

THE FUTURES OF THE EAST-CENTRAL EUROPEAN SEMI-PERIPHERY

Theoretical Foundations

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Introduction

1. The present transition of the world can be characterized by a paradox. One possible interpretation of transition is the liberation of the determinant 'resources'² of the bipolar world, or in the long run those of the industrial societies. Liberalizing institutions and forces that created the previous structures and values make it possible to connect the resources in a new way, under new attitudes. In this context futures become open and freely reshapable.

Nowadays, the increasing freedom of reshaping futures, however, goes along with future shock. The liberalization of 'resources' not only widened the prospects but increased risks and responsibility for the future. The 'transition-paradox' and the importance of responsibility draws the attention to the fact that *the visions of optional futures need very serious theoretical analysis.*

Public opinion connects transition with free choice and with the elimination of determinism (i.e. the ongoing past trends). This opinion is completed with its critique: determinism has given place not to free choice but unequal freedom for the members of the societies. The common element of the two aspects is that they interpret the transition of the world economy from the neoliberal point of view. Transition, however, is connected to neoconservatism at the same time. The latter puts emphasis on the traditional values, which preserve community, in contrast with extreme individualism. Only the two, which attitude appeared in science as well, can describe transition: the chaos theory.

Chaos theory examines structural and qualitative changes resulting from small divergence. This, however, is not equal with anarchy and the complete freedom of individuals. Chaos -- as theory emphasises -- is determined by the starting conditions. In the chaotic, evolving world, the transition is determined by globalization and the different periods of information society --these are monetarism, toyotism, media industry and the Internet-era.

Chaos can thus be interpreted as follows. The technological, economic, social, etc. structures can support several social aims, which are different in basic values, depending on *what aspect they*

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² Resources mean not only the technical factors of production but also the values, structures and social organizing mechanisms of different countries created in the previous world economic eras.

are connected with. Nuclear fission can serve energy provision as well as weapons of mass destruction; Internet can serve the democratization of central state affairs, social control and mass media as well as the accession to or the manipulation of secret information and the spreading of 'system-destructing' viruses.

So the viewpoints and values appearing in chaos should be evaluated by what usage of the technical-economic structures they reflect or inspire; how they reform institutions to their aims; whether they are capable of explaining to people the circumstances they live in so that people could reform them instead of being exposed; whether they are capable of integrating the expectations of individuals and decreasing risks in strategic problems.

Deterministic chaos shows *the need of pluralism and unity of futures* at the same time. Futures appear like a Rorschach test³ on the one hand: like the different interpretations of economic and social structures. The deterministic feature of chaos, however, means that the different values cannot destroy the coexistence of the societies, on the other hand. Futures studies in the transition period can be described by a shift from the different aspects of unified structures to the unified aspect of different structures.

2. The past ten years have changed the position of East-Central Europe in the world economy. The bipolar world has collapsed along with the economic and social model of the eastern region~ The East-Central European countries are in transition.

The transition opens the future options but also draws the attention to the fact that it is not the same what values are connected to the new structures and what are those values that are transmitted from the modernization centers. In the case of the East-Central European countries this is the European Union.

The chaotic new world has employed regionalism and integration theory. New regionalism, however, contains different elements of the integration process from that of the post-war period.⁴ The extension of regionalisation to all parts of the world and the different models the integrations represent have drawn attention again to the examination of the integration process.

The ideas of the transition of the East-Central European region are manifold. The main element that is common in most strategies is integration. This involves the Euro-Atlantic accession (EU, NATO) as well as the Central European cooperation (CEFTA⁵ e.g.) or subregional agreements (CEI⁶ e.g.).

³ Rorschach test is used in psychology: the examined person is analysed by his/her associations with a random spot of ink.

⁴ See e.g., Young, S.: Globalism and Regionalism: Complements of Competitors?' in: Bergsten, F.-Noland, M. (ed): Pacific Dynamism and the International Economic System. Institute for International Economics, Washington, 1993. Inotai Andras: AZ u'j regionalizinus a vilaggazdasag'ban, Kulgazdasag 1994/I

⁵ Central European Free Trade Agreement

⁶ Central European Initiative

Theoretically the main problem is that traditional integration theory can not be adapted automatically to the countries in transition. The underdevelopment of the region involves more than the lower level of GDP, incorporates different economic models and structures. The integration of rich and poor countries was always a key issue of the integration theory and appeared as the harmonisation problem. In the current situation the accession and the transformation of *qualitatively different ways of economic thinking* is on stage. This challenge calls for the *vertical analysis* of the world economy: *the examination of the semi-periphery*.

The integration of the *East—Central European countries* is the problem of finding the accession to the sources of welfare and security. The integration of the *semi periphery* is the problem of the elimination of underdevelopment. The semi-peripheral analysis thus offers different and new perspectives for the understanding of the real content and of the futures of transition.

This essay starts with a discussion of the so-called dominant position. From an understanding of the vertical hierarchy of the regions we can derive the essence of semi-periphery and the optional ways of its elimination. Finally the theoretical overview is completed with a historical perspective. I derive some lessons for the futures of the semi-periphery from the evolving world order. The features of the international environment determine the integration process and offer new perspectives on the strategy of the East-Central European break out.

The dominant position

The analysis of the so-called *dominant position* plays a key role in the understanding of the futures of the semi-periphery. In international economic relations the term dominant position involves economic power. This includes a determinant influence on both the disposition and the effective operation of the factors of production as well as this means the dominant role in the complex and intensive network of international division of labour, which enables the extension of the authority of the economic and social model comprised by the factors of production.⁷

In the definition above it is not the dominance that is underlined but the *nature* of dominance. While dominance is based on *violence*, the future strategy should be the elimination of inferiority. If it is *ability, which* makes inferiority, the future vision is not the destruction of hierarchy but the creation of its *openness*.⁸

The analysis of the dominant position depends on the attitude and changes the future visions as well. From this point of view *the vision of Hungary and the other East-Central European semi-peripheral countries is not simply the Euro-Atlantic integration but the open dominant relationship--* which is served mainly by the Euro-Atlantic integration.

⁷ The term 'dominant position' comes from Francois Perroux, see Kozma, Ferenc: *A felperiferia*, Aula, 1998. In this essay I use the term with a slightly different meaning.

⁸ One of the main problems is, however, that dominance due to violence or due to ability are not independent. Historically violent inferiority has gone along with the transformation or the atrophy of the abilities of the inferior territory. Thus what one condemned in the past seems to be just today. On the other hand it is also true that the two aspects and behaviours are completely mixed.

There are several ways for semi-peripheral countries for the vision of an open hierarchy. Any country of the semi-periphery may try to fulfill the mission alone. This strategy can work when the world economy suddenly upgrades one of the production factors possessed by the semi-peripheral country. The main points are that the 'stock value' of the factor should increase or the time horizon of the accumulation should be very short and the appreciation should be permanent enough to enable the change in the world market give a green light to join up⁹.

In the global age the mutual dependency, however, the acceleration of product cycles and of the technological development do not make it possible for any country to get rid of inferiority on its own initiative. The 'chaotic feature' of today's globalism puts into question any permanent means for reshaping dominant relationship alone.

The other strategy to get more influential power over resources is *regional integration*. In this case the member countries can join their economic and political assets, which may increase their 'bulk' (inhabitants, market area, national income, industrial production, services, export etc.) and production efficiency. The increasing number of participants in co-operation, however, increases heterogeneity, which, in turn, is negatively correlated with the positive effects of the integration.

Semi-peripheral countries can integrate or cooperate with each other. The problem of increasing heterogeneity will not prevent the join up. The co-operation of the OPEC countries in the 1970s is one example of a way to create alternative center positions. This example is very close to the 'self break out' model, however, the basis is not the recognition of the world market chance but rather the active intervention of these countries to change the world market.

The East-Central European countries also show an interesting example of cooperation. Heterogeneity does not play a key role in this case either as these countries inherited very similar economic and political structures and their historic roots show many common elements as well. Their mutual integration, however, will not increase substantially the 'bulk', the efficiency of the area or the proportionality of the two.

The low efficiency of the semi-peripheral integration does not mean it is irrational. Many surveys have analysed the advantages of cooperation among East-Central European countries. The main point is that the history of the CMEA¹⁰ and of the bipolar world have proved that at the end of the 20th century regional cooperation of alternative economic and social models can not coexist.

All in all the vision to eliminate inferiority is closely related to the accession to an integration of the developed countries. Many research studies have already examined the advantages and disadvantages of the Euro-Atlantic integration of the East-Central European countries. However, the integration process, the extension of the EU etc. are not simply the questions of organisation

⁹ This was the case with the break out of the Scandinavian semi-periphery in the previous centuries. In Denmark the agricultural 'hunger' of Great Britain, in Sweden the need of German industry for quality iron, in Finland the international political situation after the second world war became the starting point to promote development.

¹⁰ Council of Mutual Economic Assistance

or the number or the underdevelopment of some countries. The real understanding of integration and the futures come from knowing the essence of the semi-periphery and from the transition period of the past ten years.

The futures of semi-periphery

The essence of development includes all the products, services and the factors of production, which offer a respectable living standard as well as the mode of how the society organises production, consumption, and the coexistence of the individuals. Along these factors, development is revealed by three aspects: a) wealth and infrastructure; b) the effectiveness and socialisation of the human factor - which means the representation of values on which people make decisions with how to produce and consume and c) the division of labour, which determines the quality of the relationship of the wealth and human factors.

Developed countries can be characterized by the sufficient amount and quality of the two factors as well as by their harmony. From this point of view the real meaning of semi-periphery comes from the inadequate relative quantity and the distorted combination of wealth and human factors. Semi-peripheral countries are 'economies-on-the-road' -- being carried off in relation to the Centre and catching up from the periphery.

From this it follows that *the very essence of semi-periphery is not a condition measured by per capita national income but rather a kind of 'standby' structure of 'countries-on-the-road' characterised by distorted combinations of human and wealth factors.* These structures offer different futures for the semi-peripheral countries.

1. Future visions: the wealth 'standby' alternative

In situations where readiness exists in wealth, which is mainly the 'bulk' of capital and land, the break out seems to be quicker and socially smoother. The main problem is that the 'accumulation standby' situation is apt to 'sublimate': it disappears as soon as it is critical for a country to think over whether an economic strategy can be built on the temporary appreciation of mineral resources¹¹, political situation or the inflow of money caused by speculative and self-inducing capital.

Even if the wealth factor means not only the current welfare of the country but it is completed with the harmony of the human factor, the break out still remains long and troublesome. The time horizon to evolve the human factor, its fluent ability for innovation, its speed to spread without distortion, its harmony with material, and its infrastructure sphere throughout permanent iterations can be measured only in the long run.

¹¹ The so-called 'Dutch Disease' was a typical example of the distortion of the economic structure caused by the discovery of oil and gas in Holland, Norway, Mexico, etc.

2. *Future visions: the human 'standby' alternative*

In the case of readiness to break out in 'heads', in socialisation, in the ability of accommodation, the economy has more chance to retrieve or accumulate wealth. The 'depreciation' of human capital is generally much smaller than that of the material factors, thus the struggle to catch up with the dominant region may be successful.

However, one has to take into account that the period of the 1990s has witnessed suffering in terms of a crisis in values. The habits and the social and economic reflexes evolved in the previous historic periods have failed. On the other hand the slower the depreciation of the human factor, the more inelastic it may become. The accustomed, established reflexes might need even more efforts to reform than the accumulation of human capital. Nevertheless societies never start from zero; the cultural interactions of centuries are layered on to of each other.

All in all the most important element of the chance to break out is '*latent maturity*'.¹² This means that the economy is in a state of readiness to break out and can be put into motion by some world economic chance and can be turned to a course, which is of elastically compliance and high performance in the long run. This kind of ability should be the readiness in heads, in socialisation circumstances, in the economic and cultural system of reflexes. In other words the relationship of the narrowly defined economic and the cultural subsystem should be reevaluated.

In the 20th century Karl Polanyi was one of the first to try to harmonise the relationship of the separated culture and economy by explaining the real meaning of economy using the term of instituted economy¹³. According to him the economic process is not understandable without its social and cultural aspect. This is why he suggests discussing economy in institutions (religion, economic policy etc.). Due to his perspective and his age he tried to expand the meaning of economy in order to include culture. Recent social science has also highlighted the relationship of the two subsystems but the other way around.

In his latest book, Fukuyama¹⁴ also underlines that the success of each country and its basis in the structure of companies and in the economic management system depend on trust among individuals as well as social groups, which is a multifold cultural and social phenomenon of reflexes. The determining role of culture over economy can be found in the work of several authors. What Fukuyama calls trust, Lowith calls religion¹⁵, and Huntington calls civilisation.¹⁶ In this sense the term 'latent maturity' is as promising in the 1990s as the efforts of non-economists to renew economic theory.

However, the determining role of culture remains descriptive in many cases. Fukuyama does not tell us how to extend social capital, or how the low-trust countries can catch up. Huntington owes the resolution of the conflicts among the civilisations. Kozma completes the social and economic theory with strategic action. His approach is not simply the instituted economy and not the

¹² Kozma, Ferenc: Latens fejlettseg – a felzarkozas “startvonala”, Statisztikai Szemle 1999/4

¹³ Polanyi, Karl: 'The Economy as Instituted Process' in *Trade and Market in the Early Empires*, Glencoe, 1957

¹⁴ Fukuyama, Francis: *Trust – the Social Virtues and the Creation of Prosperity*, The Free Press, New York, 1995

¹⁵ Lowith, Karl: *Meaning in History*, The University of Chicago Press, 1949

¹⁶ Huntington, Samuel: *The Clash of Civilizations and the Remaking of World Order*, Touchstone Books, 1998

self~development of culture, either. Rather he explains the effective usage of 'cultural economy' for an economist. *From this point of view the integration strategy of semi-periphery appears as follows: how to integrate the economy in order to hasten the accumulation of social capital as well as to enter into it the service of socially right purposes.*

3. *Future visions: the way of proportion and its problems*

To start this essay by highlighting development is much more understandable now. Its central element is not only the human power but also *the optimal ratio of the human and wealth factor*. The wealth factor itself gets a new perspective with expanding the meaning from the disposal of values accumulated by the country to the infrastructure basis of the developmental status of the 'cultural economy'.

The lesson for the integration of the semi-peripheral countries is twofold. The development of the human factor can make a country be a giant in intellectual performance and morality but all these remain 'unproductive' and become ideal value unless the material, infrastructure bases are created for the operation and for the free employment of the society. On the other hand historic changes can make the semi-peripheral countries rich in the disposal of the production factors but all these remain useless unless the citizens have an idea of what to use the wealth for. Thus the fate of the 16th century Spanish empire can be avoided.

All in all the relationship of the human and wealth factor means a qualitative proportion on the one hand and the correspondence of the two on the other hand. This is the realisation of harmony as the two factors that are two sides of the same coin.

The special element of the integration in the case of the semi-periphery appears as a proportioning process. The accession to regional integrations cannot be explained simply with the common reasons, though their validity is above question. The advantages from the trade creation or from the dynamic effects can be measured. The countries of the East-Central European region can make use of the economies of scale or the economies of scope, etc. The elimination of the distortion between the human force and wealth, however, cannot be measured with the balance of payments but appears substantial for the long run rise of the countries.

Any of the distorted 'standby' situations may characterise the struggling economies of the semi-periphery: those societies being short of any or all of the production factors in the lower segment of the centre as those economies in the upper segment of periphery getting close to the 'break out speed'.

The semi-periphery of East-Central Europe falls into the category of the upper layer of the periphery on the one hand and that of the semi-latent maturity on the other hand. *The integration process is thus specified with the explosive contradiction of culture and economy.* Taking into account the specific elements of the different parts of the region, by reason of their similar reflexes *the East-Central European semi-periphery countries belongs to the European cultural centre. However, the economic basis of the cultural unity is deeply distorted in the region.*

The main problem is that the coincidence of the economic and cultural factors cannot be maintained in the long run. In reality the 'standby' situation of the one-sidedly distorted human and wealth factors (cultural and economic) cannot be taken into account in the extremity. The two factors are not complementary either from the viewpoint of proportion or that of harmony. In other words the disproportion of the two elements has a peculiar 'breaking resistance' over which any struggle is hopeless and impossible, especially if one takes into account that they neutralise the mutual effects throughout the feedback mechanisms. Sooner or later the maintenance of the sham welfare and the use up of the transformation energy is going to exhaust the human and social capital as well as its condition for reproduction.

The other consequence of the coincidence of the economic and cultural factor is instability. The coincidence cannot be maintained in the long run, this is why the main characteristic of semi-periphery is struggle instead of low economic status. The integration of semi-periphery is completed with a new specific element *If the essence of semi-periphery is instability then economies either take all efforts to catch up with the low edge of the centre or be carried off to the deep -- periphery. This is a 'state of emergency', which calls for the current elaboration of strategy and action plan.*

Lessons from the evolving world

From the viewpoint of the small, semi-peripheral countries, the dominant position appears as a relationship, which determines the rules of the world economic competition and the general economic and social model. The power over the model of the economic and social sphere is not only the question of utility or profit but also that of security policy. To avoid conflicts the substantial and most productive way is to make clear the rule of games in advance. Beyond the 'free' evaluation of products, services and factors, the international environment of foreign economic strategy includes the influence of the mode of the domestic production through price systems (and declarations of international monetary institutions etc.) as well.

We have determined development by the interrelationship of wealth and human factor. Globalisation, in its strictest sense, covers the latest decades of the world economy, the transition, which is characterized by the mutual appearance of the industrial society and post-industrialism. The simultaneous existence, however, is a *conflict* at the same time, as the two systems are connected to values, economic structures, social interests and welfare. The self-contradiction of globalisation seems to be the conflict of development determined either by material wealth or by the human factor. As development means the proportion of the two, it is better to say that there is a conflict between the *two directions of the proportionate factors*: between the *cultural economy* of the industrial society and of the post-industrial structures.

I would like to pick out only some of the elements of the evolving world economic system, which are of vital importance to the futures of the semi-periphery.

1. The bipolar world has collapsed and has been replaced by the unipolar system of the

democratic market economy. In contrast with other conceptions to reshape the world order¹⁷ this model has not changed the centre-periphery system. The countries of the periphery and semi-periphery remained small, open, distorted economies under the dominance of the developed countries. With the network of multinational companies and with the active role of the international organisations the disposal over the production factors and how to combine them are partly in the hands of the decision making centres outside the country. In other words *the break out strategy of the semi-periphery should calculate external determination in the long run.*

The unipolar world has demolished (or changed rather) the 'block-security', thus the political intention to stabilise and support economies because of the communist-capitalist conflicts. In the former system the harmonisation of the economies and the prevention of the underdeveloped regions from falling behind in order to stabilise the security of the system were main characteristics. The ideology of the democratic market system includes the strategy of the '*selfmade catch up*' instead of support. All this does not mean that the world market signs ignore support or positive (or non-) discrimination of each economic pole due to their interest¹⁸ but from this time forward the political impulses are not permanent and strong enough to build a break out strategy upon.

Both the external determination and the self-made catch up specify the integration of the semi-periphery at the same time. This is not a self-contradiction, however. The countries of dominant position determine the philosophy and the direction of the economic development. To cut it short it expresses future's vision. The self-made-catch-up refers to the freedom as well as to the necessity of the realisation on the one hand and to the recognition of the unstable elements of the ways on the other hand. Cynically one would say the semi-periphery should recognise and realise from its own resources what the center/centers wants. As a matter of fact the cooperation in the contest plays a more important role in the evolving world order. The unipolar world highlights democracy and positive freedom but from this time forward they are not only rights but obligations as well. In international economics: the open but hierarchic system of the world economy affords prospects to catch up (taking into account the restrictions of the historic period) but prospect means necessity for the economic policy. It is only the conceptual strategy that the world market evaluates. The 'lottery-type' of break out (oil shock, discovery of a new resource etc.) has expired or became so unpredictable that it makes impossible or worthless to gather strength. In case the country takes the right of self-determination as an obligation, its strategy may find its way easier. If not, the semi-peripheral economy starts being carried off and the struggle remains without the answer of the center.

2. The bipolar world became multipolar as well, which results in several centers of dominant position and the changing structure of the dominant centers. One of the main characteristics of the multipolar world is *the oligopolistic structure of the dominant centers.* Oligopolies are specified with competition and co-operation at the same time. The unipolarity of the world does not reflect the monopolistic power of any of the regions, not even that of the USA. The constraint of the necessary cooperation of the American, European and East-Asian regions due to political reasons of the bipolar world has been released. The economic contest has come to the

¹⁷ e.g. New International Economic Order (NIEO)

¹⁸ See Phare program with EU, OPIC with USA, etc.

surface, although the cooperation has not disappeared, only changed. The cooperation refers basically to *the rules of the game*; thus it is not in contradiction with competition.

The definition of the dominant position puts emphasis on the ability to dispose of the factors of production and to determine the mode of production. However, the oligopolistic structure reflects that there is more than one dominant region and the countries of each region have to calculate with the counter steps of the other economies. This raises the question of whether in the 1990s dominant position contradicts threatening? The answer is no. There can be only one dominant position globally. However, due to the oligopolistic structure this should be carried out in several, competitive centers. *The international environment of the futures of the semi-periphery can be outlined from the duality of the dominant position and the oligopolistic structure. This can be called global regionalism, which means the different regional centers of the uniform organization of the global economy and society.*

This approach has some significance beyond the integration strategy that concentrates on the maximisation of the national income. In this case the leading role of the survey is how the maximisation of national income can serve security policy; that is, *how is it possible to catch up with the center in a way that eliminates further inferiority of other regions.*

3. The dominant and oligopolistic structure is not as simple as that. One of the main characteristics of the global world is that *the borders of the traditional, sometimes politically supported, zones of interest became blurred.* The transnationalisation of production processes, the global 'gallop' of the international capital, the overlapping regional integrations and organisations change the 'national territories' and make them borderless. The global world cannot be described by the separated, clearly demarcated center-periphery regions like at the age of colonies or partly in the bipolar world. The areas of periphery and semi-periphery can be found not only in one center's sphere of influence but also to a certain extent that of each dominant region.

However, the American, European and East-Asian centers represent different system of reflexes and 'rules of the game'. As the semi-periphery belongs partly to all dominant regions, which determine the development, *the break out model became very unstable.* The way of thinking and behavior of the semi-periphery, which have been fed by the historic structure of relationship, get contradictory impulses from many directions, which unable economic policy to concentrate resources.

Conclusion

The above discussion shows that we cannot consider the analysis of the dominant position and the oligopolistic structure to be only the description of the global economy.

The oligopolistic structure can partly ensure that the future visions of the semi-periphery can meet the international or regional interests, and can be sovereign in the decision making at the same time. The economic side of collective security makes necessary the former. Sovereignty needs the latter. The economic basis of the chance to merge the competition of sovereign

decisions and cooperation should be created. In our case the economic strategy should not only find the most effective way of integration but it should make the most that the international environment it wants to integrate to become oligopolistic; that is regional, working in networks, etc.

On the other hand *the maintenance* of the dominant position as an open hierarchy based on abilities - should be the part of the economic strategy, in the same way as their expansion and elimination. It goes without saying that every counterstep against the dispossession of the economic resources and their usage is the basic element of any economic policy that is not in the possession of making decisions. However, all this must not mean that the ability and willingness should be eliminated. The East-Central European periphery aims not only at becoming a member of the EU and enjoying equal rights but also at encouraging the EU to have an effective economic policy in the long run, which extends the welfare in a mass scale.

The oligopolistic structure, dominant position, and global regionalism derived from the previous two as well as the duality of external determination and sovereignty are the different aspects of the same strategic vision. When one says 'regional efforts through global aims' then he says 'self-made catch-up on the basis of external determination'. The different approaches proceed to the same direction and this is what the integration strategy of the semi~peripheral countries' future visions should follow.