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Introduction: The Changing Face of Central and Eastern Europe

Tomislav Peraic*

We are all familiar with the astounding and previously unfathomable changes that are under way and ongoing in Central and Eastern Europe. However, as the euphoria fades and the realities set in, one now sees that the expectations were perhaps overly optimistic and the difficulties underestimated. The countries of Central and Eastern Europe are now making the painful transition from Communist societies to capitalism and democracy.¹ The region is traveling into the previously uncharted territory of post-Communism.

But how to achieve this? Generations have only known the Communist experience and do not understand the ways of capitalism and pluralistic politics. In order to discern and predict how the countries of Central and Eastern Europe will attempt to evolve from the economic underdevelopment and political authori-

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1. The following table of the rates of growth of GDP illustrates the very real difficulties that the countries of Central and Eastern European have undergone:

	1989	1990	1991	1992	1993
Former Czechoslovakia	1.3	-4.7	-15.9	-7.2	-2
Hungary	3.8	-4.0	-11.9	-5.0	1.5
Former GDR (East Germany)	2.4	-25.1	n/a	n/a	n/a
Poland	0.2	-12.0	-7.6	0.0	2.0
Former USSR and CIS	3.0	-4.0	-8.0	-20.0	-13.5

U.N. DEP'T OF ECONOMIC & SOCIAL INFORMATION & POLICY ANALYSIS, WORLD ECONOMIC SURVEY, 1993, at 211, U.N. Doc. ST/ESA/237, U.N. Sales No. E.93.II.C.1 (1993) [hereinafter WORLD ECONOMIC SURVEY].

tarianism that evinced the Communist period, one may benefit from a brief synopsis of how the countries got there in the first place.

The origin of Central and Eastern European underdevelopment is directly traced to the technological, industrial, and commercial revolutions of sixteenth- to eighteenth-century Western Europe. The West experienced a "take-off" period at that time, with breakthroughs in agricultural technology which sustained an interdependent economy with urban societies. Market economies developed from popular demand for general political liberties. The industrial revolution was in full swing by the eighteenth century and a commercial mercantile class fully developed, governed by a dispersed power base predicated on suffrage and administered by rational bureaucracies.

The Central and Eastern European experience was completely different; development was based on emulation of the West. While the technological knowledge which germinated in the West inched eastward at a turtle's pace, an increased propensity to consume jumped like a hare. This new consumerism, created by the ability to comprehend one's own perceived relative backwardness, was thus grafted upon an underdeveloped economy. To afford the higher rates of consumption, savings and investment rates suffered. Further decay on the periphery was caused by expenditures directed towards staving off foreign tutelage and quelling internal social disorder.

The rise of a secular authoritarianism accompanied this economic underdevelopment. Families emphasized education because futures were limited in entrepreneurship, and this gave rise to an intelligentsia and a bureaucratic class. But the Central and Eastern European bureaucracies, imitated from Western models, rose in anticipation of and not in response to a complex economy. No other classes reigned along with the bureaucracies, which thus converted actual administrative authority into real political power. This offered an unfortunately smooth transition into authoritarianism, and later Communism.

This is a brief and simplified glance at history, but it offers the following lessons which still hold true today. Central and Eastern European societies have historically had a strong desire to import technology. This has always been perceived as the mechanism by which Central and Eastern Europe would "catch up" with the West, albeit how those societies fell behind in the first place. Simultaneously, there has always existed a highly educated and capable expert labor force in the region. The Central and Eastern European bureaucracies, so adept at requiring twelve copies of a train ticket or some such nonsense, will need to transform themselves into an effective administrative class. Some perceptible economic expansion will thus be required to nurture the fragile new democracies. Technology is commonly perceived as the path for this expansion.

Major opportunities thus emerge, primarily in the areas of technology and infrastructure, as well as privatization, all of which are highlighted in this symposium on "Doing Business in Central and Eastern Europe." In addition to the focus on technology which is the infrastructure of the next century, Central and Eastern

European nations need to transform the previously socialized industries to private ownership, and this process will continue for the foreseeable future and will occur at varying paces. The nations that experimented with market reforms during the ancien régime can probably move forward at a quicker pace.²

As stated, technology transfers will likely lead the economic development of Central and Eastern Europe. The region is well suited in that there exists a large pool of highly qualified scientists able to undertake such tasks.³ The emphasis on technology is already seen in the expansion of electronic mail and facsimile transmittal services, which are generally more reliable methods of communication than the telephone. Of course, more traditional forms of infrastructure such as roads and rails also require attention.

Beyond infrastructure, serious obstacles exist. The severe environmental neglect of the past forty years has left the region with an ecological disaster. This problem needs to be addressed as the region develops. Also, for all of the shortcomings of the previous regimes, there was a general check on unemployment⁴ and inflation,⁵ which have now surfaced with a vengeance. A free media

2. For an excellent work on privatization and how each nation within Central and Eastern Europe addresses the issue, see PETAR SARCEVIC, *PRIVATIZATION IN CENTRAL AND EASTERN EUROPE* (Graham & Trotman eds., 1992). For a comprehensive bibliography on the subject, see *Privatization and Law Reform in Central and Eastern Europe: A Survey of Literature in English*, P.S. S.E.E.L., Oct. 1992, at 14, 14-17.

3. DAVID E. BIRENBAUM, *1 BUSINESS VENTURES IN EASTERN EUROPE AND RUSSIA* app. (2d ed. 1992) (containing David E. Birenbaum's article, "Eastern Europe: The High Tech Connection").

4. WORLD ECONOMIC SURVEY, *supra* note 1, at 28.

UNEMPLOYMENT

	1990	1991	1992
Former Czechoslovakia	1.0	6.6	5.1
Hungary	1.7	7.4	12.3
Poland	6.3	11.8	13.6
Romania	1.3	3.0	8.4
Bulgaria	1.6	11.5	15.9

Id.

5. WORLD ECONOMIC SURVEY, *supra* note 1, at 28.

continues to be elusive and may be unattainable if the economies do not grow; democratic liberalism may then give way to new and different forms of authoritarianism.⁶

Certain areas within Central and Eastern Europe stand a better chance at arriving at their goals than do others, although some other areas are likely underestimated. Certainly the "Northern Tier"—Poland, Hungary, and the former Czechoslovakia—stands the best chance at full development and integration with Western Europe. These countries had the most highly developed economies before Communism, and Poland and Hungary also experimented with market reforms during the Communist period. This situation may make the move towards development much quicker.

Romania and Croatia are frequently overlooked for their potential, but these nations stand well for development in the medium term. During the 1980s, Romania undertook draconian efforts towards the elimination of its external debt. Although this led to a dramatic decrease in the standard of living, at present Romania is in the black in terms of net transfer of resources and will not be plagued with a debt burden in the long term.⁷ With respect to Croatia, once the war ends, the country will need to redevelop the long and beautiful coastline for tourism, which served as a major source of hard currency for the former Yugoslavia. In addition, Croatia inherited the benefit of the market reforms which occurred during the Communist period. Finally, as a former member of the Austrian empire, Croatia has market and parliamentary traditions which further assist in the transition to capitalism and democracy.

In sum, the future of Central and Eastern Europe offers many rewards and opportunities for the legal practitioner, but it will be a long and arduous road. The ultimate aim for the people of Central and Eastern Europe is integration with

INFLATION

	1990	1991	1992
Former Czechoslovakia	9.9	57.9	10.8
Hungary	28.9	35.0	23.0
Poland	584.7	70.3	43.0
Romania	5.7	165.5	210.4
Bulgaria	19.3	338.5	79.3

Id.

6. See generally E. EUR. CONST. REV., Summer 1993 (special issue on "Media Freedoms in Eastern Europe").

7. WORLD ECONOMIC SURVEY, *supra* note 1, at 118.

Western Europe, and the implementation of such an end has already begun. In December 1991, the European Union (formerly the European Community) signed the Association Agreement with Poland, Hungary, and the former Czechoslovakia, with a goal of full membership. Very recently, NATO and most of the countries of Central and Eastern Europe initiated the "Partners for Peace" program.

Therefore, a slow and gradual integration is seen as the preferred method by which Central and Eastern Europe will join Western Europe. Privatization and technology will forge the path towards development, and the problems of the environment will be slowly solved. Given slow but consistent economic growth, which is already evident and supported by the relevant statistics, the new democracies will be nurtured and will survive. As the European Union solidifies, it will look to Central and Eastern Europe for new members.⁸ These new members will then become full partners in a "New Europe," devoid of geographic classification.

8. See Stefan A. Riesenfeld, *The Coming of Europe*, 16 HASTINGS INT'L & COMP. L. REV. 461 (1993) (stating that although the former European Community (EC) has struggled to come together, the EC has developed a strong base for its policies, and as it moves forward, the EC will potentially look for new members to strengthen its community).

