

After a political change, it is necessary to wait for at least five or six years to see changes in the economy, says the scientific director of the Vienna Institute for International Economic Studies, who outlines the evolution of competitiveness and production-and-sales specialisation in countries that, having survived recent upheavals, are now knocking insistently on the EU's doors

Landesmann: Europe is to be built with... patience

SCENARIOS

by Cristina Giuliano

“People always expect too much of changes.

If there is a political change, they expect a change in the economy the very next month. This is totally unrealistic: policies for improvement take at least five to six years to work”. This is the opinion of a famous economist – and a catchphrase to place on the refrigerator door and read every morning to remind ourselves that patience pays.

Michael A. Landesmann – an academic, the scientific director of the Vienna Institute for International Economic Studies and Professor of Economics at the Johannes Kepler University in Linz – has the gift of being able to transform complex calculations into simple words.

During his speech at the conference on “Eastern Europe, the EU and Italy” in Rome in March, he sketched the substance of European enlargement through a series of slides, summing it up in numbers and retracing the evolution of competitiveness and production and sales specialisation in Central and Eastern Europe.

The professor believes that specialisation paths can be interpreted using a combination of “a catching-up model and one of comparative advantages”. The dynamics of productivity and wage costs in various industrial sectors have led to a complex scenario of evolution.

“Two regions are successfully increasing their market share in Europe – China and Central and Eastern Europe, with one fundamental difference: Beijing is focusing mainly on low-



cost products, while some Eastern European countries are making a place for themselves in the production of brands" that are already established on the Continent, without necessarily lowering quality levels.

Chinese competition – with the Old, not the New Europe – is a threat to "countries that specialise in the production of textiles, clothing and footwear, such as Italy, which perceives this competition. In future, pressure from overseas may also be felt in the sector of industrial commodities, for the Chinese mammoth is also developing its potential in the machine tool and automotive sectors". All of this is taking place in a EU expanding its borders and subject to institutional as well as economic pressure. Countries that have undergone recent changes are knocking insistently on the Union's door – countries such as Ukraine, which, two months after its Parliamentary elections, is still seeking a new government coalition.

While Landesmann, who is known for his research on the international economy, growth and structural changes, does not criticise the Orange Revolution, he condemns Ukraine's lack of patience. Those "five or six years" are required to "sustain policies of improvement". In the first "orange" year, growth abruptly slowed from 9% to 2%. Yet, one of the first ideas to be explored by former Prime Minister Yulia Timoshenko was to "revolutionize privatisations – seen as a threat by a well-established class of oligarchs". Now, several months after her exit from the government and right after her strong performance in the Parliamentary elections, the initial enthusiasm of Yulia the *pasionaria*, once again a candidate for prime ministership has dimmed. "She seems to have adopted a more moderate approach. Let's see what happens". But Viktor Yushchenko's Ukraine will certainly continue to be a divided country, "and this makes it difficult to make economic forecasts. However, it remains an attractive investment destination. I come from Austria and many of the big banks in my country continue to view Ukraine as a large and truly European domestic market where it is still possible to acquire major assets cheaply". The changed Ukraine has also turned out to be a vital junction in the cold war concerning energy and gas supplies that started off the year in Europe. Supplies cut or "temporarily" suspended; subsequent disputes between

Brussels and Moscow and discussions on alternative means and sources. In such a context, the huge North European gas pipeline project currently under construction is a "good solution."

Meanwhile, the idea of a gas OPEC – "definitely easy to put together", says Landesmann – is gaining ground. It would be simpler than an oil consortium considering the extremely strong position in Europe and worldwide of Gazprom, the Russian colossus of blue oil. "OPEC includes several producers: hence the need for a cartel to coordinate strategies, whereas as regards gas, Europe is mainly heavily dependent on Russia and does not want to see supplies diminishing. So there's no need to form a cartel; you just have to decide that you're going with Gazprom". Moscow's role is undoubtedly central as regards the energy issue, "but I think this also reflects one of its weaknesses: its economy is very specialised and it does not have any other particularly competitive sectors". The "failure of some earlier political administrations" was precisely due to the fact of "not having diversified".

However, even though the scenario is not likely to change in a hurry, there is another factor that turns the weakness of a specialised economy into a strong point. "The last five years have been a very fortunate period for the Federation, with very high gas and oil prices. This trend is expected to continue". Meanwhile, the recent period has led to strong growth in Russia and its economy is "in good shape" – so much so that it has managed to pay off most of its foreign debt. All of this is running on parallel lines with the growth of the Federation's political clout – it is no longer the weak player of the 1990s. "It has emerged from the '96-'97 crisis and now plays a very important role internationally – just look at the how far Russia has got in negotiations on Iran and the Middle East or even the line it chose to follow on the Iraq war, which was different from Europe's". To sum up: not "a consolidation of growth, but also a consolidation of its international influence" which, accompanied by improved economic diversification, could turn out to be "beneficial". In this case too, however, patience is the watchword. ■