz question has provoked violent disturbances, there has been some cooling off without a lasting solution yet having been found. Similarly, Central Asia is subject to chronic instability due to tensions between the newly independent States. Having signed military cooperation agreements with the United States, Uzbekistan, while favourably disposed to the customs union agreement with Russia, has rejected its military clauses. These few examples will suffice to illustrate the instability of this region.

Though weakened, Russia continues to play a leading role in this region which still bears the mark of the system of structural and economic interdependence inherited from the Soviet Union. The States of the region are seeking to open up new channels of cooperation with the outside world but at the same time are renewing their links with Russia. These States are obliged to do so, since most of them are dependent on Russia for their trade and for the transport of their gas and oil. In 1996, Kazakhstan and Kyrgyzstan signed a quadripartite agreement with Russia and Belarus which supplemented the existing customs union by providing for the coordination of economic and socio-cultural policies. At the same time, in 1995, Kazakhstan became a member of the Organization of the Islamic Conference (OIC) and the Islamic Development Bank. Meanwhile, Uzbekistan (more or less open to foreign capital) and Turkmenistan are seeking greater independence in the energy

sector. The former has developed trade links with countries outside the CIS which represent about 60% of its total trade, while the latter is endeavouring to control the transport of its oil and gas exports.

A complex situation composed of networks of interdependence, quests for independence, efforts to diversify trading partners, and tensions and crises provoked by external rivalries. But also a situation aggravated by structural problems and the ills that afflict most the countries in the region, namely, internal insecurity, increasing unemployment, and the spread of crime, corruption and drug-trafficking. Thus, it turns out that the implementation of economic and political reforms, without the State being prepared to back them up, has often had a disturbing and destabilizing effect which, in some instances, has led to frequent changes of government. It should, however, be stressed that these changes bear witness to the progress of democracy and the irreversible nature of the economic transition.

Because of its role as the once dominant power in the Eastern European region and its status of former superpower, the transition in Russia has affected both security and economic cooperation at the European and world levels. At the same time, it has given rise to positive trends by rousing society and triggering revivals in the fields of culture, education and the arts. It has liberated social creativity and dynamism and made possible a flowering of pluralism of expression and association. This pluralism of ideas and opinions has its counterpart in the multiparty system, political competition and the regular organization of elections. The other advantages of transition include freedom of movement, both inside Russia and for those wishing to travel abroad.

The new transparency has revealed the role of both governments and the institutional and legal structures in providing guidance, coordination and certainty of the law for the economies in transition, but it has also revealed the complexity and weaknesses of the political system of the Russian Federation. Although progress has been made—notably in separating the powers of the executive and the judiciary and in affirming democratic principles and respect for human rights—the balance between the Duma and the Presidency has tilted sharply in favour of the latter.

The problems that divide the centre and the provinces and the resulting tensions have been accentuated by the disparity between the rich regions and the poor. This disparity seems likely to increase because of differences in industrial structures and natural resources or in the agricultural situation. The economic divisions are compounded by ethnic, cultural and religious divisions which are creating minority community problems both between Republics and Regions of the Federation and within these various entities. The co-

existence of populations of different origins and speaking different languages in the countries that border on Russia is another source of tension.

Furthermore, at the social level, a middle class has not yet succeeded in emerging in Russia and a rift has developed between the new rich and the rest of the population, which includes a high proportion of the socially excluded. Rather than the egalitarian society that it aimed to be, Russia is becoming a country of extreme inequality. Thus, the gap between the 10% with the highest incomes and the 10% with the lowest widened from 4.5 in 1991 to 13.5 in 1995, after reaching 15 in 1994.<sup>9</sup>

In these circumstances, it is not surprising that the reforms should be running up against numerous obstacles. Privatization has been broadly achieved among small businesses and in services but it is making only slow progress in the large and medium-sized business sector. Admittedly, prices (except for oil and gas prices), trade and the foreign exchange regime have been liberalized and inflation was brought under control in 1996. These achievements have earned Russia the approval of the IMF, of which it has been a member since 1992, and the allocation of a 10 billion dollar credit. However, the reforms and the revival of production have been held back both by the structure of the productive system, impaired by the hypertrophy of the military complex,<sup>10</sup> by the inability of the central government to collect taxes from the Republics and Regions, and by the cessation of payments which is threatening to paralyse the economy. These difficulties are compounded by the persistence of attitudes left over from the previous system, which is tending to discourage the assumption of responsibility and the risk-taking inherent in any market economy. It is hardly surprising, then, that growth should still be proving elusive or that, according to estimates, GDP should have fallen by 40% between 1989 and 1995.<sup>11</sup> In 1996, GDP declined even more sharply than in 1995, recording a fall of 6% over the first nine months of the year.<sup>12</sup>

The problems of transition in Russia and their repercussions are having an impact on the Commonwealth of Independent States (CIS) and affecting Russia's relations with the States of Central and Eastern Europe, as well as its

<sup>9</sup> Thierry de Montbrial and Pierre Jacquet (eds.), *Synthèse annuelle de l'évolution du monde*, Ramses 97, Paris, Dunod, coll. IFRI, 1996, p. 100.

<sup>10</sup> Because of their importance for the Russian economy, the armaments and nuclear industries are seeking outlets for their products on the world market.

<sup>11</sup> *Economic Survey of Europe in 1995-1996*, Economic Commission for Europe, United Nations, New York and Geneva, 1996.

<sup>12</sup> *Economic Bulletin for Europe*, Economic Commission for Europe, vol. 48, United Nations, New York and Geneva, December 1996.

relations with the West and the world at large. In short, they are causing a geopolitical upheaval. To halt the process of fragmentation and to limit the damage it is doing, the political leadership has tried to contain these movements within a flexible system of cooperation based on the common need for security and on economic interdependence.

Established in 1991, the aim of the CIS is to provide a framework for cooperation and coordination between twelve independent States and to preserve, by a variety of means, the zone of the former Soviet Union, excluding the Baltic States. Grouped around Russia, Belarus, Kazakhstan and Kyrgyzstan they form a nucleus with which, in varying degrees, Armenia, Georgia and Tajikistan, together with Azerbaijan, Moldova, Turkmenistan and Ukraine, have all established links. Russia and Belarus have, for their part, committed themselves to forming a closer union. Thus, the CIS appears to represent a multi-track integration process. All the member States are facing problems of transition and integration into the world economy. They are also seeking to reconcile their recently acquired political independence with interdependence in the economic, energy and, in some cases, security fields. The result has been a range of solutions and modes of cooperation. This fluidity of the situation in the CIS is having its repercussions on foreign relations as well. Thus, the development of peaceful relations within the CIS will constitute an important element of European and world security.

Over and above their consequences within the CIS, the break-up of the Soviet Union and the fading of its military threat have led to the emergence of new cross-border links. Thus, for example, Turkey has opened up towards the Turkish-speaking republics of Central Asia, creating a network of cooperation among countries that have long been kept apart and are now seeking to re-establish historical ties: Azerbaijan, Kazakhstan, Kyrgyzstan, Uzbekistan and Turkmenistan. In this context, Turkey's presence is finding concrete expression in an increase in trade and investment in industry and construction, as well as in its participation in the exploitation and marketing of oil and gas. At the same time, it is developing cooperation in education and cultural affairs.

In an extension of the process of opening-up of the former Soviet zone, various attempts have been made to reconstitute economic areas, such as the Black Sea Economic Cooperation movement which, along with Turkey, includes Georgia, Armenia, Moldova, Azerbaijan, Russia and Ukraine, as well as Albania, Bulgaria, Greece and Romania. In the Declaration of the Bosphorus of June 1995, the heads of State and government of these countries provided for the establishment of a free trade area with a view to promoting trade and economic activity and facilitating the integration of the region into the European and world economies. Transnational projects, intended to equip

the free trade area with an infrastructure, are planned in the transport, energy, telecommunications and environmental sectors. These are ambitious undertakings which call for technical and financial assistance from the West. Within this regional restructuring, the Black Sea Economic Cooperation, for which the ECE is providing technical assistance, is a new element capable of contributing to security, development and the reconstitution of a cooperation area.

### *The slow transition of the countries of Central and Eastern Europe*

Before the central nucleus itself disintegrated, the entire Eastern bloc broke up and the ties which had bound its members to the Soviet Union were either seriously weakened or totally severed. The political and economic strategies of these countries then went completely into reverse. As the markets for their goods in the Soviet Union and then the CIS fell away, they began turning to the world and, in particular, the European market which was henceforth to absorb around 50 to 70% of their exports.<sup>13</sup> Closer association with the European Union, which is, moreover, their principal source of aid and capital, became their priority. Though moving at different speeds, all the countries of the region set out along the twin paths of economic and democratic transition, with the aim of fulfilling the conditions of membership of the European Union. The path of economic transition, which leads in the opposite direction to the authoritarian State economics practised for half a century, is strewn with obstacles which, in more than one respect, resemble those cited in connection with the countries of the CIS, except insofar as these Central and Eastern European countries, now free of Russian influence, have set themselves a strict timetable for eventual membership of the European Union. Among them, the Czech Republic, Hungary, Slovenia and Estonia, which have advanced furthest along the path of reform, form part of the first wave of applicants for admission.

Despite the growing importance of private ownership, in most of these countries the State remains the principal owner, alongside the workers' collectives and foreign investors. According to the official statistics, the privatized sector's share of GDP is usually in excess of 50%, which confirms the distance travelled since 1989 when it was generally less than 5% (with the exception of 30% in Poland).<sup>14</sup> Direct foreign investment is flowing mainly into three countries of the Visegrad group: firstly, Hungary with 11,394 mil-

<sup>13</sup> *Economic Bulletin for Europe*, op. cit.

<sup>14</sup> Source: ECE.

lion dollars in 1995, followed by the Czech Republic (5,881) and Poland (2,751).<sup>15</sup> Everywhere the decline in GDP has been appreciable, least so in Poland, where GDP fell by about 1.5% between 1989 and 1995, but around 15% in Hungary and the Czech Republic during the same period. Everywhere inflation has been more or less brought under control, although it remains high by Western European standards. On the other hand, the economic and social disparities have become more pronounced, giving rise to greater inequality and a feeling of insecurity. This general situation largely explains the return to power or progress of the socialist (ex-communist) parties in some of these countries. On the other hand, it is also true that, conversely, in other countries serious economic crises under socialist governments have led to the opposition coming to power.<sup>16</sup>

This shows that, by and large, the *transition to democracy* is on the right track. The multi-party system and the alternation of governments seem to be taking root while the principal freedoms are being progressively applied. Freedom of association has made possible the formation of extensive networks of professional organizations, socio-economic groups and civic associations. Evidence of the vitality of the societies in which they flourish, these associations form the basis of the democratic system, as observed by Alexis de Tocqueville in his study of democracy in America. The freedoms of education and religion are generally respected, as is freedom of expression. Although censorship has been abolished, access to and use of the media often remain under government control. Television is still a monopoly of the State, enabling it to maintain its hold on public opinion. As for the other media, their independence depends on their financial autonomy which protects them against a possible government takeover.

The transition to democracy is determined not only by the new legislation, which mostly meets democratic requirements, but also and to a much greater extent by the habits carried over from the old regime. This observation applies to both politics and economics and indeed to society as a whole. It is generally recognised that the main obstacle to transition lies in the inertia of the structures, and especially the states of mind. Thus, history and the folk memory, with the further stimulus of the religious revival, are often the subject of manipulation on the part of the leadership which, in several cases, has not hesitated to arouse and encourage nationalist feelings and to practise various forms of discrimination and exclusion.

<sup>15</sup> Source: ECE, 1996.

<sup>16</sup> In Serbia, however, during the winter of 1996-97, the students and the opposition organized demonstrations against the Milosevic government over electoral irregularities and demanded proper respect for the rules of democracy.

"Progress" of the reforms in Central and Eastern Europe in 1995

Albania	4 (60)	2	4	2	3	4	1	2	1	2	25	7
Bulgaria	3 (45)	2	3	2	3	4	2	2	2	3	26	6
Hungary	4 (60)	4	5	3	3	5	3	3	3	4	37	2
Poland	4 (60)	3	5	3	3	5	3	3	3	4	36	3
Romania	2 (40)	2	3	2	3	5	1	3	2	2	25	7
Slovakia	4 (60)	3	5	3	3	5	3	?	3	3	35	4
Slovenia	3 (45)	3	5	3	3	5	2	3	3	3	33	5
Czech Republic	5 (70)	4	5	3	3	5	3	3	3	4	38	1

1 = few reforms; 5 = Western level.

EBRD (1995), ECE (1995) and Ramses 1997, IFRI, p. 191.



Furthermore, democracy, as it is being applied, has not always facilitated the solution of the problems associated with the existence of numerous national minorities or ethnic communities living in old or newly established nation States and seeking to assert their identity and autonomy or indeed their political sovereignty. Without laying claim to being totally homogeneous, several of these countries base their conception of the nation State on a national majority. This compromises the possibility of coexistence without discrimination against other groups. This extreme notion of majority democracy contradicts the principle of guaranteed human and national minority rights. The contradiction is all the more acute in that the transition to democracy is taking place in societies with a long record of authoritarian and discriminatory practices.

This is why conflict situations exist even in countries which have escaped violent confrontations, such as Slovakia and Romania (see above), Bulgaria which has a large Turkish community, and Albania with its Greek community. In most of these cases, differences in national or ethnic origin go hand in hand with a difference in religion. These minority communities are demanding at least equality of treatment and cultural and linguistic autonomy, if not political autonomy or even independence or reintegration with the mother country, as opposed to the nation State of which they form part. The various nationalisms often seem like substitutes for communist ideology. In fact, the vacuum left by the latter has mainly been filled by nationalism and the religious revival, including the fundamentalist movements.

These divisions and tensions have been aggravated by the underlying economic disparities which serve as a rational justification for the various demands, disparities which *glasnost* has brought to the fore and which are tending to increase thanks to occasionally ultra-liberal policies or chaotic conditions resembling free-for-all capitalism, and by forms of cronyism based on the remnants of the centrally planned economy.

The political fragmentation of regional and national territories has led, regardless of economic interests, to the fragmentation of areas of cooperation. This is confirmed not only by the effects of the peaceful partitioning of Czechoslovakia, but also by the difficulties in restoring trade and cooperation among the countries of Central and Eastern Europe, even among the Visegrad countries. Paradoxically, it was the small and medium-sized ex-communist countries of Central and Eastern Europe which first closed themselves off from each other while endeavouring, each on its own account, to integrate themselves into the European Union and the world economy. This policy was more of a reaction to a long period under Soviet domination than a rational strategy or a long-term vision. Moreover, the resumption of trade between

these countries, and the creation of groups such as CEFTA show that in economics geography counts.

## 2. The advance of integration in the West<sup>17</sup>

### *The Single European Act and the new geopolitical environment*

Disintegration in the East has been accompanied by continuing integration in the West. These two movements are evolving within a new geopolitical landscape. The symmetrical relationship of rivalry between the United States and the Soviet Union, which underwrote the stability established by the Treaty of Helsinki in 1975, has been replaced by a fluid situation and a redistribution of roles on the world scene. Instead of rigid power structures we now have mobility and an asymmetrical relationship between the United States and Russia. During this period of change, a single military superpower has asserted itself, while at the same time several regional economic poles have emerged and the interactions between the military, political and economic elements of European and world security have become more intense.

Admittedly, the United States has further confirmed its position as a military superpower and great economic power. However, while it has achieved indisputable predominance in the sphere of defence and has strengthened its political influence worldwide, it has witnessed the emergence of new poles of economic strength including the European Union, centred on a reunified Germany, France and the United Kingdom, Japan and the Asian tigers, together with the rising power of China. Russia itself, surrounded by the States of the CIS, is in search of a new status and an economy capable of revitalizing its great-power potential. This situation seems certain to evolve until it reaches a state of more or less long-term equilibrium.

Within greater Europe, the European Union has established itself as the only dynamic yet relatively stable pole of attraction. Despite its economic clout, this community of democratic and industrialized countries nevertheless remains dependent on the United States and NATO for its security. Thus, the European Union, the world's greatest trading power and the principal provider of aid and assistance for the countries of Central and Eastern Europe and the CIS, finds itself torn in its relations with the United States between a situation of balance in economic matters and a situation of inequality in the sphere of world politics and security. This explains the strategy adopted by

<sup>17</sup> D. Sidjanski, *L'avenir fédéraliste de l'Europe*, op. cit., pp. 155-180 and 313-331.

most of the countries of Central and Eastern Europe, namely to ask for simultaneous admission to both the European Union and NATO.

In parallel with the process of disintegration in the East, the European Community has sought to intensify its integration. A period of stagnation was succeeded by the revival of integration which led to the Single European Act in 1986-87, years which coincided with the beginning of Gorbachev's reforms. The Single Act was intended, firstly, to complete the common market envisaged by the Treaty of Rome by removing the last barriers to the free movement of goods, persons, capital and services. The creation of an area without frontiers governed by competition implied, in accordance with Community logic, a series of flanking policies including a regional policy designed to reduce regional disparities and contribute to economic and social cohesion. Thus, one of the concerns of the national and Community officials has been to ensure the optimum allocation of resources in order to take advantage of the scale effect and encourage innovation and competitiveness while contributing to the development of the peripheral regions characterized by structures that were inappropriate or in process of conversion. Various Community instruments, headed by the structural funds (ERDF, EAGGF, European Social Fund), are playing an important role in this respect. This regional policy of the European Union, now institutionalized by the Single Act and designed to complement the similar policies pursued by each country, is based on the decentralization of Community action so as to leave as much room as possible for local or regional initiatives which are the most effective in terms of investment and job creation.

Other development and support policies governed by a similar logic include the common transport policy, reactivated thanks to Community programmes, and the common scientific and technological research and development policy. Moreover, the Single Act reaffirmed the importance of the social dimension which had received only marginal attention in the Treaty of Rome. As for the environment, it made its appearance in the form of a new strategy which called for the integration of this new dimension into Community policies, structural measures and economic instruments. Finally, as a logical extension of the internal market and common policies, Economic and Monetary Union (EMU) became the major objective of the European Union.

The general strategy that underpins the Single Act retriggered the "knock-on" process at the level of regulations, powers and institutions. The operation of the internal market, based on an array of common principles, policies and instruments, called for a corresponding institutional capacity. Consequently, the consensus formed around the dynamics of the internal market led to adaptation of the institutions to ensure that it functioned prop-

erly. It was thus that the European Council assumed its major role of driving force, guide and definer of priority objectives; in particular, in the context of the internal market, it was thereafter empowered to take qualified majority decisions, in cooperation with the European Parliament. As for the Commission, it found its executive powers reinforced. In anticipation of an increase in the amount of litigation, the Single Act instituted a Court of First Instance responsible for assisting the Court of Justice. These reforms of the institutions and their decision-making processes illustrate the logic of the "knock-on" effect and establish a link between the objectives fixed by the Single Act and the institutional resources capable of ensuring their realization. Moreover, they confirm the evolution of the Community approach towards greater flexibility, as evidenced by the adoption of the concept of differentiation which, taking into account the diversity of national and regional realities, relies upon more flexible means such as the coordination of economic policies, mutual recognition and the use of directives better adapted to the dynamics of the internal market.

Having been practised since 1969 on the fringes of the institutions of the European Community, political cooperation was formalized by the Treaty of the Single Act whose very name betrays the concern to bring the economic and political aspects together under a single roof, while maintaining the distinction between Community structures and procedures and those of the inter-governmental type. The political dimension of economic integration and its role in the security and foreign policy spheres were thus recognised. The pooling of resources, the completion of the single market, the political implications of economic decisions, the role of the institutions and the influence of trade and external economic policy are all factors which have impressed this political dimension on the European Community. Without leading directly to a political community, they have contributed to the gradual development of the habit of working together and the corresponding structures; they have also made it possible to forge bonds of solidarity which have strengthened the foundations of the European edifice.

### *European Union: convergence and cohesion*

The upheavals in the East have highlighted the primary responsibility of the European Community within the new European configuration. Faced with an uncertain situation, in 1990 the Community, in its capacity as benchmark and federative pole, began a far-reaching review which ended in the Treaty on the European Union of 1992, a new phase of integration designed to extend the achievements of the Single Act. In fact, the Maastricht Treaty made a qualitative advance by developing the Community dynamic, by linking for-

eign policy and common security within the same chapter, and by incorporating the new dimension of internal affairs. However, it maintained the distinction between the economic dimension (predominantly Community) and the foreign policy and internal affairs dimensions (predominantly intergovernmental).

The Community "pillar" was developed in two main directions, namely the establishment of Economic and Monetary Union through the convergence of economic policies and the strengthening of social cohesion through the approximation of levels of development. Clearly, the persistence or indeed accentuation of the disparities between countries and regions could lead to serious difficulties and become a source of economic and political instability. Insofar as countries moved towards a single currency at different speeds, these disparities would tend to increase. Hence the preventive measures based on the above-mentioned structural funds, to which the Treaty on European Union has added a Cohesion Fund in favour of Spain, Greece, Ireland and Portugal. The aim of this Fund is to support economic convergence programmes that follow the broad outlines laid down by the European Council. In this way, the European Union is seeking to promote economic balance between its members.

The commitment to Economic and Monetary Union (EMU) represents a quantum jump in the direction of European integration. It is a further illustration of the "knock-on" effect. Successor to the currency "snake" and the European Monetary System, the single currency involves the establishment of economic convergence criteria and the creation of a European Central Bank. It also constitutes an eminently political test since the currency is one of the attributes of national sovereignty. That is to say that to achieve this objective it will be necessary to overcome not only economic difficulties but also political and, above all, psychological obstacles.

The preparations for EMU are being made during a period when, despite encouraging signs, growth is still insufficient to absorb unemployment. At the same time, the criteria established for the passage to a single currency are imposing a strict discipline. It is therefore significant that, despite this economic situation and the predictions of the prophets of doom, most governments have affirmed their intention to achieve, before 1999, the objective of reducing their budget deficit to 3% of GDP. These efforts at convergence represent the biggest budgetary adjustments ever undertaken in Europe.<sup>18</sup> The member countries are also intent upon reducing their public debt below the threshold of 60% of GDP.

<sup>18</sup> *Economic Bulletin for Europe*, op. cit., p. 2.

In addition, the European Council which met in Dublin in December 1996 approved the main elements of the Stability and Growth Pact<sup>19</sup> and, at the proposal of the Council of the European Monetary Institute (EMI), adopted a new mechanism for ensuring exchange rate stability. This mechanism will govern the relations between the member countries that will form part of the Euro zone from 1999 and those that may join them later. Furthermore, the European Council has invited institutions, governments and businesses to intensify their preparations for the introduction of the Euro on 1 January 1999. This brief reminder gives an idea of the extent of the impact of EMU on the member countries, on the applicants for membership of the Union, on all the countries members of the Economic Commission for Europe, and indeed on world monetary policy in general. At the same time, it gives an indication of the path remaining to be travelled by all those countries which will not form part of the Euro zone from the outset.

This approach stresses the fundamental importance of the part played by the definition of common medium- and long-term objectives in guiding and stimulating the process of convergence. The Treaty of Rome, the 1993 objective of the Single Act, and currently the 1999 objective of the Euro are all examples of the effectiveness of this method. At the same time, the EU is pursuing the dual objective of deepening and widening the Union. The two dimensions are closely interdependent, deepening being a prerequisite of any widening. The Treaty of Maastricht fixed a time-table for EMU, it laid the foundations for the reform of the institutions and the decision-making processes, it advanced political cooperation and introduced internal affairs. At the same time, it anticipated the need for further reforms.

In fact, the institutional improvements incorporated in the Treaty of 1993 were not adequate to solve the problems with which the Union found itself confronted. Firstly, as often pointed out by the presidents of the Council and the Commission, the admission of new members could lead only to the paralysis of the Union. Moreover, taken off its guard by the conflicts which had broken out in the region, the European Union had become aware of the shortcomings of its political instruments, whence the concern expressed by several governments that the foreign, security and defence policy dimension be reinforced.

The review provided for by the Treaty of Maastricht and negotiated during the Intergovernmental Conference (IGC) of the Fifteen led to the Treaty

<sup>19</sup> The Stability and Growth Pact, which was adopted by the European Council in June 1997, confirmed the commitment on the part of the member States, the Commission and the Council to the rigorous application of the Treaty and the provisions relating to budgetary stability.



of Amsterdam, which was adopted by the European Council in June 1997. However, contrary to expectations, the new treaty did not institute all the institutional reforms needed to prepare the Union to admit new members. In particular, the adaptation and extension of the qualified majority rule and the revision of the membership of the Commission were postponed, for lack of a consensus. On the other hand, the Treaty introduced greater flexibility into Community-building through the method of "close cooperation" which can be applied in certain fields. Inspired by the process of establishment of EMU, this method takes into account the will and the dynamism of specific groups of countries. It will be very useful in connection with the future expansion of the European Union. Thus, over a period of variable length, different rates of progress will be acceptable to give certain members time to catch up with the leaders of the pack.

More appreciable progress has been made in several other important areas: the social sector and employment, the decision-making process relating to the common foreign and security policy, the role of the European Parliament and relations between citizens and the Union. Similarly, a good proportion of internal and judicial affairs will henceforth be subject to the Community method (attribution of the right of initiative to the Commission but maintenance of unanimity).

The incorporation of the Schengen agreement in the Community legal system constitutes the first application of "close cooperation". Likewise in the field of internal affairs, the European Council has succeeded in clearing the path for an agreement on greater capacity for action, in particular by strengthening Europol's powers of enforcement in the struggle against drugs, international crime and terrorism, which are prominent among the concerns of Europe's citizens.

The Treaty of Amsterdam recorded progress on various other fronts. A new chapter on "Employment" was inserted in the Treaty, just after the chapter on EMU. It provides for mechanisms which take the economic policy coordination model and apply it to the employment guidelines adopted by the Council. At the same time, the social chapter, to which the United Kingdom has recently subscribed, was incorporated in the Treaty, which should improve the cohesion of social policy. As regards the environment, the notion of "sustainable development" has been included among the Union's objectives and greater emphasis will be placed on the protection of the environment within the various policies, in particular within the context of the single market.

A number of advances have also been made in *foreign policy*. The instruments of the common foreign and security policy have been made more

coherent and a method of decision-making which should make it more effective has been adopted. Henceforth the European Council will adopt positions or measures on a qualified majority basis in connection with "common strategies" defined by consensus. In order to avoid the delays involved in seeking unanimity, the Treaty also provides for the possibility of "constructive abstention" where a member country dissociates itself from a decision but does not block it. In addition, it institutes a "CFSP function" exercised by the Secretary General of the Council who thus becomes the High Representative for this political chapter. The Presidency, the Secretary General and the Commission together form a "troika", supported by the new policy planning and early warning unit.

Progress has been more modest in the areas of defence and security, as well as in the field of external economic relations. With respect to the latter, a proposal to bring services, intellectual property and direct foreign investment within the Community's sphere of competence for trade policy matters was not adopted. On the other hand, a new provision allows for the possibility of such an extension. In general, although it made some progress and included several innovations, the Treaty of Amsterdam was far from being the fundamental revision needed to equip the Union with effective institutions capable of confronting geopolitical and geo-economic change.

### III. THE ACHIEVEMENTS OF THE ECE

#### 1. Comparative economic analysis: a necessary source of illumination

As Gunnar Myrdal saw it, *macro-economic studies and analyses* are of central importance, being intended to help governments choose their economic policies. In his view, which stemmed from his experience as a social scientist, scientific research and controversy should provide the basis for political and economic action. In this respect, the ECE has made a remarkable contribution, as illustrated by the examples of the Schuman Plan and the innovative studies on the problems of regional inequalities in Southern Europe (1952) which Gunnar Myrdal liked to cite. From the outset, the ECE has carried out parallel studies of both Western and Eastern Europe. Thus, it has acquired exceptional experience in analysing the Eastern European economies. Despite the long period during which precise information was difficult to obtain, its knowledge of this region has enabled it to accumulate long time series of data and interpretations which provide an historical dimension indispensable to the understanding of the transition process. These annual studies of the economic situation in Europe have had and continue to have an influence on government officials. Moreover, their authority is recognized by social scientists and they serve as benchmarks for other international economic organizations, both inside and outside the United Nations system.

These studies are the product of a notably successful process of collaboration among government economists, statisticians and experts, university researchers and secretariat specialists. Thus, they have received input from a variety of sources, which has enabled certain interpretations to be further refined. Being simultaneously comparative, interdisciplinary and cross-sectoral, they have made possible a multifaceted approach: recent macro-economic developments, medium and long-term strategies and policies, specific analysis of a sub-region or a transition-related issue. Their conclusions are often the subject of discussion among government economic advisers who, thanks to these exchanges, find their horizons have been broadened.

Foremost among the ECE's many publications are the *Economic Survey of Europe* and the *Economic Bulletin for Europe*. It is these publications, with their wealth of mutually complementary studies on various sectors of activity, which have made the reputation of the Economic Commission for Europe.

Formerly valuable for their comparative analyses of two rival economic systems, they now contribute to a balanced appraisal of the transition process by making heard a voice which is both authoritative and independent. Thus, they are helping to lead the debate on economic visions, theories and policies, a debate more necessary than ever in times of radical change. The tendency for everyone to think the same way must be counterbalanced by a plurality of interpretations and ideas, a vital part of the dynamics of democracy. This applies especially to the countries in transition although, in fact, it is the social changes in the West as well as those in the East which call for a public debate based on sound scientific foundations and a pluralist approach.

By means of a survey in the form of a questionnaire addressed to 180 recipients of the *Economic Survey of Europe* and the *Economic Bulletin for Europe* the ECE has been able to assess the quality and the influence of these two publications. Replies were received from 107 economists, academics and heads of specialized institutes, international organizations and government departments in numerous member countries. An overwhelming majority of them considered the publications to be "essential" or "highly useful" to them in their work as decision-makers, researchers, teachers or advisers. They regarded them as a tool for comparative analysis and as an independent analysis that often puts forward an alternative view.

The examination of the replies revealed several positive and unique aspects of the ECE's contribution. Firstly, its concern not to treat the economy in isolation but to tie it into the political and social context. The result is an approach that is as global and complete as possible, as evidenced, in particular, by the analyses of transition. As mentioned above, these studies also have the advantage of being based on long time series, thus making possible comparisons within a given period or over time which reveal long-term cycles and trends. Another aspect to emerge strongly is the independence of the institution, a guarantee of a high degree of objectivity in the assessment of economic developments in both the Western countries and the countries in transition. As compared with the more "monochrome" vision of some Western organizations, ECE has the advantage of belonging to both East and West which tends to make its judgements more objective, especially as, unlike many other organizations, it is not directly involved in drawing up economic policy.

It is clear from reading the replies that the main concern is to avoid, at all costs, the monopoly of a single economic theory or the domination of a single point of view. The development of scientific knowledge demands a keen critical mind and a variety of approaches in order that the decision-makers may be given a clearer idea of their options. This is a conviction

shared by those who have expressed reservations about what has been called the *Washington consensus*. Particularly widespread in university and research circles, it is also held by the decision-makers in the countries in transition.

Several replies also stress that the ECE's analyses tend to be more cautious than most of the optimistic views formulated by other international organizations. In fact, from the outset, the ECE warned against "shock therapies" and predicted a deep recession in the countries in transition. This illustrates one of the comparative advantages of the ECE: thanks to both the rigour of its analyses and empirical observations and its direct knowledge of the conditions in the countries concerned, it is able to propose a moderate and reasonable interpretation of the evolution of the transition process and a global approach that takes into account a broad range of aspects and dimensions of the transformation process.

These replies support the position which the ECE has advanced in its publications since 1990 and underline the uniqueness of its work which, far from overlapping with that of the World Bank, the IMF or the OECD, supplements it by covering different geographical areas and a greater number of dimensions. Moreover, the ECE's approach seems better adapted to economic research in the countries in transition. Finally, because of their continuity and value the publications are widely read in the universities and specialized institutes and are often cited in textbooks, journal articles and the press. The evidence of these replies confirms the very high quality of the product, the work of only a very small team.

## 2. Statistical support

The comparative economic analyses, like the ECE's other activities, depend to a large extent on the support of the Conference of European Statisticians. The latter is one of the principal subsidiary bodies of the ECE and is a model of an effective form of organization and coordination of the activities of the institutions that specialize in statistics. The Conference is composed of the heads of the national statistical offices of the ECE's member countries. Like the working parties and annual sessions, the Conference is provided with secretariat services by the ECE's Statistical Division. The Conference Bureau functions as a steering committee and includes among its members heads of national statistical offices and the heads of statistical services of the OECD, the European Union (EUROSTAT), the IMF and the UN. Because of the nature of its membership, the Conference's Bureau is able to guarantee a steady flow of firsthand information on the projects of other international organizations, as well as on the member countries' proposed statistical development goals.

Thus, by jointly presenting programmes of activity, the Conference and its Bureau lay down the lines of a rational division of labour. In accordance with its terms of reference, redefined at the plenary session in 1991, the Conference aims to achieve the following objectives: improve national statistics and their international comparability; promote close coordination of the statistical activities in the region so as to achieve greater uniformity in concepts and definitions; respond to any emerging need for international statistical cooperation arising out of transition, integration and other processes of cooperation in the region. The Conference has also adopted the "Fundamental Principles of Official Statistics in the Region" which lay down ethical, legal and administrative rules. After having been approved by the ECE, these guiding principles were endorsed by the Statistical Commission of the United Nations and circulated for the use of countries of other regions. A further example of the mechanism of dissemination of standards and principles, but also of concepts and methods.

The basic concepts sometimes pose problems which may relate to the cultural and economic environment as well as to technological progress. For example, consideration of the "economic or productive role" of women raises the question of how to measure their activity in the home: education of children, contribution to farm work, cottage industry, etc. Furthermore, the spread of home personal computers has made it necessary to adapt certain concepts or indeed forge new ones. In fact, thanks to this new technology, work is no longer exclusively confined to the place of production but can be organized in networks, carried out at home or outsourced beyond the boundaries of States or even continents.

In the face of these technological advances, the work of the Conference of European Statisticians will more and more often require an interdisciplinary and multidimensional approach with the participation of sociologists, anthropologists and political scientists. Because of the nature of its membership, the Conference of European Statisticians covers a very broad spectrum of cultures and levels of development, from high-tech societies to the countries in transition, from Western cultures to the developing countries of Central Asia. The sample is already representative of a range of problems wide enough to serve as a laboratory or for pilot experiments of worldwide utility.

Although they do not present the same difficulties, the economic statistics on the production of goods and services nevertheless require continuous adaptation to take into account the innovations and changes characteristic of industrialized societies, particularly in the post-industrial phase. More especially because in the advanced economies environmental and social welfare

services and cultural, leisure and sports activities have an economic dimension. The demand for data on health, illiteracy, culture, education and human resources in general is steadily increasing. This extension of the areas covered by statistics can be attributed, in particular, to the range, complexity and interdependence of the questions calling for statistical support in order to throw light on the policies and strategies of the public decision-makers and the socio-economic actors.

Another function of the ECE's Statistical Division is to help to improve the collection and the reliability of statistical data in the countries in transition, especially in the field of economic indicators. Thus, research programmes have been set up to assess the extent of the underground economy which, in the countries in transition, can represent 20 to 30% of GDP and in some cases 40% or more. The establishment of a reliable database is improving the quality of economic analysis in the countries concerned and, moreover, providing a store of methodological knowhow and very useful experience for other developing countries and regions.

The coordination structure which the Conference of European Statisticians has put in place is particularly effective. To what extent might it, as some have suggested, serve as a model for other ECE work areas? The work entrusted to the experts and specialists calls for sometimes difficult theoretical and conceptual choices, but, with some exceptions, these questions are not the responsibility of the policy-makers. Accordingly, this experiment, though it has worked well in a highly technical sector, cannot be systematically transposed to sectors involving political options. In fact, as soon as an activity of the ECE or another regional organization calls for a decision at the political level, coordination at the technical level is no longer sufficient. This applies, in particular, to discussions relating to political options and the preparation of certain normative instruments such as conventions requiring parliamentary ratification.

### 3. A silent breakthrough: development of regional trade and industry

One of the ECE's first objectives was to develop trade between member countries, across the wall which divided Europe in two. The joint efforts of government and private-sector experts made it possible to facilitate trade throughout the region by means of harmonized documents which gradually gained general currency in international affairs. Since the first initiatives launched by the Nordic countries in the fifties, the ECE has served as an experimental and promotional platform for the simplification and, to a large extent, automation of the instruments of international trade. The techniques

perfected made it possible to eliminate procedural obstacles to trade and transport and help to remove technical trade barriers.

Since the sixties, these simplification and harmonization techniques, from which more and more small and medium-sized businesses and developing countries are benefiting, have formed the basis of the Electronic Data Interchange (EDI) system. Thus, businesses located in the four corners of the earth have been able to exchange information almost instantaneously between each other and with the authorities, banks and insurance companies. The communication of structured messages concerning, among other things, orders, shipments and payments, is making possible exchanges between trading partners without the intervention of officials or clerks. In order to make the system work, the ECE has developed UN/EDIFACT (Electronic Data Interchange for Administration, Commerce and Transport), a set of standardized messages which ensures direct intelligibility from computer to computer and opens up new management possibilities, thus bestowing a new dimension on international trade.

Some types of activities lend themselves more than others to standardization of the various elements of electronic commerce. Thus, these EDI standards meet the harmonization requirements of the basic commercial services. They make possible the exchange of voluminous streams of information between large enterprises and between manufacturers and traders. They therefore constitute an indispensable set of rules.

The ECE has also developed computerized business models and scenarios which integrate the streams of data flowing between trading partners, banks, carriers and national administrations in connection with international trade transactions (ITT). The work on these models and the related analyses have contributed to the correct assimilation of the procedures and information necessary for trade. Taking them into account in the EDI and UN/EDIFACT systems has helped to make those systems more effective.

Trade facilitation and UN/EDIFACT meet modern requirements and coincide with the fundamental trends in the world economy. Success in trade depends on quick delivery and a high standard of service; accordingly, it cannot be achieved without the use of efficient communication systems.

To this end and in order further to rationalize its activities, the ECE has established the Centre for Facilitation of Procedures and Practices for Administration, Commerce and Transport (CEFACT). This illustrates the process of demand creating function which, in its turn, prompts the creation of a body. The Centre will provide for the broader participation of countries which are not members of the ECE and of intergovernmental and nongovern-

mental organizations. By delegating more tasks to technical working parties, it will enable decision-making to be accelerated.

This dynamic sector of ECE activity nevertheless poses the problem of the sharing of tasks with other organizations and, more generally, the rational use of the available capacity and knowhow. In this field of trade facilitation, in which numerous public and private organizations are involved in various capacities, a coordination centre is essential if rivalry and duplication are to be avoided. This is the background to a document prepared jointly by the ECE, UNCTAD and the ITC (International Trade Centre) defining their respective roles in the facilitation of trade, commercial efficiency and export marketing. At the same time, a memorandum on cooperation with the International Organization for Standardization (ISO) and the International Electrotechnical Commission (IEC) has been adopted. This defines the division of labour between the organizations concerned with the development of standards in the field of electronic data interchange (EDI).

Though this breakthrough in trade facilitation is no doubt the most spectacular, the Committee on the Development of Trade has not neglected the other aspects of international trade.

For decades, it has regularly made trend analyses of industrial cooperation in the region. The ECE was the first international organization to collect and circulate data on direct investment. It is continuing this work while adapting it to the new context created by transition. Furthermore, within the framework of a Working Party on International Contract Practices in Industry, it has prepared model agreements (on joint ventures, for example) and legal guides designed to facilitate business negotiations in the economies in transition and provide information on new forms of economic cooperation. The guides relate, in particular, to the financing of private enterprises and trade, the adaptation of property laws, the improvement of foreign investment and privatization legislation, and private concession-based financing techniques for developing infrastructure.

With the liberalization of trade and the reduction of customs tariffs, the removal of non-tariff barriers is assuming ever greater importance. The member countries of the ECE have long recognized that international standardization serves that purpose and hence promotes the expansion of intra-regional trade. A Working Party on Technical Harmonization and Standardization Policies regularly examines developments in the fields of standardization, conformity and quality assurance, and metrology, and makes appropriate recommendations with a view to assisting governments to overcome the problems encountered. This Working Party is also helping to finalize a work

programme in the sectors in which the ECE's member countries want to press ahead with their harmonization policy.

One of the consequences of the changes in progress is the enhanced role of the commercial dimension in industrial activities. Thus, even in the countries of Eastern Europe since their transition to a market economy, trade is now perceived as a horizontal factor that affects all the economic sectors. As a result, sectors such as steel and chemicals, which for a long time were treated separately as vertical sectors, are now viewed from a wider angle which encompasses service, trade and production activities.

Although in most member countries its share of GNP is tending to decline, industry is still strategically important in terms of exports, growth and employment, as well as in several new-technology sectors which are spearheading development. Moreover, various branches of industry radiate through numerous networks of small and medium-sized enterprises and form poles around which clusters of services congregate.

At the request of member countries, working parties have been set up in a few branches of industry, depending on the need for comparable data. The common aim of these bodies is to conduct analytical studies of production and trade and make comparative analyses of technological development and trends in demand. The most striking example is the study on the *'European Steel Trends in the Setting of the World Market'* carried out in 1949 by the Working Party on Steel, the first to be set up (in 1948). As indicated above, this study had a direct influence on the Schuman Plan. Twelve years later, the Working Party on the Chemical Industry was established, to be followed in 1980 by the Working Party on Engineering Industries and Automation. Since 1990, numerous studies have been made of the privatization and restructuring processes in the corresponding industrial sectors of the countries in transition, with the participation of government representatives, experts, industrialists and businessmen from the whole of the region.

In the context of the reform of the ECE, the Steel and Chemical Industry Working Parties were replaced by two special expert groups which are to examine these sectors from the trade and enterprise development standpoint (Chapter VI).

#### 4. Transport and traffic safety

The production and distribution of goods, like domestic and foreign trade, depend on efficient transport networks. Moreover, transport has a fundamental part to play in the search for a better balance between rich and poor



regions within a country or group of countries. Without efficient communications, the peripheral and less advanced regions find that their access to the markets and technology of the centres of development is impeded, which makes it more difficult for them to catch up. Observation of the transport densities characteristic, on the one hand, of the integrated area of Western Europe and, on the other, of the Eastern European area gives a good indication of the location of the economic poles and the flow of trade between them.

The Inland Transport Committee is responsible for preparing legal instruments intended to facilitate and develop transport throughout the region. The principal results of this multilateral collaboration are contained in 51 conventions and agreements. These establish frameworks for the regulation and development of international transport by road, rail and inland waterway and for multimodal transport in Europe.

For example, the 'E' signs displayed along the highways of Europe, from Portugal to Russia, since 1975 designate the main arteries of the European network and indicate that, on the roads so marked, certain standards are observed. Ten years later, Europe's railways, a mode of transport which accounts for only 15-20% of traffic in the West but still 75-80% in the East, was the subject of an agreement of the same type covering the main rail routes. Similar agreements apply to navigable inland waterways of international significance. Another convention, familiar to the public from the TIR plate attached to the goods vehicles which criss-cross Europe, is the TIR Convention (1975) which facilitates the customs clearance of such vehicles in transit countries. Today, these facilities are at risk of being abused by international gangs of alcohol, cigarette and drug smugglers. It is the ECE that has the task of reviewing the Convention and adapting it to take such distortions into account.

Many ECE standards also relate to the *safety* of vehicles and to their special equipment for the transport of perishable or hazardous goods and for the protection of the environment. Originally, these standards were based on proposals usually formulated by the Western countries or the secretariat, the European Union playing a central role. The United States appears to have been less active since it has separate standards based on a different tradition, which accounts for a certain sluggishness in transatlantic harmonization.

This is illustrated by the case of the standards relating to vehicle parts and safety. The corresponding 1958 agreement comprises 103 technical regulations. It establishes uniform requirements for the vehicles, their equipment and their parts and defines the conditions for mutual recognition, the aim being to improve vehicle safety and remove technical barriers to the interna-

tional automotive trade. However, the United States follows its own rules and procedures to ensure the conformity of the vehicles and their equipment. In particular, the manufacturers are responsible for the guarantees, whereas in Europe vehicle types and parts are approved by government bodies which then assume responsibility for the conformity of the product.

By transforming the conditions of production and the terms of international trade, the globalization of the motor vehicle market is obliging countries to adopt common standards or at least to harmonize their standards. In the search for a global compromise, the ECE's standards have the advantage of having an in-built international dimension. This example illustrates both the process of globalization which is taking over large sectors of industry, such as the automotive, chemical, aviation, energy and financial sectors, and the fundamental role of common or harmonized regulations at the regional and world levels in removing the obstacles to international trade.

The ECE is continuing and expanding its activities in the field of transport with a view to the further integration of its member countries, particularly the countries in transition. The latter often experience difficulty in observing the safety standards and those concerning vehicle emissions whose application may seem to them expensive and low-priority. The ECE is providing quite a few of these countries with assistance to ensure the dissemination and implementation of the standards adopted. These efforts have a threefold purpose: to improve the efficiency of international transport on a pan-regional scale; to reduce pollution; and to ensure that the economies in transition derive the maximum benefit from free trade.

## 5. A question of survival: the environment

The ECE countries have a very high concentration of industrial activity. While they account for 64% of world production they are also responsible for 60% of world carbon dioxide emissions. Accordingly, it is understandable that they should have been the first in the world to concern themselves with the protection of the environment. A water conservation convention had been prepared by the end of the sixties. The activity became more intense during the seventies, receiving a particular boost from the Conference on Security and Cooperation in Europe (CSCE) which met at Helsinki in August 1975. Four years later, the ECE countries signed the Convention on Long-range Transboundary Air Pollution. This was ratified in the early eighties by most of the signatories, which included the European Community and its member States.

The Convention provides for the limitation and then the gradual reduction and prevention of air pollution by means of policies and strategies designed to combat the discharge of atmospheric pollutants. Since then, nine binding international instruments (four conventions and five protocols) have been adopted within the ECE. The first convention on air pollution has been supplemented by protocols on the monitoring and evaluation of air pollution (EMEP, Geneva, 1984), on the reduction of transboundary sulphur emissions (Helsinki, 1985), on the control of nitrogen oxide emissions (Sofia, 1988) and volatile organic compounds (Geneva, 1991) and, finally, on further reductions of sulphur emissions (Oslo, 1994). This brief summary illustrates the approach which has led to the gradual expansion of the area of protection. The results obtained in all these fields were the subject of an in-depth examination in 1994.

The other three transboundary conventions relate to environmental impact assessment in a transboundary context (1991), industrial accidents (1992), and the protection and use of transboundary watercourses and international lakes (1992). These instruments define standards and norms, as well as procedures and means, with a view to assisting member countries to conduct their policies and organize cooperation on transboundary problems. They respect the principles of sustainable development and allow for public participation. They also provide means of avoiding environmental accidents and the resulting tensions. Finally, they include provisions for the settlement of transboundary disputes relating to the environment.

Other activities also deserve mention and, first of all, the organization of *ministerial conferences* devoted to "the environment for Europe", which have been held every two or three years since 1991. The participation of the ministers facilitates decision-making, imparts political impetus and makes it possible to launch initiatives and to progress more rapidly towards concrete action. Thus, the Second Ministerial Conference (Lucerne, 1993) instructed the ECE secretariat to prepare an environmental programme for Europe which the Third Conference, meeting in Sofia in 1995, adopted. The compilation of this programme was entrusted to a working group of senior officials acting for their respective departments. The group proceeded to engage in a broad process of consultation with governmental and nongovernmental organizations active in the areas of natural resources, the environment, sustainable development and energy efficiency at the regional level. These contacts made it possible to canvas the opinions and obtain the support of the principal interested parties. Thus, the secretariat and the group were able to establish the basis for an agreement in advance. Following the adoption of the programme, these relations were maintained and extended. Their influence is all the greater in that environmental issues can mobilize both public and pri-

vate sectors and, in many of the countries of the region, are at the top of the list of the public's concerns. Thus, both through the involvement of ministers and the general interest it arouses, the environment is capable of improving the visibility of the Economic Commission for Europe.

Because of its direct impact on the cities and some natural environments, pollution raises questions of health, extinction and survival. Moreover, it does not stop at frontiers. This is why environmental issues are generating more and more groups of people anxious to express their views at the regional and world as well as national levels. The founding of nongovernmental organizations and, in some countries, political parties has not only awoken consciences and created a broad consensus but has also compelled governments throughout Europe to take action. This has made the ECE a focus for policy alignment and cooperation with the countries in transition, on a multilateral basis and on an equal footing. As in its other work areas, it offers a common treaty platform and a forum for discussion and the exchange of views.

Finally, the ECE is responsible for facilitating the application, in the countries in transition, of the methodology devised by the OECD for assessing performance in the field of environmental protection. It has thus proved possible to make these regular assessment techniques, used by countries to develop their environmental policies, available throughout Europe. This illustrates the scope for cooperation between international organizations—in this instance the OECD and the ECE—based on complementarity of action in areas of mutual interest.

## 6. Revival of cooperation in the energy field

Since its establishment in 1947, the Economic Commission for Europe has promoted cooperation in the energy field, whose evolution has reflected developments in politics, economics and environmental science.

The Committee on Sustainable Energy, which has succeeded the Committee on Energy, and its various working parties are making it possible to exchange information and to frame recommendations whose declared objective is to arrive at the harmonization of both policies and practices and norms and standards in this field. The Committee's work is organized around three main poles: the reform of the energy sector in the countries in transition so as to adapt it to the market economy; the integration of the European networks; and the reduction of the environmental impact of energy generation and consumption, in particular by improving energy efficiency.

At present, the reform of the energy sector is especially important for the countries in transition. In fact, the latter are characterized by their highly intensive use of energy, a low level of energy efficiency and prices below world levels. Moreover, their energy markets are fragmented and their trade is impeded by poor infrastructure and broken transport links. Finally, the countries in transition are experiencing numerous environmental problems, while their energy policies, regulations and standards are considerably different from those of the Western countries.

In addition to examining these various general questions, the Economic Commission for Europe is developing special activities in three specific fields, namely: energy efficiency, gas and coal.

To improve energy efficiency and reduce intensive energy use in the countries in transition, in 1991, the ECE launched the "Energy Efficiency 2000 Project". Initially, this project was directed towards promoting contacts between businessmen, bankers, engineers, energy managers and the relevant officials in the ministries of trade and energy. These contacts were concerned with management practices and technologies that were effective in saving energy and protecting the environment.

Over the years, the programmes have evolved to include a range of activities such as training programmes for officials of the countries in transition on management and financial packaging techniques, the development of energy efficiency "labelling" and standards, the design of investment projects to improve energy efficiency and the raising of funds to finance those projects, which have been implemented, with the support of, in particular, the World Bank and the European Bank for Reconstruction and Development.

One of the major achievements of the Energy Efficiency 2000 Project has been the establishment of "energy efficiency demonstration zones" in the countries in transition. In these zones, which may consist of a municipality or some other administrative area, efforts are centred on creating incentives for initiative and enterprise in implementing projects which improve energy efficiency while meeting the requirements of the market. So far, a dozen demonstration zones have been set up in the Russian Federation and 14 others in the countries of Central and Eastern Europe.

Gas is another focus of Commission activity in the energy sector. Because of its numerous advantages, it is a preferred energy source for Europe with prospects for considerable expansion in the years to come. In fact, gas is not as polluting as coal or oil, while nuclear energy is associated with problems of obsolescence and waste processing. Furthermore, gas makes possible a diversification of supply at a price competitive with the price of oil. This

explains the numerous projects for the construction or extension of gas pipeline networks which, originating in the producer countries of the CIS, are establishing new forms of interdependence on a pan-European scale: the Western countries and the countries of Central and Eastern Europe, the principal customers for this fuel, are cooperating with the producer and transit countries, especially with respect to the transport link.

The Working Party on Gas provides an intergovernmental forum for this sector. It has been entrusted by the Commission with the establishment of a Gas Centre intended to promote and develop a gas industry based on free-market principles in the countries in transition. The Centre is providing assistance for the governments of those countries, strengthening their cooperation with enterprises in the sector and developing the convergence and harmonization of standards and practices. The region's leading gas companies are participating in the Centre's activities and lending it their support.

The project includes the organization of a series of seminars and conferences dealing with questions relating to the reform and restructuring of the gas industry, the legal and regulatory aspects, contractual and tariff arrangements, and financial packaging. Another of the Gas Centre's priority activities is the compilation of a database relating to these various questions and covering all the countries in transition, as well as the large gas markets in Western Europe.

Another source of energy which forms the subject of cooperation within the ECE is coal. The Commission's programme in this sector is centred on the two main challenges facing the modern coal industry: restructuring, conversion and rehabilitation, on the one hand, and the introduction of environmentally sound production and consumption, on the other. The programme also includes the development of an international coding and classification system intended to facilitate investment and trade between countries of the region and at world level. The most recent achievement is the "United Nations Framework Classification for Reserves/Resources: Solid Fuels and Mineral Commodities" which has been promoted by the member States of the ECE, together with States outside the region which also produce coal and minerals, notably Australia, Brazil, India, Iran, China, Thailand and South Africa. In accordance with an ECOSOC decision taken in 1997, this classification is now being used as a reference on a worldwide scale.

Finally, the ECE has had a work programme intended to encourage the interconnection and integration of the various national electrical power systems in the region. So far, most countries have preferred to maintain their self-sufficiency in power generation and have engaged in exchanges purely for technical reasons. However, given the liberalization of the electricity mar-



ket planned for the countries of the European Union, the existence of surplus capacity and the development of new projects, the potential exists for increased trade in this sector. Accordingly, the question of the interconnection of electric power networks is an activity that has been retained in the context of the reform of the Commission.

As a basis for the development of industry and services, the ECE's energy activities are playing an important part in the integration of greater Europe. They are therefore consistent with the common goal of all the Commission's activities.

## 7. The challenge of human settlements

Following the end of the war, the countries of both Western and Eastern Europe had to build housing to make good the wartime destruction and to cater for the migration from the countryside to the towns. Later on, the urban concentrations were to create new problems while in the East the transition to a market economy was to necessitate a review of policies and institutions. Despite the similarity of certain technical aspects, the philosophies, approaches and solutions adopted by the market-economy and planned-economy countries, respectively, were diametrically opposed. As a result of the increasing concentration in urban centres, numerous environmental problems emerged, prompting the member countries to intensify their exchanges of experience. With the fall of the Berlin wall, the dialogue, which for long periods had been only tentative, became both more open and more pragmatic.

Since then, the ECE's Committee on Human Settlements and its work, which is aimed at improving urban living conditions and the urban environment, have acquired a new dimension. The problems associated with the housing shortage in Eastern Europe, long concealed behind the ideological curtain, are now discussed openly. The same applies to the question of transition to a mixed private and public housing market. The reforms in progress or planned concern the management of the urban environment, housing and town planning policies, the problems of energy consumption and conservation, the treatment of waste and refuse, and the monitoring of pollution, none of which is likely to be solved by market forces alone, as shown by studies of the large metropolitan centres of Western Europe. Hence the need for collaboration among governments, regional and local authorities and the private sector, with the participation of university experts and professional and voluntary associations.

The activities of the ECE are making such collaboration possible, with the aim of defining sound town planning policies and practical measures for

their implementation. The Western countries are making progress at the technological level and with respect to legal instruments such as the land administration and cadastre systems. Thus, the countries in transition are able to benefit from the exchange of experience and support for their reforms in this field. The Committee also offers these countries a framework for cooperation on the implementation of urban rehabilitation and modernization policies, on solutions to housing problems and on the means of encouraging environmentally friendly forms of urban consumption.

In the face of the multiple challenges posed by the organization of life in the big cities and urban centres, this collaboration is enriching the strategies of all the countries involved, while taking into account the different local circumstances.

## 8. Timber markets and forest resources

At the time of its establishment, when Europe was being rebuilt and timber was in short supply, the Timber Committee, one of the ECE's oldest bodies, was given the task of ensuring that timber resources were better distributed. Since then, in close collaboration with the Forestry Department of the FAO, it has systematically gone about conducting market analyses, collecting and circulating statistics and making long-term studies of timber trends and prospects in Europe. In the seventies and eighties, with the oil crisis and worsening air pollution, its range of activities was extended to include environmental problems within a cross-sectoral approach and the promotion of wood as an energy source. Since 1990, public concern for the protection of nature and the forests and the numerous related international initiatives have led the Committee to pay special attention to the questions of the efficient use and conservation of forest resources. In this context, it was natural that the Helsinki Ministerial Conference on Forest Protection in Europe (1993) should give a new impetus to the role of the ECE and the FAO as international coordinators for regional cooperation.

At present, the Timber Committee is focusing its activities on sustainable forest management and forest products and providing reliable data and analyses to facilitate policy choices in these fields. The latest study on the outlook for timber in Europe up to the 21st century<sup>20</sup> and the work in progress on the assessment of the forest resources of the entire temperate and northern zones are examples of long-term studies undertaken by the Committee at the

<sup>20</sup> Geneva studies on timber and the forest, *Trends and prospects for timber in Europe at the dawn of the XXIst century*, United Nations Economic Commission for Europe, United Nations Food and Agriculture Organization, New York and Geneva, 1996 (ECE/TIM/SP/11).

request of member countries. Statistical analyses such as the annual review of forest products markets are also much in demand. The Committee is paying special attention to the problems of the countries in transition; in particular, it is organizing seminars and workshops on the development of their forest resources and their wood product sector and their adaptation to the market economy.

All the activities of the Committee and its two subsidiary bodies—the Joint FAO/ECE/ILO Committee on Forest Technology, Management and Training and the FAO/ECE Working Party on Forestry Statistics and Economics—are conducted in close cooperation with several other international organizations. In the area of statistics and information gathering, this cooperation has led to the establishment of an inter-secretariat working party which includes the ECE, the FAO, Eurostat, the Commission of the European Union, the OECD and the International Tropical Timber Organization. This international collaboration is making it possible avoid any duplication of effort. The ECE and the FAO provide a permanent forum of choice for the exchange of information, cooperation and the study of forestry and timber sector trends at the regional and global levels.

#### IV. THE ECE IN THE FACE OF TRANSITION AND ENLARGEMENT OF THE EUROPEAN UNION

The great changes that have taken place since 1989 have brought to the fore the problems of the planned-economy countries associated with their transition to the free market and their integration into the world economy. To meet the new requirements engendered by this process, the ECE has had to adapt by concentrating its capacity for analysis and assistance and taking advantage of its knowledge of the true state of affairs in Eastern Europe.

##### 1. The ECE's approach to transition

In its *Economic Survey of Europe in 1990-1991*, the ECE innovated by offering a global framework for the analysis of transition. It emphasised two inevitable constraints on the extent and rapidity of the proposed reforms. The first has to do with the degree of social consensus, that is to say, the acceptable costs of transition and the means of absorbing them quickly and fairly. The second is linked with the need not to overload the often inexperienced existing administrative structures with too many reforms at once. It may be concluded that the reform process should be planned on the basis of initial conditions specific to each country.

According to the ECE, the cost of the reforms would be higher than many were predicting. A deep recession which might last several years had to be expected. Contrary to the general enthusiasm and optimism, the ECE drew up a realistic balance sheet and made forecasts which, by and large, have turned out to be correct. From the outset of transition, the ECE warned against the use of “*shock therapy*” which, it said, would lead to serious malfunctions and even the abandonment of the reform process. Instead, it recommended a sequence of reforms comprising coherent groups of measures which, though spread out in time, together formed an interlocking whole. According to this approach, the priority measures to establish the necessary institutions and legal structures should be followed by a second wave of substantial changes in five main areas of reform: (i) competition; (ii) legal instruments of the market; (iii) privatization; (iv) current-account convertibility; (v) fostering foreign investment.

Within this context, it is also possible to identify large groups of reforms which need time to be put into effect: the large-scale privatization of State enterprises; the establishment of financial market operating mechanisms to complement the central bank and the commercial banks; the organization of the collection and dissemination of trustworthy statistics and, more generally, a more reliable flow of information; the adoption of new accounting rules; and the establishment of an independent pension system.

In 1990-91, the ECE was not slow to point out that the basic structures of a market economy cannot spring spontaneously into being the moment that central planning bodies and bureaucratic controls disappear. Not only institutional changes but, more fundamentally, far-reaching changes in individual attitudes are required. In the societies concerned, producers and consumers, workers and owners, households and businesses will all have to make drastic changes in the way they behave if the switch to a market economy is not to end in failure due to unforeseen reverses.

As mentioned above, the ECE has stressed the variable of popular consensus built around the reform process. Popular support for the radical transformation of the economic system, and also for the measures which that implies, is essential if an enterprise on this scale is to succeed. According to the polls,<sup>21</sup> popular support for the reforms crumbled considerably between 1990 and 1995. Positive attitudes to the market economy took a tumble in all the countries, with the notable exception of Poland where the net result (difference in points between favourable and unfavourable opinions) was the same as in 1990; the trend in the country was again judged positive (+7 points) after two negative peaks in 1991 (-41 points) and 1994 (-30 points). Support for transition to a market economy is strongly correlated with the perception of the country's situation. There is an exception, however, namely Romania where, after a negative verdict on the market economy in 1991 (-5 points), in 1995 the trend turned positive (+10 points), whereas opinion on the country's situation, judged positive in 1991 (+26 points), turned negative in 1992, reaching -13 points in 1995. Thus, in Romania, the market economy, whose introduction has suffered serious delays, appears in the eyes of the public as a promise of a better future. Although in Hungary, as well as in Slovakia and Slovenia, the curve for these two indicators is definitely on a downward path, the most troubling fall is that recorded in Russia: from +8 points to -44 points with respect to the market economy and from -12 points to -46 points with respect to the country's progress. These results reflect the extreme frustration of the people, only 20% of whom, as in the countries of the CIS, think that their country is on the right path. Thus, the shock of transition has badly

<sup>21</sup> Eurobarometer for Central and Eastern Europe, No. 6, *op. cit.*

shaken the optimism shared by most public opinion at the beginning of the transition process.

The glaring difference between expectation and reality is the main factor responsible for this reversal of opinion. The economists and politicians will probably go on discussing for some time to come the question whether transition could have been less costly in terms of economic losses and social welfare and whether different policies could and should have been adopted to minimize these costs. However, there are many who already agree that the recession has been much deeper and more prolonged than initially anticipated and that the transformation has not yet fulfilled many of its explicit and implicit promises.

In fact, the balance sheet of the transition drawn up by the ECE in 1996 appears to confirm the analyses and predictions made in 1989. The main lessons to be learned can be summarized under five headings:<sup>22</sup> (i) the economic activity in a country or a region cannot be detached from the socio-political context since these two factors interact; (ii) the unfortunate conjunction of the collapse of the centrally planned economies and the triumph of supply-side economics in the West is probably to blame for the mistaken advice frequently offered to the governments of the countries of Eastern Europe and incorporated in their economic policies. More especially, the role of the State in the management of the transition process was considerably underestimated, as was the fact that an efficient market economy can be guided by a variety of policies; (iii) development strategies must be backed up by a proper division of responsibilities between the government and the market, the balance between the two varying from one country to another. Among other things, the State is responsible for providing such essential public goods as peace and security, an institutional framework and a decision-making machinery that ensures transparency and efficiency, as well as reliable information and credible policies; this array of instruments helps to minimize the negative effects of uncertainty on the economic operators; (iv) as exemplified by the European Union, an overall vision and objectives to be achieved, even a degree of flexible planning on the French model, would seem useful for guiding development strategy and imposing a certain consistency on the policies applied; (v) finally, it is essential not to try to reproduce a particular model, however successful, in another country but to take into account the diversity of socio-political contexts and the unequal levels of development.

According to the *Economic Survey of Europe in 1994-1995 and 1995-1996*, considerable progress has been made in establishing democratic institu-

<sup>22</sup> Yves Berthelot, *Lessons from Countries in Transition*, 1996.

tions and transforming planned economies into market systems. However, the economic and social cost of the transition has been much higher than anticipated. A long recession, severe unemployment, sharp cuts in welfare, the widening of the wealth gap, falling health standards and the flourishing of organized crime have all helped to breed frustration, disillusionment and political tensions.

Unemployment has taken hold in most of the countries in transition, in contrast to the virtually full employment that prevailed under the central planning regimes. Admittedly, the large-scale lay-offs during transition were foreseen, but it was also expected that the rapid growth in the demand for labour in the expanding service and private enterprise sectors would absorb most of the surplus in industry. In fact, in most of the countries of Eastern Europe the proportion of jobless is well above 10% of the labour force and is staying high despite the fact that output has recently begun to recover.

As the main reason for high unemployment has been the "transitional" recession, recovery might have been expected to result in a distinct improvement in the labour market. However, not enough new jobs appear to be being created to absorb the new job seekers generated by the education system, an overmanned agricultural sector and State enterprises in need of shutting down or restructuring. Thus, the countries in transition will probably have to endure unemployment rates in excess of 10% for several more years.

Banking offers another example of delays in the reform process. The need to reorganize the entire financial sector in the countries in transition was not fully recognized until the inefficiency of the financial institutions emerged as a major obstacle to investment and restructuring. The main weaknesses of the financial sector include: the lack of institutions essential to financial intermediation (such as pension funds, mutual associations, specialized savings and loan institutions, investment companies, stock and bond markets, etc.), the inadequate capital base of the existing commercial banks, the overdependence of the banks on a limited number of customers (mainly the large State enterprises), the lack of experience with lending operations, and non-existent or inadequate regulations relating to financial discipline and bank supervision.

## 2. A Marshall Plan for Eastern Europe?

Would a Marshall Plan for Eastern Europe have speeded up the transition and made it less costly in terms of growth and employment? By providing American aid for the reconstruction of Western Europe, the Marshall Plan, with its incentives, led to collaboration among the free countries of

Europe within the Organization for European Economic Cooperation (OEEC), a collaboration which made possible the first steps towards the liberalization of quotas and the promotion of trade in Western Europe. This invaluable gift from America helped to advance the construction of Europe and to position it within a framework composed of two types of institutions: on the one hand, the Euro-Atlantic organizations such as NATO and the OECD and, on the other, the European organizations such as the Western European Union (WEU), the Council of Europe and the economic and political nucleus of the European Community and the European Union.

In December 1988, the European Council, meeting at Rhodes, reaffirmed the intention of the European Community to develop economic relations with the countries of Eastern Europe in order to overcome the division of the continent. By 1989, trade and cooperation agreements had been concluded. But the inadequacy of these measures became clear as the veil was lifted on the parlous state in which these countries found themselves. The idea of a new "Marshall Plan" on behalf of Eastern Europe was floated in the West. According to the ECE secretariat, it would be an illusion to assume that purely and simply by copying the 1948 Marshall Plan the West could produce a sensible solution to the problems of the East.<sup>23</sup>

In fact, according to estimates presented in 1990 by President Jacques Delors,<sup>24</sup> the equivalent volume of aid would have had to have been 23 billion dollars a year, or 12 times the Marshall Plan. Firstly, however, there was no will on the part of the member States of the Community to make such a financial effort. Secondly, there was good reason to doubt the capacity of the Eastern European countries effectively to absorb such aid. In this connection, the ECE was quick to point out that these countries had already, in the seventies, borrowed large sums from the West. Their debt had increased by about 64 billion dollars and that of the Soviet Union by 27 billion. Though less than the figure mentioned by Jacques Delors, this stream of resources appeared to have done little to improve structures or make production more efficient. Moreover, whereas most of the countries of Western Europe which benefited from the Marshall Plan had had a long experience with the market economy—private ownership and a decentralized economic system—the countries of Eastern Europe would have to start from scratch. In reaching these conclusions in 1991, the Economic Commission for Europe pointed out that, rather than the volume of financial resources, it is the global strategy that counts.<sup>25</sup>

<sup>23</sup> Economic Commission for Europe, *Economic Survey of Europe in 1989-1990*, New York, United Nations, 1992, pp. 13-18.

<sup>24</sup> When addressing the European Parliament in Strasbourg on 17 January 1990.

<sup>25</sup> ECE, *op. cit.*, pp. 15-17.

Technical assistance has a leading role to play in building up the institutional, administrative, legal and financial infrastructure, as well as the communications and domestic and international transport infrastructure. In general, it is a question of the transfer and assimilation of new technologies and modern management methods which Gorbachev was already calling for in 1986. To be both effective and durable, these various measures and structural reforms must be accompanied and supported by a policy of training, instruction and research in such disciplines as economics, accountancy and management, statistics and marketing, disciplines which, in the planned economies, when not entirely lacking, were taught from a standpoint which had little bearing on the problems of a market economy. Transition is not merely a simple transposition of structures and rules. It calls for a deep graft which must produce an effective transformation of pre-existing institutions, mechanisms and attitudes.

The references to the Marshall Plan in ECE documents also stress the need for a coherent framework for the national measures, which should succeed each other in a logical order, and for the utilization of outside support provided by the European and international organizations.

In 1989-1990, the ECE Survey found that the countries of Central and Eastern Europe had enthusiastically embraced the capitalist model of economic organization. Since then, the unexpectedly high social and economic costs of the transition and the disappointingly slow improvement in living standards have given rise to reservations. These are creating serious problems for the politicians who must now apply imaginative domestic policies to sustain economic growth, bring under control and reverse the trend towards higher unemployment, and speed up the necessary structural reforms, while maintaining financial discipline and macro-economic stability. However, faced with the current wave of disillusionment, governments are sorely tempted to resort to measures of a "populist" nature, which could have disastrous economic consequences. Finally, the people's reservations on the subject of reform also pose a serious problem for the international community, which should regard them not simply as signs of impatience and naivety on the part of the Eastern European public, but as a symptom of genuine social distress and, frequently, extreme confusion. These considerations call for a strengthening of cooperation and solidarity with the countries in transition rather than any relaxation of effort. Over the next few years, the response of the leading players, political and economic, to these challenges will have a considerable influence on the durability of the reforms undertaken by the countries concerned.

### 3. Enlargement and global pre-accession strategy

Prior to 1973, when the Community of Six was first enlarged to include the United Kingdom, Denmark and Ireland, the spillover and knock-on concepts were applied mainly internally within the European Community. Under outside pressure, the Community, which, according to P. Soldatos, was rather introverted, that is mainly preoccupied with its internal construction, began opening up to the world and assuming burdens and responsibilities in keeping with its economic and political importance. From then on, in both the theory of integration and actual practice, the interaction between internal and external factors took on a new dimension, an example of which is the mutually accelerating effects of deepening and enlargement.

The question of the enlargement of the European Union to include the countries of Central and Eastern Europe forms the subject of an ECE analysis. The ECE's original contribution was to examine the problems facing the applicant countries, show what they had to gain by joining the Union and, finally, propose a global pre-accession strategy. Thus, the ECE has been able simultaneously to explore a number of aspects often treated in isolation and suggest an approach consistent with its previous analyses and thinking on transition.

The European Union's main concern is for the security and political stability of the region, which to a large extent depend on the economic situation. For the applicant countries, the primary reason for joining the Union is to obtain access to the single market, which they regard as essential to their long-term development. However, most of Central and Eastern Europe's decision-makers also consider that by binding their countries to the European Union they will consolidate their new democratic institutions and contribute to regional security. Accession would thus be a strong signal of their "return to Europe" and freedom. The consolidation of democracy was also one of the main reasons why Portugal and Spain decided to link themselves to the European Community, a decision whose soundness was later to be confirmed by the facts.

The basic requirements for accession are strict: the practice of democracy, respect for human rights, the rule of law and a genuine market economy, together with good-neighbourliness and peaceful coexistence. In addition, the applicant should be capable of assimilating the constantly increasing mass of legislation which represents the Community patrimony and providing for its application. These conditions make it necessary to adopt specific strategies in terms of objectives, institutions and policy instruments. Thus, as



distinct from the other countries of Eastern Europe, for the applicant countries the transition process is determined by this desire to join the Union.

The Community patrimony includes, in particular, a battery of regulations and directives which govern the operation of the single market and of competition. The "retooling" costs would appear to be high in the short-term because of the need to comply with Community standards in such fields as safety, health, the environment, the labour market and finance. Apart from the cost, the rapid and massive application of these standards might deprive the applicant countries of certain comparative advantages which they enjoy on Western markets as a result of their regulations being less strict. The sudden exposure to total competition with more battle-hardened enterprises would subject them to a severe shock. Accordingly, the ECE considers that if the rules of the European Union have to be applied, they should be introduced at a pace which takes into account the ability of the applicant countries to restructure and compete.

As for the benefits of accession, they are not easy to evaluate since they cannot be expressed exclusively in quantitative terms or in terms of transfers of resources. While the most obvious benefits would be the net contributions from the structural funds, many other advantages are less amenable to precise evaluation, especially as to a large extent they depend on the ability of the new members to exploit them. Some, such as the advantages of consolidating democracy, cannot be quantified at all. For the present members of the European Community most estimates of the costs they would have to bear are based on the assumption that the support they currently receive would also have to be made available to the new members in the same proportions. However, in view of the very large increases in contributions which that would involve, the possibility of a reduction in structural aid cannot be ruled out in advance.

Despite these difficulties, the applicant countries are determined to join and this policy has the strong backing of public opinion. Indeed, in all the countries which have concluded European association agreements, an overwhelming majority of the people would vote for their country's accession in a referendum: 90% for, 10% against.<sup>26</sup> The political commitment to accession is clear. However, there has been some tarnishing of the European Union's image in the ten association agreement countries, particularly in the Czech Republic and Slovakia. Although there has been no change in Hungary, Romania and Slovenia, the number of those who would vote yes has declined

<sup>26</sup> *Eurobarometer*, op. cit., pp. 1 and 59.

sharply in Bulgaria and the Baltic States. In only one country, Poland, has there been a slight improvement.<sup>27</sup>

In an attempt to balance the risks of hasty accession against the disillusionment that would result from a long wait, the Economic Commission for Europe has proposed the adoption, on the basis of a firm commitment to accession on both sides, of a global and consistent *pre-accession* strategy, several elements of which already exist in the European agreements and European Union assistance programmes such as PHARE. However, according to the ECE, neither the PHARE programme nor the 1996 White Paper proposed a genuine pre-accession strategy involving a detailed sequence of changes to be made both by the applicant countries and the current members of the Union who should be heedful of the requests of the countries in transition.

Initially, the ECE proposes a six-part strategy of support for accession, with each component weighted according to the situation of the country concerned: firmer support for the policy-makers in the applicant countries in their efforts to transform their country's economy and society; substantial and well-targeted technical assistance; more massive support for investment and restructuring; an effort to reduce institutional differences; the encouragement of cooperation among countries in transition; and, finally, better information about the European Union. This global support strategy has numerous aspects, the most important of which are as follows: greater access to the European Union market; better targeted public financial transfers adapted to private investment and infrastructure requirements; participation of the applicant countries in the Union's structural adjustment programmes to cope with changes in the world economy; the development of "market institutions" (including not only legislation but also attitudes and behaviour); a strategy of progressive convergence and a more active role in the reconstruction of the countries in transition; better mutual understanding through consultation networks involving policy-makers and economists, and in particular through closer ties with the European Parliament and the Commission; a strengthening of the public service in terms of the requirements of a market economy; and, finally, support for the revival of trade between countries in transition.

These are some of the markers set out by the ECE along the path leading to membership of the EU. This policy of cautious advances guided by a global strategy is aimed at avoiding the adverse effects of over-hasty accession. Although there is fairly general agreement on the principle of successive waves of accession, differences persist with respect to the pace of the negotiations. These are scheduled to begin in early 1998, although the

<sup>27</sup> *Eurobarometer*, op. cit., p. 42.

institutional reform of the European Union will still be incomplete. The policy-makers on both sides are in favour of a first wave of accession around the year 2000, whereas the European Commission, like the ECE, is taking a more cautious approach. The policy-makers are stressing the idea of "momentum", an opportunity not to be missed and the risk that a long delay will erode public support. For their part, the economists are drawing attention to the difficulties and dangers of hurried accession. Two complementary but separate approaches, the one political and global, the other economic and technical, which while sharing the same goal lead to different conclusions regarding the timetable for accession. Economic realism is a weighty consideration, but appreciation of the political opportunity and security concerns are at least as important. Ultimately, the fundamental decision will rest with the policy-makers who have intervened at each decisive step in European integration.

After having evaluated, thoroughly and objectively, the extent to which the ten applicant countries meet the Union's requirements, the Commission has recommended that accession negotiations be opened with Hungary, Poland, Estonia, Czech Republic and Slovenia. As for Cyprus, on the recommendation of the Commission, the European Council has already agreed that negotiations will begin six months after the end of the Intergovernmental Conference.

The Commission's recommendations are based on the criteria established by the Copenhagen Council in June 1993: stable institutions that guarantee democracy, the rule of law, human rights, respect for and protection of minorities; the existence of a viable market economy and the ability to withstand the pressure of competition and market forces within the European Union; the ability to assume the obligations and, in particular, subscribe to the objectives of political, economic and monetary union.

The analyses and warnings of the ECE and the Commission of the European Union are material for political reflection and decision. They propose an economic angle of approach and democratic criteria. However, from a more global viewpoint, a more original political course of action might be envisaged: the pre-accession strategy proposed by the ECE could be directly incorporated with the existing agreements and institutions in a framework treaty intended to enter into force rapidly while allowing for periods of adjustment. This procedure, which involves reversing the sequence adjustment first and then accession, would have the advantage of immediately creating a security area while ensuring the progressive integration of the countries of Central and Eastern Europe. The latter would thus become members

of the European Union, within which they would continue their development in order to achieve cohesion.

Whatever the choice of priorities and the pace of accession, a global strategy such as that suggested by the ECE would have the twin advantages of providing an objective and a consistent framework for development and laying down clear guidelines for the different forms of technical assistance and support supplied by the various national, European and international institutions, an example of a constructive contribution by the European Commission for Europe to the processes of transition and accession to the European Union.

## PART TWO

### THE ECE AND ITS FUTURE

#### V. THE ECE ON THE WORLD STAGE AND IN THE NEW EUROPE

Part Two deals with three main questions: the role of the Economic Commission for Europe in the changed European and world economic climate; its cooperation with the other European and international organizations with a view to achieving a rational division of labour; and, finally, its contribution to globalization and cooperation at world level. The distribution of roles and collaboration between institutions depend on which is best fitted to perform a particular task with maximum efficiency at minimum cost. This approach serves a common purpose, namely the quest for European security and the development of integration.

##### 1. Role of the regional commissions of the United Nations

###### *Levels of activity and subsidiarity*

In relation to the twin trends of globalization and regional integration it is the role of the regional commissions to act as intermediary and to maintain the necessary balance. Stationed at the interface between these two trends, they are able to articulate the specific requirements of the continental regions and be their spokesmen at international gatherings and in the international organizations, while making their contribution to global activities. The operation of the world economic system cannot be based solely on global arrangements and mechanisms, since there are problems which are more easily solved at the regional level. Thus global cooperation and the development of regional integration are intertwined. The same approach can be applied at the level of nations and even of the micro-regions of which they are composed.

The *principle of subsidiarity*, widely employed in federal States, has been established as an axiom of the European Union, where it serves to opti-



mize the distribution of functions and responsibilities in the European area. In those fields which are not within its exclusive competence, the Community only intervenes if and to the extent that the specified objectives envisaged can be better achieved at the Community level than at the level of the member States.<sup>28</sup> In general, this approach presupposes an evaluation of the comparative advantages of the States and the European Union but also of the Economic Commission for Europe and the other regional organizations. It should also be used to allocate the tasks of local government within the regional area. Because of changed requirements, the State has been bypassed both from above—whence the proliferation of regional and world organizations—and from below—whence the devolution of numerous activities to the regions and decentralized public authorities and even to associations and enterprises, both public and private.

Within the United Nations Organization and the specialized agencies, this principle is tending to replace the concept of “residual competences”. Thus, the regional commissions undertake projects which they are able to carry out more efficiently than the central organization.

Since the opening up of the East, the tasks to be performed by the various institutions on behalf of the countries in transition have become both more complex and more burdensome. In most cases, they exceed the capacity of the individual States and regional and world organizations, whence the need to deploy a wide range of cooperation mechanisms while having recourse to the principle of subsidiarity.

#### *Advantages and contributions of the regional commissions at world level*

As compared with the global system, the regional systems enjoy advantages such as geographical proximity and historical, cultural and economic affinities. A factorial or typological analysis of the numerous variables characterizing the countries of the world generally leads, with some variations, to regional geographical groupings. This does not exclude the possibility of ideological and cultural similarities and economic ties between sub-groups in different regions, as in the case of the special relationship between Western Europe and North America which, since 1989, has been tending to spread to include Central and Eastern Europe and the countries of the CIS. However, these affinities and this interdependence have not prevented neighbours from going to war or nations which once belonged to multinational States—such as

<sup>28</sup> See art. 3B of the Treaty on European Union.

the Soviet Union or Yugoslavia—from resorting to violence in order to gain or regain their independence and breaking, in the process, the links of solidarity which had sometimes been forged between them. It has been demonstrated that peace and economic solidarity cannot simply be achieved once and for all and that for them to endure and develop a focused and sustained effort is required. Peace and interdependence are continuous creations which it is the duty of the regional organizations to support and promote in collaboration with the world organizations, each according to its mandate, its capacities and its competences.

The involvement of the regional commissions of the United Nations in the task of preparing and following up global conferences is an example of this collaboration. At the request of the General Assembly and ECOSOC, all the commissions organized regional intergovernmental meetings to prepare for the Rio Conference on Environment and Development (1992), the Cairo International Conference on Population and Development (1994) and the Beijing World Conference on Women (1995). These meetings were conducted at a high level, usually ministerial, and several of them were organized jointly with other regional or subregional organizations. They led to the adoption of declarations, programmes or action plans with a dual purpose: to establish a set of guiding principles and commitments specific to the region and to contribute to the preparation of global programmes.

Following the holding of the preparatory meetings and then the global conferences, the regional commissions were well placed to translate the recommendations and decisions adopted into regional practice. In particular, they were able to engage in follow-up activities, in accordance with their terms of reference, and to facilitate cooperation among all the regional and subregional bodies involved in the implementation of the programmes and action plans. For example, the “Environment for Europe” process made it possible to coordinate the implementation, at regional level, of the Agenda 21 adopted at Rio. The Cairo Programme required the regional commissions to take initiatives on population and development; for its part, the ECE concentrated on the aging of the population, a problem specific to the region. Finally, the Platform for Action adopted at Beijing called upon the regional commissions to mainstream the questions and policies relating to women and to establish regional mechanisms for monitoring the fulfilment of the undertakings given at the Conference.

#### *Regional integration and world liberalization*

The constitution of regional groupings was incorporated in the United Nations Charter and then in the statutes of the GATT. This has not prevented

the holding of a debate on the compatibility of regional economic integration with globalization. While some out-and-out internationalists still continue to maintain that the emergence of regional groupings could offend the international organizations, experience has shown otherwise. From the outset, the regional economic commissions of the United Nations have helped to promote regional integration, as evidenced by the examples of the ECE and ECLAC.<sup>29</sup> For its part, the General Agreement on Tariffs and Trade (GATT) provides for two exceptions to the most-favoured-nation clause: free-trade areas and customs unions (art. XXIV). Thus, it was not only accepted but also desirable that geographical groupings should be formed and closer economic and commercial ties established. Since the fifties, these regional integration movements have brought increased trade flows, expanded the area of direct relations between economic operators, and encouraged cross-border cooperation networks and have thus led to an interpenetration of economies which extends beyond the inter-State framework. It is therefore becoming increasingly clear that regional integration agreements do not obstruct the liberalization of multilateral trade by building "regional economic fortresses". On the contrary, by liberalizing huge trade areas and subjecting them to the rules of competition, they are helping to lay the foundations of a global economy. Thus competitive cooperation among enterprises is tending to stimulate intra-regional trade without having any of the adverse effects which have often been predicted.<sup>30</sup> Regional integration is a source of innovation and progress, in the field of institutions and standards as well as for economic operators, and provides the economies of the member States with an apprenticeship in globalization.

The liberalization and globalization movement has spread beyond the frontiers of the Western world to overrun the entire planet. However, within this general context there are different conceptions, one of which is based on the American model, another on the European model and its variants, and a third on the Japanese model. Admittedly, all are based on the same economic principles and recognize the major trends which permeate every sector of activity. However, the American and European versions emphasize the individual characteristics of their regions of origin: American liberalism versus the social economy or "European social model", deregulation in the United

<sup>29</sup> Through its studies and its network of economists, ECLAC has played a major part in the promotion of the common market concept since the end of the fifties, as well as in the creation of the Central American Common Market (CACM) and the Latin American Free Trade Association (LAFTA) at the beginning of the sixties.

<sup>30</sup> The European Community is participating actively in the global liberalization undertaken by the GATT and its successor the WTO. The Andean Group, which in 1996 became the Andean Community, is another example of regional integration which, moreover, has contributed to the democratization of its member countries.

States versus regulated competition in the European Community, and their different approaches to the role of the authorities. These variants reflect the traditions, socio-political environments and mentalities which distinguish one region from another.

Thus, globalization cannot be used as a pretext for imposing a single version of the liberal economy. An open and continuing dialogue between the leading players is necessary if networks of interdependence are to become firmly established without differences in identity being eroded. Nevertheless, since the fall of the Berlin wall, it has been possible to observe a tendency for the European Union, the United States and Western-led organizations unilaterally to impose their own models and conceptions. Admittedly, the countries of Central and Eastern Europe would like to become integrated into the Western economy by joining or associating themselves with the European Union, the OECD and the WTO. However, the rules of admission to these clubs do not make sufficient allowance for the conditions that prevail in that part of Europe nor for tradition or the importance of political and economic structures. On the other hand, a balanced dialogue, with several voices being heard, presupposes a flow of ideas and views and open, preferably multilateral discussions between the Western countries and the countries in transition. This is the way to ensure that all the European countries are drawn permanently together and that no country or group of countries feels itself to have been subjected to external pressure or even discriminated against and isolated. The risks of marginalization or fragmentation associated with globalization will be all the better contained if all cooperation is based on free association and respect for pluralism.

### *Globalization of regional rules*

#### *Europe's opportunities*

Both international organizations and governments assign a leading role to the rules which govern world economic relations. There has been much discussion of this subject in the specialist literature. According to Lester Thurow, the question is whether the United States, Europe or Japan will have the greatest say in defining the rules of world trade in the 21st century.<sup>31</sup>

According to this author, the United States still has an impressive economic potential and an unrivalled capacity for technological innovation.

<sup>31</sup> *Head to Head. The Coming Economic Battle Among Japan, Europe and America*, New York, William Morrow and Co., 1992, p.247-258.

However, it risks seeing some of this initial advantage eventually being eroded away as a result of its having neglected its basic education system. On the other hand, it has important assets in the cultural field where tradition enables it to assimilate foreigners very rapidly and to manage multinationals efficiently. "America is perfectly capable of claiming the twenty-first century for itself. The American problem is not winning—but forcing itself to notice that the game has changed—that it will have to play a new game by new rules with new strategies".<sup>32</sup>

In Lester Thurow's opinion, Europe occupies a strategically advantageous position on the world economic chessboard since it constitutes the only group of 800 million people who are both well educated and free of poverty. With the acceleration of technical progress, the exploitation of human resources through education is, now more than ever before, the principal factor in development. Thus, Europe still has every chance of becoming the economic leader in the 21st century, but for that it will have to meet several requirements, including closer integration of the economies of Western Europe, expansion into Central and Eastern Europe and association with the countries of the CIS, thereby contributing to the success of the ex-communist countries in their conversion to the market economy. It must also help to settle the quarrels among peoples which have resurfaced in the East and threaten to spread to the West; for that it must be convinced that within the Union national identities should be safeguarded rather than blurred. These barriers crossed, Europe will be in a position to play its trump cards, including its rich diversity which should predispose it to accept the differences of others more easily and to seek common solutions through compromise and cooperation.

In a multipolar world dominated by competition between great centres of economic power, it is difficult to have a single source of economic, commercial and technical rules. It is therefore necessary to encourage convergence among the leading players on the world economic stage. By the force of circumstances, the future will depend on the "cooperative interplay" which is set to develop between countries and groups of countries within the regional and world organizations to which they belong.

### *Deregulation, "public goods" and the ECE*

Through its work on the development and harmonization of norms and standards, the Economic Commission for Europe is helping to reduce the risk

<sup>32</sup> Lester Thurow, *op. cit.*, p.257. See a different view in Paul Kennedy, *The Rise and Fall of the Great Powers, Economic Change and Military Conflict from 1500 to 2000*, New York, Random House, 1987.

of fracture lines forming along the boundaries of the subregional integration areas, particularly those of the European Union and the Commonwealth of Independent States (CIS). This reordering of countries and groups of countries, of transnational and transcontinental cooperation, is being effected under the banner of an enhanced or refound freedom; the energies thus liberated are engendering initiatives and bold enterprises but are also widening the gap between rich and poor. In these circumstances, extreme deregulation is exacerbating competition and tending to upset the economic and social balance.

After this enthusiasm for deregulation, the pendulum is beginning to swing back towards rules and regulations which are proving indispensable for restraining erratic movements and unbridled competition in the financial sector. Mr Andrew Crockett, General Manager of the Bank for International Settlements (BIS), has sounded a warning: the atomization of finance between specialized operators and non-financial enterprises, like the irruption of information technology into the financial sector, is increasing the risk of crises.<sup>33</sup> Ever more powerful technologies and the anticipated benefits of globalization are encouraging massive investment which is making these risks even more acute. The Director General of the BIS is therefore recommending increased cooperation between the *regulatory and supervisory bodies* and calling for better *financial information* and the introduction of *standard rules* for equity capital. In their turn, aware of the risks of deregulation, many bankers are turning to the organizations responsible for regulating and supervising the banks and financial flows. There is a burgeoning fear of a financial system that cannot be controlled. The globalization movement calls for global, and hence political public regulations and controls.

One of the functions of a democratic State is to guarantee the production of public goods, that is goods whose social value exceeds their cost but which the private market will not produce (or not in sufficient quantities).<sup>34</sup> In particular, the authorities are responsible for guaranteeing the protection of the environmental heritage: air, water, nature. When this function tends to extend beyond the national frontiers or to exceed the capacity of the State, it becomes necessary to lay down rules at the regional or even global level and to make sure they are applied. The normative function of the ECE and other institutions was illustrated above with specific examples in the fields of transport, the environment, trade, and statistics.

<sup>33</sup> See Paul Coudret, "Avis de tempête force 6 sur le système bancaire international", *Journal de Genève*, 11 November 1996.

<sup>34</sup> Victoria Curzon-Price, "Convergence économique et sociale" in D. Sidjanski (ed.), *L'Union européenne à la lumière du fédéralisme suisse*. Colloque Latsis 1995, Geneva, IEUG and Georg, p. 137.

The role of the authorities varies with the nature of the services. In the field of road transport, for example, the principal activity is undertaken by private or decentralized, sometimes autonomous public companies. The public function of the State, the European Union or the ECE is mainly confined to framing regulations relating to traffic, road signs, safety and environmental protection and to overseeing their application. To this must be added the basic task of laying out the main road transport arteries and developing the infrastructure, either by direct management or by granting concessions. With the expansion of trade and the spread of integration, the rules of play, originally national, have been projected onto the regional or international plane and coordinated or reformulated at those levels. Even in those sectors in which most of the activity is in the hands of private operators and enterprises, it is the task of the national, European or international civil service to define the legal framework for those activities and to lay down rules that ensure favourable conditions for trade, the protection of the environment and human health and safety.

The value and scope of the rules adopted and applied within the European Union and in the ECE area are often such as to make them suitable for implementation on a world scale. The ECE's experience shows that they may either be adopted by individual countries outside the region or taken up at world level through ECOSOC or one of the specialized agencies. There are many examples to illustrate this trend. Thus, the rules laid down in the European Agreement concerning the International Carriage of Dangerous Goods by Road (ADR) and the Regulations annexed to the 1958 Agreement on the Construction of Vehicles have been reproduced in many countries all over the world. The same applies to the rules on perishable agricultural produce (fruit and vegetables). The TIR Convention, which facilitates the transit of goods transported by road, has been adopted by several Middle Eastern, African and Latin American countries. As for the UN's EDIFACT standards, they are now being used in practically every country in the world. Other cases could also be mentioned, such as that of energy, which offers an example of a different method of diffusion. Thus, "World Energy Efficiency 21", a joint programme of the five regional commissions modelled on the ECE's "Energy Efficiency 2000 Project", is currently being launched with the aim of promoting transfers of efficient and environmentally friendly technology. In this way, those countries and regions which so wish can benefit from the work done by the ECE.

Being part of the United Nations, the Commission is well placed to facilitate the dissemination of its conventions and instruments to other interested UN members, using procedures which are both flexible and pragmatic.

## 2. European security and economic interdependence

### *European security and political cooperation*

Depending on their membership and sphere of competence, the areas covered by the main institutions may overlap. Thus there are four organizations concerned with security policy: one at world level (UN), one pan-European (OSCE), one Atlantic (NATO), and one of more limited scope (WEU). These four organizations vary with respect to their size and powers. With the exception of the UN, they are focused on Europe, with American participation in the case of the OSCE and American leadership in the case of NATO. With the end of the cold war, all have started to reform their structures and strategies, making adjustments which are all the more delicate in that the concept of security has changed radically, with the appearance of new risks and types of conflict. Henceforth this concept will include internal and external security and incorporate such factors as minorities and the economic and social situation.

At the UN, the Security Council is no longer systematically exposed to the "Soviet" veto. Confrontation has given way to negotiation and consensus. The same applies to NATO whose radius of action is no longer confined to collective security in the face of a specific external threat. NATO has had to adapt in two ways. Firstly, it has been necessary to reconsider the role of the European States. Thus, the tensions induced by the debate revolving around NATO's European pillar, its degree of autonomy and the role of the WEU ended in compromise at the Berlin Atlantic Council in June 1996. The principle of a possible devolution of certain NATO resources to the Europeans was confirmed. It was recognized that NATO forms the priority framework of European security policy, but it was acknowledged that, with its support, actions could be undertaken by the WEU. The expansion of NATO to include certain countries of Central and Eastern Europe, the second aspect of the reforms, continues to arouse the suspicions of Russia which perceives it as an encircling movement. The treaty between NATO and the Russian Federation is an attempt to address these concerns. Given the still unstable state of Europe in transition, it is in any case essential not to squander a still fragile store of confidence and to strengthen cooperation with all the States that do not belong to NATO. Seen in this light, the role of the ECE and the OSCE, like that of the partnership between the European Union and the other countries of the region, takes on its full significance.

While NATO is proposing to incorporate a few countries of Central and Eastern Europe, the OSCE allows all the countries within an area extending

from Vancouver to Vladivostok to participate on an equal footing. Thus, it provides a broad framework for discussing the future of security in Europe.<sup>35</sup> At the OSCE summit in Budapest in 1994, Russia proposed a global model designed to give the organization a legal basis and its own Security Council within a regional system of collective security. The same idea was further developed at the Lisbon summit in 1996.

This discussion raises the question of the future of the OSCE which, as the former CSCE, during the period of the cold war, along with the Economic Commission for Europe, played a highly useful and unique role as a forum for dialogue and cooperation. Confronted with the new challenges to European security, the OSCE has now adapted itself by seeking to become a more operational agency for anticipating and preventing conflicts and for strengthening democratic societies. For this it is relying on its special expertise in the fields of preventive diplomacy and the application of confidence-building measures.

Despite these advantages, some are questioning whether the OSCE possesses the means to achieve its goals. Lacking an administrative and operational infrastructure, dealing with complicated issues, and subject to delicate and highly political decision-making processes, it is heavily dependent on the *ad hoc* contributions of its member States. Moreover, it must rely on the work and activities of other regional organizations which have acquired experience and expertise in economic, social, legal and institutional matters that affect security in Europe.

The Council of Europe has a long history of working to strengthen democracy in Europe. Designed to serve as a guarantor of democratic principles and human rights, since 1990 it has opened its doors to many countries in transition, including Russia. Thus, in the area of political and institutional cooperation with these countries, the activities of the Council of Europe, the OSCE and the European Union should mutually reinforce each other.

### *European security and economic cooperation*

#### *A complex web of organizations and initiatives*

The question of the allocation of tasks has become much more complicated since 1990. Several international organizations are providing support for the countries in transition, alongside the contributions being made by the European organizations and some Western States. Hence the importance of coordinating the various initiatives and interventions and increased interinstitutional cooperation with a view to avoiding duplication of effort (and the

<sup>35</sup> Armin Ritz, "La future architecture de la sécurité en Europe", in *La sécurité en Europe: vers une flexibilité interinstitutionnelle*, Colloque Latsis 1996, Geneva, IEUG and Georg, pp. 40-45.

waste it involves) and ensuring that the enterprise as a whole is conducted as efficiently as possible.

World organizations such as the World Bank and the IMF, the GATT and its successor the WTO are contributing to the transition of the countries of Eastern Europe and their integration into the world economy. Thus, the World Bank is supporting projects in most of the countries concerned. The same applies to the IMF which is helping them to adjust their economies and put their monetary affairs in order. As for the WTO, it has admitted the countries of the Visegrad group as members, most of the other countries in transition having observer status, which is making it easier for them to familiarize themselves with the rules of international trade.

More directly engaged are the *principal European organizations*, including the European Union, the ECE, the European Bank for Reconstruction and Development (EBRD) and even the OECD. Founded in 1990, the EBRD has the task of fostering productive investment and infrastructure projects in the countries in transition. The other older European organizations have adjusted to the new geopolitical situation created by the fall of the Berlin wall. Their desire to open up and draw closer to the countries in transition has taken many forms: the accession of three countries of the Visegrad group to the OECD, European agreements between the European Union and the countries of Central and Eastern Europe, partnership agreements with the countries of the CIS.

The changes are probably the least radical in the case of the ECE, considering that since its creation it has always practised cooperation with all the countries of Eastern Europe. However, its circle of members has also expanded with the inclusion of young States that have come into being as a result of the breakup of Yugoslavia and the Soviet Union and the partition of Czechoslovakia. Moreover, the transition process has led it to carry out an in-depth review of its problems and its activities.

#### *The major role of the European Union*

The European Union is asserting itself as a powerful centre of attraction in the process of transformation of the European scene. The economic influence it exerts is considerable at both regional and world levels, while its identity is being reinforced by its common policies and positions. Accounting for about 20% of world trade, the European Union is the foremost trading power and its common policy in this field is the logical extension of its customs union. Its share in the budgets and operation of the international organizations is substantial: it contributes more than half the budget of the United Nations, and the same applies to the specialized agencies and other



international organizations. Within the World Bank, the IMF and, even more visibly, the EBRD and the WTO, its influence is tending to increase. It also provides more aid for the developing countries and, since 1990, for the countries of Eastern Europe than any other donor.

The European Union is the main trading and economic partner of most of the countries in transition. It is also in first place as a provider of assistance for these countries, including the countries of the CIS, with total aid estimated at 75 billion ecus between 1990 and 1996. Having subscribed 51% of the capital of the EBRD, the member States of the Union occupy a central position within that institution. This has led the G4 and the G7 to entrust the European Commission with the coordination of all Western aid for Eastern Europe. It has thus been called upon to assume, with the assistance of the EBRD and the ECE, a major role in providing support for these countries and in the construction of greater Europe. For implementing its support strategy it has two main instruments at its disposal: association agreements and partnership agreements. Association agreements—so-called “European agreements”—have been concluded with the countries applying to join.<sup>36</sup> They provide for free trade, assistance programmes and regular consultation within common institutions (the Association Council and Committee and the Parliamentary Association Committee). Cooperation and the pre-accession strategy are supported by the PHARE programme with a budget of 1.15 billion ecus.<sup>37</sup> These institutional and financial instruments are administered by a Community department with a staff of 300 officials, as compared with only 20 in 1990. This illustrates the importance the European Union attaches to these countries which are destined to join it in the near future.

The PHARE programme helps the associate countries to restructure their economies and adapt their legislation to the Community patrimony. The multiannual assistance programmes, incorporated in the national strategies, relate mainly to investment aid, particularly in the areas of infrastructure, the environment and private sector development. To supplement the bilateral aid and agreements, the Commission is supporting intraregional cooperation and good-neighbourliness between associate countries by financing several multi-

<sup>36</sup> European agreements are in effect with Poland, Hungary, the Czech Republic, Slovakia, Romania, Bulgaria and the three Baltic States; a European agreement with Slovenia was signed in June 1996. There are ten Central European countries applying to join the Union. (European Commission, *General Report on the Activities of the European Union 1996*, No. 785.)

<sup>37</sup> The participation of Croatia in the PHARE programme was suspended following its intervention in Krajina in August 1995 and this decision was maintained in 1996 (*General Report 1996, op. cit.*, No. 826). As for the eligibility of other republics of the former Yugoslavia, the European Council has confirmed its agreement for Bosnia and Herzegovina and the former Yugoslav Republic of Macedonia.

national programmes and a transborder cooperation programme. This support is strengthening the institutions for cooperation, encouraging the development of civil society, facilitating the movement of persons and goods and promoting trade in the region.<sup>38</sup> Thus, the associate countries are in the process of restoring cooperation networks and renewing their interdependence. The ECE is contributing to this effort by deploying all the good-neighbour and integration instruments it has developed, as well as through its analyses which emphasise the importance of subregional trade.

In addition to the PHARE programme of aid for the countries of Central and Eastern Europe there is the TACIS programme aimed at the countries of the CIS, cooperation with which takes the form of “partnership agreements”. Thus, it is possible to distinguish three categories of European countries with which the Union is developing its relations: the first consists of the applicant countries belonging to the Western sphere of influence (Cyprus, Malta, Turkey<sup>39</sup>); the second is made up of the countries of Central and Eastern Europe and the Baltic States which under the enlargement strategy are expected to join within the fairly near future; and the third is composed of the CIS countries whose accession, at least for the time being, is not envisaged. All these countries, whatever their situation and the type of agreement they have concluded with the European Union, are full and equal members of the Economic Commission for Europe.

The European pre-accession agreements, like the partnership and cooperation agreements with the countries of the CIS, are intended to promote collaboration in the fields of democratic reform, economic development, internal affairs and foreign and security policy. The progress achieved and the degree of cooperation vary not only with the mutual interests involved and the extent of the economic reforms but also with the development of democratic institutions and respect for human rights and minorities.<sup>40</sup>

The establishment of exchange and cooperation networks, together with the aid and assistance measures, serves an important objective of the European Union, namely to preserve and strengthen the stability of these regions. Despite differences between the accession and partnership strategies, both are directed towards the same goal. These few remarks simply underline the obvious importance of the role which the European Union is playing in European integration and cooperation.

<sup>38</sup> European Commission, *General Report on the Activities of the European Union 1995*, Brussels-Luxembourg, 1996, Nos. 824-826.

<sup>39</sup> Malta's application has been withdrawn following the elections of 1996 and, for the time being, that of Turkey has not been included in the European Commission's proposal.

<sup>40</sup> *General Report 1995, op. cit.*, Nos. 838 and 885.



Its standing within the Economic Commission for Europe is in keeping with that role. The relations between the ECE and the European Union should be viewed from the medium and long-term standpoints. In the medium term, the contributions of these two institutions to the completion of the democratic and economic transition in Europe are clearly complementary. In the longer term, looking beyond this phase of transition and expansion, the ECE will always be useful as a multilateral forum that brings together the European countries, whether or not members of the European Union, and the countries of North America; at the same time, it will also continue to facilitate cooperation, within its areas of competence, between its member States and all the other countries that form part of the United Nations family.

## VI. THE ECE ADJUSTS TO THE NEW REALITIES: PLAN OF ACTION FOR 1997

### 1. General approach and structural reforms

Since the shock wave of 1989, governments have been driven to revise their policies and their "agendas" while the organizations have set about introducing reforms. Thus, in the case of the European Union, the review initiated by the Intergovernmental Conference of 1996-1997 was mainly determined by the prospect of the accession of the countries of Central and Eastern Europe and regional security concerns. As for NATO, having lost its original *raison d'être* with the disappearance of the threat from the East, it is also in the process of reviewing its objectives, its structure and its field of action.

Although the enlargement of the European Union has met with few objections, the expansion of NATO to include the same countries of Central and Eastern Europe is more problematic, raising the issue of Russia's role in European security and the question of mutual trust. Against this background of a Europe in upheaval, the OSCE and the ECE are the only two regional organizations which, given their membership and their mandates, are in a position to update their strategies in direct continuation of their previous activities.

Since 1990, the member States of the ECE have placed the emphasis on the transition of the countries of the former Eastern bloc to a free-market system and their integration into the world economy. It was considered necessary to concentrate on these priorities in order to avoid dissipation of effort in the face of the many demands from the countries in transition. New assistance tasks were added to the previous activities. These mainly took the form of seminars and workshops on various aspects of the operation of market economies and on the implementation of the normative instruments adopted by the ECE. Against all logic, throughout this period of emergence of new tasks resources were steadily reduced.

In 1995, a broad and systematic review was undertaken to define the strategic directions of the Commission's future activities. The aim was to adapt the Commission to the new realities in the region, to the needs and priorities of economic development of the countries in transition and to the budget capacity available.

After more than a year's work by the member States led by Ambassador Lodewijk Willems, Chairman of the Commission, with the participation of secretariat officials, in April 1997, on the occasion of its 50th anniversary, the Commission solemnly adopted a "Declaration on the strengthening of economic cooperation in Europe" (see Annex) and a Plan of Action. This work of reorientation and restructuring was carried out in a spirit of renewed confidence. It bears the hallmark of a shared desire to give a new thrust to the work of the ECE. More radical than the minor adjustments made in 1990, the purpose of the 1997 reforms is to adapt the ECE's structures and to reallocate the human and financial resources to serve the main interests shared by all the member States.

The Plan of Action is "based on a vision that ECE will continue to facilitate and strengthen the involvement of all member countries in harmonious economic relations. This vision, which inspired the creation of ECE by the United Nations General Assembly in 1947, has to be maintained and placed in the new context created by the adherence of the whole region to the market economy system. As a forum where all member countries are represented on an equal basis, ECE is in a unique position to make that vision a reality by engineering its response to new realities and challenges in the region. Thanks to its capacity for change, ECE will remain an effective force for economic integration".<sup>41</sup>

The Plan of Action proposes a series of specific measures and actions which will enable this mission to be fulfilled. These are guided by five major concerns:

- to focus on those areas of work in which the ECE is particularly strong, which call for a multilateral treatment and which enjoy wide support throughout the region;
- to simplify the intergovernmental structure by reducing the number of principal subsidiary bodies from 14 to 7, with responsibility for covering all the areas of work retained under the reform programme;
- to rationalize the methods of work in order to save resources and improve efficiency; the measures taken include, in particular, shortening the length of meetings, concentrating the discussion on a limited number of well-defined questions, developing the practice of holding informal meetings and simplifying the documentation.
- to introduce greater flexibility into the management of the programme of work for the Commission and its subsidiary bodies,

<sup>41</sup> Plan of Action, Doc. E/ECE/1347. Fifty-second Session, February 1997, ECE.

thanks to an adjustment mechanism that allows existing activities to be terminated and new ones to be initiated at a pace in keeping with the changing needs and realities of the region;

- to strengthen coordination with other regional and global organizations in order to avoid duplication and develop cooperation built upon complementarities in terms of membership, mandate and issues.

## 2. Strategic directions

### *Areas of work*

Under the Plan of Action the areas of work will be as follows: economic analysis, statistics, trade, industry and enterprise development, environment, transport, sustainable energy, timber and human settlements. In addition, the Plan of Action establishes a Coordinating Unit for Operational Activities and stresses the need to promote cross-sectoral linkages.

### *Economic analysis*

Economic analysis, which by improving mutual understanding and facilitating the convergence of policies encourages integration, will be further concentrated on developments in the transition economies and on their economic and financial relations with the other countries of the region and the rest of the world. The analysis of the transition processes will focus on structural changes and institutional problems, as well as on macro-economic trends.

As in the past, a major objective of the *Economic Survey of Europe*<sup>42</sup> will be to provide a focus for the discussion of the region's economic problems and policies. The intergovernmental economic discussion, traditionally held on the first day of the annual session, will be preceded by a seminar which will enable economists from a wide range of backgrounds (government, academic and business sectors and other international organizations) to discuss some well-defined topic on an open and informal basis. Given the multidisciplinary nature of the transition process, it would be desirable if they could be joined, as suggested in the ECE's studies of the countries in transi-

<sup>42</sup> The Survey will henceforth appear in a new format, namely an annual volume of three issues: (i) analysis of developments in the region in the past and coming years; (ii) analysis of selected topics in other areas of the ECE's work; (iii) trade and external financial relations of the transition economies. This third issue will replace the *Economic Bulletin for Europe*.

tion, by a few specialists from other disciplines such as sociologists, geographers and political scientists.

### *Statistics*

This traditional and strategic area of work, which provides cross-sectoral support and aid for decision-making, will be consolidated in the following three directions: to respond efficiently to the needs of national statistical offices to enable them to implement the Conference of European Statisticians' work programme; to ensure that essential macro-economic and other statistics are collected, processed and made available to users; to address the particular circumstances and needs of economies in transition.

The Plan of Action provides for the use of additional resources to produce a larger and higher-quality body of statistics in a timely manner, especially in countries in transition, and to serve the work of the Conference of European Statisticians in priority fields such as national accounts, environmental accounting and coordination of international statistical work.

### *Trade, industry and enterprise development*

The fact that all the member countries are now partisans of the free market has led the member States to combine trade, industry and enterprise within one large area of work. In keeping with this approach, to which all the members subscribe, the work will have a twofold objective: to contribute to the creation of a supportive environment for industrial and enterprise activities; to assist in the integration of all countries, in particular countries in transition, into the European and global economy.

To serve these objectives, three main directions of work will be further developed: (i) trade-related standards and the legal framework for promoting trade and investment; (ii) trade facilitation through standards and regulations developed by the Centre for Facilitation of Procedures and Practices for Administration, Commerce and Transport (CEFACT); (iii) the development of enterprise, including the promotion of small and medium-scale enterprises, particularly in countries in transition; this line of work will be pursued in close cooperation with the European Commission and the EBRD which, each in accordance with its own approach, perform functions that supplement those of the ECE. The industry and enterprise development dimensions will lead to additional emphasis being placed on activities at the interface of government and private sector responsibilities such as enterprise restructuring, promotion of investment and foreign trade development.

Since the initiation of the economic transition and privatization processes in Eastern Europe, the question has been whether to retain inter-governmental meetings in specific industrial sectors. In fact, the reforms place the work on steel and chemicals within the broader context of the problems of enterprise development. Two Groups of Experts have been established, one for each sector. They will focus their activities on privatization and restructuring policies and on the environmental aspects and will be backed by the collection of information on market trends and prospects. These two Groups will make it possible to preserve the networks and contacts established between the public and private sectors of East and West.

### *Environment*

The environment, a strategic and multisectoral area, will be further consolidated in three directions with a long-term dimension: (i) the "Environment for Europe" process, which organizes cooperation between countries and institutions for the purpose of implementing the priorities set by the Conferences of European Environment Ministers; (ii) the environmental conventions, which can benefit from important synergies, being prepared and monitored by the same secretariat; (iii) the environmental performance reviews, which apply the methodology of the OECD countries to those countries in transition that request them.

The Plan of Action indicates that the additional resources assigned to the environment will be used to strengthen activities in the fields of environmental performance reviews, development of the Convention on Long-range Transboundary Air Pollution, and preparation of the Convention on Access to Information, Public Participation in Decision-making and Access to Justice in Environmental Matters. Thanks to modern means of communication, including the Internet, it will be possible to circulate the latter Convention widely among the media and NGOs, as well as the regions and local authorities.

### *Transport*

The Plan of Action stresses the need for the further strengthening of intergovernmental cooperation in this area in order to develop coherent international transport networks while improving safety and environmental performance. It notes that the ECE's work in norms and standard-setting has a twofold objective: firstly, to develop new instruments and continuously adapt the existing ones and, secondly, to support their effective implementation, particularly in countries in transition in order to facilitate their integration by bringing their transport systems in line with those in other countries of the region.

The additional resources assigned to transport will be used, in particular, to strengthen these two orientations in the specific fields of transport of dangerous goods, customs questions affecting transport and road safety.

Apart from the ECE, the European Conference of Ministers of Transport (ECMT) and the European Commission are also involved in transport matters. As indicated in the Plan of Action, it would be desirable to review the distribution of tasks between these three bodies, each of which has its own functions and experience. Such a review would make it possible to avoid any duplication and would serve as a basis for a more structured cooperation.

### *Sustainable energy*

The work in this area is being scaled down and refocused on the restructuring of the energy sector in the context of sustainable development. Consequently, the Committee on Energy has been renamed the *Committee on Sustainable Energy*. Its work will cover energy reforms in Central and Eastern Europe, integration of energy systems, developments affecting energy demand and supply in the short and medium-term and energy infrastructure.

The experimental dimension of the work on energy efficiency will be further developed through the "Energy Efficiency 2000 Project". As for the activities relating to gas, they will be retained and cover the restructuring of the gas industry in countries in transition, management of gas resources, trade, and interconnections of gas networks in Europe. Finally, a number of activities related to coal and its use for thermal power are also retained. These will focus on market adaptation of the coal sector in transition economies and on the environmental aspects of coal power generation, including clean coal technologies.

It is uncertain whether the decisions taken will be sufficient to meet the needs of this rapidly expanding and strategically important sector which, moreover, is vital for the development of many of the countries of the CIS. In particular, the decision to scale down activities may cause surprise. Energy is an area in which the complementarity between big consumers in the West and big suppliers in the East calls for a joint approach based on interdependence and interconnections on a regional scale. While the Energy Charter fails to fill the existing gap, the limits of Community policy in this field and the prospects for the development of trans-European energy networks testify to the need for a global pan-European policy.<sup>43</sup> In these circumstances, the ECE's decision to scale down cannot but astonish the outside observer.

<sup>43</sup> *General Report 1996*, Nos. 333 to 338.

### *Timber*

The timber programme has been focused on the following core activities: regular collection and publication of statistics, forest resource assessment, development of indicators of sustainable forest management and monitoring of forestry assistance for countries in transition, review of forest products markets and study of the long-term outlook for the forest and timber sector. The Timber Committee will continue to serve the pan-European ministerial process on the protection of forests and maintain its close partnership with the FAO European Forestry Commission.

### *Human settlements*

The Plan of Action streamlines and refocuses work in this area on a limited number of priority issues, namely housing reform, land administration, urban renewal and sustainable human settlements development. The programme stresses practical strategies based on best practices and case-studies.

Within this framework, experts from the ECE region will continue to share their expertise on cadastre and land registration problems with countries in transition to help them establish their own systems for land privatization and land use. Cooperation with local authorities on changing consumption patterns and urban renewal issues will also be strengthened.

Finally, in this sector, as in most of the ECE's other areas of work, environmental concerns are also being addressed, with a view to promoting sustainable human settlements.

### *Coordinating Unit for Operational Activities*

Under the Plan of Action, a Coordinating Unit will be established in the ECE secretariat to deal with activity requests from groups of countries having a common interest in a specific issue. It will also deal with requests from subregional groupings such as the CIS, the Central European Initiative and the Black Sea Economic Cooperation. It will also have the role of supporting and, when necessary, coordinating the operational activities undertaken by the ECE's Divisions, including by the Regional Advisers.

The Unit will employ flexible working methods and its activities will mainly take the form of workshops and seminars which, in addition to the regular resource base, could benefit from the logistical and financial support of the interested countries, as well as from other forms of extra-budgetary resources. The Unit will seek to develop cooperation with other organizations

having operational programmes, such as the EBRD or the European Union with its PHARE and TACIS programmes.

Clearly, this approach is inspired by a concern to make the best possible use of the ECE's resources and expertise, as well as to improve the intersectoral coordination of operational activities. At the same time, like the ECE as a whole, the new approach is characterized by both greater flexibility and greater adaptability to changing conditions. Finally, the Unit will make it possible to organize activities in areas in which the intergovernmental bodies have been abolished by the reforms but which may still continue to interest a group of member countries. Thus, the networks established and the experience accumulated in such areas as science and technology, the engineering industries and automation could be partially preserved.

### *Cross-sectoral linkages*

This brief survey of the orientations of the ECE's activities established by the reforms highlights the existence of cross-sectoral linkages and hence the need to strengthen the "variable-geometry" collaboration among both intergovernmental bodies and the corresponding secretariat divisions. This would help to broaden the impact of the ECE's work. The Plan of Action mentions four cross-sectoral approaches which should permeate all the Commission's activities, namely the outlook for sustainable development, the mainstreaming of the gender perspective, the specific problems and needs of countries in transition, and cooperation with the business community.

At their annual sessions, the Commission and all its principal subsidiary bodies should review these four concerns and the linkages to be fostered between different sectors of activity. On this basis, they will be able to envisage new initiatives, in particular by organizing joint meetings. The Ministerial Conference on Transport and the Environment, held in Vienna in November 1997, the preparations for which were begun even before the reforms were approved, is a striking example of this cross-sectoral cooperation. It provided an opportunity for more than 45 ministers with responsibility for these two sectors to come together for the first time on a pan-European scale, under the aegis of the ECE. A plan of action was adopted and will be jointly followed up by the ECE's Committee on Inland Transport and its Committee on Environmental Policies.

### 3. The ECE's relations with other organizations

Where does the ECE stand in relation to the institutional transformation that has taken place since 1989? How has it repositioned itself with respect to

the other organizations, both global and regional? Its chief assets remain the same: its *pan-European and Atlantic* dimension, its *technical skills* which have made it a centre of excellence, and its institutional framework which enables its 55 members to engage in a *permanent dialogue on an equal footing*. Formerly, this multilateral framework served as a bridge between East and West. Now it affords all the countries of the region an opportunity to participate in the construction of Europe, even beyond the new limits of the European Union and NATO. This is particularly important for all the new independent States and for the countries which, at least for the time being, will not be able to join these two institutions. Moreover, the ECE is continuing to perform its original task of disseminating uniform norms and standards in Europe, a task whose scope and importance have both increased since the disappearance of the East-West divide and the intensification of the process of globalization.

### *Relations with the OSCE and the Council of Europe: complementarity in terms of activities*

The OSCE already has the same members as the ECE (with the exception of Israel) while the Council of Europe is gradually closing the membership gap. The mainly political functions of these two organizations are in the fields of security, human rights and democracy. Thus, their mandates and competences complement those of the ECE which is able to assist them with the economic and technical aspects of their activities.

### *Cooperation with the OSCE and the Council of Europe*

In 1975, at the Helsinki Conference on Security and Cooperation in Europe, the second basket of proceedings of the Final Act, devoted to cooperation in the areas of economics, science and technology and the environment, referred to the activities which the ECE could either intensify or undertake. The latter thus received a new impetus by becoming the natural economic partner of the OSCE. In this capacity, it regularly prepares the basic documentation for the annual meetings of the Economic Forum and for seminars on specific topics. It was also the ECE that prepared the evaluation of the commitments of the Bonn Conference on Economic Cooperation in Europe (1990); this evaluation provided a basis for the January 1996 meeting at which the OSCE reviewed the implementation of the economic dimension of security in Europe.



With a view to strengthening cooperation, the Plan of Action invites the Executive Secretary to hold regular consultations with the OSCE and to report on them to the Commission. This policy seems likely to result in a more structured and continuous collaboration and a more clearly defined division of tasks and labour between the two organizations.

Apart from their nationalist and ethnic causes, the recent conflicts in Eastern Europe are also due to the destabilizing effects of economic crises. Accordingly, there have been suggestions that the ECE should participate, by providing economic expertise, in an integrated approach to security, the planning and promotion of which would be developed within the framework of the OSCE.

Cooperation with the Council of Europe, though more sporadic, should also increase, in view of the heavy emphasis being placed on the relationship between economic development, integration and respect for democratic principles. Like the OSCE, the Council of Europe may regard the ECE as a partner ready to make a substantial contribution in the economic and technical fields. The Parliamentary Assembly of the Council of Europe and its Committee on Economic Affairs and Development regularly meet the ECE to discuss the conclusions of its analytical work. Moreover, since 1990, three Parliamentary Conferences on the progress of economic reform in the countries of Central and Eastern Europe have been organized in collaboration with the Commission. In the area of the environment, there has been a division of labour: the Council of Europe will be responsible for drawing up and monitoring the Pan-European Biological and Landscape Diversity Strategy, while the ECE will deal with the other environmental issues within the context of a broad programme of work.

#### *Cooperation with the European Union: complementarity in terms of dimension*

Since 1975, as a result of the relaxation of tensions between East and West the influence of the European Community, its member States and the Commission within the ECE has increased substantially, the fifteen countries of the European Union now usually speaking with a single voice. This reflects the high degree of integration they have achieved in most of the areas of work of the ECE and, added to their economic importance, explains their major role in defining the ECE's working policies. In fact, the cooperation is greatly to the advantage of both institutions: the ECE can draw support from this active core and, at the same time, give the Union the benefit of its long experience of the countries of Eastern Europe and its broader geographical

coverage. Thus, it is a question of a cooperative positive sum game, well illustrated in the field of standards.

These activities have given rise to cooperation in the form of harmonization, equivalence or transposition of standards. For example, the technical specifications attached to the European Agreement on the international carriage of dangerous goods by road, prepared by the ECE, have been appended as they stand to a European Union directive which makes them also applicable to national transport operations within the 15 member countries. It is intended that the standards on the equipment and conditions for the transport of perishable goods, adopted at Geneva, should also be extended to national transport operations by means of European Union directives. Cooperation is also making possible mutual improvements with respect to the standards relating to private cars: where design and safety are concerned, it is generally the ECE regulations that serve as a benchmark and reinforce the Union directives, whereas in environmental matters (emissions and noise) it is the latter, usually prompted by political pressure, which are tending to make the ECE regulations more rigorous. So far, 47 European Union directives on private cars have thus been harmonized with the regulations adopted by the ECE.

Furthermore, since 1990, the European Union has been engaged in providing assistance with transition. This programme has encountered a number of difficulties such as the distribution of manpower and tasks among several different agencies with responsibility for administering aid, the limited ability of the local economies to absorb credit and resistance to change.

It is unfortunate that the European Commission did not make use of the analyses prepared by the ECE or its opinions, given as early as 1989, on the assistance required by the countries in transition. It has already been pointed out how the pertinence of these observations has since been confirmed by experience. As for the future, the Plan of Action recommends that cooperation be developed within the framework of the PHARE and TACIS programmes. For example, the European Commission could call more often on the expertise of the ECE and the specialized networks it has gradually developed with its member countries. The already intensive cooperation in the field of standards would thus be accompanied by strengthened cooperation in terms of technical assistance. This would make it possible to combine to even better effect the respective strengths of the ECE and the European Commission, especially in the statistical, environmental, transport and energy sectors.

The necessary impetus should be provided by the higher authorities of the two institutions and by their member countries. As for the practical implementation of the measures, it will require regular contacts, to discuss programmes or specific projects, between the various divisions of the ECE sec-



retariat and the corresponding directorates of the European Commission. The development of relations at these two levels constitutes the best guarantee of effective cooperation. Finally, it will be necessary to take a medium and long-term view. The two organizations will be making complementary contributions to the democratic and economic transition process for some time to come. After this phase, and whatever the limits of enlargement, the ECE will always be the only multilateral economic forum in which the European countries participate on an equal footing. Thus, it will preserve its unique ability to promote cooperation between all these countries and those of North America. And finally, it will continue to associate with its work all the countries which belong to the United Nations family.

### *Relations with the OECD and the EBRD*

The Plan of Action recommends that cooperation with these two institutions should continue to be developed by exploiting the existing and potential synergies to the greatest possible extent.

In several sectors, cooperation between the ECE and OECD secretariats is leading to an efficient division of labour which takes into account the experience and skills of each. As mentioned above, the examination of environmental performance initiated by the OECD has been extended by the ECE to several countries in transition, thereby exploiting the geographical complementarity of the two organizations. In the mechanical engineering and robotics sector, that same complementarity has been used to conduct investigations based on a common methodology and covering the greatest possible number of countries.

In the field of economic analysis, the ECE's studies give an overall picture of the evolution of the situation in Europe and North America, with the stress being laid on the interdependence between the various parts of the region and on questions relating to the transition process. Meanwhile, the OECD is concentrating on individual studies of its member countries and a few countries in transition, in particular those which might before long join the organization.

In such sectors as energy and transport, the ECE is placing its technical and legal expertise at the service of programmes financed by the EBRD. More generally, cooperation with the latter organization is being developed in areas that relate to investment legislation and investor guides.

### *Assistance with subregional cooperation initiatives*

Most of the subregional groupings in Europe emerged with the end of the cold war. They are often composed of market-economy and transition-economy countries whose size, output, reserves of natural resources, etc. may vary considerably. However, beyond this diversity, they also have features in common. They are all based on geographical proximity, history and economic interdependence. All proclaim their attachment to the same fundamental principles: democracy, respect for human rights, the free market, and social justice. All share the same conviction that cooperation and integration can make a powerful contribution to peace and stability. Finally, they all offer a high-level political forum and, at the same time, are developing cooperative relations in economic and technical sectors.

The Plan of Action calls for strengthened cooperation between the ECE and these subregional groupings, in particular the Central-European Initiative, the Black Sea Economic Cooperation and the Commonwealth of Independent States. This cooperation, which has already begun, relates mainly to the facilitation of trade and border-crossing, transport, the promotion of investment, support for small and medium-sized enterprises, the environment and sustainable energy. It involves exchanging experience in various fields, promoting the convergence of policies, harmonizing norms and standards, supporting their application with technical assistance and, finally, participating in the formulation of projects that could receive financing from organizations such as the EBRD and the World Bank.

Moreover, the ECE is also supporting cooperation programmes set up to re-establish harmonious economic relations in regions which have been exposed to conflict. The South-East European Cooperation Initiative (SECI), which brings the Republics of the former Yugoslavia back together within a broader cooperation area, is but one example. At their request, the ECE is providing the countries participating in this initiative with assistance in the above-mentioned fields and thus helping them not only to resume good-neighbourly relations but also to forge closer links with Europe as a whole. In the future, given the support of other regional or subregional organizations, the experience gained with the SECI might also prove useful to other groups of countries with similar needs.

### *Relations with the world organizations and the institutions of the United Nations family*

Cooperation among the United Nations organizations is essentially based on complementarity in terms of fields of action (national, regional or global) and spheres of interest. When the latter are broad, such as trade and investment, or cross-sectoral, such as the environment and sustainable development, there will inevitably be some overlap. Accordingly, even when the mandates and functions of each entity are well defined, the question of coordination arises and, in this connection, it is important to observe certain rules and principles.

First of all, organizations active in the same field should establish good information and communication procedures to ensure that they are well aware of each other's work programmes and current and future activities. Secondly, the organizations concerned should avoid engaging in sterile competition and recognize the work that each has previously done, as well as the knowledge and experience thus acquired. Finally, this recognition should lead to the sharing out of tasks, the identification of reciprocal contributions and, where necessary, the organization of joint activities.

The Plan of Action applies this policy by setting up a consultation and programming system intended to prevent duplication of effort and to promote cooperation with a view to exploiting the strengths of each organization. At the level of the United Nations as a whole, similar efforts have been made to clarify the division of labour and to improve coordination within the framework of the reforms initiated by the Secretary General. Such efforts are necessary not only to save costs but also to create a climate of trust between UN bodies.

The ECE has embarked on this course, in particular, by making its programmes and its areas of expertise better known. This should lead to the strengthening of the existing cooperation, notably with the UNDP in the fields of statistics and the environment and with the World Bank in the fields of energy efficiency and support for land administration in the countries in transition.

Where economic analysis is concerned, there are several institutions that publish reports on the countries of Eastern Europe. Sometimes they use the ECE's analyses, sometimes they develop their own, in which case they generally arrive at the same conclusions as the ECE but, lacking the necessary experience and detachment, take a few years longer to do so.

Trade is an area which calls for cooperation and the division of labour inasmuch as there are several different organizations involved: the United Nations Conference for Trade and Development (UNCTAD), the International Trade Centre (ITC), several of the regional commissions and, of course, the World Trade Organization (WTO), which stands outside the United Nations system. As mentioned above, one of the major activities of the ECE, which has now won worldwide recognition, is trade facilitation. The cooperation with the WTO is intended precisely to secure the inclusion of the relevant recommendations adopted at the ECE, including the EDI-FACT standards, in the multilateral trading system. It is on these grounds that the ECE has been granted the status of observer in certain WTO committees.

### *Relations with the socio-economic actors: business community, professional associations and regions*

In their various ways, the normative activities in the fields of transport, trade facilitation, the environment and energy have repercussions both on the regions and local authorities and on the business community and professional associations. All of these show an interest in the activities of the ECE. They seek to keep themselves informed and indeed to be consulted and to take an active part in some of the work. Communication and contact networks are therefore being established or expanded. An increasing number of non-governmental organizations now have consultative status with the ECE, which enables them to obtain access to information, become involved in the work and to influence the decision-making processes. This side of the ECE is set to develop further since the countries in transition have undertaken decentralization and privatization reforms leading to diversification of the actors involved and the development of various types of partnerships with their counterparts in the West.

#### *Business community and professional associations*

The statistical data, the Economic Survey of Europe and the other publications of the ECE are a useful source of information for the business community. Similarly, the legal guides, norms and standards which the Commission has been publishing since 1990 contain information on the legal framework and the best conditions for developing business in Central and Eastern Europe. This makes them valuable tools for the entrepreneur.

In addition to its information and analysis role, the ECE provides a forum in which the public and private sectors can meet. In some meetings, busi-

ness representatives participate as members of government delegations or, more frequently, at the invitation of the working parties or sectoral committees. Their presence, like that of the professional associations and environmental protection and consumer groups, can be attributed to their interest in the work and technical deliberations of the ECE's subsidiary bodies. Some of these non-governmental participants are also interested in the general analyses and discussions, in particular those on the economic environment and the prospects for foreign investment. Participation gives them the opportunity to discuss policy issues, in particular with the representatives of countries in transition. As a result of this cross-pollination between the public and private sectors in a multilateral context, companies find themselves more reliably informed and able to obtain a better view of the overall picture.

For their part, the member countries benefit from the presence of the business and professional association representatives who let them know their concerns and their points of view and often contribute innovative ideas and provide fresh impetus. By establishing communication links with the private sector and the professional associations within a flexible institutional framework the ECE is expanding its direct sources of information and its contacts with the various economic operators. Moreover, the ECE is calling on private sector specialists to organize certain seminars, workshops and study trips. These initiatives are encouraging exchanges of experience of special value to the government experts, professional association representatives and company executives and managers of the countries in transition. Finally, it should be noted that several thousand private-sector specialists are involved in designing EDIFACT messages.

It is important that, in the future, the ECE should continue to encourage the participation of an increasing number and a wider range of these non-governmental talking partners who reflect the complexity of industrialized societies and their interrelations. The inclusion of the topic of enterprise development within the context of the reforms is intended to meet this concern.

### *Regions and local authorities*

There has been a renewal of interest in relations with the regions and local authorities because of their increasing role in local, national and international affairs. This relatively new and particularly dynamic Western European phenomenon is beginning to spread to Central and Eastern Europe. The Russian Federation exists within a complicated system of republics, regions and various local authorities. In federal States, such as the United States, Switzerland and Germany, the traditional regions occupy, under various names, an important place. Other States, such as Belgium and to a lesser ex-

tent Spain, have either initiated a process of federalization or, like Italy, France and, more recently, the United Kingdom, set out along the path of regionalization. The regionalization of the member States of the European Union has its counterpart in the Union's regional policy. In the countries in transition, with the exception of Russia which has clearly opted for a federation, the situation varies from one country to another. While some, such as the Ukraine, are seeking to establish decentralized forms of State organization, others, having recently achieved independence, are endeavouring to strengthen national cohesion by adopting unitary structures. Meanwhile, Europe continues to be characterized by diversity, in terms of both regions and the autonomy of local authorities and municipalities.

Furthermore, there is a tendency for *cross-border regions* to be organized, while various types of interregional cooperation are beginning to emerge. The Basle Region which straddles Germany, France and Switzerland is often cited as a model. Similarly, the Geneva Region is organizing close cooperation with the French and Italian border regions to meet specific needs, taking into account the fact that Switzerland belongs neither to the European Economic Area (EEA) nor the European Union. Other initiatives are rapidly springing up in Western Europe, while in Central Europe the border regions of Hungary, Slovakia and Austria are seeking, albeit still cautiously, to promote their common development. Similarly, the development of Transylvania within the framework of the treaty between Hungary and Romania could help to relieve many tensions through cooperation in the field.

In this area, the ECE's first task must be to keep the regions and their associations regularly informed of the conventions, standards and technical assistance activities which might concern them. Thus, for example, the Convention on the Transboundary Effects of Industrial Accidents is of direct interest to the regions concerned belonging to neighbouring countries. Any exchange of information and concertation between these regions, speedier than consultations at the national level, could be aimed at preventing accidents, preparing the public to deal with the threat and repairing the damage done. Likewise, many ECE instruments facilitate either the continuity of transport infrastructures between countries or border crossing procedures. It is important that these instruments of direct interest to border regions should be known to the local authorities and that, as far as possible, the latter should be able to participate in their application.

## CONCLUSIONS OPENING ONTO THE FUTURE

This glimpse of the new institutional landscape and the division of labour among the European and trans-Atlantic organizations inevitably raises a number of questions. Thus, it is legitimate to enquire whether the Western countries, with the United States and the European Union at their head, may not have underestimated the potential and the advantages of the Economic Commission for Europe when they accorded special importance to the role of the OECD and NATO in relation to the countries of Eastern Europe. Their approach seems to be a logical one, being based on institutions which have proven their worth and which, moreover, embody Western policy: one with respect to the framing and analysis of economic policies and the other in the area of security. The strategy, then, consists of opening up these institutions to the countries of Central Europe and establishing partnership links with Russia and the CIS. This strategy is also based on the full range of activities of the EBRD and the more specific operations of the World Bank.

This approach is intended to accompany and supplement the active policy of the European Union which, together with the United States, exerts a dominant economic influence on the countries in transition. It also fits in with the train of events confirming the superiority of the Western system over the totalitarian regimes that followed the disturbance of the balance of power provoked by the collapse of the former Soviet bloc. However, it has a weakness inasmuch as it runs the risk of institutionalizing this imbalance. It tends to underestimate the time factor and not to make sufficient allowance for the power of Russia, admittedly now weakened but still a force to be reckoned with, and the realities of the situation in the other countries of Eastern Europe. It imposes a unilateral, albeit diversified, Western vision on the countries of the region, many of which are experiencing, in varying degrees, political and economic crises due to radical restructuring.

The Visegrad countries, it is true, in quest of security and prosperity, are seeking shelter under NATO's wing and membership of the European Union. For them—and for others who might eventually follow in their footsteps—it is a question of joining the European Union club and accepting its rules and the existing body of Community law. However, quite a few countries will remain outside the Union, even though they may continue to be associated with it through bilateral partnership agreements. Thus the present approach runs

the risk of maintaining or deepening the existing divisions and disparities between the countries of Eastern Europe, or even creating new ones.

Whatever the scenario envisaged—from the most promising to the most catastrophic—it is essential to have one or more bodies that provide all the European countries with an opportunity to keep each other informed, to advance their respective points of view and together seek lasting solutions that ensure European security and well-being.

The ECE provides such a framework for multinational dialogue in a number of economic and technical fields. It gives the Western countries an opportunity to hear the proposals, demands and reactions of all the countries of Eastern Europe and, at the same time, to forge economic integration instruments based on the broadest possible consensus, without any country feeling excluded or rejected. In particular, the ECE provides for the participation of Russia and Ukraine. If these countries were excluded, there could be no lasting security in Europe, and without a close association between them and the European Union, Europe's chances at the dawn of the 21st century would be seriously diminished.

Thus, the ECE is helping to prevent new barriers being erected and to dispel any shadow of a threat, real or fictitious, of one pole dominating over the rest of the region. In this respect, it is rendering an irreplaceable service to Europe as a whole and, more especially, to the European Union. There is a good case for strengthening collaboration between the Union and the ECE, on a basis free of superiority complexes. Although there is no comparison between their budgets, the ECE can contribute its long experience and in-depth knowledge of the countries of Eastern Europe, as well as the numerous contact and exchange networks that it has developed during its fifty years of existence. To these it can add—and it is far from being negligible—all the store of trust it has discreetly accumulated. Thus, the European Union could not do better than to engage more determinedly in effective collaboration with the ECE. This is the strategy that one is entitled to expect of it and its member States. Leaving aside considerations of prestige and precedence, such a strategy would, in the first place, take into account the ability of the ECE to create, extend or harmonize numerous integration instruments on a pan-regional scale.

The European Union is using various means of developing its external strategy at the European and world levels. These include the international organizations in which it carries considerable weight when it is able to overcome the differences between its members and speak with a single voice. This applies to the WTO, the World Bank, the United Nations and, within the latter, the ECE.

Thus, the ECE occupies an important, though still insufficiently conspicuous place in the new European geopolitics. Moreover, it has a potential which asks only to be fully utilized. The only question is whether the reforms that have just been adopted will enable it precisely to make the most of that potential. In fact, the reforms have demonstrated the ECE's ability to adapt to the new circumstances while preserving the store of knowledge and experience it has built up during its fifty years of existence. Taking advantage of a secretariat within which all the cultures of the region are represented, the ECE has long cultivated a spirit of dialogue and understanding between regimes which were once opposed and are still different. It remains the institution which, being able to take a balanced view of the economies of East and West, is best able to contribute to the search for a pluralistic approach that combines the "Anglo-Saxon model", the "European social model" and the models derived from the planned economies. Rather than insisting on one particular model, the ECE is providing for the coexistence of different versions of the market economy distinguished by the degree of State intervention, the importance of the State's regulatory role and the scope of public policies. Thus, the ECE is a single body forming the point of intersection of several economic theories and practices which need to be drawn closer together, while respecting their particular history, characteristics and development.

Given these advantages, it is destined not only to become the natural economic partner of the OSCE but also to complement the OECD, provide regional support for the WTO and, as mentioned above, serve as the pan-European extension of the European Union. Moreover, as an arm of the United Nations with organic ties with its regional commissions and specialized agencies, it forms a communications link and a centre for cooperation and potential coordination between areas and organizational networks at subregional, regional and world levels. An exceptional strategic position which for many years remained in the shadow of the cold war but now deserves to be exploited to the full. This is one of the personal conclusions to result from analysing the achievements, capacities and potential of the ECE.

The ECE's immediate task is to support the countries in transition. This has been a major preoccupation since 1989. Nevertheless, however important its aid and assistance for transition, the future of the ECE lies with the continuation of its original mandate, namely the promotion of economic cooperation and integration between all the countries of the region. Hence the need always to give priority to the least developed countries and areas. Now, after a brief lull, the threat of marginalization and fragmentation has re-emerged. Inequalities in levels of development, coupled with differences in the speed of transition and the pace of the negotiations with the European Union, might

arouse or perpetuate rivalries and tensions between countries of Eastern Europe which could easily embroil Western Europe as well.

To the disparities between countries and sub-regions there must be added the inequalities between regions and groups within member countries. As sources of social unrest, these inequalities often lead to political instability, and even demands for independence where minority communities are affected. As opposed to these divisive influences, various forms of cross-border integration and cooperation are offering new opportunities and hope. These are solutions based on the ties of interdependence which, while modelled on the experience of the European Union, take other traditions, structures and mentalities into account. Their success will largely depend on the readiness to establish institutions and adopt programmes capable of developing effective cooperation, in particular in cross-border regions.

Economic interdependence and integration alone cannot ensure peace and security, but they can make an important contribution and, moreover, are essential to sustainable development. They call for genuine collaboration between all the organizations active at the subregional and regional levels. The ECE can facilitate such collaboration within its sphere of competence, while respecting the principle of subsidiarity deriving from the federalist approach and continuing to adopt the functionalist approach stemming from a *de facto* solidarity in specific fields. It also offers a broad framework capable of accommodating different initiatives and forms of cooperation corresponding to situations and needs common to groups of countries.

The ECE is benefiting from the increased participation of enterprises and the business community. This is leading to the more active involvement of representatives of the professional associations, employers' organizations and trade unions, the liberal professions and commerce in the process of preparation and application of standards and legal instruments. It is also enabling them to rub shoulders and exchange views with national and international representatives and experts, which in its turn is fostering a multidimensional understanding of the economic realities, contributing to the establishment of collaborative networks and providing experience of teamwork.

This idea of opening up to an increasingly diverse range of participants while simultaneously adjusting the focus of activity lies at the heart of the thinking which led to the Plan of Action. The first to be carried out so systematically by a United Nations institution, this programme of reform is exemplary in more ways than one. It bears witness to the firm intention of the member countries to implement a programme based on a rigorous selection of activities, in accordance with functional criteria and priority needs. The reforms lay stress on the Commission's strong points, following an evaluation



of its achievements and the resources available. The approach adopted is an unusually courageous one, avoiding the path of compromise which so often leads to the least common denominator or to "blind" budget cuts, i.e. linear cuts affecting every sector of activity. These reforms are selective and prune those branches which, in the course of the Commission's fifty years of existence, have been allowed to sprout new activities, sometimes without regard for the overall view. This time, the areas of work have been identified and the intergovernmental structure reformed on the basis of a strategic study which takes into account the main trends characterizing the countries and the institutions of the region. Moreover, the former rigidity has been replaced by a certain flexibility which allows room for innovation. Under present conditions, the method and the action programme—despite a few gaps or instances of timidity, as in the case of energy, for example—seem worthy of serving as a model for the reform of other institutions and bodies of the United Nations.

With respect to the capabilities of the ECE, its strategic position in the regional environment and its future role, the Plan of Action introduces an important and promising change which heralds the renewed exploitation of the institution's full potential. By accomplishing its own transformation in a world of change, the ECE, with its wealth of experience, is proving its adaptability and vigour in the face of the new problems and new demands of a Europe under construction. By mobilizing its forces and rationalizing its structure, the Economic Commission for Europe is seeking, in keeping with its mandate, to make its contribution to the future of the Europeans.

## ANNEX I

### DECLARATION ON THE STRENGTHENING OF ECONOMIC COOPERATION IN EUROPE

We Governments meet today to celebrate the fiftieth anniversary of the United Nations Economic Commission for Europe and to pay tribute to its achievements. We affirm its relevance and our commitment to provide it with fresh impetus, so that in concert with other regional and subregional organizations, it will be able to take up the challenges which the region faces at the dawn of the 21st century.

Our member countries share common values and aspirations as well as closely linked economic interests. We also share a history marked by phases of tension, *détente* and *rapprochement*. Throughout these developments, the Economic Commission for Europe has succeeded in adapting its work to fulfil faithfully its primary goal of encouraging and strengthening the commitment of all its member countries to harmonious economic relations.

Being part of the United Nations, having a European and transatlantic character as well as a source of economic and technical expertise, the Commission has proved itself a competent and effective forum where all countries, regardless of their size or level of development, can participate in discussions and decision-making on an equal footing.

The Commission has successfully carried out vital tasks of cooperation and integration. By negotiating and harmonizing conventions, norms and standards, it has contributed to preventing and reducing pollution, developing transport infrastructure and diminishing the risk of road accidents, facilitating border crossings and simplifying international trade procedures. By drawing up guides for legal reforms and international transaction practices, it has helped the countries in transition to promote trade and investment within the institutional framework of a market economy. By publishing extensive economic analysis and statistics it has encouraged the exchange of views and the sharing of experience, leading to greater mutual understanding and contributing to policy convergence.

This work has yielded tangible results, such as the Convention on Long-range Transboundary Air Pollution and its protocols; the safety and anti-pollution norms for vehicles; the TIR Convention, eliminating inspection of goods at the frontiers of transit countries; the Agreement on the transport of dangerous goods; and the electronic system EDIFACT to simplify administrative procedures for international trade.

We are pleased that countries outside the region and sometimes the entire international community have applied some of these conventions and norms, and we are convinced that, in its areas of competence, the Commission will continue to be a centre of excellence recognized well beyond the borders of its member countries.



The Commission's work now takes place in an unprecedented historical context, when all its members subscribe to the principles of democracy and the market economy. This major transformation is compounded by underlying trends that affect all the regions of the world: the accelerating liberalization and globalization of the economy, the increasing role of the private sector, the dynamism of regional and subregional groupings, the strengthening of individual freedoms and civil society, but also the dangers of marginalization and fragmentation.

In this context it is essential to foster forms of cooperation that promote economic prosperity for all member countries and respond to the needs of an increasingly interdependent world economy. This cooperation forges greater cohesion within the ECE region and contributes to bridging gaps between its sub-regions. We are convinced that the Commission has all the assets to render such a service in the future, just as it has done in the past. This is what has led us to reflect deeply on its strategic directions, defining activities which need to be dealt with in a multilateral framework and for which the ECE is the appropriate forum. We have done so, paying particular attention to the countries in transition and their economic relations with the Commission's other member countries, to changes in the region's institutional landscape, such as the development of the European Union, and to the ongoing reform of the United Nations.

The reform of the Commission, which is outlined in the Plan of Action annexed to this Declaration, meets the threefold aims of focus, flexibility and efficiency.

With regard to the first aim, activities have been discontinued, streamlined or strengthened. Accordingly, we have decided to reduce the number of programme elements by 60% and the intergovernmental structure from fourteen Principal Subsidiary Bodies to seven. These efforts have resulted in identifying the following current areas of work of the Commission: environment; transport; statistics; trade, industry and enterprise development; economic analysis; energy; timber; and human settlements.

Our concern that the Commission should always be able to respond optimally to its members' needs has led us to introduce greater flexibility in its working methods. Consequently, we have decided to set up a consultative mechanism which will enable some activities to be discontinued and new ones to be launched in response to changes in the needs of member countries and in the realities of the region. We have also agreed on a structure for organizing activities to meet specific requests from sub-groups of member countries, in particular the countries in transition and the Mediterranean countries of the ECE.

Finally, the reform is guided by a desire for efficiency. We have made the intergovernmental structure of ECE more homogeneous and transparent, thereby simplifying decision-making processes and increasing the cost-effectiveness of ECE activities. In order to build upon proven advantages and to avoid duplication, we have decided to enhance cooperation with other regional and subregional organizations, such as the OSCE, the Council of Europe and OECD, as well as with institutions, in particular the European Commission. Similarly, we have decided to intensify the dialogue with the business community and civil society, both to benefit from their views and experiences and to broaden the impact of ECE work.

We are committed to applying this reform in all its strategic orientations and, thus, to strengthening the Commission as an instrument for economic cooperation, peace and stability in the ECE region.

Our decisions are fully in line with the current process of rationalizing the United Nations as a whole and of redefining its role and its programmes. By accepting this responsibility for the Economic Commission for Europe, we, its member Governments, are expressing our determination to contribute to the efforts being made by the entire international community to ensure that the Organization enters the 21st century with renewed strength, relevance, efficiency and credibility.

## ANNEX II

### LIST OF MEMBER COUNTRIES OF THE ECE

Albania	Liechtenstein
Andorra	Lithuania
Armenia	Luxembourg
Austria	Malta
Azerbaijan	Monaco
Belarus	Netherlands
Belgium	Norway
Bosnia and Herzegovina	Poland
Bulgaria	Portugal
Canada	Republic of Moldova
Croatia	Romania
Cyprus	Russian Federation
Czech Republic	San Marino
Denmark	Slovakia
Estonia	Slovenia
Finland	Spain
France	Sweden
Georgia	Switzerland
Germany	Tajikistan
Greece	The former Yugoslav Republic of Macedonia
Hungary	Turkey
Iceland	Turkmenistan
Ireland	Ukraine
Israel	United States of America
Italy	United Kingdom of Great Britain and Northern Ireland
Kazakhstan	Uzbekistan
Kyrgyzstan	Yugoslavia
Latvia	

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