

EDITORIAL**ECB Policy: Right Course, Wrong Communication**

A cooling economy and the decline in stock prices have made the Federal Reserve Bank (Fed) lower its interest rates drastically since the beginning of the year. As a result, political pressures on the European Central Bank (ECB) to cut rates have mounted again. Most recently, Euroland finance ministers urged the ECB to follow the Fed's lead.

The ECB has done well to withstand these pressures for so long. The euroland economy did not justify a cut in interest rates during the first months of 2001. In the meantime, however, money growth has come down substantially. The growth rate of narrow M1 is nearly one percent. The broad aggregate M3, the focus of the First Pillar of the ECB's monetary policy strategy, is still growing at a rate above the ECB's reference value of 4.5 percent, but it is probably exaggerated due to portfolio substitution effects. Thus, money growth has now reached a level consistent with price stability in the medium term. From this perspective, the interest rate cut on 10 May was justified.

But, alas, 10 May was not a good day for the ECB, as its decision was communicated in an unfortunate way. There was no need to surprise markets completely with the decision to cut interest rates, and the vague hint at statistical problems only raised doubts about the consistency of the ECB's policy and the empirical foundation of its strategy.

Sticking firmly to its stability-oriented course, the ECB's monetary policy has gained considerably in terms of credibility and clarity. Too bad, if these precious gains are squandered by a lack of good communication.

Prof. Dr. Jürgen von Hagen

**E-Commerce Platforms -
Innovation and Antitrust Laws**

by Sascha Loetz

Electronic trade over the Internet is a booming industry. The technical development of the Internet and its ever-increasing numbers of users heighten its attractiveness as a medium for business transactions. Legislative measures have supported this development by creating a stable regulatory framework for e-Commerce. The EEC e-Commerce Directive in particular provides a stable legal environment for Internet trade within the European Community.

E-Commerce markets still exhibit little consolidation. At present, two fundamental forms of e-Commerce can be differentiated, based on the parties involved: the business-to-consumer sector (B2C), in which companies conduct business with consumers over the Internet; the business-to-business arena (B2B), where businesses trade with each other.

B2B PLATFORMS

B2B business is characterized by the development of electronic marketplaces for trade among companies, the so-called B2B platforms. These platforms not only standardize communication channels for companies technically, but offer a uniform format for catalogues and descriptions of goods and services. B2B platforms often give companies the option of selling or purchasing goods and services at auctions or reverse auctions, in addition to conventional means of contracting these goods and services. At a reverse auction, the opposite of a standard auction, there is a single buyer advertising his needs and multiple sellers. The lowest bidder wins the contract. Furthermore, B2B platforms provide a convenient way for companies to organize joint purchase operations and thus buy larger quantities at lower prices.

Recent developments have crystallized into two different types of platforms: hori-

zontal and vertical. On horizontal platforms – so named in that they serve a wide range of interests – a variety of goods and services is traded between the most diverse businesses. Vertical platforms in contrast are highly specialized. They focus on one industry and enable companies to source industry-specific goods and services. Vertical platforms have the potential to improve the efficiency of the supply chain of the underlying industry, by allowing entrepreneurs to collaborate more closely with their suppliers, as well as by increasing cooperation among the suppliers themselves.

It is remarkable that vertical B2B platforms are often established by competitors. The rationale behind such a venture is that its joint nature will guarantee a high enough rate of use to ensure its profitable operation.

SAVINGS ON TRANSACTION COSTS

B2B platforms offer companies significant savings on transaction costs. Compared to the costs of conventional business transactions conducted by telephone, fax or E-mail, the use of B2B platforms can lead to savings of up to 15%. Moreover, the centralization of company procurement can lead to further savings, by lowering administrative costs (improved workflow and search efficiency). Finally, lowering procurement prices by auctions and reverse auctions promises even further improvements in cost structure.

ANTITRUST IMPLICATIONS

The positive perspective of improved efficiency must be offset against a variety of antitrust concerns. In cooperation with the Wissenschaftliches Institut für Kommunikationsdienste (WIK), the Department of Political, Legal and Institutional Issues at ZEI prepared a study for the Federal Ministry of Economy and Technology on the an-

PUBLICATIONS

POLICY/WORKING PAPER SERIES:

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C 85 2001

Ludger Kühnhardt: Towards Europe 2007. Identity, Institution-Building and the Constitution of Europe.

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titrust issues of B2B platforms. ZEI prepared the legal evaluation of B2B platforms in this study.

The study identified several areas with antitrust implications: information sharing among competitors, exclusionary practices concerning the access to B2B platforms and the exercise of monopsony power through joint purchasing. The illicit sharing of information primarily affects those markets with



Different antitrust standards in European countries pose a risk to competition in Internet trade between businesses
Photo: ZEI

few competitors, which are in any case more susceptible to collusion. Joint purchasing, on the other hand, can be used to build up buyer-side market power in almost every market scenario. Exclusionary practices, such as arbitrary entry barriers, is still a future problem. It will need to be addressed at the latest when discriminatory behavior prevents entry to the markets for goods and services that are traded on those platforms.

The antitrust analysis of B2B platforms is determined by the dual legal framework formed by German and European antitrust laws. Both legal systems are strongly inter-

woven and are based on the same principles. Thus difficulties in the handling of B2B antitrust cases arises less from basic differences in the legal evaluation of these platforms than from different antitrust standards as applied to individual cases throughout the member states of the European Union and abroad. The global accessibility of Internet-based B2B platforms allows platform operators to establish their

businesses in countries with antitrust standards that suit their needs and thus evade the stricter regulation of others. The threat to competition which may arise from this type of "antitrust shopping" can be mastered by close coordination of national and supranational antitrust authorities.

The study concludes that the existing legal framework is sufficient to deal with the antitrust issues which have arisen to date from the increasing use of B2B platforms. However, the Internet is still in its infancy, and a final evaluation

of all legal ramifications is not possible.

Finally, the study's analysis of antitrust concerns should not detract from the enormous potential of B2B platforms to enable small and medium-sized enterprises in particular to develop new markets and thus preserve their competitiveness in an increasingly global economy.

Sascha Loetz is research fellow in the Department of Political, Legal and Institutional Issues at ZEI and is primarily involved in issues surrounding Internet and telecommunication law.

Summer School on European Telecommunications

In co-operation with VIAG Interkom (VI), ZEI will coordinate the First ZEI - VI Summer School on European Telecommunications in Bonn from 24 to 28 September 2001.

The summer school is directed at law students and trainees from all over Europe, who are already involved in the issues surrounding European telecommunications law or who desire to specialize in that field. The aim of the two-staged project is to foster an appreciation of the difficulties of practice-related interdisciplinary issues which arise within the framework of European telecommunications law. The notable feature of the summer school, and rather unusual for the field of law, is its practical involvement,

which will ultimately assist participants in entering their professions.

In the first phase of the summer school, participants will receive an insight into the European telecommunications system and address the actual problems, differences and tendencies of European telecommunications law. At the conclusion of the summer school selected students will be given the opportunity to participate in a one-year trainee program.

In this second phase, expanding on the knowledge already gained, students will receive further interdisciplinary scientific training at ZEI, the central focus being telecommunications. Following the legal training, two months at VIAG Interkom in Munich will provide direct insight into telecommunications practice and the possible spheres of activity of a specialist in European telecommunications.

South Eastern Europe - Stability Through Education

Ethnic nationalism, war and violence – deep trenches dug in the landscape of South Eastern Europe. The Network of European Studies at ZEI focuses on education as the means of safeguarding long-term stability in the region.

by **Emil Mintchev und Rafael Biermann**

The Stability Pact for South Eastern Europe has a new comprehensive task. It aims at a profound transformation of the region, so long characterized by ethnic nationalism, war, and animosity. Lasting stability in the Balkans can only be achieved by combating the mental and structural roots of the conflicts in the region. In the ten years following the resolution of the East-West bloc confrontation, the Western Balkans in particular have decoupled themselves conspicuously from developments in the rest of Europe. The Federal Republic of Yugoslavia and also Croatia, both crucial in the region, have precipitated themselves into a state of international isolation. The central objective of the Stability Pact is not only to halt this process but to reverse it. Democratic changes in Croatia and Serbia offer hope for the future. However, setbacks will be unavoidable, as most recently witnessed in Macedonia, with the European Union assuming a growing responsibility in conflict management.

EU ACCESSION AS A PERSPECTIVE

The European perspective of the region, i.e. the goal of EU accession, was formulated by the European Union within the framework of the newly designed Stabilization and Association Process. Bulgaria and Romania have been negotiating with the EU Commission as EU accession states since March 2000; the countries of the Western Balkans are successively concluding Stabilization and Association Agreements with the EU (Macedonia started on 9 April 2001), which step-by-step provide for the adoption of the *Acquis Communautaire* for a period of ten years, leading to accession negotiations afterwards. This incentive has proven to be the only effective motivation to overcoming old rivalries and to pulling the region into the European mainstream.

ACADEMIC RECONSTRUCTION

Restructuring, of utmost importance and just begun, will concentrate predominantly on strengthening regional infrastructure, promoting investment and building democracy, security and civil society. Without a doubt, all this is necessary. However, education should not be omitted. Stability through education will prove to be a key element for sustainable renewal of the region. German institutions like DAAD, the German Rector's Conference and the Alexander von Humboldt Foundation are taking this into consideration. Accordingly, they are setting priorities through the financial support of the "Academic Reconstruction of South Eastern Europe" of the German Foreign Office. A European consciousness needs to be fostered in the younger generation. Schoolbooks and curricula still reflect the old thinking along ethnically defined lines, according to a recent study by the Council of Europe.

Education in school and university is surely the crucial focal point. The new start will only succeed if the younger generation of the whole region is taught comprehensively and truthfully about their own history and culture and at the same time brought closer to the common European values and habits.

NETWORK OF EUROPEAN STUDIES

Therefore, the Task Force South Eastern Europe at ZEI has initiated the Network of European Studies in South Eastern Europe at a conference in Sofia in January 2000. The Network, supported by the German Rector's Conference and DAAD, aims at establishing and strengthening European studies programs in South Eastern Europe in order to draw these countries closer to West European standards. An intensive exchange of experience with institutions in Western Europe like ZEI, which can draw on many years of expertise in organizing interdisciplinary European Studies programs, is indispensable to this process.

At the second conference of the Network in October 2000 in Cluj (Romania), the future activities of the Network, which already unites about 40 universities and institutes from all over the region, were agreed upon. The following tasks are to be pursued until the end of 2002:

- Designing a core curriculum for European Studies in the region
- Publishing a series of readers with basic texts for this area of study
- Establishing European Studies centers with a regional scope (Among others, the Bulgarian-Romanian Inter-University Center for European Studies is being established at the Danube bridge Rousse/Giurgiu with the active participation of ZEI)
- Evaluating the possibilities of the new media (pilot project: establishment of the Master of Virtual European Studies Program ZEI-Zagreb)
- Preparing a curriculum and teaching material for promoting knowledge about Europe at school (pilot project: establishment of a post-graduate, one-year European program for teachers in Zagreb)
- Exchanging faculty (This year ten lecturers, mainly from ZEI, will teach for a week in the region.)
- Establishing a data base with all necessary information about European Studies in the region
- Preparing a homepage for the Network (already accessible at ZEI's homepage)

The activities within the Network are carried out within working groups which meet on a regular basis. The third conference of the Network will take place in Thessaloniki on 24 - 26 May 2001. ■



Nicolae Paun (Universität Cluj), Emil Mintchev (ZEI), Rafael Biermann (ZEI), Ladislau Gyemant (Universität Cluj) (from left) in October 2000 in Cluj
Photo: ZEI

Dr. Emil Mintchev is coordinator of the Network of European Studies. Dr. Rafael Biermann heads the Task Force South Eastern Europe at ZEI.

Lifelong Learning Indispensable

On 7 March 2001 Viviane Reding, member of the EU Commission responsible for Education and Culture, gave a keynote address entitled "The Role of the European Community in Creating the Knowledge and Information Society." Her address focused on the importance of lifelong learning in the future development of European society. More than 130 representatives from the fields of politics, economics, the media and science attended, in order to gain a firsthand view of the Commission's position on this vital issue just days before the EU Summit in Stockholm.

Lifelong learning must be the basis for the transition from an industrial to a knowledge-based information society, a fact Red-



Viviane Reding, EU Commissioner for Education and Culture, at ZEI

Photo: ZEI

ing already underlined in a recent European memorandum. In the face of rapid technological progress, unremitting efforts to learn and "relearn" are inevitable, even well beyond school and university. Skills and qualifications are "perishable goods" in need of a continuous update. The acquisition of key qualifications, such as basic skills in the new technologies, social and entrepreneurial skills as well as the knowledge of foreign languages, necessitates a long-term convergence in both structure and content of the European education systems. Teaching methods and curricula need an overhaul.

Reding emphasized that European deficits particularly in the areas of technology and the natural sciences make education a key challenge for Europe as a whole. The Lisbon Summit in March 2000 focused on this problem and initiated a catalogue of demands to be implemented by national governments. The forthcoming EU

Summits in Stockholm and Barcelona (spring 2002) will continue dealing with this "E-learning program" and will search for concrete ways to improve school and professional multimedia education.

Europe needs to realize that capable young people are an increasingly scarce resource. Accordingly, all pupils and youth should have internet access within the next three years. A comprehensive program of further education for teachers in the field of information and communication technology, in addition to improved European facilities for education and vocational training, are essential to avert a growing shortage of qualified employees in many future-oriented branches and to bridge the digital divides between the U.S. and Europe and between genders.

Reding pointed out that many initiatives have already begun. The results of the Nice Summit are of particular importance. The adoption of the European Social Agenda made education almost a constitutional right within Europe. Reding emphasized the role of national governments – the need for them to continue their efforts and their obligation to put the many initiatives into practice and to develop education systems for the Europeans of the future.

PUBLICATIONS

ARTICLES

Christian Koenig, Claude Sander: „Vertragsverletzung durch Rechtswegzuweisung?“ *EuZW* 2000, pp. 705.

Christian Koenig, Claude Sander: „Die verbrauchervermittelte Unternehmensbegünstigung auf dem Prüfstand des EG-Beihilfenrechts“, *Europarecht* 2000, pp. 743.

Christian Koenig, Eva-Maria Müller: „Der werbliche Auftritt von On-line-Apotheken im Europäischen Binnenmarkt“, *WRP* 2000, pp. 1366.

Christian Koenig, Christina Engelmann: „Internet-Handel mit Arzneimitteln zwischen Wettbewerb im EG-Binnenmarkt und nationaler Regulierung“, *PharmR, Europäisches Arzneimittelrecht* 2000, pp. EA 1 ff.

Christian Koenig: „Regulierung interdependenter Marktmacht – Skalpeller oder bittere Pille?“, *MMR* 2001, p. 1.

The Choice of Exchange Rate Regimes in Transition Economies

by Jürgen von Hagen and Jizhong Zhou

The choice of exchange rate regimes is a heatedly debated issue in international economics. The theoretical literature has developed a variety of criteria for the choice of an exchange rate regime. Earlier literature focused on the structural features of an economy and the composition of shocks to which the economy is exposed. If the economy is characterized by a high degree of labor mobility and wage and price flexibility and is mainly hit by nominal shocks, then a fixed exchange rate regime would be preferable. On the other hand, if mobility and flexibility are low and if the economy is mainly exposed to real shocks, then it would be more advisable to choose a regime of flexible exchange rates. More recent literature has stressed the idea that exchange rate pegs could help import credibility of low inflation countries, which could help to reduce the cost of disinflations. But the currency crises in the 1990s have shown that the failure of such a policy can have very detrimental consequences.

In order to assess how governments choose among alternative exchange rate regimes and what determines their choice, ZEI

analyzed the exchange rate regimes in 25 transition economies in the 1990s: 12 countries of the Commonwealth of Independent States (CIS) and 13 Central and Eastern European Countries (CEECs). Despite a common history of central planning, similar stabilization problems, and a common process of integration into the world economy, the exchange rate regimes in these countries are both diverse and evolving over time. Empirical results show that regime choices are mainly driven by stabilization considerations and by the regimes' viability. In general a country is more likely to choose a regime of flexible exchange rates in the presence of insufficient international reserves, high inflation, and large fiscal deficits. Overall, the CIS countries have shown a stronger preference for flexible regimes than the Central and Eastern European countries (CEECs), possibly reflecting the desire of the latter to tie themselves more closely to the European Union. The CIS countries also seem to pay less attention to inflation rates and the availability of international reserves in their choices of exchange rate regimes than the CEECs. This may reflect the large gap that still exists between these two groups in terms of progress in transition.

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Nice and Beyond: Constitutional Development of the European Union

by Peter Zervakis

The resolutions of the Nice Summit of 7-9 December 2000 have given rise to lasting discussions about constitutional process in the European Union and to debate over the way in which future changes to the European institutional system will be made. Preparation of the agenda for the next major summit (2004) already began at Nice. Proponents of a closer union, notably Germany, won agreement to launch a new set of constitutional discussions, focusing more closely on the division of competences between the Union and its member states. Support for a European constitutional settlement of some kind appears to be growing, but for different reasons among different constituencies at national and European levels. Either the next Intergovernmental Conference or even a constitutional convention is meant to prepare a thorough and extensive constitutional draft – perhaps along the lines of a federal model.

ZEI, in cooperation with the Academy of European Law (ERA), organized an international conference on the constitutional developments in the European Union after Nice (“Leftovers of the Leftovers?”) at ERA’s conference center in Trier on 8 and 9 March. Renowned legal experts, political scientists and policy-makers from nine EU member and accession states discussed and evaluated the major institutional and procedural reforms of the Nice Treaty. The following were the main issues of the post-Nice constitutional process:

- Are the main European institutions ready for enlargement?
- How will the decision-making process change from the perspective of the Council, the Commission and the Parliament?
- Is the Union on the path to a European constitution? Can the Charter of Fundamental Rights of the European Union, the division of competences between member states and the EU, and its revamped institutional structure provide the framework for such a constitution?
- How is the prospect of a European constitution viewed by the southern EU

members and by the middle European accession countries?

- Does the EU function as a community of shared values?
- Are the visions of the founders (federalism, finality, flexibility) still relevant after Nice?

The conference was a follow-up to the discussions on a European constitution held last year in Trier (see *ZEIreport* No. 8). It explored the prerequisites to reform and enlargement of the Union from an interdisciplinary perspective. As opposed to last year, the different objectives of the member and candidate states came under particular scrutiny, from the standpoint of the governments in question as well as their populace.

Another conference in this series will take place on 17 and 18 May and will focus on the regional policy of the EU. A further seminar on the future of the European juridical system will continue this inter-institutional cooperation in spring/summer 2002. ■

Dr. Peter Zervakis is senior fellow at ZEI, Department of European Value Systems, Cultures and Languages.

The Future of the Barcelona Process

by Carlo Masala

Where are we now, six years after the start of the Euro-Mediterranean Partnership in Barcelona, and what should be done to strengthen the process in the future? Those were the central questions raised on 2 April on the occasion of the Second Mediterranean Forum at ZEI. During this one-day workshop, funded by the Fritz Thyssen Foundation, nineteen diplomats and researchers discussed the central problems of the Barcelona Process and looked – in a vivid and partly controversial debate – into the possible future of the Euro-Mediterranean Partnership. In the first panel Felix Maier (Mediterranean Academy for Diplomatic Studies, Malta) gave an instructive overview of the expectations of the non-EU partner countries regarding the Barcelona Process. Maier pointed out the difficulties in identifying common interests in the southern rim countries with respect to the Euro-Mediterranean Partnership, due to their different development, their domestic problems and their diverging security interests. Aysa Belarbi, Ambassador of Morocco to the European Union, highlighted the problems as well as the perspectives of her country vis-à-vis the Barcelona Process.

Christian Sterzing, Member of the German Bundestag (Bündnis 90/Die Grünen), echoed from a German perspective the need to become more active within the Barcelona Framework, because since Schengen Germany is becoming increasingly a Mediterranean country. Furthermore, he insisted on the multilateral framework as the only way to achieve security, stability and economic development in the whole region.

After this stocktaking, the second panel of the Mediterranean Forum was dedicated to possible reforms of the Euro-Mediterranean Partnership. Volker Perthes from the Foundation for Science and Politics stressed the importance of introducing greater flexibility into the structure of the Barcelona Process, and he was supported in this request by Marc Heller from the Jaffee Center for

Strategic Studies of the Tel Aviv University.

All participants in the second Mediterranean Forum agreed that the Barcelona Pro-



*Christian Sterzing (MdB Bündnis 90/Die Grünen), Aicha Belarbi, Ambassador of Morocco to the EU in Brussels and Ludger Kühnhardt, Director at ZEI (from left)
Photo: ZEI*

cess is a useful tool to strengthen cooperation between the northern and the southern rim of the Mediterranean but needs to be reformed to produce better results and to contribute to the stability and the security in this basin. ■

Dr. Carlo Masala is senior fellow at ZEI and lecturer at the Institute for Political Science at the University of Cologne.

Tunne Kelam

Tunne Kelam is Deputy Speaker,
Parliament of Estonia, and
Chairman of the European
Affairs Committee, Parliament of
Estonia



ZEI: Estonia is going to be one of the first post-communist countries which will join the European Union soon. What has been the particular reason for the success story of Estonia during the last ten years of the transformation?

Kelam: I think that Estonia had a traditionally strong civil society, which developed between 1920 and 1930. This includes a very long-time tradition of local government. Estonia had foreign rule for centuries, but local government was traditionally in the hands of Estonians themselves. The second aspect, maybe, is a high average level of education and this, too, has a long tradition. For example, in 1880 every third Estonian family subscribed to an Estonian language newspaper, and they participated in various cultural activities like music festivals. The third aspect was already developed by the end of the 1980s: a political alternative to the existing one-party system. At that time, it was typical to think that practical reforms could be achieved only through continuing leadership of the communist party, and all the hope in many other communist countries was placed on new communist leaders like Gorbatschow in the Soviet Union. However, in Estonia, people at

that time already thought that it would be absolutely naive to think that the same communist party which was responsible for an inhuman terrorist regime with millions of victims would be interested in the change to democracy, which includes alternative views and a multi-party system. In Estonia the first non-communist political party was formed in August 1988. It had a very symbolic name, the "Estonia National Independence Party." This ability to develop multi-party structures, I think, permitted rapid reforms as soon as independence could be restored.

ZEI: You started your own political career in your country as President of the "Eesti Congress," the counterpart to the Supreme Soviet at that time. How do you see the future of Estonia's identity in the European Union? That is, what will remain of Estonia's identity, after membership is realized?

Kelam: It is amazing, but I don't have any fears. Of course, politicians need to have concerns and take responsibility, not least because the Estonian nation managed to survive for centuries under extreme conditions, as a result of the devastation in the Great Nordic War. At the beginning of the 18th century, there were no more than 100,000 Estonians left. But the nation survived and then developed further, without losing its culture. We have managed again and again to retain our language, our culture, our traditions. I can see no threat to our identity from the EU, if we ourselves are not interested in losing it. On the contrary, I see the EU as maybe a melting pot of very different but very valuable historic experiences. We are now thinking about the possibility of Estonia contributing to this European experience. We are not going just to ask for money for our agriculture. Personally I see this as the biggest paradox in the function of the EU, being in principle an absolute pro-market area and yet spending half its budget subsidizing its entire anti-market activities in agriculture. Estonia can contribute to Europe through its own unique experience – how to retain one's identity and a national culture under extreme conditions, how to retain local initiative and local self-government traditions, maybe also how to modernize agricultural production without taking subsidies. We managed to do so. We need, of course, subsidies for our agriculture, but in last ten years we managed almost without state subsidies. Therefore our farmers, who somehow brought it off, are very tough people. They had to rely on their own initiative, their own imagination as to what to produce and what to sell. These people, now successful, have a message to bring to the European Union.

JUNE 2000

19/20. *International Workshop: "Does Culture Matter?" (in cooperation with the Center for Development Research (ZEF))*

19.06: 3.00 p.m. - 6.00 p.m., Venue: Festsaal, University of Bonn (public seminar)

20.06: one day seminar at ZEF/ZEI (by invitation only)

27. *ZEI European Forum (4:30 - 6:00 p.m., ZEI): Rainer Hertrich, European Aeronautic Defence and Space Company (EADS): „EADS als industrielle Basis für eine integrierte europäische Beschaffungspolitik“.*

ZEI: The Parliament's Forum on EU Accession has already brought you twice to the Center for European Integration Studies. How do you see the role of research institutions, such as ZEI, in policy advice in general, and in particular, with regard to the accession countries?

Kelam: The non-political advice and expertise is most needed for us. I am very grateful to the Center for European Integration Studies for having organized two high-quality seminars for parliamentarians of the accession countries. They have proved to be much more efficient and useful than many routine meetings of government or the parliament. I look forward to further such meetings. Considering that membership negotiations could be delayed, I think, it would be very opportune also to have an exchange of views through your center about the future building and reforming of European structures, in other words, to prepare candidate states and politicians to think about the United Europe, as if they were already members. I am afraid that the day we finally enter the EU many of us will discover that nothing has changed substantially. Our status might change, but what happens to everyday life? And what are going to be the gains for ordinary people? Therefore it is psychologically and politically very important to prepare ourselves in time. I suggest that you also advise us on communication strategies which are relevant to both of us, the current EU members and the accession countries. We need to spend the remaining two or three years before joining the EU on our role in the future Europe, which will be our common Europe. Here is a great need for advice which can be provided by research institutes like ZEI.

The Nature of Growth in Transition Countries

What is the role of capital, technological innovation and structural change in the economic growth of transition countries? A ZEI study draws some surprising conclusions.

by Ella Kallai

The ultimate goal of transition from planned to market economy, the process to which all countries from Eastern Europe committed a decade ago, is the implementation of a framework promoting growth. Since the former centrally planned economies were helplessly inefficient, many expected that the implementation of reforms would eliminate the distortions and create incentives for efficiency and productivity improvement.

LEGACY OF A PLANNED ECONOMY

The expectations were based on growth theory and the peculiar legacy of the past in Eastern European countries. The inherited capital endowment (physical and human) from the previous regime was considerable. Indeed, the heavy investment in physical

and human capital left a legacy which even after one decade of market-oriented reforms distinguishes the transition countries from countries with comparable income. Most transition countries, when compared to countries with comparable income, possess twice as extensive a road and rail network and demonstrate more than twice as high gross secondary and tertiary ratios, twice as much energy consumption per unit of GDP, and between one and a half and twice as large a rate of industrial employment as general employment. Moreover, it was believed that the inherited capital stocks would adapt fast enough to the new incentives created by the implementation of reforms and would consequently close the productivity gap vis-à-vis the countries with comparable income.

PRODUCTIVITY-ENHANCING ELEMENTS

The arguments for fast productivity recovery during transition were based on the components of the similar reform package implemented in all Eastern European countries engaged in the process of transformation from planned to market economies. Each component of the reform package had indirect productivity-enhancing effects. The implementation of price liberalization elimi-

nated the distortions generated by the former administratively set prices and created the right signals for resource allocation. The privatization and hardening of budget constraint in the real sector created incentives for profit-maximizing behaviour. Trade liberalization facilitated the transfer of technology and helped to close the technology gap acquired over decades of isolation from the world's most advanced technology. Opening of the economies enhanced competition and turned the survival need into an efficiency need. Technological change, which favors the skilled over the unskilled, created opportunities for fast productivity growth in countries with a high proportion of highly skilled workers, as is the case in transition countries.

ACTUAL DEVELOPMENTS

So far the results obtained in terms of growth and productivity are not spectacular. After a huge initial fall the output growth resumed steadily for some countries (Hungary, Poland and Slovakia), for others temporarily (Romania, Bulgaria and the Czech Republic). Nevertheless, over the whole decade of transition, no country had a higher average annual GDP than in 1989. Poland, the best performer, produced on average almost the same amount of GDP each year over the last decade as in 1989. Bulgaria, the worst performer, produced on average each year over the last decade only 73% of the GDP in 1989.

Growth accounting applied to Visegrad countries (Czech Republic, Hungary, Poland, Slovakia) and Bulgaria and Romania, using a data set based upon national statis-

news in brief

Ludger Kühnhardt, director of the Department of European Value Systems, Cultures and Languages at ZEI, has been nominated by the Secretary General of the European Council to the steering committee for a series of workshops on European identity. The first workshop of the series took place on 17 and 18 April 2001 in Strasbourg.



"Review 99 – An Interim Balance" was the theme of the second expert conference on European Telecommunications Law held on 9 May 2001 at 'Haus der Geschichte' in Bonn. The organizers of the conference were the Center for European Integration Studies (ZEI), the Federal Ministry of Economics and Technology (BMWi) and the

university federation Europaeum. The aim of this year's conference was to take provisional stock, from a political, economic and legal standpoint, of the development as well as discussions to date surrounding the reform to European telecommunications law. At the same time perspectives for the future shaping of a framework for the regulation of the European telecommunications sector were discussed.



Effective immediately, ZEI will report four times per year in its own SOE Monitor on current developments in South Eastern Europe. The SOE Monitor, distributed per E-Mail, is directed at politicians, scientists, economic representatives and other persons within the German speaking population with a specific interest in the region.

The SOE Monitor concentrates on background information, analyses and guest contributions from German experts demonstrating relevant experience in South East Europe as well as from experts from the region itself. Each individual edition will focus on a central theme. E-Mail subscription may be obtained by sending an E-Mail message to soe.monitor@uni-bonn.de.



Euro-Atlantic relations in the 21st century will be the focal point of this year's Transatlantic Summer Academy (TASA), organized by ZEI and to be held in Bonn from 5 to 30 June 2001. The interdisciplinary program is directed at students from the USA and Europe and consists of lectures, tutorials, panel discussions as well as working groups, all dealing with the po-

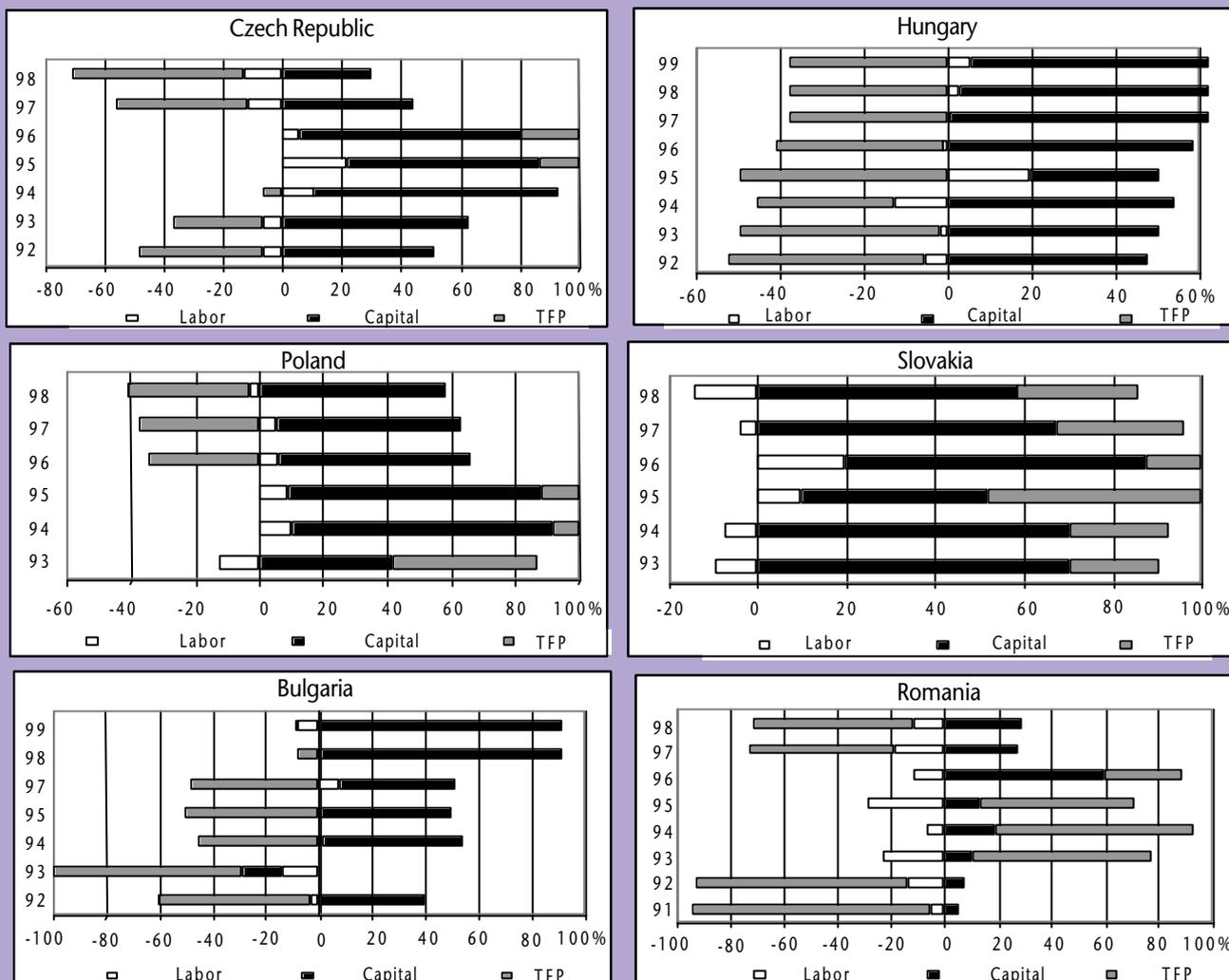
litical, legal, economic, historical and cultural aspects of Europe and the United States. Also included in the program will be excursions to Strasbourg, Berlin and Brussels which will offer participants the opportunity to discuss current topics of Euro-Atlantic relations with representatives of government, politics, economics, science as well as the media. A sequence of simulation games will round off the Summer Academy with participants assuming the function of political decision-makers who are required to prevail over international crises.



Prof. Michael Gehler, University of Innsbruck, has been awarded an Alexander von Humboldt fellowship enabling him to carry out a study at ZEI on the history of European integration.



FIG. 1: GDP GROWTH RATE DECOMPOSITION



tics, shows that the expectations for efficiency and productivity improvement were too optimistic (Fig. 1). The growth accounting method distributes growth acceleration or deceleration between factor (capital and labour) accumulation and total factor productivity (TFP) growth, a residual which lumps together the growth effects of costless technical innovation, organizational and institutional change, sectoral composition change, competition and quality improvement. TFP growth approximates the share in output growth caused by increased efficiency. TFP growth is more likely to be positive when the sectoral composition of inputs shifts toward higher quality (more expensive) inputs or the output market becomes more competitive.

In the last decade, the contribution of total factor productivity in GDP growth rate was more negative than positive and many times offset the positive contribution of capital accumulation in GDP growth. Surprisingly this finding is valid for all countries

analyzed regardless of their advances in the liberalization process. The only exception is Slovakia where TFP growth was positive throughout the entire period and contributed on average to the overall growth by 20%. Growth during transition was due mainly to capital accumulation. The contribution of capital accumulation in the total GDP growth was large regardless of the countries' GDP growth path. However, in steadily growing countries (Poland, Hungary and Slovakia) the contribution of capital accumulation was higher (more than 60% of the GDP growth rate) than in countries with volatile GDP growth rate (Romania, Bulgaria and Czech Republic). The conclusion which can be drawn is that the transition countries analyzed have not yet benefited from the opportunities to assimilate technology from abroad and the gains from reducing inefficiency at home. A detailed report on this study as well as a working paper is forthcoming.

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