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Opening Remarks by Michel Camdessus
Managing Director of the International Monetary Fund
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Madame Grapin, your Excellencies, distinguished guests: it is a great pleasure, as usual, for me to welcome you to the IMF.

Who would have guessed, five or six years ago, that in 1995 we would be discussing progress toward the accession of the countries of central and eastern Europe to the European Union? This progress is now a fact: already, association agreements--"Europe Agreements"--have been signed with ten countries; 1/ the European Council has declared that these countries can accede to the Union once they meet the necessary economic and political conditions and the EU's institutions are ready for a larger membership; and a pre-accession strategy is in place. So a European Union stretching from the Atlantic to the Baltic countries and the Black Sea is now not a pipe dream but a practical objective, let us say for the next decade. This would mean an increase in the size of the EU by 30 percent in terms of population--by more than 100 million citizens and consumers--and by close to 10 percent in terms of GDP. 2/ And the political and cultural significance of such an enlargement, and of the pre-accession process, is, of course, immeasurable.

Not only has progress been made in terms of the beginning of the pre-accession process, but also economic ties between the EU and the prospective members have already been strengthened, notably through the growth of trade. Trade between the EU and the associated countries has grown by 15-20 percent a year on average since the beginning of the decade, and the EU now accounts for more than one half of the associated countries' trade, compared with only one fifth at the end of the 1980s. The trade-liberalizing elements of the Europe Agreements have contributed to this revival of commerce among these natural trading partners in Europe, and will amplify it further.

1/ These are the four "Visegrad" countries (the Czech Republic, Hungary, Poland, and Slovakia), Bulgaria, Romania, the three Baltic countries (Estonia, Latvia, and Lithuania), and Slovenia. The agreement with Slovenia remains to be ratified.

2/ This is based on a purchasing power parity (PPP) valuation of country GDPs. On a market exchange rates basis, the implied increase in EU GDP would be smaller.

As a European myself, I enthusiastically welcome this progress and the prospect of wider, as well as "ever closer," union in Europe. But from the viewpoint of the IMF--the viewpoint of the world--I am bound to ask: what can the world hope, and expect, to see emerging from these developments? I believe that the world can have high hopes, in two particular respects: the full success of the transition process, and the adaptation of the EU itself. Let me elaborate.

First, the promise of accession should support the transition process and prospects for sustainable growth in the associated countries. It is well known that all the countries with Europe Agreements have made progress in liberalizing, opening, stabilizing, and reforming their economies. And the IMF is proud to have played a role, through its policy advice and financial and technical assistance. I believe that this has been one of the great success stories of the last five to six years, and I am happy to see many of the original participants here today. All ten countries have begun to see economic growth: in fact, it seems likely that their average growth rate this year will rise to about 4 percent. But many challenges remain. I shall just mention the most obvious:

- one is to reduce inflation further: among the ten countries, only the Czech and Slovak Republics and Slovenia have managed to reduce inflation close to single digits at an annual rate;
- even more than in western Europe, much remains to be done to reform budgets and social security systems;
- another challenge is the removal of distortions and controls in financial markets, which means faster progress with financial sector reform;
- and further progress with enterprise reform and privatization.

These are examples of the challenges that the associated countries must address, with or without membership of the EU, if they are to establish well-functioning market economies enjoying high sustainable growth. They are considerable challenges, calling for disciplined policies at a difficult time, when these countries are adapting to new, democratic, political frameworks. But here the objective and promise of accession to the EU should help in a number of ways--by providing a roadmap, a cooperative framework, and a boost to confidence.

First, the prospect of accession provides added stimulus and, yes, a specific roadmap for the further progress with macroeconomic and structural policies that these countries need to make. They know that if they are to join the EU, they must get inflation down to industrial country levels, especially given the prospect of EMU: the Maastricht criteria are already in their minds--like the performance criteria they became used to under IMF stand-by and EFF arrangements! They know that they must establish the macroeconomic stability, policy instruments, and strong financial systems

needed for open capital markets to be practical and beneficial rather than destabilizing. And they know that they must establish flexible and competitive enterprise and market systems that can withstand competition in a vast, diversified market. Accession to the EU promises to help lock in the reforms that these transition countries have achieved with IMF support.

Second, a cooperative framework. The pre-accession strategy embodied in the Europe Agreements, and now the white paper on integration into the internal market, will help the prospective members' policy efforts by providing a cooperative framework to promote smooth integration. The white paper provides an important guide to the key legal and administrative arrangements that the prospective members will need to adopt to participate in the internal market. But as well as harmonization of laws, human capital will be needed--government officials able to regulate a market economy without stifling it, and managers in the private sector able to comply with regulations while making profits. This points to the importance of technical assistance and training as elements in the cooperative effort that the pre-accession strategy must deliver.

A third way in which the promise of accession will promote progress in the associated countries is, of course, by boosting confidence in their economic prospects, and hence saving and investment. Their increasing access to EU markets alone should promote foreign direct investment and the inward transfer of advanced technology. All this should improve their growth performance and promote their convergence toward EU productivity levels.

So the prospect of accession should provide substantial support for the transition process in central and eastern Europe. That must be our first hope and expectation. But the world also has a right to expect something else from EU enlargement. This second hope concerns the adaptation of the EU itself. In other words, there must be positive changes on both sides of this partnership. The world is entitled to hope that the EU will adapt to the requirements of a larger membership in ways that will make it even more open and an even stronger building block in global cooperation and economic integration.

I perceive in the Community--I hope I am not wrong--a clear recognition that an enlarged EU will have to be a different EU, a stronger EU, but certainly not a more inward-looking EU. And a special openness should apply, in my judgment, to countries to the east. Partnership and cooperation agreements have been reached with Belarus, Moldova, Russia, and Ukraine; and it is to be hoped that there will be similar agreements with other countries of the FSU that are sometimes forgotten: they all need access to the industrial countries' markets. The Cannes meeting of the European Council made it clear also that closer cooperation with non-member countries on the Mediterranean rim is now a high priority, and the conference of the EU and the Mediterranean countries this November should lay new foundations for this important developing partnership. The Cannes meeting also completed protracted negotiations on financing assistance to

ACP (Africa, Caribbean, and Pacific) countries--in spite of the severe budgetary constraints facing EU states. The EU and its members must strive to ensure that in meeting those budgetary constraints, their assistance to the developing countries is given the priority it merits. Also, and particularly relevant to today's discussion, proposals have recently emerged from the Commission for deepening economic relations with the United States with a view to creating a "transatlantic economic space." We welcome this; and we see that the EU has been continuing with its efforts to strengthen its relationship with other parts of the world as well.

The responsibilities of such an important entity as an enlarged EU cannot but be worldwide, meaning that Europe must be ready to demonstrate its solidarity wherever problems might emerge. For the EU, as for the U.S., the backyard is now the world. I say this with a degree of emphasis, for at times I see the temptation to regionalism resurfacing. I believe it must be resisted: in a world that is more and more integrated, the temptation to fence off zones of recognized responsibilities must be resisted.

This being said, I do not see signs of an EU that is turning inward. Apart from the developments I have mentioned, there is, of course, the EU's essential commitment to the Uruguay Round and to strong multilateral trade rules within the framework of the WTO. But the world has a right to hope for more. The world can hope that, as the EU evolves and lowers trade barriers vis-à-vis the associated countries, the discriminating effects of this regional liberalization will be counterbalanced by a lowering of barriers on a multilateral basis. And the world can hope also that progress toward the accession of the prospective members will form a catalyst for further, radical reform of the CAP (Common Agriculture Policy) that will lower barriers to agricultural trade and contribute to a global reduction in agricultural protection. It is clear that the present CAP cannot be extended to the prospective members as such. This is, indeed, one of the main obstacles to the accession of these countries. The world must hope that the solution will be found not in protracted delays in the accession process or in restricted forms of membership but in a more open and less distorting agricultural policy in the EU; this is a reform that would make a major contribution to global welfare, provided, of course, there are parallel efforts by the U.S. and Japan.

Mention of the CAP and its reform is enough on its own to indicate that the enlargement of the EU now being contemplated is an ambitious project indeed, for the EU as well as for the prospective new members. The financial transfers that would be involved in the structural and cohesion funds are another issue that will need to be addressed. The enlargement is a formidable project that will call for enormous efforts by both the prospective and the incumbent members, and for close cooperation between them. Both have much to do if they are to succeed in converging on best-practice policies. But both also have much to gain. And the world has much to gain, especially if enlargement works as a catalyst to strengthen the EU's contribution to multilateral cooperation and global free trade. A Europe cooperating and prospering to the greatest benefit not only of its own citizens but of the world--the world has a right to hope for nothing less.