

THE END OF AN ERA: CHANGE IN EASTERN EUROPE

Address by the Minister for Foreign Affairs and Trade, Senator Gareth Evans, to ALP (NSW Branch) Briefing on Developments in Eastern Europe, Parliament House, Sydney, 7 February 1990

During my visit to Budapest just before Christmas I wound up a discussion across the lunch table with my Hungarian counterpart, Foreign Minister Gyula Horn, by putting to him all the problems facing President Gorbachev that had by then become apparent.

"Look at what he is confronting", I said:

"He has an economy that, with the best will in the world, is going to go on being disastrous for ordinary citizens for the foreseeable future.

"He has a mass of disgruntled party apparatchiki and nomenklatura whose influence he has drastically limited.

"He has a mass of potentially disgruntled military officers about to be demobilised.

"He has the nationalities situation exploding all around him, from the Baltic to the Caspian.

"He has the COMECON system, of economic integration with satellite countries, in a condition of visibly terminal collapse.

"And he is facing the prospect of a reunified Germany, and a Warsaw Treaty Pact which is also in an advanced condition of debilitation.

"With all of this, how can he possibly survive?"

Dr Horn pondered the question carefully:

"Well", he said at last, "at least he won't be bored".

Horn's wry understatement was meant in jest, but it also reflected the mood in Eastern Europe at the end of what had been a truly remarkable year. In all the countries I visited - Hungary, Czechoslovakia, East Germany and Poland - the sense of excitement, the sheer exhilaration at the pace of change, was infectious. Nineteen eighty nine ended with vivid

images of history in the making: holes gleefully punched into the Berlin Wall; Vaclav Havel, the dissident playwright outcast, rising as President of Czechoslovakia to declare that the government had been returned to the people; a demonstration in Bucharest, arranged to show support for Ceausescu, spontaneously turning against the Romanian tyrant.

These images emphasised that the old order in Eastern Europe was on its way out, but they could not tell us much about what will replace it. It will take us some time yet to get a full answer to that question, as each country embarks upon the journey from a communist system beholden to Moscow to a more pluralist political structure asserting, at the very least, a large measure of genuine independence from the Soviet Union, and maybe in some cases at least, a willingness to completely embrace the West.

Soviet Union. This is not to say that developments within the Soviet Union have suddenly become irrelevant to the future of the other Eastern European nations. The Brezhnev Doctrine - whereby the Soviet Union reserved the right to use force to control its Eastern European satellites - is dead, buried by Gorbachev's calculated refusal to intervene in support of the old guard of Eastern Europe. Yet the countries of Eastern Europe remain closely bound - economically and strategically - to the Soviet Union. What happens in the Soviet Union - and the fate of Gorbachev's policies - is still important in terms of Eastern Europe's room for manoeuvre.

It is true that, even if it wished to, the Soviet Union has probably lost the capacity to reverse Eastern Europe's move towards democracy and market economies. But, at the same time, no East European government can afford not to take Soviet interests and views into account in formulating their national policies. What happens in the Soviet Union in the next few years will in turn have important consequences for how the countries of Eastern Europe evolve and for how they fit into the broader European security framework.

I noted at the beginning the long list of seemingly intractable problems that Gorbachev faces. Perestroika is at a crossroads and Gorbachev faces another make or break year, made more complicated by the threat to national unity posed by the nationalities issue.

Gorbachev's position recalls de Tocqueville's observation that the most dangerous period for a bad government is when it first seeks to reform itself. There are some in the West who believe that Gorbachev is doomed to failure in that the system he is seeking to reform is beyond redemption, both as a political philosophy and as an economic system. As the mysterious Z put it in a recent article published in the American journal *Daedalus* and provocatively titled "To the Stalin Mausoleum", "the system cannot be restructured or reformed, but can only either stagnate or be dismantled and replaced by market institutions over a long period of time". Internal contradictions, according to this tidy school of thought, are almost always fatal.

The future, like the past, is however rarely this neat or absolute, although there can be no doubt that in many ways Gorbachev is seeking to square a circle. He is manifestly reluctant to use force to achieve political objectives, but nevertheless is heir to a Leninist tradition built on the use of force to secure and consolidate Party power, saw no alternative but to use force in quelling the situation in Azerbaijan, and may have to do so again if similar passions explode elsewhere within the Soviet Empire.

He is clearly now willing to abandon all his previous commitment to the leading role of the Communist Party, and the first step down the road to multi-party democracy is being taken at this week's plenum of the Communist Party Central Committee, but the map of that road has not yet clearly been drawn.

It may be that these are all no more - and no less - than the inevitable inconsistencies of ideological transition which may sort themselves out as Gorbachev's policies proceed and adapt. But no-one should underestimate the contradictions and conflicts inherent in the very nature of perestroika. The transformation of the Soviet command economy to a market-oriented, technology-focused system can only succeed with a parallel transformation of the political and social system, which necessarily brings into question the fundamental tenets of Communist Party rule. As one Soviet commentator very nicely put it, Gorbachev's problems stem from the fact that he has to be simultaneously both the Pope and Luther - be the leader of a Party and Government whose sole legitimacy derives from Lenin, but at the same time be Leader of the Opposition!

For the moment Gorbachev's greatest asset - apart from his political acumen - is that there is no alternative to fundamental economic reforms if the Soviet Union is to have the economic strength to remain a superpower. The sheer enormity of the country's economic problems has undoubtedly concentrated the mind of those - of whom are many in the Party, military and elsewhere - who are uncomfortable with Gorbachev's shake-up of the status quo.

At the same time, the reform agenda does not have an open-ended deadline to prove itself to the sceptical and the uncomfortable. The brief history of perestroika has already shown that half-measures result in diminishing returns. Problems relating to the economy and to the nationalities issue need to be tackled at the source, which means that things will necessarily get even worse before they get any better. It remains to be seen whether the Soviet system can be pushed further down this path of radical reform; or whether the fear of opening wider the lid to the Pandora's box of economic and political change will nudge an increasingly anxious Soviet leadership into falling back on the vain hope that they can somehow muddle their way out of the economic quick-sand.

Eastern Europe. The problems facing the non-Soviet countries of Eastern Europe are both similar and different to those facing Gorbachev. They are similar in that in both cases

governments have to face up to the consequences of a failed economic system: to the total inability of the command economy to deliver the goods. Both face the challenge of moving from a (badly) planned economy towards a market system. The main difference - apart from differences in scale - is that the East European countries face few doubts or hesitations about throwing overboard their ideological baggage. In most, if not all cases in Eastern Europe, the communist model was thrust upon them by the Soviet Union, not least as a means of maintaining control over the western flank of the Soviet imperium.

Most East Europeans were Hungarians, Czechoslovaks or Poles first, and communists only an unavoidable second. When given the opportunity to avoid the latter - as they were through Gorbachev's "hands-off" policy towards Eastern Europe - they quickly made it clear that Soviet-style communism held little attraction for them. Nationalism was one of the strongest forces at work in the recent defeat of the old communist order in Eastern Europe.

The pace and manner in which the countries of Eastern Europe manage the transition from communism to democracy and a market economy will vary according to national circumstances. But in no case can the political and economic aspects of this transition be viewed in isolation: the future of democracy east of the Elbe is closely linked to the capacity of these countries to deliver the economic goods. The reformers in Eastern Europe are painfully conscious that in the absence of economic growth democracy will soon be of interest to no one.

Poland. In Poland this nexus is clearly understood with the result that a political consensus has formed around the necessity of undertaking drastic economic reform. Under its first non-communist Prime Minister in forty years, Poland is rushing headlong towards a market economy. With strong support from the IMF and the West, including a modest Australian contribution, Poland is showing that it is prepared to take the hard decisions on such fundamental issues as price reform and the abolition of state monopolies.

Hungary. Hungary has put in place the most advanced legislative structure in Eastern Europe to allow the market process to work. There is broadly based agreement on the direction in which the economy and the political system should go. Price controls have been liberalised, the wage fixing system partially deregulated, and state subsidies for consumer goods reduced. Some of the proposed IMF conditions, most notably the prompt removal of interest rate subsidies on housing, are creating a degree of political tension, but Hungary's long-term economic prospects look quite promising.

My colleague Foreign Minister Horn came up with, incidentally, one of the nicest lines I have heard about the IMF. Coming to our meeting fresh from another heavy negotiating session with IMF's Managing Director about the austerity and restructuring measures being demanded - here as elsewhere - as the price of IMF support, Horn said: "Having met

M. Camdessus, my remaining aim in life is to participate one day in a crisis management conference to save the IMF!".

The ruling communist party is in the process of turning itself into a social democratic party and elections will be held this year - as they will in most of the countries of Eastern Europe. Hungarians have made it clear that they would like eventually to leave the Warsaw Pact and become neutral like their Austrian neighbours. But for the moment Hungary accepts that this goal can only be gradually achieved and in the meantime it acknowledges the wisdom of not rocking the boat.

GDR. The GDR has so far the most qualified concept of economic reform, yet it remains the East European nation which is best placed to attract sizeable foreign investment, especially from West Germany. I will return to this point later in the context of German unification.

Czechoslovakia. Czechoslovakia is still debating the character and detail of its economic reform program. The Czechoslovak leaders that I met in December spoke of embarking immediately on a program of marketisation, but doing so without the full cold-turkey shock-therapy that has been forced upon the Poles. The leadership did not underestimate the difficulties of kick-starting the Czechoslovak economy, but at the same time noted that they did have some assets to work with, including relatively low levels of foreign debt and a residue of industrial capacity and skills dating back to the pre-war days when Czechoslovakia was a leading manufacturer. Like Hungary, Czechoslovakia has held discussions with Moscow on the withdrawal of Soviet troops, and the Czechoslovak leadership is very committed to pursuing a more independent foreign policy.

The Balkans. In the Balkans, there are signs that the region may be drifting back to the position it occupied at the beginning of the century: cut off from mainstream developments in Europe and divided over nationality issues. Yugoslavia's economy is facing very severe difficulties and its political unity is coming under increasing strain.

Ceausescu's overthrow was a welcome blow against dictatorship, but it has left Romania in social turmoil: its people unused to participating in the political process, distrustful of those in authority and suffering from the effects of penury and political isolation. It is not going to be easy - at least in the short term - for Romania to establish a working parliamentary democracy.

Bulgaria, once the most loyal of Moscow's allies, is in urgent need of economic restructuring and policies to deal with its external debt. It too is facing ethnic unrest involving its one million strong Turkish minority.

In Albania there are some signs that the outside world may be breaking in but for the most

part its self-imposed isolation leaves Albania politically irrelevant to the currents of change flowing through the continent, its people trapped in a living museum of medieval Europe.

German unification. The changes in Eastern Europe, marking as they do the end of the post-war European order, have implications for the whole of Europe and indeed beyond. Not least of these will be the impact on intra-European relations. Increasingly we will need to think about Europe as a political and economic entity, and one issue which will be central to this process is the question of German union.

The German question has unlocked some very deeply felt anxieties in parts of Eastern Europe, one notable example relating to the Polish border, with Poland all too conscious of its history as "a country on wheels". Indeed in the Federal Republic of Germany itself, the opposition Social Democratic Party (SPD) has been vigorously opposed to Chancellor Kohl's apparent hesitation in expressly committing the Federal Republic to the present post-World War II boundaries (a hesitancy redressed, after considerable pressure, in a speech in France on 17 January); elsewhere in both East and West Europe it is the border issue - more than anything else - which jangles memories and nerves.

Of course the prospective creation of a new political and economic monolith is also in itself disconcerting to some, although there is a sense in which the FRG is already so big and powerful that union with the GDR would not make all that much difference: We are talking, after all, of an FRG with a population already over 63 million and a GDP of \$US1200 billion being joined by a GDR with just 17 million people and a GDP of \$US90 billion.

German unification has now developed an irresistible momentum, and predictions about its time-frame for achievement contract almost daily. And yet the public discussion of its modalities remains remarkably vague. I spent a great deal of time, in Bonn and Berlin, seeking to pin down with various interlocutors - including the SPD's Willy Brandt and Joachim Vogel, and West Berlin Mayor Momper - just what might be involved.

As best as I could patch together the various proposals - at least as West Germans see them - unification seems to involve a three step process. First, there will be the creation of a so-called "Treaty Community" between the two Germanies designed to enmesh the two communities - not just their economies but over time other areas such as education, health and social security. Chancellor Kohl's proposals now on the table for economic and monetary union are very much part of this process, and it is one which has been clearly endorsed (and indeed first proposed) by the current East German leadership.

Secondly, it is anticipated that the Treaty Community would grow in due course into a formal "confederation". This would still involve the maintenance of two separate

sovereign states but have a self-conscious commitment to the goal of "the unity of the fatherland", have many common institutions, and have its economic and social policies almost fully synchronised. Importantly, however, under such a confederation each Germany would maintain separate defence and foreign policies and retain its current membership, respectively, of NATO and the Warsaw Pact. This largely turns on its head the central characteristic of most historical confederations elsewhere - which have had common defence and external policies, but retained very separate identities in terms of internal social and economic arrangements.

The third step would be actual union into a single sovereign entity. This would involve not only a formal recognition of all the economic and political changes achieved through the first two steps, but also the integration of foreign and defence policies.

Clearly German unification - especially if these various steps are contracted and it is accomplished as quickly as seems presently possible (i.e. not just by the end of the decade, but conceivably by the end of the year) - will have important implications for the politics and economics of Europe. If unification is accompanied by substantial progress towards the rhetorical ideal of a "Common European Home" (which in the mind of its proponents seems to involve the concept of a house with separate rooms, but open internal doors) then some of these implications may be reduced or at least more easily managed. But even so, we can expect German union to alter the internal balance and dynamics of the EC, as well as to raise further questions about the role and structure of NATO and the Warsaw Pact.

Australia and Eastern Europe. The changes in Eastern Europe and their pan-European consequences have many implications for Australian interests. In commercial terms, potentially significant opportunities have been opened up for Australian companies to engage in projects of benefit to both sides at a time when Eastern Europe is looking to the West for trade and investment, technology and training. Australian companies should look closely at what the East European market has to offer in areas like telecommunications, transport, agricultural processing, environment protection, as well as in the more traditional areas of agriculture, raw materials and manufactures trade. Tourism is another area where commercial links with Eastern Europe could be strengthened.

The Australian Government is committed to doing what it can to facilitate broader commercial relations, not least through negotiating bilateral investment protection and double taxation agreements, extending trade credits and improving our diplomatic and trade representation on the ground. But it is only the private sector which can translate opportunities into deals. For the most part this will require a sustained effort by the Australian business community. The dislocation in Eastern Europe means that it will inevitably take time for trade efforts to bear full fruit. In the short term, moreover, these fruits are most likely to fall the way only of reasonably large companies, given the limited managerial, analytic and risk assessment skills on the ground in Eastern Europe: for

Australian companies to be effective in this Eastern Europe of transition, they will probably need to take these skills and resources with them from the start.

It should be said that Australia is not without some advantages in dealing with the new situation in Eastern Europe. We have hundreds of thousands of Australians who come from these countries - some 150,000 Poles, 60,000 Hungarians and 30,000 Czechoslovaks for a start - and who have retained their language skills, and in many cases maintained contacts with the "old country". These skills and contacts can, and I have no doubt will, now be used to Australia's benefit.

On the other side of the commercial ledger there are some potentially negative consequences for Australia in the changes sweeping Europe - our second largest regional trading partner. As the process of building a united Europe develops we may find it harder to gain the EC's attention, with possible implications for our access to EC markets. A Europe pre-occupied with pan-European issues may also make it more difficult to secure a constructive outcome in the crucial Uruguay Round negotiations on multilateral trade.

The end of the Cold War has implications for the United States military presence in the Asia Pacific, for Soviet security policies in the region, and for the strategic balance in our neighbouring regions. The needs of the Eastern European countries for development assistance funds could reduce the amount of aid funds that the EC countries and the international financial institutions are able to give to the poor nations of the Asia Pacific, with consequent implications for Australia's own stretched aid budget.

Some commentators have speculated that Eastern Europe's economic needs may also lead to the diversion of Western European investment away from the Asia-Pacific areas. Such fears are, in my view, exaggerated. Although there will, especially in the early transitional period, be a considerable preoccupation of executive time, and probably investment resources, with Eastern Europe (and this will especially be the case with FRG business in the GDR), attractive investment proposals in the Asia-Pacific are not going to lose their appeal to potential investors simply because of developments in Eastern Europe. It will not be a matter of growth in Eastern Europe occurring at the expense of growth in the Asia-Pacific region, but rather of a new growth centre emerging to everyone's ultimate benefit: growth and investment should not be seen, in this sense, as involving a zero sum game.

Unquestionably, in the years ahead there is a need for Australia to expand its relations with Eastern Europe as well as to continue with and, if possible, enhance our dialogue with the EC countries. The changes in Europe have also made even more important that we persevere with our active role in regional initiatives such as the Asia Pacific Economic Cooperation (APEC) process. In this way we not only advance Australian interests but also enhance our credentials as a worthwhile interlocutor for distant Europeans.

Last week, following Cabinet's consideration of a report on my visit to Eastern Europe, the Government announced a number of decisions - supplementary to earlier decisions on food aid and other matters announced last October - on Australia's response to the changes in Eastern Europe; decisions designed both to do what we can to assist the countries of Eastern Europe to develop democratic systems, and to further develop Australia's commercial links with the region. These newly announced measures included the establishment of a \$5 million Australian Program of Training for Eastern Europe, a contribution of \$1 million to the Stabilisation Fund for Poland, a grant of \$100 000 to the Soviet and East European Studies Program at the ANU, and the decision to open an embassy in Prague this year. And we are now considering the question of joining the new European Bank of Reconstruction and Development as a founding subscriber. These responses are not, individually or cumulatively, large in quantitative terms, nor can they be. But they do signal our determination, as a Government and an economy, to be very much part of the action in the new Europe as it emerges.

Implications for social democracy. In view of the sponsorship of this occasion by the Australian Labor Party, let me conclude with some brief observations about the implications of Eastern European developments for democratic socialism - or, as most people seem to find a more comfortable label for essentially the same philosophy, social democracy.

Today, the majority of reform leaders in Eastern Europe - not to mention the old guard leaders struggling to keep pace with new realities - seem keen to embrace the label of social democrat. In many ways what has happened is a triumphant vindication of social democracy - testament to the failure of the command economy, and the inability of the authoritarian stream in socialist tradition to deliver not only personal freedom, but also a decent minimum standard of living. The embrace within Eastern Europe of the label of social democracy - and the belief that goes with it that social justice objectives, and egalitarian and libertarian objectives generally, are most fruitfully pursued within a framework of a soundly managed mixed economy, in which market forces play the primary role in generating and distributing national wealth - is deliciously ironic when one recalls the contempt that communism has traditionally had for social democracy.

Eastern European social democrats have, of course, a different starting point from their Western counterparts. Whereas Western social democracy has traditionally sought to humanise capitalism, pushing market-based systems towards social democratic values, the task of Eastern European social democrats is to both humanise and liberalise authoritarian, command-based political and economic systems.

In doing so they will require considerable dexterity and political maturity, and start - necessarily - with very limited schooling in the art of democratic politics, or indeed even of party organisation. It is an occasional sin of Europeans to lecture Australia for its youth

and lack of history, but I must confess that during my visit to Eastern Europe there were times when I felt the temptation to sin in the other direction. The enthusiasm of those entering the new frontier of multi-party democracy was marvellous, and marvellously attractive, as was their conviction that no real problems would arise in developing and implementing programs in government, because they all shared such a strong common commitment to the democratic process, not to mention a common distaste for the ancien regime. But the weary politician in me kept thinking that they all had some hard, and dispiriting, lessons ahead about the art of governing in a democracy, not to mention building a party and maintaining its unity and discipline in the face of a myriad of divergent views and policy emphases.

However social democracy develops in Eastern Europe, there can be no doubt that the momentous events of recent months have reshaped the political, strategic and economic landscape of Europe and carry implications for the entire globe. Eastern Europeans now have within their reach an historic opportunity to develop pluralistic, democratic systems in place of repression. It is an exhilarating time still for them, and for us. There lies on all of us an obligation to respond positively, constructively and enthusiastically to help ensure these hard won reforms are not eroded.

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